— 2018

ANNUAL REPORT

CONTENTS

NOTICE OF SHAREHOLDERS' MEETING

The persons entitled to vote at the general shareholders' meeting of Pirelli & C. Società per Azioni are called to an Ordinary Shareholders' Meeting in Milan at Viale Sarca no. 214, at 10:30 a.m. on Wednesday, 15 May 2019, in a single call, to discuss and resolve on the following

AGENDA

1. Financial statements as at 31 December 2018; related and consequent resolutions;

2. Appointment of a Director and of the Chairman of the Board of Directors;

3. Remuneration policy: consultation.

CORPORATE BODIES

Board of Directors[1]

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

Secretary of the Board Alberto Bastanzio

[1] Appointment: August 1, 2017, effective as of August 31, 2017. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2019. The Director Giovanni Lo Storto was appointed by the Shareholders' Meeting held on May 15, 2018. Ning Gaoning was co-opted by the Board of Directors on August 7, 2018, replacing Ren Jianxin, who resigned on July 30, 2018. Chairman Ning Gaoning shall remain in office until the next Meeting.

Board of Statutory Auditors[2]

Chairman	Francesco Fallacara
Statutory auditors	Fabio Artoni
	Antonella Carù
	Luca Nicodemi
	Alberto Villani
Alternate Auditors	Elenio Bidoggia
	Franca Brusco
	Giovanna Oddo

Audit, Risks, Sustainability and Corporate Governance Committee

Chairman – Independent Director	Fan Xiaohua
Independent Director	Laura Cioli
Independent Director	Giovanni Lo Storto
Independent Director	Cristina Scocchia

Related-Party Transactions Committee

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

Appointments and Successions Committee

Chairman	Marco Tronchetti Provera
Director	Ning Gaoning
Director	Bai Xinping
Director	Giovanni Tronchetti Provera

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

Remuneration Committee

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

Strategies Committee

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

Independent Auditing Firm[3] PricewaterhouseCoopers S.p.A.

Corporate Financial Reporting Manager[4] Francesco Tanzi

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

[3] Appointment: August 1, 2017, effective as of the date of the commencement of trading of Pirelli shares on the Mercato Telematico Azionario (screen-based stock exchange) which is organised and managed by Borsa Italiana S.p.A. (October 4, 2017). Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2025.

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

PRESENTATION OF 2018 PIRELLI INTEGRATED ANNUAL REPORT

The Pirelli 2018 integrated report (Annual Report 2018) 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 comprise the company's financial resources, supply the sustainable management of other capital and is in turn influenced by the value created by the latter. In 2018, business operations generated an adjusted[5] EBIT of €955 million (approximately €1 billion was the 2018 target), up 9% on 2017 and a margin of 18.4% (+2.0 percentage points on an annual basis). This improvement was supported by internal levers (price/mix, efficiency, cost rationalisation) which more than offset the impact of the external scenario (exchange rate volatility, increase in the cost of production factors) and the drop in Standard sales. *Adjusted EBIT without start-up costs* stood at €1,002.7 million (higher than the target of €1 billion), up 8.2% due to High Value, which reached a weight of more than 83%.

In turn, the Company's productive capital, which includes a geographically diversified production structure with 19 plants in 12 countries on four continents, is managed with a view to environmental efficiency, with targets for 2020 (vs. base year 2009) in terms of reducing water withdrawal, energy consumption, CO_2 emissions and increasing waste recovery. In this regard, in 2018, compared to 2017, Pirelli recorded a decrease in absolute water withdrawal of 11.8% and in specific water withdrawal of 9.8%, a reduction in absolute energy consumption of 1.6% with a specific index in line with the values of the previous year, and a reduction in absolute CO_2 emissions of 5.8% and in specific emissions of 3.7%. In addition, 96% of waste was sent for recovery, effectively pursuing the "*zero waste to landfill*" target and reaching the 2020 target (>95% recovery) two years ahead of schedule.

All this has helped to achieve efficiencies on the costs amounting to €70 million in total, approximately 1.3% of turnover.

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. Research and development expenses in 2018 totalled €219 million (4.2% of sales), of which €202.9 million was for High Value activities (6.1% of High Value revenues). In turn, Pirelli's Green Performance products, which combine performance and respect for the environment, at the end of

[5] Before non-recurring and restructuring costs.

2018 represent 49.8%[6] of total tyre turnover (43.5% in 2017 and 41.1% in 2016). By restricting the scope of the analysis to High Value products[7], the percentage of Green Performance products rises to 57.5%.

The heavy investment in innovation also feeds Pirelli's intellectual capital, which comprises a portfolio of active patents grouped into approximately 763 families covering product, process and materials innovations, as well as a globally recognised brand.

The evolution of the cited capitals is closely related to the commitment, competence and dedication of the human capital, the heart of the Company's growth. Merit, ethics and sharing of strong values and clear policies, dialogue, attention to welfare and diversity are accompanied by advanced instruments to attract and retain the best talent. Investment in a "culture of health and safety at work" and in training is a priority. The accident frequency index in 2018 was in line with the previous year, with a reduction of 81% compared to 2009, while investment in training was higher than 8 average days per employee, thus exceeding for the sixth consecutive year the target of an average of 7 days per employee set out in the Company Plan.

Pirelli's social and relational capitals are based on the continuous and transparent dialogue that the Company maintains with its Stakeholders. During 2018, particular importance was given to consultation of the relevant stakeholders (including international NGOs, Pirelli's main natural rubber suppliers, traders and farmers in the supply chain, automotive customers, international multilateral organisations) in order to achieve the publication of the Manual for the implementation of the Pirelli Policy on the Sustainable Management of Natural Rubber and the roadmap of activities for the three-year period 2019-2021.

In methodological terms, in the preparation of the Annual Report 2018 the principles of Integrated Reporting contained in the Framework of the International Integrated Reporting Council (IIRC) have been considered, the sustainability performance complies with the GRI Standards, and with the provisions of Legislative Decree no. 254 of 30 December 2016, following the process dictated by the principles of the AA1000 APS (materiality, inclusivity and responsiveness), the Parent Financial Statements and the Consolidated Financial Statements have been prepared on the basis of the IAS/IFRS international accounting standards.

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[6] 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 under rolling resistance and wet grip classes A, B, C according to the labelling parameters set by European legislation. The 2016 and 2017 values have been updated following the acquisition of new data.

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

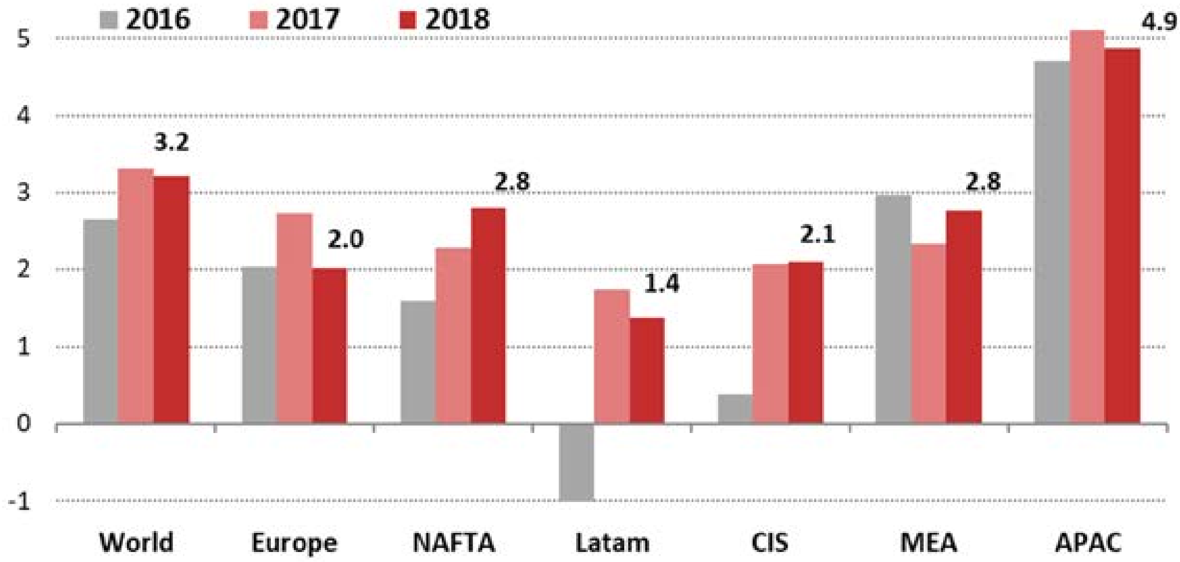
DIRECTORS' REPORT ON OPERATIONS AT DECEMBER 31, 2018

MACROECONOMIC AND MARKET SCENARIO

MACROECONOMIC PERFORMANCE

In 2018 global GDP growth stood at +3.2%, a slight decrease compared to +3.3% for 2017.

Global GDP growth (annual change in %)



Source: IHS Markit, January 2019: growth rate shown for 2018 are estimates.

Europe recorded an increase of +2.0% for 2018 compared to its peak in 2017 (+2.7%). The slowdown was mainly due to uncertainties on international trade and on the political situation of some European Union countries, also in view of the upcoming European elections, as well as the so far uncertain deal regarding the exit from the EU of the United Kingdom.

It was vice versa for the US economy where GDP growth strengthened in 2018 to +2.9% compared to +2.2% for 2017, also thanks to the fiscal stimulus introduced by the government and to its positive effects on consumption, investment and employment (the unemployment rate decreased further to 3.9% from 4.4% for 2017). The inflationary effects of growth (a consumer price index of +2.4%) pushed the US Federal Reserve to progressively increase the benchmark rate from 1.5% at the beginning of the year to 2.5% in December 2018.

The performance of emerging markets was mixed. The Brazilian economy (+1.3% GDP growth in 2018) was impacted by the transport workers' strike in May and by the fall in vehicle exports during the second half of the year linked to the collapse of demand in Argentina. The contraction of the economies of Argentina and Turkey was particularly accentuated, both of which were hit by currency crises. There was recovery instead for Russia's economy and for those of the CIS (Commonwealth of Independent States) member states, sustained by oil prices, which more than offset the tightening of sanctions by the United States.

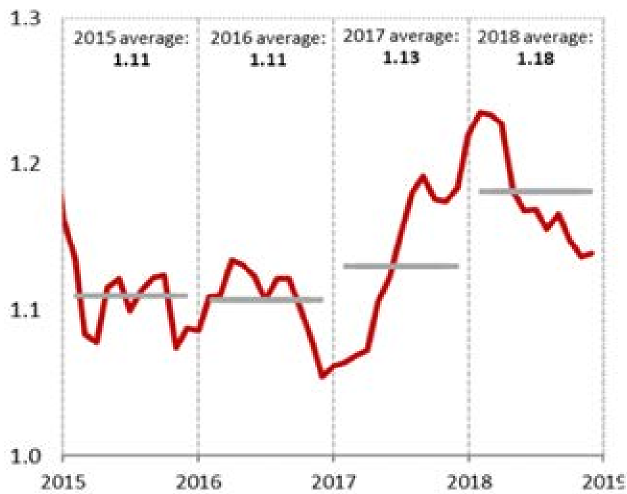
Growth of the Chinese economy was +6.6% in 2018 (+6.7% for 2017) despite measures to reduce the use of credit and trade tensions with the United States, thanks to the fiscal stimulus measures introduced by the government.

On the currency front, the performance of the Euro vs USD exchange rate for 2018 reflected the growth differential of the two economies and the rise in US interest rates compared to the substantial stability of interest rates as set by the ECB. Against the US Dollar, the European currency rose from an average 1.23 in the first quarter of 2018 to 1.14 in the fourth quarter, recording an average of 1.18 dollars per euro for the year (+4.6% compared to the average of 1.13 in 2017).

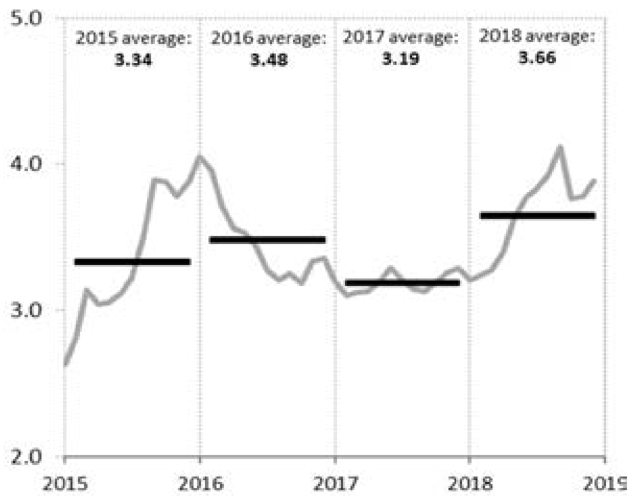
The US Dollar also strengthened against the currencies of emerging markets. The Brazilian Real went from an average of 3.19 against the US Dollar in 2017, to an average of 3.66 for 2018, a depreciation of 13.0%. The Russian currency averaged 62.60 Roubles per USD during 2018 with a depreciation of 7.0%, compared to an average exchange rate of 58.30 Roubles per USD in 2017.

The Chinese currency weakened from 6.36 Renminbi per USD for the first quarter of 2018 to 6.92 for the fourth, resulting in an average for the year of 6.62 per USD, an appreciation of 2.0% compared to the average of 6.75 in 2017.

Exchange rate: USD per Euro



Exchange rate: Brazilian Real per USD



Source: European Central Bank monthly data at December 31, 2018.

Raw Materials

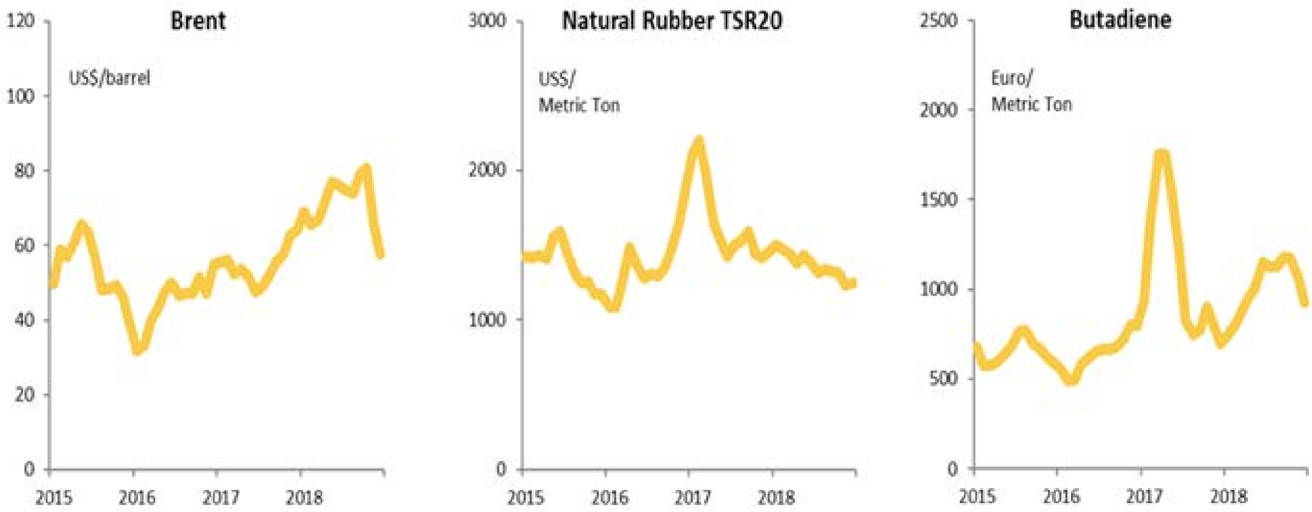
The year 2018 was characterised by increases in the price of energy resources and butadiene, and a decrease in the price of natural rubber.

Brent recorded an average price for the year of USD 72 per barrel, +31% compared to the average price for 2017. This performance reflected the increase in the price of Brent during the first ten months of 2018 (which culminated in an average price of USD 81 per barrel in October), offset by a gradual reduction in price during the last part of the year (to an average of USD 58 per barrel in

December). The price rise for 2018 was mainly influenced by an agreement between the main oil producing countries which limited the production of oil, and also by fears tied to US sanctions against Iran. During the last part of the year, the increase in crude oil production in the US, and the slowdown in global economic growth impacted oil's performance.

The price of natural rubber followed a trend of gradual decline during 2018, moving from an average of USD 1,467 dollars per tonne for the first quarter to USD 1,266 per tonne in the fourth quarter, with an average annual price of USD 1,365 per tonne, down -17.0% compared to 2017.

Prices of raw materials



Source: IHS Markit

The average price of butadiene, the main raw material for the production of synthetic rubber, stood at euro 1,011 per tonne for 2018, a decline of -9.0% compared to the average price for 2017. As with the price of oil, butadiene prices increased during 2018 to reach a peak in October (averaging Euro 1,175 per tonne for the month) to then return below Euro 1,000 per tonne in December, influenced by the fall in the price of crude oil and by the slowdown in the global economy.

Automotive markets

The global car market consolidated itself at a level of 93.9 million units sold in 2018 according to IHS Markit, a fall of -0.3% compared to the previous year when registrations reached an all-time high. Growth in emerging market such as South America (+7.0%), Russia (+13.6%) and the stability of the car market in Europe (+0.8%) during 2018 was counterbalanced by the contraction of the car market in APAC (-1.5%), in the Middle East/Africa (-2.5%) and in North America (-0.7%).

There was a positive performance by car sales in the Premium and Prestige segments (+0.8%) which reached a 12.6% share of all vehicles sold. This trend, which translates into the continued improvement of the Premium and Prestige share of the overall car parc, was sustained in particular by APAC (+3.5%) and by North America (+3.4%). Europe confirmed its position as the region with the highest share of Premium and Prestige sales (20%).

Thanks to growth of +3.6%, the car parc reached 1.38 billion automobiles (compared to 1.33 billion units in 2017, revised upwards due to an increase in the number of countries included) with the Premium and Prestige segment share of the car parc at 10.4% (10.3% in 2017) equal to 144 million vehicles in circulation (137 million for 2017). Europe, NAFTA and APAC represented 92% of the Premium and Prestige car parc.

Tyre markets

Regarding the development of demand in the Car tyre market, a positive trend was seen in the New Premium segment (car or light truck tyres with a rim diameter of ≥18inches), with growth of +10% during 2018, compared to a contraction in the segment for tyres with a lower rim diameter (-1.0%). The New Premium segment attained a 15% share of the total market (14% in 2017).

In **Europe**, sales of New Premium Car tyres recorded growth of +8.5% for 2018, with a -0.4% performance for the segment for tyres with a rim diameter of ≤17 inches. In the Original Equipment channel, New Premium sales grew by +2.1% compared to a decrease in sales recorded for non-New Premium segment tyres (-4.7%). Both segments were impacted during the second half of 2018 by delays in the introduction of new C02 emission control procedures for new cars. In the Replacement channel, New Premium sales recorded a growth of +14.3% compared to +0.7% for tyres ≤17 inches.

In **NAFTA,** sales for car New Premium tyres rose +10.2% (+12.9% for the Replacement channel, +5.3% for the Original Equipment channel) compared to a -0.6% decline registered for the non-New Premium segment (+0.5% on the Replacement channel, -5.4% on the Original Equipment channel).

In **APAC**, sales of New Premium Car tyres equalled +10.4% (+10.9% for the Replacement channel, +10.1% for the Original Equipment channel) compared to a -1.8% decline in sales for the non-New Premium segment (+0.2% for the Replacement channel, -4.9% for the Original Equipment channel).

The decline continued for markets in **Latin America**, with a further contraction of -6.8% for the total market (Original Equipment + Replacement); -8.7% for the Replacement channel while Original Equipment grew by +2.8%.

The market in **Russia** recovered with growth at +11.7%, with the Replacement channel at +11.0% and Original Equipment at +15.9%.

SIGNIFICANT EVENTS OF 2018

On **January 11, 2018** Pirelli sold, through an operation reserved for *"qualified investors"* in Italy, and institutional investors abroad, the entire investment directly held in Mediobanca S.p.A. - which corresponded to approximately 1.8% of the relative share capital - with a total net collection of euro 152.8 million.

On **January 22, 2018**, as part of the EMTN (Euro Medium Term Note) program approved at the end of 2017, Pirelli placed a bond loan with international institutional investors for a nominal amount of euro 600 million, with a five-year duration at a fixed rate. The effective yield at maturity is equal to 1.479%. The securities were listed on the Luxembourg Stock Exchange. Furthermore, during the first weeks of January 2018, Pirelli initiated an operation to change the financial conditions of the Group's main bank credit facility - involving a total notional amount of euro 4.2 billion, which included a revolving credit facility for the amount of euro 700 million - which allowed for the reduction of the applied interest margin by 30 basis points.

On **March 6, 2018** at the Geneva Motor Show, Pirelli presented the Cyber Car technology, the new system for Original Equipment which thanks to a sensor, allows for the interaction between tyre and car.

On **March 15, 2018** Pirelli placed a Floating Rate Note to the value of euro 200 million with maturity in September 2020. The Floating Rate Note issue - intended exclusively for institutional investors – has allowed for the repayment of the existing debt by the same amount, thereby further optimising the company's financial structure by reducing the cost of debt.

On **March 20, 2018** the euro 600 million bond loan maturing in November 2019 was repaid in advance by the subsidiary Pirelli International Plc. The loan was reimbursed at a price of euro 1,031.15 by way of a Make-Whole Amount for each bond with a value of euro 1,000, to which euro 5.85 was added as interest accrued up until the date of the reimbursement.

On **May 14, 2018**, the Pirelli Board of Directors, upon the proposal of the Executive Vice Chairman and CEO, Marco Tronchetti Provera, approved the development of an organisational structure aimed at consolidating the implementation of the integrated business model. The new organisation model provides that all staff functions and as well as the regions, continue to report to the Executive Vice Chairman and CEO as regards institutional issues and overall coordination. In addition, the General Operations Department entrusted to Andrea Casaluci, will also report to the Executive Vice Chairman and CEO. It is a department which assembles staff functions which already previously reported to Marco Tronchetti Provera, or report directly such as the Technology area entrusted to the Executive Vice President of Technology, Maurizio Boiocchi, and the Digital function, entrusted to Pier Paolo Tamma.

On **May 15, 2018,** the Shareholders' Meeting of Pirelli & C. S.p.A. approved the Financial Statements for 2017, (as approved by the Board of Directors on February 26, 2018) as well as the increase to the number of members of the Board of Directors to 15, and - upon the proposal by a group of institutional investors - appointed a new Director, Giovanni Lo Storto, who has joined the Audit, Risk, Sustainability and Corporate Governance Committee and the Remuneration Committee. Giovanni Lo Storto has declared that he possesses the requisites to qualify as an Independent Director pursuant to the Finance Consolidation Act and the self-regulatory Code of Conduct for listed companies. With this appointment, the Pirelli Board of Directors is composed of a majority (8 out of 15 members) of Independent Directors. Furthermore, the Shareholders' Meeting appointed the new Board of Statutory Auditors for the financial years 2018-2020, which is composed of Francesco Fallacara (Chairman); Antonella Carù, Fabio Artoni, Luca Nicodemi and Alberto Villani (effective statutory auditors) and Franca Brusco, Elenio Bidoggia and Giovanna Oddo (Alternate Auditors). The fee was set at euro 50,000 for the Statutory Auditors and euro 75,000 for the Chairman of the Board of Statutory Auditors. The Shareholders also authorised the Board of Directors to stipulate a new D&O (Directors & Officers Liability Insurance Policy), expressed a favourable opinion on the Remuneration Policy, and approved for the section related to Total Shareholder Return, the adoption of the 2018-2020 three-year monetary Long Term Incentives (*"LTI Plan"*), the latter intended for the entire management sector correlates with the 2018-2020 objectives contained in the 2017-2020 Industrial Plan.

On **June 22, 2018**, the Pirelli Board of Directors extended the expiry date (from January 31 to December 31, 2019) and increased the amount of the previous Board's authorisation for bond loans from euro 1.0 billion to euro 1.8 billion, of which euro 800 million was placed during the first quarter of 2018.

On **26 July 2018**, Pirelli & C. S.p.A. finalised a *"Schuldschein"* loan for a total euro 525 million. The loan, guaranteed by Pirelli Tyre and granted by primary market participants, consists of one tranche for the amount of euro 82 million with three-year maturity, another for euro 423 million with a five-year maturity, and another for euro 20 million with a seven-year maturity. The operation has allowed for the repayment of the existing debt, and thus further optimising the debt structure and debt cost.

On **August 7, 2018** the Pirelli Board of Directors - as regards the *"Pirelli & C. S.p.A. 600,000,000 euro 1.375 per cent Guaranteed Notes due 25 January 2023*" (ISIN: XS1757843146) issued by Pirelli & C. S.p.A as part of the euro 2.0 billion EMTN (Euro Medium Term Note) program listed on the Luxembourg Stock Exchange - resolved to proceed with the partial purchase of these bonds. **On December 19, 2018** Pirelli repurchased bonds for a total value of euro 47 million out of a total of euro 50 million as part of the mandate conferred to Goldman Sachs International to proceed with the partial repurchase of the bond.

On **August 7, 2018**, the Pirelli Board of Directors, upon the proposal of the Executive Vice Chairman and CEO, Marco Tronchetti Provera, proceeded to co-opt Ning Gaoning for his appointment as Chairman of the Board of Directors, replacing Ren Jianxin, who resigned on July 30, 2018. Ning Gaoning - who declared that he did not possess the requisites to qualify as independent pursuant to the Finance Consolidation Act and the self-regulatory Code of Conduct - was qualified by the Board in his role as non-executive Director and has been assigned the legal representation of the Company pursuant to the Articles of Association. The Board also appointed the new Director as a member of the Nominations and Successions Committee.

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

On **August 28, 2018** Pirelli announced that it had joined the United Nations *"Road Safety Trust Fund"* and - with the aim of supporting the Fund by having a significant impact on global road safety - provided an initial contribution of USD 600,000 (2018-2019).

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

On **October 9, 2018** the closing was completed for the purchase by Pirelli Tyre S.p.A. of a 49.0% stake in the Joint Venture which, through the company Jining Shenzhou Tyre Co., owns a new Consumer tyre manufacturing plant in China. The investment, - which had already been announced on **August 1, 2018** along with the announcement of the preliminary agreement – was for approximately euro 65 million. Pirelli Tyre S.p.A will have the right, to be exercised during the period between January 1, 2021 and December 31, 2025, to increase its participation up to 70%.

On **October 15, 2018** Pirelli signed the preliminary agreement with the *Agenzia delle Entrate* (the Italian Tax Office) for access to the tax relief concessions of the Patent Box, with reference to the 2015-2019 fiscal years. The tax benefit for the three year period 2015-2017 was equal to approximately euro 54 million to which is added the benefit for the 2018 financial year estimated at euro 35 million. As per the proposal by CEO, Marco Tronchetti Provera, the Board of Directors allocated the resources of the Patent Box to the reduction of costs, which will be implemented during the 2019 financial year in order to continue the double-digit reduction of exposure on the Standard segment, as well as the High Value strategy.

On **18 December 2018** Pirelli & C. S.p.A. announced that it had been admitted - together with the subsidiary Pirelli Tyre S.p.A. - to the *Regime di Adempimento Collaborativo* (Collaborative Compliance Scheme), a new initiative for dialogue with the Italian Tax Office based on a relationship of transparency which allows the Company to further increase its level of certainty on the relevant tax issues. The admission comes at the end of the positive outcome of the assessment conducted by the Italian Tax Office on the *"Tax Control Framework"* of the company, which is the system for the detection, management, control and mitigation of tax risk.

GROUP PERFORMANCE AND RESULTS

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

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

* * *

As a result of the assignment in March 2017 by Pirelli & C. S.p.A. to the parent company Marco Polo International Holding Italy S.p.A., of the TP Industrial Holding S.p.A. shares, the company into which almost all of Pirelli's Industrial assets had been merged, in continuity with the 2017 financial year some residual activities in China and Argentina relative to the Industrial business, qualified as *"Discontinued operations".* The results for the financial year for *"Discontinued operations"* were classified to the Income Statement as a single item, *"Net income (loss) related to discontinued operations".* The separation process for Argentina was completed during the month of June 2018, while for China completion was completed during the fourth quarter of 2018.

* * *

The Directors' Report on Operations at December 31, 2018 has been prepared by applying the new accounting standards IFRS 15 - Revenues from Contracts with Customers, and IFRS 9 - Financial Instruments, which came into force as of January 1, 2018.

The main impacts deriving from their application were as follows:

- IFRS 15 - Revenues from Contracts with Customers: as a result of the application of this accounting standard, some amounts previously accounted for under costs and mainly related to variable considerations payable to indirect customers, and mainly linked to the achievement of sales targets, have been recorded as a reduction to revenues or other revenues, with insignificant impact. The restatement of these amounts did not alter the operating income or equity of the Group at the date of the transition (January 1, 2018);

- IFRS 9 - Financial Instruments: following the application of this standard, the Group's equity, at the date of the transition (January 1, 2018) decreased by euro 1,023 thousand, due to effect of the new model of impairment applied to financial receivables.

The Group has adopted the two principles retrospectively, taking into account the combined effects deriving from their first application to equity as of January 1, 2018. The comparative data for 2017 has not been subjected to restatement.

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

* * *

The 2018 financial year results confirmed the resilience of the business model which is focused on the High Value segment, with an operating performance consistent with the targets for the financial year:

- Revenues which amounted to euro 5,194.5 million, (the 2018 target had been approximately euro 5.2 billion) with an organic growth of +3.7%, characterised by the strengthening of the leadership position in the high-end products range in all regions: an organic growth of +10.3% for High Value revenues, which represented approximately 64.0% of total sales;

- the EBIT *adjusted* equalled euro 955.0 million, (the 2018 target had been approximately euro 1 billion) with a growth of +9.0% compared to 2017 with a margin of 18.4% (+2.0 % on an annual basis). This improvement was supported by internal levers (price/mix, efficiencies, costs rationalisation) which more than offset the impacts of the external scenario (exchange rate volatility, increase in the cost of production factors) and the contraction in Standard segment sales;

- EBIT *adjusted without start-up costs* amounted to euro 1002,7 million (higher than euro 1 billion the target), a growth of +8.2%, thanks to the High Value segment which achieved a share of more than 83.0% of the EBIT;

- The net income (loss) related to continuing operations (Consumer) stood at euro 448.8 million, a growth of +70.5% compared to euro 263.3 million for 2017.

- The net financial (liquidity)/debt position, negative to the amount of euro 3,180.1 million, was an improvement of to the amount of euro 858.2 million compared to September 30, 2018 (due to the usual seasonality of working capital) and to the amount of euro 38.4 million compared to December 31, 2017. The net financial position at the end of 2018 included approximately euro 140 million in financial investments advanced to the Joint Venture in China, as well as the impact of the slowdown/restructuring in Brazil which should foresee recovery by 2020. Consequently the net financial (liquidity)/debt position / EBITDA *adjusted without start-up costs* ratio stood at 2.49x (2.7x in 2017, the 2018 target had been 2.35x).

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

- **strengthening of the High Value segment** which represented 63.7% of revenues (up by +6.2% compared to 57.5% for 2017). High Value volumes recorded a growth of +11.0%, with an improvement in the market share for the Car New Premium segment (Pirelli sales volumes were up by +14.3% for Car tyres ≥18" compared to the +10.0% growth of the market). Of particular note was the growing demand for Specialties tyres with ≥18" rim diameters (*Run-flat, Pirelli Noise Cancelling System, Seal-Inside*) due to the continuous expansion of the homologations portfolio for these technologies (for 2018 approximately 46.0% of the 421 new High Value homologations were represented by Specialties); Volume growth for the High Value segment was more contained in respect of the target of ~+13% and was impacted by the contraction of the European Original Equipment market during the second quarter (-4.9% for the third quarter and -8.7% for the fourth quarter), following the introduction of the new CO2 emissions tests (WLTP) as of September 1st.;

- **reduction of exposure on the Standard segment** with a -14.0% contraction in volumes driven by the progressive exit from products with a lower rim diameter and lower profitability, in context of the general slowdown of the Standard market. The increased contraction compared to the target of -12% was attributable to the deterioration of the market for the Standard segment in LatAm (-7.1% for 2018, -14.6% for the fourth quarter). The combination of High Value and Standard segment performances resulted in an overall change in volumes of -3.1%;(the target for 2018 was -2.0%);

- **improvement in the price/mix component**: +6.8% for 2018 (the target for 2018 was +6.5%) due to the increasing proportion of the high end range, the progressive improvement of the product mix and channels, and the price increases put in place in emerging countries to offset the volatility of exchange rates;

- **the acceleration of the efficiencies program as of the third quarter** (euro 70 million for the entire financial year, 1.3% of revenues) which more than offset costs inflation (euro -48 million). These programs involved industrial and product activities: from the optimisation of raw material costs and product simplification, to productivity improvement, thanks to the increasing digitalisation of processes.

- **rapid implementation of costs recovery actions** (approximately euro 50 million mainly for marketing budgets and advertising costs, consultancy fees, and general and administrative expenses) in response to the worsening of market trends for the Standard segment in emerging countries, particularly in South America.

As regards the more specific programs, of note were:

- **the strengthening of the partnership** with Prestige and Premium car manufacturers: 421 new High Value homologations during 2018, with a portfolio increasingly oriented towards new technologies which reached more than 2,480 high-end range homologations. During 2018, Pirelli intensified its collaborative relationships for the electric car with the major global Premium and Prestige car manufacturers and with the most innovative Chinese brands. These partnerships allow for the strengthening of Pirelli's positioning on the Replacement channel, generating a loyalty rate of over 80%;

- **expansion of the High Value productive capacity mainly in Europe and NAFTA** and the conversion of the Standard segment capacity into High Value in Brazil, predisposing the processes and organisation of manufacturing plants to handle the growing complexity and ever-increasing rim diameters. During 2018, High Value capacity reached a 60.0% share of production, with an increase in the High Value capacity of 3 million units, of which 37.0% was due to conversion;

- **increased distribution coverage mainly in Europe, NAFTA, and APAC** with a greater presence on the car dealer, retail client and Pirelli Tier 1 channels, where Pirelli exercises greater control and records higher sales. The volume share of these channels rose from 51.0% of volumes for 2017 to 57.0% for 2018;

- the **development of business programs which intercept new end-customer needs** (such as Cyber and Velo), also through the collaboration with the Premium and Prestige Original Equipment channels. There was the continuation of projects for the **digital transformation of the Company, while the conversion of Aeolus brand production into Pirelli brand** production was completed 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 47.7 million during the 2018 financial year (euro 50.2 million for 2017).

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

(In millions of euro)	**12/31/2018**	**12/31/2017**
Net sales	**5,194.5**	**5,352.3**
EBITDA adjusted without start-up costs (°)	1,279.1	1,175.1
% of net sales	24.6%	22.0%
EBITDA adjusted (°°)	**1,234.7**	**1,137.7**
% of net sales	23.8%	21.3%
EBITDA	**1,097.4**	**1,044.5**
% of net sales	21.1%	19.5%
EBIT adjusted without start-up costs (°)	**1002.7**	**926.6**
% of net sales	19.3%	17.3%
EBIT adjusted (°°°)	**955.0**	**876.4**
% of net sales	18.4%	16.4%
EBIT	**703.1**	**673.6**
% of net sales	13.5%	12.6%
Net income (loss) from equity investments	(5.0)	(6.9)
Financial income/(expenses)	(196.3)	(362.6)
Net income (loss) before tax	**501.8**	**304.1**
Tax expenses	(53.0)	(40.8)
Tax rate %	(10.6%)	(13.4%)
Net income (loss) related to continuing operations (Consumer)	**448.8**	**263.3**
Eanings/(loss) per share related to continuing operations (in euro per share)	0.44	0.31
Net income (loss) related to continuing operations (Consumer) adjusted	576.3	386.8
Net income (loss) related to discontinued operations (Industrial)	(6.4)	(87.6)
Total net income (loss)	**442.4**	**175.7**
Net income attributable to the Parent Company	431.6	176.4
Fixed assets related to continuing operations	**9,017.8**	**9,121.0**
Inventories	1,128.5	940.7
Trade receivables	628.0	652.5
Trade payables	(1,604.7)	(1,673.6)
Operating working capital related to continuing operations	**151.8**	**(80.4)**
% of net sales	2.9%	(1.5%)
Other receivables/other payables	34.3	(42.2)
Net working capital related to continuing operations	**186.1**	**(122.6)**
% of net sales	3.6%	(2.3%)
Net invested capital held for sale	**10.7**	**60.7**
Net invested capital	**9,214.6**	**9,059.1**
Equity	**4,550.9**	**4,177.0**
Provisions	1,483.6	1,663.6
Net financial (liquidity)/debt position	**3,180.1**	**3,218.5**
Equity attributable to the Parent Company	4,468.1	4,116.7
Investments in property, plant and equipment and intangible assets	463.4	489.4
Research and development expenses	219.0	221.5
% of net sales	4.2%	4.1%
Research and development expenses - High Value	202.9	199.9
% on sales High Value	6.1%	6.5%
Employees (headcount at end of period)	31,489	30,189
Industrial sites (number)	19	19

(°) Start-up costs refer to contribution to EBITDA and EBIT (amounting to euro 44.4 millions (euro 37.4 millions in 2017) and euro 47.7 millions (euro 50.2 millions in 2017) respectively) of the Cyber and Velo activities, the costs for the conversion of Aeolus brand Car products, and costs sustained for the digital transformation of the Group.

(°°) Adjustments refer to non recurring and restructuring expenses amounting to euro 91.5 millions (euro 93.2 millions in 2017), expenses relating to the retention plan approved by the Board of Directors on February 26, 2018 amounting to euro 13.3 millions and 2018 costs (i) relating to renegotiation of commercial agreements and royalties amounting to euro 14.2 millions and (ii) not pertinent to normal business operations amounting to euro 18.3 millions.

(°°°) Adjustments refer to amortization of intangible assets recognised as a consequence of Business Combinations amounting to euro 114.6 millions (109.6 millions in 2017) which are sumed to adjustments included in EBITDA adjusted.

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	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Net sales	**1,310.3**	1,339.3	**1,320.0**	1,346.0	**1,294.9**	1,353.2	**1,269.3**	1,313.8	**5,194.5**	5,352.3
yoy	-2.2%		-1.9%		-4.3%		-3.4%		-2.9%	
*organic yoy **	5.7%		5.3%		2.5%		1.0%		3.7%	
EBITDA adjusted without start-up costs	**298.0**	281.7	**310.3**	285.1	**328.0**	298.9	**342.8**	309.4	**1,279.1**	1,175.1
% of net sales	22.7%	21.0%	23.5%	21.2%	25.3%	22.1%	27.0%	23.5%	24.6%	22.0%
EBITDA adjusted	**288.1**	270.4	**299.8**	276.0	**319.8**	289.9	**327.0**	301.4	**1,234.7**	1,137.7
% of net sales	22.0%	20.2%	22.7%	20.5%	24.7%	21.4%	25.8%	22.9%	23.8%	21.3%
EBITDA	**282.4**	260.3	**290.4**	240.4	**312.2**	315.4	**212.4**	228.4	**1,097.4**	1,044.5
% of net sales	21.6%	19.4%	22.0%	17.9%	24.1%	23.3%	16.7%	17.4%	21.1%	19.5%
EBIT adjusted and without start-up costs	**229.4**	219.5	**243.9**	223.5	**258.8**	238.2	**270.6**	245.4	**1,002.7**	926.6
% of net sales	17.5%	16.4%	18.5%	16.6%	20.0%	17.6%	21.3%	18.7%	19.3%	17.3%
EBIT adjusted	**218.4**	205.0	**231.7**	211.2	**250.0**	226.0	**254.9**	234.2	**955.0**	876.4
% of net sales	16.7%	15.3%	17.6%	15.7%	19.3%	16.7%	20.1%	17.8%	18.4%	16.4%
EBIT	**184.0**	168.7	**193.7**	149.5	**213.7**	222.9	111.7	132.5	703.1	673.6
% of net sales	14.0%	12.6%	14.7%	11.1%	16.5%	16.5%	8.8%	10.1%	13.5%	12.6%

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

Net sales amounted to euro 5,194.5 million and recorded an organic growth of +3.7% compared to the previous financial year. The change in revenues equalled -2.9%, including the combined effect of exchange rates and the application of hyperinflation accounting in Argentina (a total of -5.9%), and the impact deriving from the application of the new accounting standard IFRS 15 (-0.7%).

High Value revenues for 2018 which amounted to euro 3,309.9 million, represented an organic growth of +10.3% (+7.5% including the negative exchange rate effect of -2.8%), which accounted for a 63.7% share of the total turnover (+6.2 p.p. compared to 2017).

(In millions of euro)	**2018**	% of total	**2017**	% on of total	Variation y/y	Variation y/y organic
High Value	3,309.9	63.7%	3,079.2	57.5%	7.5%	10.3%
Standard	1,884.6	36.3%	2,273.1	42.5%	-17.1%	-5.4%
Total net sales	**5,194.5**	**100.0%**	**5,352.3**	**100.0%**	**-2.9%**	**3.7%**

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

	1 Q	**2 Q**	**3 Q**	**4 Q**	**Cumulative 2018**
Volume	-1.5%	-0.9%	-3.0%	-7.1%	-3.1%
Price/mix	7.2%	6.2%	5.5%	8.1%	6.8%
Change on a like-for-like basis	**5.7%**	**5.3%**	**2.5%**	**1.0%**	**3.7%**
Translation effect/High inflation Argentina	-7.3%	-6.6%	-6.1%	-3.4%	-5.9%
Adoption of new accounting standard IFRS 15	-0.6%	-0.6%	-0.7%	-1.0%	-0.7%
Total change	**-2.2%**	**-1.9%**	**-4.3%**	**-3.4%**	**-2.9%**

The performance for sales volumes for the 2018 financial year (-3.1%) reflected the differing trends between the High Value and Standard segments.

High Value volumes grew sharply: up by +11.0% during 2018 with an improvement in market share in all the main geographic regions. There was sustained growth for Car tyres with ≥18" rim diameters (+14.3% compared to the +10.0% growth of the market) thanks to:

- strong demand in Europe, APAC and North America;
- the growing demand for Pirelli Specialties with ≥18" rim diameters (*Run-flat, Pirelli Noise Cancelling System, Seal-Inside*).

The differential between the growth trend of the High Value segment and that of Car tyres ≥18" was attributable to the lower demand for ≤17" *Specialties*, in favour of those with higher rim diameters, and to the performance of the Premium motorcycle market (+1.8% for 2018 compared to +8.1% for 2017).

Volume growth for the high-end range during the fourth quarter was more contained (+7.2% for High Value volumes, +7.6% for Car tyres ≥18"), with an extremely positive performance in the Replacement channel, which recorded a growth of +15.6% for Car tyres ≥18", while the Original Equipment channel suffered an overall contraction of -1.2%, impacted in particular by the downturn in the European market following the introduction of the new CO2 emissions tests (WLTP) as of September 1, 2018. These tests led to a different seasonality for the Original Equipment channel, with demand in Europe concentrated in the first half-year, and a market contraction as of the third quarter, continuing also into the fourth quarter.

There was an opposite trend on the Standard segment which recorded a contraction of -14.0% during 2018 and of -22.6% for the fourth quarter. This trend was impacted:

- the fall in demand for Standard products in mature markets for the first quarter (Europe and NAFTA -5.7%);
- market contractions in emerging countries, particularly in LatAm (-7.1% for the market in 2018 and -14.6% for the fourth quarter);
- by Pirelli's decision to accelerate the reduction in volumes of lower profitability products.

Improvement of the price/mix: +6.8% for the entire 2018 financial year supported by the growing share of the High Value segment, by the improvement of the mix in the High Value Standard segment, and by the increase in prices in emerging markets to counter exchange rate volatility. The price/mix for the fourth quarter was higher (+8.1%), and mainly reflected the improvement in the product mix, the higher sales on the Replacement channel and the implementation of the price increases in the emerging markets.

The exchange rate effect was negative mainly for the currencies of emerging countries: -5.9% for the entire financial year, and -3.4% for the fourth quarter.

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

	2018				2017
	Euro\mln	%	*yoy*	*Organic Yoy**	%
Europe	2,234.2	43.1%	*-0.2%*	*1.4%*	41.7%
NAFTA	1,004.1	19.3%	*2.1%*	*7.6%*	18.4%
Asia\Pacific (APAC)	890.2	17.1%	*10.4%*	*13.3%*	15.1%
South America	691.9	13.3%	*-24.4%*	*-3.1%*	17.1%
Middle East\Africa\India (MEAI)	207.1	4.0%	*-16.8%*	*-6.6%*	4.7%
Russia and CIS	167.0	3.2%	*4.6%*	*15.5%*	3.0%
TOTAL	**5,194.5**	**100.0%**	***-2.9%***	***3.7%***	**100.0%**

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

Europe (43.1% of sales) closed the 2018 financial year with an organic growth in revenues of +1.4%, (-0.2% including the impact of both the exchange rate effect at -0.4%, and the impact deriving from the adoption of the new accounting standard IFRS 15 of -1.2%). The strengthening of the High Value segment continued, with an organic growth of +7.0%, which in the second half-year was impacted by a contraction in the Original Equipment market (-5.0% for the third quarter and -5.0% for the fourth quarter) following the introduction of the new WLTP CO2 emissions tests, and the weakness of the Premium motorcycle market (-2.4% for 2018 compared to +3.3% for 2017). In this context, Pirelli improved its market share on the Car tyre ≥18" rim diameter market both on the Original Equipment channel, thanks to the expansion of the homologation portfolio with the Premium and Prestige producers, and on the Replacement channel, thanks to the pull-through effect.

The Standard segment recorded a negative performance with an organic contraction in revenues of -8.9%, due to:

- the accelerated reduction of exposure to less profitable products in the presence of an unfavourable market situation, particularly during the first quarter (-5.7%);
- the contraction in sales for 17" rim diameters on the Original Equipment channel in favour of higher rim diameters;

Profitability (Ebit *margin adjusted*) in the high-teens range increased by more than +1 p.p. compared to the previous financial year (mid-teens), mostly due to the continued improvement of the mix and to costs efficiencies.

NAFTA (19.3% of sales) recorded an organic growth in revenues of +7.6% (+2.1% including the negative exchange rate effect of -4.5% and the impact deriving from the new accounting standard IFRS 15 (negative at -1.0%), driven by the High Value segment (an organic growth of +9.3%) and in particular by the growth sustained on the Replacement channel thanks to the introduction of *All-Season* products. Profitability (Ebit *margin adjusted*) improved by more than +1 p.p. and was again at twenties level, thanks to the increased share of the high-end range and to the progressive strengthening of the US Dollar.

APAC (17.1% of sales) was the region with the highest growth and profitability (an EBIT *margin adjusted* in the twenties range), which was a decisive improvement compared to the previous financial year. Revenues recorded an organic grew of +13.3% (growth of +10.4% including the negative exchange rate effect of -2.9%), driven by the High Value segment (an organic growth in revenues of +21.0%), thanks to:

- increased exposure on the Original Equipment channel which counted new supplies and homologations with European and local brands;

- increased market share for the Replacement channel thanks to the pull-through effect and an ever wider commercial presence which counted over 4,500 points of sale.

Sales on the Standard segment contracted with an organic change of -8.0%, with a fall in sales for ≤17" rim diameters, in context of the weakness of the market for that segment.

South America (13.3% of sales) recorded an organic change in revenues of -3.1% (-24.4% including the exchange rate effect and the adoption of inflation accounting in Argentina totalling a negative -21.1%, and a negative impact of -0.2% deriving from the application of the new IFRS 15), mainly due to the drop in volumes of -14.8% as a result of:

- the weakness of the market (-6.8% for the total car market in 2018, -14.4% for the fourth quarter with a -15.5% contraction on the Replacement channel and -9.1% in the Original Equipment market);

- the continuing focus on the mix, with the progressive reduction of sales of less profitable Standard segment products with lower rim diameters;

- the destination of a portion of production for export to North America in view of the growing demand for High Value Pirelli products and the progressive growth of the mix recorded by the Brazilian factories;

A trend of marked improvement for the price/mix (+11.7% for the financial year, +23.8% for the fourth quarter), thanks to the increase on prices in Brazil which occurred in fourth quarter, and to the strong improvement of the product mix.

Profitability (Ebit *margin adjusted*) was in the high-single-digits range, representing a decrease compared to 2017. This trend was impacted by:

- the aforementioned contraction in volumes;

- the impact of the application, as of the third quarter of 2018, of high inflation accounting in Argentina;

- the increased cost of raw materials rendered more expensive by unfavourable exchange rates.

These impacts were partly offset by the improvement in the mix, by higher efficiencies and costs structure actions (actions on purchases, advertising and marketing budgets, consultancy, travel expenses and other general expenses) for approximately euro 20 million in response to the difficult external environment.

MEAI (4.0% of sales) recorded a negative organic change in revenues of -6.6% (negative at -16.8% including the exchange rate effect) due to the reduction in volumes mainly on the Standard segment of lower and less profitable rim diameters, in an unfavourable market; profitability (Ebit *margin adjusted*) in the low-teens range had recorded a contraction compared to 2017, impacted by the impairment of exchange rates particularly in Turkey.

In **Russia** (3.2% of sales) the strategy of focusing on the more profitable segments plus the recovery of the market impacted favourably on the results for 2018, with an organic growth in revenues of +15.5% (a growth of +4.6% including the negative exchange rate effect of -10.9%) with significant improvement in profitability (an EBIT *margin adjusted* in the high-teens range, compared to the low-teens range for 2017).

EBIT *adjusted without start-up costs* amounted to euro 1,002.7 million, representing a growth of +8.2% and euro 76.1 million in absolute values compared to the previous financial year (euro 926.6 million). The EBIT *margin adjusted* without start-up costs stood at 19.3%, a growth of +2 p.p. compared to 2017. Start-up costs which equalled euro 47.7 million (euro 50.2 million the previous financial year) were relative to

- the Cyber business which continued the development of the *Cyber Car* and *Cyber Tyre Development Kit* technologies, dedicated to Original Equipment Premium and Prestige customers, those dedicated to the world fleet (*Cyber Fleet*), and new consumer solutions to be launched in 2019;

- the *Velo* business, whose range has been expanded with the introduction of new Road Racing products (*Cinturato Velo*) and a line of products dedicated entirely to electric bikes (*Cycl-e*). the growing success of the business, which is expected to break-even in 2019, and saw confirmation in the collaborations for the Original Equipment channel launched with Premium bicycle manufacturers in the course of 2018 (e.g., Pinarello);

- the conversion of Aeolus brand production into Pirelli brand production in the manufacturing plant in Jiaozuo for the Car sector which was completed in 2018;

- the digital transformation of the Company which, following the positive results of the activities already under way, was intensified to support the long-term efficiency program and to deal with the growing complexity of the business. The greater resources allocated to this activity led to an increase in start-up costs by euro 8 million compared to the financial year target of euro 40 million.

EBIT *adjusted* equalled euro 955.0 million, representing an annual growth of +9.0% and euro +78.6 million in absolute values compared to the previous financial year (euro 876.4 million), with a margin of 18.4%, an improvement of +2 p.p. compared to 2017. The improvement in the results was attributable to the effect of internal levers (price mix, efficiencies and the costs reduction program) which more than offset the impacts linked to the deterioration of the external scenario (raw materials, exchange rate effect and inflation) and the contraction in sales volumes on the Standard segment.

In more detail:

- the improvement in the price/mix (euro 239 million) more than offset the impact deriving from the increase in raw materials prices (euro -52 million), exchange rate volatility (euro -43 million), as well as the aforementioned decline in sales volumes (euro -68 million);
- a positive balance of euro 22 million, between industrial efficiencies (euro 70 million, 1.3% of revenues) and costs inflation (euro -48 million);
- the cost reduction plan of euro 50 million, launched during the second half-year of 2018 to counter the decline in sales on the Standard segment especially in Brazil, contributed in reducing the increase in amortisation and depreciation and other costs linked to the development of the High Value segment (euro -71 million);
- start-up costs were slightly less (an impact of euro +2.5 million on the EBIT, which went from euro -50.2 million euro for 2017 to euro -47.7 million for 2018).

(In millions of euro)	**1 Q**	**2 Q**	**3 Q**	**4 Q**	**Total**
2017 EBIT Adjusted	**205.0**	**211.2**	**226.0**	**234.2**	**876.4**
- Internal levers:					
Volumes	(8.0)	(4.5)	(16.5)	(39.3)	(68.3)
Price/mix	62.7	50.1	47.0	78.9	238.7
Amortisation, depreciation and other costs	(21.4)	(15.9)	4.8	11.7	(20.8)
Start-up costs	3.5	0.1	3.4	(4.5)	2.5
Efficiencies	9.0	10.0	23.6	27.5	70.1
- External levers:					
Cost of production factors (commodities)	(13.8)	2.3	(12.7)	(27.8)	(52.0)
Cost of production factors (labour/energy/others)	(11.4)	(11.9)	(14.1)	(10.9)	(48.3)
Foreign currency translation	(7.2)	(9.7)	(11.5)	(14.9)	(43.3)
Total change	**13.4**	**20.5**	**24.0**	**20.7**	**78.6**
2018 EBIT adjusted	**218.4**	**231.7**	**250.0**	**254.9**	**955.0**

The **EBIT** which amounted to euro 703.1 million (compared to euro 673.6 million for 2017) included:

- the amortisation of intangible fixed assets identified during the Purchase Price Allocation of euro 114.6 million (euro 109.6 million for 2017).
- non-recurring and restructuring expenses to the amount of euro 91.5 million (euro 93.2 million for 2017), for which further details are provided below;
- costs not pertinent to normal business operations to the amount of euro 18.3 million;

- costs for the renegotiation of commercial agreements and royalties to the amount of euro 14.2 million, of which euro 9 million was attributable to the extraordinary reshaping of the technology license agreement granted to the Aeolus Tyre Co., Ltd, a related party to the Group;

- expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 to the amount of euro 13.3 million.

In particular, the non-recurring and restructuring expenses included:

- restructuring costs totalling euro 67.5 million of which euro 47.3 million in costs attributable to rationalisation measures for the structures of the Standard business launched at the end of 2018, and which will continue throughout the 2019-2020 two year period in addition to euro 20.2 million mainly due to the impairment of tangible and intangible fixed assets, consistent with the reduction in the Standard segment capacity;

- non-recurring costs of euro 24 million, mainly attributable to the adjustment of the value of pension funds in the UK following a change in the method for calculating the Guaranteed Minimum Payment (euro 14.4 million).

The impact on the net income of non-recurring and restructuring expenses was substantially offset by the benefits of the Patent Box (euro 89 million for the 2015-2018 four-year period).

The **net income from equity investments** was negative at euro -5 million (a loss of euro -6.9 million for 2017), and comprised:

- the pro-rata share of the loss attributable to the Indonesian Joint Venture PT Evoluzione Tyres (euro -10.4 million) evaluated using the equity method;

- a positive net income (euro 3.7 million) deriving from the positive change in fair value recorded by Mediobanca shares up until the date of disposal (January 11, 2018);

- dividends received during the financial year to the amount of euro 4.2 million.

Net financial expenses which fell by euro 166.3 million (from euro 362.6 million for 2017 to euro 196.3 million for 2018) mainly reflected:

- lower interest by approximately euro 84.9 million, for the most part due to the lower cost of the main bank credit facility signed in June 2017 compared to the old bank loan, as well as the reduction of debt thanks also to the share capital increase by Marco Polo of approximately euro 1.2 billion which took place in June 2017;

- the favourable comparison between the (not-yet-amortised) wash down of fees of euro 61.2 million included for 2017, and the amount of euro 3.6 million for 2018, respectively relative to the old bank loan which was repaid in advance in June 2017, and to the bond placed by

Pirelli International Plc (for the amount of euro 600 million, with a fixed coupon of 1.75% and original maturity in November 2019) which was repaid early in March 2018;

- the almost neutral balance between the positive effect deriving from the repricing of the Group's main bank credit facility which occurred in January 2018, and the expenses arising from the early extinction of the bond placed by Pirelli International Plc (for the amount of euro 600 million with a fixed coupon of 1.75% and original maturity in November 2019) carried out in March 2018 through the exercise of the so-called make-whole option;

- lower interest on local product lines, due to a mix of interest rate cuts, and the reduction of indebtedness in countries with a high interest rate.

The cost of debt on an annual basis (last 12 months) stood at 3.37%, (2.95% net of repricing impacts), compared to 5.36% at December 31, 2017.

Tax expenses for 2018 amounted to euro 53 million against pre-tax earnings of euro 501.8 million with a tax rate which stood at 10.6%. The tax rate for 2018 was positively impacted by the benefit derived from the application of the concessions of the Patent Box tax relief scheme in accordance with the preliminary agreement signed on October 15, 2018 with the Italian Tax Office. This benefit, which equalled approximately euro 89 million (euro 54 million for the three-year 2015-2017 period and euro 35 million in estimated benefits for 2018), substantially offset non-recurring and restructuring expenses.

The **net income related to continuing operations (Consumer)** amounted to euro 448.8 million compared to earnings of euro 263.3 million for 2017, a growth of +70.5%.

The **net income related to continuing operations (Consumer) *adjusted*** amounted to euro 576.3 million compared to euro 386.8 million for 2017.

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

(In millions of euro)	**2018**	**2017**
Net income (loss) related to continuing operations	**448.8**	**263.3**
Amortisation of intangible assets included in PPA	114.6	109.6
Non-recurring and restructuring expenses	91.5	93.2
Expenses relating to renegotiation of commercial agreements and royalties	14.2	-
Expenses not pertinent to normal business operations	18.3	-
Retention plan	13.3	-
Net financial expenses	2.1	61.2
Tax	(126.5)	(140.5)
Net income (loss) related to continuing operations adjusted	**576.3**	**386.8**

The net income (loss) related to discontinued operations which included the financial data for 2018 of some residual Industrial activities in China and Argentina, was negative to the total amount of euro 6.4 million, and whose separation has for the most part been completed.

The **total net income** was positive to the amount of euro 442.4 million compared to the positive amount of euro 175.7 million for the previous financial year.

The **net income attributable to the Parent Company** amounted to euro 431.6 million compared to the positive result of euro 176.4 million for 2017.

Equity went from euro 4,177.0 million at December 31, 2017 to euro 4,550.9 million at December 31, 2018.

Equity attributable to the Parent Company at December 31, 2018 equalled euro 4,468.1 million compared to euro 4,116.7 million at December 31, 2017.

This change is shown in the table below:

(In millions of euro)	**Group**	**Non-controlling interests**	**Total**
Equity at 12/31/2017	**4,116.7**	**60.3**	**4,177.0**
Adoption of new accounting standard IFRS9	(1.0)	-	(1.0)
Translation differences	(82.3)	0.9	(81.4)
Net income (loss)	431.6	10.8	442.4
Actuarial gains/(losses) on employee benefits	28.7	-	28.7
Dividends paid	-	(8.4)	(8.4)
Transacions with minorities	(36.3)	19.0	(17.3)
High inflation accounting Argentina	26.2	-	26.2
Other	(15.5)	0.2	(15.3)
Total changes	**351.4**	**22.5**	**373.9**
Equity at 12/31/2018	**4,468.1**	**82.8**	**4,550.9**

The reconciliation statement for the equity attributable to the Parent Company and the consolidated equity attributable to the Shareholders of the Parent Company is shown below:

(in millions of euro)	**Share Capital**	**Treasury reserves**	**Net income (loss)**	**TOTAL**
Equity of Pirelli & C. S.p.A. at 12/31/2018	**1,904.4**	**2,325.9**	**262.4**	**4,492.7**
Net income (loss) of consolidated companies (before consolidation adjustments)	-	-	434.4	434.4
Share capital and reserves of consolidated companies (before consolidation adjustments)	-	4,108.6	-	4,108.6
Consolidation adjustments:				
- carrying amount of equity investments in consolidated companies	-	(4,570.9)	-	(4,570.9)
- intercompany dividends	-	281.3	(281.3)	-
- others	-	(12.8)	16.1	3.3
Consolidated equity of Group at 12/31/2018	**1,904.4**	**2,132.1**	**431.6**	**4,468.1**

The **net financial (liquidity)/debt position** was negative to the amount of euro 3,180.1 million compared to euro 3,218.5 million at December 31, 2017. It was composed as follows:

(In millions of euro)	12/31/2018	12/31/2017
Current borrowings from banks and other financial institutions	800.1	559.2
Current derivative financial instruments	53.5	11.2
Non-Current borrowings from banks and other financial institutions	3,929.1	3,897.1
Non-Current derivative financial instruments	13.8	55.0
Total gross debt	**4,796.5**	**4,522.5**
Cash and cash equivalents	(1,326.9)	(1,118.5)
Securities held for trading	-	(33.0)
Other financial assets at fair value through Income Statement	(27.2)	-
Current financial receivables and other assets**	(27.4)	(36.5)
Current derivative financial instruments	(91.2)	(21.4)
Net financial debt *	**3,323.8**	**3,313.1**
Non-Current derivative financial instruments	(20.1)	-
Non-current financial receivables and other assets**	(123.6)	(94.6)
Total net financial (liquidity)/debt position	**3,180.1**	**3,218.5**

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

** The amount of "financial receivables and other assets" is reported net of the relative impairment amounting to euro 6,1 million.

The **structure of the gross financial debt**, which amounted to euro 4,796.5 million, was as follows:

(In millions of euro)	12/31/2018	Maturity date				
		2019	2020	2021	2022	2023 and beyond
Use of unsecured financing ("Facilities")	2,643.9	-	939.5	-	1,704.4	-
Bond EURIBOR +0,70% - 2018/2020	199.6	-	199.6	-	-	-
Bond 1,375% - 2018/2023	546.6	-	-	-	-	546.6
Schuldschein	523.4	-	-	81.8	-	441.6
EIB loans	10.0	10.0	-	-	-	-
ISP short term borrowing	200.0	200.0	-	-	-	-
Other loans	673.0	643.7	7.9	2.7	16.7	2.0
Total gross debt	**4,796.5**	**853.7**	**1,147.0**	**84.5**	**1,721.1**	**990.2**
		17.8%	*23.9%*	*1.8%*	*35.9%*	*20.6%*

At December 31, 2018, the Group had a liquidity margin equal to euro 2,054.1 million composed of euro 700.0 million in the form of non-utilised committed credit facilities, and euro 1,326.9 million in cash, in addition to financial assets carried at fair value recognised in the Income Statement to the amount of euro 27.2 million.

The performance for **cash flows for the financial year** was as follows:

(In millions of euro)	2018					2017
	1 Q	**2 Q**	**3 Q**	**4 Q**	**Total**	**Total**
EBIT adjusted	218.4	231.7	250.0	254.9	955.0	876.4
Amortisation and depreciation (excluding PPA amortization)	69.7	68.1	69.8	72.1	279.7	261.3
Investments in property, plant and equipment and intangible	(85.3)	(93.9)	(117.5)	(166.7)	(463.4)	(489.4)
Change in working capital/other	(928.8)	(68.9)	(247.4)	856.9	(388.2)	123.8
Operating net cash flow	**(726.0)**	**137.0**	**(45.1)**	**1,017.2**	**383.1**	**772.1**
Financial income/(expenses)	(55.2)	(62.8)	(20.8)	(57.5)	(196.3)	(362.6)
Taxes paid	(31.1)	(36.2)	(33.8)	(17.9)	(119.0)	(135.5)
Financial (investments) / disinvestments	155.0	0.2	0.0	0.0	155.2	23.2
Caçula purchase from Brasilian controlled distribution	-	-	-	(1.4)	(1.4)	0.0
Acquisition of non-controlling interests	(18.5)	-	-	0.0	(18.5)	(15.4)
Cash Out for non-recurring and restructuring expenses/other	(38.2)	(11.9)	(4.6)	(17.3)	(72.0)	(63.8)
Other dividends paid	-	-	(8.4)	0.0	(8.4)	(12.9)
Acquisition of JV China	-	-	0.0	(65.2)	(65.2)	0.0
Minorities	-	-	-	0.0	-	(5.5)
Differences from foreign currency translation/other	(11.7)	6.4	(18.7)	14.8	(9.2)	0.7
Net cash flow before extraordinary transactions	**(725.7)**	**32.7**	**(131.4)**	**872.7**	**48.3**	**200.3**
Industrial reorganization	5.3	(10.3)	9.6	(14.5)	(9.9)	304.6
Share capital increase subscribed by Marco Polo	0.0	0.0	0.0	0.0	0.0	1,189.4
Net cash flow	**(720.4)**	**22.4**	**(121.8)**	**858.2**	**38.4**	**1,694.3**

More specifically, the **operating net cash flow** for 2018 was positive to the amount of euro 383.1 million (compared to euro 772.1 million for 2017).

The operating cash flow was impacted by:

- investments of euro 463.4 million (euro 489.4 million for 2017) which were primarily aimed at increasing the capacity of the High Value segment in Europe and the NAFTA area, at the strategic conversion of the capacity of the Standard segment into High-Value in Brazil, and to the continuous improvement of the quality and mix of all manufacturing plants.

- the change in working and other capital (euro -388.2 million in cash absorption in 2018).

The performance of working and other capital was mainly impacted by:

- the realignment of factoring at historic levels compared to those of 2017;

- the increase in inventories, mainly attributable to the Standard segment, even after the strong slowdown in sales in LatAm. The level of inventories at the end of 2018 was equal to 21.7% of sales; the Company has launched a plan to normalise this phenomenon, to realign inventories to a level below 20.0% of revenues for 2019;

- the temporary renegotiation of the terms of collection for some dealers in Brazil, given the difficult macroeconomic environment, which will continue for the course of the 2019 financial year;

- the usual financing of pension fund deficits.

Total cash flow, was positive to the amount of euro 38.4 million, and mainly included:

- cash outflow relative to the balance of financial income and expenses (euro 196.3 million) and tax expenses (euro 119 million);
- restructuring expenses to the amount of euro 21 million and non-recurring expenses to the amount of euro 50 million (of which euro 31 million was for advisory costs and fees relative to the IPO process which took place in 2017);
- the impact of transactions on equity investments which occurred during the financial year, including the disposal of the investment in Mediobanca (euro +152.8 million), the acquisition of 49.0% of the new JV in China (euro -65.2 million) and the completion of the strengthening of the distribution chain in Brazil (euro -19.9 million).

RESEARCH AND DEVELOPMENT ACTIVITIES

The research and development activities carried out by Pirelli constitute a central phase for the development of new products. The Research and Development department - which dedicates strong attention to technological innovations - counts approximately 1,932 personnel (equal to 6.1% of the Group's human resources) between the Milan headquarters and the 12 technology centres located in various geographical areas, and which allow for a direct relationship with the major car manufacturers. Pirelli's model for research and development, implemented in accordance with the *"Open Innovation"* model, is carried out through a series of collaborations with partners who are external to the Group - such as suppliers, universities and car manufacturers - in order to pre-empt technological innovations for the sector and to direct research and development activities towards meeting the needs of the end consumer.

Research and development expenses for the 2018 financial year totalled euro 219.0 million, (equal to 4.2% of sales) of which euro 202.9 million was destined for High Value activities (equal to 6.1% of High Value revenues).

Pirelli also continued to develop their *CYBER™* technologies which, thanks to the sensor technology inside the tyre, will contribute in making information available from time to time in order to increase the safety or performance of vehicles. At the Geneva Motor Show, Pirelli presented their 2018 *CYBER CAR™*, the new system for Original Equipment which allows for the interaction between tyre and car. Pirelli also completely renewed their *Cyber Fleet*, the system for the monitoring and management of fleet tyres, presented at the 67th edition of the IAA Commercial Vehicles Motor Show in Hannover in 2018.

PRODUCT INNOVATION

In order to develop new products specifically designed to meet the needs and technical specifications of customers, Pirelli has established long-lasting relationships with major Prestige and Premium car manufacturers. The development of the product together with these car manufacturers is geared towards 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 in excess that of 50% on the Original Equipment channel, and is also the leader in supplying to brands such as Aston Martin, Bentley, Ferrari, Porsche, and Maserati, and is the sole supplier to Lamborghini, McLaren and Pagani Automobili. With Premium, instead, there was further proof of the privileged relationship with companies such as Alfa Romeo, Audi, BMW, Mercedes, Jaguar and Land Rover. In addition, in 2018 Pirelli was honoured by the Ford Motor Company with the Gold World Excellence Award.

Pirelli's strong presence is proven by a portfolio of approximately 3,100 homologations, of which, approximately 2480 are High Value (80.0%), and more than 770 are linked to specialties. In particular, Pirelli can count on a portfolio of over 500 homologations for *Run Flat* products, a technology that allows you to drive with a perforated tyre long enough to reach the nearest tyre supplier for a replacement. Amongst the brands that have chosen to homologate their vehicles with Pirelli *Run Flat* are Alpha Romeo, BMW, Cadillac, Dodge, Jeep, Mercedes and Mini. Pirelli *Run Flat* technology is available on *P Zero, Cinturato, Scorpion* and *Scorpion Winter, Winter Sottozero 3* and *Winter Sottozero Serie II* tyres. It is a range that is able to satisfy 97% of rim diameters from 18" and upwards. Also during 2018, homologations for Pirelli tyres with PNCS technology (Pirelli Noise Cancelling System) doubled compared to the previous financial year, exceeding 150 (there were 78 at the end of 2017). This technology, which reduces the noise perceived within the vehicle by up to 25%, is increasingly requested by car manufacturers, especially in the Premium and Prestige segments, in order to offer greater comfort to car occupants.

During 2018, the Pirelli Scorpion Winter tyre received prestigious awards from German magazines *Auto Bild Allrad, Off Road* and *Auto Zeitung*. Designed specifically to maximize the safety and performance of modern SUVs and CUVs, especially from the Premium range, since its launch in 2012, the *Scorpion Winter* tyre has confirmed itself as the leader in its category. Available with the main Specialties, the Pirelli *Scorpion Winter* tyre is chosen by many manufacturers and has already registered 131 homologations of which 110 are marked on 46 different car models. In addition, as confirmation of the relevance of its characteristics, it has won homologations for new electric vehicles, as well as for the sportiest versions of SUVs on the market, including Alfa Romeo Stelvio Quadrifoglio and Lamborghini Urus.

In 2018 Pirelli achieved a new record lap time at the Nürburgring-Nordschleife circuit for the eighth consecutive year. A result obtained thanks to the *P Zero Trofeo R* fitted to the Lamborghini Aventador SVJ. During the course of the financial year, Pirelli returned to making tyres for vintage cars, by creating a new tyre for the *Collezione* family: the *Stella Bianca*. The Stelvio Corsa, designed specifically for the 1962 Ferrari 250 GTO, was also presented. Thanks to the most up-to-date and advanced technologies, Pirelli *Collezione* tyres offer improved grip and better adherence on wet surfaces, guaranteeing reliability and high levels of safety, without losing the original style.

In the world of motorcycles - by taking advantage of the experience gained in fifteen years as the Official Tyre Supplier for all classes of the FIM World Superbike Championship - Pirelli has put the best technologies and patents developed to date to good use in designing the *DIABLO ROSSO™ CORSA II*, the new tyre derived from racing technology but designed for use on the road and on the track, to meet the requirements of increasingly more powerful motorcycles. Presented by Pirelli to the international press at the beginning of April 2018 in South Africa, the *DIABLO ROSSO ™ CORSA II* emerged the victor in comparative performance reviews for hypersport tyres organised by the prestigious German magazines *MOTORRAD* and *PS Das Sport-Motorrad Magazin*, and the Italian online magazine *Red-live.it.*

The collaboration between Pirelli and MV Agusta, has generated the latest limited edition jewel by MV Agusta and Pirelli Design, the *Dragster 800 RR PIRELLI*, whose world premiere came about at the inauguration of the new *P Zero™ World of Monte Carlo* store and which is fitted with the *DIABLO™ Supercorsa SP*. Pirelli The tank and windshield are made of a rubber specially formulated by Pirelli Research and Development technicians to ensure superior resistance to scratches and other impacts.

Pirelli was selected by Yamaha as the tyre supplier also for the fifth edition of the *Yamaha VR46 Master Camp*, the track training sessions organised by Yamaha Motor's Iwata Factory in Japan together with Valentino Rossi's VR46 Riders Academy.

In May Pirelli signed a collaboration agreement with *Consorzio Ente Autodromo Pergusa* for the modernisation of the historic Sicilian track which will bolster experimentation and development activities at the site.

In the *Velo* world, Pirelli announced its partnership with the prestigious Italian bicycle manufacturer Pinarello, which means that Pirelli will supply its *P Zero™ Velo* for 100% of the Pinarello Dogma F10 series, Pinarello's flagship model. A Pirelli tyre knows how to offer optimal performance, balanced on all fronts, for rolling resistance, wet grip, dry grip, handling, puncture resistance and durability, proving itself capable of meeting the high-performance needs of the Dogma F10. The 2018 year also saw the launch of, the *Cinturato™ Velo* product line, a reinforced tyre, thanks to the new (patent pending) *Armor Tech™* technology created specific for cycling, which can be used with and without an inner tube, and offers extreme reliability in all, even the most adverse road conditions.

NEW 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 road grip. 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 and mileage; biomaterials such as lignin and plasticisers/resins of vegetable origin; nano-fillers 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 – which 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 - allow for the development of innovative materials and solutions which are fundamental to the development of tyres with reduced environmental impact and high performance. The Joint Labs agreement between Pirelli, and the Politecnico di Milano, established in 2011 for research and training in the tyre sector, is aimed at the development of innovative materials and technologies for sustainable and increasingly safe mobility. The most recent phase of the agreement, with a three year (2017-2020) duration, focuses on two main areas of research: the area for designing innovative materials and the area for product and Cyber development.

PROCESS AND PRODUCTIVITY INNOVATION

In order to allow for the effective management of the diverse ranges of products in the factories, the Group has launched the *"Smart Manufacturing"* program based on Big Data analytics techniques which 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. During 2018, of note was the involvement of the Feira de Santana, State of Bahia, (Brazil) factory in the Smart Manufacturing and Flexible Factory program, which has already led to its transformation into a real 4.0 factory, a technology hub for the production of High Value tyres in South America, as was already under way also for the Campinas plant in the state of Sao Paolo. By being at the vanguard of processes and product development, the Bahia hub, in this way contributes to the goal of constant improvement in production efficiency in the Pirelli world. Its digitalisation process has brought Smart Manufacturing to the factory, allowing it to improve its results with the use of Big Data and the ability to intervene faster in solving problems. Also, the digitalisation of information and the intersection of collected data not only enables machinery to provide feedback on the performance of an ongoing process, but to also anticipate the results (feed forward) as well as any potential problem on the basis of historical data (machine learning). The use of cloud computing, open source tools and online programs that analyse data to make future predictions, in fact, are the other essential elements which address the complexity and speed of the manufacturing world, and which make the Bahia factory one of Pirelli's most technologically advanced manufacturing locations.

COMMITTENT TO MOTORSPORTS

Pirelli has extended its presence in F1 as the Global Tyre Partner until 2023. The new agreement foresees for the introduction of the new 18" tyres in 2021. Their involvment in 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 design, rendering them better performing and compliant with the highest of requirements. The *P Zero*™ 2019 range comes in only three colours (even if they comprise more compounds), the same used for racing Championships. The three colours are white, yellow and red and correspond to hard, medium and soft tyres respectively. The *Cinturato* will have the same colours as for 2018, being intermediate (green) and for extreme wet (blue). The idea behind this change was to make the tyres more easily recognisable, even at television level, while also clearly indicating which specific compounds are used in each race.

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 brand 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 employ approximately 1,000 people between engineers, track technicians and other personnel dedicated to Research and Development. In the European two wheel Championships which foresees the participation of several tyre producers, Pirelli on average fits 70% of the motorcycles deployed on the paddock, thereby confirming the appreciation demonstrated by motorcycle riders around the world for the Pirelli brand. Thanks to its involvement in the FIM Superbike World Championship, Pirelli has during the course of the season developed new increased sizes for the *DIABLO*™ *Superbike*. As for the engraved product *DIABLO*™ *Supercorsa* which is used in all the other classes of World Championship racing, Pirelli has worked all season to develop the new product, now in its third generation. Finally, in the field of cycling, in 2018 Pirelli and Mitchelton-Scott, a World Tour professional team ranked second in the UCI ranking, announced a technology partnership. During the 2018 Tour de France, the Australian team exclusively fitted their Scott bicycles with Pirelli *P ZERO*™ *Velo* tyres.

PARENT COMPANY HIGHLIGHTS

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

(in millions of euro)	**12/31/2018**	**12/31/2017**
Operating Income (loss)	5.6	(50.9)
Financial income/(expenses)	(32.8)	(123.4)
Net income (loss) from equity investments	284.9	204.4
Income taxes	4.7	140.8
Net profit/(loss)	**262.4**	**170.9**
Financial assets	4,641.7	4,803.1
Net Equity	**4,492.7**	**4,238.4**
Net financial position	1,913.8	2,363.0

Operating income was positive to the amount of euro 5.6 million compared to the loss of the previous financial year equal to euro 50.9 million. The improvement was mainly attributable to advisory costs and fees incurred to the amount of euro 62 million relative to the IPO process which took place in 2017.

The reduction in **financial expenses** was mainly attributable to the following factors:

- the favourable comparison compared to the previous financial year, which included euro 42 million in the not-yet-amortised wash down of fees relative to the bank loan that was repaid in advance in June 2017;

- the positive effect deriving from the repricing of the Group's main bank credit facility which occurred in January 2018 to the amount of euro 12.4 million;

- the lower cost of debt.

The net income from equity investments **mainly includes the dividends of** Pirelli Tyre S.p.A. (euro 270 million compared to euro 200 million for 2017).

For 2018 **taxes** were positive to the amount of euro 4.7 million compared to the positive amount of euro 140.8 million for the previous financial year. The significant change was mainly attributable to the detection during the 2017 financial year of deferred tax assets on tax losses carried forward, surplus interest payables which had not been deducted, and the ACE tax concession (Economic Growth Aid).

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

(in millions of euro)	**12/31/2018**	**12/31/2017**
Equity investments in subsidiaries		
Pirelli Tyre S.p.A.	4,523.8	4,521.8
Pirelli Ltda	9.7	9.7
Pirelli & C. Ambiente S.r.l.	-	2.0
Pirelli UK Ltd.	21.9	21.9
Pirelli Group Reinsurance Company S.A.	6.3	6.3
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	3.2	3.2
Other companies	3.4	3.4
Total equity investments in subsidiaries	**4,568.3**	**4,568.3**
Equity investments in associates and other financial assets		
Eurostazioni S.p.A. - Roma	6.3	6.3
Fenice S.r.l.	-	2.5
Focus Investments S.p.A.	-	1.4
Mediobanca S.p.A. - Milano	-	149.0
RCS Mediagroup S.p.A. - Milano	28.4	30.2
Fin. Priv Srl	15.6	19.9
Fondo Comune di Investimento Immobiliare Anastasia	15.6	15.3
Istituto Europeo di Oncologia S.r.l.	7.0	6.6
Other companies	0.5	3.6
Total equity investments in associates and other financial assets at fair value through other comprehensive income	**73.4**	**234.8**
Total financial assets	**4,641.7**	**4,803.1**

Equity increased from euro 4,238.4 million to euro 4,492.7 million:

(in millions of euro)	
Equity at 12/31/2017	**4,238.40**
Net income (loss) for the financial year	262.4
Gains/(losses) recognised directly in Equity	(8.1)
Equity at 12/31/2018	**4,492.7**

The table below shows the **composition of equity** at December 31, 2018 and the comparison with the previous financial year:

(in millions of euro)	**12/31/2018**	**12/31/2017**
Share capital	1,904.4	1,904.4
Legal reserve	380.9	380.9
Reserve premium	630.4	630.4
Concentration reserve	12.4	12.4
Other reserves	92.5	92.5
IAS Reserve	13.0	29.4
Reserve for cash flow hedges and relative tax effects	(7.7)	(5.4)
Retained earnings	181.5	-
Merger Reserves	1,022.9	1,022.9
Net income (loss) for the financial year	262.4	170.9
Total Equity	**4,492.7**	**4,238.4**

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 the evolution of demand, to competitor strategies, to technological innovation, to the introduction of new 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, to product innovation and development, to human resources, to raw material costs, to production processes, and to 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 do 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, best practices 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 linked 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 business ethics, also to those risks inherent to 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 a weakening of the world economy during 2019. These expectations are based on a possible slowdown in international trade, being weighed down a possible exacerbation of United States and China tensions and the uncertainty surrounding Brexit. To this is added a possible deceleration of the American economy, mainly caused by a more restrictive monetary policy and the lesser benefits deriving from recent fiscal policies, together with a weakening of the growth prospects of the Eurozone. The high degree of political uncertainty caused by the growing tensions between key European Union countries will in fact have a detrimental effect on investments and, more generally, on the confidence of businesses and consumers. Regarding the emerging market space, the progressive normalisation of US monetary policy will continue to represent a significant risk both in terms of exchange rate volatility and the cost of sovereign and corporate debt issued in foreign currencies.

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 relative to import procedures, etc.) In context of this strategy, Pirelli operates in countries (Argentina, Brazil, Mexico and Russia) where the general economic and political situation and tax regimes may prove unstable in the future. Elements of uncertainty persisted with the growing tension between China and the United States and, more generally, on the medium-long term equilibrium of the current international trade agreements, which could lead to an alteration of the normal market dynamics and, more generally, of business operating conditions. The Group constantly monitors the evolution of 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 any 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 tied to a Hard Brexit

The Group has pro-actively activated a working group whose goals were to assess potential critical areas, in the case of a hard Brexit, both in terms of macroeconomic (amongst other FX volatilities and duties) as well as operational risks - mainly due to possible delays in the supply of raw materials and/or finished products - and to carry out mitigation strategies aimed at reducing possible negative impact. Although the most likely scenario continues to point to the orderly withdrawal of the United Kingdom from the EU, the fact that the British government failed, at least as at the date of the drafting of the budget - to ratify the *"withdrawal agreement"* with the European Union, which would allow both parties to enter a transitional period until the end of 2020, has undoubtedly increased the odds of a hard Brexit.

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 trends in automotive sector demand both by participating in national and international conferences on the topic, and by working on specific projects together with other major players in the world of mobility such as the SiMPlify project sponsored by the World Business Council for Sustainable Development (WBCSD) which has been active since 2013. 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 accordance with what emerged from the last *Climate Change Risk Assessment* of the Group, there are no significant risks in relation to production processes or the markets where Pirelli operates over the short to medium-term horizon. 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 (extreme weather events), as well as of a regulatory nature. Pirelli monitors these elements of uncertainty through sensitivity and risk assessment analysis. Opportunities related to climate change were highlighted in terms of growth in the sales of Pirelli Green Performance products, which feature tyres with a lower environmental impact during their life cycle.

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, any 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), which are necessary to guarantee the expected levels of profitability are identified.

Risks linked to the competitive positioning of the Group and to the competitive dynamics of the sector

The market in which the Group operates is characterised by the presence of numerous operators, some of which have significant financial and industrial resources with brands that enjoy a significant level of international or local notoriety. To date, Pirelli is the only player in the tyre industry that focuses entirely on the consumer market on a global scale, with a single brand positioned in the segment of interest for manufacturers and users of Prestige and Premium vehicles. The intensification of the level of competition in the sector in which the Group operates could, in the medium-long term, impact on its income, equity and financial situation. The high barriers to entry - both technological and productive - provide structural mitigation to the potential tightening of the competitive arena in the Group's segment of reference. To this is also be added the uniqueness of the Pirelli's strategy which rests - amongst other things - on a wide homologation-based parc focused on the Prestige and Premium segments and an ever increasing capacity focused on the High Value segment.

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 by 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.

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 (*Revolving Credit Facility*) for a total euro 700 million which at December 31, 2018 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 and cross currency interest rate swaps, for hedging purposes for which hedge accounting is activated when the conditions set forth in the IFRS 39 are met.

Price risk associated with financial assets

The Group was exposed to price risk only regarding the volatility of financial assets such as listed and unlisted stock securities and bonds, which represented 0.7% of the 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 2018, with a leading insurance company for worldwide coverage for credit risk mainly related to sales on the Replacement channel (with an approximate 75% acceptance rate at December 2018).

Insurance coverage has been extended to also cover the two year 2019-2020 period. At December 31, 2018, the amount of trade receivables remained essentially consistent with that at closing 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

In carrying out its activities the Pirelli Group incurs expenses and costs for the measures necessary to ensure full compliance with the obligations pursuant to regulations regarding health and safety in the workplace. Particularly in Italy the law relating to health and safety in the workplace (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 from 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 subjected to 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 2018 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. At the application level Pirelli has intervened in terms of system adaptation to both comply with local regulations (the Electronic Invoicing in Italy and Hungary, and Electronic Payments in Mexico) and to ensure the most recently released updates (Upgrade of Payroll Italy and SAP systems). 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:

- Network Security solutions were optimised, as regards both internet access and interaction with the rest of the Pirelli network, in public Clouds (Azure, AWS and AliCloud), in order to improve system protection and governance.
- The Virtual Private Clouds (VPC) required for the business in the Azure and AliCloud environment were implemented in compliance with the Group's security policies.
- The work continued to bring the Server and Client environments into compliance through the constant and 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 infrastructures for saving corporate data resident on user PCs and on central systems were optimised to reduce the risk of information loss.
- The 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 any business interruptions which the Group's production facilities might suffer (the Group's insurance coverage may however not be sufficient in compensating all potential losses and liabilities in case of catastrophic events). 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 raw materials suppliers.

Risks 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 half-year, annual, separate and consolidated Financial Statements, in order to safeguard the company's assets, 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 by the 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, regarding 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 out. 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 criterion 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 aimed at the subsidiaries, as well as the sampling procedures, selected on the basis of materiality criteria.

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 emerges from the 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, 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 three 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 relative to 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 the ongoing monitoring of the application of Pirelli's internal requirements regarding financial, social (particularly regarding human and labour rights), environmental and business ethics on Group sites, which occurs through periodic audits performed by the Internal Audit Function, Pirelli has adopted an ESG (environmental and social governance) risk mitigation strategy also with respect to its own supply chain, which is periodically audited by specialised third party companies. In both cases, where non-compliances are found, it is envisaged that a re-compliance plan is conceived whose implementation is promptly monitored by the auditing body.

OUTLOOK FOR 2019

Euro millions

	2018	2019
Revenues	5,194.5	~+4%/+6%
Weight of High Value on revenues	*64%*	*~67%*
Volumes	-3.10%	0/+1%
Volumes High Value	*+11%*	*~+11%*
Volumes Standard	*-14%*	*-10%/-9%*
Price/Mix	+6.8%	+5%/+5.5%
Forex	-5.9%	-1%/-0.5%
Ebit margin adjusted	18.4%	~19%
Start-up costs	48	~40
Net financial position/Ebitda Adjusted without start-up costs	2.49X	~2.1X
CapEx	463	~430

The outlook data for 2019 reflects the strategy of focusing on the High Value segment and the acceleration of the reduction of exposure to the Standard segment. The data also already takes into account the marginal effect of the reshaping of some of the terms of the license agreements with the Prometeon Tyre Group and Aeolus.

The forecasts for 2019 are for:

- revenues to increase by between +4.0% and +6.0% compared to the euro 5,194.5 million recorded for 2018, supported by the strengthening of the High Value segment (a 67.0% share of revenues compared to 64.0% in 2018) and by the continuous improvement of the price/mix (+5.0%/+ 5.5%);

- High Value volumes to increase by approximately +11.0%, plus further acceleration of the reduction of exposure to the Standard segment (volumes -10.0/-9.0%);

- total volumes: between 0.0% and +1.0% compared to 2018;

- an exchange rate effect of approximately -1.0%/-0.5%;

- growth in profitability with an EBIT *margin adjusted* of approximately 19.0% (18.4% for 2018) supported by the improvement in internal levers (price/mix, costs efficiencies);

- a High Value segment share of approximately 85.0% of the EBIT *adjusted without start-up costs* (approximately 83.0% for 2018).

- *start-up costs* of approximately euro 40 million (euro 47.7 million for 2018) destined to strengthen the Company's digital transformation program, the continuous development of Cyber solutions and the start-up of new Joint Venture production activities in China;

- reduced indebtedness with a ratio, between the net financial position and the EBITDA *adjusted without start-up costs* of approximately 2.1x[8] compared to 2.49x at the end of 2018;

- investments equal to approximately euro 430 million, consistent with the 2018 figure.

Pirelli has confirmed its *"less than 2 times"* 2020 target for the ratio between the net financial position and the EBITDA *adjusted* forecast by the Industrial plan presented during the IPO. The other forecasts contained in these Financial Statements will be updated - and are therefore to be considered obsolete - by the fourth quarter of the financial year with the presentation of a new plan with a time span of up until 2022 and which reflects, the new economic scenario, the continuation of a more accelerated reduction of Standard volumes, compared to the original plan whose impacts will be mainly offset by the tax relief benefits of the Patent Box, and the strengthening of transformation programs (decomplexity, cost containment and digital transformation) in order to support the greater development of the High Value segment.

8 *Excluding the impact of the new accounting standard IFRS 16*

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No significant events occurred since the end of the year.

ALTERNATIVE PERFORMANCE INDICATORS

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

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

- **EBITDA:** is equal to the EBIT excluding the depreciation and amortisation of property, plant and equipment and intangible assets. The EBITDA is used to measure the ability to generate earnings from operations, excluding the impact of investments;

- **EBITDA *adjusted*:** is an alternative measure to the EBITDA from which are excluded, the non-recurring and restructuring expenses, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018; and for the 2018 financial year only, costs relative to the renegotiation of commercial agreements and royalties, and costs not pertinent to normal business operations;

- **EBITDA *adjusted without start-up costs*:** is equal to the EBITDA *adjusted* but excludes the contribution to the EBITDA (*start-up costs*) of the Cyber and Velo activities, the costs for the conversion of Aeolus brand car products, and costs sustained for the digital transformation of the Group. The EBITDA *adjusted without start-up costs* is an alternative measure to the EBITDA *adjusted* but which excludes start-up costs;

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

- **EBITDA *margin adjusted*:** is calculated by dividing the EBITDA adjusted by revenues from sales and services (net sales). This measure is used to evaluate operational efficiency, excluding the impacts arising from investments, the operating costs attributable to non-recurring and restructuring expenses, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 and, for the 2018 financial year only, costs relative to the renegotiation of commercial agreements and royalties, and costs not pertinent to normal business operations;

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

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

- **EBIT *adjusted*:** is an alternative measure to the EBIT from which are excluded the depreciation and amortisation of property, plant and equipment and assets recognised as a consequence of Business Combination, the non-recurring and restructuring expenses, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 and, for the 2018 financial year only, costs relative to the renegotiation of commercial agreements and royalties, and costs not related to the normal operational management of the business.

- **EBIT *adjusted without start-up costs*:** is equal to the EBIT *adjusted* but excludes the contribution to the EBIT (*start-up costs*) of the Cyber and Velo activities, the costs for the conversion of Aeolus brand Car products, and costs sustained for the digital transformation of the Group. The EBIT *adjusted without start-up costs* is an alternative measure to the EBIT *adjusted* but which excludes start-up costs;

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

- **EBIT *margin adjusted*:** is calculated by dividing the EBIT *adjusted* by revenues from sales and services (net sales). This measure is used to evaluate operational efficiency, but excludes the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, the operating costs attributable to non-recurring and restructuring expenses, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 and, for the 2018 financial year only, costs relative to the renegotiation of commercial agreements and royalties, and costs not related to the normal operational management of the business;

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

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

    - the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, the operating costs attributable to non-recurring and restructuring expenses, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018; and, for the 2018 financial year only, costs relative to the renegotiation of commercial agreements and royalties, and costs not related to the normal operational management of the business;

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

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

This is used to measure net profitability, excluding the impact of the items referred to in the previous points.

- **Fixed Assets related to continuing operations:** this measure is constituted of the sum of the items, *"Property, plant and equipment", "Intangible assets", "Investments in associates and joint ventures"* and *"Other financial assets carried at fair value recognised under other items in the Statement of Comprehensive Income", and "Other financial assets carried at fair value recognised in the Income Statement" ("Other financial assets"* with reference to comparative data at December 31, 2017). Fixed assets related to continuing operations represents non-current assets included in the net invested capital;

- **Net Operating working capital related to continuing operations:** this measure is constituted by the sum of *"Inventory", "Trade receivables"* and *"Trade payables";* This measure is used to measure the financial equilibrium of commercial activities.

- **Net working capital related to continuing operations:** this measure consists of the net operating working capital and other receivables and payables not included in the *"Net financial liquidity/(debt) position"*. The measure represents short-term assets and liabilities included in the "*Net invested capital"*, and is used to measure short-term financial equilibrium;

- **Net invested capital assets available for sale:** this measure is constituted by the difference between *"Assets available for sale"* and *Liabilities available for sale".* Net invested capital assets available for sale is used to measure net assets relative to assets available for sale

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

  Average net invested capital: this measure consists of the average between the net invested capital at the beginning and at the end of the period, excluding investments in associated companies and Joint Ventures, *"Other financial assets at carried fair value recognised in the Statement of Comprehensive Income",* and *"Other non-current financial assets carried at fair value recognised in the Income Statement"* (other financial assets refer to the comparative data at December 31, 2017) and the intangible assets relative to assets recognised as a consequence of Business Combinations. This measure is used to calculate the ROI;

- **Provisions:** this measure is constituted by the sum of *"Provisions for liabilities and charges (current and non-current)", "Employee benefit obligations (current and non-current)"* and *"Provisions for deferred taxes*. The item provisions represents the total amount of liabilities due to obligations of a probable but not certain nature;

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

- **Net financial debt:** calculated pursuant to CONSOB Communication No. 6064293 of July 28, 2006 and in compliance with Recommendations ESMA/2013/319. Net financial debt represents the debt position towards banks and financial institutions net of cash and cash equivalents, other current financial assets carried at fair value recognised in the Income Statement (or "*Securities held for trading"* with reference to comparative figures at December 31, 2017) and "*Current financial receivables"* (included in "*Other receivables"*) and current derivative financial instruments included in the item *"Net financial position"* (included under *"Current assets as derivative financial instruments");*

- **Total net financial (liquidity) debt position**: is calculated as net financial debt less *"Non-current financial receivables"* (included in the non-current assets line item *"Other receivables"*) and *"Non-current derivative financial instruments included in net financial position"* (included under non-current assets as *"Derivative financial instruments"*). Total net financial (liquidity)/debt position is an alternative measure to net financial debt that includes long-term financial assets;

- **Total net financial (liquidity) debt position/EBITDA *adjusted without start-up costs;*** calculated as the ratio between the Total net financial (liquidity) debt position and the EBITDA *adjusted without start-up costs*. This is used to measure the sustainability of the debt;

- **CapEx (Capital Expenditures) or Investments in property, plant & equipment and intangible assets:** calculated as the sum of (i) investments (increases) in intangible assets and (ii) investments (increases) in property, plant and equipment. This measure represents the total amount of investments in tangible and intangible assets;

- **Impact of amortisation and depreciation on investments:** calculated by dividing the investments (increases) of tangible assets with amortization for the period. The ratio of investments to amortisation is used to measure the ability to maintain or restore the amounts for tangible fixed assets.

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.

To 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 Statements 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 Statements as well as 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, 2018, 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); Comercial e Importadora de Pneus Ltda. (Brasile); 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).

Also under 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 corporate departments ensure a timely and periodical identification and publication of the relevant non-EU companies under the Market Regulation, and - with the necessary and appropriate collaboration of the companies involved - guarantee the collection of data and information and the verification of the circumstances referred to in the aforesaid Article 15, ensuring the availability of the information and data provided by the subsidiaries in the event of a request by CONSOB. In addition, it also provides for a regular flow of information in order to ensure to the Board of Statutory Auditors that the Company carries out the required and appropriate verifications. Finally, the above *"Operating Regulation"*, consistently with the regulatory provisions, governs the provision to the public of the financial statements (the Statement of Financial Position and Income Statement) of the relevant non-EU companies which are subject to the preparation of 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 OPC Procedure 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 at *www.pirelli.com*dedicated to corporate governance.

For more details on the procedure for Related Party Transactions (OPC Procedure), reference is 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 and group of documents.

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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 should be noted that during the 2018 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 Board of Directors of Pirelli & C. S.p.A. for approval.

Furthermore, there were no Related Party Transactions - or changes or developments in the transactions described in the previous Financial Statements - that significantly affected the financial position or income of the Group for the 2018 financial year.

On February 14, 2019, the Company's Board of Directors approved the reshaping of some of the terms of the existing license agreements with the Prometeon Tyre Group S.r.l. and the Aeolus Tyre Co., Ltd. For a description of the aforementioned remodulations and the financial effects of the same (attributable in part to the 2018 financial year) reference should be made to the sections of the 2018 Financial Statements indicated below, as well as to the Disclosure Documents on transactions published (on a prudent and voluntary basis) by the Company on February 20, 2019.

The information on related party transactions that is required pursuant to CONSOB Communication No. DEM/6064293 of July 28, 2006 is presented in the Financial Statements, and in the Note entitled *"Related Party Transactions"* in the annual Financial Statements at December 31, 2018.

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. Furthermore, their execution was carried out in compliance with the OPC Procedure.

EXCEPTIONAL AND/OR UNUSUAL OPERATIONS

Pursuant to CONSOB Communication No. 6064293 of July 28, 2006, it is hereby specified that during the course of the 2018 financial year that no exceptional and/or unusual transactions as defined in the aforesaid Notice were carried out by the Company.

COMPLIANCE WITH THE REGULATIONS ON THE PROTECTION OF PERSONAL DATA

Following the entry into force of EU Regulation 2016/679 and amendments to Legislative Decree No. 196/2003 (introduced by Legislative Decree No. 101/2018), it should be noted that the Company has started and completed, with the support of the competent functions, all the activities necessary to meet the new requisites of the law, including, amongst others, the preparation of the registry of data processing operations. The Company has also appointed a Data Protection Officer (*"DPO")* in the person of lawyer Alberto Bastanzio, whose contact details were duly communicated to the Guarantor for the Protection of Personal Data July 25, 2018. The DPO can be contacted, other than at the registered office of the Company, also at the following e-mail address: dpo_pirelli@pirelli.com.

The activities carried out by the DPO during the relevant reporting period are described in detail in the *"Annual Report of the DPO"* available at the registered office of the Company, to which reference should be made for further details.

The Board of Directors

Milan, February 26, 2019

REPORT ON RESPONSIBLE MANAGEMENT OF THE VALUE CHAIN

Consolidated non-financial disclosure pursuant to legislative decree december 30, 2016, no. 254

METHODOLOGICAL NOTE

This section of the Annual Report 2018, entitled "Report on Responsible Management of the Value Chain" (hereinafter "the Report"), constitutes the "Consolidated Non-Financial Disclosure" of the Company pursuant to Legislative Decree no. 254/2016 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 capital, which was mentioned in the "Presentation of 2018 Pirelli Integrated Annual 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. Reported information is prepared in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Standards, published in 2016, *Comprehensive* option, following the process suggested by the APS1000 APS principles (*materiality*, *inclusivity* and *responsiveness*), and considering the *integrated reporting* principles contained in the International Integrated Reporting Council (IIRC).

The set of indicators covered by the Report covers is wider than the list of specific material issues indicated in the materiality matrix, and 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 2018 compared to 2017 and 2016, with respect to the targets set for 2018 and with a view to the 2019 and/or long-term targets envisaged in the Sustainability Plan.

Following the change in the industrial scope that took place on 1 January 2018, which saw the entrance of the production site of Gravatai, Brazil, the historical values of the environmental indicators were recalculated in order to ensure comparability with 2018 data.

The Report is published annually (the previous Pirelli Annual Report was published in March 2018 with reference to the year 2017), is approved by the Group's Board of Directors and covers the same scope of consolidation of the Group.

The main 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).

In terms of internal control of the contents of the Report, the Company, through the *Group Compliance* function, has set up a structured system that includes:

- a dedicated Operating Procedure, in which the roles, responsibilities and procedures to be followed by the Group companies in order to ensure adequate management and reporting of non-financial information are defined;

- an internal control system aimed at providing an assurance about the correct collection and reporting of non-financial information, to which an additional assurance is added for those information considered to be of particular relevance since, for example, they fall within the Group Sustainability Plan targets;

- a verification, following a circulating activity, of all the non-financial data reported in the Report on Responsible Management of the Value Chain;

- the signing of a letter of certification by the Top Management concerning the data that are collected through the CSR-DM information system and the paragraphs of the financial statements of competence.

As regards external audits, the sustainability performance accounted in the Report is subject to limited audit by an independent firm (PricewaterhouseCoopers S.p.A.) in accordance with the criteria indicated in the *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 Auditor’s Report provided at the end of the Annual Report. As part of this limited audit activity, the data relating to GHG emissions were also specifically analysed, including for the purposes of the disclosure 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, Governance and Compliance policies and activities, 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 2018, before the Independent Auditor’s Report mentioned above, the following summary Tables are available:

- the GRI Content Index, which shows the full list of indicators accounted based on the GRI Standards, indicating the relative page in the Annual Report 2018;

- a table of correlation between indicators accounted based on the GRI Standards 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 on which the aforementioned performance and Targets have an impact;

- a correlation table between the information contained in the Annual Report and the topics indicated by 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 "Sustainability" section of the website www.pirelli.com.

MANAGEMENT MODEL

The Pirelli Sustainability Model 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 the area of Quality Management, SA8000® for the management of Social Responsibility at its subsidiaries and along the supply chain, OHSAS 18001 for the management of Health and Safety in the workplace, ISO 14001 for environmental management, ISO 14064 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 Organisation and, specifically, ISO-TS 14067 and ISO 14046 for the determination of the Carbon Footprint and Water Footprint. In February 2018, the Company 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, as well as the independent certification (by RINA Services S.p.A.) of its system of rules and controls aimed at preventing corruption according to ISO 37001.

Details on the coverage of these certifications and methodological reference tools have been given in the paragraphs "Our Customers", "Our Suppliers", "Environmental Dimension", "Industrial Relations" and "Occupational Health, Safety and Hygiene" of this Report.

With reference to the Group's 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 Group Plan. The Board of Directors also approves Pirelli's Annual Report, including the Consolidated Non-Financial Disclosure, which is in turn subject to the supervision of the Board of Statutory Auditors in accordance with Legislative Decree no. 254 of 30 December 2016.

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 organisational and functional responsibilities. The Committee ordinarily meets at least once a year.

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

SUSTAINABILITY PLANNING

The process of sustainable planning is characterised by specific operational steps aimed at continuous improvement in performance: evaluation of the context through 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 targets integrate the Industrial Plan and support the sustainable development thereof.

The Pirelli Sustainability Plan 2017-2020 with a selected target of 2025 was updated in 2017, in full alignment with the Company's evolution and the related "High Value" development strategy (for further information, refer to the Investor Relations section of the Pirelli website), replacing the previous 2013-2017 Plan with selected targets for 2020. In order to allow the appreciation of numerical trends in the long term, the reference base 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* tyres revenues with a 2020 target of >50% of total turnover and >65% of High Value products only;
- improvement of product performance by 2020:
    - car products (compared to 2009): average reduction in rolling resistance of 20%, and 14% for High Value products; 15% improvement in performance on wet surfaces and 15% improvement in noise reduction;

    - motorcycle products (compared to 2009): average reduction in rolling resistance of 10%, improvement of 40% in performance on wet surfaces and 30% in durability;
    - Velo products (compared to 2017 - the launch year of Pirelli Velo): braking performance +5% and performance on wet surfaces +10%;
- digital innovation of process and product;
- research and development of raw materials with low environmental impact: for specific product segments, by 2025 and compared to 2017, the doubling by weight of the used renewable materials and a 30% reduction of fossil-derived raw materials is expected;
- reduction by 2020 in the injury frequency index of 87% 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;
- adoption of increasingly advanced models of management of the economic, social and environmental responsibility of the supply chain with particular attention to the upstream supply chain;
- implementation of the new Pirelli Policy on the sustainable management of the natural rubber supply chain.

The Pirelli Sustainability Plan is published in the “Sustainability” section of the Company’s website (www.pirelli.com).

The Countries where the Group is present with commercial and industrial subsidiaries also have a Country Sustainability Plan with specific targets identified to align to the Group’s sustainability targets.

The targets of the Country Plans, transversal to management, include the constant monitoring of Compliance with the SA8000® Standard, the specific reduction in the injury frequency index, the specific reduction (weighted on the total finished product) in energy consumption and water withdrawal, the increase in waste recovery, monitoring 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 2017-2020 Sustainability Plan with selected targets at 2025 contribute to the global effort to achieve the Sustainable Development Goals (SDGs) presented by the UN in September 2015 and designed to accompany the activities of sustainable companies up to 2030.

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

- 3 - 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 - Zero Poverty, in the paragraph “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 project “SiMPlify project”;
- 17 - Partnerships for the Goals, in the paragraphs “Road Safety”, with reference to the partnerships with FIA and the UN, “Sustainability of the natural rubber supply chain”, with reference to the partnership with Kirana Megatara, and “WBCSD”, with reference to the project “SiMPlify project”.

It is noted that all the sub-paragraphs relating to “Company Initiatives for the External Community” indicate 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 wealth of knowledge 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 dedicated 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 2018, particular relevance was given to the consultation of the relevant Stakeholders in order to publish the Manual of Implementation of the Pirelli Policy on the Sustainable Management of Natural Rubber, as well as the definition of a roadmap of activities for the three-year period 2019-2021. The draft version of the manual was prepared through consultations with local Stakeholders during the first half of 2018, and then shared with internationally relevant Stakeholders in view of the final discussion session held in Milan in October 2018, attended by international NGOs and Pirelli's main natural rubber suppliers, traders and farmers in the supply chain, automotive customers and international multilateral organisations. The Manual and Roadmap 2019-2021 were published on the Group website in December (for further information on the sustainable management of natural rubber, see the paragraph dedicated to this Report).

Also in the course of 2018, meetings were held for the relevant national and regional Stakeholders in the United States and the United Kingdom, in order to share the results and targets of the sustainability plans of the subsidiaries and to listen to the expectations of the Stakeholders on the management of issues deemed relevant for the development of the Subsidiary in the medium to long term. Similarly, in 2017 meetings were held with the relevant Stakeholders in Russia and Argentina, and in 2016 in Romania, Mexico, Germany and Turkey. Among the issues discussed in the various countries are energy management, technical training and the availability of adequate skills in the population, road safety, the circular economy, human capital engagement, the environmental sustainability of cities, and water and waste management.

Local feedback received from Stakeholders contributed to the corporate evaluation of the priorities for action by influencing the development strategy set out in the Sustainability Plan.

MATERIALITY ANALYSIS AND MAPPING

At the end of 2018, Pirelli initiated the process of updating the materiality matrix prepared in 2016.

The materiality matrix stems from thorough Stakeholder Engagement activities that led to comparing the expectations of key Stakeholders on a panel of sustainability issues with the importance that they have for the success of the business according to the experience and expectations of the Top Management.

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;
- more than 700 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;
- international and local NGOs present in the various Countries in which Pirelli has production activities;
- universities that have collaborations with the Group.

Stakeholders have been involved through a request for prioritisation of action on a selection of ESG issues (Environmental, Social, Governance) relevant for the development of the Company. The issues have been pre-selected considering the relative presence in the materiality matrix of Automobiles and Auto parts producers, the relevance of the same for the Auto Components sector according to primary research and sustainable finance entities, risks and opportunities arising from regulatory developments, from the expectations of communities, governmental and non-governmental institutions, and financial markets.

For this reason it is specified that all the ESG elements pre-identified through the aforementioned analysis are material and relevant for the development of Pirelli, with greater or lesser priority as evidenced by the position of the different elements within the matrix defined according to the results of the Stakeholder and Management interview process.

The topics submitted for evaluation by Stakeholders are the following:

- Occupational Health and Safety;
- Employees Well-being & Work-life Balance;
- Training and Development;
- Diversity and Equal Opportunities;
- Labour Relations Management;
- Community Engagement;
- Responsible Procurement;
- Human Rights;
- Customer Satisfaction;
- Product Quality and Safety;
- Product Environmental Sustainability (*Impacts of the product on the environment: energy efficiency, mileage, weight reduction etc.);*
- Renewable Materials[9];
- Responsible Use of Natural Resources (energy and water efficiency, waste for recovery);
- Climate Change and Greenhouse Gas Emissions Management;
- End of Life Tyre Recovery and Recycling;

[9] OECD defines “Renewable Natural Resources” as natural resources that, after exploitation, can return to their previous stock levels by natural processes of growth or replenishment.

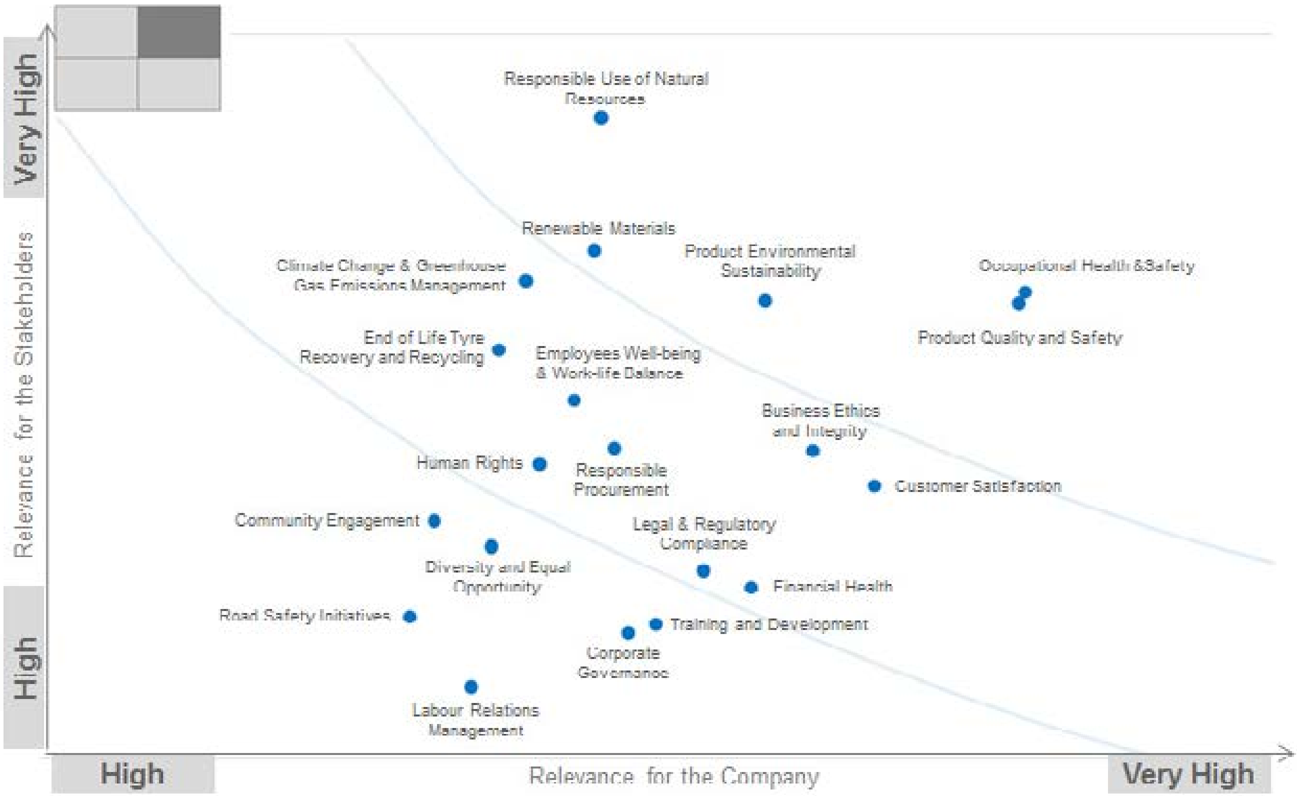
- Legal & Regulatory Compliance;
- Business Ethics and Integrity;
- Corporate Governance;
- Financial Health;
- Road Safety Initiatives.

The priorities expressed by Pirelli and Stakeholders on the above issues have been represented in a materiality matrix showing, 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 February 2019 and is outlined below.

Finally, it should be noted that the consolidation of the materiality matrix at Group level tends, by its very nature, to deviate significantly from the materiality matrix consolidated by the Group's Subsidiaries at country level. Elements of sustainability located in an area of minor materiality in the matrix at a Group level may be found to have major materiality 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 reported 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 are considered as priorities in the definition of the Group Sustainability strategies.



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 "Code of Ethics";
- the "Code of Conduct";
- the "Anti-Corruption" Programme;
- 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 Policy on Occupational Health, Safety and Rights and Environment*”;*
- the “Global Tax” Policy;
- the “Institutional Relations - Corporate Lobbying” Policy;
- the “Global Personal Data Protection” Policy;
- the “Group Whistleblowing - Group Reporting Procedure”;
- 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.

Next, a focus on the Compliance programmes “231”, “Anti-corruption”, “Privacy”, “Antitrust” and on the “Whistleblowing” policy.

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

With regard to the administrative liability of companies and bodies provided for by Legislative Decree no. 231/2001 (hereinafter also the “Decree”), Pirelli has adopted an Organization and Management Model (hereinafter also Model 231) structured in a General Section, which includes a review of the regulations contained in the Decree, of the crimes relevant to the Italian companies of the Group and the procedures for adopting and implementing the Model, and in a Special Section, which indicates the corporate processes and the corresponding sensitive activities for the Group’s Italian companies pursuant to the Decree, as well as the principles and internal control plans to supervise these activities.

Taking into account the legislative and jurisprudential innovations and the evolution of the organisational structure that took place in 2018, the Model has been updated. Similarly, during the year, training and communication activities on the current Organisational Model were completed for the entire population of the Group’s Italian companies.

The process of analysing and implementing the Group Anti-Corruption Programme continued in 2018 in the main Countries in which Pirelli operates. The Programme, available in twenty-two different languages on the Pirelli website, is the corporate benchmark 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 "*corruption of public officials, or any other party, in any guise or form, or in any jurisdiction 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 programme are a prohibition in respect of recipients of the Code of Ethics from offering gifts and other utilities that might meet conditions of a breach of rules, or which are in conflict with the Code of Ethics, or may, if made public, constitute detriment even only to the image of Pirelli. Additionally, "*Pirelli 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*".

Following the ISO 37001 Certification of the Anti-Corruption Management System of the companies Pirelli & C. S.p.A. and Pirelli Tyre S.p.A., a process has begun to certify the system of rules and controls implemented by foreign affiliates in order to prevent corruption. In particular, the anti-corruption systems of *entities* in Russia and Brazil. These anti-corruption systems inspire and refer to the Group's "Anti-Corruption Compliance Programme", also guaranteeing full compliance with the provisions laid down by local regulations.

In 2018 activities were also carried out which were aimed at analysing the profiles of corruption risk in the various Countries where the Company is present, assessing compliance with local laws in force, verifying the adequacy of corporate oversight updating the risk analysis where there is a change in the scope with the "entry" into Countries with "high risk" (on the basis of the Transparency index), defining training and awareness programmes where appropriate.

More specifically, the analysis of Risk Profiles is implemented by Pirelli considering:

- the perceived risk deriving from the assessment of the level of corruption perceived by the Management;
- the adequacy of guaranteed coverage in areas deemed potentially at risk of corruption.

The company monitors a process aimed at formalising the procedures, used by the individual *countries*, for the analysis of the relevant counterparties of Pirelli through an initial *due diligence* activity, aimed at collecting the information necessary to assess the existence of the requisites necessary to business relationships and an *enhanced due diligence* aimed at assessing the "integrity" and reliability of the counterparties.

During 2019, the extension of 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 a priority for receiving such training due to the specific elements of the local regulations.

Referring to the contributions 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 the 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 Programme and in line with International Corporate Governance Network principles and in all cases 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 subsidiaries include monitoring of crime risks, among which corruption and fraud figure.

In this regard, it should be noted that, with reference to 2018, on the basis of the reports received through the whistleblowing reporting channel, 3 cases of fraud were ascertained to the detriment of the company. There were no cases of public legal action against the company regarding corruption practices.

Additionally, during the course of 2018 the Functional Segregation model was also implemented (so-called *Segregation of Duties*), aimed at strengthening the system of internal controls and preventing the committing of fraud.

Also in 2018, Pirelli supported the activities of Transparency International, to which Pirelli subscribes 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 that a general improvement in the quality of life can be achieved.

With reference to the subject of personal data protection, during 2018, within the European companies of the Group, the activities for the adjustment to EU Regulation 2016/679 were completed through, in particular, the assignment of roles and responsibilities to the internal organisation of the company, the formalisation of internal regulations and the updating of documents required by law. Following the definitive approval by the President of the Federal Republic of Brazil of new legislation regarding the protection of personal data, a project was also started to bring the Brazilian companies of the Group into line with the new regulations.

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 Programme in line with international *best practices*.

In 2018 Pirelli continued to implement the Antitrust Programme 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 relationships with other operators.

In 2018 Pirelli was not involved in any antitrust proceedings or investigations as participants in anti-competitive conduct.

Focus: Reporting Procedure - Whistleblowing Policy

The Group Reporting Procedure, or Whistleblowing Policy, which supports the Group' internal compliance and control systems, was updated in 2017. Published on the Company website and internally accessible through intranet and company bulletin boards in the local language, the Policy is aimed at both employees and external Stakeholders.

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, internal auditing principles, corporate policies, rules and procedures, and any other behaviour involving commission or omission of acts 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 supply order/contract as well as by the numerous 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 against whoever makes a report or is the subject of the report.

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 box ethics@pirelli.com is made available to anyone wishing to proceed with an alert, which is valid for all Group subsidiaries, as well as for the External Community, and is centrally managed by the Group Internal Audit function which, in the Pirelli organisation, has a functional reporting to the Audit, Risks, Sustainability and Corporate Governance Committee, made up 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 years 2018, 2017 and 2016, below is a summary table and then a further study of reports from 2018[10].

	2018	**2017**	**2016**
Total reports	70	34	38
Of which anonymous	22	7	7
Of which filed closed being absolutely generic.	2	1	5
Of which grounded	23	9	23
Countries of origin of the reports ascertained	Brazil, Italy, Romania, China, United States and UK	Brazil, Chile, Spain, United States and UK	Brazil, Italy, Argentina, Chile, Saudi Arabia, India
Matter alleged in the reports ascertained	Violation of the Code of Ethics and/or company procedures, fraud against the Company or third parties, claims by employees, discrimination.	Violation of the Code of Ethics and/or company procedures, fraud against 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).
Outcome of cases investigated	Review and integration of processes where deemed fitting, decisions by the functions concerned and the *Human Resources* Department.	Review and integration of processes where deemed fitting, decisions by the functions concerned and the 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.

During the course of 2018 the Whistleblowing procedure was activated 70 times. In particular:

- the 70 reports were received from 7 different Countries (Brazil, Italy, China, Romania, Russia, the United States and the UK);

[10] The data reported are related only to the consolidated scope of the Consumer business. Furthermore, with regard to the 7 reports that were still in progress at the reporting date of the 2017 Annual Report, following the conclusion of the verification activities in 5 cases no objective evidence was found to consider the facts alleged to be true, while in 2 cases the partial veracity of the reports was confirmed and the company intervened with specific plans aimed at removing the causes and/or improving the internal control system.

- 90% of the reports (63 cases) were forwarded using the email address ethics@pirelli.com provided, while 10% (7 cases) by sending a letter to management which dealt with informing Internal Audit Department as per corporate rules;

- 69% of the reports (48 cases) were signed whereas the remaining 31% (22 cases) were received in anonymous form;

- among the signed notifications, 14 were activated by external Stakeholders, of which 9 were related to breaches of the Code of Ethics and/or company procedures, 4 cases attributable to fraud to the detriment of the Company or third parties and 1 case relating to reports regarding the quality of the product. It is objectively 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 70 reports received during the 2018 year, at the beginning of 2019, 6 were found to be at the verification and in-depth investigation stage, whereas 64 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 64 reports for which the verifications were completed, based on the analyses carried out and the documentation made available during the assessment, it emerged that:

- in 41 cases objective corroborating evidence was detected such as to hold the facts contended in the reports received to be true;

- in the remaining 23 cases the substantial truthfulness of the facts attributed was found, in particular, 3 cases concerned fraud against the Company or third parties, 2 cases connected to discriminatory attitudes, 3 cases relating to claims by employees and 15 cases concerning violations of the Code of Ethics and/or company procedures. The Company has activated for all cases, intervening with disciplinary sanctions (calls and/or dismissals) and with actions aimed at removing the causes of complaints and/or aimed at improving the internal control system.

Considering the continuous awareness-raising of the internal control and the systematic updating of internal procedures and rules, the increase in reports recorded in 2018, compared to previous years, can be attributed, on the one hand, to the Company’s growing attention to this issue, and on the other to the constant strengthening of the knowledge of the Policy, in particular during the Internal Sustainability Audits. The data also confirms the substantial trust placed with the Company in the management of the reports.

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)

	2018		***2017***		***2016***	
GROSS GLOBAL ADDED VALUE	**2,177,745**		**2,079,628**		**2,002,436**	
Remuneration of personnel	(1,067,579)	49.0%	(1,034,647)	49.8%	(986,308)	49.3%
Remuneration of Public Administration	(52,964)	2.4%	(40,848)	2.0%	(75,256)	3.8%
Remuneration of borrowed capital	(196,311)	9.0%	(362,610)	17.4%	(427,190)	21.3%
Remuneration of risk capital	-	0.0%	-	0.0%	-	0.0%
Remuneration of the company	(857.079)	39.4%	(634,727)	30.5%	(506,571)	25.2%
Contributions to the external community	**(3,811)**	0.2%	**(6,796)**	0.3%	**(7,111)**	0.4%

The added value created in 2018 recorded an increase of 4.7% compared to 2017. This change is mainly due to the reduction in the remuneration of the borrowed capital. 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 in-depth study.

Contributions to the external community

The impact of expenses for corporate initiatives in 2018 for the external community on the net result of the Group amounted to 0.9% (3.9% in 2017). The table below shows the expenses incurred in the last three years. The contraction recorded in 2018 derives mainly from the containment of costs of the Headquarter.

Contributions to the external community (in thousands of euros)

	2018	*2017*	*2016*
Training and research	823	877	806
Social-cultural initiatives	2,181	4,877	4,859
Sports and solidarity	807	1,042	1,446
Total contributions to the external community	**3,811**	**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 corporate contributions and initiatives for the benefit of the external community.

In line with what is set forth in the Code of Ethics, 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

The main contributions received by the public administration in 2018 are shown below.

Romania

During 2009, the European Investment Bank (EIB) granted a loan for a total of €50 million to Pirelli Tyres Romania S.r.l., granted for the expansion of the Pirelli plant in Slatina, Romania, for the production of tyres for cars and light commercial vehicles. The first tranche of the loan, equal to €20 million, was repaid by Pirelli in May 2017, while in March and July 2018 Pirelli repaid the second and third tranches, for a total of €20 million. At the end of 2018, therefore, €10 million remain outstanding. For the sake of completeness, it should be noted that the aforementioned loan was flanked by a similar loan received in support of the construction of the same production site, disbursed in 2007 and fully repaid at the end of 2013. It should also be noted that S.C. Pirelli Tyres Romania S.r.l. received a non-repayable grant totalling €67.8 million from the Romanian state by way of incentive for local investment of which €13 million was in 2018.

Italy

During the financial year 2018 Pirelli Tyre S.p.A. received from the M.I.U.R. - Ministry of Education, University and Research - a subsidised loan of €5.3 million as an incentive for the development of an R&D project for the development of innovative materials in the tyre construction process. Furthermore, Pirelli Tyre S.p.A. obtained a non-repayable grant from the Lombardy Region totalling €2.5 million, as incentives for an R&D project on Smart Manufacturing issues, of which €0.8 million was collected during the year.

Mexico

Since the 2018 financial year, 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 a total of €0.8 million. The company also received grant contributions from the Mexican Federal Government for investments and generation of employment related to the ProMexico project totalling €10 million, of which €1.2 million received during 2018 (the incentives were paid starting 2012).

RELATIONS WITH INVESTORS

Pirelli considers financial communication to be of strategic importance as a fundamental tool for consolidating relations of trust with the financial community. In accordance with what is set out in the Values and Code of Ethics of the Group, Pirelli maintains a constant dialogue with shareholders, bondholders, analysts and both institutional and individual investors via the Investor Relations function and Group Top Management, promoting communication that is equal, transparent, timely and accurate.

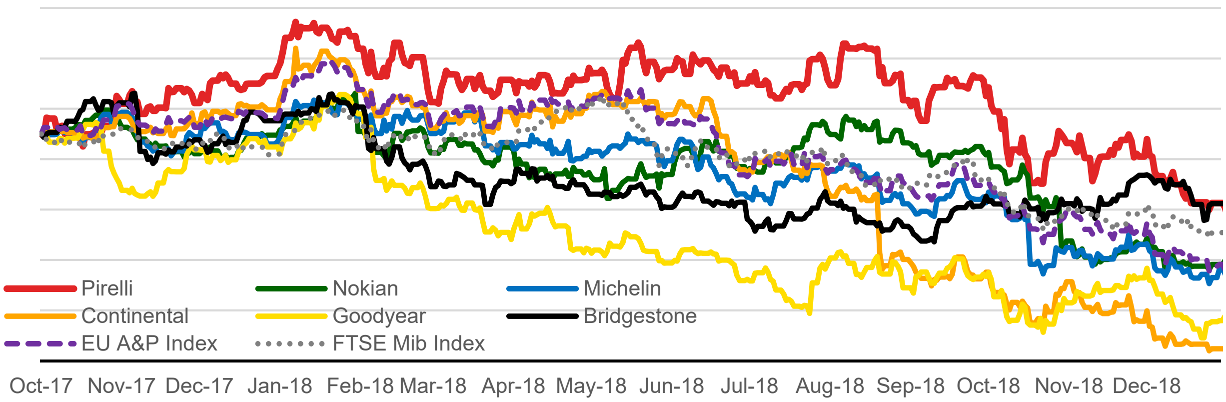
The Financial Communication activity intensified during 2018. There are numerous opportunities for meetings with leading institutional investors in Europe (Milan, London, Paris, Frankfurt, Helsinki and Copenhagen), in North America (New York, Boston, San Francisco, Los Angeles, Toronto) and in the Asia Pacific region (Tokyo, Hong Kong, Singapore). Moreover, particular importance was attributed to digital communication: in line with international Best Practices, the “Investors” section of Pirelli’s website is constantly updated with information on strategy, business model, market trends and positioning with respect to competitors.

The interest of the financial community towards Pirelli is proved by the broad coverage of the stock by 21 of the main national and international business banks and brokers and by the inclusion of the company in the FTSE MIB, Dow Jones 600 A&P indexes and in the FTSE Italian Brands index.

The evaluation (Target Price) and the analysts’ estimates (Consensus) are published on the company’s website and periodically updated.

In an environment characterised by high volatility, with uncertainties on economic growth and the trend in car and tyre demand, Pirelli outperformed the main indices and peers on the stock market, thanks to the High Value positioning and thanks to its unique and more resilient business model. Pirelli closes 2018 with a market value of €5.9 billion (average market capitalisation in December), -14% from the listing on 4 October 2017, clearly outperforming the Italian stock market index (FTSE Mib -20%), Auto & Parts (EU Stoxx 600 A&P -26%) and peers (Nokian -26%, Michelin -27%, Continental -43%, Goodyear -37%, Bridgestone -14%).

Below is a recap of the stock market performance from October 2017:



The commitment to the creation of sustainable value that characterises the Company's responsible management and its economic, social and environmental performance, allow the inclusion of Pirelli in some of the most prestigious sustainability indexes in the world, including Dow Jones Sustainability Index World and Europe, Euronext Vigeo Eurozone 120, Sustainalytics, FTSE4Good, Ethibel Sustainability Index (ESI) Excellence Europe and ECPI.

With particular reference to the Dow Jones index, in September 2018, Pirelli was recognised as a world leader in Sustainability for the Auto & Components sector in the Dow Jones Sustainability Indexes World and Europe Indexes, with a score of 81 compared to a sector median of 32. The analysis, conducted by RobecoSAM, involved more than 2,000 companies belonging to 60 different industrial sectors.

It should also be noted that in January 2019 Pirelli was recognised as a global leader in the fight against climate change and included in the *Climate A List* of the CDP (Carbon Disclosure Project). In 2018 over 7,000 companies reported their greenhouse gas emissions through the CDP, a non-profit organisation supported by 650 institutional investors, who manage assets worth more than $87 trillion.

For more 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 bicycles. The company is focused on the High Value market and is committed to developing innovative tyres and Specialties and Superspecialties for a broad product portfolio.

Sales channels include:

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

In the field of Original Equipment, Sport Utility Vehicles (SUVs) and light commercial vehicles, Pirelli can count on Europe in terms of a Premium customer market share of over 20%; in the Original Equipment, Prestige segment, which represents the highest of the range, Pirelli exceeds 50%.

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 2018, Pirelli can count on about 15,900 Loyal Resellers globally, with a particular concentration in Europe, Asia-Pacific and South America (over 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 programmes, 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 (327 points of sale worldwide).

Starting in 2016, and in line with Pirelli's "Prestige" strategy, a new *retail concept* called P ZERO WORLD™ was created, with the aim of offering top-class services aimed at satisfying the most demanding consumers. P ZERO WORLD™ offers its customers the full range of Pirelli products (Car, P ZERO™ Trophy R, Pirelli Collection, Color Edition, Moto and Velo) and a series of "customer oriented" services such as car valet and courtesy car, all immersed in an environment that allows you to fully experience Pirelli World, being able to touch the most important assets such as F1®, the Calendar and the continuous partnerships of Pirelli Design. The Network P ZERO WORLD™ by 2020 will identify around 200 shops among the best Pirelli customers, located in the main countries of the world. Within the 200 there will be about 8 Flagship Stores, 4 of which are already active (Los Angeles, Munich, Monte Carlo and Dubai).

"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. With this in mind, Pirelli is activating several programmes of close cooperation with the most important market distributors worldwide.

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 digitalisation, electrification, management of sharing vehicles 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 field.

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. Pirelli's path in the field of sensors applied to the tyre continues successfully, with the aim of transforming the latter into an active element, capable of retrieving information from the road and transmitting it to the vehicle.

With the CYBER™ Car technology, presented at the Geneva International Motor Show in March 2018, information is collected that contributes to increasing the effectiveness and efficiency of car safety and control systems in various conditions of use.

In the world of bicycle tyres, Pirelli is present with two product lines: the line dedicated to road racing bikes: P ZERO™ Velo and CINTURATO™ Velo, and the Urban CYCL-e™ tyre line.

In addition to the traditional distribution channel and specialised retailers, Pirelli immediately oriented towards the digital channel, in line with the strong propensity to purchase online by end consumers. In addition to the presence on the main sales platforms of cycling products, Pirelli has created its own international e-Commerce channel, dedicated to bike tyres, to offer its range of products accompanied by exclusive editions *beyond the tyre.*

The centrality of the mobility of the future in the High Value strategy saw the introduction in 2017 of a specific figure in this sense in the company organisation, the Future Mobility Manager, which has the task, within the Sustainability & Risk function Governance, to monitor these trends in the sector and to coordinate their 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.

Transparency, information and customer training

In the context of advertising communication, Pirelli has defined a traceable and transparent process for 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 WFA (World Federation of Advertisers), which commits participating firms to pursue honest, truthful and fair competition and communication in compliance with the code of conduct and self-regulation which they adopt. 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.

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 digital channels, and this is complemented by information distributed in hard copy format, as well as the range of offline and online training activities.

With 55 Car websites (in 29 languages) and 19 Moto websites (in 11 languages), Pirelli online represents a fundamental point of contact with the customer in the tyre purchase process. These product websites, located not only by language, but also for content, offer and promotional activities, have the objective of informing and guiding the consumer, in all countries where Pirelli markets its products, to the points of sale where to buy the tyres. In 2018, these websites attracted 7.7 million unique users, for a total of 10.1 million sessions and 34.5 million page views.

A further digital touchpoint that brings the consumer to the point of sale is represented by the Retail sites: present in 7 countries, have intercepted in 2018 1.5 million users (for a total of 5.2 million page views) and generated about 99,000 appointment bookings, over 33,700 calls to the dealer, about 6,160 contact requests via e-mail.

In 2018, Pirelli also continued to inform its customers with a digital newsletter, *Paddock News*, whose main objective is to provide an additional means of communication and contact with the trade, and which consists of an international edition, coordinated centrally from 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 Velo. In terms of paper publications, the company magazine "*Pirelli World*" continues 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 2018 Pirelli presented the Cyber™ Car technology. Also in 2018 Pirelli took part in the most important *Consumer Prestige* events, such as the *Salon Privé* (England) and the *Pebble Beach Concours d'Elegance* (California) and realised three driving events called the P ZERO™ Experience in Italy, France and Abu Dhabi.

Since 2018 Pirelli has strengthened its commitment alongside the sports more in line with the prestige and high performance positioning that characterise the company and its products: this is the case of the partnership started with Luna Rossa, *challenger of records* of the upcoming America's Cup 2021, in addition to the close sponsorship relations with FC Internazionale Milano, the Italian Winter Sports Federation and the Alpine Ski World Championships, IIHF World Ice Hockey Championship and the very successful sponsorships in the world of engines: from WorldSBK to the best motorsport championships like Blancpain GT Series and in particular Formula 1®, of which Pirelli is the Global Tyre Partner until 2023.

In 2018 Pirelli took part in *Eurobike*, the main international cycle fair, where it presented the expansion of the Road Racing P ZERO™ Velo product range and entry into the City-Trekking segment with the CYCL-e™ line.

The training of customers on the product even in 2018 was intense in all markets, both at the points of sale and at the Pirelli sites with visits to the factory, Research & Development laboratories, and simulations of tyre performance. During the year there were about 18,000 participations of dealers, belonging to the 22 main markets, to classroom training courses on the Pirelli product, technology and sale of the tyre; some of the courses included visits to the Settimo Torinese (Italy) and Izmit (Turkey) plants as well as to the Vizzola circuit (Italy) and the Milan Research and Development Centre.

In 2018 the use of the new online training site TYRE-CAMPUS™ was consolidated, which now covers 24 markets in 16 different languages. To date, about 12,500 points of sale are registered to the new site for a total of over 14,500 active users. Training on the product is provided in an engaging and customisable way on the various types of distribution channel, with more paths linked to the individual product families.

In order to support the product trainers, Pirelli has developed a library of technical content was developed for classroom courses and the "TYRE CAMPUS™ Case" instrument, 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 can 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 indicated by a plaque at the point of sale. This way, consumers can recognise which dealers are the most specialised and qualified on the technical features and benefits of all the products of the Pirelli range.

Listening and exchanging ideas with Customers as sources of continuous 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 Contact Centres, nearly 30 worldwide with more than 150 employees, performing business operations in IT support and order management (inbound), telemarketing and teleselling (outbound).

In 2018, 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 2.5 million followers, with a growth of 14.5% over the previous year. Also on Twitter, the Pirelli accounts have seen an increase in followers, reaching more than 265,000 people, over 10% more than in 2017. A very important step forward was on Instagram, where Pirelli channels reach more than 566,000 followers, an increase, year-on-year, of 52%. Finally, there are about 18,000 followers of Pirelli on the main online video platform, YouTube, and over 348,000 followers on LinkedIn.

The success of the website www.pirelli.com, a Pirelli *digital magazine* launched at the end of 2015, has also been confirmed. In 2018, on the new digital communication platform, Pirelli published over 260 articles - on product, motorsport, culture and sustainability - gathering over 6.2 million visits, of which almost half were attracted through social networks and about 4.3 million unique users, an increase of 16.7% compared to 2017.

As for the Moto world, the Pirelli and Metzeler brands boast a structured and widespread presence on the main social networks, with a growing focus on Asian countries, and are promoters of innovative digital projects. The Pirelli brand, as well as on the Facebook channel (with more than 923,000 fans connected to the Global Page which includes 12 local pages) is on Instagram with over 117,000 followers and has dedicated profiles on Twitter and YouTube. Worthy of note is the mobile application DIABLO™ Super Biker, which has been downloaded by over half a million people in the world and that will be completely renewed and improved in 2019 from the point of view of the usability and functionality offered to the motorcyclist. The METZELER brand, in addition to its international website and geo-localised in 18 countries worldwide, is present on Facebook with a Global Page that has more than 423,000 fans and includes 11 local pages in as many countries. As with the PIRELLI brand, METZELER has had active Instagram, Twitter and YouTube profiles for years. The CRM (Customer Relationship Management) project, in turn, has a priority position given the passion for the Pirelli product by the registered motorcyclist community: over 370,000 for Pirelli Moto and over 55,000 for Metzeler.

Pirelli Velo, in turn, speaks with its consumers also through a dedicated web magazine called *Velo World,* which is an inspirational source of information and stories about cycling and new trends. Immediately active in Instagram and Facebook, Pirelli Velo bases its communication on digital activation in line with the propensities of its target consumer.

Also in 2018 direct customer listening activities were carried out both through the Brand Tracking survey in Pirelli's Top Market (Italy, Germany, France, United Kingdom, Brazil, China, United States, and Russia) and through surveys to consumers with whom Pirelli has a direct and constant dialogue thanks to structured CRM activities. 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.

The "Brand Model" is the Pirelli scheme used to give unity to communication in terms of personality, tone used and application of the distinctive traits of the Pirelli Brand.

In terms of performance indicators, Pirelli considers *Top of Mind*, *Brand Awareness* and *Brand Consideration*. With reference to the *Key Target 18" Up* represented by Premium car owners which can mount tyres with rims equal or higher than 18 inches, the analysis carried out in 2018 saw Pirelli positioned in the *Top Three* of the main tyre brands: in first place for Top of Mind, Brand Awareness and *Brand Consideration* in the United Kingdom, in first place for *Top of Mind* and *Brand Awareness* and in the second place for *Brand Consideration* in Italy, first for Top of Mind and third for *Brand Consideration* in Germany and in second place for *Brand Awareness* and *Brand Consideration* in France.

Outside Europe, Pirelli is first for *Top of Mind* and *Brand Awareness* and second for *Brand Consideration* in Brazil, second for *Top of Mind* and *Brand Consideration* in China, second for *Brand Awareness* and for *Brand Consideration* in Russia and third for *Brand Consideration* in US.

Product safety, performance and eco-sustainability

Safety and respect for the environment are two values that distinguish the Pirelli product offering. Even in 2018 the company proved to be at the forefront of tyre development that could on the one hand provide ever-higher performance, and on the other respect the environmental sustainability, safety and comfort requirements required by the best car companies that choose Pirelli as the first equipment for their creations, both by customers, who opt for Pirelli tyres at the time of choosing spare parts.

Of fundamental importance are the Pirelli Research & Development efforts, to which innovative solutions are needed to create new compounds, new processes and tread patterns that reduce rolling resistance, with a consequent direct impact on fuel consumption, improve wet grip, increase safety in any weather conditions and increase the acoustic comfort inside the cabin thanks to the Pirelli Noise Cancelling System (PNCS™) technology.

In 2018 Pirelli significantly increased the number of homologations obtained on electric and hybrid cars. This type of vehicle belongs to the segment with the highest growth rate in the coming years and requires specially developed tyres with precise characteristics, including:

- low rolling resistance, to increase the life of the car battery;
- low acoustic emissions, for greater driving comfort, in line with the silence of electric traction;
- greater resistance of the carcass to better support the weight increase of the car given by the batteries and, at the same time, guaranteeing better handling;
- greater resistance of the tread compound to support the higher torque generated by the electric motor, ensuring the necessary road holding.

And it is by respecting these targets that Pirelli has obtained more than 20 homologations on electric cars and about 30 on hybrid vehicles (Plug In Hybrid). Among the former we find Jaguar I-Pace and Mercedes EQC equipped with P-ZERO™, SCORPION VERDE™, SCORPION VERDE™ All Season and SCORPION™ Winter. Among the latter are the Audi A3, A8, Q5, Q7, Bentley Bentayga, Mercedes CLS, E Class and E Class Coupé, Porsche Panamera and Volvo V90, S90 and XC90, on which P-ZERO™, CINTURATO™ P7™, CINTURATO™ P7™ Blue, SCORPION VERDE™, SCORPION VERDE™ All Season e Winter SOTTOZERO™ 3.

2018 saw an important extension of the tread range already present in the Pirelli product portfolio. The SCORPION VERDE™ All Season has been enriched with new measures marked Three Peaks Mountain Snowflake, which guarantees exceptional performance even in winter, while the CINTURATO™ All Season Plus, launched in 2017, has expanded its range going to cover also measures dedicated to crossovers and SUVs.

CINTURATO™ All Season Plus is a product mainly dedicated to drivers in urban areas and is looking for an innovative and alternative mobility solution. It has a new tread compound that leads to an improvement in performance in both winter and summer conditions, with special attention to snow and wet, thanks to the presence of the Three Peaks Mountain Snowflake marking, increasing driving safety, any condition of the road surface along the way. The main measures and all the new measures introduced are characterised by the presence of Seal Inside, a Pirelli technology that allows you to continue driving without air loss even if a tyre has been punctured, covering almost 85% of possible causes. accidental loss of pressure.

Also in the field of high technology, 2018 saw double the approvals with the Pirelli PNCS™ system (Pirelli Noise Cancelling System), surpassing the 150 appointments in original equipment. This innovation is decisive for the reduction of the noise inside the passenger compartment generated by the rolling of the tyre as a result of the stress between the road surface and the tread pattern. The benefits have been recognised not only by car manufacturers such as Aston Martin, Audi, Bentley, BMW, Jaguar-Land Rover, Lamborghini, McLaren, Mercedes, Porsche and Volvo, but also by end customers who choose to mount Pirelli PNCS™ tyres as replacements, registering a volume increase of more than 100% in 2018 compared to the previous year.

Safety and performance of Pirelli products are finally certified by tests carried out by the most important automotive magazines, which highlight the strength of the company even in the most extreme winter conditions. In 2018, there were six podiums conquered by Pirelli ICE ZERO™ FR, the non-riveted product developed for rigid winters that offers excellent levels of grip and safety even on snow-covered and icy surfaces.

Quality and product certification

ISO 9001: since 1970, the Group has had its own Quality Management System introduced gradually at all its Plants and, since 1993, Pirelli has obtained certification of its quality system under the ISO 9001 standard. The transition process of its Plants and the Headquarters to certification according to the new ISO 9001: 2015 ended in September 2018.

IATF 16949:2016: since 1999 the Group has obtained the certification of its Quality Management System according to the automotive scheme and subsequent evolutions. Following the evolution of ISO 9001:2015 and the new IATF 16949:2016 (Automotive Scheme became private), Pirelli achieved the Quality Management System certification in 100% of its eligible Plants as at 31 December 2018.

ISO/IEC 17025: Since 1993 the Materials and Experimentation Laboratory of the Pirelli Tyre S.p.A. 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 marketing of the same in the various markets in accordance with the regulations laid down by the different Countries and, for some markets, are managed directly by the Quality Function. The prevailing certifications, obtained in the Pirelli Group, concern the markets of Europe, NAFTA, South America, China, Gulf Countries, India, Taiwan, Indonesia, South Korea, Japan and Australia, and involve all Pirelli factories. 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.

Compliance

Also in 2018:

- 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;
- there were no bans or disputes on the sales of any Pirelli product.

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 the 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 met, 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, both in terms of company policies and strategies and, at a more operational level in the direct management of the ethical performance of suppliers. 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 organisation, 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 Code of Ethics.

There are also many policies adopted by Pirelli, which highlights 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 Policy on Occupational Health, Safety and Labour Rights, Environment”, of the “Global Health, Safety and Environment Policy”, of the “Global Human Rights Policy”, of the “Global Quality Policy”, of the “Product Stewardship Policy”, of the Group’s “Sustainable Natural Rubber Policy”. In all the documents cited, with reference to the specific social and environmental issues discussed, 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 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.

The social, environmental and business ethics responsibilities of a Pirelli supplier 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/purchasing 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 in the purchasing process

Pirelli uses the same approach to assessing ESG performance 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 makes it possible to eliminate potential future suppliers that are clearly in possible violation of Pirelli expectations.

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 with the filling in of multiple questionnaires, the first of which concerns 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 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 any 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 high value added parts (*HVA Parts*), which by their nature can become development/long-term partners for the Company, and which are also attributed much of the spending of purchases, Pirelli conducts a third-party preliminary on-site 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 qualification of the supplier.

In addition to the above, new raw materials and new auxiliary products are assessed before they are used by the Group's operating units with the aim of identifying any potential critical issue for workers' health and/or the environment. The assessments are carried out centrally, taking into account not only the requirements of the most restrictive European standards for the management of hazardous substances, but also the standards and knowledge currently available internationally (specific databases, etc.). Finally, the monitoring activity of producers and suppliers of raw materials used by the entire Group conforms to the provisions of the Regulation (EC) no. 1907/2006 (also known as "REACH Regulation") and to the provisions of Regulation (EU) 2017/821) on the so called "conflict minerals" (to which a paragraph is dedicated later in this Report).

With regard to the **contractual stage**, for the past decade 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) or NGOs, worldwide.

In particular, the clauses:

- require suppliers to be aware of the principles, commitments and values contained in Pirelli's sustainability documents, namely "The Values and Code of Ethics", the "Code of Conduct", the "Global Human Rights Policy", the "Health, Safety and Environment Policy", the "Anti-Corruption Programme" and the "Product Stewardship Policy", published and accessible on the web, which set out Pirelli's principles for managing its activities and its relations with third parties, contractual 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;
  - assess and reduce the environmental impact of its 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 so as 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 Firm itself, but also at their own site in relations with their own suppliers.

In terms of maximum guarantee, the Group suppliers have access to the **Whistleblowing** Reporting Procedure (ethics@pirelli.com), expressly indicated in the clauses, with which to report in full confidentiality any violation or suspected violation they perceive in relations with Pirelli and with reference to the contents concerning: “Values and Code of Ethics”, “Code of Conduct”, Group policies on “Global Human Rights”, “Health, Safety and Environment”, “Anti-Corruption Programme” and “Product Stewardship”.

In 2018, among the signed reports, two were sent by Suppliers. It remains objectively impossible to confirm that the total number of reports from suppliers corresponds only to two because some complaints were anonymous, as specified in the paragraph “Focus: Group Reporting Procedure - Whistleblowing”, to which reference should be made for further information.

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 considered necessary to verify in loco, via third party audit commissioned by Pirelli, the compliance of the supplier with Pirelli ESG expectations, signed by the supplier in the contract stage;
- 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 violations by 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 benchmark tool 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 Health, Safety and Rights at Work, 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 in the field and includes a factory visit, interviews with workers, management and trade union representatives.

External audits have been carried out since 2009 and continued in 2018, specifically:

Year	Audit Number
2009-2010	72
2010-2011	56
2012-2013	62
2014	78
2015	93
2016	64[11]
2017	83[12]
2018	85[13]

In most cases the 2018 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, and Turkey. Or suppliers in Countries from which Pirelli buys raw materials, such as Guatemala, South Korea, China, Poland, Romania, Italy, Russia, Czech Republic, Malaysia, Thailand and 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 corrective plan 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 on-site audit) 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 corrective plan, and on the other the Group Internal Audit Department verifies the adequacy of management and alignment on the part of local functions dealing with this (Sustainability and Purchasing).

The results of the audits carried out during the 2018 annual campaign show:

- 42% of suppliers without non-compliance;
- a total number of non-conformities found on-site decreased by 17% compared to 2017.

[11] of which 9 on potential new suppliers of raw materials.

[12] of which 14 on potential new suppliers of raw materials.

[13] of which 16 on potential new suppliers of raw materials.

The non-conformities registered in 2018 are substantially linked to the processes of health and safety management, the use of overtime and the correct implementation of environmental management systems.

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 on 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 business. Upstream 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 up to now described, which is completed with the engagement activities of the suppliers referred to below.

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 upstream to downstream - 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 "Sustainable Natural Rubber Policy", after a long process based on consultation with key Stakeholders and companies that have longstanding 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 from the supply chain, automotive customers and multilateral international organisations.

As stated in the Policy, Pirelli undertakes to promote, develop and implement the sustainable and responsible procurement and use of natural rubber throughout its entire value chain. In particular, the Policy breaks down 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 land, no to the use of the fire, and adoption of the “High Conservation Value (HCV)” and “High Carbon Stock (HCS)” methodologies;
- efficient use of resources;
- ethics and anti-corruption;
- traceability and mapping of socio-environmental risks along the supply chain (so-called *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 recognised 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 a significant 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 a 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.

In December 2018 the Company released the *Implementation Manual* for the Pirelli Policy on Sustainable Natural Rubber. The aim of the manual is to facilitate the understanding of the principles, commitments and values expressed in the Policy, as well as provide guidance for its implementation to the supply chain. As already happened for the preparation of the Policy in 2017, also the process of preparation of the Manual has foreseen the involvement and the consultation of the main Stakeholders concerned, both locally, with the main actors of the supply chain (processors, retailers, small plantation owners), and globally through a global Stakeholder dialogue event held at the Group Headquarters.

The Manual is the result of more than a year of multi-stakeholder consultation, begun in countries with natural rubber production with producers, dealers, small plantation owners, non-governmental organisations, trade union representatives and the rubber industry. The draft of the Manual was then tested “on the field” and finally submitted to the evaluation of the international Stakeholders in a consultation session held in September 2018 at the Pirelli Headquarters in Milan, and attended by international NGOs, the main suppliers of natural rubber of Pirelli, traders and farmers from the supply chain, automotive customers and international multilateral organisations. At the same time, Pirelli defined its Action Plan for the three-year period 2019-2021.

The Policy, the Implementation Manual and the 2019-2021 Action Plan are published on the Group website, in the Policy area within the Sustainability section.

In particular, during the course of 2019, Pirelli will activate training sessions on the Implementation Manual in all the countries from which the company buys natural rubber, in local language and for all its suppliers. Particular attention will be given to providing adequate tools so that training can in turn be extended by the suppliers themselves, going down to the level of the plantations.

In addition, in 2019 the supply chain mapping activity will continue also reaching the plantations of origin, with a “risk-based” approach in order to map the socio-environmental risks through partnerships with its suppliers and with the help of advanced mapping systems (digital and otherwise). The results of on-site audits carried out by third parties on the sites of suppliers (natural rubber processors), which covered almost the entire supply chain, will also be capitalised. These audits are 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.

During 2018 the partnership between Pirelli and Kirana Megatara, started in 2014, continued. Kirana Megatara, one of the largest natural rubber processor in Indonesia, is one of the leading suppliers of Pirelli worldwide.

The Project between Kirana and Pirelli aims to support local farmers through training in the most effective methods in order to improve the productivity of plantations and through scholarships for their children. Added to this, starting from 2018, is support for rubber tree replanting activities, in order to further strengthen the development of the plantations on the territories already dedicated to natural rubber while avoiding risks of deforestation.

Increasing the productivity of plantations is 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 specialist agronomists and cultivation equipment, takes place constantly throughout the year at the farming communities involved in the project, 110 farmers in a stable and ongoing manner.

Each year, Pirelli and Kirana Megatara organise an event called the tapping competition, which sees the best “tappers” in the place take each other on in a friendly challenge on the best tapping methods in a day of celebration for the community, which is also an important opportunity for training and spreading awareness among farmers present regarding the best growing and tapping techniques in order to obtain an increasingly purer product, free from contamination and therefore characterised 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 their perfect tapping, are awarded prizes for themselves and their families. Even in 2018, 233 farmers and their families attended the event, which was held in the south of the island of Sumatra.

Also held in 2018 was the scholarship presentation ceremony by Pirelli and Kirana Megatara for the children of local producers. The ceremony was held in Muara Enim Regency in the south of the island of Sumatra and 65 scholarships were awarded, with the aim of trying to ensure an adequate education, in the belief that the future sustainability of the natural rubber business cannot ignore the adequate training and development of the coming generations, and their right to study.

Together for the Sustainability of Natural Rubber - the GPSNR platform

The Pirelli Policy on the sustainable management of natural rubber, in point VIII, states: “*Pirelli believes that the global challenge of natural rubber sustainability requires engagement, cooperation, dialogue and partnership among all involved actors. In addition to engaging with its suppliers, Pirelli fosters and supports active cooperation at industry level and among stakeholders playing a material role in the natural rubber value chain, with the conviction that in addition to corporations’ individual engagement, a shared effort can result in stronger and faster progress towards sustainable development of the global natural rubber supply chain. Pirelli cooperates with national and international governmental, non-governmental, industry-wide and academic initiatives to develop global sustainable natural rubber policies and principles.*”

In line with the stated approach, in 2017 and 2018 Pirelli played a proactive role in the creation of the *Global Platform for Sustainable Natural Rubber* - GPSNR, together with tyre manufacturers which are also part of the Tyre Industry Project Group, within the World Business Council for Sustainable Development. The development of the Platform benefited from the contribution, ideas and suggestions of the main categories of Stakeholders involved in the value chain, such as rubber producers, processors, automobile manufacturers, and of the fundamental contribution deriving from the experience of important international NGOs.

The Platform, launched in Singapore in October 2018 with the participation of the first “founding members”, including Pirelli, is independent, based on multi-stakeholder dialogue and aims to support the sustainable development of the natural rubber business globally, for the benefit of the entire value chain through shared tools and initiatives based on respect for human and labour rights, prevention of land grabbing, respect for biodiversity and increased plant productivity, especially those of small owners.

The first General Assembly of GPSNR is scheduled for March 2019.

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.

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

- a 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 Guidelines of the Green Sourcing Manual, the Pirelli Green Purchasing Guidelines were published on the website www.pirelli.com, so 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.

Additionally, since 2015 Pirelli has been equipped with an IT platform to support the launch of a campaign to measure the Green Performance of Pirelli Suppliers through an electronic questionnaire to be filled out online, a campaign implemented from April 2016.

At the end of 2018, the Pirelli Green Sourcing Manual is being updated, while at the same time defining the framework for actions to reduce/eliminate "single-use plastic" within Pirelli and along the supply chain. This will allow it to proceed in 2019 with the subsequent updating of the Green Purchasing Guidelines.

Policy on Conflict Minerals

The concept of Conflict Minerals was introduced by Section 1502 of the Dodd-Frank Act, a United States federal law, in 2010. By "conflict minerals" is meant gold, columbite-tantalite (coltan) cassiterite, wolframite and their derivatives 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 (relating to 2013) and subsequently updated each year.

In turn, the European Institutions in May 2017 approved the 2017/821 Regulation which "establishes duties in terms of due diligence in the supply chain for EU importers of tin, tantalum and tungsten, their minerals, and gold, originating in conflict zones 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. 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);
- Conflict Minerals policy 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 tonne, a quantity which is less than one millionth of the volume of raw materials used annually by the Firm 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 concentration 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 asked its suppliers to fill in the CMRT (Conflict Minerals Reporting Template) form developed by the Responsible Minerals Initiative (RMI) as developed in the past by the Electronic Industry Citizenship Coalition (EICC) and the 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.

Due diligence on new metals: Cobalt

As is known, the Democratic Republic of the Congo (DRC) is the world's largest producer of cobalt and holds more than 50% of the world's reserves of this metal. Cobalt is used in Lithium batteries that are an integral part of electric vehicles, mobile phones and laptops. The demand for Cobalt is growing very rapidly and its extraction occurs both in a highly mechanised way and in a traditional way. Concerning this latter type of extraction, concerns have recently been raised about unsafe working conditions and child labour. In 2017, RMI launched a working group on the sustainable supply of cobalt, with particular regard to the risk of child labour in the DRC, with a supply chain monitoring approach similar to the one already in place for 3T+G metals. The Cobalt Reporting Template (CRT) was recently published (21 December 2018) by RMI. Pirelli uses some Cobalt salts, a type of raw material commonly used in the production of tyres. With regard to 2019, Pirelli has therefore decided to join the "Cobalt Initiative" launched by RMI and to ask its suppliers to fill in the CRT.

Engagement of suppliers

Pirelli believes that activities involving suppliers are essential from the viewpoint of creating environmental and social value and that 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 begun to industrially introduce materials of mineral origin in partial replacement of precipitated silica and carbon black. Compared to the production processes of the replaced raw materials, the innovations mentioned have guaranteed a water saving, as well as a reduction of CO_2 emissions by more than 75%, saving respectively about 12,000 m^3 of water and 650 tonnes of CO_2.

This innovation provides economic benefits related directly to the material for about €250,000 a 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 programmes 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 2018, 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 2018, the set of emission reduction actions implemented by Pirelli suppliers made it possible to avoid overall the emission of approximately 79 million tonnes of CO_2 equivalent into the atmosphere, combined with estimated economic savings of US$2.45 billion.

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 74% in 2018 to 90% in 2020.

Training of suppliers on sustainability issues

Since 2012, Pirelli has been providing training on environmental, social and business ethics issues to its suppliers, identifying each year the applicable pool of participants based on strategic issues, spending value and operations by suppliers in Countries considered at risk.

In 2018, training in e-learning format was provided to strategic suppliers of raw materials, general goods and services and factory components. The training activity aims to support suppliers in understanding the Pirelli sustainability model and the related social, environmental and business ethical requirements that must be respected in order to guarantee a sustainable business relationship with the Company.

Training in 2018 concerned the ISO 20400 Guidelines (international standard for sustainable purchases), and in particular:

- field of application;
- the fundamentals;
- the integration of sustainability into purchasing policies and strategies;
- the so-called “cost of ownership” of the product;
- the organisation of the Purchasing function with a view to transversality within the Company and therefore of greater effectiveness in the implementation of the sustainable management of the supply chain pertaining to the various management areas.

The training involved 249 suppliers between Argentina, Brazil, China, Germany, Indonesia, Italy, Mexico, United Kingdom, Romania, Russia, United States, Turkey, Venezuela, and was carried out in local language.

We have already mentioned, previously in this chapter, the commitment to training the natural rubber supply chain, an activity that will be central in 2019.

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 Supplier Award 2018 was held at the Pirelli headquarters in Bicocca, in the presence of the *Chief Purchasing Office* and Pirelli's *Chief Sustainability and Risk Governance Officer*, who gave awards to nine suppliers operating in Japan, Italy, the United States, Thailand, Indonesia, the Netherlands and Switzerland that have distinguished themselves for quality, innovation, speed, sustainable performance, global presence and level of service.

A specific award was granted to sustainable performance so as to acknowledge the importance that strategies of "responsibility" that really make a difference have, by bringing benefits to the entire value chain. In 2018 the award for Sustainability was awarded to a textile reinforcement supplier that in recent years has shown a strong and growing engagement on the procurement of sustainable materials, until producing *rayon* using only cellulose from plantations certified for sustainable agro-forestry management.

Trend of purchases

The following tables show the value of purchases made by Pirelli Tyre and the percentage of the relative suppliers divided by geographical area. These figures show that the value of purchases is slightly higher in OECD area[14] with respect to non-OECD areas, as well as the number of suppliers.

76% of suppliers (up compared to 67% in 2017) operate locally with respect to the Pirelli Tyre subsidiaries supplied, according to a local for local supply logic and excluding raw material suppliers as they generally operate where Pirelli does not have its own facilities.

Value of purchases by geographic area

		2018	2017	2016
OECD COUNTRIES	**Europe**	50%	49%	52%
	North America	6%	4%	5%
	Others	4%	5%	4%
NON-OECD COUNTRIES	**Latin America**	15%	16%	15%
	Asia	15%	15%	14%
	Africa	0%	0%	0%
	Others	10%	11%	10%

14 For the complete list of OECD Countries please refer to the official website http://www.oecd.org/about/membersandpartners/.

Number of Suppliers by Geographic Area

		2018	2017	2016
OECD COUNTRIES	**Europe**	54%	56%	55%
	North America	5%	5%	5%
	Others	5%	4%	4%
NON-OECD COUNTRIES	**Latin America**	22%	26%	27%
	Asia	6%	5%	4%
	Africa	0%	0%	0%
	Others	8%	4%	5%

The following table shows the breakdown in percentage of the value of Pirelli Tyre purchases by type. With a weight equal to 46% of the total, the purchasing category which is decidedly more relevant and significant, as in previous years, regards raw materials.

Value of purchases by type

	2018	2017	2016
Raw Materials	46%	46%	46%
Consumable Materials	5%	5%	5%
Services	36%	36%	38%
Capital goods	13%	13%	11%

With reference to the percentage of Pirelli Tyre suppliers by type and in the table below, it is noted that suppliers of consumables and services weigh about 90% of total number of suppliers, despite the weight on the total value of purchases is lower compared, for example, to that of raw material purchases which, on the other hand, show a substantial concentration on a few operators.

Number of suppliers

	2018	2017	2016
Raw Materials	2%	3%	3%
Consumable Materials	29%	23%	25%
Services	61%	64%	62%
Capital goods	8%	10%	10%

The following table represents the percentage composition in the value of the mix of raw materials purchased by Pirelli Tyre in the three-year period 2016-2018. The volume of raw materials utilised for the production of tyres in 2018 amounted to approximately 900,000 tonnes, of which approximately 4% derives from recycled materials, in line with the previous year.

Mix of raw materials purchased (value)

	2018	2017	2016
Natural Rubber	13%	15%	13%
Synthetic Rubber	27%	29%	28%
Carbon black	10%	9%	8%
Chemicals	23%	21%	22%
Textile	17%	16%	18%
Steel	10%	10%	11%

Targets

2019:

- Sustainability of the Natural Rubber supply chain: for 2019-2021 planning, including the details of the activities planned for 2019, please refer to the publication in the Sustainability section of the Pirelli website, Sustainability Policies / Sustainable Natural Rubber Policy area;
- Review of the audit process during the qualification phase of potential new suppliers and/or plants of raw materials and/or high value added goods, which will see the audit extended to the *business continuity* elements.

2020:

- CDP Supply Chain: increase in the response rate of suppliers of Raw Materials from 74% in 2018 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 set forth in accordance with the United Nations Global Compact, of which Pirelli has been an active member since 2004, and pursuant to 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 following Group Policies and specifically: "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 multiple languages in the Sustainability section of the pirelli.com website, available to the external community.

JOINING THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

In September 2018 Pirelli formally joined the Task Force on Climate-Related Financial Disclosures (TCFD) set up by the Financial Stability Board (FSB).

In supporting the initiative, Pirelli undertook to voluntarily communicating information on risks and opportunities related to climate change as indicated in the TCFD recommendations. Pirelli publishes this information publicly both in this report and through the CDP Climate Change programme.

In particular, the discussion of the four thematic areas identified by the TCFD recommendations is as follows:

- Governance: the issues relating to Climate Change fall within the activities whose Governance is described in the paragraph "Management Model" of this Report, and in the paragraph "Director responsible for sustainability matters" and "Audit, Risk, Sustainability and Corporate Governance Committee" of the "Report on the Corporate Governance and Share Ownership of Pirelli & C. S.p.A.", included in this report and to which reference should be made for further information.

- Strategy: with a view towards 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. As described in detail in the paragraph "The Pirelli Group Environmental Strategy" of this Report, the Group has adopted a control and monitoring system that allows the identification of the materiality of environmental impacts along the life cycle of the product on the basis of which the company defines the response strategy.

- Risk management: In the area of Risk Management and opportunities related to Climate Change, the Group's Climate Change Risk Assessment was updated in 2018. The analysis assessed and quantified the financial impacts (risks and opportunities) linked to Climate Change, with medium/long-term projections according to the IPCC[15] climate scenarios (RCP 4.5 and RCP 8.5) and the energy transition (IEA 450). For details, refer to the paragraph "Risks Related to Climate Change" in the "Directors' Report on Operations" in this document, and to what was published in the CDP Climate Change questionnaire.

- Metrics and Objectives: Pirelli reports the impacts and performance linked to climate change according to the metrics defined by the GRI Sustainability Reporting Standards (in particular, see the "GRI Content Index" table at the end of this Annual Report for the requests of the GRI

[15] Intergovernmental Panel on Climate Change.

Standard 305 Disclosures: Emissions) and reports its environmental and product targets that are most closely linked to climate change, in the present chapter “Environmental Dimension”.

THE PIRELLI GROUP ENVIRONMENTAL STRATEGY

Monitoring and management of environmental issues have always played a key role in the business strategy at Pirelli. 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 adopted a control and monitoring system that allows the identification of the materiality of environmental impacts throughout the product life cycle. The infographic on the following pages shows the Pirelli approach to environmental management and the specific multi-year targets defined by the Sustainability Plan, whose performance is reported in the present report. The Pirelli Group’s Carbon and Water Footprint are updated to 2018.

As is readily apparent, the materiality of environmental impacts is concentrated in the use phase of the tyre. In terms of the Carbon Footprint, the use phase has a weight of about 91% of total impacts throughout the entire life cycle of the product, compared to a production phase that has a weight of only 2.8% of total impacts. As regards the impact of the Water Footprint, the use phase of the product is the most significant (44.6% of the total impacts), followed by the production phase of raw materials (43.5% of impacts).

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.

At the methodological level, the phases of the life cycle have been analysed following the Life Cycle Assessment methodology as defined by the ISO 14040 family of standards. This approach is capable of validating the results and the strategic decisions related to it, as objectively as possible, integrated with the indications of the “Product Category Rule[16]“ for tyres developed by the Tyre Industry Project Group of the World Business Council for Sustainable Development. The reporting of the emission impacts also complies with the provisions of the GHG Protocol (Corporate Accounting and Reporting Standard) and the GRI Sustainability Reporting Standards. To determine the Carbon Footprint and the Water Footprint, Pirelli’s calculation model is respectively inspired by the ISO-TS 14067 technical specification and the ISO 14046 standard. All the impacts listed by the standards that are not mentioned, both *upstream* and *downstream* of Pirelli’s industrial activity are either not applicable or 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.

[16] Set of rules, requirements and specific guidelines for the development of environmental declarations, for one or more product categories, defined according to ISO 14025.

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 processing 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, tonnes of CO_2 equivalent, cubic metres 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.

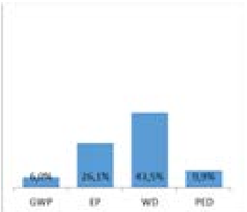
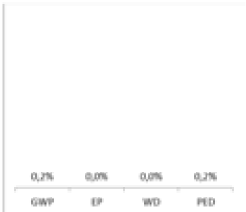
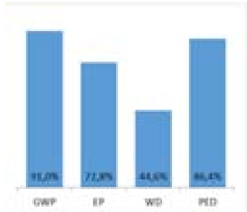
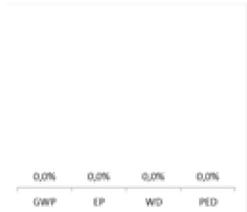
The Global Warming Potential concerns the effect on the climate of anthropic activities and is calculated, as mentioned, in tonnes of CO_2 equivalent (the greenhouse effect potential of the gas considered is assessed in relation to CO_2, considering a residence time in the atmosphere of 100 years).

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

Eutrophication Potential is the enrichment of nutrients in a given ecosystem, whether aquatic or terrestrial: air pollution, emissions into water and agricultural fertilisers 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 company spending in the process phase is the most relevant, which results in the opportunity to reduce impacts through investments in energy efficiency.

In the lower part of the infographic, the actions and targets adopted by Pirelli are indicated in order to reduce the environmental impacts in the various phases of the life cycle.

STAGES OF LIFE CYCLE				
RAW MATERIALS	**MANUFACTURING**	**DISTRIBUTION**	**USE**	**END-OF-LIFE**
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 Tyre manufacturing: at Pirelli factories the impact mainly derives from the consumption of electricity and natural gas.	Production and use of fuel by trucks and ships of logistics suppliers, delivering Pirelli tires worldwide Consumption and related production of fuel used by trucks and ships of logistics providers, which deliver Pirelli tyres worldwide.	Consumption and related production of the fuel used by customers' vehicles in the portion allocated to rolling resistance Production and consumption of the fuel of customers' vehicles due to rolling resistance.	Tyre management at end-of-life: old tyres are prepared by specialized companies to be reused both as energy and as regenerated raw material 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
IMPACT: CARBON & WATER FOOTPRINT** (**Values expressed as % of the impacts in the stages of the life cycle)				
				
PED: Primary Energy Demand; GWP: Global Warming Potential; WD: Water Depletion; EP: Eutrophication Potential (Freshwater - Peq)				

MATERIALITY				
Economic: HIGH	Economic: HIGH	Economic: MEDIUM	Economic: HIGH	Economic: LOW
Environmental: MEDIUM	Environmental: MEDIUM	Environmental: LOW	Environmental: HIGH	Environmental: LOW
RESPONSE STRATEGY				
→ RAW MATERIAL INNOVATION ● Progressive introduction of new materials from renewable sources ● Biomaterials, such as high performance silica from renewable sources, biofillers such as lignin and plasticisers/resins of plant origin ● Natural rubber: search for sustainable alternative sources ● Functionalised 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 AUDITS ON CRITICAL SUPPLIERS	→ PROCESS EFFICIENCY Targets 2020 vs 2009: ● Specific water withdrawal -66% ● Specific energy consumption -19% ● Specific emissions of CO_2 -17% ● Waste recovery >95% → ISO 14001 AT ALL PRODUCTION PLANTS → SCRAP REDUCTION PROGRAMME	→ 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 ● 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 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 is essential in order to design and manufacture increasingly sustainable tyres that guarantee lower environmental impacts throughout their life cycle while ensuring greater driving safety.

The Pirelli Sustainability Plan includes, for specific product segments, the doubling in weight of the renewable materials used and a 30% reduction in fossil-derived raw materials by 2025 compared to 2017 values.

In this context, Pirelli's Research & Development focuses, for example, 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.

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.

The Joint Labs agreement (2017-2020) between Pirelli and the 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.

In the field of biomaterials, in addition to the introduction of resins and plasticisers from natural origin, Pirelli has focused on silica deriving from the rice husk, namely the outer shell of rice grain. The husk is by weight 20% of the raw rice grain and it is the main waste of this crop, because, in many areas of the world, it is not used but burned in the open air. Thanks to a partnership with various producers, Pirelli is evaluating the diversified supply of high performance silica from processes that start precisely from rice husks used as feedstocks. The combustion of the carbon part of the husk also allows a reduction of more than 90% of the amount of CO_2 emitted per kilogram of silica, compared to the conventional process that instead exploits fossil energy sources.

Specific projects for the development of new materials from renewable sources, mainly focused on the use of waste feedstocks (for example new oils from waste biomass), are the subject of the framework agreement between Pirelli, CORIMAV (Consortium for Materials Research Advanced) and Bicocca University.

In the context of the new nano-fillers, Pirelli has started to introduce in production process materials of mineral origin in a partial substitution of precipitated silica and carbon black. The innovations mentioned provide a water saving and more than 75% of CO_2 emissions reduction compared to the production processes of raw materials replaced.

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.

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

ENVIRONMENTAL IMPACT OF PIRELLI'S PRODUCTION SYSTEM

ENVIRONMENTAL MANAGEMENT SYSTEM AND FACTORY'S PERFORMANCE MONITORING

All the production facilities of Pirelli and the tyre testing field in Vizzola Ticino have Environmental Management Systems 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 2018, the Pirelli production sites completed the transition path of their Environmental Management System from ISO 14001:2004 to the 2015 version.

The certification of the environmental management system according to the ISO 14001 Standard is part of Pirelli's Environmental Policy and, as such, is extended to new settlements that become part of the Group. 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 subsidiaries worldwide. Both systems support consolidation of the environmental performance accounted for in this report.

SCOPE OF REPORTING

The performances reported in the following paragraphs concern the three-year period 2016-2017-2018 and cover the same scope of the Group's consolidation, including the impacts of all the units under operational control: from industrial realities to commercial and administrative sites.

Following the change in the industrial scope that took place on 1 January 2018, which saw the entry of the Brazilian production site of Gravataì into the Group, the historical values of the environmental indicators reported below for the years 2016 and 2017 have been recalculated in order to ensure clear comparability with 2018 data.

The amount of finished product used in the calculation of the specific indices indicated below, in 2018 was approximately 793,000 tonnes.

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 2.8% of total greenhouse gas emission impacts and for 11.9% of total water-related impacts.

The year 2018 saw a decrease in tonnes of finished products of around -2% compared to the previous year (value calculated on a like-for-like basis).

The 2018 environmental performance indicators, calculated on the tonnes of finished product, show a specific index of energy consumption in line with the previous year, and a general improvement of all the other specific indices reported: waste recovery, water withdrawal and greenhouse gases emission. The positive result of all the indicators is recorded for the indices referring to the operating income (compared to the Adjusted EBIT value).

It should be noted that the trend of the above indices is significantly impacted by the production focus adopted. Pirelli production is focused on *Premium* and *Prestige* tyres and its production processes are characterised by higher energy intensity, more stringent quality specifications, more complex processing and smaller production batches compared to the production processes of medium-low end tyres. In the context of the *Premium* and *Prestige* production cited, the environmental efficiency effort is complex and relevant, and the associated reduction in the indices is characterised by a strong environmental and economic value, in terms of consumption and avoided emissions, resources saved 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, as measured in GJ per tonne 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 2018, 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, smart grid 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 regard to Life Cycle Assessment, the specific consumption of each plants is also mapped, whether dedicated to production or dedicated to the generation of energy carriers in order to: increase the standard reference indicators, compare similar families of machinery, evaluate in detail the energy content of the plants' different families of products and sub-products and implement actions to improve their energy performance.

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.

The Energy Management System, certified according to the ISO 50001 standard has been adopted at the Breuberg plant (Germany). The adoption of the same certification on other Group sites is being evaluated.

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.

During the course of 2018 the installation of LED (Light Emitting Diode) lighting systems continued at production sites 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 paid to the efficiency in the transformation of thermal energy and the recovery of thermal waste for heating of premises. Excellent results were recorded for the reduction of compressed air and steam losses both on machinery and on the distribution lines, also following the energy audit activities already started and progressively extended to all the

Group factories. In addition, the electrical absorption measurements performed on individual equipment have made it possible to correlate the specific consumption to the production in greater detail, in order to optimise the operating conditions.

As regards the digitalisation of energy management, the production plants have been and will be equipped with smart systems (Green Button), which modulating the energy consumption based on the state of operation of the machinery, provide to disable the auxiliaries up to a stand-by regime with a minimum energy consumption at the minimum, but able to guarantee an immediate restart.

For systems dedicated to the generation of energy carriers, following connection under Smart Grid systems, which allow monitoring and management in automatic and in real time, a more rapid modulation of loads with excellent results in terms of efficiency has become feasible.

Energy efficiency in 2018 was slowed by several factors: the slowdown of the LATAM market; the deviation for some plants between the planned volumes and the final result, and the installation of energy-intensive systems dedicated to the abatement of Volatile Organic Compounds (VOCs).

These exogenous factors are joined by the acceleration of the production mix towards *Premium* and *Prestige* products, characterised by very high technological and performance content, and therefore more complex processes and smaller production batches compared to medium-low-range tyre production processes. It follows that such tyres, during production, require a higher specific energy consumption than that of a standard tyre.

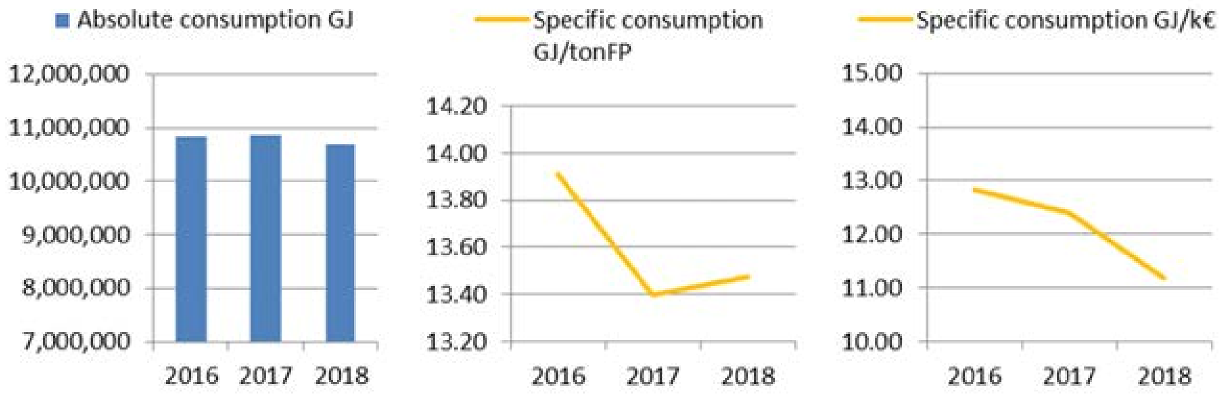
Management with a view to maximize the industrial efficiency, despite the penalising factors previously described, allowed a very slight increase in consumption in the industrial sector, of approximately 98,793 GJ. This value was calculated for each factory on the basis of the production volumes of the reporting year and the change in efficiencies achieved in 2018 from the previous year.

The Group's 2018 specific energy index therefore remained substantially unchanged (+0.6%) compared to 2017, while it recorded a reduction of -16% compared to 2009, the year on which the plan target is based, which aims at a reduction of -19% by 2020.

The absolute and specific consumption data reported in the following table were calculated by using direct measurements and were subsequently converted into GJ by using heating values from official IPCC sources.

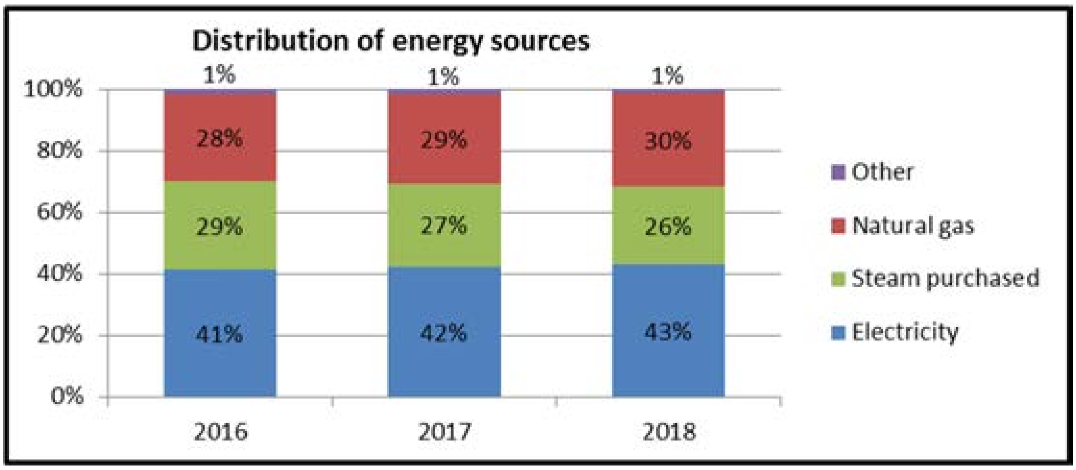
		2016	2017	2018
Absolute consumption	GJ	10,832,465	10,860,266	10,688,588
Specific consumption	GJ/tonFP	13.91	13.40	13.48
	GJ/k€	12.83	12.39	11.19

The same 2018 data, weighted 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 non-renewable, which account for 31% 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 69% is formed from indirect sources such as electrical energy and steam purchased.

Of the total electricity used by the Group, more than 41% derives from renewable sources (calculation on the IEA[17] database) while for steam, the share generated by renewable sources corresponds to around 14% of the total.



Management of Greenhouse Gas Emissions and Carbon Action Plan

Pirelli monitors and reports its[18] emissions of greenhouse gases through the calculation of CO_2-equivalent (CO_2-eq) – unit of measurement used for the emissions reported here below –, which

[17] International Energy Agency.

[18] GHG inventory perimeter as indicated in paragraph "Scope of Reporting".

takes into account the contribution of carbon dioxide, methane (CH_4) and nitrous oxide (N_2O). To quantify emissions, the energy consumption of all 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 used 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 former are defined as "direct emissions", or Scope 1 emissions, as produced within the Company's production sites, while the latter compose the so-called "indirect emissions", or Scope 2 emissions, as they are generated in the plants that produce the energy and steam purchased and consumed by Pirelli. The Scope 2 emissions are reported in two separate ways: *location-based* and *market-based* (methodology introduced in 2015 with the guideline "GHG Protocol Scope 2 Guidance").

With regard to "other indirect emissions" attributable to Pirelli *Value Chain* activities, or Scope 3 emissions, in addition to the information reported in this section, please refer to the paragraph "Our Suppliers"/"CDP Supply Chain" for further information about the specific activities of the Pirelli Suppliers. 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)[19];
- Within Scope 2 *location-based*:
  - National emission factors[20] taken from IEA: CO_2 Emissions from Fuel Combustion[21];
- Within Scope 2 *market-based*:
  - Specific emission factors of suppliers where available;
  - Residual-mix emission factors[22] taken from RE-DISS AIB (EU)[23] and Green-e (US)[24];
  - Emission factors used in the context of location-based if other sources of data are not available;

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19 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).

20 Emission factors expressed in CO_2/kWh.

21 2018 Publication with update to the 2016 figure.

22 Emission factors expressed in CO_2/kWh.

23 2018 Publication with update to the 2017 figure.

24 2018 Publication with update to the 2016 figure.

and are reported according to the models proposed by:

- GHG Protocol: Corporate Accounting and Reporting Standard;
- GHG Protocol Scope 2 Guidance.

Regarding Scope 2 emissions, the national average coefficients are defined with respect to the last year available on the above reports. It should be noted that the tyre production industry is not a carbon-intensive industry; in fact, it falls within the European Emission Trading Scheme only with reference to thermal power plants above 20 MW of installed capacity. 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:

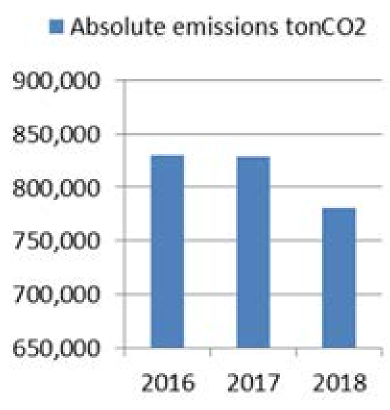
- absolute emissions, as measured in tonnes;
- specific emissions, as measured in tonnes per tonne of finished product;
- specific emissions, as measured in tonnes per euro of Operating Income.

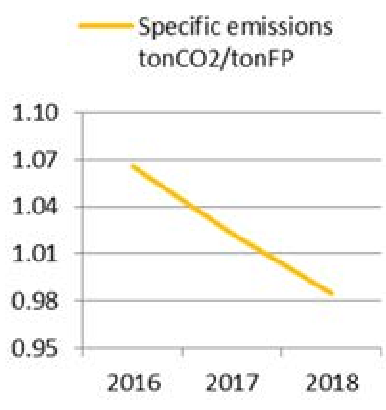
The management, calculation and reporting model of Pirelli's greenhouse gas emissions has been defined according to the ISO 14064 standard and the related data have been subjected to specific limited audit activity by an independent third party company according to ISAE 3000.

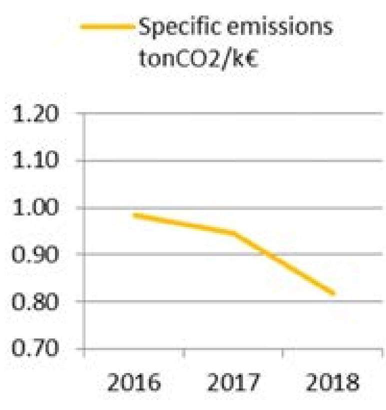
According to the Guidelines of the GHG Protocol Guide, the level of inventory uncertainty was evaluated as "Good".

The Sustainability Plan envisages a reduction in specific emissions (on tonnes 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:







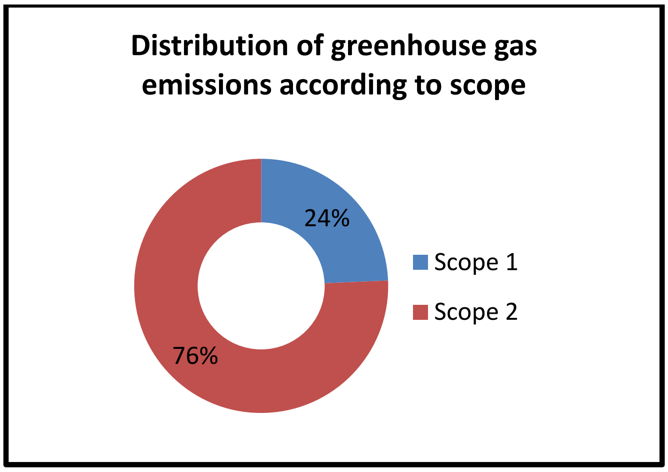
In 2018, Pirelli recorded a reduction in specific emissions (weighted on tonnes of finished product) of around -4% compared to 2017 and more than -13% compared to 2009, the year on which the 2020 target is based.

The portion of indirect emissions generated by the projects implemented in Silao (Mexico), Carlisle and Burton (UK), Settimo Torinese (Italy), Campinas and Gravataì (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		**2016**	**2017**	**2018**
Absolute emissions (Scope 1 and Scope 2 *location-based*)	ton	829,794	829,035	780,998
Scope 1	ton	183,752	188,777	190,037
Scope 2 (*location-based*)	ton	646,042	640,258	590,961
Scope 2 (*market-based*)	ton	718,636	659,501	666,886
Specific emissions (Scope 1 and Scope 2 *location-based*)	Ton/tonFP	1.065	1.023	0.985
	ton/k€	0.98	0.95	0.82

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 2018 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 in Brazil for the Campinas and Gravataì plants. Thanks to this initiative, in the year 2018, the savings in terms of avoided CO_2 emissions exceeded 21,000 tonnes (Scope 2);

- the procurement of electrical energy from renewable sources at the plant in Silao (Mexico). In 2018 the agreement continued for the dedicated supply of electricity generated from wind sources, which in the year allowed the replacement of over 15 GWh of energy from fossil fuels, for a saving in terms of CO_2 emissions of over 7,000 tonnes (Scope 2);

- the procurement of electrical energy from renewable sources at the plants in Burton and Carlisle (UK). In the year 2018 the share of electricity certified from renewable sources exceeded 44 GWh, for an annual savings in terms of CO_2 emissions of more than 12,000 tonnes (Scope 2).

The table below shows the emissions relating to Pirelli's carbon footprint (Scope 1, 2 and 3) distributed along the different phases of the *value chain*.

GHG EMISSIONS Group Footprint		**2016**	**2017**	**2018**
Raw Materials (Scope 3)	10^3 ton	2,430.5	2,674.2	2,659.6
Manufacturing (Scope 1 + 2 + 3)	10^3 ton	1,229.5	1,261.7	1,231.1
Distribution (Scope 3)	10^3 ton	88.3	91.9	90.0
Customers (Scope 3)	10^3 ton	39,894.9	41,863.6	40,187.2
End-of-Life (Scope 3)	10^3 ton	2.4	2.6	2.5
Total	10^3 ton	43,645.6	45,894.0	44,170.4

In 2018, Pirelli continued in the compensation project of CO_2 emissions produced the previous year by its fleet of company cars, through the purchase of carbon credits. Direct issuance of the Pirelli auto policy, which introduces an *Internal Carbon Price model* for the economic quantification of the impacts associated with car emissions, this initiative aims to promote the choice of vehicles with less impact on the environment and support environmental protection projects. The cars in the Italian company's fleet in 2017 emitted 820 tonnes of CO_2. In order to offset this impact on the climate, Pirelli purchased carbon credits through two sustainable forest management projects: an international one, implemented in Brazil, to finance activities under the REDD+ programme (*Reducing emissions from deforestation and forest degradation*) developed by the UNFCC and an Italian agroforestry protection project implemented in collaboration with the Forestry Consortium of Pavia.

The activities financed with Pirelli's contribution were carried out in 2018. The combination of the two projects has allowed the reduction of a share of about 130% of the emissions generated by company cars in 2017, thus going well beyond what is required by the policy in view of increasing environmental responsibility.

Water Management

Pirelli monitors the Water Footprint along the life cycle of the product (as extensively explained earlier in this chapter), and in terms of materiality, the production phase of the tyres is the third most influential, after the phases of use of the product and production of raw materials.

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 precious resource, with the use of specific analysis tools (such as the Global Water Tool of the World Business Council for Sustainable Development) and dedicated action plans.

The Sustainability Plan provides for a reduction target of specific withdrawal of water of -66% by 2020 compared to the 2009 value.

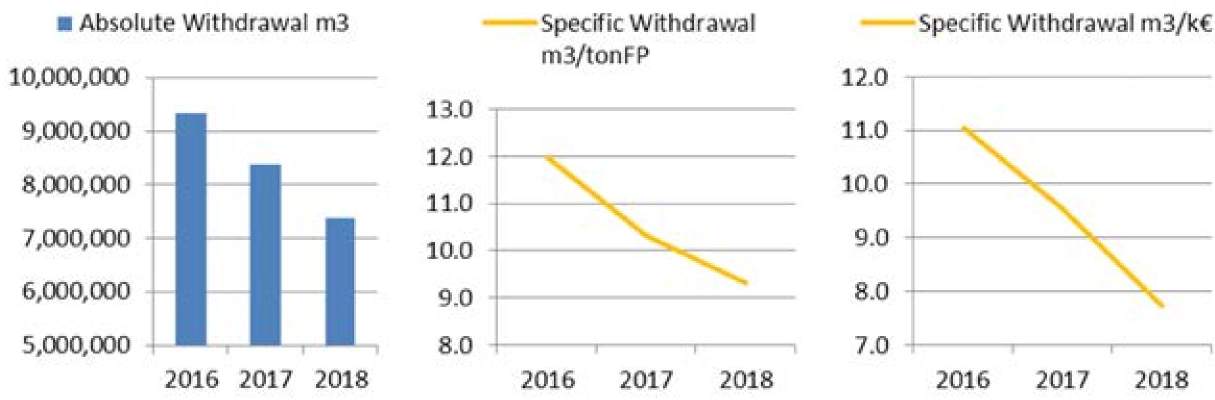
The 2018 recorded an absolute withdrawal equal to about 7.38 million cubic metres, with a reduction of specific withdrawal of around -10% compared to 2017, which allowed to reach in advance the 2020 target of -66% compared to 2009.

Thanks to the actions implemented, since 2009 Pirelli has saved about 80 million cubic metres of water: an amount almost equivalent to the absolute withdrawal of about ten years of the entire Group.

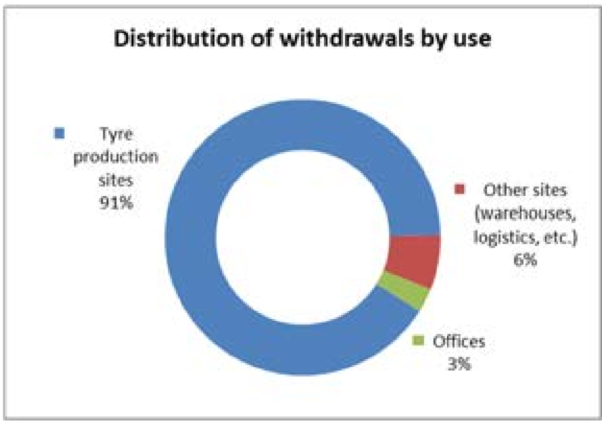
To provide an overall view of the performance in terms of water withdrawal year on year, the following tables report the indicators:

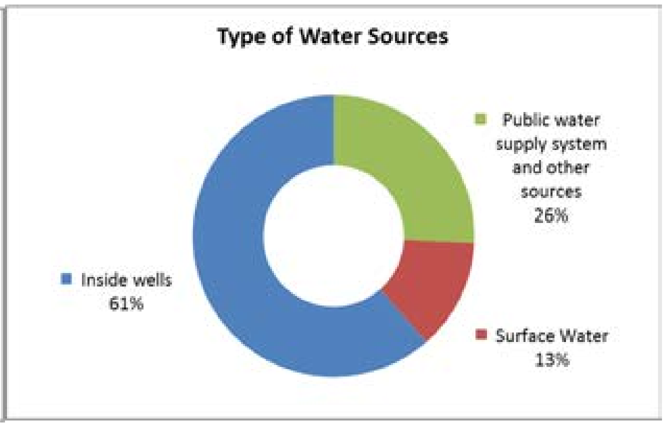
- absolute withdrawal, measured in cubic metres, which indicates the total withdrawal of water by the Group;
- specific withdrawal, measured in cubic metres per tonne of finished product, which indicates the withdrawal of water used to make one tonne of finished product;
- specific withdrawal, as measured in cubic metres per euro of Operating Income.

		2016	**2017**	**2018**
Absolute Withdrawal	m^3	9,336,281	8,370,936	7,382,453
Specific Withdrawal	m^3/tonFP	12.0	10.3	9.3
	m^3/k€	11.1	9.6	7.7



All the figures reported in this paragraph 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 the weight of water supply by type of source.





Type of Water Sources (m3)	
Public water supply system and other sources	1,900,000
Surface water	946,000
Internal wells	4,536,000
Total	7,382,000

61% 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 1,800 cubic metres. Lastly, about 196,000 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 5.7 million cubic metres of domestic and industrial waste water were discharged, with 60% of this into surface water bodies, but always in quantities that are marginal in relation to the volume of the receiving bodies (always less than 5%) 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: 12 mg/l of BOD_5 (Biochemical Oxygen Demand), 38 mg/l of COD (Chemical Oxygen Demand) and 14 mg/l of Total Suspended Solids.

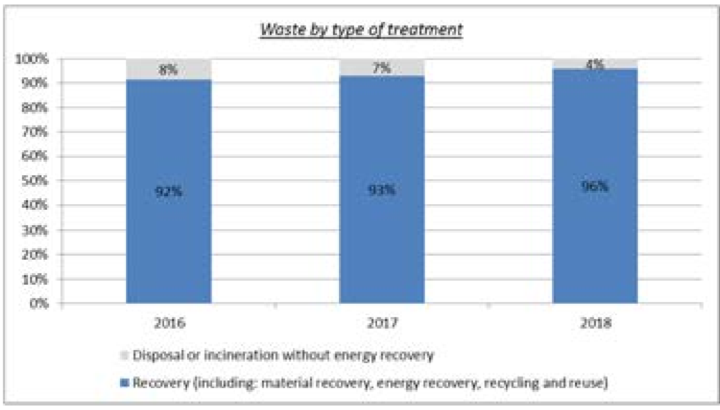
Waste Management

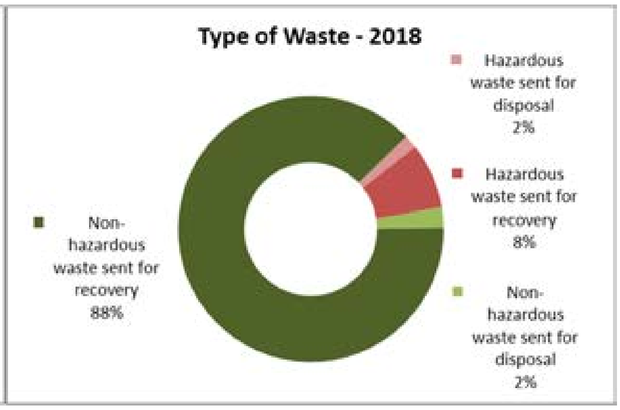
The improvement of environmental performance connected with the management of waste is achieved through:

- 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.

In 2018, 96% of waste sent for recovery was achieved, with an increase of three percentage points compared to the previous year and with an increase of 27% compared to 2009, base year of reference. This result made it possible to reach in advance the target set in the Sustainability Plan which envisages by 2020 that more than 95% of the waste produced will be sent for recovery, with the *Zero Waste to Landfill* vision.

Specific waste production saw a stabilisation of the figure in 2018, which stood at 151 kg per tonne of finished product. Hazardous waste represents 10% of total production and is sent in its entirety to plants located in the same Country where it is produced.

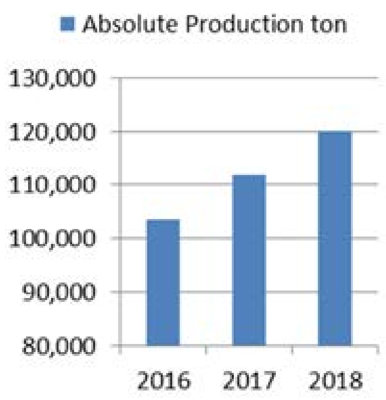


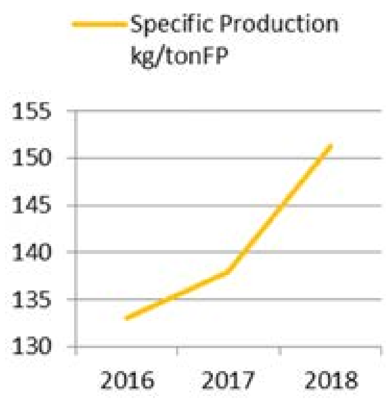


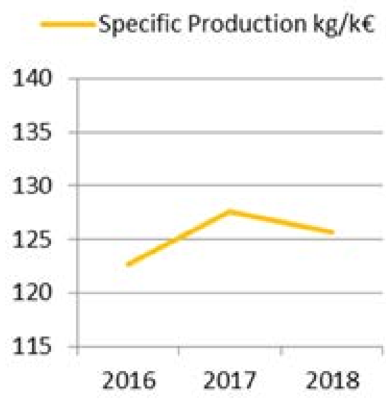
The graphs below detail waste production through three main indicators:

- absolute production, as measured in tonnes;
- specific production, as measured in kilograms per tonne of finished product;
- specific production, as measured in kilograms per euro of Operating Income.

		2016	2017	2018
Absolute production	ton	103,600	111,800	120,100
Specific production	kg/tonFP	133	138	151
	kg/k€	123	128	126





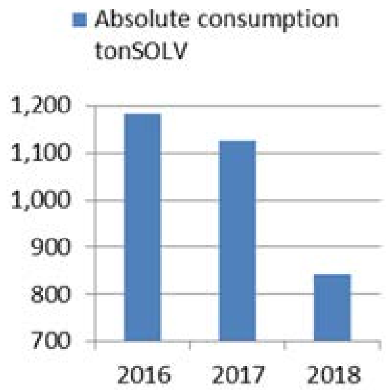


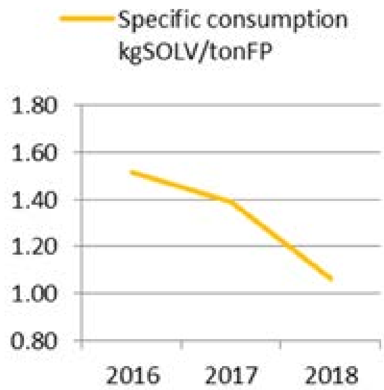
Other Environmental Aspects

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 more than -24% at the end of 2018 compared to the previous year and of -68% compared to 2009, with emissions of related VOCs slightly lower than total consumption.

		2016	2017	2018
Absolute consumption	tonSOLV	1,181	1,125	841
Specific consumption	kgSOLV/tonFP	1.5	1.4	1.1





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 site located within a protected area of high biological diversity is the site of Vizzola Ticino (Italy). The site hosts the tyre test track, has an area of 0.37 square kilometres and is part of the Lombard area of the Parco del Ticino, MAB area[25] of UNESCO, characterised by the presence of 23 species included in the IUCN Red List (International Union for the Conservation of Nature) 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 also

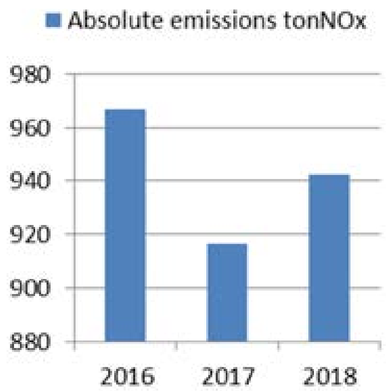
[25] Man and Biosphere is a group of 686 biosphere reserves in 122 countries in the world protected by UNESCO with the aim of promoting socio-economic development and conservation of ecosystems and biological diversity.

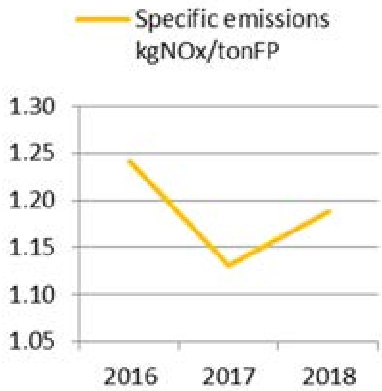
carried out, which highlighted the substantial negligence of the impacts of the activity compared to the context in which the test field is inserted.

NOx Emissions

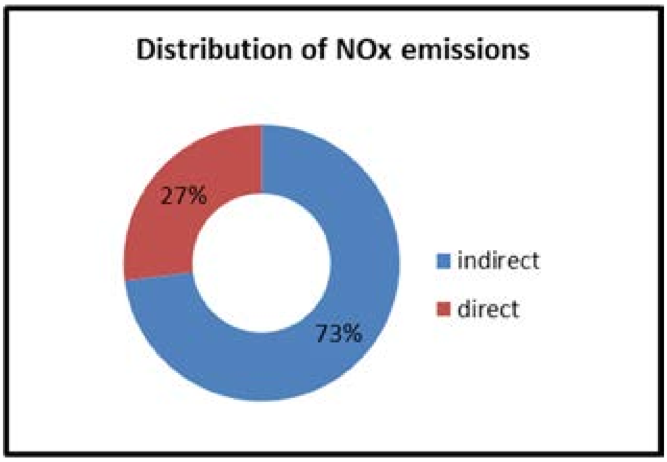
NO_x emissions derive directly from the energy-generating processes used. In 2018, the index based on the tonnes of finished product increased by 5% compared to the 2017 figure, mainly due to a slight change of the mix of the energy consumed as described above. The emissions were calculated by applying the emission factors indicated by the EEA (European Environment Agency) to the energy consumption data.

		2016	2017	2018
Absolute emissions	tonNOx	967	917	943
Specific emissions	kgNOx/tonFP	1.24	1.13	1.19





The following graph shows the 2018 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 2018, direct emissions of SO_X, caused by the combustion of diesel and fuel oil, were estimated to be about 11 tonnes (EEA - European Environment Agency emissions standards).

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 2018, a spill of about 1 cubic meter of hydrocarbons took place at the Campinas site (Brazil). This spill was promptly resolved in consultation with the competent authority. Furthermore, no complaints or significant sanctions related to environmental issues were recorded.

Expenses and Investments

In the three-year period 2016-2018, environmental expenditure related to the production process exceeded Euro 47 million, of which about 50% was allocated in 2018. About 76% of this amount concerned normal management and administration of factories, while the remaining 24% was dedicated to preventive measures and improvement in environmental management.

Lastly, it should be 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 2018, the Company invested Euro 219 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 the operations area, for the assessment of some new investments, the potential impacts associated with GHG emissions are highlighted, evaluating internally a carbon price.

PRODUCT AND USE PHASE: GREEN PERFORMANCE TARGETS

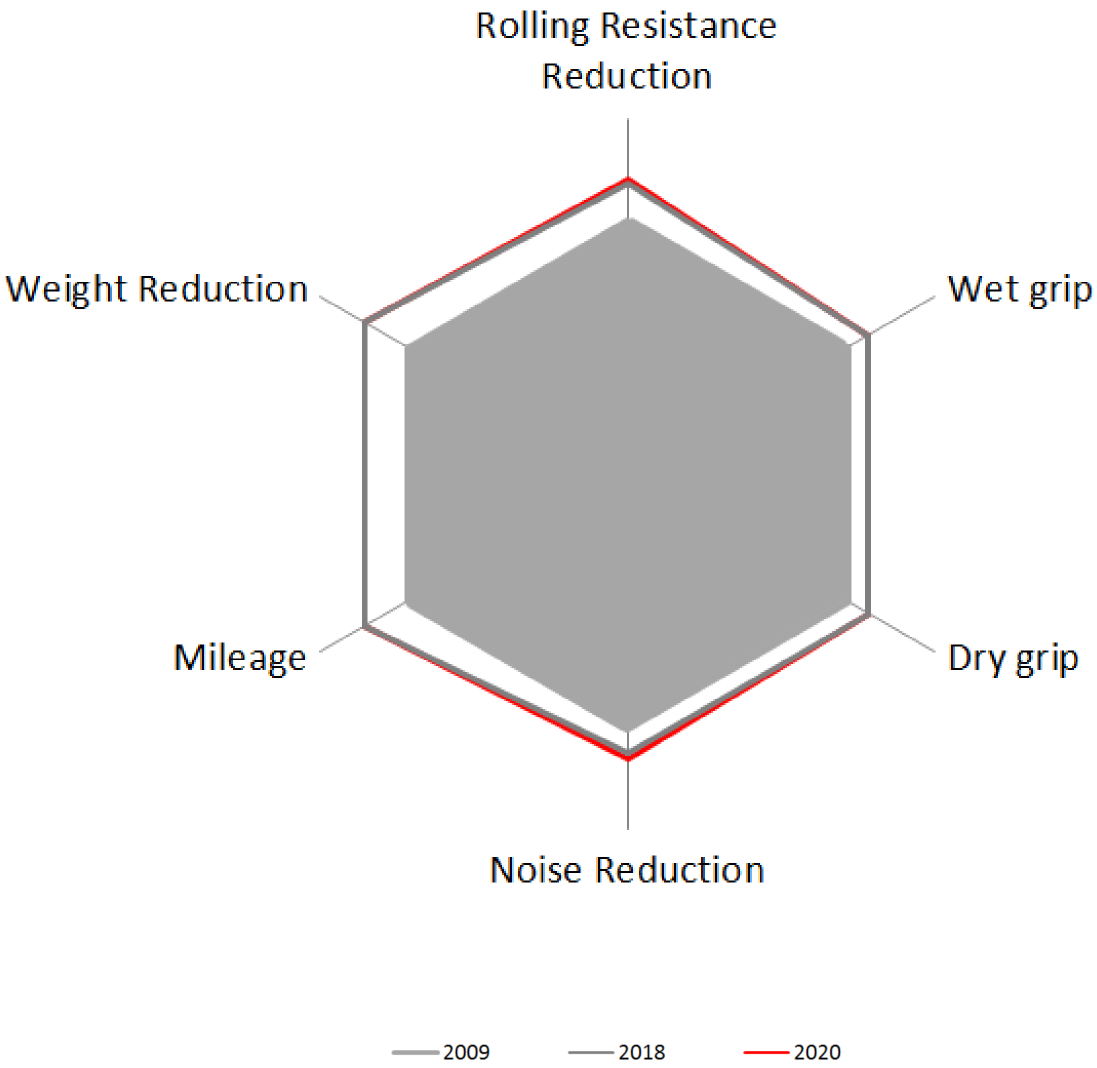
In line with its position in the *Premium* and *Prestige* segments, Pirelli develops and introduces increasingly sophisticated products on the market, responding to a macroeconomic scenario in constant and rapid evolution. The significant corporate investment in research and development on materials, 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 – reduction in use of raw materials and lower impact on natural resources.

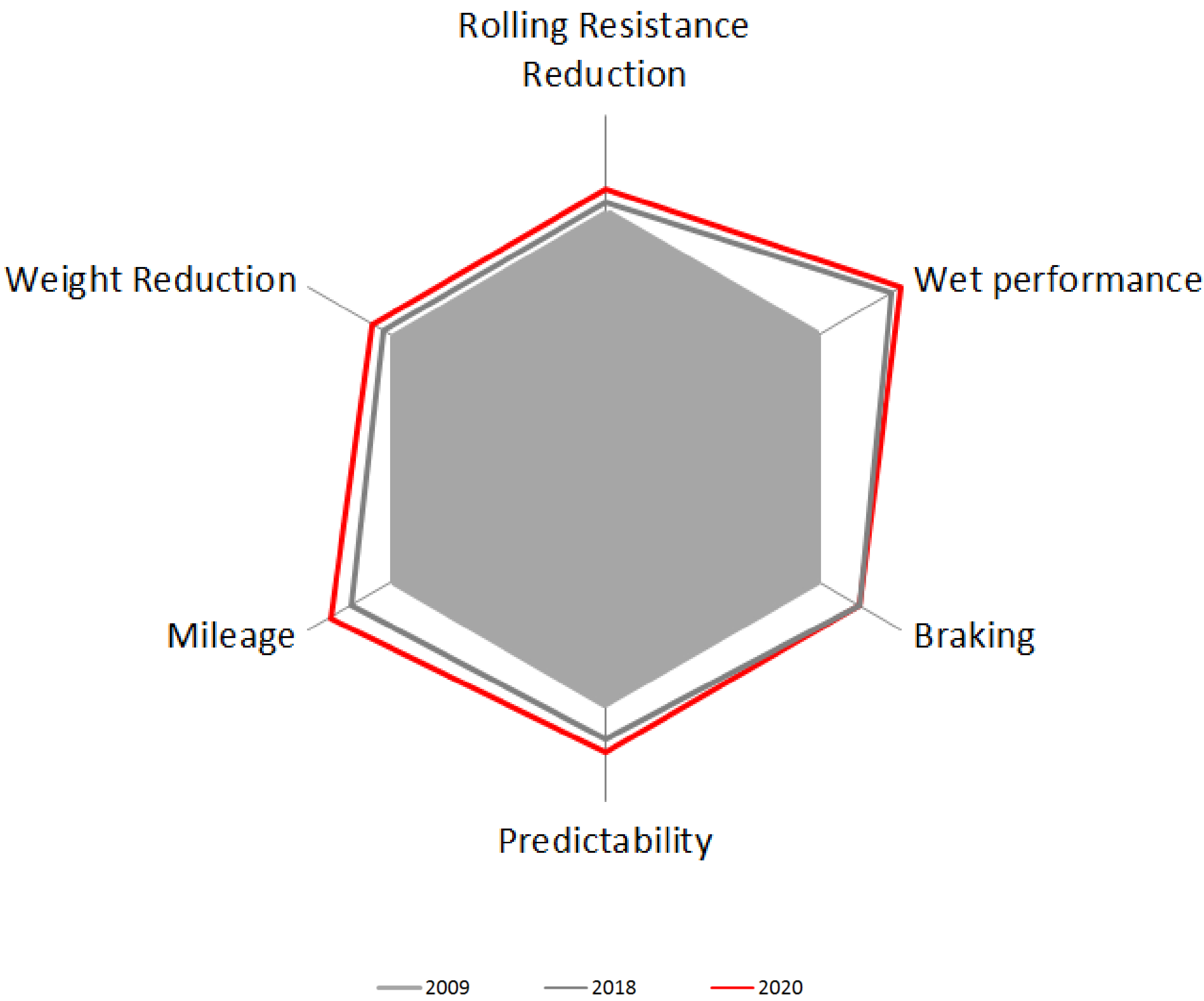
The targets to improve the environmental performances adopted by Pirelli for its products are objective, measurable and they consider the level of materiality of the impacts along the life cycle of the product with a perspective of the maximum effectiveness of the action. In particular, it was seen that the rolling resistance related to the use phase of the tyre constitutes the factor with most impact by far 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 2018, the weighted average rolling resistance of CAR products decreased by 16.4% compared to the average for 2009.

CAR


Rolling Resistance Reduction
Wet grip
Dry grip
Noise Reduction
Mileage
Weight Reduction
2009
2018
2020

MOTORCYCLE



Green Performance[26] products include the CINTURATO™ P7™ Blue, with which 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 resistance while always maintaining A class for wet grip. On average, the CINTURATO™ P7™ Blue guarantees 23% less rolling resistance than the Pirelli reference (rolling resistance class C), combined with lower fuel consumption and a reduction in the atmospheric emissions associated with it. A vehicle with CINTURATO™ P7™ Blue tyres that runs 15,000 km a year consumes 5.1% less fuel (equivalent to 52 litres), and reduces greenhouse gas emissions by 123.5 kilograms of CO_2 and has a braking distance on wet 9% lower than the Pirelli benchmark (class B of wet grip) in the same segment. Comparative TÜV SÜD tests showed that, at a speed of 80 km/h on a wet surface, the

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

CINTURATO™ P7™ Blue reduces braking by 2.6 metres compared to a tyre classified B. The CINTURATO™ P7™ Blue was developed for medium-high cylinder cars, as a further evolution of the CINTURATO™ P7™, the renowned Pirelli Green Performance tyre released in 2009.

In 2017 Pirelli presented a new generation of the CINTURATO™ P7™ Blue characterised by a rolling resistance even lower than the previous one. As a result of this evolution, the CINTURATO™ P7™ Blue is the tyre with the world's largest number of sizes which boast double A labelling in Europe. At the origin of this improvement is the "Low Rolling Technology Package": a solution that combines new construction processes, innovative materials and product design in order to achieve lower rolling resistance without compromising wet grip performance.

The attention to the environmental impact demonstrated in the development of the "Low Rolling Technology Package", allowed Pirelli to receive from the Italian Industrial Research Association (AIRI) the "Oscar Masi" award for industrial innovation 2018, in the field of "Enabling technologies and innovative solutions for the sustainable city".

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. For example, the new all-electric Aston Martin model, Rapid E, will be equipped with Pirelli P ZERO™ tyres specifically developed to ensure low rolling resistance, essential to offer the maximum possible autonomy with only one recharge, and at the same time maximum performance in terms of torque management supplied by electric motors, in addition to high precision on the wet. The tyres on the Aston Martin Rapid E will also be equipped with the Pirelli Noise Cancelling System technology, a solution able to reduce the noise transmitted to the car and, therefore, to offer the driver superior comfort compared to the case of using traditional tyres.

As regards motorcycle tyres, we note the introduction on the market of the METZELER KAROO™ STREET line for the Enduro on/off segment, characterised by performance versatility able to combine off-road performance with on-road characteristics. The new product presents unique performance especially in the area of grip and traction in the wet, which traditionally is more delicate for tyres developed for different surfaces. The internal tests showed an improvement of around 5% in the wet braking area compared to the best competitor in the segment, in addition to a clearly improved subjective performance in terms of safety and controllability.

As far as bicycle tyres are concerned, in 2018 Pirelli expanded its product lines, adding the CINTURATO™ Velo and the Cycl-e™ range to the P ZERO™ Velo.

CINTURATO™ Velo is a reinforced clincher tyre, which can be used with and without inner tube, offering extreme reliability in all road conditions, even the most adverse. It is a product intended for very wide use: from road racing, to training, to cross-cycling, to short journeys.

A few weeks after the launch of CINTURATO™ Velo, Pirelli presented at the Eurobike 2018 the most prestigious European bicycle fair in the world, the Cycl-e™ range dedicated to traditional electric bicycles, in urban areas, trekking and tourism.

The range of Pirelli tyres for electric bicycles, after the first Cycl-e™ tyre (specified by the Swiss brand Stromer for its innovative ST-5), has been enriched with 5 new models that, thanks to the synergy between the compound, the tread and tyre structure, offer safety and driving pleasure in any commuting or cycle touring situation. The tyres of the Cycl-e™ line have been developed and manufactured using a mixture that contains the powder recovered from end-of-life tyres. Particular attention was then paid to maximising the use of natural rubber compounds, raw material from renewable sources.

Pirelli highest technology products do not stop at the tyres. Pirelli continues to develop CYBER™ technologies which, based on the introduction of sensors inside the tyre, will contribute in the future to making information available to increase the safety or performance of vehicles, including status monitoring, as the occasion arises, of the state of health of the tyre which, if maintained at the correct inflation pressure, can positively influence fuel consumption and vehicle emissions.

CYBER™ technologies are divided into products dedicated to original equipment (CYBER CAR™ and CYBER TYRE™) as well as platforms developed for fleet management (CYBER FLEET™).

In 2018, at the Geneva Motor Show, Pirelli presented CYBER CAR™, the new system for original equipment that, thanks to a sensor, makes the tyre and the car interact. The new technology, already being tested with the major car manufacturers, will be on the market for electric and traditional vehicles. CYBER CAR™ detects the operating parameters of the tyre and transmits them to the on-board intelligence that can thus adapt the ABS and stability control for safer and more efficient driving. The Perfect Fit Pirelli strategy, which aims to offer each customer tailor-made products and services, is thus enhanced with a new solution.

Pirelli has also completely renewed CYBER FLEET™, the system for monitoring and managing tyres in fleets, presenting in 2018, at the 67th edition of IAA Commercial Vehicles in Hannover, the new generation of solutions for fleets: CYBER FLEET™ Smart and CYBER FLEET™ Gate, both designed to optimise running costs, increase the safety and efficiency of road transport, reduce vehicle downtimes and CO_2 emissions. These new solutions come completely renovated compared to the product for the truck world that debuted in 2012. CYBER FLEET™ Smart and CYBER FLEET™ Gate, in fact, are based on Bluetooth communication technology, which has allowed the simplification and speeding up of tyre monitoring activities and does not require any hardware support on board the vehicle. Both solutions are connected to the Pirelli cloud, where tyre data are processed to provide estimates and predictions on fuel consumption, vehicle efficiency and maintenance operations required.

Among the Open Innovation initiatives, has to be noted the Joint Labs agreement between Pirelli and the Politecnico of Milan, established 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 innovative materials design area and the product development area and CYBER™.

Throughout the years of partnership, the agreement has made it possible to achieve important results in terms of tyre performance, the relative level of safety and sustainability, thanks to the use of advanced materials. Research has focused mainly: on the production and functionalisation of carbonaceous fillers (from graphene, to nanotubes to carbon black); on the preparation of modified silicate fibres; 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 regulatory area of the mechanics where, since 2011, 12 research contracts have been activated in the CYBER TYRE™ and in the F1®, 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 methodologies 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 Carbon and Water Footprint.

In the world, it is estimated that one billion tyres reach the end-of-life each year. On a global scale, 67% of end-of-life tyres (ELTs) are recovered (Source: WBCSD - "TIP - End-of-Life Tyres"), while in Europe and the United States the recovery stands at 94% (Source: ETRMA 2016 ELT Management figures 2016) and 81% (source: USTMA - 2017 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 guidelines 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 ELTs recovery, in order to promote their recovery 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.

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 aligns 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 Guiding Principles Business and Human Rights of the United Nations, 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.

The undertaking by Pirelli in favour of human rights is dealt with extensively in the Group “Global Human Rights” Policy, which 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 and protection of privacy. Further references to respect for human rights can also be found in other company documents: “Values and the Code of Ethics”, the “Social Responsibility Policy on Occupational Health, Safety and Rights and Environment”, the “Global Health, Safety and Environment” Policy, the “Privacy” Policy, the “Equal Opportunities Statement” and the “Policy on the Sustainable Management of Natural Rubber”. All the documents were communicated to employees in the local language and published on the Pirelli website in multiple languages.

To identify, assess, prevent and mitigate the risks of violation of Human Rights, the Company:

- ensures awareness among its workers through information and training starting from the course for new hires (in this regard, reference is made to the paragraph “Focus: Training on Sustainability and Corporate Governance”);

- 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 (for an in-depth study on the sustainable management of Natural Rubber, and other materials, please refer to the paragraph “Our Suppliers” in this Report);

- is open to cooperation with government and non-government, 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;

- makes available to its Stakeholders a channel dedicated to the reporting, even anonymous, of any situations that constitute or may constitute a risk of violation of Human Rights (in this regard and with reference to the reports received in the last three years, please refer to the paragraph “Focus: reporting procedure - Whistleblowing Policy” in this Report).

In terms of materiality in the corporate value chain, the respect for human rights and labour rights assumes particular importance in human resources and supply chain management.

In 2017, Pirelli carried out an analysis of the risk of violation of human rights on its own premises, in the related supply chain and in the local environment external to Pirelli, asking the main Stakeholders to fill out a specially prepared survey. With regard to the perception of internal risk at the Pirelli offices and in the relative supply chain, the survey was submitted to the function managers and to the Sustainability Managers of the Group’s operational offices, while regarding the perception of risk in the external context of Pirelli the survey was submitted to both the aforementioned Pirelli functions and to the applicable local Non-Governmental Organisations.

The survey asked for an indication of the perceived risk value on a scale from 0 to 3 (0 = no risk, 1 = low risk, 2 = medium risk and 3 = high risk) relative to 35 internationally recognised human rights, deriving from the Universal Convention of the Human Rights of the United Nations and the ILO Declaration on the Fundamental Principles and Rights of Labour.

The consolidation of the feedback received from the Pirelli operations centres, with reference to the internal risk at the Pirelli offices and in the relative supply chain, did not reveal any significant perceived risks (on average, a perception of less than 1).

The consolidation of the feedback received from the Non-Governmental Organisations, with reference to the risk perceived in the local context external to Pirelli, showed, on average, risks between 0.08 and 1.85, with greater recurrence of the Right to equal pay for the same work, the Right to a decent salary, the Right to a safe working environment and Freedom from discrimination.

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.

INTERNAL COMMUNITY

PIRELLI EMPLOYEES AROUND THE WORLD

The Pirelli workforce as at 31 December 2018 - expressed in *Full Time* Equivalent and including agency workers - stood at 31,489 resources (vs. 30,189 in 2017 and 29,787 in 2016), recording a net growth of 1,300 employees compared to the previous year.

BREAKDOWN OF WORKFORCE BY CATEGORY

	EXECUTIVES	CADRE	WHITE COLLARS	BLUE COLLARS	TOTAL
2018	288	1,945	4,643	24,612	31,489
2017	283	1,856	4,630	23,420	30,189
2016	279	1,814	4,561	23,134	29,787

These data include agency workers, corresponding to 0.2% of total workforce in 2016 and to 0.1% in 2017 and 2018.

PERCENTAGE OF EMPLOYEES BY CATEGORY, GENDER AND AGE

2018

	Executives			Cadre			White collars			Blue collars			Total		
	M	F	tot	M	F	tot	M	F	tot	M	F	tot	M	F	tot
<30	0%	0%	0%	3%	4%	3%	24%	33%	27%	28%	27%	28%	26%	27%	26%
30 - 50	48%	66%	50%	65%	74%	67%	60%	53%	58%	59%	66%	60%	59%	62%	60%
>50	52%	34%	50%	33%	23%	30%	16%	15%	15%	12%	7%	12%	14%	11%	14%

2017

	Executives			Cadre			White collars			Blue collars			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%

2016

	Executives			Cadre			White collars			Blue collars			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%

2017 data cover 99.8% of employees; 2016 data cover 96.5% of employees.

BREAKDOWN OF WORKFORCE BY GEOGRAPHICAL AREA* AND GENDER									
	2018			**2017**			**2016**		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
EUROPE	13,077	2,432	15,509	12,670	2,338	15,008	12,416	2,341	14,757
NORTH AMERICA	2,497	503	3,000	2,120	499	2,619	1,744	334	2,078
SOUTH AMERICA	7,577	693	8,270	7,168	671	7,839	6,870	627	7,498
MEA	539	56	595	517	44	561	529	52	581
ASIA PACIFIC	3,247	868	4,115	3,339	823	4,162	3,913	961	4,874
TOTAL	**26,937**	**4,552**	**31,489**	**25,814**	**4,375**	**30,189**	**25,472**	**4,315**	**29,787**

BREAKDOWN OF WORKFORCE BY GEOGRAPHICAL AREA* AND CONTRACT

2018				
	Permanent	**Temporary**	**Agency**	**Total**
EUROPE	14,864	617	29	**15,509**
NORTH AMERICA	2,987	0	13	**3,000**
SOUTH AMERICA	8,099	171	0	**8,270**
MEA	583	12	0	**595**
ASIA PACIFIC	4,109	6	0	**4,115**
TOTAL	**30,642**	**805**	**42**	**31,489**
2017				
	Permanent	**Temporary**	**Agency**	**Total**
EUROPE	13,999	990	20	**15,008**
NORTH AMERICA	2,599	0	20	**2,619**
SOUTH AMERICA	7,469	370	1	**7,839**
MEA	560	1	0	**561**
ASIA PACIFIC	4,138	24	0	**4,162**
TOTAL	**28,764**	**1,384**	**41**	**30,189**
2016				
	Permanent	**Temporary**	**Agency**	**Total**
EUROPE	13,577	1,153	27	**14,757**
NORTH AMERICA	2,055	0	23	**2,078**
SOUTH AMERICA	7,225	257	16	**7,498**
MEA	574	7	0	**581**
ASIA PACIFIC	4,867	7	0	**4,874**
TOTAL	**28,298**	**1,424**	**66**	**29,787**

: **Europe: Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Poland, Czech Rep., United Kingdom, Romania, Russia, Slovakia, Spain, Sweden, Switzerland, Hungary. **North America**: Canada, Mexico, United States. **South America**: Argentina, Brazil, Chile, Colombia. **MEA**: South Africa, Turkey. **Asia Pacific**: Australia, China, Japan, Singapore, Taiwan.*

EMPLOYEES WITH PART TIME CONTRACT BY GENDER

2018			2017			2016		
Male	**Female**	**TOTAL**	**Male**	**Female**	**TOTAL**	**Male**	**Female**	**TOTAL**
137	183	320	174	186	360	202	172	374

Employee flows by geographic area, gender and age

The following data refer to incoming/outgoing employees. The entry and exit rates are calculated by comparing the number of entries and exits of each category to the total number of employees belonging to that category as of 31 December. The disposals and acquisitions of companies or business units, and changes in work schedules from full-time to part-time are not considered.

2018 EMPLOYEE FLOWS BY GEOGRAPHICAL AREA*, GENDER AND AGE: ABSOLUTE VALUES AND RATES

	INCOMING						OUTGOING					
	<30	**30 - 50**	**>50**	**M**	**F**	**Total**	**<30**	**30 - 50**	**>50**	**M**	**F**	**Total**
EUROPE	1,492	1,052	137	2,271	411	**2,682**	866	884	449	1,899	301	**2,200**
	44%	12%	4%	17%	17%	**17%**	25%	10%	13%	15%	12%	**14%**
NORTH AMERICA	1,221	598	29	1,648	200	**1,848**	969	473	20	1,255	207	**1,462**
	76%	47%	27%	66%	40%	**62%**	60%	37%	19%	50%	42%	**49%**
SOUTH AMERICA	565	1,249	196	1,810	200	**2,010**	414	900	231	1,360	185	**1,545**
	32%	22%	24%	24%	29%	**24%**	24%	16%	28%	18%	27%	**19%**
MEA	93	53	2	139	9	**148**	68	33	8	107	2	**109**
	102%	11%	12%	26%	17%	**25%**	75%	7%	47%	20%	4%	**18%**
ASIA PACIFIC	339	296	8	477	166	**643**	328	318	6	550	102	**652**
	24%	11%	9%	15%	19%	**16%**	23%	12%	7%	17%	12%	**16%**
TOTAL	3,710	3,248	372	6,345	986	**7,331**	2,645	2,608	714	5,171	797	**5,968**
	45%	17%	9%	24%	22%	**23%**	32%	14%	16%	19%	18%	**19%**

2017 EMPLOYEE FLOWS BY GEOGRAPHICAL AREA*, GENDER AND AGE: ABSOLUTE VALUES AND RATES

	INCOMING						OUTGOING					
	<30	30 - 50	>50	M	F	Total	<30	30 - 50	>50	M	F	Total
EUROPE	1,196	822	126	1,773	371	**2,144**	580	822	428	1,433	397	**1,830**
	37%	10%	4%	14%	16%	**14%**	18%	10%	13%	11%	17%	**12%**
NORTH AMERICA	934	420	17	1,044	327	**1,371**	555	243	11	655	154	**809**
	63%	41%	20%	49%	14%	**52%**	37%	23%	13%	31%	31%	**31%**
SOUTH AMERICA	702	836	28	1,369	197	**1,566**	397	680	122	1,053	146	**1,199**
	38%	16%	4%	19%	29%	**20%**	22%	13%	17%	15%	22%	**15%**
MEA	80	26	0	103	3	**106**	61	32	3	92	4	**96**
	84%	6%	0%	20%	7%	**19%**	64%	7%	18%	18%	9%	**17%**
ASIA PACIFIC	296	164	5	391	74	**465**	497	628	11	931	205	**1,136**
	17%	7%	7%	12%	9%	**11%**	28%	27%	15%	28%	25%	**27%**
TOTAL	3,208	2,268	176	4,680	972	**5,652**	2,090	2,405	575	4,164	906	**5,070**
	38%	13%	4%	18%	22%	**19%**	25%	14%	14%	16%	21%	**17%**

These data cover 99.8% of employees.

2016 EMPLOYEE FLOWS BY GEOGRAPHICAL AREA*, GENDER AND AGE: ABSOLUTE VALUES AND RATES

	INCOMING						OUTGOING					
	<30	30 - 50	>50	M	F	Total	<30	30 - 50	>50	M	F	Total
EUROPE	1,095	688	58	1,543	297	**1,840**	618	670	346	1,296	337	**1,633**
	36%	8%	2%	12%	13%	**12%**	20%	8%	11%	10%	14%	**11%**
NORTH AMERICA	829	283	5	939	178	**1,117**	563	191	2	630	126	**756**
	69%	36%	8%	54%	53%	**54%**	47%	24%	3%	36%	38%	**36%**
SOUTH AMERICA	630	546	14	1,102	88	**1,190**	476	774	110	1,208	152	**1,360**
	33%	11%	2%	16%	14%	**16%**	25%	16%	15%	18%	24%	**18%**
MEA	102	43	4	121	28	**149**	66	31	5	99	3	**102**
	87%	10%	19%	23%	54%	**26%**	56%	7%	24%	19%	6%	**18%**
ASIA PACIFIC	211	98	0	255	54	**309**	169	116	3	213	75	**288**
	11%	5%	0%	7%	6%	**6%**	9%	6%	5%	5%	8%	**6%**
TOTAL	2,867	1,658	81	3,960	645	**4,605**	1,891	1,782	466	3,446	692	**4,139**
	35%	10%	2%	16%	15%	**15%**	23%	11%	12%	14%	16%	**14%**

These data cover 96.5% of employees.

: **Europe: Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Poland, Czech Rep., United Kingdom, Romania, Russia, Slovakia, Spain, Sweden, Switzerland, Hungary. **North America** Canada, Mexico, United States. **South America**: Argentina, Brazil, Chile, Colombia. **MEA:** South Africa, Turkey, India, Dubai, Saudi Arabia. **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 2017.

Among the countries in which Pirelli operates, those internationally defined as "mature" markets (including Italy) have witnessed the strengthening of HQ structures mainly in the areas dedicated to research and development activities; instead, the internationally defined as "emerging" markets (Romania, Russia, Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, Egypt, Turkey, China) recorded an increase in the workforce mainly in Romania and Mexico, due to an alignment of the organisation and production processes with market needs.

As for Brazil, in addition, the reorganisation process of the production structure continued and led to a downsizing of the workforce especially in the plants of Campinas and Bahia following the crisis situation of the country and the related negative impact in the Tyre sector.

Pirelli does not employ anyone under the age of 15. There are 41 young people aged between 15 and 18 (16 in Brazil, 14 in Germany, 3 in the UK, 8 in Switzerland), 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".

The training course on Diversity has been part of the Group's training offering for years.

Internationality and multiculturalism are the characteristic elements of the Group: Pirelli operates in over 160 countries on five continents and 89.6% of employees (as at 31 December 2018) 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 Executive Vice Chairman and CEO as at 31 December 2018. 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 2018 have in fact experienced at least one inter-company assignment during their professional experience within the Pirelli Group.

Compared to the total number of employees, in 2018 about 66 new inter-group expatriates were recorded, compared with about 54 postings in 2017 and 80 in 2016. Approximately one third of the new postings were destined for the main industrial countries, such as China and Germany.

At year-end 2018, the expatriate population totalled about 190 persons (vs. 195 in 2017 and 227 in 2016), belonging to 19 nationalities and who moved to 24 different Countries on five continents, of which 12% women. 49% of the total expatriate population is made up of employees of foreign nationality.

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 (see the dedicated paragraph “Listening: Group opinion survey”). The results of the survey, conducted in June 2018, were particularly positive with regard to the perception of respect and management of Diversity, which confirms a distinctive feature of Pirelli’s corporate culture, which is also dealt with within the educational offer addressed to employees throughout the Group.

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 2018, 2 reports were ascertained for cases connected to discriminatory attitudes, on which the Company intervened, intervening in one case with a disciplinary sanction, and in the other with specific actions aimed at removing the causes of complaints and aimed at improving the internal control system. For further information on the reports received, please refer to the paragraph “Focus: Reporting procedure – Whistleblowing Policy”.

For the composition of the corporate bodies by gender and Diversity Policies reference is made to the “Report on the Corporate Governance and Share Ownership of Pirelli & C. S.p.A.”, within the present Annual Report, paragraphs “Sustainability and Diversity Policies”, “Board of Directors - *Composition*”, “Board of Statutory Auditors - *Composition*”.

With regard to the subdivision of the workforce by gender, with reference to the three-year period 2016-2018, the data show a substantial stability, with a percentage of women in the total population, which stands at 14.5%. The percentage of female executives remains substantially unchanged, while the percentage of women in relation to managerial positions (executives + cadres) rose from 20.6% in 2016 to 21.6% in 2017 and 22% in 2018, mainly due to the growth recorded within the population of cadres, an important element since the category constitutes a growth area and a landing place for executive positions.

WORKFORCE BY GENDER AND BY CATEGORY - WOMEN'S INCIDENCE

YEAR	EXECUTIVES	CADRES	EXEC+CADRES (= Tot Manager)	WHITE COLLARS	BLUE COLLARS	TOTAL
2018	10.1%	23.8%	22.0%	34.2%	10.0%	**14.5%**
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 by gender in terms of employment contract, the table below shows that also in 2018, a substantial balance was maintained between men and women.

WORKFORCE BY GENDER AND BY CONTRACT

	2018			2017			2016		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
PERMANENT	97.5%	96.4%	97.3%	95.2%	95.7%	95.3%	94.8%	96.3%	95.0%
TEMPORARY	2.4%	3.5%	2.6%	4.7%	4.1%	4.6%	5.0%	3.5%	4.8%
AGENCY	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%

In 2018 the number of parental leaves used by Pirelli employees corresponds to 288 for women and 721 for men.

With reference to the post-maternity/paternity return rate, the Pirelli figure for the total workforce in all the countries where the company is present shows that, in 2018, one year after the maternity and paternity event (which occurred in 2017), 66% of women and 91% of men are still employed at the Company. The reduction in the rate of female return compared to the previous year is mainly due to the increase in maternity events in countries where the rate of return to work is historically lower. It should also be noted that the difference in the data between genders should be considered natural in light of the different socio-cultural contexts in which 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 2018 were Brazil, China, Germany, Italy, Romania, Mexico, Argentina, USA, Russia, France, Spain, UK and Turkey, representing over 3/4 of the total workforce subject to the remuneration policy (executives, cadres and employees). At a methodological level, it should be noted that the pay gaps between men and women were calculated for each Country and at the same weight of positions held, on the base of the "grade" (i.e. the weight attributed to each position on the basis of various factors). 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 and the logic of remuneration markets with special features not comparable with each other.

The average of pay gaps between men and women white collars recorded in these countries is equivalent to 8% in favour of women, compared with 3% in 2017 and 2% in 2016 also in favour of women; for the cadre category it is equal to 3% in favour of men, compared with 1% in 2017 and 2016 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 2% in favour of women for the category of employees (compared to 3% in 2017 in favour of women and 1% in 2016 in favour of women) and 2% in favour of men for the category of cadres (compared to 1% in 2017 and 2% in 2016, both in favour of women);

- Romania, where for the category of employees there is 4% in favour of men (compared to the equal pay of 2017 and 1% in favour of men in 2016) and for the category of cadre there is a 4% in women's favour;

- Brazil, where for the category of employees there is a 1% in favour of women (compared to 1% for men in 2017 and substantial retribution in 2016) and for the category of cadres there is equal pay (compared to 1% for men in 2017 and substantial equal pay in 2016);

- Germany, which showed an average pay gap between men and women of around 2% in favour of men for the category of employees (1% in 2017 and 3% in 2016) and 7% also in favour of men for the category of cadres (compared to 6% in 2017 and in 2016).

With reference to the population of managers, of which women represent 10%, there is an average pay gap of 3% for women (in 2017 it was 11% and in 2016 it was 8% again in favour of women).

With regard to the workers' population, all industrial countries with a significant number of observations were analysed: Brazil, China, Germany, Italy, Mexico, Romania, Russia, Spain, Switzerland, Sweden, Turkey, Argentina, USA and UK. For each country the pay gap between men and women has been calculated. The average, weighted by the number of employees, showed substantial retributive equity.

In particular:

- China presents a difference between average men's salary and average female pay around 9% for men, in line with 2017 and due to the organisational roles currently on average for the male population;

- Brazil has a pay gap of 6% in favour of women;

- in Italy there is a 4% in favour of men, in line with 2017;

- in Romania there is substantial pay equity compared to 2% in 2017 in favour of women.

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.

Pirelli’s inclusive culture towards different skills, as explained in the Pirelli policy on equal opportunities, is implemented by all the Group’s affiliates. Under applicable local laws, approximately 1.4% of total employees in 2018 (in line with 2017 and an increase from the figure of 1.1% in 2016) have some form of disability, net of 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 could 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 genders.

AVERAGE EMPLOYEE AGE BY CATEGORY AND GENDER

2018					
	Executives	**Cadres**	**White collars**	**Blue collars**	**Group Average**
Female	49	44	37	36	37
Male	50	45	38	37	38
Total	50	45	38	37	38
2017					
	Executives	**Cadres**	**White collars**	**Blue collars**	**Group Average**
Female	48	43	37	36	37
Male	50	45	38	37	37
Total	50	44	38	37	37
2016					
	Executives	**Cadres**	**White collars**	**Blue collars**	**Group Average**
Female	48	43	37	36	37
Male	50	45	38	37	38
Total	50	44	38	37	38

These data include agency workers, corresponding to 0.2% of total workforce in 2016 and to 0.1% in 2017 and 2018.

Instead, the following table represents the average seniority of service per professional category and gender: also in 2018, there were no significant differences between men and women.

AVERAGE EMPLOYEE SENIORITY OF SERVICE BY CATEGORY AND GENDER

2018					
	Executives	**Cadres**	**White collars**	**Blue collars**	**Group Average**
Female	13	13	8	6	8
Male	16	15	9	9	9
Total	15	14	9	9	9
2017					
	Executives	**Cadres**	**White collars**	**Blue collars**	**Group Average**
Female	13	13	9	7	8
Male	15	15	9	9	9
Total	15	15	9	9	9
2016					
	Executives	**Cadres**	**White collars**	**Blue collars**	**Group Average**
Female	13	13	8	7	8
Male	15	14	9	9	9
Total	14	14	9	9	9

2017 data cover 99.8% of employees; 2016 data cover 96.5% of employees.

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;
- provision 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 initiatives aimed at respecting cultural and religious diversity (e.g. different and clearly marked diets in canteens, typical cuisine from cultures other than that of the host country etc.);
- "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 of the course "Integrating Perspectives" within the School of Management training offering, aimed at providing participants with tools to train their ability to successfully interact in a global and heterogeneous environment, understanding and integrating diversity and maximising collective results.

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.

The purpose is twofold: on the one hand to attract, retain and motivate 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 2018, 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.

Management in general is the owner of the Annual Incentive Plan (MBO) linked to the achievement of annual economic and financial objectives of the Group and/or Business Unit and/or Region and/or function.

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.

At the end of 2018, the sustainability objectives that will be part of the 2019 MBO are being defined.

The return to the stock market at the beginning of October 2017 meant that the Company's medium-long term objectives should be reviewed for the three-year period 2018-2020. Consequently by resolution of the Board of Directors of 28 July 2017, the 2016-2018 Long Term Incentive LTI 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 one 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 Industrial Plan. The Plan, in line with international best practices, includes a Sustainability objective common to all Group Management.

The General Remuneration Policy, approved by the Board of Directors of Pirelli, establishes the principles and guidelines to which Pirelli adheres in order to determine and monitor the application of the remuneration practices relating to the Directors vested with particular delegations/offices, to the Managing Directors, to Executives with strategic responsibilities, to Senior Managers and to other Group Executives.

Specifically, the Guidelines of the remuneration for the abovementioned management figures will 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 objective common to all Group Management.

For updates and details on the Remuneration Policy and related sustainability indicators, refer to the Governance section of the Pirelli website, “Remuneration” sub-section.

EMPLOYER BRANDING

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 2018, 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 important universities in the various countries.

In Italy, Pirelli actively collaborates with Polytechnic University of Milan, Polytechnic University of Turin, Bocconi University, UCSC Catholic University and University of Turin. 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 organises Careers Days, round tables, Job Fairs and company presentations.

Among the channels of Employer Branding used by Pirelli, the web plays an important role: on the pirelli.com website, the Company provides a channel dedicated to those wishing to propose their candidacy for specific open positions, as well as giving ample information on the company history, management models adopted, objectives and results achieved; targeted channels - including LinkedIn and the University portals - are also chosen by Pirelli to publish their job offers.

DEVELOPMENT

Performance Management

Through the Performance Management (PM) process, Pirelli defines, observes and evaluates the contribution of each employee in terms of results and behaviours. This is a fundamental opportunity for the development and orientation of each one in compliance with a set of predefined and critical indicators for the success of people and therefore of the Company.

A key element of the process is the transparent and open dialogue between the boss and the employee, from the phase of sharing individual objectives to that of evaluating the results achieved and the behaviours expressed.

In 2018 Pirelli introduced a new Performance Management process supported by a completely renewed and *user-friendly* IT platform accessible from all company devices. These are the main new features:

- the process and the platform are open all year, so as to better support the continuity of dialogue between boss and employee and alignment on priority and focus of the performance;
- an assessment model based on two dimensions: the what (results) and the how (key behaviours);
- the introduction of a set of six *key behaviours* equal for the entire company population and considered key to the achievement of the company's strategic objectives, namely- *Accountability, Knowledge sharing, Forward thinking, Agility, Cross-functionality, Drive for results.*

The introduction of the new model has been accompanied by training sessions aimed at all employees and other sessions for managers will be provided at the beginning of 2019 in view of the feedback meetings between boss and employee.

The Performance Management process involves all staff worldwide (executives, cadres and employees) and in 2018 saw a redemption rate (that is, 2017 assessment sheets completed compared to the total number of sheets opened) equal to 98.5%, of which the redemption rate for women was 97.7%, while that for men was 98.8%.

The percentages of completion by level are shown below:

Executives	Cadres	White collars
100%	98.5%	98.3%

In support of the quality of the Performance assessments, within the Pirelli process includes the so-called *Calibration Meetings,* i.e. meetings organised by the managers of the individual functions, Business Unit and country, with their first reporting and with the Human Resources managers of reference, during which the evaluations of the persons belonging to a specific organisational unit are put into common use with the aim of ensuring a shared and balanced distribution of the assessments, to guarantee a process that is as coherent, homogeneous and objective as possible.

Talent Development

The Talent Development process aims to ensure business continuity by supporting the identification and development of people with the potential to cover the positions of greater complexity, those who already hold strategic positions and so-called *critical know-how* (that is, people with key skills that are difficult to replace).

In 2018, an analysis and redesign of the entire Talent Development process was carried out globally. A pilot study was conducted on a sample of talents, aimed at defining the tools to be used when fully operational from 2019. In 2018 the talent development process identified in 2017 continued.

In this mapping 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, over 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 global *succession mapping* process at the Region and Headquarter levels was finally activated in a structured way.

TRAINING

All Pirelli affiliates have adopted the Training@Pirelli training model, organised, structured and equipped system to respond to “Group” needs as well as any needs that may emerge locally at any time from the various affiliates.

The Pirelli training offering is based on one hand on the strategic priorities of the organisation and the different functions, and on the other on the needs that arise each year from the Performance Management process.

Also in 2018, 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 Organisation in its stakeholders"*, award dedicated to the most important *Corporate Universities* worldwide.

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 provided centrally and/or locally, while Local Education is managed and implemented in the individual countries to meet the specific local needs.

Professional Academies

The Pirelli Professional Academies cater to the entire corporate population with the aim of providing 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 organisation.

There are ten Academies: Product Academy, Manufacturing Academy, Commercial Academy, Quality Academy, Supply Chain Academy, Purchasing Academy, Finance and Administration Academy, Planning & Control Academy, Human Resources Academy and 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 new digitalisation processes are also increasingly recurring and transversal to the Academy training model.

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, provide training at central, regional and local level, or through webinar sessions. 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 2018, the Professional Academies offered 231 courses globally.

Among the programmes provided to support the *digital transformation*, the training course for two new professional roles created within all the plants of the group, namely the smart manufacturing officers and the smart manufacturing champions, is highlighted.

School of Management

The School of Management (SOM) is the training structure dedicated to the development of the management culture within Pirelli. Its target are the populations of Executives, Talents, Middle Management/Senior Professionals and Recent Graduates/Juniors.

The focus of management training is calibrated and outlined every year based on the business challenges that the Company is required to face. The managerial skills training model was revisited in 2018 in order to make the training offer consistent with the six Key Behaviours identified in the global performance management system, to which a paragraph is dedicated in this report. In addition to the classroom training activities, 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.

More than 8,000 training days were provided within the School of Management during 2018. The participation in the Warming Up training course, dedicated to the new graduates of the entire group, involved about 500 young colleagues in training activities at various Pirelli offices.

Local education

The training provided at the local level responds to the specific training needs of the Pirelli affiliates operating in the different countries, and is addressed to the entire 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 at seminars on issues of welfare and diversity at the Company.

Local training is an important tool for covering content related to the implementation of new regulations or agreements. This is the case, among others, of the online training campaign aimed in 2018 at the staff of all Pirelli offices in Europe, concerning the provisions concerning the Protection of Personal Data (“GDPR”).

Similarly, 2018 saw the launch of an intense training campaign for all Italian employees on health and safety issues, in compliance with the State-Regions Agreement of December 2011 for the training of workers pursuant to Article 37, subsection 2 of Legislative Decree no. 81 of 9 April 2008. And always expanding the local training in Italy, courses particularly well-regarded and well-attended in 2018 were:

- “Basics of employee management”, dedicated to supporting colleagues who have recently become managers in the new role;

- “Parents at work”, an opportunity for exchange in support of colleagues in the new parental role.

Focus: Training on Sustainability and Corporate Governance

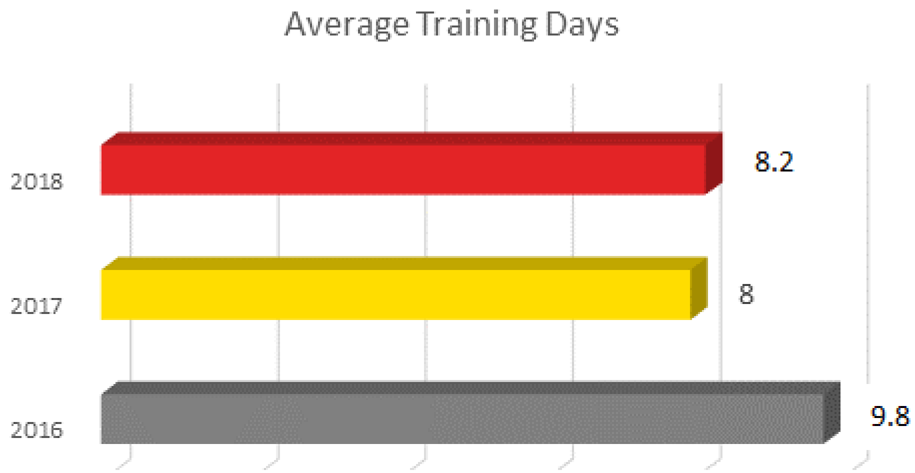
Also in 2018, training continued on the Pirelli Sustainable Management Model, with update on the state of the Company’s Sustainability Plan.

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 the attention of new recruits to Group Sustainability Policies and related commitments, expressed through the “Code of Ethics”, the “Code of Conduct”, the “Equal Opportunities Statement”, the “Social Responsibility Policy for Occupational Health, Safety and Rights and Environment”, the “Health, Safety and Environment” Policy, “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.

As occurs every year, in 2018 Pirelli also dedicated a professional training session dedicated to the Group’s Sustainability Managers. The “Pirelli Sustainability Manager Workshop 2018” was held in November using a webinar format. 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 virtual session of 2018 was mainly dedicated to providing an update with respect to the targets of the Sustainability Plan in progress, and focused on the deepening of specific issues, including the sustainable management of the natural rubber supply chain.

Pirelli training performance

In 2018 the total training provided amounted to 8.2 days of average training per capita, in line with the performances recorded in the previous year and with the target set in the Group’s strategic plans (>= 7 days of average training per capita).



Following is the subdivision of 8.2 average training days by gender and by organisational level:

<table>
<tr><th>GROUP</th><th colspan="2">WOMEN</th><th colspan="2">MEN</th></tr>
<tr><td rowspan="3">8.2</td><td colspan="2">7.8</td><td colspan="2">8.4</td></tr>
<tr><th>EXECUTIVES</th><th colspan="2">CADRES AND WHITE COLLARS</th><th>BLUE COLLARS</th></tr>
<tr><td>2.6</td><td colspan="2">4.6</td><td>9.2</td></tr>
</table>

Data at Group level and by category calculated with average headcount for 2018; data by gender calculated with actual headcount as at 31/12/2018.

The high level of training is confirmed for both genders, with a figure of 0.6 for men to be correlated with the clear prevalence of the male gender in the working population.

In turn, the investments made for the different segments of the company population (blue-collar workers, cadres and white-collar workers, executives) are in line with those of the past years and balanced in proportion to the overall training strategies: the strong focus on quality, efficiency and on digitalisation in factories, in addition to the usual attention to health and safety issues, in fact determine large investments in the working population.

Furthermore, 96.2% of employees (considering the average workforce of the year) participated in at least one training activity during the year.

Therefore, the total 2018 training investment, net of exceptional increases over the years (due, for example, to the activities of start-up factories or with significant numbers of hiring employees such as Mexico and Romania, to specific campaigns of "re-skilling" in the face of technological changes in some factories, etc.) remains substantially in line with that of previous years.

On a global level, the Professional Academies cover the most significant portion (62%) of the training activities on the total, and this relates to, among other things, the training and continuous updating of technical skills related to innovation processes which are strategic for the company. In addition, the Health, Safety and Environment issues maintained a significant share also in 2018, confirming its relative weight equal to 8% of the total training provided at Group level.

Consistent with the great *digital transformation* processes undertaken by the company, the training processes will also be progressively involved in the digitalisation of content related to both basic and innovation skills, so as to allow a more widespread, fast and engaging use from 2019 will therefore increase the investment in *online* training, currently very low in favour of the clear prevalence of on-the-job training and especially classroom training.

LISTENING: GROUP OPINION SURVEY

In the years 2013-2016 Pirelli consolidated the “My Voice” climate survey as a tool for actively listening to its employees around the world, on the basis of which it set up group and local improvement plans.

In order to guarantee adequate time for defining and implementing specific action plans by Country/Function/Business Unit, meeting the needs emerging from the 2016 survey, the My Voice process has been redesigned in 2017 with respect to the frequency of completion of the survey (passed from annual to a listening period that will occur every year and a half), and in the structure of the questionnaire itself.

In June 2018, the fifth Global My Voice survey was administered to all Pirelli employees worldwide through an online questionnaire, which could also done on mobile devices. A questionnaire which was shorter (38 questions in 2018 compared to 64 in previous surveys) and easier to fill out encouraged the maintenance of a participation rate of over 80% in this fifth edition, at 81% (82% for the Staff and 80% for the blue-collar workers).

The management of the questionnaire was attributed to a third party, observing the anonymity of the respondents. Pirelli then received the results in aggregate form. The 2018 edition of MY VOICE was structured on the Sustainable Engagement Model, highlighting to what extent the working environment is engaging for workers, and whether the engagement of people is sustainable over time.

More specifically, the Sustainable Engagement model is based on three dimensions such as energy, engagement and qualification, and is based on the thesis that a work environment that enables individual performance, providing the resources necessary for people to do your job well, which promotes individual well-being and the ability to “go further” in your work, which strengthens the alignment of people with the objectives of the Company, and therefore is an environment that creates the conditions for an engagement sustainable over time. The higher the Sustainable Engagement, the more likely it is that people’s engagement will be lasting.

In 2018 the overall result of the Global Pirelli Employees’ Sustainable Engagement stood at 75%: on a scale of 1 to 5, the answers to the 6 questions regarding Sustainable Engagement were therefore positive for 3 out of 4 colleagues in the world.

The 2018 survey confirmed Pirelli as a company attentive to the inclusion of diversity, so much so that it is well above the market benchmarks on this issue.

Also the sense of belonging and the pride of working for Pirelli are confirmed among the highest indices, together with the sense of responsibility (accountability) of their results. Also in the context of professional development, Pirelli is above the average of manufacturing companies.

The survey then highlighted the areas to be monitored to ensure lasting engagement over time, linked to the level of information on company results, to “how much” the working environment allows expression of their ideas on innovation, to the sense of personnel actualisation and their “energy level”. These results will constitute the guidelines for action plans that will be drawn up at the group level and at individual subsidiaries to continue the constant improvement path.

The results of My Voice 2018 are not comparable with those of the previous survey, as they are based on different measurement models (“Sustainable Engagement” in 2018 as against the Trust Index in the previous surveys). An exercise conducted on a qualitative level and globally on 21 of the 38 questions similar to those present in the previous questionnaire, however, showed a positive improvement trend for 18 out of 21 questions.

During the last quarter of 2018 and in January 2019 the results were returned to employees, both globally and locally, in offices and factories. In 2019 the definition, collection and monitoring of the specific improvement plans by Country/Function is envisaged until the next survey, scheduled for 2020.

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 regulatory, social and cultural environments in which the affiliates operate. In any case, they implement the shared guidelines at Group level, so that all the offices of the world are progressively committed to locally adopting activities, tools and welfare processes aimed at creating collaborative environments and ensuring adequate support for the needs of a personal life.

Welfare activities activated at Pirelli affiliates around the world are attributable to four macro areas of action:

- lifestyle (e.g. health care, information and awareness-raising campaigns);
- family support (e.g. scholarships, summer camps for employees’ children, inter-company crèche);

- free time (e.g. open days, sporting and cultural activities);
- working life and working 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. As an example, some of the welfare activities activated at Headquarters and at the various local affiliates will be presented below.

Historically, Pirelli provides infirmaries at all the production units, where health workers and specialist doctors are available to all employees during working hours. These facilities provide advice on extra-work health problems, as well as first aid and periodic health surveillance activities. The specialised services performed in Pirelli's outpatient and nursing facilities around the world amounted to over 280,000 in 2018 alone (of which around 22,000 were provided at the historic headquarters in Milan Bicocca).

In the course of 2018 "Pirelli Smart Way" went into operation, a project that gives the opportunity to all the staff of Milano Bicocca to use "smart working", or to provide their work partly outside the offices, following agreement with their manager and in compliance with the rules defined by the Company. The Smart Workers at Bicocca in 2018 carried out a total of 12,226 days of Smart Working, taking advantage of the opportunity offered by the company to manage their work activities with greater autonomy, responsibility and flexibility, saving time and commuting costs, and simultaneously balancing company needs with personal needs. In 2018 it was decided to launch the "Pirelli Smart Way" in an experimental phase within the Contact Centre in the Italian Market. The training activities conducted during the month of December 2018 will allow colleagues in this area who have asked to access the Smart Working project from January 2019.

Similar Smart Working Projects are active at various Group locations: at Pirelli USA (New York, Rome, Southfield, Los Angeles and the sales force in the field), at the headquarters in São Paulo, Brazil, Paris and Craiova (Romania).

To support the work-life balance and in particular family support, in Italy in 2018, the "Bambini in Bicocca" (Children at Bicocca) project continued, guaranteeing babysitting and kids club service for employees' children of school age (5-10 years) during school holidays. Just in 2018 about 160 children were hosted within the project.

Similarly, in many of the group's venues, recreational events are organised periodically dedicated to the families of employees and also open to the local community; think of the Mexican initiative "Mama Pirelli" or the now traditional German working day dedicated to diversity.

Multiple campaigns to prevent and raise awareness of a healthy lifestyle, including the "Nutrition workshop" conducted in Romania or the Brazilian project "Faz Bem" similar to the "#sentirmibene" campaign launched in Italy at the end of 2014 and which is organised every year in a programme of conferences and initiatives aimed at promoting healthy lifestyles.

Moments of inclusiveness and sharing characterise 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 programme 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.

With regard to the Italian context, among the welfare initiatives we highlight People Care+, the conversion programme of the Result Award in welfare services for the employees of the Italian offices receiving the Result Award. The programme was made possible thanks to recent Italian legislation which provides for tax relief with a 10% substitute tax on the sums paid as a performance bonus, against the improvement of the company performance indicators defined in the company supplementary contract. Thanks to the supplement paid by the company equal to 12% of the amount converted and thanks to an intense awareness and communication campaign, 2018 (the first pilot year of the initiative) saw an adherence above the average of the applicable benchmark.

INDUSTRIAL RELATIONS

The Industrial Relations policy adopted by the Group is based on respect for constructive dialogue, fairness and roles. 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, with active participation on the part of the union and workers. In fact, 77% 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/programmes aimed the improvement of the activities carried out to safeguard the health and safety of employees.

In compliance with the principle of constructive and timely dialogue with employees, in all cases of corporate reorganisation and restructuring, workers and their representatives are informed in advance, with deadlines that vary from Country to Country in full compliance with local legislation, current collective agreements and trade union agreements.

In 2018, the Industrial Relations activities achieved important negotiating results. Multiple collective agreements were renewed, without any conflict, in Brazil, Argentina, Mexico, Germany, Romania and Turkey.

During the year, the Company has also operated internationally to rebalance the level of employment, aligning it with the volume requirements linked to the market, however reporting a positive employment balance for the Group at the end of 2018 compared to 2017.

Pirelli increased its workforce in Romania, Mexico, 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, research progress and other matters concerning the Group.

The agreement establishing the EWC 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, leave, association and negotiation, equal opportunities and non-discrimination, bans on child and forced labour

Governance to protect Human Rights and Labour is the subject of Pirelli's Code of Ethics and specific Policies adopted by the Company, in particular the "Social Responsibility Policy for Health, Safety and Rights at Work, Environment", the "Global Human Rights" Policy and the "Health, Safety and Environment" Policy. All the aforementioned Policies are public and have been communicated in the local language to employees. Moreover, from 2004 Pirelli has adopted by the requirements of Standard SA8000® as a reference tool for managing Social Responsibility at its Affiliates and along the supply chain.

The Management of Diversity and Equal Opportunities, and responsible management of the supply chain in the field of human rights and labour are the subject of specific paragraphs in this Report, to which reference should be made for further details.

The Pirelli approach has always promoted 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 situation in each country. The use of all holiday days, as a right of every worker, does not have any restrictions and the period is generally agreed between employee and company.

In addition to the trade union dialogue and coordination between the Headquarters and local functions, Pirelli verifies the application of the provisions on the respect of human and labour rights to its affiliates through periodic audits performed by the Internal Audit Department, in compliance with a three-year auditing plan to cover all the Company's sites. Normally every audit is carried out by two auditors and takes around 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. Based on the results of these audits, an action plan is agreed between the local managers and central management, with precise implementation dates and responsibilities and follow-up verification.

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 purpose and procedures by the applicable central functions, in particular Sustainability, Purchasing, Health and Safety and Industrial Relations.

Focus: Internal audits

Year	Countries
2014	Italy, United Kingdom and China
2015	Mexico, Russia (Voronezh plant) and United Kingdom
2016	Germany, Russia (Kirov plant) and United Kingdom (follow-up)
2017	Argentina, Brazil (Campinas and Feira de Santana plants), Mexico, Romania and USA
2018	France, China (Yanzhou plant)

The non-conformities emerged as a result of the audits performed in 2018 were subject of the action plans agreed between the local managers and central management, and will be subject to follow-ups in 2019 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 2018, as in previous years, the level of work and social security litigation at Group level remained low. The level of litigation remains high in Brazil, as in previous years, to the point of representing more than 80% 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 other multinational companies operating there. Labour lawsuits are generally initiated when an employment contract is terminated, and they usually involve the interpretation of regulatory 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 the precise percentage of union membership at Group companies, since this information is not legitimately available in all countries where Pirelli has a presence.

However, it is estimated that more than 40% of Pirelli employees are members of a trade union. As to the percentage of workers covered by collective agreement, in 2018 it stood at 77% (vs. 76% in 2016). This figure is associated with the historical, regulatory and cultural differences between each country. Collective agreements to be renewed in 2018 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 at 1 April 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 Benefit Obligations” and “Personnel Costs”.

The social benefits recognised by Pirelli in favour of employees (including life insurance, invalidity/disability insurance and additional parental leave) are generally recognised for all employees, regardless of the type of permanent, fixed-time or part-time contract, in compliance with company policies and local 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. The reference tool since 2004 is also the SA8000® standard. In particular, the “Health, Safety and Environment Policy” makes 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 programmes 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 organisation in an ongoing programme of training and information, aimed at promoting a culture of safety at work;

- promote information and awareness-raising on health and safety issues;
- provide its employees with 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” 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.

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). The occupational safety management system was developed in compliance with procedures and guidelines elaborated centrally in order to consolidate a “common parlance” that guarantees sharing, alignment and effective management in the Group. Following the certification obtained by the Jiaozuo plants in China and Rome in the United States, at the end of 2018 all the production plants were certified according to the OHSAS 18001:2007 Standards.

In 2018, the 10th edition of the *Pirelli Health, Safety and Environment Global Meeting* was held. The annual meeting took place at the Pirelli production site in Merlo, Argentina. 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.

At local level, in each individual production unit, periodic meetings are held with workers’ representatives (Health & Safety Committee), with the aim of illustrating, on the basis of the Management System, the activities carried out and those planned and to provide the results of workplace risk assessments.

Focus: health and safety objectives

Target year	Description of Objective	Update 2018
2020	Reduction in the Accident Frequency Index by 87% compared to 2009 figure.	*Frequency Index 2018: 0.29, in line with that of 2017, with a reduction of 81% compared to 2009*
2014-2020	Global implementation of the “Excellence in Safety” programme	*Continuation of the programme in the factories on the basis of the work plan. Development of tools to monitor and support the programme.*
2017-2020	Completion of integration of Health, Safety and Environment KPIs for the sale/commercial/equities areas;	*Integration of systematic data collection and monitoring.*

Safety culture

In this context, the “*Zero Accidents Objective*” represents a precise and firm corporate position. 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. This approach, together with the involvement and continuous internal dialogue between management and workers, has led to a sharp decline in injury rates.

In support of the management model outlined above, in 2013 the Company signed an agreement with DuPont Sustainable Solutions for the global implementation of the “Excellence in Safety” Programme. The Programme began in 2014, extending gradually in 2016-2018 to all production sites of the Group. A specific Steering Committee, chaired by the Operations General Manager, monitors the progress of the programme.

As part of the collaboration with DuPont Sustainable Solutions, Pirelli in 2018 continued to develop the theme of prevention of psychosocial risks and work-related stress. The most important areas of intervention of the “Excellence in Safety” Programme are in fact related to the improvement of the governance of safety, 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. On this issue, during the two-year period 2014-2015 Pirelli joined the European Agency for Health and Safety in the Workplace (EU-OSHA) “*Together for the prevention and management of work-related stress*” campaign.

The sharing of the Safety Culture was also supported by the regular newsletters like the *Safety Bulletin*, and the sharing of significant events through the traditional channels of internal communication.

Safety training

Around 8% of the total training provided by Pirelli in 2018 addressed occupational health and safety issues. In addition to safety training offered locally at every Pirelli location (illustrated previously in the paragraph dedicated to Training), special mention should be made of Group activities and projects, which simultaneously target several Countries and which allow 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.

Monitoring of health and safety performance and main indicators

Alongside establishing specific guidelines and procedures for implementing management systems, Pirelli uses the web-based Health, Safety and Environment Data Management (HSE-DM) system, prepared 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.

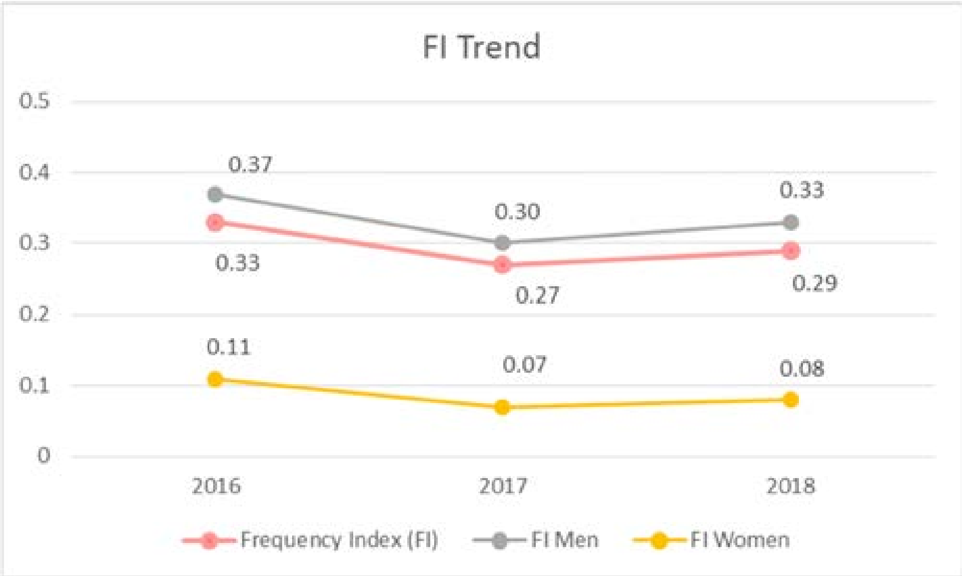
The HSE-DM system collects all the information related to accidents and to the particular situations that occurred in factories, assembly units, sales centres and warehouses directly managed by Pirelli. All factories have access to information on the most significant accident or near-injury cases through a system called *Safety Alert;* in turn, the plants conduct an internal analysis of the verification of the existence of conditions similar to those that caused the accident or the near-accident and identify any corrective actions. By using this system, every site is able to analyse the solutions adopted by other plants in order to identify and apply the most effective corrective actions.

The focus on *Leading Indicators* was also further developed, namely measuring what preventive measures should be implemented and how this should be done, without prejudice to the monitoring of the *Lagging Indicators*, namely reactive indicators such as the number of accidents and their frequency index.

The performances reported below are for the three-year period 2016-2018 and cover the same perimeter of the Group's consolidation.

The 2020 target in the Sustainability Plan is for a reduction in the Frequency Index of 87% compared to 2009. In 2018, Pirelli registered an accident **Frequency Index (FI)** of 0.29, in line with the figure from 2017, with a reduction of 81% compared to 2009. The most representative injuries concern events involving contusions, cuts and fractures of the upper limbs.

For 2018, in continuity with the previous financial years, the injury rate index for women was decidedly lower than the value relating to men, also in relation to the fact that the female population is generally engaged in activities with a lower risk than those of the male population. The graph below shows the trend of FI values by gender over the last three years:

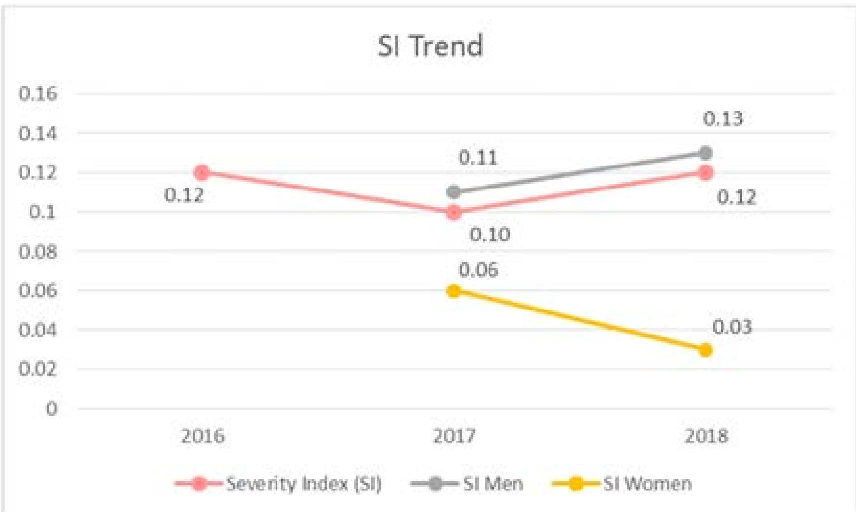


FI = number of injuries/number of hours effectively worked x 100,000

The following table summarises the distribution of the 2018 Frequency Index by geographical area:

	Europe	North America	South America	MEA	Asia Pacific
Frequency Index (FI)	0.39	0.20	0.31	0.27	0.02

The injury **Severity Index (SI)** in the Group in 2018 was 0.12, in line with the 2017 figure.



SI = number of days of absence, starting from the first day after the accident/number of hours effectively worked x 1,000

The following table summarises the distribution of the 2018 Severity Index by geographical area:

	Europe	North America	South America	MEA	Asia Pacific
Severity Index (SI)	0.15	0.17	0.11	0.04	0.01

In the case of both the Frequency Index and the Severity Index, the Asia Pacific area performed better than the other geographical areas in which Pirelli operates, characterised in any case by years of constantly decreasing rates.

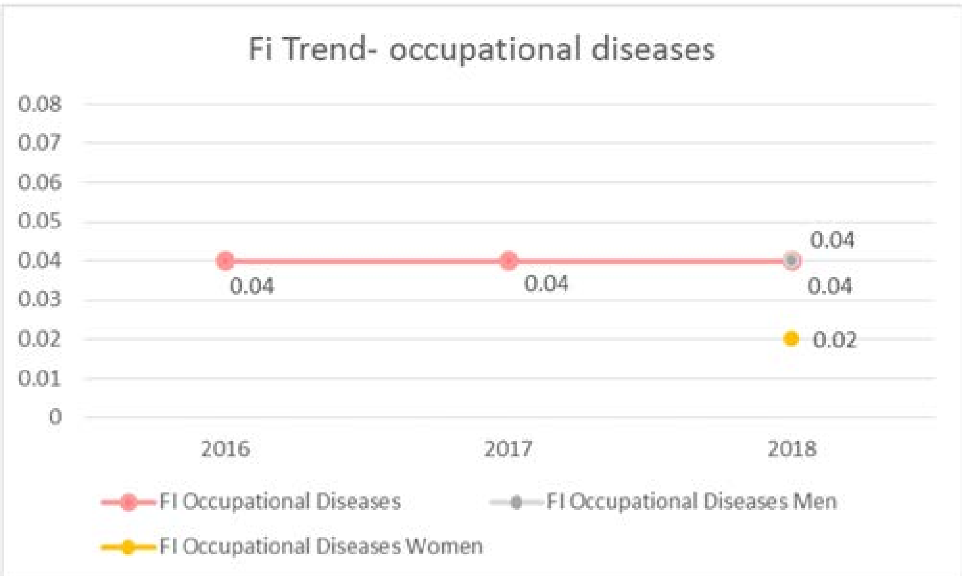
With reference to commuting accidents (not included in the calculation of the FI and SI indices mentioned above), the following tables show the total number registered by the Group in the last three years and the distribution by geographical area of the cases in 2018.

	2016	2017	2018
Commuting accidents	137	108	121

	Europe	North America	South America	MEA	Asia Pacific
Commuting accidents	30	42	49	0	0

Within the production process there were no activities with a high risk or high incidence of occupational diseases.

The Frequency Index for occupational diseases in the three-year period 2016-2018 stands at 0.04.



FI occupational diseases = number of occupational diseases/number of hours effectively worked x 100,000

The following table summarises the distribution by geographical area of the Frequency Index for occupational diseases in 2018:

	Europe	North America	South America	MEA	Asia Pacific
FI Occupational illnesses	0.03	0.00	0.10	0.00	0.00

With regard to accidents for agency workers, the following tables show the number of accidents recorded in the last three years and the distribution of the injury frequency index of 2018 by gender and, subsequently, by geographical area:

	2016	2017	2018
Injuries involving agency workers	11	3	8
FI agency workers (Men)	n/a	1.19	1.02
FI agency workers (Women)	n/a	0.00	0.00

	Europe	North America	South America	MEA	Asia Pacific
Injuries involving agency workers	8	0	0	0	0
FI agency workers	15.05	0.00	0.00	0.00	0.00

The Accident Frequency Index for employees of suppliers operating at the Group's production sites[27] is equal to 0.18. Below are the data for the last three years and the distribution by geographical area of the cases in 2018.

	2016	2017	2018
FI contractors	0.35	0.19	0.18

	Europe	North America	South America	MEA	Asia Pacific
FI contractors	0.15	0.11	0.28	0.00	0.00

[27] The figure covers all the Group's production sites, with the exception of the Izmit site for the relative non-significant dimensions.

Fatalities

	2016	2017	2018
Fatal accidents Pirelli employees	0	1	0
Fatal accidents contractors	0	0	0

Focus: towards the "Zero Accident Objective"

Seventeen Pirelli manufacturing plants were named "sites of excellence" in 2018, since no employees were injured there during the year:

Unit	Industrial sites
Factories	Kirov, Rome, Jiaozuo, Slatina Motorsport, Bicocca MIRS, Breuberg MIRS, CMP
Assembly unit	Sorocaba, Hurlingham, Sao Jose dos Pinhais, Goiana, Didcot, Ibirite
Sales centres	Dackia, AGOM
Logistics - TLM	Feira de Santana and Santo Andre

Health and safety investments

In the three-year period 2016-2018, investments in health and safety by the Group exceeded €37 million, of which over €17 million was invested in 2018.

The investments made targeted improvements on machines and plant and, more in general, the workplace environment as a whole (including improvement of microclimate and lighting conditions, changes in layout for ergonomic improvement of activities, measures to protect the healthiness of the infrastructure, etc.).

EXTERNAL COMMUNITY

INSTITUTIONAL RELATIONS OF THE PIRELLI GROUP

The objective of the Institutional Relations Department is to create corporate value through the management of structured relationships with the Stakeholders of reference in all the countries in which Pirelli is present.

Pirelli's activities are underpinned by criteria of maximum transparency, legitimisation and responsibility, both with regard to information disseminated in public offices, and to relationships managed with institutional interlocutors in line with the Code of Ethics, the *Institutional Relations - Corporate Lobbying Policy* and the Group *Anti-Corruption Compliance Programme* (documents published on the Pirelli website) as well as in line with the principles of the *International Corporate Governance Network (ICGN)* and in compliance with the laws and regulations in force in the countries where Pirelli operates.

In the area of institutional relations, Pirelli acts above all via active monitoring and in-depth analysis of the institutional and legislative context, as well as identifying the applicable Stakeholders. The activity of Institutional Relations also includes an in-depth analysis of the global political and economic dynamics, linked to the development of the main topics of corporate interest, and benefits from collaborations with selected think tanks of international prestige. Among these are the collaborations with the Institute for International Policy Studies, the Institute for International Affairs, the Trilateral Commission and the Aspen Institute.

At an international level, Pirelli interacts with the main interlocutors present in the countries in which it operates with its own 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 the promotion of the business. Moreover, among the various instruments of "economic diplomacy", in addition to the promotion of bilateral initiatives, Pirelli is particularly active in certain Business Councils, among which the chairmanship of the China Business Forum (BFIC), which it has held since December 2015, stands out. The BFIC is a permanent forum of dialogue between the *business communities* of the two countries set up under the aegis of the Italian Ministry of Economic Development and the Chinese Ministry of Commerce. During 2018, as part of the BFIC, Pirelli continued to pursue activities to promote bilateral dialogue and initiatives aimed at encouraging collaboration between the business communities of the two countries. In particular, as the co-president of the BFIC and in collaboration with the relevant institutions, the BFIC has promoted a series of initiatives aimed at supporting bilateral collaboration, including the 5th meeting of the BFIC, held in Shanghai on the occasion of China International Import Expo in the presence of institutional representatives of both countries, and the Forum dedicated to SMEs, held in two major Chinese provinces and which saw the participation of local institutional leaders and Italian and Chinese companies.

As proof of the Group's continued commitment to strengthening relations with the countries in which it operates, Pirelli took part in official visits in 2018 with institutional representatives in Italy and abroad. In this context, a series of bilateral meetings could be held, aimed at deepening the Group's industrial and commercial issues with significant institutional impacts. These include representatives of the US, British, Chinese, Turkish and Russian governments.

In China, the Group is also committed to enhancing relations with local institutional interlocutors, particularly in areas where it is present with industrial plants, such as the Shandong Province. Initiatives such as the seminar in favour of economic cooperation with the Shandong Province, visits to the Milan Headquarters of the Governor of Shandong Province and the Chinese Minister of Science and Technology accompanied by the Minister of Education, University and Research of the Republic of Italy, have fostered dialogue with the institutions both at the local level and at the national level.

As part of the leveraging 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, the Organisation for International Investment, and the Eurogrowth initiative of the Atlantic Council. Pirelli also maintains its Board membership in the Foreign Policy Association.

Also in Brazil, Pirelli continued to celebrate the country's strong links with Italy, promoting, among others, meetings with institutional representatives. Pirelli also maintains relations with local institutions to protect its industrial sites, distributed among the states of Sao 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, the protection of the territory and the promotion of culture.

In the European context, one significant activity 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 plant. Among the activities carried out in 2018, during the state visit of the Romanian President in Italy, Pirelli participated in the Economic Forum dedicated to the promotion of bilateral economic relations.

As part of its relations with Turkey, the Group promotes a constant dialogue with the country's institutional representatives to accompany industrial activities and keep the monitoring of the country's economic and political environment alive. In this regard, in February Pirelli, together with the heads of the main Italian companies present in Turkey, took part in a meeting with the Turkish President and certain Ministers on a state visit to Italy.

In Russia, Pirelli promotes dialogue with institutional interlocutors in order to support the Group's industrial and commercial activities in the country. In 2018, the Italian Business Council was established in Russia, the chair of which was entrusted to Pirelli. The Group also participated in the twenty-second edition of the St. Petersburg International Economic. Finally, Pirelli participated in the Italo-Russian Business Forum in Rome, organised in the margins of the Italian-Russian Council for Economic, Industrial and Financial Cooperation.

Relations with European Institutions also focus on consolidating relations with Stakeholders of reference and monitoring legislation. The ongoing dialogue and discussion with the EU Commission, the Council and the European Parliament concern a wide range of matters of corporate interest; industrial policy, research and innovation, energy and environmental policies, transport and mobility, technical regulations, domestic market and international trade. At the various stages of drafting and formulating European legislation, Pirelli represents Group interests among EU Stakeholders. The Pirelli Group is enrolled with the European Registry for Transparency, which was instituted by an inter-institutional agreement between the European Parliament and the European Commission.

In **Italy**, the Group continues to interact with a system of relations that involve the main institutional bodies, both central and local. The relations with the Ministry of Foreign Affairs and International Cooperation are particularly important in both central and peripheral areas, with which the information activity is constant with respect to Pirelli's global presence to support the enhancement of the interests of the country system abroad. To mark the Day of the Republic, Pirelli exhibited its coloured tyres, produced for the occasion in the special "Tricolour" version, in the Embassies of the countries where industrial plants are present. The Group's relations with the Directorate General for internationalisation policies and the promotion of exchanges of the Ministry of Economic Development, in particular aimed at coordinating the activities of the Italian China Business Forum, are also distinguished. During the year, Pirelli also supported various initiatives to raise awareness on road safety and in favour of cultural promotion. These include the collaboration with the State Police for the realisation of the "Together for Safe Driving" event, hosted in the Auditorium of the Milan Bicocca office.

In Italy, the Group is also always engaged in customary in-depth analysis of institutional importance concerning, in particular, issues relating to the Group's industrial presence; the promotion and strengthening of international relations in the countries where the Group operates with industrial sites; the analysis and in-depth study of the impacts related to the regulatory discipline of tyres and their entire life cycle; and other issues of road safety and environmental sustainability related to both production processes and the product.

MAIN INTERNATIONAL COMMITMENTS FOR SUSTAINABILITY

The attention of Pirelli to sustainability is also expressed through participation in numerous projects and programmes promoted by international organisations and institutions in the area of social responsibility. A number of the principal commitments made by Pirelli worldwide are illustrated as follows.

UN Global Compact

Pirelli has been an active member of the Global Compact since 2004 and since 2011 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 2018, the Global Compact has proposed 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.

In this context, Pirelli's participation is included in the action platforms:

- "*Decent Work in Global Supply Chains*": in December 2018 Pirelli and the other participating companies signed the "*Commitment to Action*", publicly committing themselves to the sustainable management of their supply chain;

- "*Financial Innovation for the SDGs*": in September 2018 the working group presented its first publication "*SDGs Bonds & Corporate Finance - A Roadmap to Mainstream Investments*";

- "*Reporting on the SDGs*": following the publication in 2017 of the "*Analysis of the Goals and Targets*" report, in July 2018 the working group published the guide "*Integrating the SDGs into Corporate Reporting: A Practical Guide*".

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 Programme Finance initiative and the UN Global Compact. The initiative 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 2018, 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.

In 2018 ETRMA started the *Connected & Autonomous Driving* (CAD) working group aimed at responding to the new challenges deriving from technological changes concerning the mobility sector (connectivity, autonomous driving, etc.); the project is an evolution of the 2030 GEAR working group that ended at the end of 2017.

Moreover, ETRMA has continued its heavy involvement 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 95% recovery rate, through close collaboration with the various operating partnerships existing in European countries. The ETRMA (and European) best practices continue to be an international benchmark.

ETRMA maintains a proactive role in the development of cognitive studies regarding environmental issues, such as *Tyre Road Wear Particles*, and health issues, for example the filling material obtained from end-of-life tyres for sports fields. As for the so-called *Tyre Road Wear Particles* (TRWP), micrometric particles produced by the combined wear and tear of the road and the tyre during vehicle circulation, ETRMA - launched "The European TRWP Platform", a "multi-stakeholder" initiative that aims to share scientific knowledge and to involve relevant Sectors and Organisations, in order to identify a holistic and balanced approach for the definition of possible actions for the mitigation of the impacts of TRWPs.

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.

WBCSD – World Business Council for Sustainable Development

Pirelli for years 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 (previously the 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 with an upcoming focus on India rubber and nano-materials.On the latter issue, in collaboration with the Organization for Economic Cooperation and Development (OECD), TIP has developed a specific guide was developed for the sectors that contains best practices of reference for research, development and industrialisation 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 website: http://www.oecd.org/chemicalsafety/nanosafety/nanotechnology-and-tyres-9789264209152-en.htm.

The TIP has also finalised the development of "*product category rules*" (PCR), published in 2018, necessary to carry out the *life cycle assessments (LCAs*) of the product, as well as to develop the "*environmental product declarations (EPDs)"* for tyres, so that the results are comparable between the various manufacturers. With reference to the aggregated sector environmental reports, TIP has published the first "*Key Environmental Indicators - Tire Industry Project (TIP) over the period 2009-2015*" which presents the environmental performance related to CO_2 emissions, consumption energy, water withdrawal and ISO 14001 certification of the environmental management systems of the factories where the tyres are produced.

Also in 2018, TIP has worked on the international promotion of best practices on end-of-life tyre management, in terms of valorisation of recovery and reuse as a second raw material.

In October 2018 TIP launched the "*Global Platform for Sustainable Natural Rubber*" (GPSNR), a multi-stakeholder platform aimed at promoting a more sustainable management (from a socio-economic and environmental point of view) of the value chain of the natural rubber.

Future TIP projects concern 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 urban context. The project (2013-2019) involves international companies in the automotive, autoparts, transportation, oil & gas, information and communication technology sectors. The project used the support of the University of Ghent and experts in the field and planned 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 on-line survey aimed at citizens, allow the calculation of 19 indicators on the state of mobility in the city and a subsequent proposal of 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 Campinas. The project continued in 2018 and extended its support activities to other cities worldwide; Pirelli has followed, in particular, the project of Feira de Santana, home to a major Brazilian factory of the Group, which, thanks to the support of the project team, has started a profound review of its urban mobility. 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 acknowledgments received from various international organisations, including the European Commission, which decided to adopt the tool to support 50 European cities in this regard.

EU-OSHA – European Occupational Safety and Health Agency

In 2018, for the seventh consecutive year, Pirelli continued to be an official partner of the European Occupational Safety and Health Agency (EU-OSHA), which addresses a different problem every two years. The 2018-2019 "*Healthy Workplaces Manage Dangerous Substances*" campaign aims to raise awareness about the risks posed by hazardous substances in the work environment and to promote a culture of preventing these risks. By joining the Campaign, Pirelli confirms its commitment to promoting a healthy work environment, in which chemicals are correctly and carefully managed in order to minimise risks to workers' health and the environment.

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 40 multinational companies and 41 national partner organisations from 33 European countries.

In 2018 CSR Europe continued with the *"European Pact for Youth"* initiatives, launched in 2015, and the "*Sustainable Business Exchange*", launched in 2016 to support the achievement of the United Nations' sustainable development objectives.

Pirelli has chosen CSR Europe for the organisation of the Pirelli Global Stakeholder Dialogue 2016, of the consultations of the Stakeholders carried out in the same year in Romania, Mexico, Germany and Turkey, in 2017 in Russia and Argentina and in 2018 in the United Kingdom and the United States. Furthermore, in September 2017 and October 2018, CSR Europe moderated the two multi-stakeholder consultations held by Pirelli and concerning the draft of the Company Policy on the sustainable management of natural rubber (published in October 2017) and the draft of the related Implementation Manual (published in December 2018).

International commitments against climate change

For years Pirelli has shown its commitment to the fight against climate change, promoting the adoption of adequate energy policies aimed at the reduction of CO_2 emissions.

This commitment was also confirmed in 2018, by joining the Task Force on Climate-related Financial Disclosures (TCFD), set up by the Financial Stability Board (FSB), with which Pirelli undertook to disclose information voluntarily on risks and opportunities related to climate change as indicated in the TCFD recommendations.

Over the years, Pirelli has also participated in numerous events and projects such as the Climate Conferences “COP24” in Katowice (2018), “COP23” in Bonn (2017) and “COP22” in Marrakech (2016), the “Business for COP 21 Initiative” (2015) and participated in several side events organised 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 in order to avoid 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” as well as 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 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), in the paragraphs "UN Sustainable Development Goals" 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.

Pirelli's commitment to road safety passes first and foremost through the product: the tyre is in fact the only part of the vehicle that interfaces directly with the road and as such is the cornerstone of road safety. Road safety has always been a cornerstone of the Pirelli brand. "*POWER IS NOTHING WITHOUT CONTROL™*" is the Pirelli vision of mobility, which combines performance and safety. Structural and material improvements to improve traditional safety performance such as road grip, wet and dry braking, are combined with the most advanced technologies such as Run Flat and Seal Inside, which bring road safety to a higher level, allowing you to maintain control even in the most critical moments, such as a puncture.

Pirelli's commitment to road safety does not stop with product innovations, but also extends to the promotion of the principles of road safety and safe driving through participation in dedicated projects and campaigns.

Bearing witness to this commitment, Pirelli in 2018, as the first tyre manufacturer to do so, joined the United Nations "*Road Safety Trust Fund*" which aims to support States to reduce the number of deaths and injuries caused by road accidents. The Fund supports the implementation of national plans, as well as concrete actions and projects aimed at improving the safety of infrastructure and vehicles, promoting the correct behaviour of road users and managing the post-accident period efficiently.

In 2018 Pirelli also continued to support FIA in the "*Action for Road Safety*" campaign, created to support the ten actions for road safety organised by the United Nations at the end of 2011. The FIA campaign promotes initiatives and training and information campaigns aimed at encouraging more responsible automotive behaviour and building safer roads and cars. As the Global Partner of this campaign, Pirelli has signed "The *Golden Rules*" of road safety, committing itself to disseminate them during events on the topic and through its distribution network.

On the subject of road safety, Pirelli is also a signatory to the *European Road Safety Charter,* through which it engages in various areas, including the dissemination of knowledge about the basic elements of road safety, the growth of awareness of young drivers on the causes of road accidents, the dissemination of information on winter safety at its points of sale, training seminars, etc.

Also at Group level, since 2013, Pirelli has participated in the *SiMPlify* project by the WBCSD 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.

There are numerous road safety initiatives implemented in the countries where the Group operates.

In Italy, also in 2018, the activity regarding Assogomma continued: the colleagues involved in product training were directly involved in the provision of courses to the Traffic Police in the framework of the "*Summer of Safety*" activity and participated in the event held in January in Sestriere, where the most senior representatives of the Italian Traffic Police were spectators and protagonists of the driving of vehicles with summer and winter tyres, to test for themselves the difference in effectiveness on snow-covered surfaces. Training activities aimed at raising awareness on the issue of road safety have also been given to young people in a school environment, through different events held in collaboration with the Traffic Police, and also through training courses at vocational colleges, as in the case of Don Orione di Fano.

In the USA and Canada, a "*Tire Safety Week*" was organised, a series of initiatives on safe driving that involved other tyre manufacturers, and in the UK "*Tyre Safety Month*" was organised (substantial contribution to education in road safety); in Mexico, in collaboration with a local television channel, messages on road safety were broadcast in 2018 in the State of Guanajuato. Also in Mexico, Pirelli sponsored an automobile museum, lending 19 tyres of different types to the exhibition.

In Russia, as occurs every year in August, Pirelli has collaborated with the city of Kirov (the traffic police department, car dealers, and the local newspaper) in the "*Kirov is for politeness on the road*" campaign.

Multiple initiatives in favour of road safety education on two wheels. Pirelli Moto in 2018 increased its collaboration with driving schools for the development of practical and safe on-road and off-road experience. The various initiatives include 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.

Lastly, as in previous years, a section of the website was dedicated to driving tips, for summer and winter, highlighting the important role played by the tyres in the active safety of vehicles and its occupants.

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 at all levels and training 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 in the world including the Polytechnic University of Milan, the Polytechnic University of Turin and the Bicocca University of Milan in Italy, the University of Craiova and the Polytechnic University of Bucharest in Romania, the University of Qingdao in China, and the Technical University of Darmstadt, the University of Applied Sciences of Aschaffenburg, the DHBW of Mannheim and the Berufsschule of Michelstadt, Germany, to name a few.

In China, Pirelli sponsored 36 scholarships for Science and Technology students of the University of Qingdao.

In Romania the partnerships with the Universities of Craiova and Pitesti and the Polytechnic University of Bucharest concern the recognition of scholarships and the support to an IT Academy and a Master in Automotive for the faculties of electrotechnics, industrial automation, electronics, mechanics and physics. Also in Romania with the technical colleges Alexe Marin and Metallurgical Technical College, Pirelli organised the training programme "*Train Yourself for Success*" which reached 50 students with courses and workshops on electronics and mechanics, road safety and information on tyres. In 2018 Pirelli also hosted 28 students from a dual school in a pilot project of mechanics and electronics and supported the participation of a Slatina high school team at an international robotics competition in Thailand.

In Turkey, Pirelli shared its expertise with the universities of Kocaeli and Bogazici and hosted 19 short-term interns and 31 long-term interns who had come from several universities in the country. In addition, the company continued the "*Chasing Innovation*" project launched in 2016 and dedicated to high school students interested in the topic of innovation and the acquisition of tools and skills needed for the 21st century.

In Germany, the company supported several middle and high schools: EGS Höchst, Gymnasium of Michelstadt, GAS Rai-Breitenbach and CWS Bad Koenig.

In Italy, during 2018, saw the continuation of the Alternanza Scuola Lavoro project, launched in 2017 and governed by the 2015 "Good School" 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 project, Pirelli 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 colleagues in the role of mentors and guides for the young students involved.

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.

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 is focused 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 (maximising productivity and maintaining and extending the life of trees);
- to distribute high quality natural rubber trees to farmers, so as to increase the productivity of trees in their plantations;
- giving scholarships to the children of natural rubber growers, to allow them to go to school and buy school books.

168 families participated in the programme in 2018.

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. In 2018, 400 boys from the southwest of Romania were hosted in the Inter Campus Tour.

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 120 children from the area. In 2014, Pirelli and Inter launched an Inter Campus project together in Voronezh, Russia, involving three local orphanages with about 100 children.

In the United States, Pirelli sponsored the local Rome Braves team in Georgia. In Russia, Turkey and the United Kingdom, Pirelli has sponsored various charity fundraising events.

In Kirov, Russia, Pirelli sponsored the *"Pirelli Cup"* in ice hockey, involving several teams of boys (112 participants).

In Germany, Pirelli supported a football tournament for children in Sandbach and a football league in Romania.

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 programmes 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 Spain, the Company supports programmes providing food for needy families, and a warehouse for the storage of food for the poor. Pirelli collaborates with the AMPANS Association, which takes care of the cognitively disabled. Pirelli also contributed to a solidarity project aimed at facilitating job search for people with intellectual disabilities.

In Moscow, Pirelli contributed to the "*Chance*" project that provides private lessons to orphans, and some employees have participated in sports challenges to support programmes for sick children. Pirelli organised an educational and fun trip to Moscow for a group of orphans of Kirov, a place where Pirelli has a production plant. An important activity undertaken by Pirelli for the Kirov community is the support of orphanages. In Voronezh, also in Russia, Pirelli helped to build a multifunctional sports area in the Rostovkiy park and the employees took care of charity for the elderly, bringing in gifts.

In Turkey too, a group of Pirelli employees ran a marathon, raising funds for the education of 130 autistic children, through the TOHUM foundation. Pirelli also hosted 45 disabled children on a factory visit. In Canada, a group of employees cooked for the needy, as well as presenting a donation to the Le Garde-Manger philanthropic agency.

In China, Pirelli supported 90 orphaned and/or impoverished children in Yanzhou. In Mexico, Pirelli is contributing to the creation of a community centre that offers sporting and cultural activities, as well as technical training, and will contribute in 2019 to the creation of a community centre in Leon, called the Booster Centre.

In the United States, Pirelli sponsored the Boys & Girls Club of Rome, Georgia, which takes care of disadvantaged children after school, helping with tasks, sports, career advice and special projects such as robotics.

In the United Kingdom, Pirelli supported a philanthropic trip to Ghana. In Germany, Pirelli sponsored a new watersport playground for the Mumlingstrolche nursery school and contributed to the Ehrenamtsagentur association for the integration of refugees into society. Furthermore, Pirelli Deutschland supported the LKMF association with donations (both by the company and by its employees on a voluntary level) and voluntary work. LKMF helps disabled people and people with dwarfism. In Romania, 70 Pirelli employees worked to restructure a centre for child victims of abuse and the company also made a financial donation.

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 290 professionals were trained in this programme, and specifically in oncology, paediatric care and emergency care. Pirelli Tyres Romania has also provided dental treatment to around 350 children in Slatina through the project Overland for Smile.

In many countries Pirelli promotes a healthy and active lifestyle with various projects, both among its employees and in the local community. For example, in Mexico it organises a race for employees and their families each year. In Turkey, a blood donation campaign was organised among the employees.

In several countries, Pirelli makes donations to scientific research and supports voluntary projects by employees to raise funds for research. In Canada, a donation was made for breast cancer research. In the Netherlands, Pirelli sponsored the "*Friends of Sophia*", projects for children at the Rotterdam hospital and made donations to two foundations that help children with tumours. The company has also made donations for paediatric cancer in Belgium.

In the UK, several donations were made for Alzheimer's, cancer and leukaemia research, and contributions were paid for neonatal intensive care and a hospice.

In Spain, Pirelli participated in the "*Somos Uno*" Solidarity Day, raising funds for biomedical research into childhood diseases and Alzheimer's.

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, Russia and Australia wanted to promote recycling initiatives. The New York office has obtained the "Green Seal Green Office Partner" certification.

In Romania more than 250 Pirelli employees took part in "*World Cleanup Day*", while in Russia 40 employees of the Moscow office, together with a group of orphaned children, planted more than 100 blackcurrant bushes in the botanical garden. In Voronezh, the employees cleaned the park near the Pirelli factory during the "*City Cleaning Day*". In September 2018 in Kirov, with the participation of Pirelli, the "*Clean Games*" were held, competitions to collect and sort the rubbish.

In Mexico, Pirelli continued to sponsor a reforestation project with the State of Guanajuato on 40 hectares of land, involving employees. In Germany, Pirelli supported the "*Plant for the Planet*" project, with the consciousness-raising of children and adults to climate challenges, identifying common actions, including planting trees. In Turkey, to award 16 "champions" (employees recognised for excellent projects), a donation was made to the World Wildlife Fund for the adoption of sea turtles.

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 maximising productivity and maintaining and extending the useful life of natural rubber trees.

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 2018. 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 in Brazil continued, after the restoration of the Cristo Redentor in Rio de Janeiro, to perform maintenance on the famous statue. In the field of music, Pirelli sponsors the Mozarteum project in Brazil, which presents major international classical music orchestras. Also in San Paolo, Pirelli sponsored in 2018 Escola Criativa, an artistic space and cultural project that gives expression to visual arts such as graffiti, photography and design.

In Romania, Pirelli sponsors theatre days for the community, and employees have donated more than 500 books to create a library for patients at the Slatina Hospital.

In Russia Pirelli was a partner of the Platonov international art festival, in Voronezh. More than 77,000 people visited the festival, which featured music, theatre, literature and art and culminated in the open air "*Music of the World*" concert. Also in Voronezh, Pirelli sponsored the Governor's Ball, a fund-raising dance to promote young music and artistic talents. Also in 2018, an exhibition of the Pirelli Calendar was presented at the Multimedia Art Museum in Moscow, and in other Russian cities. In November, an exhibition was opened at the Kirov Museum, "*History of Tyre Production in Kirov*." The exhibition contains documents, photos and handiworks.

In Turkey, Pirelli made a donation to the Association for Supporting Contemporary Life.

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 the theatre with the Piccolo Teatro di Milano and the No'hma Teresa Pomodoro Theatre, and in music with the Villa Arconati Festival 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 with a strong social and cultural impact, exhibitions, as well as collaborations with other cultural institutions.

Also in 2018, the year of the Foundation's first ten-year anniversary, numerous activities have been launched aimed at enhancing the company's historical and artistic heritage. The following initiatives should be noted.

The publishing project "Il Canto della fabbrica" (Mondadori, June 2018, Italian and English edition), dedicated to the story of the Pirelli factory as a testimony of industry 4.0 and the homonymous concert-event presented in world premiere on 8 September 2017 in the Manufacturing Department of the Pirelli factory in Settimo Torinese. The project has also developed in the digital field with the implementation of the dedicated website *ilcantodellafabbrica.org*. The communication of the project and the event reached more than 111,400 users through the Foundation's social media accounts; 25 articles were released in the press. On 4 June 2018, during an evening of celebration of the Foundation's 10 years of activity, the book was presented in the Auditorium of the Pirelli Headquarters to about 600 people (including over 100 employees). The Italian Chamber Orchestra conducted by Maestro Salvatore Accardo performed the piece "Il Canto della fabbrica".

Exhibition "Advertising with a capital P" (from July 2018, Fondazione Pirelli): multimedia exhibition with a focus on Pirelli advertising from the 1970s to the early 2000s, told through video installations and display of original communication materials created by great artists and designers, and by international agencies**.** From July to December 2018**, over 1,700 people** visited the exhibition.

Educational and training activities:

- Pirelli Educational Foundation: about 2,125 primary and secondary school students and about 270 teachers involved in education and training. The Pirelli Foundation also participated in the Festival of Robotics, the Conference on Science and Literature at the Istituto Giulio Natta in Milan, the Road Safety Exhibition at the Wow-Space of Comics, at the

Coolest Projects Festival at the Polytechnic University of Milan, proposing training activities that saw the overall involvement of 670 children and about 80 teachers;

- University: lessons and guided visits to about 265 students coming from the main Italian and foreign universities (particularly UCSC Catholic University of the Sacred Heart, University of Milan-Bicocca, IULM, NABA, Salesian University College Paul VI of Milan, Linköping University, Delft University of Technology).

Digital communication: production of about 800 pieces of social content and activation on the *fondazionepirelli.org* website of the weekly section “History and stories from the Pirelli world”. The website has been visited approximately 54,000 times (+ 24% vs 2017). The Foundation’s social media accounts of the Facebook, Instagram and Twitter (the latter activated in 2018) have about 9,500 followers (+25% vs 2017).

Special events dedicated to “Promotion of Reading”:

- participation in the “Tempo di libri” fair: around 2,400 visitors were welcomed at the stand, including about 120 children and young people involved in the Pirelli Foundation Educational activities;

- “Tales of Milan industrial city” event in collaboration with Teatro Franco Parenti, Bookcity Milan and University of Milan-Bicocca (Pirelli Headquarters, over 400 participants).

Brand enhancement projects to support the Business Units: research and loans of materials: about 80 requests divided between Pirelli stand fittings at fairs and events; PZero stores; plants and offices in Italy and abroad, merchandising, in collaboration with Pirelli Design, product brochures in collaboration with Pirelli Motorsport and guided tours and events in the Foundation (about 500 guests from July to December 2018).

Projects to enhance the historical heritage in the eyes of the external community:

- Research and loans of materials: 86 requests divided between exhibitions in collaboration with other cultural institutions (e.g. the Milan Triennale, Urban Centre, Milan, Assolombarda, Milan), documentaries (e.g. “NEWMUSEUM (S). Stories of company archives and museums”, Museimpresa), publications (e.g. “Talking about a neighbourhood. Places, faces and memories of Bicocca”“, in collaboration with the University of Milan-Bicocca);

- Initiatives to promote the Corporate Culture at the Pirelli Foundation and the Pirelli Headquarters: Guided tours of the Bicocca district in collaboration with the University of Milan-Bicocca: “Discovering the Gregottian places” (about 200 participants) and “Bicocca Tales” (about 130 participants); Milan Movie Week (guided tours with focus on the exhibition “Publicity with a capital P” at the Foundation (about 100 participants); Open Archives - Photography Network: guided tours of the Foundation with a focus on photographers who contributed to the Pirelli magazine in the 1960s (about 120 participants); 17th Corporate Culture Week promoted by Museimpresa (Confindustria, about 200 participants).

Works on the Historical Archive:

- Photographic Collection: over 1,900 photographs catalogued and digitalised, 5,331 photographs from the Pirelli magazine digitalised and 1,000 photographs published online;
- Iconographic Collection: 785 catalogued and digitalised advertisements;
- Corporate In-House Organ "Facts and News": 4,200 catalogued articles and 8,212 digitalised pages;
- Audiovisual Collection: 89 films catalogued and digitalised, and 64 films published online.

  280 technical tyre drawings from the 1980s and 1990s and large-format photography by Luca Comerio (1905) were also restored.

  In July 2018, the premises of the Historical Archives were refitted with the exhibition of a new selection of photographs, drawings and paintings, and two recently acquired advertising posters.

Initiatives for the internal community Among these we note:

- Implementation of the assets and activities of the Pirelli libraries in Milan Bicocca and Bollate: over 7,000 titles in the catalogue and over 1,500,000 materials, including books and multimedia, available to employees, following the activation of the collaboration with the Common Library System of Milan (SBM). Overall, more than 3,000 loans were registered in 2018, over 3,800 movements (loans and extensions) and over 500 users. The Biblionews newsletter has been activated with periodic updates on books, libraries and reading (over 300 members);
- "Christmas at the Pirelli Foundation" ("Natale in Fondazione Pirelli"): preparation of the Foundation's spaces with decorations created from historical advertisements and distribution of the "Christmas Tales" ("Racconti di Natale") leaflet (about 500 participants).

More than 8,600 people participated in the Foundation's activities during 2018.

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 og maintaining a dialogue with the unique features of the space. The 2018 artistic programme, 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 programme 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 attendance of about 243,000 visitors who visited the 6 major exhibition projects dedicated to Italian and international artists, and the permanent installations *I Sette Palazzi Celesti 2004-2015* by Anselm Kiefer and *La Sequenza* by Fausto Melotti, in addition to the mural *Efêmero* by OSGEMEOS:

- Lucio Fontana, “Ambienti / Environments”;
- “Take Me (I’m Yours)”;
- Eva Kot’átková, “The Dream Machine is Asleep”;
- Matt Mullican, “The Feeling of Things”;
- Leonor Antunes, “the Last Days in Galliate”;
- Mario Merz, “Igloos”.

The vocation of Pirelli HangarBicocca™ is that of a space which is open to the city and its surroundings, of an institution that accompanies the normal exhibition activity with a range of programmes intended to attract even the general public to contemporary art.

In 2018, 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 10 cultural events (daytime and/or evening) that involved about 9,500 participants in activities related to current exhibitions, including the *Generosity* event at the end of the exhibition “Take Me (I’m Yours)” which involved approximately 6,700 visitors.

In 2016 Pirelli HangarBicocca™ launched the Membership programme with the aim of creating a community that shares a passion for contemporary art. In two years its membership has reached the number of about 1,000 active Members. In 2018, 3 new agreements were signed with the following institutions: Palazzo Strozzi, Florence; CAMERA - Italian Centre for Photography, Turin; Bagatti Valsecchi Museum, Milan.

In 2018 there were 11 activities dedicated to Members, of which: 4 preview visits to exhibitions, 2 curatorial visits, 2 Family Labs reserved for Member Families and 3 visits to other institutions. 13 dedicated newsletters. Among the benefits, it is always possible to book in advance the activities of the Public Programme and to take advantage of special discounts on the purchase of exhibition catalogues and the institutional line at the Bookshop and at IUTA Bistrot.

HB Kids and HB Family activities for children aged between 4 and 14, saw the participation of 2,000 children and young people, in line with the figures from the preceding years. The number of participants who took part in the School activities was over 11,600 students, while visits by Italian and foreign students and university teachers involved about 2,000 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 Bicocca area. The Educational Department has collaborated with Italian and international artists such as Roberto Fassone, Adelita Husny-Bei and Eva Kot’átková. Projects were also shared with the Fondazione Franco Albini and Fondazione Merz.

With a view to the enhancement of Anselm Kiefer’s *I Sette Palazzi Celesti 2004-2015*, the collaboration with the Milano Musica Festival continued with a concert weekend in November 2018.

Inside the Bookshop, in addition to a selection of books and catalogues related to current exhibitions, children’s books, art-related essays, reference books are sold merchandising products, including t-shirts and shoppers with new graphics, small stationery and umbrellas with the institutional logo, as well as postcards and posters with exhibition images.

During the year Pirelli HangarBicocca™ also hosted 18 major private events including the Annual Dealer Convention and the Ferrari Customers Gala Dinner, the Company Meetings of Swatch Italia, Siemens Healthineers, the new edition of the Barilla World Nutrition Forum, the dinners of Loro Piana, Moncler, Ducati and Pagani, as well as the Charity dinners of Fondazione Umberto Veronesi for fundraising for the paediatric project and Progetto Itaca, both supported by Pirelli HangarBicocca™, granting free use of the space.

REPORT ON THE CORPORATE GOVERNANCE AND SHARE OWNERSHIP 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 2019 IN RELATION TO THE YEAR ENDED ON 31 DECEMBER 2018. THE REPORT IS ALSO AVAILABLE ON THE WEBSITE WWW.PIRELLI.COM)

GLOSSARY

Annual General Meeting: the shareholders' meeting called to approve the financial statements as of 31 December 2018.

Camfin: Camfin S.p.A., a company established under Italian law controlled by Marco Tronchetti Provera through MTP&C, with registered offices in Milan, Viale Sarca no. 222, Tax Code, VAT and Milan Companies Register number 00795290154.

ChemChina: China National Chemical Corporation, a company established under Chinese law (state owned enterprise or SOE) with registered offices at 62 West Beisihuan Road, Haidian district, 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. ChemChina, also through CNRC, SPV HK1, SPV HK2, SPV Lux and MPI Italy indirectly controls the Company pursuant to article 93 of the TUF.

CNRC: China National Tire & Rubber Corporation Ltd., a company established under Chinese law with registered offices at 62 West Beisihuan Road, Haidian district, 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, approved in July 2018 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: indicates 26 February 2019, the date on which the Board of Directors 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..

Registration Document: indicates the Registration Document filed with Consob by Pirelli on 15 September 2017 in relation to the listing of the Company's shares on the MTA, the electronic share 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 in October 2017 with the start of trading on the MTA.

LTI: Long-Term Investments Luxembourg S.A., a company established under Luxembourg law controlled by Sergey Sudarikov through WHPA Ltd., with registered offices at 51 Boulevard Grand Duchesse Charlotte, L-2330, Luxembourg (Grand Duchy of Luxembourg), Luxembourg Companies and Commerce Register number B-187332.

LTI Italy: LTI Italy S.r.l., a company established under Italian law, wholly owned by LTI, with registered offices in Milan, via G. Carducci 32, Tax Code, VAT and Milan-Monza-Brianza-Lodi Companies Register number 10449980969, object of early termination, wound up on 12 October 2018 and removed from the Companies Register on 11 December 2018.

MTA: Electronic share market organised and managed by Borsa Italiana S.p.A.

Marco Polo: Marco Polo International Italy S.p.A., a company established under Italian law with registered offices at via San Primo 4, Milan, Tax Code, VAT and Milan Companies Register number 09052130961.

MPI Italy: Marco Polo International Italy S.r.l., a company established under Italian law indirectly controlled by ChemChina with registered offices at via San Primo 4, Milan, Tax Code, VAT and Milan Companies Register number 10449990968.

MTP&C: Marco Tronchetti Provera & C. S.p.A., a company established under Italian law 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., a company established under Italian law 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, a company established under British law 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., a company established under Italian law 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.

NFD Report: the Report on Responsible Management of the Value Chain (which constitutes the Consolidated non-financial disclosure pursuant to Legislative Decree of December 30, 2016, no. 254) drafted by the Company in accordance with the *Sustainability Reporting Standards* of the *Global Reporting Initiative* (GRI) - *Comprehensive* option - and the principles of inclusiveness, materiality and compliance with the AA1000 APS Standard.

Remuneration Report: the report prepared pursuant to art. 123-ter TUF.

Camfin Demerger: non-proportional partial demerger of Camfin S.p.A. into a newly created company owned by Manzoni S.r.l., resolved by the Camfin shareholders' meeting on 10 December 2018. The Camfin Demerger came into effect on 17 December 2018.

Marco Polo Demerger: non-proportional total demerger of Marco Polo into beneficiaries MPI Italy, Camfin and LTI Italy, resolved by the shareholders' meeting of Marco Polo and Camfin on 2 August 2018. The Marco Polo Demerger came into effect on 8 August 2018.

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 incorporated 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 incorporated 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., a company established under Chinese law 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: Legislative decree 58 of 24 February 1998, as subsequently amended (the Consolidated Law on Finance, or CLF)

INTRODUCTION

This Report presents the corporate governance system adopted by the Company. This system is consistent with the principles contained in the Corporate Governance Code adopted by the Company[28].

1. COMPANY PROFILE

Pirelli, with its 31,500 employees and annual sales of around Euro 5.2 billion in 2018, 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 currently occupies a leadership position in the Prestige tyres segment, with more than one-third of the global market in terms of volume, 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.

For a profile of the issuer see also the Website.

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 (15 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.

Pirelli is aware that an efficient system of corporate governance is an essential element for achieving the objective of sustainable value creation.

The Board has established five 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.

The following diagram summarises the Company's current governance structure.

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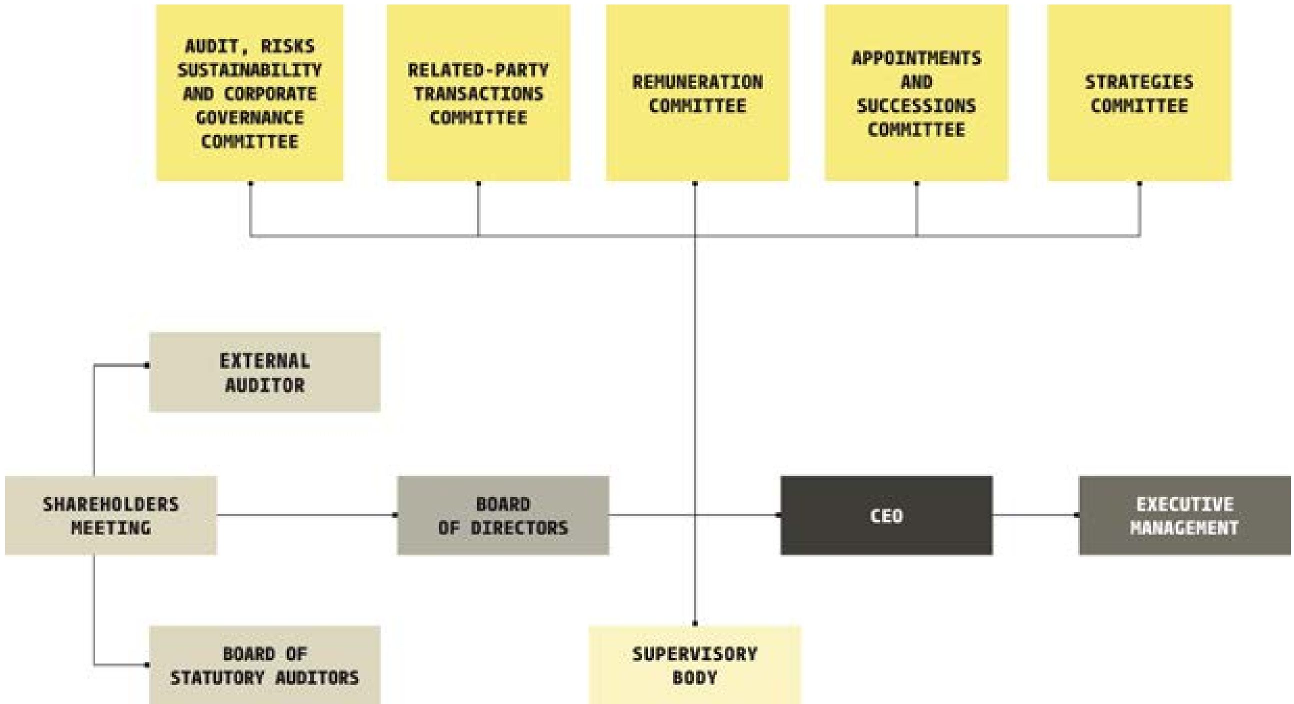
[28] The adopting resolution was made by the Board of Directors with effect from 31 August 2017.



The legal audit of the accounts is entrusted to PricewaterhouseCoopers S.p.A., the registered external auditing firm appointed by the Shareholders' Meeting, following a reasoned recommendation presented by the Board of Statutory Auditors.

1.2 *SUSTAINABILITY AND DIVERSITY POLICIES*

Pirelli has adopted a sustainable management model. Responsible management by Pirelli addresses the entire value chain.

The reporting of Pirelli's sustainable performance has been included in the Company's annual report starting from 2005. For further details see the NFD Report.

Pirelli is characterised 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. Pirelli's business culture was able to anticipate the topics and subjects, such as the environment and the gender diversity, well in advance.

Even at Board level, the abovementioned values are deemed as success factors and necessary elements to achieve the Company's strategic targets.

For this reason, the respect of these values has always been guaranteed by the shareholders during the renewal of the Board of Directors - including the last renewal - in terms of age, gender, nationality, education and professional background and experience. This enables the Board to perform its duties in the most effective way, making use of the contributions made from different points of view, and to analyse individual situations from multiple perspectives.

In line with the above, on 14 February 2019, the Board of Directors, having obtained the favourable opinion of the Audit, Risks, Sustainability and Corporate Governance Committee and the Appointments and Successions Committee, adopted a Diversity and Independence Statement in relation to the composition of the Board of Directors and the Board of Statutory Auditors.

Pirelli in fact believes that this diversity allows corporate bodies to carry out their duties in the most effective way, since they can avail themselves, in their decision-making, of the contributions made by a range of qualified points of view. The Company recommends that these values are respected when its own corporate bodies are renewed or integrated, in line with the stated diversity and independence criteria.

The Board of Directors - which avails itself of the opinions expressed by the Audit, Risks, Sustainability and Corporate Governance Committee and the Appointments and Successions Committee - is responsible for the quali-quantitative assessment of the composition of the Board itself and the possible updating and amendment of the Diversity and Independence Statement.

Pirelli implements the criteria for diversity in relation to the composition of its administration, management and control bodies and in the entire company structure. See the NFD Report for further details.

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.

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*

The Company is indirectly controlled, pursuant to art. 93 of the TUF, by ChemChina through CNRC and other subsidiaries of the latter, including MPI Italy, which directly holds the shareholding in Pirelli.

Based on the communications received by the Company until the Report Date pursuant to art. 120 TUF, or from other information available to the Company, the major direct and indirect shareholdings of Pirelli capital are indicated in Table 1, attached to this Report.

2.3 *MANAGEMENT AND COORDINATION ACTIVITIES*

During the meeting on 31 August 2017, the Board of Directors of the Company acknowledged of the termination of the direction and coordination activity of Marco Polo, pursuant to art. 2497 et. seq. of the Civil Code, with effect from the First Trading Day, while CNRC retains the right to include Pirelli in its consolidation perimeter for accounting purposes. 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 noted that, from the First Trading Day, Pirelli was no longer subject to any of the activities that typically constitute direction and coordination activity 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 link exists between Pirelli on the one hand and Marco Polo and the companies that control it 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 MPI Italy, 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 direction and coordination activity on numerous subsidiaries, having made the communications required by art. 2497-*bis* of the Civil Code.

In the meeting on 26 February 2019 the Board of Directors reiterated the aforementioned assessments with reference to MPI Italy, confirming the absence of a subject that exercises direction and coordination activity over Pirelli.

2.4 *RESTRICTIONS ON THE TRANSFER OF SECURITIES: SECURITIES THAT CARRY SPECIAL RIGHTS; EMPLOYEE SHARE OWNERSHIP THE MECHANISM FOR EXERCISING VOTING RIGHTS; RESTRICTIONS ON VOTING RIGHTS*

The Articles do not impose any restrictions on the transferability of the shares issued by the Company[29].

No securities carrying special rights of control have been issued.

With regard to the shares owned by employees, there are no specific procedures or restrictions governing the exercise of their 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 the next paragraph 19 of the Report.

In the event of significant changes to the market capitalization of the issuer's shares or to the composition of the shares capital, the Corporate Governance Code recommends that the board of directors should submit to the general meeting proposals to amend the Articles in respect to the percentages required for exercising actions and rights provided to protect minorities shareholders. This was not done in 2018, as the conditions laid down in the Corporate Governance Code did not arise.

[29] For completeness please note that, as commonly used in IPO transactions, the shareholders which signed the New Shareholders' Agreement undertook not to assign, transfer or dispose, in any way whatsoever, directly or indirectly (without prejudice to the transfers to the subsidiaries, parent companies or companies subject to the same control), *inter alia*, their respective participations directly or indirectly held in Pirelli until the expiry of the first anniversary as of the First Trading Date (*i.e.* until 4 October 2018, except for LTI, which could have the right to transfer (without having exercise such faculty), directly and indirectly, through Marco Polo, its participation in Pirelli after six months from the First Trading Date, *i.e.* starting from 4 April 2018). At the Report Date such constraint does not exist anymore.

2.5 *SHAREHOLDERS' AGREEMENTS*

2.5.1 NEW SHAREHOLDERS' AGREEMENT

On 28 July 2017 ChemChina, CNRC, SRF, SPV HK 1, SPV HK 2, SPV Lux, Camfin, LTI and MTP&C signed the New Shareholders' Agreement[30] that governs, on the one hand, the governance of Pirelli with effect from the First Trading Day, and the undertaking by CNRC, SRF, Camfin and LTI to carry out the Marco Polo Demerger, after the First Trading Day and, in any case, by 31 December 2018, subject to (i) the start of 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 Marco Polo Demerger was completed in 2018, in line with the provisions of the New Shareholders' Agreement. In particular, on the effective date of the total non-proportional demerger of Marco Polo (8 August 2018), Marco Polo's stake in Pirelli (63.11%) was allocated as follows:

- MPI Italy, newly incorporated Italian beneficiary company wholly owned by SPV Lux (in turn indirectly controlled by ChemChina), received 455,212,508 Pirelli shares equal to 45.52% of its share capital;

- Camfin, Italian beneficiary company controlled by MTP&C (in turn controlled by Marco Tronchetti Provera) received 113,491,546 Pirelli shares equal to 11.35% of its share capital; and

- LTI Italy, a newly incorporated beneficiary company wholly owned by LTI received 62,391,110 Pirelli shares, equal to 6.24% of its share capital.

Upon completion of the Marco Polo Demerger: (i) the corporate governance of Pirelli did not change, and (ii) ChemChina remained the subject that indirectly exercises control of Pirelli.

It should be noted that, according to the New Shareholders' Agreement, while CNRC has retained control of Pirelli, and CRNC has retained the right to include Pirelli in its consolidation perimeter for accounting purposes, Pirelli has not been subject to the exercise of any direction and coordination activity pursuant to articles 2497 et seq. of the Civil Code since the First Trading Date. As a general principle of the New Shareholders' Agreement, MTP&C and CNRC recognised that in line with the

[30] On 22 March 2015, ChemChina and its wholly controlled subsidiary CNRC, on the one hand, and Camfin, LTI and Coinv S.p.A. (subsequently merged by incorporation into Camfin), on the other, concluded a sale and co-investment agreement (the "**Co-investment Contract**") that disciplined the terms and conditions for the completion of a broad corporate and industrial operation aimed at the acquisition by CNRC (through indirectly controlled companies) of control of Pirelli, its possible de-listing through the launch of a takeover bid on the Pirelli (the "*Takeover Bid*"); this operation was intended to create, between CNRC, CF and LTI, a long-term industrial partnership for Pirelli, with the aim of strengthening the development plans, safeguarding geographically strategic areas integrating the tyre business into the industrial segment of CNRC and Pirelli, maintaining the continuity and autonomy of the current management structure of the Pirelli group, all also in view of a possible relisting of Pirelli. Pursuant to the Co-investment Contract, on 11 August 2015, the parties to said contract also signed an agreement that disciplined, *inter alia*, the governance of the Italian companies indirectly controlled by CNRC that had launched the takeover bid and of Pirelli (the "*First Shareholders' Agreement*") and that confirmed, among the principal objectives of the operation, the creation of value for Pirelli and its group in view of possible relisting within a period of four years. With the IPO of 2017, the first shareholders' agreement was superseded and the New Shareholders' Agreement was signed.

previous shareholders agreements the aim of the governance structures is to preserve the entrepreneurial culture of Pirelli with focus on the long-term maintenance of its management and will be inspired by international best practice among listed companies. For this reason, MTP&C and CNRC agreed and stipulated that the task of managing Pirelli is current top management's prerogative, with a fundamental role, in this regard, of Marco Tronchetti Provera, who will continue to hold the office of Chief Executive Officer and Executive Vice Chairman of Pirelli and will lead the top management until the date of approval of the financial statements of the Company as at 31 December 2019, ensuring continuity in Pirelli's business culture. This also through the attribution to Marco Tronchetti Provera of a primary role in the procedure for the identification of his successor as chief executive officer of Pirelli.

It should be noted, furthermore, that as a result of the Marco Polo Demerger and the expiration, for LTI, of the prescribed period of lock-up in relation to its Pirelli shareholding, from 4 April 2018, LTI itself is no longer considered a party to the New Shareholders' Agreement in relation to the matters agreed with regard to Pirelli. As of the Marco Polo Demerger effective date, the provisions on the governance of Pirelli are binding, and only concern CNRC and MTP&C., as the company at the top of the Camfin chain of holdings.

2.5.2 SRF CONTRACT

On 5 June 2015, SRF, CNRC and ChemChina signed an "Investment Contract" (the "**SRF Contract**") regarding investment and the participation of SRF, together with ChemChina and CNRC, in the acquisition of control over Pirelli.

On 28 July 2017, in the context of the IPO, the aforementioned parties to the SRF Contract, signed a supplemental agreement of the SRF Contract itself (the "**Supplemental Agreement**") pursuant to which, as soon as possible upon completion of the Marco Polo Demerger, SPV Lux, will, *inter alia*, assign to CNRC and SRF or to companies under their control (after the winding up or demerger of SPV HK) a quantity of Pirelli shares and cash calculated on the basis of the following distribution mechanism: (i) the proceeds from the Pirelli shares sold in the IPO will be divided equally, with the consequence that, in order to rebalance the mix of Pirelli shares and cash to be assigned to CNRC and SRF, the quota to be assigned to CNRC will contain a number of Pirelli shares and an amount of cash respectively higher and lower than the number and amounts that CNRC would have obtained if the division of the proceeds of the Pirelli shares sold in the IPO had been proportional rather than equal; and (ii) in any case, CNRC 's stake in Pirelli, held directly or indirectly, may be no less than 36.5% of the share capital of the Issuer (the "**SPV Lux Allocation**").

In the context of the Marco Polo Demerger, on 7 August 2018, the aforementioned parties to the SRF Contract signed a further supplemental agreement (the "**Second Supplemental Agreement**") that regulates some aspects of the corporate governance of MPI Italy. The SRF Contract, as subsequently supplemented and amended by the Supplemental Agreement and the Second Supplemental Agreement, attributes to SRF certain rights and prerogatives in relation to the corporate governance of SPV HK, SPV Lux, MPI Italy and Pirelli; it also establishes certain restrictions on the transfer of the shares of SPV HK.

Nothing in the SRF Contract prejudices the right of ChemChina to exercise control over Pirelli through CNRC.

Furthermore, on 28 July 2017, SRF and CNRC signed a "*Contract of actions in concert*" pursuant to which SRF assumed a lock-up undertaking and an undertaking to vote in Pirelli shareholders' meetings according to the voting instructions of CNRC, in relation to a number of shares Pirelli generated from the SPV Lux Allocation, equal to 5% of the capital of Pirelli.

* * *

For further information on the provisions set out in the abovementioned Shareholders' Agreements, see the extracts from the agreements available on the Website (also in English), published pursuant to art. 130 of the Issuers' Regulation.

* * *

For completeness, with reference to Camfin, it should be noted that during the Year, also taking account of the coming into effect of the Camfin Demerger, the shareholders' agreement, originally signed on 11 August 2015 by MTP&C, Nuove Partecipazioni S.p.A. (subsequently merged by incorporation into Camfin), UniCredit S.p.A, Manzoni S.r.l. and Intesa Sanpaolo S.p.A. which included some arrangements referable to Pirelli, was terminated in advance by mutual consent.

2.6 *CHANGE OF CONTROL CLAUSES*

The most significant contracts containing clauses of this type are summarised below.

2.6.1 SYNDICATED LONG TERM 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 if 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 Chairman and the CEO of that company and CEO of Pirelli.

2.6.2 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.

2.6.3 SUPPLY CONTRACT WITH BEKAERT

The Company has a contract for the supply of steelcord with Bekaert, to which the Company sold the steelcord business unit in 2014, also in consideration of the contractual peculiarities connected with the sale transaction.

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.

2.6.4 EMTN PROGRAMME AND NOTES ISSUED IN 2018

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. This resolution was subsequently supplemented on 22 June 2018, increasing the existing authorisation by a further Euro 800 million - bringing the total amount to a maximum of Euro 1.8 billion - and extending its time horizon to 31 December 2019 (included). 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:

1) on 25 January 2018, Pirelli issued a new and unrated 5 year fixed rate notes for an original total nominal amount of Euro 600 million (an amount that has now reduced to Euro 553 million following the Company's buybacks on the market) called "*Pirelli & C. S.p.A. €600,000,000 1.375% Guaranteed Notes due 2023"; and*

2) on 26 March 2018 Pirelli issued a new and unrated variable rate bond for a total nominal amount of Euro 200 million due in September 2020 called "*Pirelli & C. S.p.A. €200,000,000 Floating Rate Notes due 2020".*

The above-mentioned Change of Control clause applies to these new notes.

2.6.5 SCHULDSCHEIN: MULTITRANCHE LOAN FOR A TOTAL OF EURO 525,000,000

On 26 July 2018 Pirelli concluded a "schuldschein" loan - guaranteed by Pirelli Tyre - for a total of Euro 525 million (the "**Schuldschein**"), divided as follows: (i) Euro 82 million due in 2021; (ii) Euro 423 million due in 2023; and (iii) Euro 20 million due in 2025.

The Schuldschein prescribes, *inter alia*, that Pirelli must repay the loan in advance, if certain events occur, including the case of a change in the control structures of Pirelli, according to terms and conditions that are the same as those of the EMTN Programme.

2.6.6 BILATERAL LOAN WITH INTESA SANPAOLO

On 22 January 2019, the Board of Directors approved the stipulation by Pirelli of a medium-long term variable rate loan of Euro 600 million with Intesa Sanpaolo S.p.A., as lending bank and Banca IMI S.p.A., as agent bank and organising bank. (the "**Transaction**").

The loan agreement signed on 24 January 2019 in relation to the Transaction prescribes, *inter alia*, that the Pirelli must repay the Transaction early should certain events occur, including changes in the control structure of Pirelli.

Specifically, the change of control clause may only be activated in the case of a subject or subjects acting in concert, other than ChemChina, Camfin, MTP&C. (or any other company controlled by Marco Tronchetti Provera or his close family members) and/or their subsidiaries and/or any person or persons acting in concert with one of them should (a) hold a relative majority of votes in Pirelli; and (b) appoint or remove the majority of the members of the Board of Directors of Pirelli.

For clarification, the loan contract states that there will be no change of control if Camfin, MTP&C. (or any other company controlled by Marco Tronchetti Provera or by one or more of his close family members) participate, directly or indirectly, in the control of Pirelli, or is entitled, by virtue of contractual agreement, directly or indirectly, individually or in concert with one or more subjects, to designate the CEO of Pirelli.

2.6.7 LICENCE AGREEMENT WITH AEOLUS

On 28 June 2016, Pirelli Tyre concluded an agreement (subsequently amended on 31 January 2019) with Aeolus Tyre Co. Ltd, to licence patents and know how for the production and sale of industrial tyres that expires on 31 December 2030, with automatic renewal unless terminated by the parties. Pursuant to the agreement, either party has the right to terminate the agreement in advance, by notice to the other party, if CNRC should cease to be, directly or indirectly, the single largest shareholder of Pirelli.

2.7 *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 set out in art. 104-*bis* TUF.

2.8 *MANDATE TO INCREASE SHARE CAPITAL AND AUTHORISATIONS TO PURCHASE OWN SHARES*

With regard to the year ended 31 December 2018, 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.

* * *

3. COMPLIANCE

Pirelli adheres to the Corporate Governance Code[31], available to the public on the website of the Corporate Governance Committee, at the following link http://www.borsaitaliana.it/comitato-corporate-governance/homepage/homepage.en.htm.

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. For further details, see paragraph 22 of the Report.

This Report has essentially been prepared using the Borsa Italiana format.

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

Appointment: 1 August 2017 (with effect from 31 August 2017)
Expiration date: 2019 Financial Statement approval

Directors: 15
Executive director: 1
Independent directors: 8

Board committees: 5

Strategies Committee - Appointments and Successions Committee - Related-Parties Transactions Committee - Remuneration Committee - Audit, Risks, Sustainability and Corporate Governance

[31] Resolution adopted by the Board of Directors as part of the IPO process. Note that Pirelli has adopted the Corporate Governance 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.

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[32]

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 Shareholders' 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 Shareholders' 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 Shareholders' 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

[32] This paragraph contains the information required by art. 123-bis, par. 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*").

issued for the Shareholders' Meeting. Any changes arising prior to the actual date of the Shareholders' 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 less 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 slate voting mechanism, the Shareholders' Meeting shall adopt resolutions with the majorities required by law, without prejudice in all cases to compliance with the independence and gender balance requirements specified in the Articles and/or the laws and/or regulations in force at the time.

4.1.2 REPLACEMENT

Should one or more directors cease to hold the office during the financial year, they shall be replaced pursuant to art. 2386 of the Civil Code, without prejudice for the compliance with the legal and/or regulatory provisions in force at the time on gender balance and the independence of the directors.

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 Candidate**"), (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 (i) appointed by the Shareholders' Meeting held on 1 August 2017 (appointment effective from 31 August 2017) and (ii) supplemented by the Shareholders' Meeting of 15 May 2018 with a further independent director (Giovanni Lo Storto) appointed on the proposal of a group of asset management companies and institutional investors (the detailed list is available on the Website), without application of the slate voting system, in accordance with the representations made in the IPO[33]. Indeed, the Registration Document specified that a further independent director, nominated by the minority shareholders at the first ordinary shareholders' meeting after the First Trading Day would join the Board of Directors of the Company. For this reason the majority shareholder did not participate in the voting on this point.

Furthermore, following the resignation of Ren Janxin from the office of Chairman of the Board of Directors and Director of the Company (submitted on 30 July 2018 due to his announced resignation from the office of Chairman of ChemChina as a result of reaching the age limit), the Board of Directors, on 7 August 2018, proceeded to appoint by co-option Ning Gaoning as a Director of the Company, pursuant to art. 2386 of the Civil Code, and to also appoint him Chairman of the Board of Directors. Ning Gaoning's term of office will expire on the occasion of the Annual General Meeting.

In light of the above, the Board of Directors is composed of 15 members: Ning Gaoning (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, Giovanni Lo Storto, Marisa Pappalardo, Cristina Scocchia, Giovanni Tronchetti Provera, Fan Xiaohua and Wei Yintao.

On 31 August 2017, the Board of Directors confirmed Marco Tronchetti Provera as Chief Executive Officer and Executive Vice Chairman.

As indicated in the Registration Document:

- Directors 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

[33] The Board of Directors, on 22 June 2018, communicated to have evaluate the existence of the independence requirements of the Director Giovanni Lo Storto declared at the time of appointment.

Global Coordinators, engaged as part of the IPO procedure, regarding the professional characteristics of the directors.

Giovanni Lo Storto was appointed as Director by designation of a group of asset management companies and institutional investors.

Ning Gaoning was co-opted to the Board as Director and Chairman to replace Ren Janxin, previously appointed by designation of CNRC.

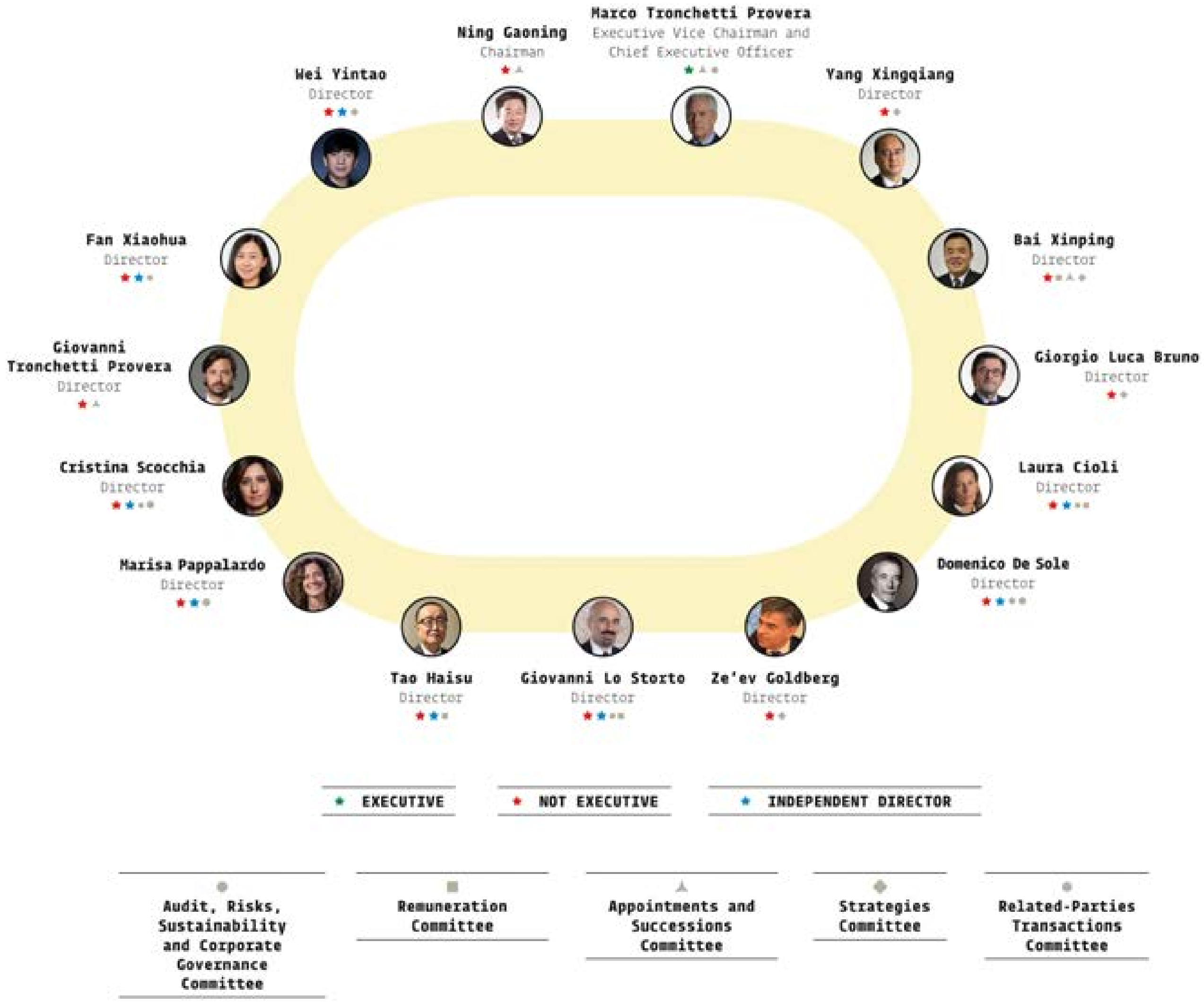
At the Report Date 26.7% of the Board members are female and the remaining 73.3% are male. Further, about 60% of directors are over 50 years of age (with a maximum age of 75 years, in the case of one director) and the remaining about 40% are between 35 and 50 years of age. The average age of the members of the Board is approximately 55 years and the average age of the female members is approximately 51 years. The Directors' average time in office is about 3 years[34].

For further details regarding the application of the diversity and gender criteria in the composition of the Board of Directors see paragraph 1.2.

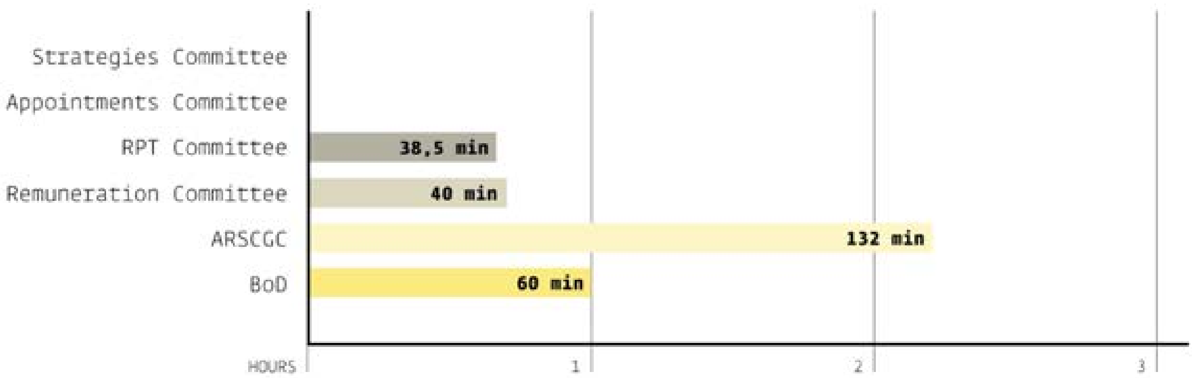
Table 2, attached herein, provides for the relevant information on each member of the Board of Directors in office at the Report Date. In addition, a summary of their professional profiles is available on the Website.

The following charts illustrate the composition of the Board of Directors of the Company at the Report Date (it should be noted that there have been no changes in the composition of the Board of Directors from the end of the Year to the Report Date), the average length, the average percentage of attendance, the number of meetings of the Board of Directors and of each Committee during the Year.

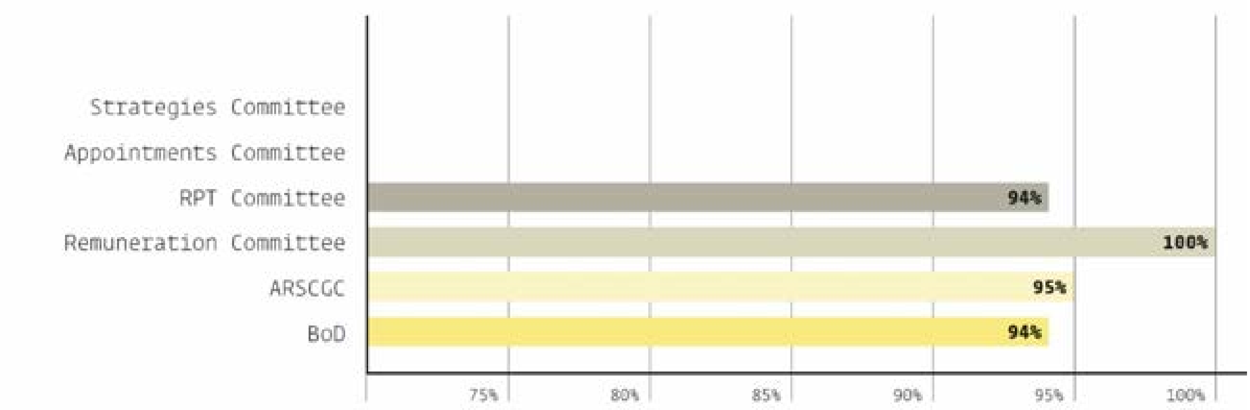
[34] It should be noted that for the purposes of calculating the tenure of the Board, the date of first appointment of each Director, indicated in Table 2, was considered.



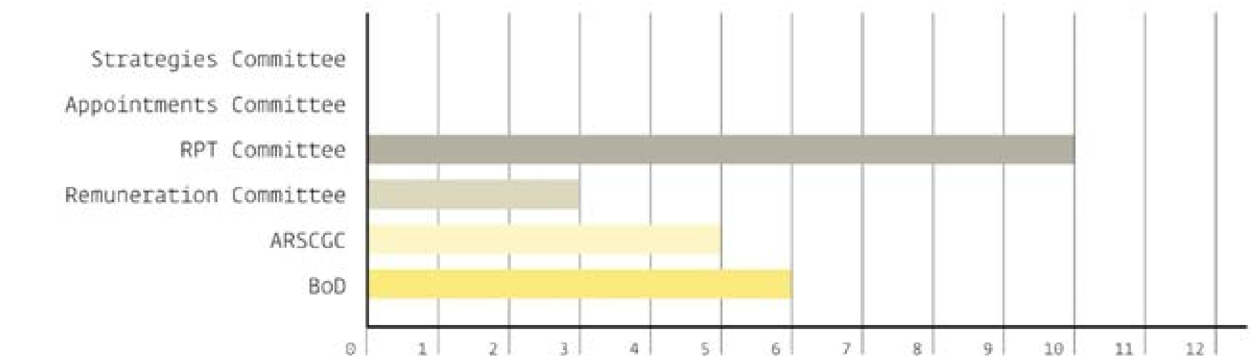
AVERAGE LENGTH OF MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES



AVERAGE PERCENTAGE OF ATTENDANCE TO THE MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES



NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES



4.3 *LIMITATIONS ON THE NUMBER OF OFFICES HELD*

The Board of Directors considers it vital that the role of director is held by subjects able to dedicate the necessary time to the diligent execution of the duties inherent to this office.

Consequently, in line with the above, on 14 February 2019, the Board of Directors, having obtained the favourable opinion of the Audit, Risks, Sustainability and Corporate Governance Committee and the Appointments and Successions Committee, resolved to reduce the maximum number of directorships considered compatible with the office of director of the Company from five to four.

In particular, pursuant to the policy recently adopted by the Board of Directors, it is therefore not considered compatible with the duties of a director of the Company to be a director or statutory auditor of more than four other companies other than those subject to the direction and coordination of 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, subject to the supervision of the competent authorities, 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 Audit, Risks, Sustainability and Corporate Governance 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 policy adopted by the Company on 14 February 2019.

Annex 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 PROGRAMME*

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, during the Year, induction sessions were arranged, also with the support of the top management, to provide the members of the Board of Directors 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. For completeness, it should be noted, further, that as part of the process of listing, indications were provided about the legal and regulatory framework of reference, and the specific procedures and regulations adopted by the Company. The principal changes in the aforementioned regulatory framework are promptly brought to the attention of the Board, also through the competent committees.

Among the initiatives undertaken, the induction activities on the organisation of the company, its products and business activities, system of risk management and sustainability, digitalisation, intellectual property, communication strategies and market scenarios should be noted. In this context, Directors had the opportunity to have direct encounters with the Company's principal managers (who as a rule normally attend the meetings of the Board of Directors and the committees).

It should also be noted that, after the induction activities described above, there was an informal meeting for the visit to the "Pirelli HangarBicocca" foundation, attended by the independent Directors and members of the Board of Statutory Auditors, with a presentation of the foundation's initiatives.

There were further informal meetings of members of the Board of Directors at the cultural and sporting events organised by the Company, and after Board 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 by 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 office, 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 standing auditor, following notification sent to the Chairman of the Board of Directors.

During the Year the Board of Directors in charge at the Report Date met six times. The average duration of each meeting was 60 minutes, with attendance of around 89% of the Directors and 93% of the Independent Directors. The Independent Directors had informal meetings in the terms illustrated in the previous paragraph.

For the 2018 financial year and for the current year, Pirelli disclosed a calendar of the main corporate events to the market[35] (also available on the Website). For the 2019 financial year, the Board is scheduled to meet at least 5 times (at the Report Date two meetings have already been held).

The Directors and Statutory Auditors received the documentation and information deemed necessary in order to be properly informed for the discussion of the items submitted to them for consideration with a reasonable and appropriate advanced notice. In fact, the documentation examined by the Board and the Committees is usually circulated about ten days prior to the meeting. In the limited and exceptional cases in which documentation could not be transmitted so far in advance (or transmitted closer to the meeting), full information on the issue to be considered was provided directly during the meeting, thus ensuring that the Directors could make informed decisions. Particular attention is paid to ensuring that information remains confidential, by sending the documentation relating to the activities of the board and its committees using specific software that guarantees that access is reserved to the directors and statutory auditors only. This is in line with

[35] As a rule this happens in November/December.

best practice and with the recommendations contained in the letter from the Chairman of the Italian Corporate Governance Committee dated 21 December 2018.

Taking into account the international composition of the Board of Directors, with the presence of three different nationalities, it is also Company's practice to provide the documents to be considered by the Board and its Committees in the three languages (Italian, English and Chinese) commonly used by the Directors. Furthermore, for each meeting of the Board of Directors and of the Committees, participants are able to use a simultaneous translation of interventions made in the three aforementioned languages.

If the Chairman is absent or unavailable, the Chief Executive Officer chairs the meeting; if the latter is also absent or unavailable, the meeting is chaired 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 resolutions of the Board of Directors to be valid, a majority of its members must be present, and resolutions must obtain a majority of the expressed votes.

As recommended by the Corporate Governance Code, Directors' awareness of the reality and dynamics of the Company and the Group is enhanced by the systematic attendance of top management at their meetings, enabling them to provide appropriate detail on the items on the agenda.

The Articles establish that, until different decision of the Shareholders' Meeting, the Directors are not bound by the prohibition contained in art. 2390 of the Civil Code.

During the Year the Board of Directors started the process of evaluation of its functioning and the functioning of its Committees (board performance evaluation) for the 2018 financial year[36]. For the purpose of the assessment process, the Board was also supported by the assistance of a primary independent consulting firm specialised in this area (SpencerStuart). The self-assessment process was carried out through individual interviews with questions about the size, composition and operation of the Board of Directors. All members of the Board of Directors participated in the self-assessment process.

The analysis of the results of the aforementioned board performance evaluation provided by SpencerStuart evidenced a broadly positive situation. In particular, the Directors expressed full satisfaction and appreciation on the size, composition and operation of the Board of Directors and its Committees. It was also highlighted that the Board operates in compliance with the Corporate Governance Code and with the best practice. With reference to the operation of the Board and its Committees during 2018, the following areas of excellence were particularly appreciated:

- clarity and completeness of the supporting documentation circulated sufficiently in advance in view of board meetings;

[36] Given the short period of time between the First Trading Day and the end of the 2017 financial year, the Board of Directors postponed the start of the process of evaluating its operation and the operation of its Committees to the 2018 financial year.

- detailed, transparent and qualified reporting activity by the management to the Board of Directors;
- effective structure of the Board committees;
- effective conduction of the meetings of the Board of Directors;
- exhaustive reporting provided by the Executive Vice Chairman and Chief Executive Officer to the Board on managerial accountability and on the principal transactions executed at group level;
- possibility to have constructive dialogue and discussion at Board meetings.

The Directors expressed particular appreciation for (i) the constant presence of the Group's principal managers (responsible for the appropriate area) at meetings of the Board of Directors and the Board committees and (ii) the mix of skills, considered to be excellent, since there was an abundance of high level managerial expertise, business experience and strongly international profiles among its members.

From the investigation, some indications also emerged on how to further improve the operation of the Board: among these, the need for deeper knowledge of the different businesses of the Group, also through guided visits to production sites in the various countries in which Pirelli operates; the continuation and the development of induction activities and opportunities for informal meetings of the directors.

Finally, it should be noted that the Audit, Risks, Sustainability and Corporate Governance Committee played a guiding role in the board performance evaluation by (i) defining the investigation methodology and ii) identifying and appointing the consultant specialised in this field as facilitator of the process. In particular, the results were previously reviewed by the Audit, Risks, Sustainability and Corporate Governance Committee and then presented to the Board of Directors in its meeting on 26 February 2019.

4.5.2 MATTERS IN THE BOD'S COMPETENCE

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) for the Board to be authorised to resolve on the following issues:

- transfer of 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).

On 31 August 2017, the Board of Directors established that all resolutions regarding the following matters, proposed by Pirelli and/or by any company subject to direction and coordination by Pirelli (excluding intergroup transactions) must (as an internal restriction of the power granted to the Chief Executive Office on that date) be approved 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 million, 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;

(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, par. 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 part,

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 Audit, Risks, Sustainability and Corporate Governance 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 of 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 paragraph 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 paragraph 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 adoption of the following resolutions (together, the "**Significant Matters**"):

   (i) approval of the business plan and of 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.

It should be noted that, in addition to the Executive Vice Chairman and Chief Executive Officer, Pirelli classifies as executive directors those directors who at the same time are qualify as Key Managers of the Company with strategic responsibilities, if there should be such Directors, or Directors who also hold office as Chief Executive Officer or Executive Chairman of the principal subsidiaries of Pirelli.

At the Report Date, and during the Year, no director other than the Executive Vice Chairman and Chief Executive Officer was qualified as executive director. [37]

It should also be noted that on 7 August 2018, on the occasion of the appointment of Ning Gaoning as Chairman of the Board of Directors, to replace Ren Janxin, the Board of Directors - taking account of the governance structure, the powers conferred on the Executive Vice Chairman and Chief Executive Officer, and the circumstance that Ning Gaoning was not being attributed management powers and that he played no specific role in the elaboration of business strategies - confirmed that it did not consider the role of Chairman of the Company to be an executive role.

4.7 *INDEPENDENT DIRECTORS*

At the Report Date, eight of the fifteen Directors - and hence over 50% of the members of the Board of Directors - have the requirements to be qualified as independent pursuant to the Corporate Governance Code and the TUF and, specifically: Laura Cioli, Domenico De Sole, Tao Haisu, Giovanni Lo Storto, Marisa Pappalardo, Cristina Scocchia, Fan Xiaohua and Wei Yintao. Upon appointment and thereafter at least on an annual basis, the Board evaluates whether or not members meet and/or retain the requirements of independence specified in the Corporate Governance Code and the TUF for non-executive directors qualified as independent. This check - which takes into account not only the information provided by the directors themselves but also further information that might be available to the Company, and referring to the requirements set out in the TUF, as well as to those recommended in the Corporate Governance Code - was most recently carried out during the board meeting on 26 February 2019.

In making its assessments, the Board did not derogate from any of the criteria prescribed by the Corporate Governance Code.

At the same time of the assessments made by the Board of Directors, the Board of Statutory Auditors confirmed that, in line with the recommendations of the Corporate Governance Code[38], it had verified the proper application of the assessment criteria and ascertainment procedures adopted by the Board of Directors to assess the independence of its members.

None of the Directors qualified as independent at the date of their appointment had lost this status during their term of office.

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[37] It should be noted that at present no member of the Board of Directors is a key manager of the Company with strategic responsibilities and/or holds the role of Chief Executive Officer or Executive Chairman in Pirelli subsidiaries. For completeness, it should be noted that (i) Director Giovanni Tronchetti Provera is a senior manager of the Company; (ii) Director Giorgio Luca Bruno was a key manager of the Company with strategic responsibilities during the 2017 financial year and subsequently a senior manager of the Company until 31 December 2018 (cf. Remuneration Report).

[38] In particular, no one of the independent directors could be considered as “significant representative”.

Considering the above, the system of powers and the share ownership structure, and the provisions on this subject contained in the Corporate Governance Code, the Board of Directors decided not to appoint a lead independent director.

The independent and non-executive directors contribute to the board discussions, bringing their specific skills, and, given their number, they have a decisive weight in the decision-making process of the Board of Directors.

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 reference to the prevention of market abuses, the Board of Directors of Pirelli has adopted a procedure for defining the principles and rules for preventing such abuses by Pirelli, Group companies and their related parties (the "**Market Abuse Procedure**")

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.

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,[39] 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 Audit, Risks, Sustainability and Corporate Governance Committee, the Remuneration 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 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.

The meetings of the Committee shall be convened by notice sent to the participants by its Chairman or by the Secretary of the Committee by the 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.

[39] Annually - as a rule by the end of the year - the Company publishes the calendar of principal corporate events for the next financial year and promptly updates this calendar in the event of subsequent amendments.

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 rule, the Executive Vice President & Chief Human Resources and Organization Officer attends the meetings of the Remuneration Committee, while the Corporate Vice President Internal Audit and the Head of Sustainability & Risks Governance attend the meetings of the Audit, Risks, Sustainability and Corporate Governance Committee.

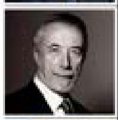
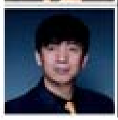
Committees - which may use the support of external advisors in carrying out their functions - are granted with adequate financial resources to perform their tasks with spending autonomy. The Related-Party Transactions Committee is entitled to obtain assistance, at the expense of the Company, from one 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 Audit, Risks, Sustainability and Corporate Governance Committee, the Related-Party Transactions Committee and the Remuneration 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.

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

STRATEGIES COMMITTEE		
	Name and Surname	**Office**
	Marco Tronchetti Provera	Executive Vice Chairman and Chief Executive Officer
	Yang Xingqiang	Not Executive Director
	Bai Xinping	Not Executive Director
	Giorgio Luca Bruno	Not Executive Director
	Domenico De Sole	Not Executive Independent Director
	Ze'ev Goldberg	Not Executive Director
	Wei Yintao	Not Executive Independent Director

At the Report Date, the Strategies Committee is made of 7 Directors (including 2 Independent Directors): Marco Tronchetti Provera (Chairman), Giorgio Luca Bruno, Yang Xingqiang, Bai Xinping, Ze'ev Goldberg, Domenico De Sole and Wei Yintao.

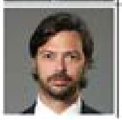
The Strategies Committee advises and makes recommendations to the Board of Directors on the definition of strategic guidelines, as well as on the identification and definition of terms and conditions for individual transactions of strategic importance.

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

APPOINTMENTS COMMITTEE		
	Name and Surname	**Office**
	Ning Gaoning	Not Executive Chairman
	Marco Tronchetti Provera	Executive Vice Chairman and Chief Executive Officer
	Bai Xinping	Not Executive Director
	Giovanni Tronchetti Provera	Not Executive Director

At the date of this Report, the Appointments and Successions Committee is composed of 4 members: Marco Tronchetti Provera (Chairman), Ning Gaoning, 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 (although not independent). This is due to the fact that the committee addresses not only matters relating to appointments, but also those regarding top management succession, and considering 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 paragraph 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;

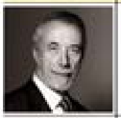
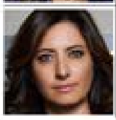
- recommends candidates to the Board of Directors, should it be necessary to co-opt new Directors to replace Independent Directors;

- 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

		RPT COMMITTEE
	Name and Surname	**Office**
	Domenico De Sole	Not Executive Independent Director
	Marisa Pappalardo	Not Executive Independent Director
	Cristina Scocchia	Not Executive Independent Director

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 Remuneration 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. REMUNERATION COMMITTEE

REMUNERATION COMMITTEE		
	Name and Surname	**Office**
	Bai Xinping	Not Executive Director
	Laura Cioli	Not Executive Independent Director
	Tao Haisu	Not Executive Independent Director
	Giovanni Lo Storto	Not Executive Independent Director

At the Report Date, the Remuneration Committee is composed of 4 directors (including 3 independent directors): Tao Haisu (Chairman); Laura Cioli (Director with adequate knowledge and experience of financial matters or pay policies), Bai Xinping and Giovanni Lo Storto (Director with adequate knowledge and experience of financial matters or pay policies).

This Committee has advisory and supervisory functions and makes recommendations to ensure the definition and the application within the Group of remuneration 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 Remuneration 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 remuneration plans based on financial instruments;

- monitors application of the decisions adopted by the Board, verifying in particular the effective achievement of the established performance objectives;

- examines and submits to the Board of Directors the remuneration 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 directors who are members of the Remuneration Committee do not attend the meetings of the Committees 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 through an effective and verifiable link between remuneration, on the one hand, and individual and Group performance on the other.

The Company's remuneration policy for the Year includes a long term incentive plan - so-called LTI plan - which ensures that the variable remuneration parameters are linked to long-term objectives. Information about the 2019 remuneration policy and on remuneration paid in 2018 can be found in the Remuneration 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.

Finally, it should be noted that the information required pursuant to art. 123-*bis*, para. 1, letter i) of the 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 abovementioned Remuneration Report.

12. AUDIT, RISKS, SUSTAINABILITY AND CORPORATE GOVERNANCE COMMITTEE

		ARSCGC
	Name and Surname	**Office**
	Laura Cioli	Not Executive Independent Director
	Cristina Scocchia	Not Executive Independent Director
	Fan Xiaohua	Not Executive Independent Director
	Giovanni Lo Storto	Not Executive Independent Director

At the Report Date, the Audit, Risks, Sustainability and Corporate Governance Committee was composed of 4 independent directors: Fans Xiaohua (Chairman), Laura Cioli, Cristina Scocchia and Giovanni Lo Storto, all with adequate experience in accounting and finance or in risk management.

The Audit, Risks, Sustainability and Corporate Governance Committee, which incorporates the functions of the “control and risks committee”, supports the Board of Directors in the assessment and decision-making about the system of internal control and risk management, as well as in the approval of the periodic financial reports, as required by art. 7 of the Corporate Governance Code.

In particular, the Audit, Risks, Sustainability and Corporate Governance Committee:

- assists the Board of Directors, expressing an opinion on: (i) the 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, managed and monitored; (ii) the determination of the extent to which these risks are compatible with managing the business 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 of the Company over the medium-long term; (iii) the identification of an executive director responsible for supervising the functioning of the internal control and risk management system, considering the characteristics of the business and the risk profile;(iv) the assessment, at least annually, of the adequacy of the internal control and risk management system, considering the characteristics of the business and the risk profile involved, as well as the effectiveness of its functioning in practice; (v) the approval, at least annually, of the work plan prepared by the head of internal audit and the head of the compliance department; (vi) the description, in the report on corporate governance, of the essential elements of the internal control and risk management system and the arrangements for coordination between the subjects involved, expressing its opinion on their overall adequacy; (vii) the assessment, having obtained the opinion of the Board of Statutory Auditors, of the results presented by the external auditor in any letter of recommendations to the management, and any report on fundamental issues identified during the external audit;

- expresses an opinion on proposals concerning the appointment, revocation, assignment of duties and determination of the remuneration, consistent with Company policies, of the head of the Internal Audit Department, and on the adequacy of the resources allocated to the latter in order to carry out his or her assigned functions;

- assesses, together with the administrative managers of the Company and the executive responsible for preparing the corporate accounting documents, after having obtained the opinions of the Board of Statutory Auditors and the external auditor, the proper and consistent application of the accounting standards adopted by the Group for the preparation of the consolidated financial statements;

- at the request of the director responsible, expresses opinions on specific aspects of the identification of the principal business risks, and on the design, implementation and management of the internal control and risk management system;

- reviews the periodic reports prepared by the head of internal audit and of the compliance department;

- monitors the autonomy, adequacy, effectiveness and efficiency of the internal audit department;

- if considered advisable, requests audits of 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 undertaken and on the adequacy of the internal control and risk management system at least every six months, at the time the financial statements and the half-year report are approved;

- at Board's request, 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 issues connected to the operation of the Company's business and the dynamics of its interactions with all stakeholders;

- defines “sustainability” guidelines and proposes them to the Board of Directors, and monitors compliance with the rules of conduct that might have been adopted by the Company and its subsidiaries;
- assists the Board of Directors in the preparation and subsequent review and approval of the sustainability report.

13. SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT

The Company’s internal control and risk management system is designed to contribute to the operation of a healthy and proper business, consistent with the objectives established by the Board of Directors, by identifying, managing and monitoring the principal risks faced by the Company. The internal control and risk management system allows the principal risks, and the reliability, accuracy, trustworthiness and timeliness of financial reporting to be identified, measured, managed and monitored.

Responsibility for the adoption of an adequate internal control and risk management system lies with the Board of Directors which, with the support of the Audit, Risks, Sustainability and Corporate Governance Committee, carries out the tasks assigned to it in the Corporate Governance Code.

A more complete description of the internal control system adopted by Pirelli can be found in the management report. In this regard, the Board of Statutory Auditors has issued a statement on the administration and accounting systems adopted by the significant subsidiaries of Pirelli to ensure that the information on the company’s assets, business and finances required for the preparation of the consolidated financial statements is regularly received by the Pirelli’s senior management and external auditor.

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 in charge of supervising the functioning of the system of internal control and risk management and implementing the related guidelines formulated by the Board of Directors, with the support of the Audit, Risks, Sustainability and Corporate Governance Committee, ensuring that all actions necessary for the implementation of the system are taken.

In particular, the Responsible Director:

- ensures that the principal business risks are identified, taking account of the characteristics of the activities carried out by the Company and its subsidiaries, and submits them periodically to the Board of Directors for review;

- gives execution to the guidelines formulated by the Board of Directors, supervising the drafting, implementation and management of the internal control and risk management system and constantly monitoring its adequacy and effectiveness;
- ensures that the system is compliant with any changes in operating conditions and in the legislative and regulatory framework;
- may ask the internal audit department to audit specific operating areas and compliance with the internal rules and procedures for the conduct of business operations; and
- promptly reports to the Audit, Risk, Sustainability and Corporate Governance Committee (or to the Board of Directors) on issues and critical situations identified during his work or otherwise brought to his attention, so that the Committee (or the Board) can take appropriate action.

13.2 *INTERNAL AUDIT DEPARTMENT*

The Company has established an Internal Audit Department, directed by Maurizio Bonzi, which has been attributed responsibilities essentially consistent with those set out in the Corporate Governance Code.

In particular, the department is tasked with assessing the adequacy and functioning of the audit, risk management and corporate governance processes, by providing independent and objective assurance and advice.

The internal audit Department:

- audits, both on a continuous basis and in relation to specific needs and in accordance with international standards, the effective operation and suitability of the Internal Control and Risk Management System - suggesting any corrective actions required - 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 audits, also at the request of the Audit, Risks, Sustainability and Corporate Governance Committee, the Board of Statutory Auditors and the Responsible Director, of specific operating areas and compliance with the internal procedures and rules in the execution of business operations;
- prepares periodic reports on its assessment of the suitability of the Internal Control and Risk Management System. These reports are sent, at least quarterly, to the Board of Statutory Auditors, the Audit, Risk, Sustainability and Corporate Governance Committee, and the Responsible Director of the internal control system, 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 the Legislative 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 external auditor and to other firms in its network.

As mentioned in paragraph 12, it should be noted that the Audit, Risks, Sustainability and Corporate Governance Committee expresses an opinion on proposals concerning the appointment, revocation, assignment of duties and determination of the remuneration, consistent with Company policies, of the head of the internal audit department, as well as on the adequacy of the resources allocated to the department in order to carry out the assigned functions.

13.3 *COMPLIANCE DEPARTMENT*

Operating within the Corporate Affairs, Compliance and Company Secretary Department, the Compliance department works with the Legal departments and other competent company departments to ensure that the company's internal regulations, processes and activities are constantly aligned with the applicable regulatory framework, participating actively in the identification of any non-compliance risks that might give rise to judicial or administrative penalties, with consequent reputational damage. For further details on the activities performed by the Compliance department please refer to paragraph "*Programs of Compliance 231, Anti-corruption, Privacy and Antitrust*" of the NFD Report.

13.4 *SYSTEM OF RISK MANAGEMENT AND CONTROL OVER FINANCIAL INFORMATION*

Pirelli has implemented a specific and detailed internal control and risk management system, supported by dedicated IT software, relating to the control on 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, 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, together with the Compliance Department, periodically (and in any case, when the separate/consolidated financial statements are prepared) checks their adequacy and proper application.

In order to permit certification by the Chief Financial Officer, the companies and the significant processes that generate information of an economic-nature, or about corporate assets, have been mapped. The companies that are members of the Group and the significant processes are identified each year on the basis of quantitative and qualitative criteria. Quantitative criteria include the identification of those Group companies that represent an aggregate value, in relation to the processes selected, that exceeds a predetermined threshold of materiality.

Qualitative criteria include the review of those processes and of those companies that, as ultimately determined by the Chief Financial Officer, may present potential areas of 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 internal control system in general.

Detailed verification work has been planned, and specific responsibilities have been defined for each control objective.

A system for supervising the verification work undertaken has been implemented through a chain-of-certifications mechanism; any problems that emerge during the assessment process are the subject of action plans whose implementation is monitored at subsequent reporting dates.

Finally, the Chief Executive Officers and Chief Financial Officers of subsidiaries issue half yearly statements attesting the reliability and accuracy of the data submitted for the preparation of the Group's consolidated financial statements.

Shortly before the Board meetings held to approve the consolidated data as of 30 June and 31 December, the Chief Financial Officers share 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 carried out on samples of companies and processes, selected applying materiality criteria.

13.5 *DIRECTOR RESPONSIBLE FOR SUSTAINABILITY MATTERS*

On 26 February 2019, the Board of Directors, having acknowledged the remission of the proxies on sustainability matters by the Director Bruno, appointed the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera as Sustainability Director. In that role, he is responsible for supervising sustainability issues associated with the conduct of the activities of the company, and its dynamics of interaction with all the stakeholders, and for implementing the guidelines defined by the Board of Directors, with assistance from the Audit, Risks, Sustainability and Corporate Governance Committee.

13.6 *MODEL 231 AND CODE OF ETHICS*

The Company has adopted the organisation and management model envisaged by Decree 231 of 8 June 2001, as subsequently amended (the "**Model 231**"), in order to create a system of rules designed to prevent unlawful 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 Model 231 to its foreign subsidiaries as that model might not be compatible with their current national regulations and, therefore, would not entirely eliminate the risk of incurring penalties as a consequence of their activities.

The Model 231- constantly updated by the Company also in light of the new legislative provisions - 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 breaches of the standards of conduct specified in Model 231, 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 (Standing Auditor), Maurizio Bonzi and Alberto Bastanzio (the last two because 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.

An abstract of the Model 231 is available on the Website.

13.7 *EXTERNAL AUDITOR*

The audit company engaged to perform the external audit of the accounts of the Company is PricewaterhouseCoopers S.p.A. (the "**External Auditing Firm**"), with registered and administrative offices at via Monte Rosa 91, Milan, recorded on the Register of 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 of the Company, held on 27 April 2017 engaged the External Auditing Firm to perform the external audit of Pirelli's accounts, 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 external 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 external 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 condensed half-year consolidated financial statements of Pirelli for the six-month periods ending on 30 June 2018-2025.

The detail of the fees due to the External Auditing Firm is shown in the Explanatory Notes.

13.8 *CHIEF REPORTING OFFICER*

The Board of Directors appointed Francesco Tanzi as manager responsible for the preparation of corporate and accounting documentation pursuant to art. 154-bis TUF (the "**Chief Reporting Officer**"), with effect from the First Trading Day and after receiving a favourable opinion from the Board of Statutory Auditors. The Board of Directors also verified that the Chief Reporting Officer is expert in administration, finance and control matters and satisfies the integrity requirements established for the directors.

The Chief Reporting Officer puts in place suitable administrative and accounting procedures 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.

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 150 thousand Euro);

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 reasonability 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.

A special section of the financial statements shows the principal transactions with related parties undertaken by the Company.

15. BOARD OF STATUTORY AUDITORS

15.1 *APPOINTMENT, REPLACEMENT AND DURATION IN OFFICE*

At the Report Date, reflecting the importance that Pirelli attributes to the role of the control body, the Board of Statutory Auditors is composed of five standing auditors and three alternate auditors who are required to satisfy current regulatory requirements; in this regard it shall be considered as subjects and sectors of activity closely related to those of the company those indicated in the corporate purpose, with particular reference to companies or entities operating in the financial, industrial, banking, insurance and real estate fields and services in general.

The Ordinary Shareholders' Meeting appoints the Board of Statutory Auditors and determines its remuneration.

The statutory auditors act with autonomy and independence, also with regard to the shareholders that elected them.

In order to enable the minority to elect a standing 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 slates presented by the shareholders, in which each candidate is listed with a sequence number. Each slate contains a number of candidates that does not exceed the number of members to be elected.

Shareholders are only entitled to present a slate if, alone or together with other shareholders, they hold at least 1% of the shares entitled to vote at an Ordinary Shareholders' Meeting, or any lower amount required by a regulation issued by Consob for the presentation of slates of candidates for appointment of the Board of Directors. Each shareholder may present or contribute to the presentation of just one slate.

The slates 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 Shareholders' 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 slates are made available to the public at the registered offices, on the Website and in other ways prescribed by Consob, regulation at least twenty-one days prior to the date of the Shareholders' Meeting.

Each candidate may be included on just one slate, subject otherwise to becoming ineligible.

Each slate comprises two sections: one for candidates for the office of standing auditor and the other for candidates to the position of alternate auditor. The first candidate in each section shall be selected from among those registered in the Register of Chartered Accountants who has worked on external audits for a period of not less than three years. In compliance with the regulations in force from time to time concerning gender balance, slates that - considering both sections - contain three or more candidates must include candidates of different gender both in the section of the slate for standing auditors the section for alternate auditors.

Each party entitled to vote may only vote for one slate. The members of the Board of Statutory Auditors are elected as follows:

1) four standing auditors and two alternate auditors are drawn, in the sequence listed, from the slate that obtained the largest number of votes (the majority slate);

2) the remaining standing auditor and alternate auditor are drawn, in the sequence listed, from the slate that obtained the second largest number of votes (the minority slate) at the Shareholders' Meeting; should several slates obtain the same number of votes, a new vote limited to such slates is held by all those entitled to vote that attend the Shareholders' Meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

Should application of the slate voting mechanism not obtain, considering the standing 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 slate 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 slate, pursuant to the sequential order of presentation.

An auditor is replaced, in the event of death, resignation or forfeiture, by the first alternate auditor drawn from the same slate. If this replacement does not allow the Board of Statutory Auditors to be reconstructed in compliance with current regulations, including the provisions governing gender balance, recourse is made to the second alternate auditor drawn from the same slate. If, subsequently, it becomes necessary to replace another Auditor drawn from the slate that obtained the largest number of votes, recourse is made to the other alternate auditor drawn from the same slate. 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 slate as the Chairman to be replaced, always provided 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 will be called to supplement the Board of Statutory Auditors with resolutions adopted by a relative majority of the votes cast.

When the Shareholders' Meeting must appoint the standing and/or alternate auditors necessary for the integration of the Board of Statutory Auditors, the procedure is the following: if it is necessary to replace auditors elected from the majority slate, the appointment is made by a relative majority of the votes cast, without any slate 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 slate, the Shareholders' Meeting replaces them by a relative majority of the votes cast, choosing them - where possible - among the candidates indicated on the slate from which the auditor to be replaced was drawn and, in all cases, in compliance with the principle of necessary representation of 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 of necessary representation of the minorities is respected if the auditors elected were previously candidates on the minority slate or on slates other than that which, at the time of appointing the Board of Statutory Auditors, obtained the largest number of votes.

If only one slate is presented, the Shareholders' Meeting votes on it; if the slate obtains a relative majority of the votes cast, the candidates listed in the respective sections of the slate are appointed as standing auditors and alternate auditors; the person listed first on the above slate 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 procedure above, 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. The outgoing Statutory Auditors may be re-elected.

15.2 *COMPOSITION*

The Board of Statutory Auditors in charge at the Report Date was appointed by the Ordinary Shareholders' Meeting held on 15 May 2018 (with the slate voting mechanism) and is made up of the following members: Francesco Fallacara (Chairman of the Board of Statutory Auditors, appointed from the minorities), Fabio Artoni, Antonella Carù, Luca Nicodemi and Alberto Villani as standing auditors, and Franca Brusco (appointed from the minorities), Elenio Bidoggia and Giovanna Oddo, as alternate auditors until the date of the Shareholders' Meeting called for the approval of the financial statements as of 31 December 2020.

The professional profiles of the members of the Board of Statutory Auditors are summarised on the Website.

The remuneration of the statutory auditors is discussed in the Remuneration Report.

The Shareholders' Meeting of 15 May 2018 confirmed the appointment of all the standing members of the Board of Statutory Auditors whose mandates were due to expire.

All the Statutory Auditors can be qualified as independent on the basis of the criteria specified for Directors[40] in the Corporate Governance Code, in line with the provisions contained in said Code and as expressly ascertained by the Board of Statutory Auditors, based on the information provided by the Statutory Auditors and the information available to the Board of Statutory Auditors. This ascertainment is carried out annually.

[40] The Board of Directors, on 22 June 2018, communicated to have evaluate the existence of the independence requirements of the statutory auditors declared at the time of appointment.

It should be noted that the Statutory Auditors accepted their office after having considered whether or not they could dedicate the necessary time to the performance of their duties.

During the Year, the Board of Statutory Auditors of Pirelli met 12 times, with each meeting having an average duration of about 2 hours.

At the Report Date, 37.5% of the eight members of the Board of Statutory Auditors (five standing auditors and three alternate auditors) are female (the percentage is 20% with reference to the standing auditors only). Furthermore, the average age of the members of the Board of Statutory Auditors is just above to 52 years (the average age of the standing Auditors only is 54). 80% of the standing auditors are between 54 and 58 years of age, while the remaining standing Auditor was 45.

For further details on the application of the diversity criteria, and of gender, in the composition of the Board of Statutory Auditors see paragraph 1.2.

During the Year, like the Board of Directors, the Board of Statutory Auditors started for the first time – in accordance with the recommendations of the rules of conduct of listed companies issued by the Italian Board of Professional Accountants and Auditors (*Consiglio nazionale dei dottori commercialisti e degli esperti contabili*) - the process to assess how it operates, with the assistance of independent consultants SpencerStuart. This self-assessment process was carried out through individual interviews with questions about the suitability, size, composition and operation of the Board of Statutory Auditors itself, in order to certify the suitability, correctness and effectiveness of its operation. The positive result of the Board of Statutory Auditors assessment process are highlighted under the Statutory Auditors Report to the financial statements as of 31 December 2018.

Table 3 attached provides for the relevant information about each member of the Board of Statutory Auditors in charge at the Report Date.

16. GENERAL MANAGER OPERATIONS

It should be noted that on 14 May 2018 the Board of Directors approved the establishment of the General Operations Department, under the responsibility of Andrea Casaluci. The Board granted appropriate responsibilities and operational powers to the General Manager Operations in order to perform his role.

17. INFORMATION FLOWS TO THE DIRECTORS AND STATUTORY AUDITORS

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 necessary sources of information for the efficient performance of its supervisory role.

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 explanations provided 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 related to the management of the Company.

In any case, 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 articles 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. If the information flows are related to inside information and/or significant information, they must take place in accordance and compliance with the procedures indicated in the Market Abuse Procedure.

18. 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.

In line with international best practices, the “Investors” section on the Website is constantly updated with content of interest to the financial market, including: strategy (“*Equity Story*”), economic-financial data on previous financial years, analysts’ opinions of Pirelli, and their estimates for the principal economic-financial indicators (“*Consensus”*), monthly developments in the principal automotive tyre market (“*Tyre Market Watch*”). The Investor Relations Department also promotes periodic meetings with Shareholders and Investors in Italy and abroad.

19. 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 an 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 Shareholders' 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 cases provided 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 provided 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 provided 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 Shareholders' Meeting quorum and the validity of resolutions are governed by law.

The right to attend Shareholders' 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 Shareholders' 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 Shareholders' Meeting. The communication must be received by the Company within the end of the third trading day prior to the date fixed for the Shareholders' Meeting, or within any different deadline established by the applicable regulations. All without prejudice to the legitimacy for the Shareholders 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 Shareholders' 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 Shareholders' Meeting.

The Chairman of the Shareholders' Meeting is assisted by a Secretary, appointed by a majority of the share capital represented at the Shareholders' Meeting, who does not need to be a shareholder; assistance from the Secretary is not necessary when the minutes of the Shareholders' Meeting are drafted by a Notary.

The Chairman of the Shareholders' 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; manages 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 verifying the results.

Shareholders’ 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.

The conduct of such meetings is governed by the general meeting regulations approved by the Shareholders’ Meeting held on 1 August 2017 (available on the Website), as well as by the law and the Articles.

20. 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 paragraphs, if applicable.

21. THE PIRELLI WEBSITE

For Pirelli, the Website - in English and in Italian - represents a fundamental tool to ensure the prompt and total dissemination of information about the Company and the Group to all Stakeholders.

Pirelli ensures that it is promptly and thoroughly updated, so as to guarantee the transparency of information and compliance with the current laws and regulations applicable to companies listed on the Italian Stock Exchange.

The Company’s purpose is to provide simple and clear information for investors and, in general, all its stakeholders, through the Site, in line with common practice. For this reason, also taking account of the results of assessments by independent agencies - most recently in August 2018 - and in line with the expectations of the Stakeholders, the Company uses its best endeavours to constantly implement the Website.

22. CONSIDERATIONS ON THE LETTER OF 21 DECEMBER 2018 BY THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE

With a letter dated 21 December 2018 (the “**Letter by the Chairman”**) the Chairman of the Borsa Italiana’s Corporate Governance Committee, Patrizia Greco, in the context of the usual monitoring of the application of the provisions of the Corporate Governance Code, formulated four recommendations for listed Companies (the **“Committee’s Recommendations for 2019”**) and, at the same time, expressed the hope that the considerations of each issuer on these recommendations and any related initiatives they undertake would be made public with the publication of the Report.

The Boards of Directors of companies listed in Italy that adhere to the Corporate Governance Code were invited to:

1. promote within the board an activity assessing the **adequacy of the pre-board reporting** received during the financial year and to ensure that the confidentiality requirements are safeguarded without compromising the adequacy and timeliness of the flows of information that precede the board meetings;

2. apply the **criteria of independence defined by the Corporate Governance Code** with greater rigour, emphasising how cases in which these criteria are not applied should be an exception, and in any event extensively justified**;** the control bodies were invited to monitor the correct application of these criteria;

3. ensure greater **transparency about the methods used to carry out the board performance evaluation,** expressing the hope that, particularly for the larger issuers, a member of the board be identified to oversee the board performance evaluation and that arrangements are adopted that maximize the individual contribution made of each director;

4. check that the **remuneration policies** adopted are **adequate for the pursuit of the aim of the sustainability of the activities of the company in the medium-long term;** in this regard it was recommended, in particular to medium-large issuers, that the link between variable remuneration and parameters linked to long-term objectives be strengthened, and the possibility of paying sums not linked to predetermined parameters (i.e. "*ad hoc*" bonuses) be limited to individual exceptional cases, subject to an adequate explanation.

The recommendations contained in the Letter by the Chairman were brought to the attention of (i) the Audit, Risks, Sustainability and Corporate Governance Committee and the Board of Statutory Auditors on 13 February 2019, and (ii) the Board of Directors on 14 February 2019.

A summary of the considerations formulated by the Board of Directors on the Committee's Recommendations for 2019 is provided below.

The system of corporate governance rules adopted in the past by Pirelli - inspired by international best practices on corporate governance - is already in line with the principles under the Corporate Governance Code for listed companies, to which the Company has adhered, as also shown in the periodic reports published in Pirelli's 2017 financial statements and the half-yearly report at 30 June 2018 of Pirelli, for the reasons listed below***:***

- standard pre-board reporting is assured by the Company at least ten days before the meeting (both in Italian and in all the other languages spoken by members of the company bodies); the confidentiality and traceability of information and documents sent to the Directors and Statutory Auditors is ensured through the use of a dedicated computer tool, accessible with personal credentials;

- there have been no exceptions to the application of the criteria of independence established by the Corporate Governance Code during the mandate of the current board;

- a Board Performance Evaluation has been carried out with the aid of a primary independent company specialised in the subject (SpencerStuart) acting as facilitator of the process (for more details see paragraph 4.5.1);

- The 2019 Remuneration Policy adopted by the Company provides for a long incentive period (the “LTI plan”) which ensures that the variable remuneration parameters are linked to long-term targets (for more details see the Remuneration Report).

The Board of Directors of the Company - having also obtained the favourable opinions of the members of the competent Committees and of the Board of Statutory Auditors on this subject -, believes that, as promptly highlighted in this Report, no specific interventions to its own system of corporate governance are needed in relation to the issues highlighted in the Letter by the Chairman insofar since the Committee’s Recommendations for 2019 were already implemented some time ago.

TABLE 1: SIGNIFICANT SHAREHOLDINGS OF CAPITAL

The subjects which, according to the information published by Consob at the date of publication of this Report and/or according to further information available to the Company, hold shares with voting rights in Ordinary Shareholders' Meetings that represent more than 3% of the ordinary share capital are listed below.

SIGNIFICANT SHAREHOLDINGS OF CAPITAL			
Declaring party	**Direct Shareholder**	**% of ordinary capital**	**% of voting capital**
China National Chemical Corporation	Marco Polo International Italy S.r.l.	45.52%	45.52%
Tronchetti Provera Marco	Camfin S.p.A.	10,05%	10,05%
Norges Bank	Norges Bank	3.17%	3.17%

NOTES TO TABLE 1

1 It is useful to note that the information published by Consob on its website by virtue of the communications made by the parties bound by the obligations of Article 120 of the TUF and the Issuers Regulation, could be different appreciably from the real situation, because the obligations to communicate changes in the percentages of shareholdings arise not when there is a simple change in this percentage but only when the holdings exceed or fall below predetermined thresholds (3%, 5%, and subsequent multiples of 5% up to a 30% threshold and, beyond this threshold, 50%, 66.6% and 90%). It follows, for example, that a shareholder (i.e. a declaring subject) that has declared ownership of 5.1% of the share capital with voting rights may increase their stake up to 9.9% without thereby having any obligation to notify Consob under Article 120 of the TUF.
Additionally, the Company Articles do not provide for the possibility of increased voting rights or the issue of shares with multiple voting rights.

2 From the information reported on the Consob website, in the section "Investments in financial instruments and aggregate investments", it appears that in the month of December 2018, LTI transferred its holding in Pirelli to a bank, pursuant to a buy-back contract between the parties to guarantee a loan granted by said bank, which undertook to transfer said shareholding back to LTI and do everything in its power to exercise the voting rights in accordance with the instructions given from time to time by LTI.

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors[1]													Audit, Risks, Sustainability and Corporate Governance Committee[2]		Remuneration Committee[3]		Appointments Committee		Strategy Committee		RPT Committee	
Office	Members	Year of birth	Date first appointed*	Current mandate (in office since)	In office until	Slate[4] (**)	Exec.	Non-exec.	Indep. Code	Indep. TUF	No. other offices ***	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
Chairman	**Ning Gaoning**	1958	07 August 2018	07 August 2018	next shareholders meeting[6]	-		x			Cfr. All. A	**0/1**					-	**M**				
Executive Vice Chairman and Chief Executive Officer•◊	**Marco Tronchetti Provera**	1948	07 May 2003[5]	31 August 2017	AGM financial statement 2019	-	x				Cfr. All. A	**6/6**					-	**P**	-	**P**		
Director	**Yang Xingqiang**	1967	28 September 2015	31 August 2017	AGM financial statement 2019	-		x			Cfr. All. A	**5/6**							-	**M**		
Director	**Bai Xinping**	1968	02 September 2015	31 August 2017	AGM financial statement 2019	-		x			Cfr. All. A	**5/6**			**3/3**	**M**	-	**M**	-	**M**		
Director	**Giorgio Luca Bruno**	1960	15 marzo 2016	31 August 2017	AGM financial statement 2019	-		x			Cfr. All. A	**5/6**							-	**M**		
Director	**Laura Cioli**	1963	01 August 2017	31 August 2017	AGM financial statement 2019	-		x	x	x	Cfr. All. A	**5/6**	**4/5**	**M**	**3/3**	**M**						
Director	**Domenico De Sole**	1944	01 August 2017	31 August 2017	AGM financial statement 2019	-		x	x	x	Cfr. All. A	**6/6**							-	**M**	**10/10**	**P**
Director	**Ze'ev Goldberg**	1960	02 September 2015	31 August 2017	AGM financial statement 2019	-		x			Cfr. All. A	**6/6**							-	**M**		
Director	**Tao Haisu**	1949	01 August 2017[7]	31 August 2017	AGM financial statement 2019	-		x	x	x	Cfr. All. A	**5/6**			**3/3**	**P**						
Director	**Marisa Pappalardo**	1966	01 August 2017	31 August 2017	AGM financial statement 2019	-		x	x	x	Cfr. All. A	**6/6**									**10/10**	**M**
Director	**Cristina Scocchia**	1973	01 August 2017	31 August 2017	AGM financial statement 2019	-		x	x	x	Cfr. All. A	**5/6**	**5/5**	**M**							**9/10**	**M**
Director	**Giovanni Tronchetti Provera**	1983	01 August 2017	31 August 2017	AGM financial statement 2019	-		x			Cfr. All. A	**6/6**					-	**M**				
Director	**Fan Xiaohua**	1974	01 August 2017	31 August 2017	AGM financial statement 2019	-		x	x	x	Cfr. All. A	**6/6**	**5/5**	**P**								
Director	**Wei Yintao**	1971	01 August 2017	31 August 2017	AGM financial statement 2019	-		x	x	x	Cfr. All. A	**6/6**							-	**M**		
Director	**Giovanni Lo Storto**	1976	15 May 2018	15 May 2018	AGM financial statement 2019	m		x	x	x	Cfr. All. A	**3/3**	**2/2**	**M**	**1/1**	**M**						
DIRECTORS WHO CEASED TO HOLD OFFICE DURING THE YEAR																						
On 30 July 2018, Ren Janxin resigned from the office of Chairman of the Board of Directors and Director of the Company																						
Chairman	**Ren Janxin**	1958	20 October 2015	31 August 2017	30 July 2018	-		x			-	**3/4**					-	**M**				

Number of meetings of the Board of Directors held during the year: 6

Control and Risks Committee: 5 / Remuneration Committee: 3 / Appointments Committee: Strategies Committee: 0 / RPT Committee: 10

Indicate the quorum required for minority shareholders to submit a slate for the election of one or more directors (pursuant to art. 147-ter TUF):

1% of the share capital with the right to vote in ordinary shareholders' meetings

The following symbols must be inserted in the "Office" column:

• This symbol indicates the director responsible for the internal control and risk management system.

◊ This symbol indicates the person principally responsible for the operations of the issuer (Chief Executive Officer or CEO).

* The date of first appointment of each director means the date on which the director was appointed for the first time (in absolute terms) to the BoD of the issuer.

** The slate from which each director was elected is indicated in this column ("**M**": majority slate; "**m**": minority slate; "**BoD**": slate presented by the BoD).

*** The number of offices as director or statutory auditor held by the person in question in other companies listed in regulated markets, including foreign companies, finance companies, banks, insurance companies or of significant size is shown in this column.

(*) The attendance of the directors at the meetings of the BoD and its committees compared to the total number of meetings he or she could have attended is indicated in this column.

(**) The office held by the person on the Board is indicated in this column: "**C**": chairman; "**M**": member.

NOTES TO TABLE 2

1 The membership of the Board of Directors was supplemented with the appointment of Giovanni Lo Storto as an independent director nominated by the minority shareholders at the ordinary shareholders' meeting held on 15 May 2018, pursuant to the provisions of the New Shareholders' Agreement.

2 The membership of the Audit, Risks, Sustainability and Corporate Governance Committee was integrated with Director Giovanni Lo Storto following the Shareholders' Meeting on 15 May 2018.

3 The membership of the Compensation Committee was integrated with Director Giovanni Lo Storto following the Shareholders' Meeting on 15 May 2018.

4 All the Directors except Giovanni Lo Storto have been appointed before the First Trading Day. For further details see par. 4.2.

5 On 7 August 2018 the Board of Directors co-opted Ning Gaoning, appointing him Chairman of the Board of Directors pursuant to art. 2386 of the Italian Civil Code. Ning Gaoning's term of office will expire at the next Shareholders' Meeting.

6 Marco Tronchetti Provera assumed the office of General Partner of Pirelli & C. Accomandita per Azioni on 29 April 1986. On 7 May 2003 it was resolved to transform the Company from a joint stock partnership to a limited liability company, and in consequence, there no longer being the role of general partner, directors were appointed.

7 Tao Haisu was a Director of Pirelli from 20 October 2015 to 15 March 2016.

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors[1]

Office	Members	Year of birth	Date first appointed *	Current mandate (in office since)	In office until	Slate **	Indep. Code	Attendance at meetings of the Board of Statutory Auditors ***	Attendance at meetings of the BoD	Attendance at meetings of the ARSCGC	Attendance at meetings of the Remuneration Committee	Attendance at meetings of the Appointments Committee	Attendance at meetings of the Strategies Committee	Attendance at meetings of the RPT Committee	No. other offices ****
Chairman	**Francesco Fallacara**	1964	10 May 2012	15 May 2018	ACM financial statement 2020	m	x	12/12	6/6	5/5	3/3	-	-	10/10	Cf. Annex A
Standing Auditor	**Fabio Artoni**	1960	14 May 2015	15 May 2018	ACM financial statement 2020	M	x	12/12	6/6	5/5	3/3	-	-	9/10	Cf. Annex A
Standing Auditor	**Antonella Carù**	1961	10 May 2012	15 May 2018	ACM financial statement 2020	M	x	12/12	6/6	4/5	3/3	-	-	9/10	Cf. Annex A
Standing Auditor	**Luca Nicodemi**	1973	05 September 2017	15 May 2018	ACM financial statement 2020	M	x	12/12	6/6	5/5	3/3	-	-	10/10	Cf. Annex A
Standing Auditor	**Alberto Villani**	1962	05 September 2017	15 May 2018	ACM financial statement 2020	M	x	11/12	6/6	5/5	3/3	-	-	8/10	Cf. Annex A
Alternate Auditor	**Franca Brusco**	1971	15 May 2018	15 May 2018	ACM financial statement 2020	m	x	-	-	-	-	-	-	-	Cf. Annex A
Alternate Auditor	**Elenio Bidoggia**	1963	15 May 2018	15 May 2018	ACM financial statement 2020	M	x	-	-	-	-	-	-	-	Cf. Annex A
Alternate Auditor	**Giovanna Oddo**	1967	14 May 2015	15 May 2018	ACM financial statement 2020	M	x	-	-	-	-	-	-	-	Cf. Annex A

AUDITORS WHO CEASED TO HOLD OFFICE DURING THE YEAR

No Auditor ceased to hold office during the year, apart from what indicated in note 1 below

Number of meetings of the Board of Statutory Auditors held during the year: 12

Indicate the quorum required for minority shareholders to submit a slate for the election of one or more directors (pursuant to art. 148-ter TUF):
1% of the shares with the right to vote in ordinary shareholders' meetings

* The date of first appointment of each auditor means the date on which the auditor was appointed for the first time (in absolute terms) to the Board of Statutory Auditors of the issuer.

** The slate from which each auditor was elected is indicated in this column ("M": majority slate; "m": minority slate).

*** The attendance of the auditors at meetings of the Board of Statutory Auditors compared to the total number of meetings he or she could have attended is indicated in this column.

****The number of offices as director or statutory auditor held by the person in question pursuant to. 148-bis TUF and its implementing provisions in the Consob Issuers' Regulation is shown in this column. The complete list of offices is published by Consob on its website, pursuant to art. 144-*quinquiesdecies* of the Consob Issuers' Regulation.

NOTES TO TABLE 3

1 The information reported in Table 2 takes account of the fact that the Shareholders' Meeting held on 15 May 2018 confirmed the mandates of all the standing auditors members of the Board of Statutory Auditors whose mandates were due to expire, and appointed Franca Brusco and Elenio Bidoggia as Alternate Auditors (until that date, the alternate auditor in office was Fabio Facchini).

ANNEX A

SECTION I: LIST OF MAIN OFFICES HELD BY DIRECTORS, AT THE REPORT DATE, IN OTHER COMPANIES THAT ARE NOT PART OF THE PIRELLI GROUP

First and Last Name	Company	Office held in the company
Ning Gaoning	Sinochem Corporation Ltd:	Chairman of the Board of Directors
	• China Jinmao Holdings Group Ltd.	Chairman of the Board of Directors
	• Far East Horizon Ltd.	Chairman of the Board of Directors
	China National Chemical Corporation:	Chairman of the Board of Directors
	• China National Chemical Corporation	Chairman of the Board of Directors
	• Syngenta AG	Chairman of the Board of Directors
Marco Tronchetti Provera	Marco Tronchetti Provera & C. S.p.A.:	Chairman of the Board of Directors
	• Camfin 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	China National Chemical Corporation:	
	• ADAMA Agricultural Solutions Ltd.	Chairman of the Board of Directors
	• Marco Polo International Italy S.r.l.	Director
	• TP Industrial Holding S.p.A.	Chairman of the Board of Directors

Bai Xinping	China National Chemical Corporation:	
	• China National Tire & Rubber Company Ltd.	Chairman of the Board of Directors
	• CNRC International Holding (HK) Ltd.	Director
	• CNRC Capital Ltd.	Director
	• CNRC Capitale Ltd.	Director
	• CNRC International Ltd.	Director
	• Fourteen Sundew S.à.r.l.	Director
	• Marco Polo International Italy S.r.l.:	Chairman of the Board of Directors
	• TP Industrial Holding S.p.A.	Director
Giorgio Luca Bruno	Marco Tronchetti Provera & C. S.p.A.:	Director
	• Camfin S.p.A.	Director
	• Camfin Industrial S.p.A.	Sole Director
	TP Industrial Holding S.p.A.:	Chairman of the Board of Directors and Chief Executive Officer
	• Prometeon Tyre Group S.r.l.	Chief Executive Officer
Laura Cioli	SOFINA S.A.	Director
	Brembo S.p.A.	Director
	GEDI Gruppo Editoriale S.p.A.	Chief Executive Officer
Domenico De Sole	Sotheby's Holding Inc.	Chairman of the Board of Directors
	Tom Ford International Inc.	Chairman of the Board of Directors
	Advance Publication Inc.	Director
	Ermenegildo Zegna S.p.A.	Director
Ze'ev Goldberg	LW 44, Inc.	Principal
	Compass Partners	Partners

Giovanni Lo Storto	DoBank S.p.A.	Director
	Internazionale S.p.A.	Director
	Pola S.r.l.	Vice Chairman of the Board of Directors
	Base per Altezza S.r.l.	Director
	Luiss Guido Carli: • L. Campus S.r.l. • L. Com S.r.l. • L. Lab S.r.l.	 Chief Executive Officer Director Chief Executive Officer
Tao Haisu	Mercuria Energy Group • Mercuria (China) Investment Co. Limited	 Director
	Canada-China Global Natural Resources Investment Funds	Director
Marisa Pappalardo	BPER Banca S.p.A.	Director
	Finstar S.p.A.	Director
Cristina Scocchia	EssilorLuxottica S.A. • Luxottica S.p.A.	Director Director
	KIKO S.p.A.	Chief Executive Officer
Giovanni Tronchetti Provera	Marco Tronchetti Provera & C. S.p.A.: • Camfin S.p.A.	Director Director
	TP Industrial Holding S.p.A.: • Prometeon Tyre Group S.r.l.	Director Director
Fan Xiaohua	-	-
Wei Yintao	-	-

SECTION II: LIST OF OFFICES HELD BY STATUTORY AUDITORS IN OTHER COMPANIES AT THE REPORT DATE

First and last name	Company	Office held in the company
Francesco Fallacara	Maire Tecnimont S.p.A.	Chairman of the Board of Statutory Auditors
	Ro. Co. Edil. Romana Costruzioni Edilizie	Standing Auditor
	HIRAFILM S.r.l.	External Auditor
	Banca Consulia S.p.A.	Alternate Auditor
	Capital Shuttle S.p.A.	Alternate Auditor
	Fondazione Link Campus University	Chairman of the Board of Statutory Auditors
Fabio Artoni	Mag JLT S.r.l.	Standing Auditor
	Ecosesto S.p.A.	Standing Auditor
	Pirelli Tyre S.p.A.	Chairman of the Board of Statutory Auditors
	Pirelli Industrie Pneumatici S.r.l.	Standing Auditor
	Trans Ferry S.p.A.	Alternate 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.	Chairman of the Board of Statutory Auditors
	Alhof di A. Hofmann S.p.A.	Chairman of the Board of Statutory Auditors
	Coster Tecnologie Speciali S.p.A.	Chairman of the Board of Statutory Auditors
	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
	Euro TLX SIM S.p.A.	Standing 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.	Standing Auditor
	VIP Logistics S.p.A.	Chairman of the Board of Statutory Auditors
	Emma S.p.A.	Standing Auditor
	London Stock Exchange Group Holdings Italia S.p.A.	Standing Auditor
	Monte Titoli S.p.A.	Alternate Auditor
	Elite S.p.A.	Standing Auditor
	Foodelicious S.r.l.	Standing Auditor
	Cassa di Compensazione e Garanzia S.p.A.	Standing Auditor
	Elite SIM S.p.A.	Standing Auditor
	Gatelab S.r.l.	Alternate Auditor
	Tetis S.p.A.	Alternate Auditor
	AMFIN HOLDING S.P.A.	Standing Auditor
Antonella Caru	Autogrill S.p.A.	Standing Auditor
	Autogrill Advanced Business Service S.p.A.	Standing Auditor
	Pirelli Tyre S.p.A.	Standing Auditor
Luca Nicodemi	Prometeon Tyre Group S.r.l.	Chairman of the Board of Statutory Auditors
	TP Industrial Holding S.p.A.	Chairman of the Board of Statutory Auditors
	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
	Mario Buccellati Italia S.r.l.	Chairman of the Board of Statutory Auditors
	Buccellati S.p.A.	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 and member of the SB
	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.	Standing Auditor
	Dainese S.p.A.	Standing Auditor
	Corneliani S.p.A.	Standing Auditor
	Savills SGR S.p.A.	Standing Auditor
	Corob S.p.A.	Standing Auditor
	Imprima S.p.A. (already Color Wind S.p.A.)	Standing Auditor
	Holding di Piergiorgio Coin S.r.l.	Standing Auditor
	One Audit S.p.A.	Standing Auditor
	Guazzotti S.r.l.	Standing Auditor
	Pillarstone Italy Holding S.p.A.	Alternate Auditor
	POC Holding S.p.A.	Standing Auditor
	Wise SGR S.p.A.	Alternate Auditor
	Pillarstone Italy S.p.A.	Alternate Auditor
	De Fonseca S.p.A:	Director
	Fondazione Roche	Sole Auditor
	Dompe’ Farmaceutici S.p.A.	Member of the SB
	DUEMMEI S.R.L.	Standing Auditor
	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
	TP Industrial Holding 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.	Standing Auditor
	Bennet Holding S.p.A.	Standing Auditor
	Carcano Antonio S.p.A.	Standing Auditor
	DE' Longhi Capital Services S.r.l.	Chairman of the Board of Statutory Auditors
	DE' Longhi Appliances S.r.l.	Chairman of the Board of Statutory Auditors
	EFFE 2005 Gruppo Feltrinelli S.p.A.	Standing Auditor
	FINMEG S.r.l.	Standing Auditor
	Gallerie Commerciali Bennet S.p.A.	Standing Auditor
	INTEK Group S.p.A.	Standing Auditor
	Lambda Stepstone S.r.l.	Standing Auditor
	Meg Property S.p.A.	Standing Auditor
	Over Light S.p.A.	Standing Auditor
	Vetus Mediolanum S.p.A.	Chairman of the Board of Statutory Auditors
	San Remo Games S.r.l.	Sole Auditor
	Viator S.p.A. in liquidation	Alternate Auditor

	Impresa Luigi Notari S.p.A.	Alternate Auditor
	Compagnia Padana per Investimenti S.p.A.	Alternate Auditor
	Royal Immobiliare S.r.l.	Sole Director
	Calvi S.p.A.	Director
	SO.SE.A. S.r.l.	Director
	Vianord Engineering Société par action simplifiée	Director
	LE ROCCE 85 S.p.A.	Director
	Mare Blu 85 S.p.A.	Director
	TP Industrial Holding S.p.A.	Standing Auditor
Elenio Bidoggia	Camfin Industrial S.p.A.	Alternate Auditor
	Pirelli International Treasury S.p.A.	Alternate Auditor
	Pirelli Tyre S.p.A.	Alternate Auditor
	TP Industrial Holding S.p.A.	Standing Auditor
	Prometeon Tyre Group S.r.l.	Standing Auditor
	Casa Editrice Universo S.p.A.	Standing Auditor
	Finpol S.p.A.	Standing Auditor
	Prelios Credit Servicing S.p.A.	Standing Auditor
	Prelios Integra S.p.A.	Standing Auditor
	Prelios Valuations & e- services S.p.A.	Alternate Auditor
	Prelios SGR S.p.A.	Chairman of the Board of Statutory Auditors
	Servizi Amministrativi Real Estate S.p.A.	Chairman of the Board of Statutory Auditors
	Fratelli Puri Negri S.a.p.A.	Standing Auditor
	Trixia S.r.l.	Standing Auditor
	Riva dei Ronchi S.r.l. in liquidation	Standing Auditor
	M&C Saatchi S.p.A.	Standing Auditor

	Geolidro S.p.A.	Standing Auditor
	Banca UBAE S.p.A.	Standing Auditor
	Armonia SGR S.p.A.	Standing Auditor
	Centrale Immobiliare S.r.l. in liquidation	Standing Auditor
	Marco Tronchetti Provera & C. S.p.A.	Chairman of the Board of Statutory Auditors
	Golfo Aranci S.p.A. in liquidation	Chairman of the Board of Statutory Auditors
	Elesa S.p.A.	Chairman of the Board of Statutory Auditors
	Manifatture Milano S.p.A.	Chairman of the Board of Statutory Auditors
	Prelios Agency S.p.A.	Alternate Auditor
	C.F.M. CO. FARMACEUTICA MILANESE S.p.A.	Alternate Auditor
	Prelios Valuations & Services S.p.A.	Alternate Auditor
	Esselte S.r.l.	Alternate Auditor
Giovanna Oddo	Tiglio II S.r.l. in liquidation	Liquidator
	M.S.M.C. Immobiliare Due S.r.l. in liquidation	Liquidator
	Centrale Immobiliare S.r.l. in liquidation	Liquidator
	Trixia S.r.l.	Chairman of the Board of Directors
	Gromis S.r.l. in liquidation	Liquidator
	Ganimede Due S.r.l. in liquidation	Liquidator
	Lupicaia S.r.l. in liquidation	Liquidator
	Iniziative Retail S.r.l. in liquidation	Liquidator
	Iniziative Immobiliari S.r.l. in liquidation	Liquidator
	Riva De Ronchi S.r.l. in liquidation	Liquidator
	Geolidro S.p.A.	Chairman of the Board of Directors
	Camfin Industrial S.p.A.	Chairman of the Board of Statutory Auditors
	TP Industrial Holding S.p.A.	Alternate Auditor
	Prometeon Tyre Group S.r.l.	Alternate Auditor

	Manifatture Milano S.p.A.	Standing Auditor
	Marco Tronchetti Provera & C. S.p.A.	Standing Auditor
	Pirelli International Treasury S.p.A.	Standing Auditor
	Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Alternate Auditor
	Pirelli Tyre S.p.A.	Alternate Auditor
Franca Brusco	ENAV S.p.A.	Chairman of the Board of Statutory Auditors
	Biancamento S.p.A.	Standing Auditor
	Lazio Ambiente S.p.A.	Chairman of the Board of Statutory Auditors
	D-Flight S.p.A.	Chairman of the Board of Statutory Auditors
	MOF S.c.p.a.	Standing Auditor
	Autorità di Sistema portuale del Mare Adriatico meridionale	Member of the Board of External Auditors
	Galleria Borghese	Standing Auditor
	Associazione Italiana per la Riabilitazione e per il Reinserimento degli invalidi (A.I.R.R.I.)	External Auditor
	Missione Futuro	External Auditor

REMUNERATION REPORT

PREAMBLE

This Remuneration Report ("**Report**"), approved by the Board of Directors on 26 February 2019, upon a Remuneration Committee proposal, consists of two sections:

- Section I: "Policy" for the 2019 financial year ("**2019 Policy**"or "**Policy**") and

- Section II: "Remuneration Report" for the 2018 financial year ("**2018 Remuneration Report**").

The Report has been drawn up in accordance with Art. 123-ter of Italian Consolidated Law on Finance and with Art. 84-quater of the Consob Issuers' Regulations[41] on the basis of Scheme 7-bis in Appendix 3 A of the Issuers' Regulations. The European Commission's recommendations for the Directors of listed companies have been taken into account in the drafting of the Report, as well as the recommendations of the Corporate Governance Code of the listed companies approved by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria, as adhered to by Pirelli.

The Report has also been drafted for the purposes established under Art. 14 of the Pirelli Related-Party Transactions Procedure.

The 2019 Policy sets out principles and guidelines to which:

- the Board of Directors abides to determine the remuneration of the Directors of Pirelli & C. S.p.A. ("**Pirelli & C.**"), with particular regard to the Directors with specific responsibilities, the General Managers and Executives with strategic responsibilities;

- Pirelli refers thereto to set the remuneration of Senior Managers and, more generally, of Executives.

The 2018 Remuneration Report, submitted to the Shareholders' Meeting for information purposes, provides the final remunerations for the 2018 financial year.

In order to facilitate the understanding and the reading of the Report, please find below a glossary of some of the recurring terms:

Directors with specific responsibilities: means the Directors of Pirelli & C. who hold the positions of Chairman and Executive Vice President and Chief Executive Officer. Directors with specific responsibilities in other Pirelli companies, who are also executives of the Group (except where a decision of the Board of Directors of Pirelli & C. classifies them as "Executives with strategic responsibilities") for the purposes of the Policy are, in relation to their role, an Executive or Senior Manager.

[41] Consob resolution no. 11971 of 14 May 1999

Directors with no specific responsibilities: means all the Directors of Pirelli & C. different from the Directors with specific responsibilities. Directors with no specific responsibilities in other Pirelli companies, who are also executives of the Group (except where a decision of the Board of Directors of Pirelli & C. classifies them as “Executives with strategic responsibilities”) for the purposes of the Policy who are, in relation to their role, an Executive or Senior Manager.

Annual Total Direct Compensation at Target: means the sum of the following components, regardless of whether they are paid by Pirelli or by another company of the Group:

(i) fixed gross annual component of the remuneration;

(ii) annual variable component (MBO) received by the beneficiary in case of the target objectives are achieved;

(iii) medium-long term variable component constituted by:

a. annual amount of the Long Term Incentive Plan (LTI) that the beneficiary would receive in case of the objectives set for multiple years are achieved at target;

b. annual mechanism of deferment payment of the pro-quota MBO accrued and payment of an increase of the full accrued MBO (during the year following the year of accrual of the MBO) in case of achieving the annual objectives at target.

Remuneration Committee: means the Remuneration Committee of Pirelli & C..

Board of Directors: means the Board of Directors of Pirelli & C..

General Manager/s: person/s indicated by the Board of Directors of Pirelli & C. as having broad powers in the management of business sectors. Persons holding the position of General Manager in other Pirelli companies (except where a decision of the Board of Directors of Pirelli & C. classifies them as “Executives with strategic responsibilities”) for the purposes of the Policy, are, in relation to their role, an Executive or Senior Manager.

Executives with strategic responsibilities or ESR: executives, identified by an express decision of the Board of Directors of Pirelli & C., who have 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 or more generally Pirelli.

Executives: means the executives of the Italian Pirelli companies or the employees of foreign companies of the Group who hold a position or role comparable to that held by an Italian executive.

Pirelli Group or Pirelli or Group: means all the companies included within the scope of consolidation of Pirelli & C. S.p.A..

LTI: means the Long-Term Incentive Plan currently in force (2018-2020).

Management: means all Directors with specific responsibilities, General Managers, Executives with strategic responsibilities, Senior Managers and Executives.

MBO: means the annual variable component of the remuneration which may be obtained in case of achievement of certain predetermined objectives.

Retention Plan: means the Retention Plan as explained in section 9 below.

GAR: means the fixed gross annual remuneration for individuals who are employed by a Pirelli Group company.

Senior Managers: means those directly responsible (i) to Directors with specific responsibilities who are assigned specific duties, (ii) to General Managers, if the activity of the Senior Manager has a significantly impact on the business results.

Company o **Pirelli & C.:** means Pirelli & C. S.p.A..

Top Management: means all Directors with specific responsibilities, General Managers and Executives with strategic responsibilities.

EXECUTIVE SUMMARY

	Purposes	Operating methods	Beneficiaries
Fixed Remuneration	Appreciate the managerial skills and professional backgrounds and contribution requested in relation to the role	Is defined considering the characteristics, liabilities and any eventual powers assigned to the role, taking into account the market references, in order to ensure the competitiveness of the remuneration offer	**Chairman:** €400,000 **Executive Vice President and CEO:** €2,400,000 **General Manager:** €750,000 **ESR:** no more than 50% of the Annual Total Direct Compensation at Target **Senior Managers and Executive:** no more than 60% (Senior Managers) and 75% (Executive) of the Annual Total Direct Compensation at Target
Short Term Variable Remuneration (MBO)	Direct to motivate managerial resources towards the achievement of annual objectives of the Company, retaining a strong alignment to the sustainability of the medium-long term through a mechanism of partial deferral	Is directly linked to the achievement of the performance objectives assigned to each beneficiary in accordance with the role. Furthermore, the accrual of the incentive is subject to the achievement of a condition of access identified, generally, in the Net Financial Position. The objectives for the year 2019 are the following: • EBIT (Group/Region/BU) • Net Financial Position • EBT • Sustainability • Unit/function objectives (only for Senior Managers/Executive Region/BU) A part of the incentive annually accrued, equal to 25%, is deferred and subject to further performance conditions	**Chairman:** is not included among the beneficiaries of the Plan. **Executive Vice President and CEO:** • *Entry level*: 75% of the target incentive • *Target*: 125% of the fixed remuneration • *Cap*: 200% of the target incentive **General Manager and ESR:** • *Entry level*: 75% of the target incentive • *Target*: 50 - 75% of GAR • *Cap*: 200% of the target incentive **Senior Managers and Executive:** • *Entry level*: 75% of the target incentive • *Target*: 20% - 40% of GAR • *Cap*: 200% of the target incentive

Long Term Variable Remuneration	Intends to promote the creation of value in a long-term vision of sustainability and the achievement of the objectives of the Strategy Plan of the Company, facilitating the retention and the engagement of the persons	**The 2018-2020 LTI Plan**: monetary incentive, subject to the achievement of an on/off condition linked to the al deleveraging (Net Financial Position/EBITDA adjusted) subordinate to the achievement of the following multiannual objectives: • ROS Group • Absolute TSR • Relative TSR • Ranking Pirelli in the Dow Jones Sustainability Index (subject to the achievement of at least one of the objectives provided above) There is a threshold (equal to 75% of each objective) below which no incentive is paid and a cap maximum amount equal to 2 times the incentive at targets. Vesting Period: 3 years	**Chairman:** not included among the beneficiaries of the Plan. **Executive Vice President and CEO:** • *Entry level*: 75% of the target incentive • *Three-year Target*: 250% of the fixed remuneration • *Cap*: 200% of the target incentive **General Manager and ESR:** • *Entry level*: 75% of the target incentive • *Three-year Target*: 167% - 200% of GAR • *Cap*: 200% of the target incentive **Senior Managers and Executive:** • *Entry level*: 75% of the target incentive • *Three-year Target*: 50% - 167% of GAR • *Cap*: 200% of the target incentive
Other institutions	Ensure the stability of the organization and the contribution to the implementation of the Strategic Plan of the Company. Protect the know-how and to protect the Company from the competition.	• **Retention Plan**: extraordinary plan retention which runs for four years (2017-2021). • **Non-competition agreements**: restriction for the sector in which the Group operates and the territorial extension. The breadth varies in relation to the role covered.	**Chairman:** not included among the beneficiaries of the Retention plan and the non-competition agreements. **Executive Vice President and CEO:** not included among the beneficiaries of the Retention plan and the non-competition agreements. **Retention Plan:** exclusively for the General Manager, ESR and selected Senior Managers/Executives. The maximum level of retention bonus is 2.3x the Total Direct compensation at Target 2017 **Non-competition agreements**: for the General Manager, the Executives with strategic responsibilities and Senior Managers and Executives with professionalism particularly critical. Provides for payment of a fee relative to the GAR, in relation to the duration and the extent of the obligation

REMUNERATION POLICY FOR YEAR 2019

1. PARTIES INVOLVED IN THE DEFINITION AND IMPLEMENTATION OF THE POLICY

Parties involved in the Process

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 central role. In fact, it is adopted and annually approved by the Board of Directors, upon proposal of the Remuneration Committee. The Board of Directors submits the Policy to the advisory vote of the Shareholders' Meeting.

On the Policy the Board of Statutory Auditors expresses its opinion, in particular, with regard to the part relating to the remuneration of Directors with specific responsabilties.

The Remuneration Committee, the Board of Statutory Auditors and the Board of Directors supervise its application. To this end, at least once a year, on the occasion of the presentation of the Report, the head of Human Resources & Organization Department reports to the Remuneration Committee on the application of the Policy; subsequently, the Chairman of the Remuneration Committee reports to the Board of Directors.

The 2019 Policy - which was proposed by the Remuneration Committee, and subsequently approved by the Board of Directors, after obtaining the favourable opinion of the Board of Statutory Auditors, on 26 February 2019 - is submitted to the examination and advisory vote of the Shareholders' Meeting.

For completeness, it is reminded that, according to law, the Board of Directors is entitle to adopt (or, if specified by law, to propose to the Shareholders' Meeting) incentive mechanisms through the allocation of financial instruments or options on financial instruments which, if approved, shall be disclosed to the public at the latest in the Report (without prejudice to the further transparency obligations prescribed by the applicable law). At the date of this Report, the Company has no incentive plans based on financial instruments[42].

Shareholders' Meeting

The Shareholders' Meeting:

- at the time of appointment, determines the gross annual remuneration payable to the members of the Board of Directors, excluding the remuneration of Directors with specific responsabilities;
- at the time of appointment, determines the gross annual remuneration due to the members of the Board of Statutory Auditors;

[42] It is pointed out that Pirelli adopted an LTI Plan 2018-2020 with objectives linked to the performance of Pirelli & C. stock (as better illustrated).

- expresses advisory vote on the first section of the Remuneration Report;
- resolves, upon proposal of the Board of Directors, to adopt any eventual incentive mechanisms based on the allocation of financial instruments or options on financial instruments.

Board of Directors

The Board of Directors:

- resolves upon the allocation of the total remuneration determined by the Shareholders' Meeting among the directors;
- defines the remuneration policy of Executive Directors, Directors with specific responsabilities, General Managers and Executives with strategic responsibilities;
- determines the remuneration of Directors with specific responsabilities in accordance with Art. 2389, paragraph 3, of the Italian civil code, as well as those of General Managers;
- defines the performance objectives related to the variable component of the remuneration of Executive Directors, General Managers and Executives with strategic responsibilities;
- defines the remuneration of the Manager of the Internal Audit Department upon the proposal of the Audit, Risks, Sustainability and Corporate Governance Committee.

Remuneration Committee

The Remuneration Committee is appointed by the Board of Directors (who appoints also the Chairman) and remain in office for the entire duration of the Board of Directors.

At the date of this Report, the Committee is composed by four members, all non-executive directors, the majority of whom independent, and, in line with the requirements of the Corporate Governance Code, the Chairman of the Committee is an independent director.

At the date of this Report, the members of the Committee are the following:

REMUNERATION COMMITTEE		
	Name and Surname	**Office**
	Bai Xinping	Not Executive Director
	Laura Cioli	Not Executive Independent Director
	Tao Haisu	Not Executive Independent Director
	Giovanni Lo Storto	Not Executive Independent Director

The Directors Laura Cioli and Giovanni Lo Storto have been evaluated by the Board of Directors as directors in possession of adequate accounting and financial experience, as well as knowledge in remuneration policies.

The entire Board of Statutory Auditors is entitled to participate at the meetings of the Remuneration Committee.

The Secretary of the Board of Directors acts as Secretary of the Remuneration Committee.

The Committee has consultative, proactive and supervisory functions aimed to ensure the definition and application, within the Group, of the remuneration policies aimed to attract, retain and motivate persons in possession of professional qualities required to pursue the objectives of the Group, on the one hand, and to align the interests of the Management with those of the Shareholders, on the other hand.

In particular, the Remuneration Committee:

- assists the Board of Directors in the definition of the Policy, formulating proposals on this subject;
- periodically evaluates the adequacy, the overall consistency and the actual application of the Policy, also on the basis of the information provided by the managing directors, and formulates proposals to the Board of Directors on this subject;
- with reference to the Executive Directors and the other Directors with specific responsabilities and General Managers makes proposals or issue opinions to the Board of Directors:
    - for their remuneration, in line with the Policy;

   - for the identification of performance objectives related to the variable component;
   - for the definition of any non-competition agreements;
   - for the definition of any agreements regulating the termination of the relationsiship with the Company, based also on the principles set out in the Policy;

- with reference to the Executives with strategic responsibilities verifies the coherence of their remuneration with the Policy and expresses its opinion on the same, even according to the Transactions with Related Parties Procedure;
- assists the Board of Directors in examining the proposals to the Shareholders' Meeting on the adoption of compensation plans based on financial instruments;
- monitors the implementation of the decisions adopted by the Board of Directors verifying, in particular, the actual achievement of performance objectives established;
- examines and submittes to the Board of Directors the annual report on remuneration which, for the members of the management and control bodies of the Company, General Managers and, in aggregate form for the Executives with strategic responsibilities:
   a. provides an adequate representation of each of the items of the remuneration;
   b. analytically illustrates the remuneration paid in any respect and in any form during the relevant financial year by the Company and its subsidiaries.

In relation to the operation of the Remuneration Committee, see the Report on corporate governance and share ownership.

2. PURPOSES AND PRINCIPLES OF THE REMUNERATION POLICY 2019

The Policy aims to attract, retain and motivate persons with the professional qualities required to pursue the objectives of the Company. Pirelli defines and applies a Policy characterised:

- for the Top Management and for the Senior Management, by attractiveness aiming to the third quartile of the target market comparison (compared to the benchmark used);
- for Executive, in line with practice from the markets of comparison.

The Annual Total Direct Compensation at Target constitutes the reference for this comparison with the market.

The analysis of the positioning, composition and, more generally, of the competitiveness of the remuneration of Directors with specific responsabilities is carried out by the Remuneration Committee and the Board of Directors with the support of independent companies specialised in executive compensation (Willis Towers Watson) on the basis of methodological approaches permitting to assess them, although within the typical limits of the benchmark analysis, the complexity of the roles from an organizational point of view, the specific powers conferred and the impact of the individual on the final results of the business.

In particular, in the definition of the panel of reference annually updated we take into account the different components, as the sector, geography, specificity of the business, size of the company.

The sample of companies of reference used for the analysis of competitiveness and for the review of the remuneration of the Executive Vice President and Chief Executive Officer of Pirelli & C. was updated, with the support of Willis Towers Watson, also taking into consideration the principal recommendations on pay for performance and it is now composed of 16 companies most comparable to the two panel ("Car & Tire" and "Large Cap Europe") used up to last year.

The 16 companies that are part of the panel are:

Peer Group			
Burberry Group	Electrolux	Peugeot	Richemont
BMW	FCA	Philips	Rolls-Royce
Continental	Hermes Intl.	Reckitt Benckiser Group	VolksWagen
Daimler	Michelin	Renault	Volvo

The structure of the remuneration of the Management, which is defined on the basis of the national and international benchmarking prepared by companies specialised in the executive compensation (Korn Ferry-Hay Group), is composed of three main elements:

- gross annual fixed component (GAR);
- variable annual component (MBO);
- variable component of medium/long-term (LTI) intended to reward performance in the period 2018-2020 of Pirelli Group.

The fixed component shall be established on the basis of the significance of the position, professional seniority, skills required to the individual to act in the role, or on the basis of the liabilities, of the performance achieved over time, as well as the performance of the package of comparison relating to the position held by the individual.

The variable components (MBO and LTI) are determined - taking account of the reference benchmark for each figure - in a percentage of the fixed component, growing in relation to the role covered by the beneficiary.

The MBO Plan is extended to the whole Management and is directed to reward performance of the beneficiary in the short term; except for specific cases, the MBO Plan may be extended to those who become part of the Group during the year and/or take the position of Executive for internal growth.

The MBO objectives for the Directors with specific responsabilities and to which are delegated specific power, for the General Managers and the Executives with strategic responsibilities are established by the Board of Directors (without the participation of the interested persons to the resolution) upon the proposal of the Remuneration Committee (paragraphs 4 e 5).

Instead, the objectives of the Senior Manager and the Executives are defined by the hierarchical superior, in agreement with the Human Resources & Organization and with the Planning and Controlling Departments. For these roles, unlike those of the Top Management, can be provided targets connected to the economic performance of the unit/department (paragraph 6).

At the end of the year, the Human Resources & Organization Department, with the support of the Planning and Controlling Department, verifies the level of achievement of the objectives, on the basis of the performance.

In the event of extraordinary transactions affecting the perimeter of the Group and/or in case of significant changes of the macroeconomic scenario and business, the Remuneration Committee may review the targets of the MBO Plan, in order to protect the value and purposes of the same, thus ensuring constant alignment between the company objectives and the objectives underlying the incentive systems recognized to the Management[43].

The accrual of the variable annual component is subject to the achievement of a financial condition of access (so-called “on/off”), defined in relation to the role covered by the beneficiary.

The Long Term Incentive Plan (LTI) 2018-2020 is aimed at:

- link the remuneration of the Management with the medium-long term performance of the Group;
- promote the creation of value for shareholders;
- generate an effective retention of the Management, key variable for the creation of the Company’s Strategic Plan.

The LTI Plan is extended to the whole Management (without prejudice to specific cases such as, for example, the Manager of the Internal Audit Department) and may also be extended to those who during the three-year period become part of the Management of the Group and/or take, for internal growth of career, the position of Executive. In this case, the person shall participate in the Plan for at least one year and the percentages of incentive are riparametrate on the number of months of actual participation in the Plan.

In particular, the Plan provides for an incentive (“LTI Bonus”) subject to the achievement of multiannual objectives and determined as a percentage of the gross annual fixed remuneration (GAR) perceived by the beneficiary at the date on which the participation of this latter in the Plan

[43] The assessment of the achievement of single objectives will be carried out by the Committee at the end of the year, offsetting the effects of the decisions adopted by the Company that can influence the results (both in negative and in positive).

was established. This incentive percentage grows in relation to the role and takes account of the reference benchmark of each role.

The entire cost of the LTI Plan is included in the economics of the Business Plan, so that the cost of the same is “self-financed” by the achievement of results.

The variable remuneration of the Management, of short and long term, is defined in line with the objectives of the short and medium/long-term provided by the annual and long-term Plans, communicated to the market. In particular, the definition of a mix of objectives, including non-financial objectives, for the medium/long term variable part, avoids the prevalence of weight of a single performance objective. Furthermore, the existence of objectives based on three-year cumulative economic/financial parameters (and without, therefore, any finalisation medio tempore) avoids behavior aimed to achieve short-term objectives, for obtaining the annual incentive.

In this respect, it is highlighted that the process of risk management is fully integrated in the strategic planning in order to ensure that the objectives determined for the achievement of the variable incentive do not expose Pirelli to managerial behavior not consistent with the acceptable level of risk (cd. Risk Appetite) defined by the Board of Directors at the time of approving the Plans.

Part of the variable remuneration accrued as MBO is deferred to support the continuity of the results (and, therefore, its payment is subject to “risk”) with a mechanism for increasing “bonus”.

Furthermore, the Policy, based on the principle of the pay for performance, is defined in order to align the interests of the Management with those of Shareholders, pursuing the primary objective of creating sustainable value in the medium-long term, through the creation of an effective and verifiable link between the remuneration, on the one hand, and the performance of Pirelli, on the other hand.

It is pointed out that by the fourth quarter of 2019 Pirelli will launch a new Business Plan for the three-year period 2020-2022 and, therefore, for the Management will be provided a new long-term incentive plan (LTI) consistent with the new plan. On that occasion, the Remuneration Committee will be called to take resolutions on the current long-term incentive plan.

3. REMUNERATION OF THE BOARD OF DIRECTORS AND THE BOARD OF STATUTORY AUDITORS

The Board of Directors

The Board of Directors is composed by:

(i) Directors with specific responsabilities, to whom may also be delegated specific powers;

(ii) Directors with no specific responsabilities.

The conferral of powers to Directors only for cases of urgency does not imply the qualification of the same as Directors to whom are delegated specific powers.

Pursuant to Art. 2389, paragraph 1, of the Italian civil code, the Shareholders' Meeting of Pirelli held on 1 August 2017 resolved to recognize in favour of the Board of Directors a gross annual remuneration equal to maximum euro 2,000,000, to be allocated among its members in accordance with the resolutions adopted by the Board of Directors on this matter, other than the remuneration established by the Board of Directors for the Directors with specific responsibilities pursuant to Art. 2389 of the Italian civil code. The gross annual remuneration established by the Shareholders' Meeting in euro 2,000,000 has been subsequently allocated by the Board of Directors as follows[44]:

Remuneration of Directors

Corporate body	Position	Remuneration
Board of Directors	Director	60,000 Euro
Audit, Risks, Sustainability and Corporate Governance Committee	Chairman	30,000 Euro
	Member	25,000 Euro
Remuneration Committee	Chairman	30,000 Euro
	Member	25,000 Euro
Strategies Committee	Chairman	50,000 Euro
	Member	30,000 Euro
Appointments and Succession Committee	Chairman	50,000 Euro
	Member	30,000 Euro
Related-Party Transactions Committee	Chairman	60,000 Euro
	Member	40,000 Euro
Supervisory Body	Chairman	60,000 Euro
	Member	40,000 Euro

In line with the best practices, the Directors with no specific responsabilities (as defined above) are not entitled to receive the variable remuneration. Furthermore, the Directors are entitled to obtain the reimbursement of the expenses incurred for the offices.

In line with best practices, corporate bodies, General Managers, Executives with strategic responsibilities, Senior Managers and Executives, in the exercise of their functions, are covered by a third party civil liability policy (so called "D&O") - in compliance with the provisions established in this matter in the national collective agreement of labor law and mandate - aimed to hold Pirelli

[44] Furthermore, the Board of Directors established an annual gross remuneration of euro 70,000 for the Director responsible for Sustainability issues. This office has been covered by the Director Giorgio Bruno until 26 February 2019. On 26 February 2019 the office has been assigned to the Executive Vice President and Chief Executive Officer, without attribution of any remuneration.

harmless from the costs deriving from any damages, excluding cases of wilful misconduct and gross negligence.

The Directors with no specific responsabilities are not covered by insurance, welfare or pension different from the compulsory ones.

The Board of Statutory Auditors

The remuneration of the controlling body is determined by the Shareholders' Meeting in a fixed annual remuneration. In particular, in the 2018 financial year, on the occasion of the renewal of the Board of Statutory Auditors, the fixed gross annual remuneration for the Chairman of the Board of Statutory Auditors has been determined in euro 75,000, and that for the Effetive Auditors in euro 50,000.

For the Statutory Auditor appointed as member of the Supervisory Board, the Board of Directors, following its renewal, has established an annual gross remuneration of euro 40,000. Furthermore, the Statutory Auditors are entitled to obtain the reimbursement of the expenses incurred for the offices.

In line with best practices, corporate bodies, General Managers, Executives with strategic responsibilities, Senior Managers and Executives, in the exercise of their functions, are covered by a third party civil liability policy (so called "D&O")[45], aimed to hold harmless Pirelli from the costs deriving from any damages, excluding cases of wilful misconduct and gross negligence, in compliance with the provisions established in this matter in the national collective agreement of labor law and mandate.

4. REMUNERATION OF DIRECTORS WITH SPECIFIC RESPONSABILITIES

The remuneration of Directors with specific responsabilities is proposed by the Remuneration Committee, at the time of appointment or in the first meeting after the appointment, to the Board of Directors.

Chairman of the Board of Directors

If the Director is invested with specific responsabilities but has not delegated with specific powers (at the date of this Report, Chairman Ning Gaoning[46]), the remuneration is composed only by a fixed

[45] The D&O policy has been approved by the Shareholders' Meeting held on 15 May 2018.

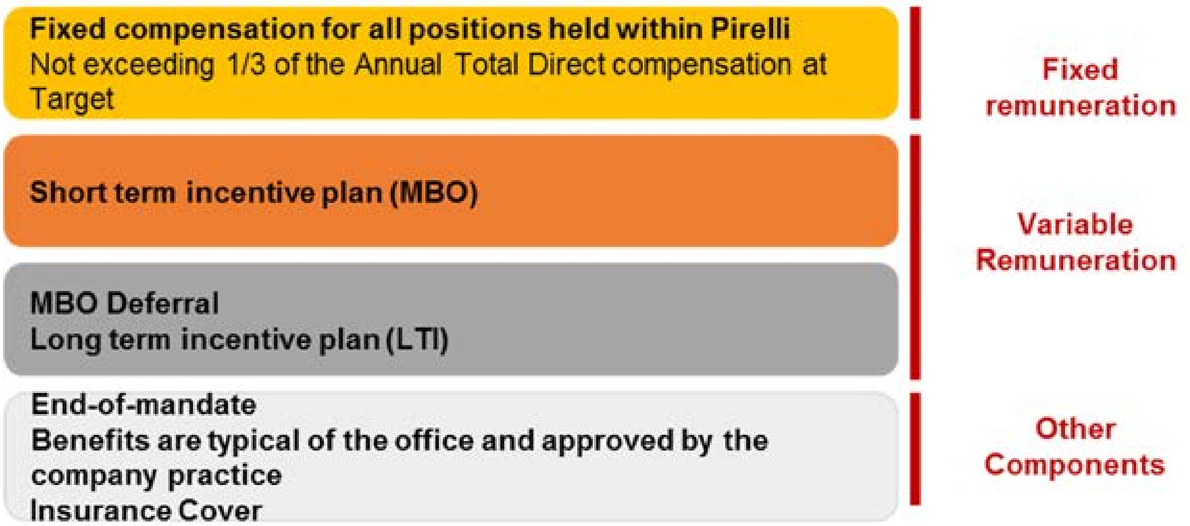
[46] In the period between 1 January 2018 and 30 July 2018 the office has been held by Ren Janxin, with an annual gross remuneration equal to euro 400,000.

annual remuneration; the Board of Directors determined in euro 400,000 the annual gross remuneration of Chairman Ning Gaoning.

For Directors with specific responsabilities to whom are not delegated specific powers are not provided insurance, welfare or pension coverage different from the compulsory ones.

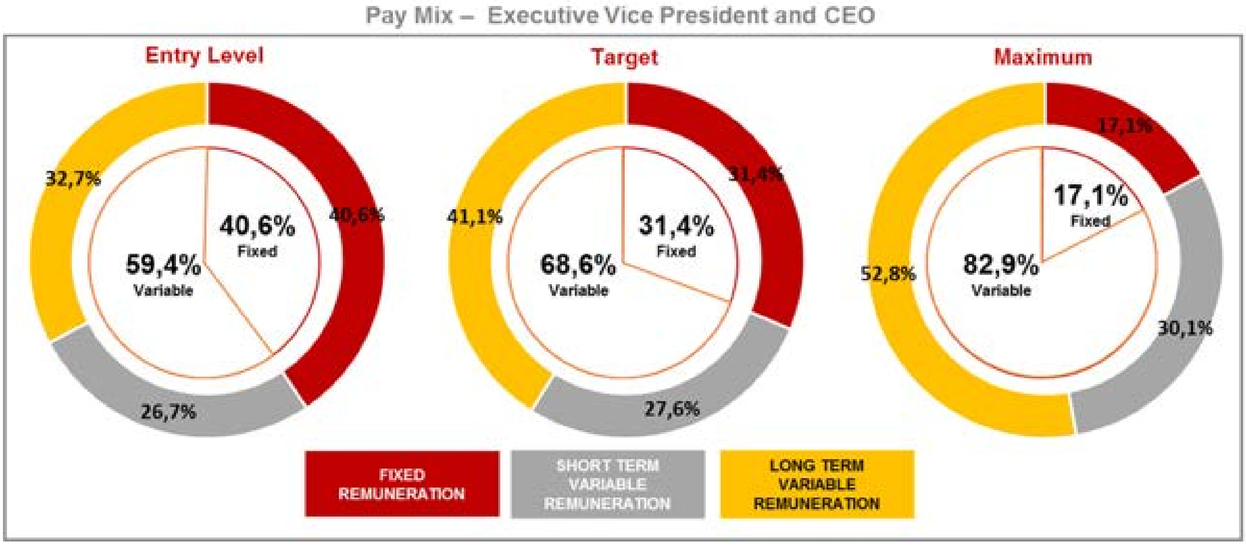
Executive Vice President and Chief Executive Officer

The remuneration of Directors with specific responsabilities to whom are also delegated specific powers (this is the case of the Executive Vice President and Chief Executive Officer Marco Tronchetti Provera[47]) is composed by the following elements:



In relation to the impact of the various components, below the structure of the compensation package of the Executive Vice President and Chief Executive Officer in case of achievement of the annual objectives of the MBO 2018, 2019 and 2020 and the three-year objectives of the 2018-2020 LTI Plan (i) to access threshold, (ii) at target, and (iii) at maximum level.

[47] At the date of this Report, the Executive Vice President and Chief Executive Officer Marco Tronchetti Provera is the only Director with specific responsabilities to whom are also delegated specific powers.



Fixed Remuneration

The fixed annual remuneration of the Executive Vice President and Chief Executive Officer is equal to euro 2,400,000[48] (not exceeding one third of the Total Direct Compensation at Target). Such amount has been determined - in line with the best practices e the recommendations of the Corporate Governance Code – in order to be sufficient to compensate his performance also in case of the variable remuneration should not be paid due to failure to achieve the performance objectives.

Short term variable remuneration

The Executive Vice President and Chief Executive Officer Marco Tronchetti Provera is beneficiary of the MBO plan.

The objectives at target represent a performance consistent with the corresponding objectives disclosed to the market.

For each objective is provided an access threshold, to which is associated the recognition of a bonus of 75% of the incentive achievable at target; it is also provided a maximum cap.

The range of performance and the relevant incentive curve for the economic-financial objectives are defined in line with the objectives disclosed to the market and, in particular, (i) the objective for the obtainment of the incentive at "access threshold" is determined with a margin of tolerance with respect to the value disclosed to the market, (ii) the objective for the achievement of the maximum incentive with objective value more challenging with respect to the value disclosed to the market.

[48] The Executive Vice President and Chief Executive Officer receives also the remuneration provided for the office of Director (euro 60,000), Chairman of the Strategy Committee (euro 50,000) and Chairman of the Appointments and Successions Committee (euro 50,000).

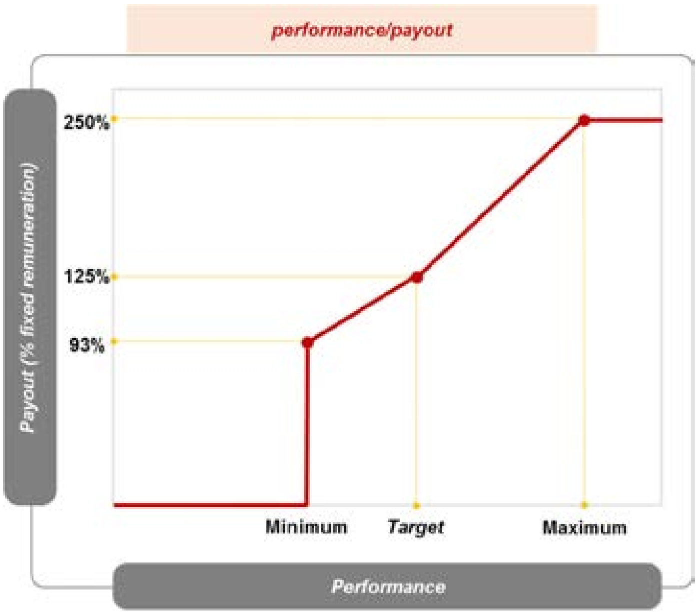
The on/off condition is determined with a “margin of tolerance” with respect to the objectives disclosed to the market.

The finalisation of the incentive between the access threshold and target and between the target and the maximum is carried out by linear interpolation.

On the basis of the level of performance achieved, the Executive Vice President and Chief Executive Officer receives a bonus equal to 125% of the fixed remuneration in the event of achievement of performance at target, to 75% of the bonus at target in case of achievement of the access threshold and equal to 200% of the bonus at target in case of maximum performance.

All the objectives provided by the MBO scheme operate independently as shown by the incentive curve below. Therefore, on the basis of the level of performance achieved, each objective will contribute to the overall payout according to the weight indicated in the same scheme.

Exemple of curve in case of achievement of all the objectives ai minimum level (Entry Level), Target and Maximum.

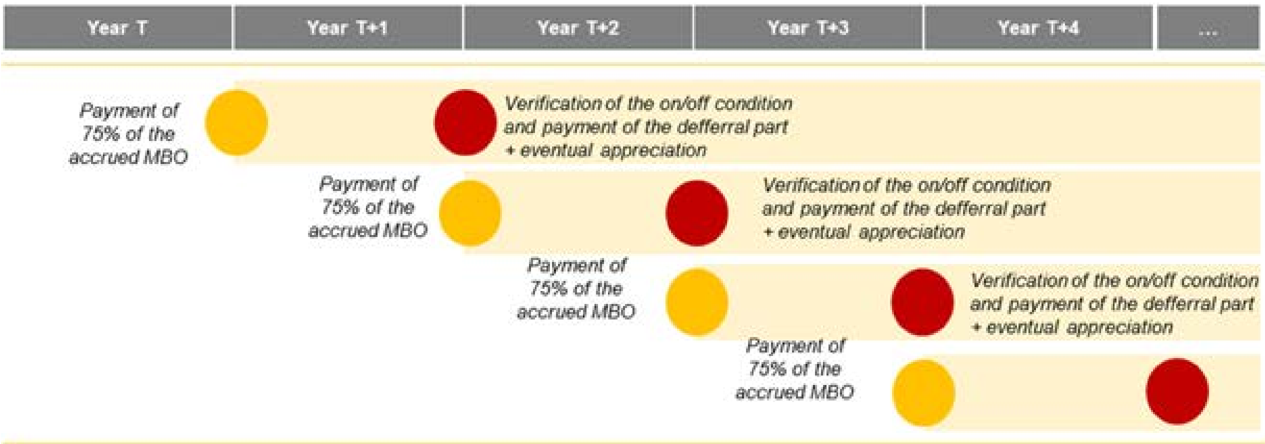


For 2019, the objectives assigned to the Executive Vice President and Chief Executive Officer are the following:

MBO – Executive Vice President and CEO	Objective weight at target
Group's Net Financial Position (no impact IFRS 16)	Access threshold
Group's EBIT Adjusted	30%
Groups' Net Financial Position (no impact IFRS 16)	40%
Group's EBT (no impact IFRS 16)	20%
Sustainability objective – value of the «green performance revenues»	10%

The MBO accrued is paid in the measure of 75%, being the remaining 25% deferred for 12 months and subject to the achievement of the MBO objectives of the next year. In particular:

- if, in the next year, the MBO is not accrued, the percentage of MBO of the previous year deferred is definitively lost;
- if, in the next year, the MBO is accrued at the access threshold, the quota of MBO of the previous year deferred is returned;
- if, in the next year, the MBO is accrued between target level and maximum level, an additional sum between 20% and 40% of the entire MBO accrued in the previous year - in addition to the payment of the quota of the MBO of the previous year deferred - will be paid (if, in the next year, intermediate results between target and maximum level are achieved, the increase of the MBO of the previous year is calculated by linear interpolation).



Long term variable remuneration

To the Executive Vice President and Chief Executive Officer is recognized a Long Term Incentive Plan 2018 -2020 linked to the achievement of objectives assigned on a three-year basis:

Objectives LTI Plan	Objective weight at target	Kpi
Deleveraging (Net Financial Position/EBITDA Adjusted ratio)	**Access threshold**	**<2 on 31.12.2020**
ROS Group (ratio of Group's cumulative EBIT Adjusted of the three-year period and cumulative turnover of the three-year period)	**30%**	**In line with the objectives communicated to the market**
Absolute TSR (average value of the share in the last half of 2020 – average value of the share of the last quarter 2017 + distributed dividends) and (average value of the share of the last quarter 2017)	**40%**	**+48.8%**
Relative TSR vs. selected panel (Michelin, Nokian, Continental)	**20%**	**Performance equal to the weighted avarage of the panel**
Ranking Pirelli in the Dow Jones Sustainability Index–ATX Auto Components Sector (subject to achievement of the threshold level of at least one of the economic-financial objectives)	**10%**	**Positioning in the highest decile**

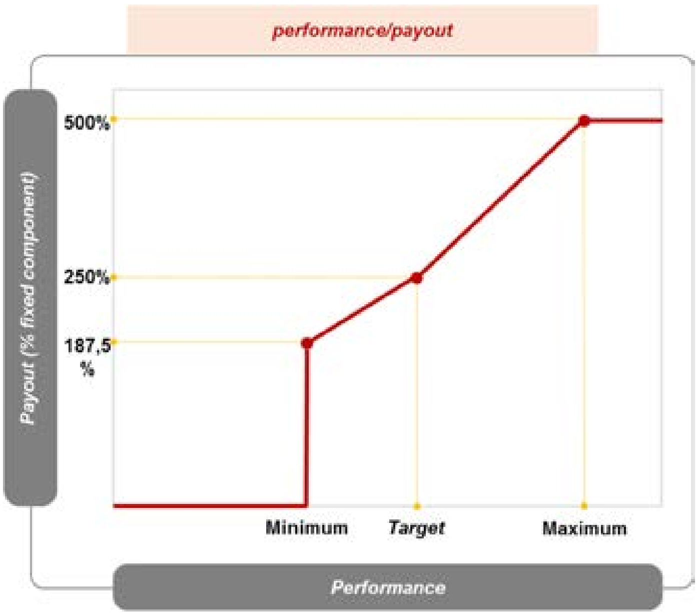
For each objective is provided an access threshold - to which is associated the payment of an amount equal to 75% of the incentive achievable at target - and a maximum cap.

In particular, in the case of all objectives are achieved at maximum level, the LTI Bonus cannot exceed 2 times the incentive achievable in case of objectives achieved at target. In case of failure to achieve the access threshold of any objective, the beneficiary does not accrued any right to be paid.

The range of performance and the relevant incentive curve are defined for each objective and are fixed, for the economic-financial objectives, at a performance level between the target level and maximum level more challenging with respect to the threshold level and target level. Therefore, the incentive curve grows proportionally with the increase of the performance between the threshold level and the target level, and it grows more than proportionally with the increase of the performance between target level and maximum level.

All the objectives provided by the LTI scheme, except for the sustainability objective, operate independently as shown by the incentive curve below. Therefore, on the basis of the level of performance achieved, each objective will contribute to the overall payout according to the weight indicated in the same scheme.

Exemple of curve in case of achievement of all the objectives ai minimum level (Entry Level), Target and Maximum.



For TSR and ROS objectives, the finalization of the performance, for intermediate results between access threshold and target value or between the target value and maximum value, will be carried out by linear interpolation.

On the basis of the level of performance achieved, the Executive Vice President and Chief Executive Officer receives a bonus equal to 250% of the fixed remuneration in the event of performance at target, to 75% of the bonus at target in case of achievement of the access threshold and equal to 200% of the bonus at target in case of maximum performance.

In the event of termination of the office of the Executive Vice President and Chief Executive Officer for expiration of the term of the mandate, if not subsequently re-appointed, also as director, the same will receive the payment of the pro-quota of the Bonus LTI.

Furthermore, in favour of the Directors with specific responsabilities and to whom are delegated specific powers not connected to the Company by an employment relationship (at the date of this Report, the Executive Vice President and Chief Executive Officer Marco Tronchetti Provera), the Board of Directors provided, in line with the provisions of the law and/or the National Collective Employment Contract in favour of the italian executives of the Group:

- an end-of-mandate (T.f.M.), pursuant to Art. 17, paragraph 1, letter c) of T.U.I.R. no. 917/1986, having similar characteristics to the Employee Severance Indemnity (TFR), provided by Art. 2120 of the Italian civil code, recognized in favour of the Italian executives of the Group according to the law and including the contributions to be paid by the employer that would be due to Social Security Institutions or Pension Funds in case of employment relationship for executives;

- an insurance policy related to (i) accidents that might involve them in the execution of the mandate; and (ii) extra-professional accidents, with premiums paid by the Company;

- an indeminity in case of permanent invalidity and death for occupational diseases;

- further benefits typical of the office and currently granted by Pirelli to the General Managers, Executives with strategic responsibilities and/or Senior Manager (company car).

5. GENERAL MANAGER AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

On 14 May 2018, the Company's Board of Directors resolved to established the General Operations Department and, to that effect, to assign the guide of the Department to Mr. Andrea Casaluci.

At the date of publication of the Policy, the following Executives with strategic responsibilities are in office:

General Manager and Executives with strategic responsibilities

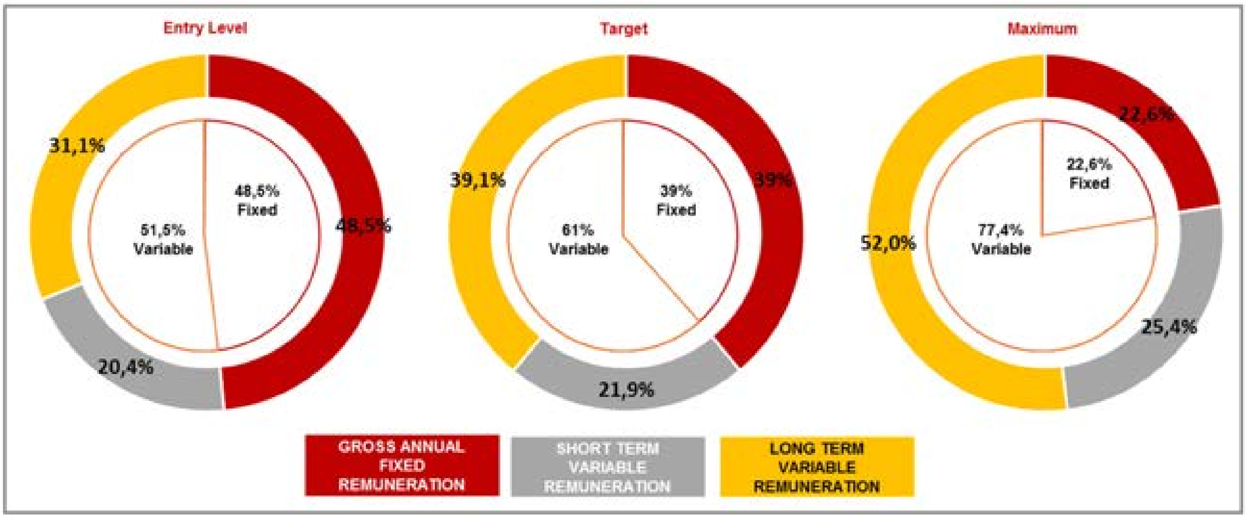
Role	Name
General Manager Operations	Andrea Casaluci
Executive Vice President and Chief Financial Officier	Francesco Tanzi
Executive Vice President and Chief Planning and Controlling Officer	Maurizio Sala
Strategic Advisor and Executive Vice President Technology and Innovation	Maurizio Boiocchi
Executive Vice President Commercial Replacement, Moto, Velo & Customer Racing and Region Europe	Roberto Righi
Executive Vice President Technical Operations	Francesco Sala
Executive Vice President and Chief Human Resources Officer and Organization	Davide Sala
Executive Vice President Technology	Pierluigi De Cancellis

The remuneration of the General Manager and the Executives with strategic responsabilities is composed by the following elements:

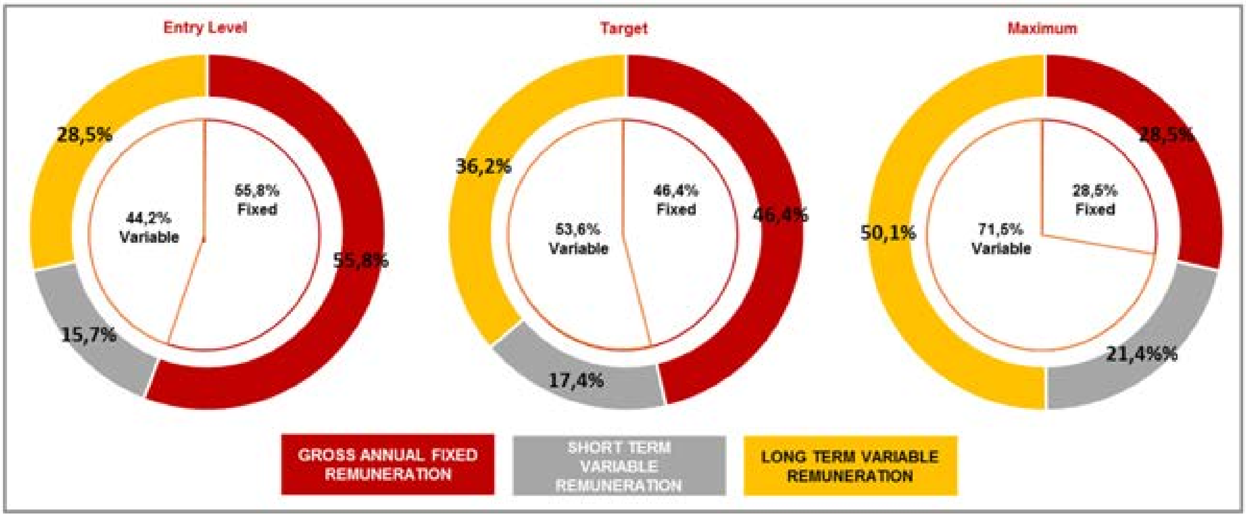
Gross annual fixed component Not exceeding 50% of the Annual Total Direct Compensation at Target	Fixed remuneration
Short term incentive plan (MBO)	Variable Remuneration
MBO Deferral Long term incentive plan (LTI)	
Retention plan Non-competition agreement Benefits typical of the position and approved by the company practice Supplementary pension plan Insurance cover	Other Components

In relation to the impacts of the various components, below the structure of the compensation package of the General Manager and the Executives with strategic responsibilities in case of achievement of the annual objectives of the MBO 2018, 2019 and 2020 and the three-year objectives of the 2018-2020 LTI Plan (i) to access threshold, (ii) at target, and (iii) at maximum level.

Pay Mix – General Manager



Pay Mix – Executives with strategic responsibilities



The analysis of the remuneration of the General Manager and Executives with strategic responsibilities, annually revised and made known in occasion of the Report, is carried out with the support of independent companies specialized in executive compensation (Korn Ferry-Hay Group). In particular, in the definition of the panel of reference annually updated various components are considered (sector, geography, dimension, specificity of the business).

For the General Manager and Executives with strategic responsibilities the reference market used to verify the competitiveness of their remuneration includes over 200 companies of the following European Countries: Belgium, France, Germany, Italy, Spain, Netherlands, UK.

Fixed remuneration of the General Manager and Executives with strategic responsibilities

The fixed remuneration of the General Manager is determined by the Board of Directors, previous the obtainment of the favourable opinion of the Remuneration Committee, in compliance with the Policy.

The remuneration of Executives with strategic responsibilities is determined by the Executive Vice President and Chief Executive Officer, in line with the Policy, not exceeding the 50% of the Annual Total Direct Compensation at Target.

The Remuneration Committee verifies the coherence of the remuneration of the aforementioned persons with the Policy.

On 26 February 2019, the Board of Directors determined a gross annual remuneration equal to euro 750,000 in favour of the General Manager.

Short-term variable incentive

The General Manager and the Executives with strategic responsibilities are beneficiaries of the MBO Plan, defined on the basis of the same structure, mechanism and objectives provided for the Executive Vice President and Chief Executive Officer.

In case of performance at target, the following annual incentive (MBO) are recognized:

- 75% of the GAR for the General Manager;
- 50%-75% of the GAR for the Executives of the strategic responsabilities.

In case of the achievement of the access threshold, the 75% of the incentive at target is recognized and in case of maximum performance is recognized the 200% of the incentive at target.

Also for the General Manager and Executives with strategic responsibilities is provided the payment of the 75% of the incentive accrued, being the remaining 25% deferred for 12 months and subject to the achievement of the MBO objectives for the next year and paid according to the same parameters specified for the Executive Vice President and Chief Executive Officer.

Long-term variable incentive

The General Manager and the Executives with strategic responsibilities are beneficiaries of the long term incentive plan 2018-2020, defined according to the same structure, mechanism and objectives provided for the Executive Vice President and Chief Executive Officer.

In case of performance at target, the following three-year period incentive (LTI) are recognized:

- 200% of the GAR for the General Manager;
- 167%-200% of the GAR for the Executives of the strategic responsabilities.

In case of the achievement of the access threshold, the 75% of the incentive at target is recognized and in case of maximum performance is recognized the 200% of the incentive at target.

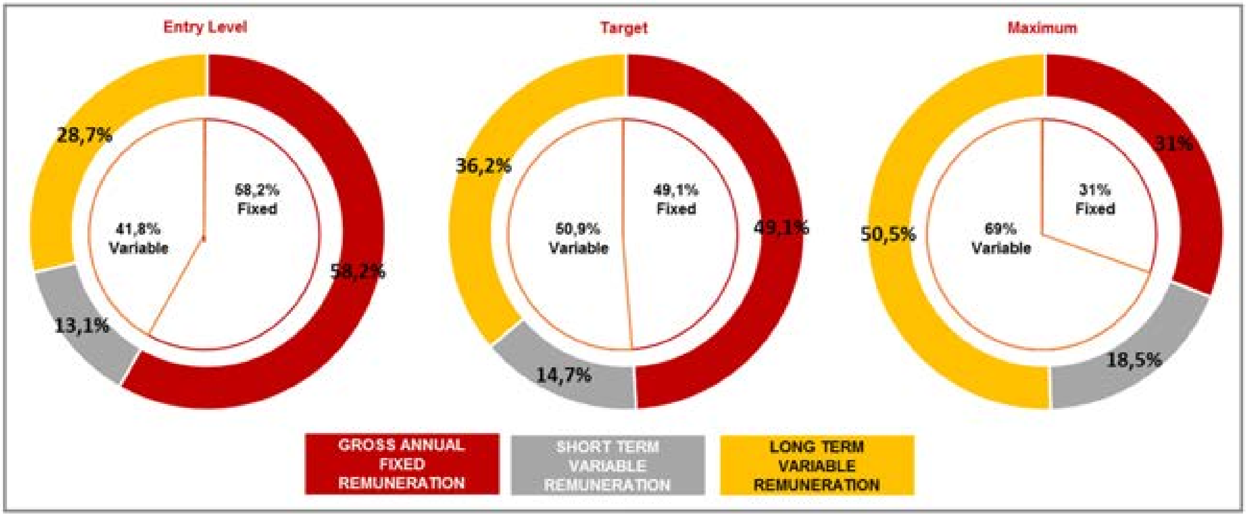
In the event of termination of the employment relationship before the end of the three-year period, the beneficiary ceases its participation in the LTI Plan and, consequently, neither the bonus nor a part of this latter will be paid.

6. SENIOR MANAGERS AND EXECUTIVES

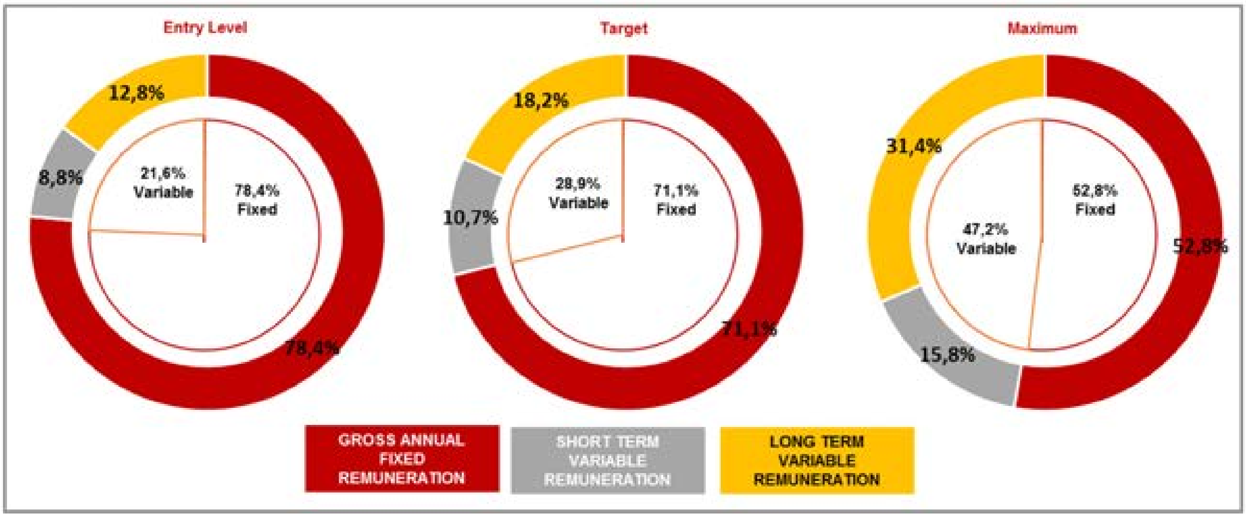
The remuneration of Senior Managers and the Executives is composed by the following elements:

Below the structure of the remuneration of Senior Managers and the Executives (overall intended) with evidence of the impact of the various components (annualised) on their compensation package in the case of achievement of the MBO annual objectives for 2018, 2019 and 2020 and of the LTI Plan for the three-year period 2018-2020 (i) to access threshold, (ii) at target and (iii) at maximum level.

Pay Mix – Senior Manager



Pay Mix – Executive



The analysis on the remuneration of Senior Managers and Executives is carried out with the support of independent companies specialized in executive compensation (Korn Ferry- Hay Group). Also the position held by the single Manager and the Country are taking into account.

For the Manager of the Internal Audit Department, in line with the best practices, the Board of Directors, upon proposal of the Audit, Risks, Sustainability and Corporate Governance Committee, provided a greater impact of the fixed component on the variable component. Moreover, the Manager of the Internal Audit Department (and, in general, the managers of the Internal Audit Department) is not included in the Incentive Plan LTI, but is only the beneficiary of the annual incentive plan linked to qualitative objectives, the assessment of which is left to Audit, Risks, Sustainability and Corporate Governance Committee and the Board of Directors, upon proposal of the Director in charge of the internal control system.

Short-term variable incentive

Senior Managers and Executives are beneficiaries of the MBO plan, defined according to the same structure and mechanisms provided for the Executive Vice President and Chief Executive Officer, General Manager and Executives with strategic responsibilities.

The incentive is paid to the achievement of the following performance objectives:

MBO – Senior/Executive	Objective weight at target
Group's Net Financial Position (no impact IFRS 16)	Access threshold
Group's EBIT Adjusted	30%
Groups' Net Financial Position (no impact IFRS 16)	From 20% to 40%
Group's EBT (no impact IFRS 16)	20%
Functional objective/s with Group scope	From 10% to 20%
Sustainability objective – value of the «green performance revenues»	10%

MBO – Senior/Executive of Region/BU	Objective weight at target
Group's Net Financial Position (no impact IFRS 16) – BU Region's Net Financial Position – Region DSO – Commercial managers[1]	Access threshold
EBIT Adjusted of Region/BU/Country	From 20% to 40%
Groups' Net Financial Position (no impact IFRS 16)	From 10% to 20%
Group's EBT (no impact IFRS 16)	From 10% to 20%
Functional objective/s to the scope of the Region/BU/Group	From 10% to 40%
Sustainability objective – value of the «green performance revenues»	10%

1) If the on / off condition of the Net Financial Position of Region or DSO is not achieved, the on / off condition of the Group's Net Financial Position is activated, with a deduction of 25% of the total payout accrued.

On the basis of the level of performance achieved, Senior Managers and Executives receive and incentive between 20% and 40% of the GAR depending on the role covered in the event of performance at target, equal to 75% of the incentive at target in case of achievement of the access threshold and equal to 200% of the incentive at target in case of maximum performance.

Also the Senior Managers and the Executives receive the 75% of the incentive accrued, being the remaining 25% deferred for 12 months and subject to the achievement of the MBO objectives of the next year and paid on the basis of the same parameters provided for the Executive Vice President and Chief Executive Officer, General Manager and Executives with strategic responsibilities.

Long-term variable incentive

Senior Managers and Executives are beneficiaries of the long term incentive plan 2018-2020, defined on the basis of the same structure, mechanisms and objectives provided for the Executive Vice President and Chief Executive Officer, the General Manager and the Executives with strategic responsibilities.

On the basis of the level of performance achieved, Senior Managers and Executives receive an incentive between 50% and 167% of the GAS in the event of performance at target, equal to 75% of the three-year period incentive at target in case of achievement of the access threshold and equal to 200% of the incentive at target in case of maximum performance.

In the event of termination of the employment relationship before the end of the three-year period, the beneficiary ceases its participation in the LTI Plan and, consequently, neither the bonus nor a part of this latter will be paid[49].

7. CLAW BACK CLAUSES

The annual and multiannual incentive plans (MBO and LTI) recognized to the Directors with specific responsabilities to whom are delegated specific powers, General Managers and Executives with strategic responsibilities provide for, among others, clawback mechanisms.

In particular, without prejudice of any other measure provided by the law aimed to protect the interests of the Company, the Company concludes with the aforementioned persons agreements that allow Pirelli to request the repayment (in whole or in part), by three years from their payment, of the incentives paid to the said persons that, intentionally or with gross negligence, are liable for fact, as indicated below, related to economic/financial indicators included in the Annual Financial Report that involve a comparative and subsequent information and adopted as parameters for the determination of the variable premiums of the said incentive plans:

(i) proven and significant errors that cause a non-compliance with the accounting principles which Pirelli declares to apply, or

(ii) ascertained fraudulent behavior aimed to obtain a specific representation of the financial position, of the economic result or of the cash flows of Pirelli.

8. INDEMNITIES IN CASE OF RESIGNATION, DISMISSAL OR TERMINATION OF EMPLOYMENT

Pirelli Group does not conclude with Directors, General Managers, Executives with strategic responsibilities, Senior Managers and Executives, agreements regulating ex ante the economic aspects relating to the early termination of the relationship at the initiative of the Company or the single person (cd. “parachutes”).

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[49] For the Directors with specific responsabilities to whom specific powers are delegated (in particular, for the Executive Vice President and Chief Executive Officer Tronchetti Provera) terminating their office for end-of-mandate, in case of the same will not be re-appointed, the payment of the LTI Bonus pro-quota is provided.

In fact, Pirelli's intention is to consensually conclude the agreements for the "closing" of the relationship. Without prejudice of all the legal and contractual obligations, the agreements for the termination of the relationship with Pirelli Group are inspired by the benchmark of reference, and within the limits defined by case law and practice of the Country in which the agreement is concluded.

The Company internally determines the criteria to which also the other companies of the Group shall be aligned, for the management of the early termination of executives employment relationships and/or of the Directors with specific responsabilities. On the occasion of the termination of the office and/or termination of the relationship with an Executive Director or a General Manager, the Company discloses detailed information to the market, at the end of the internal processes leading to the attribution or recognition of indemnities and/or other benefits.

For the Directors with specific responsabilities to whom are delegated specific powers, with no employment contract, Pirelli does not provide the payment of indemnities or remuneration of extraordinary nature linked to the end of the mandate. The payment of a specific indemnity may be recognized, previous evaluation of the competent corporate bodies, in the following cases:

- termination at the initiative of the Company not supported by just cause;
- termination at the initiative of the Director for just cause, in case of, by way of example, the substantial change of the role or the powers attributed and/or cases of the cd. "hostile" Tender offer.

In such cases, the indemnity is equal to 2 years of the gross annual remuneration, meaning the fixed annual gross remunerations due for the offices held in the Group, to the average of the annual variable remuneration (MBO) accrued during the previous three-year period and TFM on the aforementioned amounts.

9. NON-COMPETITION AGREEMENTS AND RETENTION PLAN

The Group can conclude non-competition agreements with its General Managers, Executives with strategic responsibilities, Senior Managers and Executives with professionalism particularly critical, providing for the payment of a fee referred to the GAR, the duration and the extent of the restriction resulting from the agreement.

The restriction is referred to the sector in which the Group operates at the time of the conclusion of the agreement and to the territorial extension. The breadth varies in relation to the role held at the time of the execution of the agreement and, in the cases particularly critical, as in the cases of the General Managers and Executives with strategic responsibilities, can provides for a geographical extension covering all major Countries in which the Group operates.

The Executive Vice President and Chief Executive Officer has not a non-competition agreement.

Moreover, the General Manager, the Executives with strategic responsibilities, whose activity for the implementation of the new strategic plans is considered particularly critical and significant, and selected Senior Managers/Executives are beneficiary of a medium/long-term retention plan.

The Retention Plan provides in favour of the General Manager, the Executives with strategic responsibilities and the selected Senior Managers/Executives the payment of a fee compared to the Total Direct Compensation at Target 2017 of up to a maximum of 2.3 times of the same. The fee is paid in 4 annual installments of a growing amount in order to achieve the maximum possible effect of retention, with the payment of the last installment during 2021. The payment of each installment is subject to the presence of the managers in the company at the date of each payment.

The Executive Vice President and Chief Executive Officer do not participate at the Retention Plan.

10. CHANGES IN REMUNERATION POLICY FROM THE PREVIOUS FINANCIAL YEAR

The Policy is based on the experience of application and takes account of regulatory prescriptions adopted by Consob.

Compared to last year, the Policy has been reviewed to take into account the establishment of the General Operations Department and the referral of the delegated powers by the Director in charge for sustainability issues.

Furthermore, in line with Pirelli's values, strategies and business, the Policy has been reviewed in order to link the payment of the MBO 2019 to the achievement of a new objective connected to an indicator of Sustainability, represented by the level of "Green Performance Revenues". Furthermore, the mechanism of determination of numerical objectives compared to the target communicated to the market has been reviewed.

In order to take into account the principal recommendations of the Proxy Advisor on pay for performance matters, the Policy has been updated in relation to the composition of the sample of companies of reference used for the analysis of competitiveness and for the review of the remuneration of the Executive Vice President and Chief Executive Officer.

Finally, the document has a new graphic in order to highlight the most relevant aspects and facilitate the reading.

11. OTHER INFORMATION

According to Consob resolution no. Resolution 18049 of 23 December 2011, it is stated that:

- the Company has not made use of the the assistance of consultancy and/or external experts in drawing up the Policy 2019;

- Pirelli has no share-based incentive plans;
- In the definition of 2019 Policy, Pirelli has not used specific remuneration policies of other companies as reference. As regards the structure of the remuneration for each figure, the Policy shows the criteria for the selection of the reference benchmark. Scheme No. 7-bis adopted by Consob with resolution no. Resolution 18049 of 23 December 2011 provides that the Report on Remuneration in the section provided by Art. 123-ter with reference to the members of the board of directors, general managers and executives with strategic responsibilities, contains at least the information specified in the aforementioned cheme. Below is a table with the indication of the information requested and the part of the report in which they are listed:

Information required by scheme 7-bis	Paragraphs in which - in particular - the information requested are contained
a) the bodies or individuals involved in drawing up and approving the Remuneration Policy, specifying the respective roles, as well as the bodies or individuals responsible for the proper implementation of this Policy.	1. Parties incolved in the definition and implementation of the Policy
b) any eventual involvement of a Remuneration Committee or other relevant committee, describing its composition (making a distinction between non-executive and independent directors), responsibilities and operation modalities;	1. Parties incolved in the definition and implementation of the Policy
c) name of any eventual independent experts involved for the drawing up of the Remuneration Policy;	11. Other information
d) purposes of the Remuneration Policy, underlying principles and any eventual changes from the policy respect the previous financial year;	2. Purposes and principles of the Remuneration Policy 2019 10. Changes in Remuneration Ppolicy from the previous financial year
e) description of the policies regarding fixed and variable remuneration components, with particular focus on their relative weight on the overall remuneration and distinguishing between short and medium-term variable components;	The structure of the remuneration of the different interested persons is described in paragraphs in which are indicted the different weights fixed/variable; short-term variable/variable of medium/long-term 2. Purposes and principles of the Remuneration Policy 2019 3. Remuneration of the Board of Directors and the Board of Statutory Auditors 4. Remuneration of Directors with specific responsabilities 5. General Manager and Executives with strategic responsibilities 6. Senior Managers and Executives

f) policy pursued with regard to non-monetary benefits;	Paragraphs for the individual figures: 3. Remuneration of the Board of Directors and the Board of Statutory Auditors 4. Remuneration of Directors with specific responsabilities 5. General Manager and Executives with strategic responsibilities 6. Senior Managers and Executives
g) with reference to the variable components, a description of the performance objectives on the basis of which are assigned, distinguishing between the variable components of the short and medium-long term, and information on the link between changes in results and changes in remuneration;	2. Purposes and principles of the Remuneration Policy 2019
h) the criteria used to assess the performance objectives on the basis of which shares, options, other financial instruments or other variable remuneration components are allocated;	1. Parties incolved in the definition and implementation of the Policy
i) information aimed at demonstrating the consistency of the Policy on remuneration with the pursuit of the company's long term interests and risk management policy, where formalised;	2. Purposes and principles of the Remuneration Policy 2019 As well as for the individual figures 3. Remuneration of the Board of Directors and the Board of Statutory Auditors 4. Remuneration of Directors with specific responsabilities 5. General Manager and Executives with strategic responsibilities 6. Senior Managers and Executives
j) the vesting period, any deferred payment systems, stating the deferral periods and criteria used to determine these periods and any ex-post correction mechanisms;	Pirelli has no share-based incentive plans. For the mechanisms of deferral of the variable components see Paragraph: 2. Purposes and principles of the Remuneration Policy 2019
k) information on any provision of clauses for maintaining financial instruments in the portfolio after purchase, stating the retention periods and criteria used to determine these periods;	Pirelli has no share-based incentive plans
l) the policy regarding payments in the event of resignation from office or termination of employment, specifying the circumstances in which the right may be exercised and any link between these payments and the company's performance;	8. Remuneration in case of resignation, dismissal or termination of employment 9. Non-competition agreements and Retention Plan
m) information on the existence of any insurance, welfare or pension cover other than the compulsory ones.	Paragraphs for the individual figures: 3. Remuneration of the Board of Directors and the Board of Statutory Auditors 4. Remuneration of Directors with specific responsabilities 5. General Manager and Executives with strategic responsibilities 6. Senior Managers and Executives

n) any remuneration policy applied with regard to: (i) independent directors, (ii) participation in committees and (iii) performance of specific duties (chairman, vice chairman, etc.);	3. Remuneration of the Board of Directors and the Board of Statutory Auditors
o) whether the remuneration policy has been established using the remuneration policies of other companies as a blueprint and, if so, the criteria used to select these companies	11. Other information

2018 REMUNERATION REPORT

1. PRINCIPLES

The Report sets out the Policy implemented by Pirelli Group during 2018 financial year with regard to remuneration and provides information on the final remuneration of the various categories of the persons involved, without prejudice to the obligations of transparency contained in other applicable legal or regulatory provisions, highlighting its coherence with the remuneration policy approved last year.

2. THE "TABLE": REMUNERATION PAID TO MEMBERS OF THE ADMINISTRATIVE AND CONTROLLING BODIES, GENERAL MANAGERS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES.

The following tables contain:

- by name, the remuneration paid to Directors, Statutory Auditors and the General Manager Operations;
- in aggregate form, the remuneration paid to Executives with strategic responsibilities[50]. On 31 December 2018, in addition to the General Manager Operations Andrea Casaluci, the following persons were Executives with strategic responsibilities, Maurizio Boiocchi (Strategic Advisor and EVP Technology and Innovation), Roberto Righi (EVP Commercial Replacement, Moto, Velo & Customer Racing and Region Europe), Francesco Sala (EVP Technical Operations), Maurizio Sala (EVP e Chief Planning and Controlling Officer), Davide Sala (EVP e Chief Human Resources & Organization Officer), Francesco Tanzi (EVP e Chief Financial Officer and Manager responsible for the preparation of the corporate financial documents), Pierluigi De Cancellis (EVP Technology).

Remuneration is reported on an accruals basis and the notes to the tables indicate the office for which the remuneration is received (for example, where a Director is a member of more than one Board Committee) and the company - Pirelli & C. or its subsidiaries and/or affiliated companies - that proceed with the relevant payment (except for the remuneration waived or transferred to the Company).

[50] 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".

The tables include all those persons who held the aforementioned positions during all or even only part of 2018 year[51]. Also the non-monetary benefits, where received, are identified on an accruals basis, and reported according to the "taxable income criterion" of the benefit assigned.

In particular, it is highlighted that, as mentioned above:

- the persons who, during 2018, were Directors of the Company, accrued/received (on an accruals basis) remuneration determined in accordance with the criteria set out in paragraph 3 of 2019 Policy;
- the persons who, during 2018, were Directors with specific responsabilities (Executive Vice President and Chief Executive Officer and Chairman), accrued/received (on an accruals basis) remuneration determined in accordance with the criteria set out in paragraph 4 of the 2019 Policy;
- the General Manager Operations of Pirelli & C. S.p.A., appointed on 14 May 2018, accrued a fixed remuneration until May 2018 as Executive with strategic responsibilities. From 1 June 2018, the General Manager Operations accrued the fixed gross remuneration in his capacity General Manager (euro 675,000 per year)[52]; the whole 2018 MBO has been accrued by the General Manager Operations in his capacity as General Manager. In that capacity the remuneration received/accrued is coherently determined in accordance with paragraph 5 of 2019 Policy;
- Executives with strategic responsibilities received/accrued remunerations pertaining to 2018 year in accordance with the criteria set out in paragraph 5 of 2019 Policy;
- the Standing Auditor who is also member of the Supervisory Body received an annual gross remuneration of euro 40,000 as set out in paragraph 3 of 2019 Policy; it is reminded that each member of the Supervisory Body received/accrued remuneration pertaining to 2018 year, equal to an annual gross amount of euro 40,000; the Chairman received/accrued an annual gross remuneration of euro 60,000, as set out in paragraph 3 of 2019 Policy;
- each member of the Board of Statutory Auditors received/accrued remuneration for 2018 in line with the resolutions adopted by the Shareholders' Meeting at the time of their appointment (plus a gross annual fee of euro 40,000 paid to the Standing Auditor called to be member of the Supervisory Body);
- Senior Managers and Executives received/accrued remunerations for 2018 year in accordance with the criteria set out in paragraph 6 of 2019 Policy.

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[51] The tables include also the remuneration accrued by Gustavo Bracco and Luigi Staccoli as Executives with strategic responsabilities, terminated on May 2018.

[52] It is pointed out that, according to 2019 Policy, the annual gross fixed remuneration of the General Manager Operations is equal to euro 750,000 (paragraph 5 of the Policy).

It is pointed out that, with effect from 31 December 2018, the Company and the Director Giorgio Luca Bruno concluded a consensual termination of the executive employment relationship between the Director and the Company, as detailed in the tables below[53].

It is highlighted that for the General Manager Operations, the Executives with strategic responsibilities and, more generally, for some of other members of the Group's Senior Management, Pirelli introduced non-competition agreements aimed to protect strategic and operational know-how. The Executive Vice President and CEO does not have a non-competition agreement.

Executive Vice President and Chief Executive Officer, General Manager and Executives with strategic responsabilities

Objective type	Entry /On off objective (NFP)	Objective at Target	Objective at maximum	Weight	Result	Incentive%
NFP	euro 3,194.4 millions*			On/off condition	euro 3.180,1 millions	ON condition
Ebit Adjusted	euro 950.5 millions	euro 1,000.5 millions	euro 1,075.5 millions	40%	euro 955.0 millions	77.25% of the bonus at performance at target
EBT	euro 545.4 millions**	euro 610.8 millions**	euro 708.9 millions**	20%	euro 501.8 millions	Not achieved
NFP	euro 3,194.4 millions*	euro 3,103.4 millions*	euro 2,966.7 millions*	40%	euro 3,180.1 millions	78.93% of the bonus at performance at target
Total				100%		**62.48% of the bonus at performance at target**

(*) It is reminded that the on/off condition is established, in line with the provisions of the remuneration policy of 2018, with a tolerance margine respect to the budget value.
Furthermore, in implementation and consistency with the MBO regulation, such NFP value has been adjusted in order to take into account the negative effect for euro 65.2 millions deriving from the purchase of the shareholding in a new Chinese company in Shenzhou, representing an extraordinary transaction not provided on the occasion of establishment of the objective of the MBO 2018.
In any case, the transaction, as already communicated, does not modify the target provided by the business plan 2017-2020, with particular reference to the NFP (deleveraging). Therefore, its effects will be fully compensated in the financial year 2019-2020.
In this regard, it is pointed out that the "deleveraging" on 31 December 2020 constitues an "on/off" condition for the LTI Plan 2018-2020, and that the LTI Plan involved an allocation in the financial statements 2018.

(**) In consistency with the previous note, it is pointed out that the EBT objectives have been adjusted in order to take into account the negative effect of the major restructuring costs deriving from the actions implemented following the obtainment of the advanteges deriving from the Patent Box, as communicated to the market.

Office	2018 MBO plan structure	performance score
Executive Vice President and CEO	- access threshold: 75% of the incentive at target - at target: 125% of fixed remuneration - cap: 200% of the incentive at target	62,48
General Manager Operations	- access threshold: 75% of the incentive at target - at target: 75% of the GAS - cap: 200% of the incentive at target	62,48
Executives with strategic responsibilities	- access threshold: 75% of the incentive at target - at target: From 50% to 75% of the GAR - cap: 200% of the incentive at target	62,48

[53] With the consensual termination of his employment, the starting time of the non-competition agreement (of 2 years) has been postponed to the termination of the current mandate as Director of Pirelli & C. and, consequently, the Company will pay the corresponding outstanding sum from that moment. Such outstanding sum is equal to euro 392,000 that will be paid in 8 quarterly instalments. In light of the Company's interest in maintaining links with Mr. Bruno, due to his competence, and to the knowledge of Pirelli Group acquired over the years, the Company concluded a 5 year consultancy agreement with the firm controlled by Mr Bruno, which provides for an annual gross fee of euro 300,000.

In line with the structure of the variable incentive described in the Policy, only the 75% of the accrued 2018 MBO incentive is paid, while the payment of the remaining 25% is deferred of 12 months and is subject to the achievement of the MBO objectives for 2019, and in particular:

a) in the event that no MBO is accrued in 2019, the deferred and accrued quota of the 2018 MBO is definitively lost;

b) in the event that the 2019 MBO is accrued at “entry threshold” level, the accrued and deferred 2018 MBO quota shall be paid;

c) lastly, if the 2019 MBO is accrued at least at target performance level - in addition to payment of the accrued and deferred 2018 MBO quota - an additional amount shall be paid, equal to a percentage of the entire accrued 2018 MBO. This percentage would vary from a minimum of 20% (if the 2019 MBO is accrued at target performance level) to a maximum of 40% (if the 2019 MBO is accrued at maximum performance level), with linear interpolation between the two extremes.

First and last name	Office	Period office held	Expiry date of office	Fixed remuneration	Remuneration for membership of committees	Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end-of-mandate or termination of employment
						Bonus and other incentives	Profit sharing					
Marco Tronchetti Provera	Executive Vice President and Chief Executive Officer	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2019	**2.460.000,00**	**100.000,00**	**2.230.552,00**	**0,00**	**258.300,00**	**0,00**	**5.048.852,00**	**0,00**	**3.043.936,00**
Of which is paid by Pirelli & C. S.p.A.				2.460.000,00 (1)	100.000,00 (2)	2.230.552,00 (3)		258.300,00 (4)		5.048.852,00		
Of which is paid by subsidiary and affiliated companies										0,00		3.043.936,00 (5)
Ning Gaoning	Chairman	07/08/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2019	**185.260,00**	**12.082,00**		**0,00**			**197.342,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				185.260,00 (6)	12.082,00 (7)					197.342,00 (8)		
Of which is paid by subsidiary and affiliated companies										0,00		
Ren Jianxin	Chairman	01/01/2018 - 30/07/2018		**265.918,00**	**17.342,00**		**0,00**			**283.260,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				265.918,00 (9)	17.342,00 (10)					283.260,00 (8)		
Of which is paid by subsidiary and affiliated companies												
Yang Xingqiang	Director	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2019	**60.000,00**	**30.000,00**		**0,00**			**90.000,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				60.000,00 (11)	30.000,00 (12)					90.000,00 (8)		
Of which is paid by subsidiary and affiliated companies												
Bai Xinping	Director	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2019	**60.000,00**	**85.000,00**	**0,00**	**0,00**	**0,00**	**0,00**	**145.000,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				60.000,00 (11)	85.000,00 (13)					145.000,00 (8)		
Of which is paid by subsidiary and affiliated companies												

First and last name	Office	Period office held	Expiry date of office	Fixed remuneration	Remuneration for membership of committees	Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end-of-mandate or termination of employment
						Bonus and other incentives	Profit sharing					
Giorgio Luca Bruno	Director	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2019	**660.000,00**	**30.000,00**		**0,00**	**17.683,00**	**660.000,00**	**1.367.683,00**	**0,00**	**2.992.000,00**
Of which is paid by Pirelli & C. S.p.A.				660.000,00 (14)	30.000,00 (12)			17.683,00 (15)	660.000,00 (16)	1.367.683,00		2.992.000,00 (17)
Of which is paid by subsidiary and affiliated companies										0,00		
Laura Cioli	Director	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2019	**60.000,00**	**50.000,00**	**0,00**	**0,00**	**0,00**	**0,00**	**110.000,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				60.000,00 (11)	50.000,00 (18)					110.000,00		
Of which is paid by subsidiary and affiliated companies												
Domenico De Sole	Director	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2019	**60.000,00**	**90.000,00**	**0,00**	**0,00**	**0,00**	**0,00**	**150.000,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				60.000,00 (11)	90.000,00 (19)					150.000,00		
Of which is paid by subsidiary and affiliated companies												
Fan Xihaoua	Director	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2019	**60.000,00**	**30.000,00**	**0,00**	**0,00**	**0,00**	**0,00**	**90.000,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				60.000,00 (11)	30.000,00 (20)					90.000,00		
Of which is paid by subsidiary and affiliated companies												
Ze'ev Goldberg	Director	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2019	**60.000,00**	**30.000,00**	**0,00**	**0,00**	**0,00**	**0,00**	**90.000,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				60.000,00 (11)	30.000,00 (12)					90.000,00		
Of which is paid by subsidiary and affiliated companies												

First and last name	Office	Period office held	Expiry date of office	Fixed remuneration	Remuneration for membership of committees	Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end-of-mandate or termination of employment
						Bonus and other incentives	Profit sharing					
Giovanni Lo Storto	Director	15/05/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2019	**37.973,00**	**31.644,00**	**0,00**	**0,00**	**0,00**	**0,00**	**69.617,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				37.973,00 (21)	31.644,00 (22)					69.617,00		
Of which is paid by subsidiary and affiliated companies												
Marisa Pappalardo	Director	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2019	**60.000,00**	**40.000,00**	**0,00**	**0,00**	**0,00**	**0,00**	**100.000,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				60.000,00 (11)	40.000,00 (23)					100.000,00		
Of which is paid by subsidiary and affiliated companies												
Cristina Scocchia	Director	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2019	**60.000,00**	**65.000,00**	**0,00**	**0,00**	**0,00**	**0,00**	**125.000,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				60.000,00 (11)	65.000,00 (24)					125.000,00		
Of which is paid by subsidiary and affiliated companies												
Tao Haisu	Director	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2019	**60.000,00**	**30.000,00**	**0,00**	**0,00**	**0,00**	**0,00**	**90.000,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				60.000,00 (11)	30.000,00 (25)					90.000,00		
Of which is paid by subsidiary and affiliated companies												
Giovanni Tronchetti Provera	Director	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2019	**169.231,00**	**30.000,00**	**16.479,00**	**0,00**	**11.784,00**	**0,00**	**227.494,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				60.000,00 (11)	30.000,00 (27)					90.000,00		
Of which is paid by subsidiary and affiliated companies				109.231,00 (26)		16.479,00 (3)		11.784,00 (28)		137.494,00		

First and last name	Office	Period office held	Expiry date of office	Fixed remuneration	Remuneration for membership of committees	Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end-of-mandate or termination of employment
						Bonus and other incentives	Profit sharing					
Wei Yin Tao	Director	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2019	**60.000,00**	**30.000,00**	**0,00**	**0,00**	**0,00**	**0,00**	**90.000,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				60.000,00 (11)	30.000,00 (12)					90.000,00		
Of which is paid by subsidiary and affiliated companies												
Andrea Casaluci	General Manager Operations	14/05/2018 - 31/12/2018	/	**578.846,00**	**0,00**	**279.133,00**	**0,00**	**12.369,00**	**270.625,00**	**1.140.973,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.												
Of which is paid by subsidiary and affiliated companies				578.846,00 (29)		279.133,00 (3)		12.369,00 (30)	270.625,00 (31)	1.140.973,00		
Executives with strategic responsibilities	(32)		/	**3.702.853,00**	**0,00**	**1.514.037,00**	**0,00**	**81.307,00**	**3.301.500,00**	**8.599.697,00**	**0,00**	**1.868.750,00**
Of which is paid by Pirelli & C. S.p.A.				919.007,00		237.370,00 (3)		18.790,00 (33)	802.750,00 (34)	1.977.917,00		1.868.750,00 (35)
Of which is paid by subsidiary and affiliated companies				2.783.846,00		1.276.667,00 (3)		62.517,00 (33)	2.498.750,00 (34)	6.621.780,00		
Francesco Fallacara	Chairman of the Board of Statutory Auditors	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2020 (36)	**75.000,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**75.000,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				75.000,00						75.000,00		
Of which is paid by subsidiary and affiliated companies												
Antonella Carù	Standing Auditor	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2020 (36)	**56.795,00**	**40.000,00**	**0,00**	**0,00**	**0,00**	**0,00**	**96.795,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				50.000,00	40.000,00 (38)					90.000,00		
Of which is paid by subsidiary and affiliated companies				6.795,00 (37)						6.795,00		

First and last name	Office	Period office held	Expiry date of office	Fixed remuneration	Remuneration for membership of committees	Variable non-equity remuneration: Bonus and other incentives	Variable non-equity remuneration: Profit sharing	Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end-of-mandate or termination of employment
Fabio Artoni	Standing Auditor	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2020 (36)	**65.192,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**65.192,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				50.000,00						50.000,00		
Of which is paid by subsidiary and affiliated companies				15.192,00 (39)						15.192,00		
Luca Nicodemi	Standing Auditor	01/01/2018 - 31/12/2018	AGM for approval of the financial statements as of 31 December 2020 (36)	**56.795,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**56.795,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				50.000,00						50.000,00		
Of which is paid by subsidiary and affiliated companies				6.795,00 (37)						6.795,00		
Alberto Villani	Standing Auditor	01/01/2018 - 31/12/2018	AGM to approve the financial statements for the year to 31 December 2020 (36)	**50.000,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**50.000,00**	**0,00**	**0,00**
Of which is paid by Pirelli & C. S.p.A.				50.000,00						50.000,00		
Of which is paid by subsidiary and affiliated companies										0,00		
* * * * *												
Total remuneration in Pirelli & C. S.p.A.				**5.463.158,00**	**741.068,00**	**2.467.922,00**		**294.773,00**	**1.462.750,00**	**10.429.671,00**		**4.860.750,00**
Total remuneration paid by subsidiaries and affiliated companies				**3.500.705,00**		**1.572.279,00**		**86.670,00**	**2.769.375,00**	**7.791.535,00**		
Total				**8.963.863,00**	**741.068,00**	**4.040.201,00**		**381.443,00**	**4.232.125,00**	**18.221.206,00**		**4.860.750,00**

(1) Of which: euro 60,000 as Director of Pirelli & C. S.p.A.; euro 2,400,000 as Executive Vice President and Chief Executive Officer of Pirelli & C. S.p.A.
(2) Of which euro 50,000 as Chairman of the Appointments and Successions Committee of Pirelli & C. S.p.A. and euro 50,000 as Chairman of the Strategies Committee of Pirelli & C. S.p.A.
(3) The amount includes the quota of 75% of MBO 2018 incentive and 25% of the MBO 2017 incentive paid. The deferred quota of 25% of the 2018 MBO incentive put at opportunity/risk linked to the results of MBO 2019 is not indicated (see table below for more details).
(4) Of which: euro 252,637 for an insurance policy stipulated in line with the provisions of the Policy, euro5,663 for the company car.
(5) Following the listing of Pirelli & C. S.p.A., the Executive Vice President and Chief Executive Officer terminated the office of Chairman and Managing Director of Pirelli Tyre S.p.A. on 12 July 2018, on the occasion of the organizational structural review of the Company (with the establishment of the General Operations Department) and the review of the structure of the compensation package of the same. Therefore, Pirelli Tyre paid the amount accrued at that date, pursuant to Art. 17, paragraph 1, letter c) of T.U.I.R. no. 917/1986, having similar characteristics to the Employee Severance Indemnity (TFR), provided by Art. 2120 of the Italian civil code.
(6) Of which euro 161,096 as Chairman of Pirelli & C. S.p.A., euro 24,164 as Director of Pirelli & C. S.p.A. with effect from 7 August 2018
(7) As a member of the Appointments and Successions Committee of Pirelli & C. S.p.A. from 7 August 2018
(8) Remuneration transferred to employer company
(9) Of which: euro 231,233 as Chairman of the Board of Directors of Pirelli & C. S.p.A. from 1 January 2018 to 30 July 2018 and euro 34,685 as Director of Pirelli & C. S.p.A. from 1 January 2018 to 30 July 2018.
(10) As member of the Appointments and Successions Committee of Pirelli & C. S.p.A. from 1 January 2018 to 30 July 2018
(11) As Director of Pirelli & C. S.p.A.
(12) As member of the Strategies Committee of Pirelli & C. S.p.A.
(13) Of which: euro 25,000 as member of the Remuneration Committee, euro 30,000 as member of the Appointments and Successions Committee, and euro 30,000 as member of the Strategies Committee of Pirelli & C. S.p.A.
(14) Of which: euro 60,000 as Director of Pirelli & C. S.p.A. and euro 600,000 as a senior manager of Pirelli & C. S.p.A. (until 31 December 2018).
(15) Of which: euro 4,922 for an insurance policy, euro 3,581 for a company car, euro 6,000 for supplementary pension contributions and euro 3,180 for health insurance.

(16) Of which: euro 70,000 as Director responsible for Sustainability issues and euro 30,000 as payment of the quota of the fee provided by the non-competition agreement and euro 560,000 for retention and reward. It is pointed out that Mr Bruno and Pirelli concluded a consultancy agreement with effect from 1 January 2019 providing for an annual fee of euro 300,000 and a duration of 5 years. The related fees will be reported in the 2019 Report
(17) As remuneration for the termination of employment relationship (Senior Manager) with Pirelli & C. S.p.A.
(18) Of which euro 25,000 as member of the Audit, Risks, Sustainability and Corporate Governance Committee ("ARSCGC") and euro 25,000 as member of the Remuneration Committee of Pirelli & C. S.p.A.
(19) Of which euro 30,000 as member of the Strategies Committee and euro 60,000 as Chairman of the Related Parties Transactions Committee ("RPT Committee") of Pirelli & C. S.p.A.
(20) As Chairman of the ARSCGC of Pirelli & C. S.p.A.
(21) As Director of Pirelli & C. S.p.A. with effect from 15 May 2018
(22) Of which: euro 15,822 as member of the ARSCGC and euro 15,822 as member of the Remuneration Committee of Pirelli & C. S.p.A. from 15 May 2018
(23) As member of the RPT Committee of Pirelli & C. S.p.A.
(24) Of which: euro 25,000 as member of the ARSCGC and euro 40,000 as member of the RPT Committee of Pirelli & C. S.p.A.
(25) As Chairman of the Remuneration Committee of Pirelli & C. S.p.A.
(26) As executive of Pirelli Tyre S.p.A. for the whole year 2018
(27) As member of the Appointments and Successions Committee of Pirelli & C. S.p.A.
(28) Of which: euro 2,604 for a company car, euro 6,000 for supplementary pension contributions and euro 3,180 for health insurance.
(29) The fixed remuneration includes the quota accrued as Executive with strategic responsabilities until 14 May 2018 and the quota accrued as Heneral Manager Operations.
(30) Of which: euro 3,189 for a company car, euro 6,000 for supplementary pension contributions and euro 3,180 for health insurance.
(31) Of which: euro 220,000 for the Retention Plan and euro 50,625 as payment of the fee provided by non-competition agreement
(32) At 31 December 2018 the following persons were Executives with strategic responsibilities, other than the General Manager Operations: Maurizio Boiocchi, Roberto Righi, Francesco Sala, Maurizio Sala, Davide Sala (appointed on 14 May 2018), Pier Luigi De Cancellis (appointed on 14 May 2018) and Francesco Tanzi. Gustavo Bracco and Luigi Staccoli were Executives with strategic responsibilities until 14 May 2018 and, therefore, the remuneration they received is shown. It is pointed out that the remuneration paid to General Manager Andrea Casaluci is not included in this item, as he is separately indicated by name in the table.
(33) The amounts are referred to the company car, supplementary pension contributions and health insurance.
(34) The amounts are referred to payments of the quota of the fee provided by non-competition agreement, a lump-sum bonus, and a retention bonus paid in 2018.
(35) Consequent to the consensual termination of the employment relationship of an Executive with strategic responsabilities of Pirelli & C. S.p.A.
(36) The Board of Statutory Auditors was renewed by the AGM on 15 May 2018; the Chairman and the Standing auditors appointed are the same as in the previous mandate.
(37) As Standing auditor of Pirelli Tyre S.p.A.
(38) As member of the 231 Supervisory Body
(39) As Standing auditor of Pirelli Industrie Pneumatici S.r.l. and Chairman of the Board of Statutory Auditors of Pirelli Tyre S.p.A.

3. MONETARY INCENTIVE PLANS FOR MEMBERS OF THE BOARD OF DIRECTORS, GENERAL MANAGERS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

For a description of the monetary incentive plans, see the Remuneration Policy.

Pirelli's variable incentive scheme prescribes that payment of 25% of any MBO accrued is deferred for 12 months and is subject to the achievement of the MBO objectives for the following year. In particular:
- in the event that no MBO accrues in the following year, the deferred MBO quota of the previous year is definitively "lost";
- in the event that the MBO accrues in the following year at the level of the access threshold, the MBO quota deferred from the previous year is returned;
- in the event that the MBO achieved in the following year is between the target level and the maximum level, then - in addition to the return of the MBO quota deferred from the previous year - an additional amount is paid, equal to between 20% and 40% of the entire MBO accrued in the previous year (for results earned in the following year that are intermediate between the target and maximum levels, the increase in the previous year's MBO bonus is calculated by linear interpolation).

First and last name	Office	Plan	Bonus for the year			Bonus for the previous years			Other bonuses
			Payable/ Paid out	Deferred	Deferment period	No longer payable	Payable /Paid out	Still deferred	
Marco Tronchetti Provera	Executive Vice President and Chief Executive Officer	MBO 2018	1.405.709,00	468.570,00	-	-	824.843,00	-	0,00
		LTI Plan 2018-2020	-	-	-	-	-	-	0,00
Giorgio Luca Bruno	Director	MBO 2018	-	-	-	-	-	-	560.000,00
		LTI Plan 2018-2020	-	-	-	-	-	-	0,00
Giovanni Tronchetti Provera	Director (1)	MBO 2018	11.281,00	3.760,00	-	-	5.198,00	-	0,00
		LTI Plan 2018-2020	-	-	-	-	-	-	0,00
Andrea Casaluci	General Manager Operations (2)	MBO 2018	237.214,00	79.071,00	-	-	41.919,00	-	220.000,00
		LTI Plan 2018-2020	-	-	-	-	-	-	0,00
Executives with strategic responsibilities (3)		MBO 2018	939.482,00	313.160,00	-	-	574.555,00	-	3.036.000,00
		LTI Plan 2018-2020	-	-	-	-	-	-	0,00
(I) Remuneration in the Company preparing the financial statements		MBO 2018	1.541.595,00	513.865,00	-	-	926.328,00	-	1.300.000,00
		LTI Plan 2018-2020	-	-	-	-	-	-	0,00
(II) Remuneration from Subsidiary and Affiliated Companies		MBO 2018	1.052.092,00	350.697,00	-	-	520.187,00	-	2.516.000,00
		LTI Plan 2018-2020	-	-	-	-	-	-	0,00
(III) Total			2.593.687,00	864.562,00	-	-	1.446.515,00	-	3.816.000,00

(1) Giovanni Tronchetti Provera is included in the LTI and MBO variable incentive plans as an executive of Pirelli Tyre S.p.A.
(2) General Manager appointed on 14 May 2018.
(3) At 31 December 2018, the following persons were Executives with strategic responsibilities, other than the General Manager Operations: Maurizio Sala, Francesco Tanzi, Maurizio Boiocchi, Roberto Righi, Francesco Sala, Davide Sala and Pier Luigi De

Cancellis. It should be noted that Gustavo Bracco and Luigi Staccoli were Executives with strategic responsibilities from 01 January 2018 until 14 May 2018: they do not accrued any variable remuneration

4. TABLE OF EQUITY INVESTMENTS OF THE MEMBERS OF THE ADMINISTRATIVE AND CONTROL BODIES, GENERAL MANAGERS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES.

The table below provides disclosures on any equity investments held in Pirelli & C. and in its subsidiaries, 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;
- General Manager;
- Executive with strategic responsibilities.

In particular, it indicates, for each member of the Board of Directors and Board of Statutory Auditors and General Managers, by name, and cumulatively for the 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, General Manager or as Executives with strategic responsibilities, even for a fraction of the year.

1) Equity investments of the members of the administrative and control bodies and General Managers

First and last name	Office	Investee company	No. of shares owned at 31.12.2017	No. of shares purchased/subscribed	No. of shares sold	No. of shares owned at 31.12.2018
Giorgio Luca Bruno	Director	Pirelli & C.	500 (1)	-	-	500 (1)
Marco Tronchetti Provera (2)	Executive Vice President and CEO	Pirelli & C.	-	114.141.546 (3)	13.618.984 (4)	100.522.562

(1) shares purchased when the Company was listed on 4 October 2017.
(2) shares held by the indirectly controlled company Camfin S.p.A., which has directly carried out all the operations indicated.
(3) of which no. 113,491,546 shares assigned to Camfin S.p.A. following the effectiveness of the full demerger of Marco Polo International Italy S.p.A.
(4) assigned to MM Tyre S.r.l. following the effectiveness of the partial and non-proportional demerger of Camfin S.p.A. in favour of Manzoni S.r.l.

2) Equity investments of other Executives with strategic responsibilities

Number of Executives with strategic responsibilities		Investee company	No. of shares owned at 31.12.2017	No. of shares purchased/subscribed	No. of shares sold	No. of shares owned at 31.12.2018
-		-	-	-	-	-

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2018

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

	Note	12/31/2018	of which related parties (note 45)	12/31/2017	of which related parties (note 45)
Property, plant and equipment	**10**	3,092,927		2,980,294	
Intangible assets	**11**	5,783,338		5,893,704	
Investments in associates and J.V.	**12**	72,705		17,480	
Other financial assets	**13**	-		229,519	
Other financial assets at fair value through other comprehensive income	**13**	68,781		-	
Other financial assets at fair value through income statement	**13**	-		-	
Deferred tax assets	**14**	74,118		111,553	
Other receivables	**16**	225,707	*12,576*	204,051	*12,007*
Tax receivables	**17**	16,169		27,318	
Derivative financial instruments	**28**	20,134		878	
Non-current assets		**9,353,879**		**9,464,797**	
Inventories	**18**	1,128,466		940,668	
Trade receivables	**15**	627,968	*15,667*	652,487	*62,731*
Other receivables	**16**	416,651	*55,418*	400,538	*36,482*
Securities held for trading		-		33,027	
Other financial assets at fair value through income statement	**19**	27,196		-	
Cash and cash equivalents	**20**	1,326,900		1,118,437	
Tax receivables	**17**	41,393	-	35,461	*60*
Derivative financial instruments	**28**	98,567		27,770	
Current assets		**3,667,141**		**3,208,388**	
Assets held for sale	**36**	**10,677**		**60,729**	
Total Assets		**13,031,697**		**12,733,914**	
Equity attributable to owners of the Group:	**21.1**	**4,468,121**		**4,116,758**	
Share capital		1,904,375		1,904,375	
Reserves		2,132,140		2,035,991	
Net income (loss)		431,606		176,392	
Equity attributable to non-controlling interests:	**21.2**	**82,806**		**60,251**	
Reserves		72,040		60,936	
Net income (loss)		10,766		(685)	
Total Equity	**21**	**4,550,927**		**4,177,009**	
Borrowings from banks and other financial institutions	**24**	3,929,079		3,897,089	-
Other payables	**26**	83,287		74,435	
Provisions for liabilities and charges	**22**	138,327		127,124	
Provisions for deferred tax liabilities	**14**	1,081,605		1,216,635	
Employee benefit obligations	**23**	224,312		274,037	
Tax payables	**27**	2,091		2,399	
Derivative financial instruments	**28**	16,039		54,963	
Non-current liabilities		**5,474,740**		**5,646,682**	
Borrowings from banks and other financial institutions	**24**	800,145		559,168	-
Trade payables	**25**	1,604,677	*191,605*	1,673,642	*197,954*
Other payables	**26**	436,752	*7,436*	565,254	*16,437*
Provisions for liabilities and charges	**22**	33,876		45,833	
Employee benefit obligations	**23**	5,475		-	
Tax payables	**27**	65,503	-	48,416	*9,895*
Derivative financial instruments	**28**	59,602		17,910	
Current liabilities		**3,006,030**		**2,910,223**	
Total Liabilities and Equity		**13,031,697**		**12,733,914**	

CONSOLIDATED INCOME STATEMENT (In thousands of euro)

	Note	2018	of which related parties (note 45)	2017	of which related parties (note 45)
Revenues from sales and services	**30**	**5,194,471**	*8,962*	**5,352,283**	*10,833*
Other income	**31**	483,205	*108,536*	628,533	*230,618*
- of which non-recurring events		-		-	
Changes in inventories of unfinished, semi-finished and finished products		201,416		140,258	
Raw materials and consumables used (net of change in inventories)		(1,818,199)	*(12,704)*	(1,859,837)	*(46,536)*
Personnel expenses	**32**	(1,067,579)	*(14,133)*	(1,034,647)	*(11,004)*
- of which non-recurring events		*(15,410)*		*(2,578)*	
Amortisation, depreciation and impairment	**33**	(414,523)		(371,457)	
Other costs	**34**	(1,858,162)	*(290,380)*	(2,184,660)	*(374,951)*
- of which non-recurring events		*(7,798)*		*(70,076)*	
Net impairment loss on financial assets	**35**	(21,273)	*(9,000)*		
Increase in fixed assets for internal work		3,700		3,110	
Operating income (loss)		**703,056**		**673,583**	
Net income (loss) from equity investments	**36**	(4,980)		(6,855)	
- share of net income (loss) of associates and j.v.		*(11,560)*	*(11,560)*	*(8,252)*	*(8,252)*
- gains on equity investments		*4,007*		*5,997*	
- losses on equity investments		*(1,603)*		*(14,434)*	
- dividends		*4,176*		*9,834*	
Financial income	**37**	139,730	*3,120*	128,540	*35,320*
Financial expenses	**38**	(336,041)	*(25)*	(491,150)	*(41,070)*
- of which non-recurring events		*(2,149)*		*(61,244)*	
Net income (loss) before tax		**501,765**		**304,118**	
Tax	**39**	(52,964)		(40,848)	
- of which non-recurring events		*60,607*		*103,881*	
Net income (loss) from continuing operations		**448,801**		**263,270**	
Net income (loss) from discontinued operations	**40**	(6,429)	*(10,642)*	(87,563)	
Total net income (loss)		**442,372**		**175,707**	
Attributable to:					
Owners of the parent company		431,606		176,392	
Non-controlling interests		10,766		(685)	
Total earnings/(loss) per share (in euro per share)	**41**	**0.432**		**0.206**	
Earnings/(loss) per share related to continuing operations (in euro per share)		0.438		0.309	
Earnings/(loss) per share related to discontinued operations (in euro per share)		(0.006)		(0.103)	

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

		2018	2017
A	**Total Net income (loss)**	**442,372**	**175,707**
Other components of comprehensive income:			
	B - Items that may not be reclassified to income statement:		
	- Net actuarial gains (losses) on employee benefits	28,727	(14,656)
	- Tax effect	(6,986)	(9,291)
	- Fair value adjustment of other financial assets at fair value through other comprehensive income	(8,642)	-
	Total B	**13,099**	**(23,947)**
	C - Items reclassified / that may be reclassified to income statement:		
	Exchange differences from translation of foreign financial statements		
	- Gains / (losses) for the period	(78,150)	(166,763)
	- (Gains) / losses reclassified to income statement	-	80,208
	Fair value adjustment of other financial assets available for sale:		
	- Gains / (losses) for the period	-	40,486
	- (Gains) / losses reclassified to income statement	-	1,439
	Fair value adjustment of derivatives designated as cash flow hedges:		
	- Gains / (losses) for the period	107,496	(59,757)
	- (Gains) / losses reclassified to income statement	(118,747)	45,265
	- Tax effect	548	2,983
	Cost of hedging		
	- Gains / (losses) for the period	20,056	-
	- (Gains) / losses reclassified to income statement	(6,798)	-
	- Tax effect	(1,446)	-
	Share of other comprehensive income related to associates and JVs net of tax	(3,221)	(2,915)
	Total C	**(80,262)**	**(59,054)**
D	**Total other comprehensive income (B+C)**	**(67,163)**	**(83,001)**
A+D	**Total comprehensive income (loss)**	**375,209**	**92,706**
	Attributable to:		
	- Owners of the parent company	363,500	93,793
	- Non-controlling interests	11,709	(1,087)
	Attributable to owners of the parent company:		
	- Continuing operations	369,929	101,148
	- Discontinued operations	(6,429)	(7,355)
	Total attributable to owners of the parent company	**363,500**	**93,793**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2018

(In thousands of euro)	Attributable to the Parent Company						Total
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	**Total attributable to the Parent Company**	**Non controlling interests**	
Total at 12/31/2017	**1,904,375**	**(220,624)**	**(70,265)**	**2,503,272**	**4,116,758**	**60,251**	**4,177,009**
Adoption of new accounting standard IFRS 9	-	-	-	-	-	-	-
- Reclassification from available for sale financial assets to other financial assets at FV through income statement	-	-	(10,554)	10,554	-	-	-
- Change due to impairment of financial assets at amortised cost	-	-	-	(1,023)	(1,023)	-	(1,023)
Total at 01/01/2018	**1,904,375**	**(220,624)**	**(80,819)**	**2,512,803**	**4,115,735**	**60,251**	**4,175,986**
Other components of comprehensive income	-	(82,314)	14,208	-	(68,106)	943	(67,163)
Net income (loss)	-	-	-	431,606	431,606	10,766	442,372
Total conprehensive income (loss)	**-**	**(82,314)**	**14,208**	**431,606**	**363,500**	**11,709**	**375,209**
Dividend paid	-	-	-	-	-	(8,366)	(8,366)
Transactions with non-controlling interests	-	(619)	-	(35,726)	(36,345)	19,033	(17,312)
High inflation Argentina	-	-	-	26,242	26,242	-	26,242
Other	-	-	(103)	(908)	(1,011)	179	(832)
Total at 12/31/2018	**1,904,375**	**(303,557)**	**(66,714)**	**2,934,017**	**4,468,121**	**82,806**	**4,550,927**

(In thousands of euro)	Breakdown of IAS reserves *						
	Reserve for fair value adjustment of available-for-sale financial assets	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Tax effect	**Total IAS reserves**
Total at 12/31/2017	**19,410**	**-**	**-**	**(13,454)**	**(59,110)**	**(17,111)**	**(70,265)**
Adoption of new accounting standard IFRS 9	(19,410)	8,856	1,000	(1,000)	-	-	(10,554)
Total at 01/01/2018	**-**	**8,856**	**1,000**	**(14,454)**	**(59,110)**	**(17,111)**	**(80,819)**
Other components of comprehensive income	-	(8,642)	13,258	(11,251)	28,727	(7,884)	14,208
Other changes	-	(107)	-	-	2	2	(103)
Balance at 12/31/2018	**-**	**107**	**14,258**	**(25,705)**	**(30,381)**	**(24,993)**	**(66,714)**

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)	-	-	-	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 CASH FLOWS (in thousands of euro)

		Note	2018	of which related parties (note 45)	2017	of which related parties (note 45)
	Net income (loss) before taxes		501,765		304,118	
	Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	33	414,523		371,457	
	Reversal of Financial expenses	38	336,041		491,150	
	Reversal of Financial income	37	(139,730)		(128,540)	
	Reversal of Dividends	36	(4,176)		(9,834)	
	Reversal of gains/(losses) on equity investments	36	(2,404)		8,437	
	Reversal of share of net income from associates and joint ventures	36	11,560		8,252	
	Taxes paid		(119,042)		(135,500)	
	Change in Inventories	18	(199,919)		(109,768)	
	Change in Trade receivables	15	(23,388)	*47,064*	73,644	*90,561*
	Change in Trade payables	25	104,663	*(6,350)*	447,385	*86,227*
	Change in Other receivables/Other payables		(151,425)	*(29,341)*	(39,423)	*70,469*
	Change in Provisions for employee benefit obligations and Other provisions		(57,227)		(102,010)	
	Other changes		(12,915)		(41,734)	
A	**Net cash flows provided by / (used in) operating activities**		**658,326**		**1,137,634**	
	Investments in property, plant and equipment	10	(458,092)		(470,381)	
	Disposal of property, plant and equipment/intangible assets		16,223	-	73,505	*61,000*
	Investments in intangible assets	11	(11,640)		(18,969)	
	Acquisition of investments in subsidiaries		-		(15,639)	
	Acquisition of minorities		(49,722)	*(31,230)*	-	
	Repayment of share capital and reserves from associates		-	-	8,556	*8,556*
	Disposals (Acquisition) of investments in associates and JV		(65,222)	*(65,222)*	17,183	-
	Disposals (Acquisition) of financial assets		-	-	(2,465)	-
	Caçula purchase from Brasilian controlled distribution		(1,393)	-	-	-
	Dividends/reserves received from associates		2,674	*2,674*	-	
	Disposals (Acquisition) of other non current financial assets at fair value through income statement - Other financial assets		152,808		-	
	Dividends received		4,176		9,834	
B	**Net cash flows provided by / (used in) investing activities**		**(410,188)**		**(398,376)**	
	Increase in equity		-		1,189,375	
	Other changes		4,500		-	
	Change in Financial payables		168,952		(2,060,304)	-
	Change in Financial receivables/Other current financial assets at fair value through income statement - Assets held for trading		(31,761)	-	218,037	*190,000*
	Financial income / (expenses)		(168,406)		(280,832)	
	Dividends paid		(8,366)		(12,742)	
C	**Net cash flows provided by / (used in) financing activities**		**(35,081)**		**(946,466)**	
D	**Net cash flows provided by (used in) discontinued operations**		**37,101**	*43,530*	**(135,597)**	
E	**Total cash flows provided / (used) during the period (A+B+C+D)**		**250,158**		**(342,805)**	
F	**Cash and cash equivalents at the beginning of the year**		**1,109,640**		**1,523,928**	
G	**Exchange differences from translation of cash and cash equivalents**		(55,946)		(71,483)	
H	**Cash and cash equivalents at the end of the period (E+F+G) (°)**		**1,303,852**		**1,109,640**	

(°)	**of which:**			
	cash and cash equivalents	20	1,326,900	1,118,437
	bank overdrafts		(23,048)	(8,797)

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, 20126 Milan.

As of October 4, 2017 Pirelli & C. S.p.A. has been listed on the Mercato Telematico Azionario (MTA or screen-based stock exchange) which is 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 Legislative Decree No. 39 of January 27, 2010 and by way of the execution of the resolution of the Shareholders' Meeting on August 1, 2017, which conferred the mandate to the aforesaid company for each of the nine financial years with closings at December 31, 2017 to December 31, 2025.

Pirelli & C. S.p.A. is directly controlled by Marco Polo International Italy S.r.l. a company which was established as a result of the total non-proportional demerger of Marco Polo International Italy S.p.A. which took place during August 2018. Marco Polo International Italy S.r.l. - 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.

As of the aforesaid starting date of trading on the Stock Exchange (October 4, 2017), there are no parties that exercise management and coordination activities on the Company.

On February 26, 2019 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, 2018 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, which 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 financial year 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 financial 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 financial year in the reserves.

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 operations

As a result of the assignment which took place in March 2017 by Pirelli & C. S.p.A. to Marco Polo International Holding Italy S.p.A., of the TP Industrial Holding S.p.A. shares, the company into which almost all of Pirelli's Industrial assets were merged, in continuity with the 2017 financial year some residual activities in China and Argentina relative to the Industrial business, qualified as *"*discontinued operations*"*.

Pursuant to the provisions of IFRS 5, the results for the financial year for the "discontinued operations" were reclassified to the Income Statement as a single item, "net income (loss) related to discontinued operations". The separation process for Argentina was completed during the month of June 2018, while for China separation was completed at the end of 2018.

Scope of consolidation

The scope of consolidation includes the subsidiaries, associates and agreements for joint control (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 consolidated statement of Comprehensive Income.

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.

Joint arrangements are agreements whereby two or more parties have joint control under a contract. Joint control is the shared control of a business, established by agreement and only exists when decisions relative to that business 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 said entity. Joint ventures are distinguished from joint operations in that they are configured 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 which are subject to the agreement. In the case of joint operations, it is mandatory that the assets, liabilities, costs and revenues subject to the agreement be recognised in accordance with the applicable accounting standards. The Group does not currently have any agreements in place for joint operations.

The main changes in the scope of consolidation are summarised as follows:

- Disposal on June 27, 2018 of a 100% stake in the company TP Trading (Beijing) Co., Ltd;
- Disposal on August 27, 2018 of a 97.88% stake in the company Ecosil - Industria Quimica do Brasil Ltda.;
- Constitution on October 26, 2018 of the company Pirelli International Treasury S.p.A.;
- Acquisition on October 31, 2018 of a 100% stake in the company JMC Pneus Comercio Importação e Exportação Ltda.;
- Acquisition on October 9, 2018 of a 49% investment stake in a Joint Venture which, through the company Jining Shenzhou Tyre Co., owns a new Consumer tyre manufacturing plant in China.

Information on subsidiaries

The consolidated Financial Statements include the assets and liabilities of approximately 96 legal entities. The following is a list of the significant subsidiaries:

	Headquarter	**12/31/2018**		**12/31/2017**	
		% 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%		100.00%	
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)	65.00%	35.00%	99.98%	0.02%

The complete list of subsidiaries is contained in the annex *"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 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 appropriately reported under equity, and similarly, the share of gain or loss attributable to non-controlling interests is 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 distributed 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, 2018, as well as the provisions issued in the implementation of Article 9 of Legislative Decree no. 38/2005. The term IFRS signifies 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, 2018, 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 separate Financial Statements have been prepared using the historical costs method with the exception of the following items which have been evaluated at their fair value:

- derivative financial instruments;
- securities held for trading (until December 31, 2017);
- financial assets available for sale (until December 31, 2017);
- financial assets at fair value through other comprehensive income (as of January 1, 2018);

- financial assets at fair value through the Income Statement (as of January 1, 2018).

Business combinations

Corporate acquisitions are accounted for under the acquisition method.

When a controlling interest in a company is acquired, goodwill is 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 (acquisition in phases - step acquisition), the previously held investment is measured at fair value, and the effects of this adjustment is recognised in 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 definite 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 impairment, or whenever there are any indications of impairment, and as such, it is allocated to the cash generating units for this purpose. For the purposes of this verification, 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 sector of business 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 into consideration the minimum level at which goodwill is monitored, for the purposes of internal management control.

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 are incurred.

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, including any directly attributable incidental expenses.

Any costs incurred subsequent to the acquisition of goods, plus the cost of replacing any parts or portions of the assets of this category, are capitalised only if they increase the future financial benefits inherent to the asset. All other costs are recognised in the Income Statement as they are incurred. When the cost of replacing any parts or portions of the asset 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 accounted for 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 on a monthly basis 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 due 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, 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 for 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.

Improvements to third-party (leasehold) assets are classified as property, plant and equipment, 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 financial benefits are 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 impairment, at least on an annual basis, intangible assets with an indefinite useful life, including goodwill and both property, plant and equipment and intangible assets, are subjected to an impairment test.

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 value in use, 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 any impairment 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 an 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 impairment 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 an impairment, 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 value in use.

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 an 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 restatement of a value may not exceed the value of the investment that would have been determined (net of impairment) had no impairment 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 (IAS 39 until December 31, 2017)

This item includes investments in entities other than subsidiaries, associates and joint ventures, and other securities not held for trading. These are included in the Statement of Financial Position under the item *"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.

Other financial assets at fair value through other comprehensive income (FVOCI) – IFRS 9 as of January 1, 2018

The equity instruments for which the Group - at the time of their initial recognition or at transition - exercised the irrevocable option to present the gains and losses deriving from the changes in fair value in equity (FVOCI), fall within this evaluation category. They have been classified as non-current assets under the item "Other financial assets at fair value through other comprehensive income".

They were initially recognised at fair value, including transaction costs directly attributable to the acquisition.

They were subsequently carried at their fair value, and any gains and losses deriving from any changes in fair value were recognised in a specific equity reserve. This reserve will not be reversed to the Income Statement. In the event of sale of the financial asset, the amount suspended in equity is reclassified to retained earnings.

Dividends arising from these financial assets are recognised in the Income Statement when the right to collect is established,

Other financial assets at fair value through income statement (FVPL) - IFRS 9 as of January 1, 2018;

The items which fall within this evaluation category are:

- The equity instruments for which the Group - at the time of the initial recognition or at transition - did not exercise the irrevocable option to present the gains and losses deriving from the changes in fair value as equity. These changes have been classified as non-current assets under the item *“Other financial assets at fair value through income statement”;*

- The Group’s asset management business model provides that the sale of debt instruments and the cash flows associated with the financial asset represent the payment of the outstanding capital. The items classified as current assets under item *“Other financial assets at fair value through income statement”;*

- derivatives, with the exception of those designated as hedging instruments, which have been classified as *“Derivative financial instruments”.*

These were initially recognised at fair value. Transaction costs directly attributable to the acquisition have been recognised in the Income Statement.

They were subsequently carried at their fair value, and any gains and losses deriving from any changes in fair value were recognised in the Income Statement.

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 valuation 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.

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 de-recognised, the relative provision is also reversed if the receivable had previously been impaired.

Impairment of receivables (IAS 39 until December 31, 2017)

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 takes into account 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 collectively impaired based on percentages which increase as the expired time period increases. 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 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.

Impairment of receivables (IFRS 9 as of January 1, 2018)

For trade receivables, the Group applies a simplified approach, by calculating the expected losses over the life of receivables from the time of initial recognition. The Group uses a matrix based on historical experience which is linked to the ageing of the receivable itself, and which is adjusted to take specific forecasting factors into account for some customers.

For financial receivables, the calculation of the impairment is made with reference expected losses for the next 12 months. These calculations are based on a matrix which includes the credit ratings of customers provided by independent assessors. In the event of any significant increase in credit risk subsequent to the original date of the receivable, the expected loss is calculated for the entire life of the receivable. The Group assumes that the credit risk of a financial instrument has not increased significantly after initial recognition, if it is determined that the financial instrument has a low credit risk at the reporting date of the financial statements.

The Group assesses whether there has been a significant increase in credit risk when the customer's credit rating, as attributed by independent assessors, undergoes a change that shows an increase in the probability of default.

The Group considers that a financial asset is in default when internal or external information indicates that it is unlikely that the Group will receive the full amount of the expired contractual amount due (e.g. when the receivables have been referred to the legal department).

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.

In the event of a change in a financial liability that does not entail its cancellation, the gain or loss resulting from the change is calculated by discounting the change in the contractual cash flows using the original effective interest rate, and is immediately recognised in the Income Statement.

Financial assets at fair value through the Income Statement (IAS 39 until December 31, 2017)

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 which at the time of their initial recognition were designated at fair value to the Income Statement, classified as "Other financial assets", and derivatives (except those designated as effective hedging instruments), classified as "Derivative financial instruments".

These were carried at fair value with a corresponding 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.

Contingent assets

Any contingent assets, which arise as a result of past events and whose generation is linked to the occurrence or otherwise of unpredictable future events, are not recognised in the Financial Statements, unless revenue is virtually certain.

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 is significant, provisions are stated at their current value.

A provision for restructuring is recognised only if, in addition to meeting the requisite conditions for provisions for liabilities and charges, there exists a detailed formal restructuring plan so that any third parties involved can maintain a valid expectation that the restructuring will take place.

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 relative to defined contribution plans are recognised in the Income Statement as they are incurred.

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 pursuant to the provisions in force in the jurisdiction in which the plan operates.

In 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 (IAS 39 until December 31, 2017)

In accordance with the provisions of IAS 39, financial hedging instruments are accounted for in accordance with 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 derivative hedging instrument and the hedged item;
- it is expected that hedging will be highly effective
- its effectiveness can be reliably measured;
- hedging is highly effective throughout the various financial reporting periods to which it is designated.

These derivative instruments are measured at fair value.

The following accounting treatments are applied on the basis of the type of hedge:

- *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 any subsequent changes in the 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 reaches maturity or is sold, terminated, exercised, or no longer meets the conditions to be designated as a hedging instrument, or if designation is voluntarily revoked then hedge accounting is discontinued. The fair value adjustments accumulated in equity remain suspended in 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 recognised 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 the Income Statement"*.

The acquisitions and sales of derivative financial instruments are recorded at the settlement date.

Derivative financial instruments designated as hedging instruments (IFRS 9 as of January 1, 2018)

In accordance with the provisions of IFRS 9, derivative financial instruments are accounted for in accordance with the methods established for hedge accounting only when:

- the hedged items and the hedging instruments meet the eligibility requirements;

- at the beginning of the hedging relationship there is a formal designation and documentation of the hedging relationship, of the Group's objectives in the management of the risk. and of the strategy for implementing the hedge;
- the hedging relationship meets all the following efficiency requirements:
  - there is a financial relationship between the hedged item and the hedging instrument;
  - the effect of credit risk is not dominant compared to any changes associated with the risk hedged;
  - the hedge ratio defined in the hedging relationship is respected, also by way of any rebalancing measures, and is consistent with the risk management strategy adopted by the Group.

These derivative instruments are measured at fair value.

The following accounting treatments are applied on the basis of the type of hedge:

- *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 asset or liability (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.

  If the hedge of a highly probable future transaction subsequently entails the recognition of a non-financial asset or liability, the amounts that are suspended in equity are included in the initial value of the non-financial asset or liability.

  When future transactions are hedged through forward contracts, the Group may designate to hedge accounting;

  - The full fair value (including forward points): the effective portion of the changes in fair value of the entire derivative instrument are recognised in equity (cash flow hedge reserve);

- The sole spot component (excluding forward points): the effective portion of changes in fair value relative to the only spot component is recognised under equity within the cash flow hedge reserve, while the change in forward points for the hedged item is recorded in the cost of hedging reserve, always under equity.

When a hedging instrument reaches maturity or is sold, terminated early, exercised, or no longer meets the conditions to be designated as a hedging instrument, then hedge accounting is discontinued. The fair value adjustments accumulated in equity (both in the cash flow hedge reserve and in the cost of hedging reserve) remain suspended in 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 (both in the cash flow hedge reserve and in the cost of hedging reserve) are immediately recognised in the Income Statement.

For the derivative instruments that do not satisfy the prerequisites established by IFRS 9 for the adoption of hedge accounting, reference should be made to the section *"Financial assets at fair value through the 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.

The Group periodically evaluates the choices made in determining taxes in reference to situations in which the tax legislation in force lends itself to interpretation and, if deemed appropriate, accounts for provisions for risks determined on the basis of the taxes it expects to pay to the tax authorities. The interest and penalties accrued on these taxes are recognised under Income tax in the Income Statement.

Deferred taxes are calculated according to the temporary differences 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.

Share-based Payment Transactions (cash settled)

The additional monetary benefits (cash settled) granted to certain Group executives have been recognised under *"Personnel Provisions"* (other long-term benefits) with a corresponding entry for *"Personnel Expenses".* This cost is estimated at fair value and is accounted for over the duration of the plan according to the degree of maturity of the vesting condition at the reporting date. The estimate is reviewed with each financial statement up until the settlement date.

Recognition of revenues (IAS 18 until December 31, 2017)

Revenue is measured at the fair value of the amount received for the sale of products or provision of services.

Recognition of revenues (IFRS 15 as of January 1, 2018)

Revenues are recognised for an amount that reflects the consideration to which the Group believes it is entitled to in exchange for the transfer of goods and/or services to customers. The variable considerations that the Group deems necessary as payable to direct or indirect customers are recognised as a reduction to revenues.

Product sales (IAS 18 until December 31, 2017)

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.

Product sales (IFRS 15 as of January 1, 2018)

Revenues from product sales are recognised when the performance obligations towards customers have been met. Performance obligations are deemed to have been met when the control of goods has been transferred to the customer, i.e., generally when the goods have been delivered to the customer.

Retrospective discounts are applied to product sales based on the achievement of the objectives defined within the framework of commercial agreements. Revenues from sales are recognised net of these discounts, and in using this method, are estimated on the basis of historical experience for the expected value and amounts that are not expected to be de-recognised.

Sales do not include a financial component, as the average payment terms applied to customers fall within the standard commercial terms for the country in which the sales occur.

Provision of services (IAS 18 until December 31, 2017)

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.

Provision of services (IFRS 15 as of January 1, 2018)

Revenues for services are recognised when the service rendered has been completed.

Financial income and expenses

Financial income and expenses are recognized on an accrual basis.

Royalties

Royalties are recognised over time, as provided for by the content of the relevant agreement, which provides for the transfer to the customer of the rights of access to intellectual property. The amounts for royalties are estimated using the output method, and the royalties invoiced for each period, directly correlate with the value transferred to the customer.

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: 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 transactions

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.

Accounting standards for hyper-inflationary countries

Group companies operating in high-inflation countries recalculate the values for their non-monetary assets and liabilities in their original individual Financial Statements to eliminate the distorting effects caused by the loss of purchasing power of the currency. The inflation rate used to implement inflation accounting corresponds to the consumer price index.

Companies, operating in countries where the cumulative inflation rate over a three-year period approximates or exceeds 100%, adopt inflation accounting and discontinue it in the event that the cumulative inflation rate over a three-year period falls below 100%.

Gains or losses on the net monetary position were recognised in the Income Statement.

The financial statements of companies prepared in currencies other than the Euro, operating in high-inflation countries, have been translated into Euro by applying the period-end exchange rates to the items of both the Statement of Financial Position and the Income Statement.

During the course of the third quarter of 2018, the inflation rate accumulated over the past three years in Argentina exceeded 100%. This, together with other characteristics of the country's economy, has led the Group to adopt, as of July 1, 2018, the accounting standard IAS 29 - Financial Reporting in Hyperinflationary Economies for the Argentine subsidiary Pirelli Neumaticos S.A.I.C.

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, 2018

In accordance with the IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the IFRS effective as of January 1, 2018 are as follows:

- IFRS 15 - Revenue from Contracts with Customers:

  The impacts deriving from the application of this standard, which replaces the previous IAS 18, are described in Note 3.3 *"Impacts deriving from the adoption of IFRS 15 and IFRS 9"* which includes the impacts resulting from the first application of each principle.

- IFRS 9 – Financial Instruments:

  IFRS 9 replaces the previous IAS 39 standard as regards the classification and measurement of financial assets and liabilities, and the impairment of financial assets and hedge accounting. Refer to Note 3.3 *"Impacts deriving from the adoption of IFRS 15 and IFRS 9"* for the impacts resulting from the first application of this principle.

- Amendments to IFRS 2 – Share-based payments and Classification and Measurement of Share-based Payment Transactions

  The aim of these amendments is to clarify the accounting treatment of certain share-based payments. There were no impacts on the Group's Financial Statements arising from the application of these amendments;

- IFRIC 22 - Foreign Currency Transactions and Advance Considerations

  The aim of this interpretation is to determine the exchange rates 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 costs recognised at a later date is the same used to convert the advance payment. There were no impacts on the Group's Financial Statements.

- 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 changes were not applicable to the Group's Financial Statements.

- Improvements to the IFRS 2014-2016 cycle (issued by the IASB in December 2016):

  The IASB has issued a series of amendments to 3 current principles, which particularly concern the following aspects: clarification regarding the scope of 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 IFRS. The amendments to IAS 28 and IFRS1 were not applicable to the Group, while the amendments to IFRS 12 would only have been applicable only in the presence of entities classified under the scope of IFRS 5. There were no impacts on the Group's Financial Statements arising from the application of these amendments.

- Amendments to IFRS 4 - Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

  These changes govern the implementation of the new standard IFRS 9 - Financial Instruments, if IFRS 4 is also applicable, which is subject to further amendments. These changes were not applicable to the Group.

3.2 International Accounting Standards and/or interpretations that had been issued but had not yet entered into force during 2018

Pursuant to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors - the new standards and interpretations that had been issued but had not yet come into force, or had not yet been endorsed by the European Union at December 31, 2018, and which were therefore not applicable, along with any expected impacts on the consolidated Financial Statements, were as follows:

None of these standards and interpretations were 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 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.

- 16 IFRS – Leases

  The new leasing standard, which will replace the current IAS 17, provides a new definition for the term lease, and introduces a criterion based on the control (right of use) of an asset in order to distinguish lease contracts from contracts for the provision of services, by specifying discriminating factors, such as the identification of the asset, the right to replace it, the right to substantially obtain all the financial benefits deriving from the use of the asset and, lastly, the right to direct the use of the asset underlying the contract.

  For the lessee the standard establishes a single model for the recognition and evaluation of lease contracts which provides for the recognition of the asset subject to a lease, even an operating lease as an equity asset with a corresponding entry under financial debt, for an amount equal to the present value of future payments. The concept of operating leases has disappeared. To the contrary, this standard does not include significant amendments for lessors.

  This standard, approved by the European Union, will be applicable as of January 1, 2019. The Group will apply the new standard as of the date of entry into force.

  The Group has completed the preliminary project for assessing the impacts deriving from the application of the new standard on the transition date (January 1, 2019). This process was carried out in several phases, including the complete mapping of the contracts potentially suitable for containing a lease, and the analysis of the same in order to understand the main clauses relevant to IFRS 16.

  The Group availed itself of the practical expedient provided for by the standard which makes it possible to base itself on the conclusions reached in the past on the basis of IFRIC 4 and IAS 17 regarding the quantification of the components of operating leases for a specific contract. This practical expedient was applied to all contracts.

  The process for the implementation of the standard is in the phases of being completed. It foresees the setting up of the IT infrastructure for the accounting management of the standard, plus the alignment of administrative processes and controls to protect the critical areas which the standard impacts. The completion of this process is expected within the first quarter of 2019.

The Group has chosen to apply the standard retrospectively, recording the effect deriving from the application of the standard under equity as at January 1, 2019 (modified retrospective method). In particular, the Group will account for lease contracts previously classified as operating leases as follows:

- a financial liability, equal to the present value of the future residual payments at the transition date, discounted using the incremental borrowing rate applicable at the transition date for each contract;
- a right of use equal to the value of the financial liability at the transition date, net of any accruals and deferrals relative to the lease and recognised in the Statement of Financial Position at the closing date of these financial statements.

The following table shows the estimated impacts from the adoption of IFRS 16 at the transition date:

(In millions of euro)	
NON CURRENT ASSET	
Property, property and equipment	
- Leased lands	16.3
- Leased buildings	376.5
- Leased plant and machinery	38.3
- Leased industrial and commercial equipment	3.6
- Leased office furniture and IT material	1.4
- Leased cars, light vehicles and similar	20.3
- Leased heavy goods vehicles, lift trucks, internal transportation vehicles	39.6
Total	**496.0**
CURRENT ASSET	
Other receivables	(1.6)
Total	**494.4**

(In millions of euro)	
NON CURRENT LIABILITIES	
Borrowings from banks and other financial institutions	422.0
Provision for liabilities and charges	2.6
CURRENT LIABILITIES	
Borrowings from banks and other financial institutions	74.8
Other payables	(5.0)
Total	**494.4**

The value of non-current assets relative to operating lease contracts was increased due to the balance of prepaid expenses and accrued income recognised at December 31, 2018 to the amount of euro 1.6 million (included under item other current payables) and decreased due to the balance of any accrued expenses and deferred income recognised at December 31, 2018 to the amount of euro 5.0 million (included under item other current liabilities)

In adopting IFRS 16, the Group decided to avail itself of the exemption granted by the standard in relation to short-term leases (contracts with a duration of less than 12 months) for all asset classes. For these contracts, the introduction of IFRS 16 will not entail the recognition of the financial liability of the lease and the related right of use. Instead the lease payments will be recorded in the Income Statement on a straight-line basis for the duration of the respective contracts.

The Group also intends to avail itself of the exemption granted by the standard with regard to lease contracts for which the underlying asset is configured as a low-value asset, i.e., lease contracts for which the unit value of the underlying assets is not greater than euro 8 thousand when new.

Contracts for which the exemption was applied fall mainly within the following categories:

- computers, telephones and tablets;
- office and multi-function printers;
- other electronic devices.

The Group intends to use the practical expedient as provided for by IFRS 16 with for the separation of non-lease components for cars. The non-lease components on these assets will not be separated and accounted for separately from the lease components, but will be considered together with the latter in determining the financial liability of the lease and the relative right of use.

Furthermore, with reference to the rules for transition, the Group intends to avail itself of the following practical expedients available in the case of opting for the modified retrospective method:

- the classification of contracts that expire within 12 months from the date of transition as a short-term leases. For these contracts, lease payments will be recorded in the Income Statement on a linear basis;
- use of the information present at the transition date for the determination of the lease term, with particular reference to the exercise of extension and early closure options.

The transition to IFRS 16 introduces some elements of professional judgement as well as the use of assumptions and estimates in relation to the lease term and the definition of the incremental borrowing rate. The standards are summarised as follows:

- the Group has decided not to apply IFRS 16 for contracts containing a lease that has an intangible asset as an underlying asset;

- the contract renewal clauses are considered for the purposes of determining the duration of the contract when the Group has the option of exercising them without the need to obtain the consent of the counterparty and when their exercise is deemed reasonably certain. In the case of clauses which provide for multiple renewals that can be exercised unilaterally by the Group, only the first extension period has been considered;

- the automatic renewal clauses in which both parties have the right to terminate the contract have not been considered for the purposes of determining the duration of the contract, as the ability to extend the duration of the same is not under the unilateral control of the Group and the penalties to which the lessor could be exposed to is not significant. However, in the event that the lessor is exposed to a significant penalty, the Group includes a renewal option in determining the duration of the contract. This assessment is also carried out considering the degree of customisation of the asset subject to leasing: if the customisation is high, the lessor may incur a significant penalty if opposing the renewal;

- early termination clauses in contracts: these clauses are not considered in determining the duration of the contract if they can only be exercised by the lessor or by both parties. If they are unilaterally exercised by the Group, specific assessments are contractually conducted (for example, the Group is already negotiating a new contract or has already given notice to the lessor);

- incremental borrowing rate: the Group decided to use the incremental borrowing rate as the discount rate to discount lease contract payments. This rate consists of the *risk free rate* of the country in which the contract is negotiated and is based on the duration of the contract. It is then adjusted on the basis of the Group's credit spread and local credit spread.

Reconciliation of the commitments for minimum future payments due for non-cancellable operating leases

The following table provides reconciliation between the future commitments of lease contracts, which are disclosed in paragraph 10, and the expected impact from the adoption of the IFRS 16 as of January 1, 2019:

(In million of euro)

Minimum future payments due for non-cancellable operating leases 12/31/2018 (IAS 17)	517.9
Effects of extension option excercize	155.8
Short term contracts at 1/1/2019	(9.2)
Low value asset contracts	(12.1)
Service component	0.4
Finance lease liabilities at 31/12/2018	0.2
Discounting effects	(156.1)
Finance liabilities for lease contracts at 1/1/2019 (IFRS 16)	**496.9**

- 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 on whether the tax authorities will accept the tax treatment or not. In cases where it is not likely that the tax authority is will accept the uncertain tax treatment, the uncertainty is recognised by recording additional tax liabilities or by the application of a higher tax rate.

  This interpretation, approved by the European Union will be applicable as of January 1, 2019. No impacts on the Group financial statements are foreseen.

- Amendments to IFRS 9 - Financial Instruments: prepayment features with negative compensation and amendments to 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, any gain or loss calculated as the difference between the contractual cash flows of the original liability and the modified cash flows, with 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 but had 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.

This amendment, approved by the European Union, became applicable as of January 1, 2019. There were no impacts on the Group's Financial Statements in that 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: the attainment of control of a business that is classified as a joint operation must be accounted for as a business combination in phases, and the previously held investment must be re-measured at fair value at the date of acquisition of control.

- IFRS 11 – Joint arrangements: in the case of the attainment of the joint control of a business which is classified as a joint operation, the previously held investment must be re-measured 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 which 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 by the European Union. Any impacts on the Group's Financial Statements are however currently being analysed.

- Amendments to IAS 19 - Employee Benefits

These amendments require that:

- the cost for the current service and the net interest for the period following a modification and/or reduction of the plan are determined using updated assumptions;
- any reductions in the surplus of a plan are recognised in the Income Statement, even if the surplus had not been recognised in the Income Statement as a result of the asset ceiling.

These amendments, which will come into force as of January 1, 2019, have not yet been approved by the European Union. Any impacts on the Group's Financial Statements are however currently being analysed.

- Amendments to IFRS 3 Business Combinations

These amendments have introduced a new definition for the term *"business",* as the current one is too complex resulting in too many transactions qualifying as a business combination.

These amendments, which will come into force as of January 1, 2020, have not yet been approved by the European Union. No impacts on the Group financial statements are foreseen.

- Amendments to IAS 1 - Presentation of Financial Statements, and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

In addition to clarifying the concept of materiality, these amendments focus on the definition of a coherent and unique concept of materiality amongst the various accounting standards and incorporate the guidelines included in IAS 1 for intangible assets.

These amendments, which will come into force as of January 1, 2020, have not yet been approved by the European Union. No impacts on the Group financial statements are foreseen.

3.3 Impacts deriving from the adoption of IFRS 15 and IFRS 9

The table below shows the effects on the Statement of Financial Position at opening on January 1, 2018 following the first application of IFRS 15 and IFRS 9:

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

	Note	12/31/2017	IFRS 15 1st adoption	IFRS 9 1st adoption	01/01/2018
Property, plant and equipment	**10**	2,980,294	-	-	2,980,294
Intangible assets	**11**	5,893,704	-	-	5,893,704
Investments in associates and J.V.	**12**	17,480	-	-	17,480
Other financial assets	**13**	229,519	-	(229,519)	-
Other financial assets at fair value through other comprehensive income	**13**	-	-	80,492	80,492
Other financial assets at fair value through income statement	**13**	-	-	149,027	149,027
Deferred tax assets	**14**	111,553	-	517	112,070
Other receivables	**16**	204,051	-	(633)	203,418
Tax receivables	**17**	27,318	-	-	27,318
Derivative financial instruments	**28**	878	-	-	878
Non-current assets		**9,464,797**	**-**	**(116)**	**9,464,681**
Inventories	**18**	940,668	-	-	940,668
Trade receivables	**15**	652,487	-	-	652,487
Other receivables	**16**	400,538	-	(907)	399,631
Securities held for trading		33,027	-	(33,027)	-
Other financial assets at fair value through income statement	**19**	-	-	33,027	33,027
Cash and cash equivalents	**20**	1,118,437	-	-	1,118,437
Tax receivables	**17**	35,461	-	-	35,461
Derivative financial instruments	**28**	27,770	-	-	27,770
Current assets		**3,208,388**	**-**	**(907)**	**3,207,481**
Assets held for sale	**36**	**60,729**	**-**	**-**	**60,729**
Total Assets		**12,733,914**	**-**	**(1,023)**	**12,732,891**
Equity attributable to owners of the Group:	**21.1**	**4,116,758**	**-**	**(1,023)**	**4,115,735**
-Share capital		1,904,375	-	-	1,904,375
-Reserves		2,035,991	-	(1,023)	2,034,968
-Net income (loss) for the period		176,392	-	-	176,392
Equity attributable to non-controlling interests:	**21.2**	**60,251**	**-**	**-**	**60,251**
-Reserves		60,936	-	-	60,936
-Net income (loss) for the period		(685)	-	-	(685)
Total Equity	**21**	**4,177,009**	**-**	**(1,023)**	**4,175,986**
Borrowings from banks and other financial institutions	**24**	3,897,089	-	-	3,897,089
Other payables	**26**	74,435	-	-	74,435
Provisions for liabilities and charges	**22**	127,124	-	-	127,124
Provisions for deferred tax liabilities	**14**	1,216,635	-	-	1,216,635
Employee benefit obligations	**23**	274,037	-	-	274,037
Tax payables	**27**	2,399	-	-	2,399
Derivative financial instruments	**28**	54,963	-	-	54,963
Non-current liabilities		**5,646,682**	**-**	**-**	**5,646,682**
Borrowings from banks and other financial institutions	**24**	559,168	-	-	559,168
Trade payables	**25**	1,673,642	-	-	1,673,642
Other payables	**26**	565,254	-	-	565,254
Provisions for liabilities and charges	**22**	45,833	-	-	45,833
Employee benefit obligations	**23**	-	-	-	-
Tax payables	**27**	48,416	-	-	48,416
Current assets	**28**	17,910	-	-	17,910
Current liabilities		**2,910,223**	**-**	**-**	**2,910,223**
Total Liabilities and Equity		**12,733,914**	**-**	**(1,023)**	**12,732,891**

IFRS 15 - Revenue from Contracts with Customers:

As a result of the application of this new accounting standard, which replaces the previous IAS 18, some amounts previously accounted for under costs and mainly related to variable considerations payable to indirect customers, and mainly linked to the achievement of sales targets, have been recorded as a reduction to revenues or other revenues, with insignificant impact. The restatement of these amounts did not alter the equity of the Group at the date of transition which was January 1, 2018. The comparable data for the 2017 financial year was not subjected to restatement in that the Group has opted for the application of the modified retrospective method during the transition.

The restatement of the Income Statement is presented below in accordance with the previous IAS 18 standard:

		2018	
(In thousands of euro)	**IAS 18**	**Reclassifications**	**IFRS 15**
Revenues from sales and services	5,233,402	(38,931)	5,194,471
Other income	495,018	(11,813)	483,205
Changes in inventories of unfinished, semi-finished and finished products	201,416	-	201,416
Raw materials and consumables used (net of change in inventories)	(1,818,199)	-	(1,818,199)
Personnel expenses	(1,067,579)	-	(1,067,579)
Amortisation, depreciation and impairment	(414,523)	-	(414,523)
Other costs	(1,908,906)	50,744	(1,858,162)
Net impairment loss on financial assets	(21,273)	-	(21,273)
Increase in fixed assets for internal work	3,700	-	3,700
Operating income (loss)	**703,056**	**-**	**703,056**

IFRS 15 had no impact on the methods used for recognising revenues.

The Group availed itself of the practical expedient provided for by IFRS 15 regarding performance obligations not fulfilled at the end of the financial year, as these performance obligations relate to contracts whose duration does not exceed one year.

IFRS 9 – Financial Instruments

IFRS 9 was applied retrospectively. The date of first application was January 1, 2018. The comparable data for 2017 was not subjected to restatement.

- Classification and measurement:

  At January 1, 2018, based on the assessment of the applicable business model and the contractual conditions of the cash flows associated with the assets, the financial assets were classified in the categories as provided for by IFRS 9. The equity instruments which at December 31, 2017 were classified as financial assets available for sale, (AFS) were designated as financial assets at fair value through other comprehensive income (FVOCI) in that they do not fall under the core business of the Group. The sole exception being the investment in Mediobanca S.p.A., which instead has been classified as financial assets whose *changes* in fair value have been recognised in the Income Statement (FVPL), as it was expected to be sold in the short term. The equity investment in Mediobanca S.p.A. was sold in the first days of January 2018 and the positive change in fair value to the amount of euro 3,780 thousand euro was recorded in the Income Statement under the item *"Gains on equity investments"* (Refer to Note 36.2).

The financial assets that at December 31, 2017 were classified as securities held for trading were classified as financial assets at fair value through the Income Statement (FVPL).

The following table summarises the reclassifications made:

(In thousands of euro)	**Other non current financial assets at FV through income statement**	**Other current financial assets at FV through income statement (Securities held for trading at 2017)**	**Other financial assets at FV through other comprehensive income (available for sale financial assets 2017)**	**Financial assets at amortised cost (gross trade receivables and gross other receivables)**
Total at 12/31/2017	**-**	**33,027**	**229,519**	**1,526,549**
Reclassification from available for sale financial assets to other financial assets at FV through income statement	149,027		(149,027)	
Total at 01/01/2018	**149,027**	**33,027**	**80,492**	**1,526,549**

- Impairment of financial assets

  The Group has analysed the impacts of the new impairment model of the IFRS 9 based on the losses expected from trade and financial receivables.

  For trade receivables, the Group has applied the simplified approach permitted by the standard, according to which expected losses are calculated over the entire life of the receivables. The Group has used a matrix based on historical experience which is linked to the ageing of the receivable itself, and which is adjusted to take into account the specific factors of some customers. There were no impacts on the Group's equity at the transition date due to the application of the new impairment model to trade receivables.

  For financial receivables, considered to be of a low credit risk, the calculation of the impairment was made with reference to the losses expected in the following 12 months, and was based on a matrix which included the ratings of customers provided by independent market operators.

  The application of the new model for expected losses to financial receivables entailed the recognition of a loss on the transition date - net of the deferred tax effect - equal to euro 1,023 thousand and recognised as a reduction of the equity, in accordance with the rules of transition established by IFRS 9.

- *Hedge accounting*: The Group adopted the new rules for hedge accounting as provided for by IFRS 9 prospectively as of January 1, 2018. The hedging relationships in place at December 31, 2017 satisfied the conditions provided for by IFRS 9 for the continued adoption of hedge accounting. It should be noted that, based on the provisions of IFRS 9, the cash flow hedge reserve for cash flow hedges outstanding at December 31, 2017 has been partly reclassified to a new reserve for the cost of hedging under equity to the amount of euro 1,000 thousand. The reclassification relates to the change in the fair value of the cross currency basis spread which, not being hedge accounting, is separated and recorded in a separate equity reserve, while the cash flow hedge reserve only includes changes in fair value in hedge accounting.

The impacts on the individual components of the Group's equity deriving from the first application of IFRS 9 are summarised in the following table:

(In thousands of euro)	Reserve for fair value adjustment of available for sale financial assets	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cash flow hedge	Reserve for cost of hedging	Other reserves / retained earnings
Total at 12/31/2017	**19,410**	**-**	**(13,454)**	**-**	**2,503,272**
Reclassification from available for sale financial assets to other financial assets at FV through income statement (Mediobanca)	(10,554)	-	-	-	10,554
Reclassification from available for sale financial assets to other financial assets at FV through other comprehensive income	(8,856)	8,856	-	-	-
Impairment of financial assets	-	-	-	-	(1,023)
Reclassification for hedge accounting	-	-	(1,000)	1,000	-
Total at 01/01/2018	**-**	**8,856**	**(14,454)**	**1,000**	**2,512,803**

It is to be noted that the fair value adjustment reserve for the financial assets available for sale at December 31, 2017 (positive to the amount of euro 19,410 thousand) was reclassified to a new reserve under equity for the investments designated as financial assets at their fair value recognised under other items of the Comprehensive Income Statement, while investments, whose changes at fair value were recognised in the Income Statement, have been reclassified to retained earnings. These reserves are not reversed to the Income Statement if the investment is disposed of;

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 IFRS 9, 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 IFRS 9, 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.

Total consolidated equity at December 31, 2018 stood at 47.8% (compared to approximately 57.1% at December 31, 2017). The most important currencies for the Group other than the Euro were the Brazilian Real (10.7%; 8.8% at December 31, 2017), the Turkish Lira (0.5%; 0.7%; at December 31, 2017), the Chinese Renminbi (12.2%, 12.8% at December 31, 2017), the Romanian Leu (8.5%; 9.0% at December 31, 2017), the Pound Sterling (3.9%, 3.4% at December 31, 2017), the US Dollar (3.8%; 3.3% at December 31, 2017) the Mexican Peso (7.4%, 2.5% at December 31, 2017) and the Russian Rouble (1.6%; 1.0% at December 31, 2017).

The effects on consolidated equity which derive from a hypothetical appreciation/depreciation of the above listed currencies against the Euro, all other conditions being equal, were as follows:

(In thousands of euro)	**Appreciation of 10%**		**Depreciation of 10%**	
	31/12/2018	**12/31/2017**	**31/12/2018**	**12/31/2017**
Brazilian Real	54,258	40,903	(44,393)	(33,466)
Turkish Lira	2,543	3,420	(2,080)	(2,798)
Chinese Renminbi	61,628	59,309	(50,423)	(48,526)
Romanian Leu	43,204	41,610	(35,349)	(34,045)
Russian Rouble	8,308	4,868	(6,797)	(3,983)
British Pound	19,481	15,681	(15,939)	(12,830)
Argentinian Pesos	8,779	-	(7,183)	-
US Dollar	19,036	15,168	(15,575)	(12,411)
Mexican Pesos	37,594	11,648	(30,759)	(9,530)
Total on consolidated equity	**254,831**	**192,607**	**(208,498)**	**(157,589)**

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 for hedging interest rate risk, for which hedge accounting is activated when the conditions set forth in the IFRS 9 are met.

The table below shows the effects on the net income (loss) results from an increase or decrease of 0.5% 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%**	
	12/31/2018	**12/31/2017**	**12/31/2018**	**12/31/2017**
Impact on Net income (loss)	(13,039)	(12,513)	13,039	12,513

The effects on the Group's equity deriving from changes in the LIBOR and EURIBOR rates calculated on the interest rate hedging instruments outstanding at December 31 2018 are described in Note 28 - *"Derivatives"*.

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 0.7% of the total consolidated assets at December 31, 2018 (2.1% at December 31, 2017). These assets were classified as other financial assets at fair value through other comprehensive income and other financial assets at fair value through income statement (assets available for sale and securities held for trading at December 31, 2017).

No derivatives were put in place to either cover or limit the volatility risk for these assets.

Other financial assets at fair value through other comprehensive income are represented by listed securities amounted to euro 28,448 thousand (euro 179,204 thousand included in the item financial assets available for sale at December 31, 2017) and those represented by securities indirectly associated with listed securities (Fin. Priv. S.r.l.) amounted to euro 15,604 thousand, (euro 19,908 thousand at December 31, 2017). These financial assets constituted 45.9% of the total financial assets subject to price risk (75.8% at December 31, 2017). 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 1,422 thousand (a positive change of euro 8,960 thousand at December 31, 2017) while a negative change of -5% in the prices of the aforesaid listed equities, all other conditions being equal, would result in a negative change to the Group's equity of euro 1,422 thousand (a negative change of euro 8,960 thousand to the Group's equity at December 31, 2017).

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. 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, mainly 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 2018, with a leading insurance company for worldwide coverage for credit risk mainly related to sales on the Replacement channel (with an approximate 75% acceptance rate at December 2018).

Insurance coverage was extended to also cover the two year 2019 - 2020 period. At December 31, 2018, the amount of trade receivables remained essentially consistent with that at closing for the previous financial year.

Instead, for the management of its temporary cash surpluses or for trading in derivative instruments, the Group operates only with highly rated financial counterparties.

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.

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 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 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, 2018 the Group had, in addition to cash and other current financial assets at fair value through income statement to the amount of euro 1,354,096 thousand (euro 1,151,464 thousand at December 31, 2017), unused credit facilities to the amount of euro 700,000 thousand (euro 700,000 thousand at December 31, 2017) maturing in the second quarter of 2022.

Maturities for financial liabilities at December 31, 2018 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	1,604,677	-	-	-	1,604,677
Other payables	436,752	5,122	18,797	59,368	520,039
Financial derivative instruments	63,043	(20,871)	(55,247)	(66)	(13,141)
Borrowings from banks and other financial institutions	892,924	1,324,611	2,867,664	21,029	5,106,228
	2,997,396	**1,308,862**	**2,831,214**	**80,331**	**7,217,803**

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 derivative 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**

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 evaluation;
- 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 measured at fair value at December 31, 2018, subdivided into the three levels as defined above:

(In thousands of euro)	**Note**	**Carrying amount at 12/31/2018**	**Level 1**	**Level 2**	**Level 3**
FINANCIAL ASSETS:					
Financial assets carried at fair value through Income Statement:					
Other current financial assets at fair value through income statement	19	27,196	-	27,196	-
Current derivative financial instruments	28	77,650	-	77,650	-
Non current derivative financial instruments	28	-	-	-	-
Hedging derivative instruments:					
Current derivative financial instruments	28	20,917	-	20,917	-
Non current derivative financial instruments	28	20,134	-	20,134	-
Other financial assets at fair value through other comprehensive income					
Securities and shares		53,207	28,448	15,604	9,155
Investment funds		15,574	-	15,574	-
	13	68,781	28,448	31,178	9,155
TOTAL ASSETS		**214,678**	**28,448**	**177,075**	**9,155**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through Income Statement:					
Current derivative financial instruments	28	(59,602)	-	(59,602)	-
Hedging derivative instruments:					
Current derivative financial instruments	28	-	-	-	-
Non current derivative financial instruments	28	(16,039)	-	(16,039)	-
TOTAL LIABILITIES		**(75,641)**		**(75,641)**	

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 through Income Statement:					
Securities held for trading		33,027	-	33,027	-
Current derivative financial instruments	28	27,770	-	27,770	-
Hedging derivative instruments:					
Non-current derivative financial instruments	28	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	-
	13	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 through Income Statement:					
Current derivative financial instruments	28	(17,910)	-	(17,910)	-
Hedging derivative instruments:					
Non-current derivative financial instruments	28	(54,963)	-	(54,963)	-
TOTAL LIABILITIES		**(72,873)**	**-**	**(72,873)**	**-**

The following table shows the **changes in the financial assets that occurred in level 3 during the course of 2018**:

(In thousands of euro)	**31/12/2018**
Opening balance	15,138
Translation differences	1
Disposals	(2,835)
Fair value adjustments through other comprehensive income	(3,188)
Other changes	39
Closing balance	**9,155**

These financial assets are mainly represented by equity investments in the European Institute of Oncology (euro 6,961 thousand), and TIcom I LP (euro 184 thousand).

The item **decreases** mainly refer to the liquidation of the investment in Emittenti Titoli.

The **fair value adjustments under other items of the comprehensive Income Statement** amounted to a loss of euro 3,188 thousand, and refers mainly to the adjustment of the investment in Pirelli de Venezuela C.A. up to the date of disposal completed on September 7, 2018 (euro 2,610 thousand).

During the course of the 2018 financial year there were no transfers from level 1 to level 2 or vice versa, nor from level 3 to other levels and vice versa.

The fair value of financial instruments traded on active markets is based on the price quotations published at the reporting date of the Financial Statements. These instruments, included in level 1, primarily comprise equity investments classified as financial assets at fair value through other comprehensive income.

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 of the Financial Statements.
- The fair value of the cross currency interest rate swaps is calculated by discounting the estimated future cash flows based on the observable yield curves and converting them into Euro using the exchange rate at the reporting date of the Financial Statements;
- The fair value of natural rubber futures is determined by using the forward exchange rate at the reporting date of the Financial Statements.

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 IFRS 9.

(In thousands of euro)	**Note**	**Carrying amount at 12/31/2018**	**Carrying amount at 12/31/2017**
FINANCIAL ASSETS			
Financial assets at fair value through income statement			
Securities held for trading		-	33,027
Other financial assets at fair value through income statement	19	27,196	-
Current derivative financial instruments	28	77,650	27,769
		104,846	*60,796*
Financial assets at amortized cost			
Other non-current receivables	16	225,707	204,051
Current trade receivables	15	627,968	652,487
Other current receivables	16	416,651	400,538
Cash and cash equivalents	20	1,326,900	1,118,437
		2,597,226	*2,375,513*
Financial assets available-for-sale			
Other financial assets		-	229,519
Financial assets at fair value through other comprehensive income			
Other financial assets	13	68,781	-
Financial hedging derivative instruments			
Current derivative financial instruments	28	20,917	-
Non-current financial derivative instruments	28	20,134	878
		41,051	878
TOTAL FINANCIAL ASSETS		**2,811,904**	**2,666,706**

FINANCIAL LIABILITIES			
Financial liabilities carried at fair value through income statement			
Current derivative financial instruments	28	59,602	17,911
Financial liabilities valuated at amortised cost			
Non-current borrowings from banks and other financial institutions	24	3,929,079	3,897,089
Other non-current payables	26	83,287	74,435
Current borrowings from banks and other financial institutions	24	800,145	559,168
Current trade payables	25	1,604,677	1,673,642
Other current payables	26	436,752	565,254
		6,853,940	*6,769,588*
Financial hedging derivative instruments			
Non-current derivative financial instruments	28	16,039	54,963
TOTAL FINANCIAL LIABILITIES		**6,929,581**	**6,842,462**

6. CAPITAL MANAGEMENT POLICY

The Company’s objective is to maximise the return on 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 to manage its capital is the ROI (which is calculated as the percentage ratio between the EBIT adjusted and the average net invested capital (which does not include investments in associated companies and Joint Ventures*, “Other financial assets at fair value through other comprehensive income”* and *“Other non-current financial assets at fair value through the Income Statement”* (*“other financial assets”* refers to the comparative data at December 31, 2017) and the intangible assets relative to assets recognised as a consequence of Business Combinations.

The ROI for the financial year 2018 equalled 30% compared to an ROI of 28% 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 assessments of the recoverability of goodwill and other intangible assets with an indefinite useful life, to the definition of the useful lives of the intangible assets as well as of property, plant and equipment, to the recoverability of receivables, to the determination of taxes (current and deferred), to the evaluation of pension schemes and other post-employment benefits and to the recognition/valuation of the provisions for liabilities and charges.

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, impairment is recognised for the goodwill allocated to them.

The configuration of the value used to determine the recoverable amount for Consumer Activities at December 31, 2018 was the fair value determined using the stock market capitalisation of the Parent Company at the date of the impairment test (December 31, 2018), where the stock market capitalisation was calculated on the number of outstanding shares without taking any control premium into consideration, and adjusted upwardly or downwardly according to 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, 2018 did not show any impairment, as the fair value of the Consumer Activities was significantly higher than the carrying amount.

Pirelli Brand (intangible asset with an indefinite useful life)

The Pirelli Brand is intangible fixed asset with an indefinite useful life are 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, 2018 was performed using the assistance of an independent third-party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2018 was 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).

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 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 any impairment when there are indicators that signal 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. Also if it is determined that a potential impairment may have been generated, the impairment is calculated using the appropriate assessment techniques.

The correct identification of indicators of a potential impairment, 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 taxable income and temporary deductible and taxable differences between carrying amounts and tax amounts. In particular, deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which they can be recovered. The assessment 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 risks and tax risks related to indirect taxes, provisions for the risk 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. BUSINESS COMBINATIONS

Acquisition Caçula (Brazil)

During the last quarter of 2018, Pirelli Comercial de Pneus Brasil Ltda, a Brazilian company which is 85% controlled by Pirelli Tyre S.p.A., and 15% controlled by Pirelli Latam Participaçoes Ltda., acquired 100% of the capital of JMC Pneus Comércio Importação and Exportação Ltda., which owns 34 points of sale in the state of São Paulo, for the preliminary consideration of euro 9,676 thousand subject to a post-closing price adjustment. With this operation, Pirelli intends to complete the strengthening its distribution chain in Brazil, particularly in the São Paulo area.

The temporary fair value of the net assets acquired were estimated as equal to the carrying amount for equity and was negative to the amount of euro 1,645 thousand.

The process of allocating the price paid at fair value of the assets acquired for the business combination (Purchase Price Allocation - PPA), in accordance with the provisions of accounting principle IFRS 3 (Business combinations) has not yet been completed. The consequent determination of the goodwill deriving from the acquisition is therefore to be considered provisional and will be completed, in accordance with the provisions of the standard, within twelve months of the acquisition date.

The difference, at the transaction date, between the consideration, reduced on the basis of the preliminary results of the price adjustment procedure (euro 8,362 thousand) and the provisional fair value of the net assets acquired (negative at euro 1,645 thousand), was equal to euro 10,007 thousand, was recorded as goodwill under the item *"intangible fixed assets".*

9. OPERATING SEGMENTS

IFRS 8 - Operating segments, defines an operating segment as a component:

- which involves entrepreneurial activities which generate revenues and costs;
- whose operating income is periodically reviewed by the Chief Executive Officer, in his role as Chief Operating Decision Maker (CODM);
- for which separate income, financial position, and equity data is available.

For the purposes of IFRS 8, the activities performed by the Consumer Activities are identifiable as a single operating segment.

Revenues from **sales and services according to geographical area** were as follows:

(In thousands of euro)	**2018**	**2017**
Europe	2,234,169	2,237,962
Russia and CIS	167,004	159,590
NAFTA	1,004,027	983,859
South America	691,874	915,677
Asia\Pacific (APAC)	890,248	806,247
Middle East\Africa\India (MEAI)	207,149	248,948
TOTAL	**5,194,471**	**5,352,283**

Non-current assets by geographic area which are allocated on the basis of the country where the assets are located, were as follows.

(*in thousands of euro*)	**12/31/2018**		**12/31/2017**	
Europe	5,407,113	60.92%	5,504,482	62.03%
Russia & CSI	171,456	1.93%	192,382	2.17%
NAFTA	445,894	5.02%	373,950	4.21%
Central and South America	466,441	5.25%	435,488	4.91%
Asia/Pacific	495,760	5.59%	487,560	5.49%
Middle Est/Africa/India	2,739	0.03%	2,773	0.03%
Non-current unallocated assets	1,886,862	21.26%	1,877,363	21.16%
Total	**8,876,265**	**100.00%**	**8,873,998**	**100.00%**

The **allocated non-current assets** reported in the preceding table consist of property, plant and equipment and intangible assets, excluding goodwill. The **unallocated non-current assets** relate to goodwill.

10. PROPERTY, PLANT AND EQUIPMENT

The composition and changes were as follows:

(in thousands of euro)	12/31/2018			12/31/2017		
	Gross Value	**Accumulated Depreciation**	**Net Value**	**Gross Value**	**Accumulated Depreciation**	**Net Value**
Land	189,026	-	189,026	201,216	-	201,216
Buildings	797,796	(100,549)	697,247	747,693	(81,256)	666,437
Plant and machinery	2,390,323	(484,851)	1,905,472	2,161,265	(340,307)	1,820,958
Industrial and trade equipment	436,827	(194,585)	242,242	376,568	(139,295)	237,273
Other assets	107,028	(48,088)	58,940	100,972	(46,562)	54,410
TOTAL	**3,921,000**	**(828,073)**	**3,092,927**	**3,587,714**	**(607,420)**	**2,980,294**

NET VALUE *(in thousands of euro)*	**12/31/2017**	**Change in scope**	**High Inflation Argentina**	**Translation differ.**	**Increases**	**Decreases**	**Depreciation**	**Devaluation**	**Recl./Other**	**12/31/2018**
Land	**201,216**	(9,890)	2,872	(8,707)	-	(3,250)	-	-	6,785	**189,026**
Buildings	**666,437**	(787)	5,316	(16,882)	67,338	(774)	(29,320)	-	5,919	**697,247**
Plant and machinery	**1,820,958**	-	14,395	(38,949)	305,140	(2,931)	(157,998)	(14,560)	(20,583)	**1,905,472**
Industrial and trade equipment	**237,273**	-	669	(9,925)	56,899	(4,628)	(68,501)	(406)	30,861	**242,242**
Other assets	**54,410**	-	1,389	(3,469)	22,424	(308)	(13,265)	(3)	(2,238)	**58,940**
Total	**2,980,294**	**(10,677)**	**24,641**	**(77,932)**	**451,801**	**(11,891)**	**(269,084)**	**(14,969)**	**20,744**	**3,092,927**

NET VALUE *(in thousands of euro)*	**12/31/2016**	**Change in scope**	**Assets held for sale**	**Translation differ.**	**Increases**	**Decreases**	**Depreciation**	**Reclass/ Other**	**12/31/2017**
Land	**326,216**	(111,043)	-	(14,806)	545	-	-	304	**201,216**
Buildings	**730,541**	(92,196)	-	(42,348)	61,071	(1,319)	(25,414)	36,102	**666,437**
Plant and machinery	**2,147,501**	(293,363)	(55,879)	(103,156)	336,637	(6,859)	(147,769)	(56,154)	**1,820,958**
Industrial and trade equipment	**300,907**	(60,558)	-	(14,492)	48,183	(4,034)	(66,077)	33,344	**237,273**
Other assets	**51,470**	(6,139)	-	(3,768)	23,945	(292)	(11,413)	608	**54,410**
Total	**3,556,635**	**(563,299)**	**(55,879)**	**(178,570)**	**470,381**	**(12,504)**	**(250,673)**	**14,204**	**2,980,294**

The item **effect of inflation in Argentina** refers to the revaluation of the assets held by the Argentine company for the 2018 financial year as a result of the application of the accounting standard IAS 29 - Financial Reporting in Hyperinflationary Economies.

The item **increases**, totalling euro 451,801 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, and to the continuous improvement of the quality and mix in all manufacturing plants.

The ratio of investments to amortisations for the 2018 financial year was equal to 1.68, (1.88 for the 2017 financial year).

The item **impairment** mainly includes the write-off on plants and machinery in Brazil amounting euro to 12,000 thousand and attributable to the actions already launched for the rationalisation of the structures of the Standard business.

The item **reclassifications/other** mainly includes the purchase of some of the residual assets from the Prometeon Group relative to the Consumer business relative to the 2018 financial year.

Property, plant and equipment in progress at December 31, 2018, included in the single fixed asset categories amounted to euro 227,302 thousand (euro 227,509 thousand at December 31, 2017). The main projects are concentrated in Germany, China, Mexico, Romania and Brazil.

At December 31, 2017, the **change in scope** column itemised the value of goodwill and other intangible assets attributable to the Prometeon Group, and which were transferred following the assignment 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 TP Industrial Holding S.p.A. shares, the company into which Pirelli's Industrial assets had been merged.

It should 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 to a total value of euro 342 thousand.

The value of the buildings and other assets for which the Company had entered into a financial leasing agreement, was included in the respective categories of property, plant, and equipment.

The changes which occurred were composed as follows:

(in thousands of euro)	**12/31/2018**			**12/31/2017**		
	Cost	**Accumulated Depreciation**	**Net value**	**Cost**	**Accumulated Depreciation**	**Net value**
Leased buldings	327	(327)	-	330	(330)	-
Other leased assets	1,916	(1,788)	128	2,286	(2,001)	285
Leased plant and machinery	176	(62)	114	266	(107)	159
TOTAL	**2,419**	**(2,177)**	**242**	**2,882**	**(2,438)**	**444**

Payables for financial leases were included in financial payables. (Refer to Note 24).

The total minimum future payments due for non-cancellable operating lease contracts amounted to euro 517,853 thousand, of which:

- euro 92,416 thousand were due within one year;
- euro 308,806 thousand were due between one and five years;
- euro 116,631 thousand were due in beyond five years.

11. INTANGIBLE ASSETS

The composition and changes were as follows.

(In thousands of euro)	12/31/2017	Translation differences	Effect of business	Increase	Amortisation	Impairment	Other	12/31/2018
Concessions/licenses/trademarks - finite life	**67,797**	(811)	-	979	(4,827)	-	237	**63,375**
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	-	-	-	**2,270,000**
Goodwill	**1,877,363**	(508)	10,007	-	-	-	-	**1,886,862**
Customer relationships	**377,242**	87		-	(34,533)	-	-	**342,796**
Technology	**1,276,017**	-	-	-	(76,850)	(5,250)	-	**1,199,167**
Software applications	**20,744**	(118)	-	10,330	(7,816)	-	451	**18,333**
Other intangible assets	**4,541**	270	-	331	(1,194)	(0)	(464)	**2,805**
TOTAL	**5,893,704**	**(1,080)**	**10,007**	**11,640**	**(125,220)**	**(5,250)**	**224**	**5,783,338**

(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	(2,141)	(1,813)	(708)	**4,541**
TOTAL	**6,496,889**	**(500,445)**	**(1,210)**	**18,969**	**(120,196)**	**-**	**(303)**	**5,893,704**

Intangible assets were 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 in the consolidated Financial Statements following the merger by incorporation of the Parent company Marco Polo Industrial Holding S.p.A. into Pirelli, which took place during the same 2016 financial year. The net carrying amounts at December 31, 2018 mainly refer to:

- the Pirelli Brand (indefinite useful life) for an amount equal to euro 2,270,000 thousand. It should be noted that the evaluation of the useful life of brands is based on a series of factors including the competitive environment, market share, history of the brand, life cycles of the underlying product, operational plans and the macroeconomic environment of the countries in which the related products are sold. In particular, the useful life of the Pirelli Brand was assessed indefinitely on the basis of its history of over one hundred years of success (established in 1872) and the intention and ability of the Group to continue investing in order to support and maintain the brand;

- the Metzeler Brand (useful life of 20 years) equal to euro 55,833 thousand was included under the item “Concessions, licenses and brands with a finite useful life;”

- Customer relationships (useful life of 10-20 years) equal to euro 340,333 million, which mainly includes the value of commercial relationships both in the Original Equipment channel and in the Replacement channel;

- Technology which includes the value of both product and process technologies as well the value of the *In-Process R&D* (being formed at the time of the acquisition of the Group in 2015) for an amount equal to euro 1,114,167 thousand and euro 85,000 thousand respectively. The useful life of the product and process Technology was determined to be 20 years, while the useful life for *In-Process R&D* was 10 years;

- goodwill to the amount of euro 1,886,862 thousand, of which euro 1,877,363 thousand was recorded at the time of acquisition of the Group in September 2015. The residual portion refers to the goodwill provisionally determined as part of the acquisition of the company JMC Pneus Comercio Importação e Exportação Ltda., which took place during the fourth quarter of 2018. Reference should be made to Note 8 for further details:

At December 31, 2017, in the **change in scope** column shows the value of goodwill and other intangible assets attributable to the Prometeon Group and which were transferred following the assignment 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., the company into which Pirelli's Industrial assets were merged.

Impairment testing of goodwill

Pursuant to IAS 36, goodwill is not subject to amortisation but is tested for any annually or more frequently, if specific events or circumstances arise that may indicate an impairment

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 of its operating assets, including the operating assets owned and goodwill.

Goodwill, amounting to euro 1,877,363 thousand, was allocated to the CGU group *"Consumer Activities"*, which 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 results) 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, 2018 is the fair value which is determined using on the stock market capitalisation of the Parent Company at the date of the impairment test (December 31, 2018), where the stock market capitalisation is calculated on the number of outstanding shares, without taking any control premium into consideration, be it adjusted either upwardly or downwardly of the fair value recorded in the Financial Statement items which have not been included in the carrying amount of the Consumer Activities, mainly the net financial position.

The impairment test at December 31, 2018 did not show any impairment, 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 20.8% of the stock market price of the ordinary shares of Pirelli & C. S.p.A.

The impairment testing of the Pirelli Brand (intangible fixed asset with an 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 an impairment.

The impairment test as at December 31, 2018 was carried out with the assistance of an independent third party professional.

The configuration for the recoverable amount for the purposes of impairment testing at December 31, 2018 was 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 2019-2020 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 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 5.01%. With reference to the contribution in terms of royalties from the Prometeon Tyre Group, the royalty rates used were those provided for by the license agreement subject to the reshaping of the contract as approved by the Board of Directors on February 14, 2019;
- a discount rate of 8.38%, 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 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 downward change in the royalty rates for the Consumer evaluation units of 50 basis points and the simultaneous zeroing of the balance for royalties from the license agreement with Prometeon Tyre Group;
- an upward change in the discount rate of150 basis points;
- a downward change in the g growth rate of 150 basis points.

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Changes in investments in associates and joint ventures were as follows:

(In thousands of euro)	12/31/2018			12/31/2017		
	Associates	**JV**	**Total**	**Associates**	**JV**	**Total**
Opening balance	**12,529**	**4,951**	**17,480**	**32,446**	**14,564**	**47,010**
Decreases	-	-	-	(10,410)	-	(10,410)
Increases	-	65,222	65,222	1,496	-	1,496
Distribution of dividends	(2,674)	-	(2,674)	(8,556)	-	(8,556)
Impairment	(874)	-	(874)	(754)	-	(754)
Share of net income (loss)	(274)	(11,286)	(11,560)	1,361	(9,613)	(8,252)
Share of other components recognised in Equity	-	(3,221)	(3,221)	(2,915)	-	(2,915)
Reclassification to provision for future risks and expenses	-	8,620	8,620	-	-	-
Reclassifications and other	(288)	-	(288)	(139)	-	(139)
Closing balance	**8,419**	**64,286**	**72,705**	**12,529**	**4,951**	**17,480**

12.1 Investments in associates

The item was composed as follows:

(In thousands of euro)	12/31/2017	Distrib. of dividends and reserves	Impairment	Share of net income (loss)	Reclass. and other	12/31/2018
Eurostazioni S.p.A.	**6,271**	-	-	124	-	**6,395**
Fenice S.r.l.	**2,477**	(2,474)	(4)	-	1	**0**
Focus Investments S.p.A.	**1,352**	-	(870)	(482)	-	**(0)**
Other Group companies	**2,429**	(200)	(0)	84	(289)	**2,024**
Total associates	**12,529**	**(2,674)**	**(874)**	**(274)**	**(288)**	**8,419**

As regards the investment in Fenice S.r.l., the company was put into liquidation following the sale of the investment in Prelios S.p.A. on December 28, 2017, to Lavaredo S.p.A., a newly established company designated by the Burlington fund, the counterparty to the transaction. The liquidation was completed in July 2018.

The item **distribution of dividends and reserves** mainly refers to the distribution of reserves and dividends implemented by Fenice S.r.l., to the amount of euro 2,474 thousand.

The item **impairment** mainly refers to the investment in the RCS MediaGroup S.p.A. This impairment became necessary in order to align the carrying amount after applying the equity method to its fair value, following the emergence of impairment indicators in 2018.

The **share of net income (loss)** (negative at euro 274 thousand) mainly refers to the loss recorded by Focus Investments S.p.A. equal to euro 482 thousand.

The investments in associated companies which were evaluated using the equity method were not relevant in terms of the impact on the total consolidated assets, either individually or in aggregate form.

12.2 Investments in joint ventures

The item was composed as follows:

(In thousands of euro)	31/12/2017	Increases	Share of net income (loss)	Share of other components recognised in Equity	Reclassification to provision for future risks and expenses	31/12/2018
PT Evoluzione Tyres	**4,951**	**-**	**(10,350)**	**(3,221)**	**8,620**	**-**
Xushen Tyre (Shanghai) Co, Ltd	**-**	**65,222**	**(936)**	**-**	**-**	**64,286**
Total joint ventures	**4,951**	**65,222**	**(11,286)**	**(3,221)**	**8,620**	**64,286**

The Group holds:

- an investment of 60% (ownership unchanged from the previous financial year) 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 in that the governance regulations explicitly require unanimous consensus for significant business decisions. The investment was evaluated using the equity method.

a 49% stake in the company Xushen Tyre (Shangai) Co., Ltd, a joint venture which, through the company Jining Shenzhou Tyre Co., owns a Consumer tyre manufacturing plant in China. The purchase was finalised on October 9, 2018 for an amount equal to euro 65,222 thousand. The investment was evaluated using the equity method. The new plant will provide the necessary production flexibility for the High Value segment, taking into account the evolution of the Chinese market, the expected developments in the electric car segment and the increasing share of homologations obtained in the Original Equipment segment in China, Japan and Korea.

The **share of net income (loss)** of euro 11,286 thousand refers to the pro-rata loss of PT Evoluzione Tyres to the amount of euro 10,350 thousand for 2018, and to the pro-rata loss for euro 936 thousand related to the fourth quarter of 2018 of the joint venture Xushen Tyre (Shanghai) Co, Ltd., a new High Value plant currently undergoing a ramp-up phase. The Group has reclassified the portion of the result recognised as a result of the application of the equity method which exceeds the value of the investment into a specific provision for risks and charges.

It should be noted that the negative result of the investment in PT Evoluzione Tyres was considered representative of an impairment indicator, and therefore the investment was subjected to an impairment test, with the aim of comparing the value of the net investment in the associated company (including the value of financial receivables due from the associated company totalling euro 18.7 million), following the application of the equity method, with the recoverable value of the same, represented by the equity value. The equity value of the investment at December 31, 2018 was higher than the carrying amount of the same and therefore no further impairment was recorded.

The investments in Joint Ventures were not relevant in terms of the impact on the total consolidated assets.

13. OTHER FINANCIAL ASSETS - OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH COMPREHENSIVE INCOME - OTHER NON-CURRENT FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT

Other financial assets

Following the entry into force on January 1, 2018 of IFRS 9, the other financial assets, consisting of financial assets available for sale amounting to euro 229,519 thousand at December 31, 2017, were designated as financial assets at fair value through other comprehensive income (FVOCI) to the amount of 80,492 thousand, and as financial assets whose *changes* in fair value were recognised in the Income Statement (FVPL) to the amount of euro 149,027 thousand euro.

Total other financial assets at 12/31/2017 (IAS 39)	**229,519**
Reclassification to other financial assets at FV through other comprehensive income (FVOCI)	(80,492)
Reclassification to other financial assets at FV through income statement (FVPL)	(149,027)
Total other financial assets at 1/1/2018 (IFRS 9)	**0**

Other financial assets at fair value through other comprehensive income (FVOCI)

The changes in other financial assets at fair value through other comprehensive income amounted to euro 68,781 thousand at December 31, 2018, were as follows:

(In thousands of euro)	
Opening balance other financial assets at FV through other comprehensive income FVOCI (IFRS 9) at 01/01/2018	**80,492**
Translation differences	(9)
Decreases	(2,858)
FV adjustment through other comprehensive income	(8,319)
Other	(525)
Closing balance 12/31/2018	**68,781**

The composition of the item according to individual securities is as follows:

(In thousands of euro)	**12/31/2018**	**12/31/2017**
RCS Mediagroup S.p.A.	28,448	30,177
Total listed securities	**28,448**	**30,177**
Fin. Priv. S.r.l.	15,604	19,908
Fondo Anastasia	15,574	15,269
Istituto Europeo di Oncologia S.r.l.	6,961	6,599
Euroqube	12	12
TIcom I LP	184	186
Emittenti Titoli	-	2,748
Equinox Two SCA	-	601
Pirelli De Venezuela C.A.	-	2,610
Other companies	1,998	2,382
Total unlisted securities	**40,333**	**50,315**
Total other financial assets at FV through other comprehensive income	**68,781**	**80,492**

The item **decreases** mainly refer to the liquidation of the investment in Emittenti Titoli.

The **fair value adjustments under other items of the comprehensive Income Statement** amounted to a loss of euro 8,319 thousand, and refers mainly to the RCS MediaGroup S.p.A. (euro 1,729 thousand), Fin. Priv (euro 4,304 thousand) and Pirelli de Venezuela C.A. (euro 2,610 thousand).

The fair value of listed securities corresponds to the stock market price at December 31, 2018. The fair value of unlisted securities was determined by making estimates on the basis of the best information available.

Other financial assets at fair value through income statement

The changes in the other financial assets at fair value through income statement and recorded in the 2018 Income Statement were as follows:

(In thousands of euro)	
Opening balance other financial assets at FV through income statement FVPL (IFRS 9) at 01/01/2018	**149,027**
FV adjustment through income statement	3,780
Decreases	(152,807)
Closing balance 12/31/2018	**-**

The initial value of other non-current financial assets at fair value through the Income statement refers to the investment in Mediobanca S.p.A, which was disposed of during January 2018

14. DEFERRED TAX ASSETS AND PROVISION FOR DEFERRED TAX LIABILITIES

Their composition is as follows:

(In thousands of euro)	**12/31/2018**	**12/31/2017**
Deferred tax assets	74,118	111,553
Provision for deferred tax liabilities	(1,081,605)	(1,216,635)
Total	**(1,007,487)**	**(1,105,082)**

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 recognized 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 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.

The gross amounts for compensations carried out were as follows:

(In thousands of euro)	**12/31/2018**	**12/31/2017**
Deferred tax assets	**304,872**	**288,944**
- of which within 12 months	126,864	75,345
- of which beyond 12 months	178,008	213,599
Provision for deferred tax liabilities	**(1,312,359)**	**(1,394,026)**
- of which within 12 months	(3,361)	(37,569)
- of which beyond 12 months	(1,308,998)	(1,356,457)
	(1,007,487)	**(1,105,082)**

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)	**12/31/2018**	**12/31/2017**
Deferred tax assets:		
Provisions for liabilities and charges	48,478	64,277
Employee benefit obligations	61,428	72,359
Inventories	21,070	27,357
Tax losses carried forward	70,429	51,159
Trade receivables and other receivables	27,727	23,541
Trade payables and other payables	395	951
Other	75,345	49,300
Total	**304,872**	**288,944**
Provision for deferred tax liabilities:		
Property, plant and equipment and intangible assets	(1,259,704)	(1,313,032)
Other	(52,655)	(80,994)
Total	**(1,312,359)**	**(1,394,026)**

The item *“other”* refers mainly to deferred tax assets and mainly includes deferred tax assets recorded on excess of interest paybles not deducted, and on the ACE benefit (Allowance for Corporate Equity).

At December 31, 2018 the value of deferred tax assets not recognised on temporary differences amounted to euro 7,867 thousand, while those related to tax losses amounted to euro 44,243 thousand.

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**	**12/31/2018**	**12/31/2017**
2017	-	6,082
2018	4,660	4,666
2019	1,712	1,711
2020	3,051	3,047
2021	2,647	2,646
2022	5,970	5,969
2023	8,517	8,530
2024	2,726	2,728
2025	4,708	4,708
2026	3,648	3,648
2027	512	
without maturity date	152,105	143,308
	190,256	**187,043**

Of the total tax losses with no expiration, the amount euro 56,944 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 positive to the amount of euro 7,884 thousand (negative to the amount of euro 6,308 thousand for 2017) 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.

15. TRADE RECEIVABLES

Trade receivables were analysed as follows:

(In thousands of euro)	12/31/2018			12/31/2017		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Trade receivables	685,090	-	685,090	919,573	-	919,573
Provision for bad debts	(57,122)	-	(57,122)	(267,086)	-	(267,086)
TOTAL	**627,968**	**-**	**627,968**	**652,487**	**-**	**652,487**

The gross value of trade receivables amounted to euro 685,090 thousand (euro 919,573 thousand at December 31, 2017) of which euro 148,663 thousand was for receivables which were past due (expired) at the reporting date (euro 382,196 thousand at December 31, 2017). The decrease in expired receivables was mainly attributable to the write-off of receivables due from the Venezuelan company Pirelli de Venezuela C.A. which was sold during 2018.

Receivables which were past due and not yet due were valuated according to the Group's policy described in the section on the adopted accounting standards.

The item impaired receivables includes 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)	**12/31/2018**	**12/31/2017**
Opening balance	267,086	286,627
Change in scope	-	(2,777)
Translation differences	16,548	(21,865)
Accruals	18,978	17,659
Decreases	(245,335)	(12,453)
Other	(156)	(106)
Closing balance	**57,122**	**267,086**

Accruals to the provision for bad debts are recognised in the Income Statement as *"Impairment of net financial assets"* (Refer to Note 33).

The **decreases** in the provision for bad debts was mainly due to the write-off of the receivables due from Pirelli de Venezuela C.A., a company sold to third parties during the course of the financial year.

The carrying amount for trade receivables is considered to approximate their fair value.

16. OTHER RECEIVABLES

Other receivables were analysed as follows:

(In thousands of euro)	12/31/2018			12/31/2017		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Financial receivables	156,952	124,048	32,904	131,096	94,585	36,511
Trade accruals and deferrals	32,837	8,907	23,930	34,548	1,513	33,035
Receivables from employees	6,625	1,059	5,566	6,974	1,225	5,749
Receivables from social security and welfare institutions	2,537	-	2,537	5,535	-	5,535
Receivables from tax authorities not related to income taxes	306,253	42,021	264,232	247,015	13,521	233,494
Other receivables	152,477	50,173	102,304	181,808	93,207	88,601
	657,681	**226,208**	**431,473**	**606,976**	**204,051**	**402,925**
Provision for bad debts	(15,323)	(501)	(14,822)	(2,387)	-	(2,387)
TOTAL	**642,358**	**225,707**	**416,651**	**604,589**	**204,051**	**400,538**

The item **non-current financial receivables** (euro 124,048 thousand) refers mainly to euro 60,995 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 18,222 thousand in sums deposited during the financial year into escrow accounts in favour of the pension funds of Pirelli UK Ltd and Pirelli UK Tyres Ltd, to euro 13,768 thousand in contributions paid in cash at the time of signing an association in participation contract, to euro 12,576 thousand as the non-current portion of loans disbursed to the Indonesian Joint Venture PT Evoluzione Tyres, and to euro 918 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.

The item **current financial receivables** (euro 32,904 thousand) refers to euro 3,682 thousand for the short-term portion of insurance premiums paid in advance for the issuance of guarantees in favour of the same pension funds, to euro 6,114 thousand for the short-term portion of loans disbursed to the Indonesian joint venture PT Evoluzione Tyres, and to euro 9,600 thousand accrued on derivative cross currency interest swaps relative to the unsecured syndicated Facilities loan granted to Pirelli International Plc.

The **provision for other receivable and financial receivables** (euro 15,323 thousand) mainly includes euro 6,085 thousand relative to the impairment of financial receivables following the application of the new impairment model introduced by IFRS 9, and is based on expected losses, and euro 9,238 thousand euros mainly for other impaired receivables due for royalties from the Aeolus Tyre Co., Ltd. consequent to the extraordinary reshaping of the technology license agreement with the Aeolus Group.

The item **receivables from tax authorities not related to income taxes** (euro 306.253 thousand) is mainly comprised of receivables for IVA (value added tax) and other indirect taxes. The increase at December 31, 2017 was mainly attributable to an increase in indirect tax receivables in Brazil. It should be noted that the item receivables from tax authorities at December 31, 2018 includes a receivable from the Brazilian tax authorities totalling euro 23,121 thousand, which was recognised following the obtainment of favourable rulings by the Federal Regional Courts of Brasilia and São Paulo which recognised the right to deduct the state tax on goods and services (ICMS) on the basis of the calculation of social contributions PIS (Programa de Integracao Social) and COFINS (Contribucao para Financiamento de Seguridade Social).

In more detail:

- euro 4,900 thousand (of which euro 1,346 thousand is relative to the total nominal value of the receivable and euro 3,553 thousand is relative to accrued interest) refers to the years from 1992 to 2002 for which the ruling in favour of the Group was passed for sentencing in December 2018.

- euro 18,222 thousand refers to receivables for the financial years from 2003 to 2014. For these years, even though the judgment has not the force of res judicata as of December 31, 2018, also on the basis of an opinion by an independent expert, the portion of this receivable was recorded in the Financial Statements which at the closing of the financial year met the conditions of virtual certainty required by the accounting standards.

The item **other non-current receivables** (euro 50,173 thousand) mainly refers to amounts deposited as guarantees for legal and tax disputes involving the Brazilian business units (euro 44,739 thousand), to receivables pledged as guarantees in Pirelli's favour which may be exercised in the event of contingent liabilities arising in relation to the acquisition of the company Campneus Lider de Pneumaticos Ltda (Brazil) for euro 2,281 thousand.

The item **other current receivables** (euro 102,304 thousand) mainly includes advances to suppliers amounting to euro 38,877 thousand, receivables from the disposal of real estate property not used for industrial operations in Brazil amounting to euro 2,253 thousand, and receivables from associates amounting to euro 10,582 thousand mainly refers to the sale of materials and moulds and receivables relative to the Prometeon group for the amount of euro 14,343 thousand.

For other current and non-current receivables the carrying amount is considered to approximate their fair value.

17. TAX RECEIVABLES

The item **tax receivables** refers to income taxes which amounted to euro 57.562 thousand (of which euro 16.169 thousand was non-current) compared to euro 62.779 thousand at December 31, 2017 (of which euro 27,318 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 receivables from previous financial years recorded by the Brazilian and Argentine companies.

18. INVENTORIES

Inventories were analysed as follows:

(In thousands of euro)	**12/31/2018**	**12/31/2017**
Raw and auxiliary materials and consumables	155,205	147,645
Sundry materials	6,492	5,197
Work in progress and semi-finished products	55,608	48,782
Finished products	910,447	737,558
Advances to suppliers	714	1,486
Total	**1,128,466**	**940,668**

The restatement of the value of inventories recognised net of impairments amounted to euro 21,497 thousand (impairments for euro 7,486 thousand at December 31, 2017).

Inventories were not subject to any guarantee pledges.

19. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT - CURRENT

Other financial assets at fair value through income statement amounted to euro 27,196 thousand at December 31, 2018.

It should be noted that following the entry into force of IFRS 9 on January 1, 2018, financial assets which at December 31, 2017 were classified as securities held for trading amounted to euro 33,027 thousand, were classified as other financial assets at fair value through income statement (FVPL).

The fair value of unlisted securities was determined by making estimates on the basis of the best information available.

Changes in fair values for the financial year were recognised in the Income Statement as *"Financial expenses"* (refer to Note 38).

20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went from euro 1,118,437 thousand at December 31, 2017 to euro 1,326,900 thousand at December 31, 2018.

These were concentrated in the finance companies of the Group 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.

For the purposes of the cash flow statement, the balance of cash and cash equivalents was recorded net of current accounts payable for euro 23,048 thousand at December 31, 2018 (euro 8,797 thousand at December 31, 2017).

21. EQUITY

21.1 Attributable to Parent Company

Equity attributable to parent company went from euro 4,116,758 thousand at December 31, 2017 to euro 4,468,121 thousand at December 31, 2018. The increase was mainly due to the net income for the financial year (positive at euro 431,606 thousand), to actuarial gains on pension funds (positive at euro 28,727 thousand) and to the effect of high inflation in Argentina (positive at euro 26,242 thousand) of euro) which were offset by reductions due to foreign exchange differences from the translation of foreign financial statements (negative to the amount of euro 82,314 thousand euro) and to transactions with minority shareholders (negative to the amount of euro 36,345 thousand).

The subscribed and paid up **share capital** at December 31, 2018 amounted to euro 1,904,375 thousand and was represented by 1,000,000,000 registered ordinary shares without indication of their nominal value.

21.2 Attributable to non-controlling interests

Equity attributable to non-controlling interests went from euro 60,251 thousand at December 31, 2017 to euro 82,806 thousand at December 31, 2018. The increase was mainly due to the net effect of transactions with minority shareholders as described in Note 21.3.

21.3 Main transactions with minority shareholders

During June 2018, the separation of the Group's residual industrial assets held in the subsidiary in Argentina was completed. The operation was structured according to the following methods:

- On June 28, 2018 the Group acquired the minority interest (of 28.5%) held in Pirelli Neumaticos S.A.I.C. from the Prometeon Tyre Group S.r.l. for the amount of euro 31.2 million, increasing its shareholding from 71.5% to 100%. The carrying amount of the minority interest acquired was negative at approximately euro 6.1 million. The difference between the price paid and the net equity acquired was equal to euro 37.3 million, and since it refers to a transaction with minorities, it was recognised as a reduction to the net equity attributable to the Parent Company.

- On June 29, 2018, the subsidiary Pirelli Neumaticos S.A.I.C. transferred the assets of the Industrial Business, to the company, the Prometeon Tyre Group de Argentina S.A, which is part of the Prometeon Group, for a an amount of approximately euro 27 million. The transaction generated a capital gain of approximately euro 21 million (approximately euro 15 million net of the tax effect) which was recognised as an increase to the Group's equity in continuity with the accounting adopted at the time of the assignment of the industrial business, due to the fact that the operation came about through subjects under common control.

Both transactions took place on the basis of values determined by a third and independent professional.

During May 2018, the increase of the reserved capital of Pirelli Tyre Russia was finalised, amounting to approximately euro 14 million, signed by some of the minority shareholders for a total of 35% of the company's share capital. The transaction generated a negative impact on the Group's equity of approximately euro 12 million, given the differential between the carrying amount of the equity acquired from the minorities and the value of the contribution made, inclusive of the additional transaction costs. It should also be noted that as part of this reorganisation, an option for acquisition was provided for concerning the entire investment of the minority shareholder Panaland, equal to 10% of the Pirelli Tyre Russia capital. This option provides for a crossover Call and Put system: the call option can be exercised by E-Volution Tyre B.V. (EVO - a company 100% owned by Pirelli Tyre S.p.A.) during the period between January 1 and June 30, 2020, while the put option will be exercised by Panaland, subject to the non-exercise of the call option by EVO, during the period between July 1 and December 31, 2020. Against this option a financial liability was recorded for a total of euro 4.2 million with a simultaneous reduction in the equity attributed to non-controlling interests. The impact of the transaction on the equity of non-controlling interests was positive to a total amount of euro 13.1 million.

22. 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)*	
Opening balance	127,124
Translation differences	(1,657)
Increases	27,560
Uses	(10,554)
Reversals	(4,203)
Other	57
Closing balance 12/31/2018	**138,327**

The **non-current portion** mainly refers to provisions made by the subsidiaries Pirelli Pneus Ltda, with headquarters in Brazil, for tax and legal disputes (euro 20,075 thousand) and for labour lawsuits (euro 11,930 thousand), and to provisions made by the parent company Pirelli & C. S.p.A. for tax disputes (euro 1,141 thousand), for commercial risks, remediation of disused areas and labour disputes (euro 3,160 thousand), and for occupational diseases litigation (euro 14,576 thousand), to a provisions for liabilities and charges recorded for the investment in the Joint Venture PT Evoluzione Tyres (euro 8,620 thousand) for the surplus between the proportion of the loss for the period and the value of the investment and by a provision attributable to the rationalisation of the structures relative to the Standard business launched during the course of 2018 for euro 13,000 thousand.

The item also includes contingent liabilities (whose outlay is not considered likely) which were identified during the Purchase Price Allocation following the acquisition of the Pirelli Group by Marco Polo Industrial Holding S.p.A. and the subsequent reverse merger, attributable to the decision taken by the European Commission - which was subsequently confirmed by the ruling of the General Court of the European Union on July 12, 2018, against which on September 21, 2018 Pirelli & C. S.p.A. (Pirelli) filed an appeal to the Court of Justice of the European Union of the decision made following the antitrust investigation regarding the energy cable business, which foresaw sanctions against Prysmian Cavi e Sistemi S.r.l. (Prysmian) of approximately euro 104 million, of which a part (euro 67 million), Pirelli, despite having been found to not have been involved in the alleged cartel, was held as being jointly liable with Prysmian S.p.A., 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. The provisioned amount is equal to euro 33.5 million which corresponds to the amount of the first-call bank guarantee issued by Pirelli - similar to what was carried out by Prysmian - for the benefit of the Commission (and at the request of the latter) for an amount equal to 50% of the aforementioned euro 67 million.

The item **increases** mainly refers to provisions for the labour disputes of the subsidiary Pirelli Pneus Ltda., to provisions for the remediation of disused areas, to provisions for the surplus between the pro-rata share of loss for the period and the value of the investment in the Joint Venture PT

Evoluzione Tyres, and to provisions the aforementioned rationalisation measures taken for the structures relative to the Standard business which began in 2018.

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 and for the remediation of disused areas.

The **reversals** of surplus provisions are mainly linked to adjustments to the provisions for tax risks.

PROVISION FOR LIABILITIES AND CHARGES - CURRENT PORTION *(In thousands of euro)*	
Opening balance	45,833
Translation differences	157
Increases	10,306
Uses	(4,800)
Reversals	(6,597)
Reclassification	(11,023)
Closing balance 12/31/2018	**33,876**

The **current portion** mainly includes provisions for, product claims and warranties (euro 10,839 thousand), for the remediation of disused areas (euro 4,700 thousand), for insurance risks (euro 2,911 thousand), and work place accidents relative to the English subsidiary (euro 3,343 thousand).

The item **increases** mainly refers to provisions for product claims and product warranty, insurance risks, tax risks and work place accidents.

The item **uses** was mainly attributable to the use of the products warranty provision through claims received from the various units of the Group, and use of the work place accidents provision.

The **reversals** of surplus provisions mostly concerned adjustments to the provisions for claims, for the remediation of environmental areas, for risks related to workplace safety in factories, and for insurance risks.

23. EMPLOYEE BENEFIT OBLIGATIONS

Pension funds – non-current portion

The item is composed as follows

(In thousands of euro)	**12/31/2018**	**12/31/2017**
Pension funds:		
- funded	51,143	92,144
- unfunded	86,639	91,035
Employee leaving indemnities (TFR - Italian companies)	32,175	33,083
Healthcare plans	17,126	18,885
Other benefits	37,229	38,890
Total	**224,312**	**274,037**

Pension funds

The following table shows the **composition of pension funds at December 31, 2018.**

(In thousands of euro)	12/31/2018						
	Germany	**Sweden**	**Total unfunded pension funds**	**USA**	**UK**	**Other countries**	**Total funded pension funds**
Funded funds							
Present value of funded liabilities				118,489	1,053,985	34,612	1,207,086
Fair value of plan assets				(95,169)	(1,030,587)	(30,187)	(1,155,943)
Unfunded funds							
Present value of unfunded liabilities	83,455	3,184	86,639				
Net liabilities recognised	**83,455**	**3,184**	**86,639**	**23,320**	**23,398**	**4,425**	**51,143**

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 characteristics of the main pension funds in place at December 31, 2018 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 2018 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, 2018	1,397,042	(1,213,863)	183,179
Translation difference	(1,839)	2,841	1,002
Movements through income statement:			
- current service cost	1,622	-	1,622
- cost of services rendered for previous years	14,319	-	14,319
- interest expense / (income)	34,248	(30,780)	3,468
	50,189	**(30,780)**	**19,409**
Remeasurements recognized in equity:			
- actuarial (gains) / losses from change in demographic assumptions	(14,988)	-	(14,988)
- actuarial (gains) / losses from change in financial assumptions	(66,749)	-	(66,749)
- experience adjustment (gains) losses	8,252	-	8,252
- return on plan assets, net of interest income	-	46,349	46,349
	(73,485)	**46,349**	**(27,136)**
Employer contributions	-	(33,710)	(33,710)
Employee contributions	528	(528)	-
Incentivised exit from benefits fund	-	-	-
Benefits paid	(78,167)	72,119	(6,048)
Settlements	-	-	-
Other	(544)	1,630	1,086
Closing balance at December 31, 2018	**1,293,724**	**(1,155,942)**	**137,782**

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**

The past services costs at December 31, 2018 (euro 14,319 thousand) mainly includes the provision on the estimated impacts on pension obligations deriving from the need to recalculate them in order to equalise some of the differences in treatment with reference to the minimum guaranteed pension (GMP equalisation) that emerged in the UK pension sector following the High Court ruling of October 26, 2018 in the case concerning the Lloyds Banking Group.

Both the past and current services costs are included in the item *“Personnel expenses”* (Refer to Note 32), and the net interests payable are included in the item *“Financial expenses”* (Refer to Note 38).

The **composition of funded pension fund assets** was as follows:

(In thousand of euro)	12/31/2018				12/31/2017			
	listed	unlisted	total	%	listed	unlisted	total	%
Shares	54,391	-	54,391	4.7%	66,421	-	66,421	5.5%
Bonds	76,181	-	76,181	6.6%	73,535	-	73,535	6.1%
Insurance policies	84,567	-	84,567	7.3%	87,717	6,040	93,757	7.7%
Deposits	355,410	-	355,410	30.7%	339,083	-	339,083	27.9%
Balanced funds	6,665	559,360	566,025	49.0%	16,813	596,829	613,642	50.6%
Real Estate	2,558	-	2,558	0.2%	1,258	-	1,258	0.1%
Derivatives	3,267	(739)	2,529	0.2%	879	4,120	4,999	0.4%
Other	14,186	95	14,282	1.2%	21,168	-	21,168	1.7%
	597,226	**558,717**	**1,155,943**	**100%**	**606,873**	**606,989**	**1,213,862**	**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 United Kingdom, 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 2019 financial year amounts to euro 5,851 thousand, while for funded pension funds the amount expected is euro 32,032 thousand.

Employees' leaving indemnities (TFR)

Changes for the financial year for the employees' leaving indemnities provision were as follows:

(In thousands of euro)	**12/31/2018**	**12/31/2017**
Opening balance	33,083	38,194
Industrial assignment	-	(1,949)
Movements through Income Statement:		
- current service cost	62	302
- interest expense	536	552
Remeasurements recognized in equity:		
- actuarial (gains)/losses arising from changes in demographic assumptions	6	(488)
- actuarial (gains)/losses arising from changes in financial assumptions	291	581
- experience (gains)/losses	-	(2,510)
Indemnities/advanced payments	(1,030)	(1,083)
Other	(773)	(516)
Closing balance	**32,175**	**33,083**

The current cost for services rendered by employees is included in the item *"Personnel expenses"* (Refer to Note 32) while interest payables are included in the item *"Financial expenses"* (Refer to Note 38).

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 12/31/2018	17,126
Liabilities recognised in the Financial Statements at 12/31/2017	18,885

The following changes occurred during the period:

(In thousands of euro)	**12/31/2018**	**12/31/2017**
Opening balance	18,885	20,761
Translation differences	814	(2,553)
Movements through income statement:		
- current service cost	4	4
- interest expense	614	749
Remeasurements recognised in equity:		
- actuarial (gains) losses arising from changes in financial assumptions	(993)	691
- actuarial (gains) losses arising from changes in demographic assumptions	(183)	0
- experience adjustment (gains) losses	(957)	347
Benefits paid	(1,059)	(1,114)
Closing balance	**17,126**	**18,885**

The cost for the service is included in the item *"Personnel expenses"* (Refer to Note 32), and net interests payable is included in *"Financial expenses"* (Refer to Note 38).

The contributions which are expected to be paid into the healthcare plan during the 2019 financial year amount to euro 1,432 thousand.

Additional information regarding post-employment benefits

Net actuarial losses accrued during the 2018 financial year and recognised directly in equity amounted to euro 28,727 thousand.

The main actuarial assumptions used at **December 31, 2018** were as follows:

	Italy	**Germany**	**Netherlands**	**Sweden**	**UK**	**USA**	**Switzerland**
Discount rate	1.50%	1.70%	2.30%	2.05%	2.90%	4.20%	0.85%
Inflation rate	1.50%	1.50%	1.60%	2.00%	3.13%	N/A	1.00%

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 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	67,511	67,983	207,433	355,412	698,340
Employees' leaving indemnities (TFR)	2,404	2,429	6,990	10,406	22,230
Healthcare plan	1,432	1,430	4,202	6,360	13,424
	71,346	**71,843**	**218,627**	**372,178**	**733,993**

The weighted average duration of bonds for post-employment benefits was equal to 14.57 years (15.29 years at December 31, 2017).

The sensitivity analysis for the relevant actuarial assumptions at the end of the 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	3.46%	increase of	3.67%
Inflation rate (only UK plans)	0.25%	increase of	2.06%	decrease of	2.36%

At the end of 2017 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	3.61%	increase of	3.83%
Inflation rate (only UK plans)	0.25%	increase of	2.46%	decrease of	2.23%

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 the central hypothesis for the same rates, rather than comparing them 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)	12/31/2018	12/31/2017
Long-term incentive plans	2,018	-
Jubilee awards	18,433	19,262
Leaving indemnities	10,786	12,974
Other long-term benefits	5,992	6,654
Total	**37,229**	**38,890**

The item **Long Term Incentives Plan** includes the amount allocated for the 2018-2020 three-year Long Term Incentives Plan, aimed at the entire management sector and which correlates with the 2018-2020 objectives contained in the 2017-2020 Industrial Plan.

Employee benefit obligations - current portion

The item employee benefit obligations which amounted to euro 5,475 thousand refers to the portion of the second instalment of the retention plan which is pertinent at December 31, 2018, and which will be liquidated during the first half-year of 2019. The plan was approved by the Pirelli Board of Directors on February 26, 2018, and is intended for Managers with strategic responsibilities and a select number of senior Managers and Executives whose contribution in the implementation of the Strategic Plan is considered particularly significant.

24. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Borrowings from banks and other financial institution were as follows:

(In thousands of euro)	12/31/2018			12/31/2017		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	1,269,514	1,269,514	-	596,280	596,280	-
Borrowings from banks	3,412,940	2,654,914	758,026	3,787,428	3,298,717	488,711
Borrowings from other financial institutions	17,048	393	16,655	50,267	1,176	49,091
Financial leasing payables	213	10	203	428	324	104
Accrued financial expenses and deferred financial income	21,711	28	21,683	18,175	30	18,145
Other financial payables	7,798	4,220	3,578	3,679	562	3,117
Total	**4,729,224**	**3,929,079**	**800,145**	**4,456,257**	**3,897,089**	**559,168**

The item **bonds** refers to:

- an unrated public bond loan for a total nominal amount of euro 753 million of which euro 553 million, (originally for euro 600 million and partially repurchased for a total amount of euro 47 million during the last quarter of the year) placed on January 22, 2018 with a fixed coupon of 1.375% and an original maturity of 5 years, plus a second bond loans issued on March 15, 2018 for a nominal amount of euro 200 million at a floating rate, with original maturity of 2.5 years. Both loans, placed with international institutional investors, were issued as part of the EMTN (Euro Medium Term Note) program approved by the Board of Directors at the end of 2017, signed on January 10, 2018 and updated on December 19, 2018. A previous bond placed by Pirelli International Plc on November 2014 for the nominal amount of euro 600 million, with a fixed coupon of 1.75% and with original maturity in November 2019, was repaid in advance on March 20, 2018 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, and has entailed the recording of the relative expenses (Refer to Note 38 *"Financial expenses"*);

- the floating rate *"Schuldschein"* loan for a total nominal value of euro 525 million on July 26, 2018, The loan, signed by primary market operators, consists of one tranche for the amount of euro 82 million with 3 year maturity, another for euro 423 million with a 5 year maturity, and another for euro 20 million with a 7 year maturity.

The carrying amount for bonds was determined to be as follows:

(In thousands of euro)	**12/31/2018**	**12/31/2017**
Nominal value	1,278,000	600,000
Transaction costs	(7,683)	(6,176)
Bond discount	(2,988)	(3,012)
Amortisation of effective interest rate	2,185	5,468
Total	**1,269,514**	**596,280**

The item **borrowings from banks**, which amounted to euro 3,412,940 thousand, mainly refers to:

- use of the secured Facilities loan granted to Pirelli & C. S.p.A. and Pirelli International Plc for the amount of euro 2,643,905 thousand. The nominal refinanced total subscribed to on June 27, 2017, (with a closing date of June 29, 2017) amounted to euro 3.4 billion (the net amount of repayments made since the date of signing - the original amount of the credit facility granted was euro 4.2 billion). The loan was subjected to repricing (reduction to the interest rates to be paid on the loan) in January 2018, entailing the recognition of a benefit in the Income Statement relative to the re-measurement of the debt (Refer to Note 38 *"Financial expenses").* The loan had an original maturity of three and five years and was entirely classified under non-current borrowings from banks. On November 29, 2018 the loan was modified to include the right for the Pirelli Group to extend, at its own discretion, the expiry of the individual lines of the loan to up to 2 years with respect to their original contractual maturity of 3 and 5 years. Lastly, it should be noted that on November 29, 2018 all the credit facilities originally granted to Pirelli International Plc were transferred to the Parent company Pirelli & C. S.p.A. and therefore at December 31, 2018 the entire credit line is held by the Parent Company;

- euro 426,134 thousand relative to loans disbursed in Brazil by local banking institutions of which euro 6,508 thousand has been classified under non-current borrowings from banks;

- euro 200,000 thousand relative to the loan disbursed by Intesa Sanpaolo to Pirelli & C. S.p.A. at a fixed rate and maturing in January 2019, has been classified under non-current borrowings from banks; It should be noted that in July 2018 the maturity of the loan was extended until July 19, 2019;

- 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 residual amount of euro 10,000 thousand were fully classified under current borrowings from banks;

- euro 54,187 thousand refers in particular to certain loans classified as current borrowings from banks granted to the Mexican subsidiaries;

- euro 12,630 thousand representing the loan granted to the subsidiary Pirelli Tyre (Jiaozuo) Co., Ltd (China), classified as current borrowings from banks;

- euro 11,612 thousand representing the loans granted to the subsidiary Pirelli Otomobil Lastikleri (Turkey) and classified as current borrowings from the banks;

- the use of credit facilities at local level in Russia, (euro 22,268 thousand), Argentina (euro 6,485 thousand), Japan (euro 6,357 thousand) and Sweden (euro 4,511 thousand) classified entirely as current borrowings from banks.

At December 31, 2018, the Group had a liquidity margin equal to euro 2,054.1 million composed of euro 700.0 million in the form of non-utilised committed credit facilities, and of euro 1,326.9 million in cash, in addition to financial assets at fair value recognised in the Income Statement to the amount of euro 27.2 million.

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, 2017	**4,456,257**
Bond issuance (EMTN program)	797,012
Bond buy-back (EMTN program)	(645,172)
Bond issuance (Schuldschein)	525,000
Drawdowns of unsecured financing (Facilities)	1,035,786
Reimbursements of unsecured financing (Facilities)	(1,737,501)
Intesa financing	200,000
Reimbursement of BEI borrowing	(20,000)
Flows from local financing facilities of subsidiaries	26,415
Amortized cost for the period	(15,479)
Translation differences and other movements for the period	106,906
Borrowings from banks and other financial institutions at December 31, 2018	**4,729,224**

The change in total borrowings from banks and other financial institutions for the previous financial year is shown below:

(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 21,711 thousand) mainly refers to the accrual of interest on loans from banks to the amount of euro 12,387 thousand (euro 16,784 thousand at December 31, 2017), and to the accrued interest matured on bonds to the amount of euro 9,269 thousand (euro 1,237 thousand at December 31, 2017).

Current and non-current financial payables backed by secured guarantees (pledges and mortgages) totalled euro 342 thousand (euro 676 thousand at December 31, 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)	**12/31/2018**		**12/31/2017**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Bonds	1,269,514	1,252,468	596,280	613,998
Borrowings from banks	2,654,914	2,697,096	3,298,717	3,355,453
Other financial payables	4,651	4,651	2,092	2,092
Total non-current financial payables	**3,929,079**	**3,954,215**	**3,897,089**	**3,971,543**

The unrated public bond issued by Pirelli & C. S.p.A. is listed and its relative fair value measured on the basis of prices at financial year-end. It has therefore been classified in level 1 of the hierarchy, as provided for by IFRS 13 – Fair Value Measurement. The fair value of the "*Schuldschein"* loan and of current borrowings from bank was calculated by discounting each expected borrowings cash flow at the market swap rate for the currency and at the maturity date, increased by the Group's creditworthiness for debt instruments similar by nature and technical characteristics, which therefore places it at level 2 of the hierarchy as 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, 2018** and **December 31, 2017** was as follows:

(In thousands of euro)	**12/31/2018**	**12/31/2017**
EUR	2,403,626	2,270,509
USD (US Dollar)	2,184,842	1,968,909
MXN (Mexican Peso)	54,187	51,528
RUR (Russian ruble)	32,738	9,059
TRY (Turkish Lira)	13,433	31,004
CNY (Chinese renmimbi)	12,829	166
BRL (Brasilian Real)	9,887	105,471
Other Currencies	17,682	19,611
Total	**4,729,224**	**4,456,257**

At December 31, 2018 there are 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 3,929,394 thousand, whose interest rate is subject to renegotiation within the first six months of 2018;

- a fixed rate payable to the amount of euro 799,830 thousand, whose interest rate is not subject to renegotiation until the natural maturity of the debt to which it refers (euro 248,715 thousand) due in the following 12 months and euro 551,115 thousand euro due in over 12 months.

The cost of debt on an annual basis stood at 3.37%, (2.95% including repricing impacts), compared to 5.36% at December 31, 2017.

The reduction in the cost of debt during the course of the 2018 financial year mainly reflects:

- lower interest by approximately euro 84.9 million, due mainly to the lower cost of the main bank credit facility signed in June 2017, compared to the previous bank loan, as well as the reduction of debt thanks also to the share capital increase by Marco Polo for approximately euro 1.2 billion which took place in June 2017;

- the favourable comparison between the not-yet-amortised wash down of fees included for 2017 of euro 61.2 million, and to the amount of euro 3.6 million for 2018, respectively relative to the old bank loan which was repaid in advance in June 2017, and to the bond placed by Pirelli International Plc (for the amount of euro 600 million, with a fixed coupon of 1.75% and original maturity in November 2019) which was repaid early in March 2018;

- the almost neutral balance between the positive effect deriving from the repricing of the Group's main bank credit facility in January 2018, and the expenses arising from the early extinction in March 2018 of the bond placed by Pirelli International Plc (for the amount of euro 600 million with a fixed coupon of 1.75% and original maturity in November 2019) carried out through the exercise of the so-called make-whole option;

- to lower interest on local credit facilities as a mix of interest rate cuts and increased indebtedness in countries with a high interest rate.

With regard to the existence of financial covenants, it is to be noted that Group's main bank credit facility (*"Facilities"*) granted to Pirelli & C. S.p.A. and Pirelli International Plc (currently usable only by, and in its entirety by Pirelli & C.) and the financing of the *"Schuldschein"* loan, require compliance with a 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.

For both of the above loans, the failure to comply with the financial covenant is identified as a default event which is exercised in accordance with the terms of the relative contract only if requested by a number of the lending banks which represent at least 66 2/3% of the total commitment, and brings about the early repayment (either partial or total) of the loan with the simultaneous cancellation of the related commitment, while for the *Schuldschein* loan, it may be individually exercised in accordance with the terms of the relative contract, by each lending bank and involves the early repayment of the loan only for the portion due to the bank that has exercised this remedy.

This parameter had been complied with at December 31, 2018.

Also in the case of the *Schuldschein* loan, any failure to comply with the financial covenant is identified as an event of default but, unlike that which happens in the case of bank financing, qualified majorities are not required for the early repayment request, each lender being able to proceed independently for its share.

The *Facilities* and *Schuldschein* loans provide 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 at December 31, 2018 did not contain financial covenants.

25. TRADE PAYABLES

Trade payables were composed as follows:

(In thousands of euro)	12/31/2018			12/31/2017		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Trade payables	1,567,718	-	1,567,718	1,634,950	-	1,634,950
Bill and notes payable	36,959	-	36,959	38,692	-	38,692
Total	**1,604,677**	**-**	**1,604,677**	**1,673,642**	**-**	**1,673,642**

The carrying amount of trade payables is considered to approximate their fair value.

26. OTHER PAYABLES

Other payables were as follows:

(In thousands of euro)		12/31/2018			12/31/2017	
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Accrued expenses and deferred income	84,338	53,233	31,105	75,787	43,995	31,792
Tax payables not related to income taxes	93,200	6,171	87,029	120,100	5,730	114,370
Payables to employees	98,167	220	97,947	115,835	817	115,018
Payables to social security and welfare intitutions	68,576	21,894	46,682	71,058	21,332	49,726
Dividends payable	350	-	350	338	-	338
Contract liabilities	4,147	-	4,147	-	-	-
Other payables	171,261	1,769	169,492	256,571	2,561	254,010
Total	**520,039**	**83,287**	**436,752**	**639,689**	**74,435**	**565,254**

The item **non-current accrued expenses and deferred trade income** refers to euro 49,291 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, and to euro 2,640 thousand in costs for trade initiatives in Brazil.

The item **current accrued expenses and deferred trade income** includes euro 7,034 thousand for various trade initiatives realised in Germany and Brazil, euro 8,805 thousand in government grants and incentives received mainly in Italy and Romania, and euro 1,442 thousand for costs related to insurance coverage in some European countries and in Argentina.

The item **tax payables for taxes not related to income** is mainly comprised of payables for IVA (value added tax) and other indirect taxes, withholding tax for employees and taxes not related to income.

The item **current payables to employees** mainly includes amounts accrued during the period but not yet paid.

The item **liabilities from contracts with customers** refers to advanced payments from customers for which the performance obligation has not yet been completed, in line with the provisions of IFRS 15. At December 31, 2017 these amounts were included under *"other current payables".*

The item **other current payables** (euro 169,492 thousand) mainly includes:

- euro 106,668 thousand for the purchase of property, plant and equipment (euro 105,431 thousand at December 31, 2017);
- euro 14,813 thousand in withholding taxes on income (euro 14,872 thousand at December 31, 2017);

- euro 6,932 thousand in payables to companies in the Prometeon group particularly in Brazil and China;

- euro 6,674 thousand in payables to representatives, agents, professionals and consultants. The item at December 31, 2017 included euro 21,111 thousand for costs incurred in relation to the IPO process;

- euro 6,585 thousand relative to the purchase of 34 points of sale in São Paulo by the Brazilian subsidiary Pirelli Comercial de Pneus Ltda Brasil (Refer to Note 8 - Business Combinations). The amount refers to the preliminary consideration for the transaction, net of the amount already paid at December 31, 2018 (euro 1,393 thousand);

- euro 2,976 thousand in payables to Directors, Auditors and supervisory bodies;

- euro 2,566 thousand for debts relating to customs duties, import and transport costs;

The reduction compared to December 31, 2017 was mainly due to the payment to the minority shareholder Distribudora Automotiva S.A. of the residual debt at the closing of the previous financial year to the amount of euro 18,589 thousand for the purchase of a 36% stake in the subsidiary Comercial and Importadora de Pneus Ltda, a group company that owns a network of points of sale in Brazil, and to pay debts relative to costs incurred for the IPO process.

27. TAX PAYABLES

Tax payables were for the most part related to national and regional income taxes in different countries and amounted to euro 67,594 thousand (of which euro 2,091 thousand was for non-current liabilities), compared to euro 50,815 thousand at December 31, 2017 (of which euro 2,399 thousand was for non-current liabilities). Tax payables include management’s valuations on any uncertainty effects on income tax treatment. Income tax payables include the evaluation of management with reference to the effects of any uncertainty on the treatment of income taxes.

28. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes the fair value of derivative instruments. It is composed as follows:

(In thousands of euro)	12/31/2018				12/31/2017			
	Non current assets	**Current assets**	**Non current liabilities**	**Current liabilities**	**Non current assets**	**Current assets**	**Non current liabilities**	**Current liabilities**
Without adoption of hedge accounting								
Exchange rate derivatives - commercial positions	-	7,321	-	(6,092)	-	6,357	-	(6,662)
Exchange rate derivatives - included in net financial position	-	70,329	-	(53,510)	-	21,413	-	(11,248)
Hedge accounting adopted								
- cash flow hedge:								
Interest rate derivatives	-	-	(4,726)	-	878	-	-	-
Other derivatives	20,134	20,917	(11,313)	-	-	-	(54,963)	-
	20,134	**98,567**	**(16,039)**	**(59,602)**	**878**	**27,770**	**(54,963)**	**(17,910)**
- Total derivatives included in net financial position	20,134	91,245	(13,738)	(53,510)	-	21,413	(54,963)	(11,248)

The composition of the items by type of derivative instrument is as follows:

(In thousands of euro)	**12/31/2018**	**12/31/2017**
Current assets		
Forward foreign exchange contracts - fair value recognised in the Income Statement	77,650	27,770
Cross currency interest rate swaps - cash flow edge	20,917	-
Total current assets	**98,567**	**27,770**
Non current assets		
Cross currency interest rate swaps - cash flow hedge	20,134	-
Interest rate swap - cash flow hedge	-	878
Total non current assets	**20,134**	**878**
Current liabilities		
Forward foreign exchange contracts - fair value recognised in the Income Statement	(59,602)	(17,910)
Total current liabilities	**(59,602)**	**(17,910)**
Non current liabilities		
Interest rate swaps - cash flow hedge	(4,726)	-
Cross currency interest rate swaps - cash flow hedge	(11,313)	(54,963)
Total non current liabilities	**(16,039)**	**(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 in hedge accounting

The value of **interest rate derivatives** recorded under current assets to the amount of euro 4,726 thousand refers to the fair value of 9 forward start interest rate swaps.

Derivative	Hedged element	Notional amount (Euro million)	Start date	Maturity	
IRS forward start	Forecast transaction	250	June 2019	June 2022	receive fix / pay floating
IRS forward start	Term loan in USD + CCIRS	100	October 2019	June 2022	receive fix / pay floating
IRS forward start	Schuldschein	180	July 2020	July 2023	receive fix / pay floating
IRS forward start	Schuldschein	20	July 2020	July 2025	receive fix / pay floating
Totale		**550**			

For these derivatives, hedge accounting of the cash flow hedge type was adopted,. Items subjected to hedge accounting are:

- any future transaction represented by interest flows on a floating rate financial liability that is considered highly probable;
- the combination of a USD floating rate liability and a CCIRS or cross-currency interest rate swap (Basis Swap);
- the *Schuldschein* loan (Refer to Note 24).

A change of +0.5% in the EURIBOR curve, all other conditions being equal, would result in a positive change of euro 7,859 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 8,223 thousand in the equity of the Group

The value of **other derivatives,** recognised among non-current assets to the amount of euro 20,134 thousand, between current assets to the amount of euro 20,917 thousand and among non-current liabilities to the amount of euro 11,313 thousand, refers to the fair value measurement 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	July 2017	July 2019	pay floating EURIBOR / receive floating LIBOR USD
CCIRS	284	243	July 2017	June 2020	pay floating EURIBOR / receive floating LIBOR USD
CCIRS	682	582	July 2017	June 2022	pay floating EURIBOR / receive floating LIBOR USD
	2,045	**1,747**			
CCIRS forward start	1,079	920	July 2019	June 2022	pay fix EUR / receive floating LIBOR USD
Total	**3,124**	**2,667**			

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, is 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 USD floating rate liability.

The positive change in the fair value for the period to the amount of euro 133,155 thousand was suspended in equity (a cash flow hedge reserve of euro 113,098 thousand and a cost of hedging reserve of euro 20,056 thousand), while euro 80,868 thousand was reversed to the Income Statement under the item *"Valuation at fair value of foreign currency derivatives".*(Refer to Note 37 - *"Financial income"*) to offset the unrealised exchange rate losses recorded on the hedged liability, while euro 47,975 thousand was reversed to the item *"Financial expenses"* (Refer to Note 38) thereby correcting the financial expenses recognised on the hedged liability.

The change in fair value for the period for IRS (interest rate swaps), negative at euro 5,604 thousand, has been entirely suspended in equity.

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 11,555 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 11,851 thousand in the equity of the Group

Hedging relationships relative to IRS (interest rate swap) and CCIRS (cross-currency interest rate swaps / basic swaps) are considered effective in advance if the following conditions are met:

- there is a financial relationship between the hedging instrument and the hedged item, in that the characteristics of the hedging instrument (the nominal interest rate, the reset of the interest rate and frequency of the liquidation of interest) are substantially consistent with those of the hedged item As a consequence, any changes in the fair value of the hedging instrument regularly offsets that of the hedged item;

- the effect of credit risk is not predominant within the hedging relationship. Based on the Group's operating policy, derivatives are traded only financial counter-parties with a high credit standing, while the credit quality of the existing derivatives portfolio is constantly monitored;

- the designated hedge ratio is aligned with that used for financial risk management and is equal to100% (1:1).

The ineffectiveness of the hedging relationship is calculated at each reporting date using the Dollar Offset method which provides for the comparison of any changes in the *"fair value risk adjusted"* for the hedging instrument (with the exception of those attributable to the currency basis spread) with any changes in the fair value in the risk free rate of the hedged item, through the identification of a hypothetical derivative with the same characteristics of the underlying financial liability.

The depreciation rates applied were as follows:

- the application of credit risk adjustments only to the hedging instrument but not to the hedged item;

- the hedged element incorporates a floor that is not reflected in the hedging instrument;

- the misalignment between the actual contractual conditions of the future transaction and those of the hedging instrument.

At December 31, 2018, no ineffectiveness was detected for the aforesaid hedging relationships.

29. COMMITMENTS AND RISKS

COMMITMENTS FOR THE PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

The commitments to purchase property, plant and equipment amounted to euro 140,702 thousand and refer mainly to subsidiary companies in Romania, Brazil, Russia, UK 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 2,158 thousand.

OTHER RISKS

Action filed against Prysmian before the Court of Milan and the High Court of Justice deriving from the antitrust court case concerning the energy cable business.

In November 2014, Pirelli & C. S.p.A. (Pirelli) commenced legal action before the Court of Milan in order to obtain an assessment and the declaration by Prysmian Cavi e Sistemi S.r.l. to hold Pirelli harmless from any claim regarding the alleged anti-competitive agreement for the energy cables sector, including the penalty imposed by the European Commission and confirmed by the decision of the General Court of the European Union on July 12, 2018, referred to in Note 22 *"Provisions for liabilities and charges"* - against which, on September 21, 2018, Pirelli filed an appeal before the Court of Justice of the European Union. Judgement was suspended by the Court of Milan pending the final ruling by the Community Courts. In November, 2015, Prysmian S.p.A. notified Pirelli of proceedings for the recovery of damages before the High Court of Justice against Prysmian and other parties to the aforementioned alleged anti-competitive agreement brought by National Grid and Scottish Power, companies who claim to have been injured by the alleged unlawful agreement. Specifically, Prysmian S.p.A. submitted a plea to obtain from Pirelli and Goldman Sachs, based on the role played by the parent companies, at the time of the cartel, to hold it harmless in respect of any obligations to pay any damages claims (to date unquantified) by National Grid and Scottish Power. Due to the aforementioned pending legal action before the Court of Milan Pirelli challenged the lack of jurisdiction of the High Court of Justice claiming that, that any decision on the merits should be assigned to the Court previously referred to. In April 2016, the High Court of Justice upheld a procedural understanding between Pirelli and Prysmian S.p.A and consequently suspended the English judgement until judgement is passed for sentencing for the already pending Italian proceedings. Pirelli, on the basis of accurate legal analyses provided by external counsel, maintained that it was not involved in the alleged irregularities of its former subsidiary and that the full and final liability for any breach must be borne exclusively by the company directly involved. As a consequence of the foregoing, the risk assessment of Prysmian S.p.A.'s petition regarding the legal action brought by National Grid & Scottish Power is such as to not require the allocation of any specific provision in the annual Financial Statements at December 31, 2018.

Tax disputes in Brazil

The subsidiary Pirelli Pneus is involved in tax disputes and litigations 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 in following court proceedings.

This assessment was based on the 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, who will have to express its legal position through a sentence which will set a binding precedence, 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 case before the Supreme Court, this dispute should be managed by the Federal States, and without unduly penalising the tax payer.

In addition to the aforesaid, 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 (a 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 that need 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 contestation and to prevent new ones in the future.

The risk is estimated at approximately euro 146 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 rate (*Imposto sobre Produtos Industrializados* or tax on industrialised products) 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 is 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 for 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, and 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 37 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 tax on net profits (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 in force at that time (IN - *Instrução Normativa* 243 or Instructions for Regulation) 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 tribunals. Even though the 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 18 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 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 the sale of components to companies operating in the automotive sector. According to the Brazilian tax authority's claim as stated in a notice of assessment issued in 2013, Pirelli Pneus should not benefit, as regards its secondary office established in the city of Ibiritè in the Federal State of Minas Gerais, from 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 20 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.

Other Pirelli Pneus disputes

Pirelli Pneus is involved in three other tax disputes concerning federal taxes and excises (such as the IPI tax rate- *Imposto sobre Produtos Industrializados* or tax on industrialised products, the PIS - *Programa de Integração Social* or social contribution tax, and the COFINS tax - *Contribuição Social para o Financiamento da Seguridade Social* or tax on Social Security Financing) as well as the ICMS (*Imposto Sobre Operações Relativas à Circulação* or state value added tax). 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"* (the federal investigation into fraud in Brazilian foreign trade) with regard to the exportation of goods to Paraguay in which case, according to the Brazilian tax authorities, Pirelli Pneus should not benefit from the provision for tax exemption - approximately euro 9 million inclusive of taxes, interests and penalties;

(ii) the so called *"Desenvolve"* 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 relative 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.

30. REVENUES FROM SALES AND SERVICES

Revenues from sales and services were as follows:

(In thousands of euro)	**2018**	**2017**
Revenues from sales of goods	5,049,040	5,202,962
Revenues from services	145,431	149,321
Total revenues from sales and services	**5,194,471**	**5,352,283**

These revenues refer to contracts with customers.

31. OTHER INCOME

The item is composed as follows:

(In thousands of euro)	**2018**	**2017**
Other income from Prometeon Group	91,343	223,542
Sales of Industrial products	183,762	223,482
Gains on disposal of property, plant and equipment	7,848	1,865
Rent income	5,465	3,759
Recoveries and reimbursements	95,785	59,871
Government grants	14,515	8,596
Other income	84,487	107,418
Total other income	**483,205**	**628,533**

The item **other income from the Prometeon Group** mainly includes sales of raw materials, semi-finished products and finished products for the amount of euro 27,695 thousand, royalties recorded from the trademark license agreement to the amount of euro18,080 thousand, royalties recorded from the know-how license contract to the amount of euro 10,000 thousand, and services rendered for the amount of euro 20,600 thousand. The decrease recorded compared to the previous financial year was mainly attributable to the fact that raw materials are no longer supplied to the Prometeon Group by the British subsidiary Pirelli International Plc. (euro 112,521 thousand at December 31, 2017). Refer also to Note 45 – *"Related party transactions"*.

The item **sales of industrial products** mainly refers to revenues and income generated by the sale of tyres for trucks and agricultural vehicles, mainly purchased by the Prometeon Group, which are sold by way of a distribution network controlled by the Pirelli Group.

The item **recoveries and reimbursements** includes, in particular:

- reimbursements of taxes and duties totalling euro 35,940 thousand, of which euro 32,183 thousand received in Brazil, and euro 19,568 thousand attributable to the benefit recorded following the attainment of favourable rulings by the Federal Regional Courts of Brasilia and São Paulo which recognised the right to deduct the state tax on goods and services (ICMS) on the basis of the calculation the social contributions PIS (Programa de Integracao Social) and COFINS (Contribucao para Financiamento de Seguridade Social). Reference should be made to Note 16 - "Other receivables" for further details.

- tax refunds totalling euro 4,695 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 in the United Kingdom for a total of euro 5,940 thousand;

- income from the sale of tyres for testing and the recovery of transport expenses incurred in Germany for euro 1,962 thousand;

The item **other** includes income from sporting activities amounting to euro 33,754 thousand.

32. PERSONNEL EXPENSES

The item is composed as follows:

(In thousands of euro)	**2018**	**2017**
Wages and salaries	796,874	787,798
Social security and welfare contributions	167,011	181,660
Costs for employee leaving indemnities and similar	19,087	17,177
Costs for defined contribution pension funds	22,698	21,689
Costs for defined benefit pension funds	13,831	(5,928)
Costs for jubilee awards	4,247	3,748
Costs for defined contribution healthcare plans	3,007	2,994
Other costs	40,824	25,509
Total	**1,067,579**	**1,034,647**

The item **other costs** includes this includes the portion of the retention plan that was approved by the Board of Directors on February 26, 2018 intended for Managers with strategic responsibilities and a selected number of senior Managers and Executives whose contribution to the implementation of the Strategic Plan is considered particularly significant.

The item personnel expenses for 2018 includes **non-recurring events** for a total of euro 15,410 thousand (1.4% of the total) attributable to on the estimated impacts on pension obligations deriving from the need to recalculate them in order to equalise some of the differences in treatment with reference to the minimum guaranteed pension (GMP equalisation) that emerged in the UK pension sector following the High Court ruling of October 26, 2018 in the case concerning the Lloyds Banking Group.

33. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

The item is composed as follows:

(In thousands of euro)	**2018**	**2017**
Amortisation	125,220	120,196
Depreciation	269,084	250,673
Impairment of property, plant and equipment and intangible assets	20,219	588
Total	**414,523**	**371,457**

The item impairments mainly refers to property, plant and equipment consistent with the reduction of the Standard capacity.

34. OTHER COSTS

The item is subdivided as follows:

(In thousands of euro)	**2018**	**2017**
Selling costs	310,687	306,108
Purchases of goods for resale	434,201	478,745
Purchases of natural rubber for Prometeon Group	-	106,331
Fluids and energy	161,180	159,830
Advertising	231,981	286,178
Consultants	43,872	56,656
Maintenance	51,394	56,112
Warehouse operating costs	70,225	70,381
Lease, rental and lease installments	125,359	121,984
Outsourcing	38,572	73,643
Travel expenses	52,847	57,461
IT expenses	34,844	33,547
Key managers compensations	8,229	9,610
Other provisions	37,867	33,063
Duty stamps, duties and local taxes	29,031	36,422
Canteen	17,043	18,101
Bad debts (*)	-	17,659
Insurance	30,319	30,937
Cleaning expenses	14,788	15,892
Waste disposal	7,160	18,302
Security expenses	9,150	10,773
Telephone expenses	9,723	11,098
Other	139,690	175,827
Total	**1,858,162**	**2,184,660**

(*) According to the new accounting principle IFRS 9, applicable from January 1, 2018, bad debts are recognised in net impairment loss on financial assets (note 35)

The item other costs for 2018 includes **non-recurring events** for a total of euro 7,798 thousand (0.5% of the total) mainly refers to costs for consultancy services in the as part of non-recurring transactions as well as costs incurred as a result of extraordinary events. For the 2017 financial year, the amount of euro 70,076 thousand (3.2% of the total) refers mainly to costs incurred for the IPO process.

35. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

The item, negative at euro 21,273 thousand, mainly includes:

- the net impairment of trade receivables to the amount of euro 12,019 thousand. At December 31, 2017, the net impairment of trade receivables amounted to euro 8,797 thousand and was included in the item *"Other costs"* (Refer to Note 34);

- the impairment of other trade receivables to the amount of euro 9,254 thousand (Refer to Note 16 *"Other receivables"*).

36. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

36.1 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 11,560 thousand, and refers mainly to investments in the joint venture PT Evoluzione Tyres in Indonesia (negative at euro 10,350 thousand - negative at euro 9,613 thousand for 2017).

For further details reference should be made to preceding Note 12 *"Investments in Associates and Joint Ventures".*

36.2 Gains on equity investments

This item mainly refers to the positive impact to the amount of euro 3,780 thousand relative to the investment in Mediobanca S.p.A. classified under *"Other financial assets at fair value through the Income Statement"* (Note 13) sold on January 1, 2018.

36.3 Losses on equity investments

For 2018 the item amounted to euro 1,603 thousand, and mainly refers to the impairment of the investment in Focus Investments S.p.A., classified under investments in associated companies (Refer to Note 12 *"Investments in associates and joint ventures"*). For 2017 the item included the impairment of the investment 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-Compagnia Area Italiana S.p.A (euro 781 thousand).

36.4 Dividends

This item amounted to euro 4,176 thousand and mainly includes dividends received from Equinox Two S.C.A. to the amount of euro 1,508 thousand (euro 3,049 thousand for 2017), and from Fin. Priv. S.r.l. to the amount of euro 957 thousand (euro 757 thousand for 2017). This item also includes dividends received from Mediobanca S.p.A. to the amount of euro 5,829 thousand.

37. FINANCIAL INCOME

The item is composed as follows:

(In thousands of euro)	**2018**	**2017**
Interest	17,176	17,098
Hyperinflation impact	8,536	-
Other financial income	9,627	9,285
Net gains on exchange rates	-	102,157
Fair value measurement of currency derivatives	104,391	-
Fair value measurement of other derivatives	-	-
Total	**139,730**	**128,540**

The item **interest** mainly includes euro 4,758 thousand for interest on fixed income securities, euro 3,095 thousand for interest receivables due from financial institutions, and euro 4,190 thousand for interest on financial receivables, and interest on the loan disbursed by Pirelli International Plc and Pirelli Tyre S.p.A. to PT Evoluzione Tyres for euro 1,834 thousand.

The item **effects of high inflation** refers to the effect on monetary items deriving from the application of IAS 29 - Hyperinflation by the subsidiary company in Argentina. Reference should be made to Note 43 for more details.

The item **other financial income** mainly includes euro 7,610 thousand of interest accrued on tax receivables and on guarantee deposits paid by Brazilian subsidiaries to guarantee legal and tax disputes, and euro 1,828 thousand in capital gains generated on the partial acquisition of the unrated bond loan which was completed on December 19, 2018 for a total amount of euro 47 million.

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 of the consolidated Financial Statements. 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 55,276 thousand, and the exchange rate component at a net cost of euro 159,667 thousand. In comparing the net losses on exchange rates, which totalled euro 192,437 thousand, recorded on receivables and payables in the currencies of the individual companies which is other than the functional currency, and included in financial expenses (Refer to Note 38), with valuation at fair value of the exchange rate component of the derivatives used for hedging exchange rates, which amounted to a net income of euro 159,667 thousand, when taking into account the impact of high inflation in Argentina, there results a negative imbalance of euro 24,234 thousand mainly. The imbalance was due to the euro 11.944 thousand in loss on translations carried out in Argentina, where during the periods of maximum impairment (the Argentine peso was devalued by approximately 90% during the financial year) hedging activity would have been difficult and at costs which would have been disadvantageous.

38. FINANCIAL EXPENSES

The item is composed as follows:

(In thousands of euro)	**2018**	**2017**
Interest	103,975	255,096
Commissions	20,522	29,587
Other financial expenses	13,183	9,250
Net losses on exchange rates	192,437	-
Net interest costs on employee benefit obligations	5,446	7,295
Fair value measurement of exchange rate derivatives	-	189,922
Valuation at fair value of other derivatives	478	-
Total	**336,041**	**491,150**

The item **interest** which amounted to a total euro 103,975 thousand includes euro 87,704 thousand relative to the unsecured credit facility (*"Facilities"*) granted to Pirelli & C. S.p.A. and Pirelli International Plc (held by the Parent company as of November 29, 2019) signed on June 27, 2017 as well as the positive effect of euro 29,750 thousand (euro 20,101 thousand net of the amortised portion) due to the repricing of the same banking facilities which occurred in January 2018 and which entailed a re-measurement of the relative debt. At December 2017, the item included euro 154,322 thousand relative to the new secured Senior Facilities financing granted to Pirelli & C. S.p.A. and Pirelli International Plc for the nominal amount of euro 5,280,746 thousand and repaid in advance on June 29, 2017, of which euro 61,244 thousand related to the consequent reversal to the Income Statement of the portion of costs not amortised at the closing date.

The item also includes:

- euro 47,930 thousand euro for net interest income on Cross Currency Interest Rate Swaps to offset he flow of financial expenses, of the part subscribed to in US Dollars, of the bank credit facility referred to in the previous point. For more details, refer to details in Note 28 *"Derivative financial instruments".*

- euro 37,268 thousand in financial expenses relative to bonds, of which euro 10,256 thousand refers to unrated bonds and euro 2,329 thousand refers to the *Schuldschein* loan, both issued by Pirelli & C. S.p.A. The item also includes euro 18,690 thousand in expenses arising from the early extinction of the bond placed by Pirelli International Plc (for the amount of euro 600 million, with a fixed coupon of 1.75%, and with original maturity in November 2019) carried out through the exercise of the so-called make-whole option, and the consequent reversal to the Income Statement of the portion of costs not amortised at the closing date to the amount of euro 3,557 thousand;

The item **commissions** includes in particular euro 7,550 thousand in costs relative to transactions for the assignment of receivables using the no recourse (pro-soluto) clause mainly in LatAm, Italy and Germany, and euro 12,871 thousand relative to expenses for guarantees and other bank commissions.

The item **net losses on exchange rates** which amounted to euro 192,437 thousand (gains amounted to euro 2,678,070 thousand and losses amounted to euro 2,870,507 thousand) refers to the adjustment at period-end exchange rates to items expressed in currencies other than the functional currency and still outstanding at the reporting date of the consolidated Financial Statements, and to the net losses realised on items closed during the course of the period.

The item other financial expenses includes **non-recurring** events for to the total amount of euro 2,149 thousand (0.6% of the total) relative to:

- expenses arising from the early extinction of the bond placed by Pirelli International Plc (for the amount of euro 600 million, with a fixed coupon of 1.75%, with original maturity in November 2019) and the consequent reversal to the Income Statement of the portion of costs not amortised at the extinction date (euro 3,557 thousand), plus additional financial expenses consequent to the exercise of the so-called make-whole option (euro 18,690 thousand);

- the positive impact of euro 29,750 thousand (euro 20,101 thousand net of the related amortised portion) due to the repricing of the unsecured banking facility (*"Facilities"*) which took place in January 2018;

During 2017 the amount euro 61,244 thousand (12.5% of the total) refers to the early closure of secured funding (*"Senior Facilities")* as described in the item *"interest".*

39. TAXES

Taxes were composed as follows:

(In thousands of euro)	**2018**	**2017**
Current taxes	156,104	162,382
Deferred taxes	(103,140)	(121,534)
Total	**52,964**	**40,848**

Tax expenses for 2018 amounted to euro 52,964 thousand against pre-tax earnings of euro 501.765 thousand with a tax rate which attested itself at 10.6%. The tax rate for 2018 positively benefitted from the concessions deriving from the application of the Patent Box tax relief scheme to the amount of euro 89 million by way of the preliminary agreement signed by Pirelli Tyre S.p.A. on October 15, 2018 with the Italian Tax Office.

The item includes **non-recurring events** for a positive amount of euro 60,607 thousand mainly attributable to the benefit derived from the Patent Box for the 2015 - 2017 period (euro 103,881 thousand for non-recurring events recorded for 2017). Refer to note 44 – *"Non recurring events".*

The reconciliation between theoretical and effective taxes is as follows:

(In thousands of euro)	**2018**
A) Net income (loss) before taxes	**501,763**
B) Theoretical taxes	**125,441**
Main causes for changes between estimated and effective taxes:	
Tax incentives	(101,346)
Non-deductible costs	10,415
Taxes not related to income and not recoverable	21,294
Other	(2,840)
C) Effective taxes	**52,964**
Theoretical tax rate (B/A)	25%
Effective tax rate (C/A)	10.6%

Tax incentives mainly refer to the benefit deriving from the Patent Box of a total of euro 89 million euros, of which euro 54 million euro was relative to the 2015 - 2017 three-year period, and euro 35 million as the estimated benefit for 2018.

The Group's theoretical tax burden is calculated by taking into account the nominal tax rates of the countries where the Group's principal companies operate, as shown below:

	2018
Europe	
Italy	27.90%
Germany	30.00%
Romania	16.00%
Great Britain	19.00%
Turkey	22.00%
Russia	20.00%
NAFTA	
USA	25.00%
Mexico	30.00%
Central and South America	
Argentina	30.00%
Brazil	34.00%
Asia / Pacific	
China	25.00%

The share of taxes paid by geographical area is as follows:

- 56% Europe;
- 21% APAC;
- 12% NAFTA;
- 6% LatAm;
- 5% 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 2018, to income taxes paid during the course of 2018 but relative to previous financial years (e.g. income tax balances relative to 2017) or to payments relative to tax assessments for previous financial years. 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.

40. ASSETS AND LIABILITIES AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS

As a result of the assignment in March 2017 by Pirelli & C. S.p.A. to the Parent company Marco Polo International Holding Italy S.p.A., of the TP Industrial Holding S.p.A. shares, the company into which almost all of Pirelli's Industrial assets had been merged, in continuity with the 2017 financial year some residual activities in China and Argentina relative to the Industrial business, qualified as *"discontinued operations".* The table below shows the financial figures for 2018 classified in the Income Statement, in accordance with IFRS 5, as the single item *"net income (loss) from discontinued operations".* The separation process for Argentina was completed during the month of June 2018, while for China it was completed during the fourth quarter of 2018. The comparative data refers to the results of the first quarter for the Industrial business as well as for the twelve months for the residual activities sold during 2018.

(In thousands of euro)	**2018**	**2017**
Revenues from sales and services	12	232,801
Other income	16,674	156,187
Changes in inventories of unfinished, semi-finished and finished products	-	49,550
Raw materials and consumables used (net of change in inventories)	-	(184,027)
Personnel expenses	(2,527)	(71,558)
Amortisation, depreciation and impairment	(87)	(18,772)
Other costs	(25,161)	(161,863)
Increase in fixed assets for internal work	-	46
Operating income (loss)	**(11,089)**	**2,364**
Financial income	2,737	1,670
Financial expenses	(365)	(10,200)
Net income (loss) before tax	**(8,717)**	**(6,166)**
Tax	2,288	(1,189)
Net income (loss) from discontinued operations	**(6,429)**	**(7,355)**
Reversal of reserve on foreign currency translation	-	(80,208)
Total net income (loss) from discontinued operations	**(6,429)**	**(87,563)**

The value of *"assets available for sale"* (euro 10,677 thousand) was mainly attributable to the value of the assets, represented exclusively by land and buildings owned by the subsidiary Joint Stock Company, the *R&D Training Center for New Technologies & Materials* (*ATOM*) sold on February 13, 2019.

41. EARNINGS/(LOSSES) PER SHARE

Earnings/(losses) per share are determined 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)	**2018**	**2017**
Net income attributable to the Parent Company related to **continuing operations**	438,035	263,955
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	853,232
Earnings/(loss) per share related to continuing operations (in euro per share)	**0.438**	**0.309**

Net income attributable to the Parent Company related to **discontinued operations**	(6,429)	(87,563)
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	853,232
Earnings/(loss) per share related to discontinued operations (in euro per share)	**(0.006)**	**(0.103)**

It should be noted that the earnings/(loss) per basic and diluted share coincide as there are no potential issue shares with dilutive effects on the results.

42. DIVIDENDS PER SHARE

In 2018, Pirelli & C. S.p.A did not distribute any dividends to its shareholders.

43. HYPERINFLATION

In accordance with Group accounting policies regarding the criteria for introducing/ending inflation accounting, the subsidiary Pirelli Neumaticos SAIC has adopted inflation accounting since the preparation of the consolidated Financial Statements at December 31, 2018. It is the only Group company operating in a high-inflation country. The price index used for this purpose was the national consumer price index (CPI) published by the National Institute for Statistics and Census (INDEC).

For the financial statements at December 31, 2018 the official inflation index was used estimated at 48%.

The losses on the net monetary position were recognised in the Income Statement as *"Financial expenses"* (Refer to Note 38) for an amount of euro 8,536 thousand.

44. NON-RECURRING EVENTS

Pursuant to CONSOB Notification No. DEM / 6064293 of July 28, 2006, information is provided below on the impact on the Group's income, financial position and equity, of the non-recurring events and operations:

(millions of euro)	**Equity**	**Net income (loss) for the financial year**	**Cash flows**
Financial statement (a)	**4,550.9**	**442.4**	**(342.8)**
Operating costs	(23.2)	(23.2)	(49.7)
Financial expenses	(2.1)	(2.1)	(18.7)
Tax	60.6	60.6	1.9
Total impact non recurring items (b)	**35.3**	**35.3**	**(66.5)**
Total adjusted (a-b)	**4,515.6**	**407.1**	**(276.3)**

The impact on the individual items of the consolidated Income Statement was as follows:

(millions of euro)	**2018**	**2017**
Other revenues:		
- Gain on disposal of property, plant and equipment	-	-
Personnel expenses :		
- Retention Plan	-	*(2.6)*
- UK Pension fund adjustment	(14)	-
- Other	*(1.0)*	
Other costs:		
- Industrial Reorganization	-	*(2.1)*
- IPO costs	*(0.8)*	*(61.9)*
- Other	*(7.8)*	*(6.1)*
Impact on operating income	**(24.0)**	**(72.6)**
Financial expenses:		
- Refinancing impact June 2017 transaction costs	-	(61.2)
- "Make Whole Issuer Call" fee for the anticipated buy back of bond issued by Pirelli International Plc and relating fee wash down	*(22.3)*	-
- Net repricing impact on unsecured loan ("Facilities")	*20.1*	-
Impact on net income (loss) before tax	**(26.2)**	**(133.8)**
Tax:		
- Recognition of deferred tax assets of italian companies and operating income adjustments and financial expenses	*60.6*	103.9
Impact on net income (loss) from continuing operations	**34.4**	**(30.0)**
Impact on net income (loss)	**34.4**	**(30.0)**

The impact of non-recurring events on the operating income (loss) for the 2018 financial year amounted to a total of euro 24 million and differs from the value reported in the Directors' Report on Operations for *"non-recurring and restructuring expenses"* (euro 91.5 million), in that it did not include restructuring expenses which amounted to a total of euro 67.5 million.

45. RELATED-PARTY TRANSACTIONS

Related party transactions, including inter-group transactions, are neither exceptional nor unusual, but are part of the ordinary course of business for companies of the Group. Such transactions, when not concluded under standard conditions or dictated by specific regulatory conditions, are in any case governed by conditions consistent with those of the market and carried out in compliance with the provisions of the Procedure for Related Party Transactions which the Company has adopted.

The 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.

STATEMENT OF FINANCIAL POSITION (In millions of euro)	**Total reported at 12/31/2018**	**of which related parties**	**% incidence**	**Total reported at 12/31/2017**	**of which related parties**	**% incidence**
Non current assets						
Other receivables	**225.7**	12.6	5.57%	**204.1**	12.0	5.88%
Current assets						
Trade receivables	**628.0**	15.7	2.49%	**652.5**	62.7	9.61%
Other receivables	**416.7**	55.4	13.30%	**400.5**	36.5	9.11%
Income tax receivables	**41.4**	-	0.00%	**35.5**	0.1	0.2%
Current liabilities						
Trade payables	**1,604.7**	191.6	11.94%	**1,673.6**	198.0	11.83%
Other payables	**436.8**	7.4	1.70%	**565.3**	16.4	2.91%
Income tax payables	**65.5**	-	0.00%	48.4	9.9	20.44%

INCOME STATEMENT (in millions of euro)	**2018**	**of which related parties**	**% incidence**	**2017**	**of which related parties**	**% incidence**
Revenue from sales and services	**5,194.5**	9.0	0.17%	**5,352.3**	10.8	0.20%
Other income	**483.2**	108.5	22.46%	**628.5**	230.6	36.69%
Raw materials and consumables used	**(1,818.2)**	(12.7)	0.70%	**(1,859.8)**	(46.5)	2.50%
Personnel expenses	**(1,067.6)**	(14.1)	1.32%	**(1,034.6)**	(11.0)	1.06%
Other costs	**(1,858.2)**	(290.4)	15.63%	**(2,184.7)**	(375.0)	17.16%
Net impairment loss of financial assets	**(21.3)**	(9.0)	42.31%	**-**	-	-
Financial income	**139.7**	3.1	2.23%	**128.5**	35.3	27.48%
Financial expenses	**(336.0)**	(0.0)	0.00%	**(491.2)**	(41.1)	8.4%
Net income (loss) from equity investments	**(5.0)**	(11.6)	n.s.	**(6.9)**	(8.3)	120.38%
Net income (loss) from discontinued operations	**(6.4)**	(10.6)	n.s.	**(87.6)**	(9.5)	n.s.

CASH FLOW (in millions of euro)	**2018**	**of which related parties**	**% incidence**	**2017**	**of which related parties**	**% incidence**
Net cash flows operating activities:						
Trade receivables	**(23.4)**	47.1	n.a.	**73.6**	90.6	n.a.
Trade payables	**104.7**	(6.3)	n.a.	**447.4**	86.2	n.a.
Other receivables/payables	**(151.4)**	(29.3)	n.a.	**(39.4)**	70.5	n.a.
Net cash flows investing activities:						
Acquisition of minorities	**(49.7)**	(31.2)	n.a.	**-**	-	-
Disposal of property, plant and equipment	**16.2**	-	-	**73.5**	61.0	n.a.
Dividends received from associates	**2.7**	2.7	n.a.	**-**	-	-
Disposals (Acquisition) of investments in associates and JV	**(65.2)**	(65.2)	n.a.	**17.2**	-	-
Repayment of share capital and reserves from associates	**-**	-	-	**8.6**	8.6	n.a.
Net cash flows financing activities:						
Change in Financial receivables/Other current financial assets at fair value through income statement - Assets held for trading	**(31.8)**	-	-	**218.0**	190.0	n.a.
Net cash flows provided by (used in) discontinued operations	**37.1**	43.5	n.a.	**-**	-	-

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

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

STATEMENT OF FINANCIAL POSITION (in millions of euro)	**12/31/2018**	**12/31/2017**
Other non current receivables	12.6	12.0
Trade receivables	3.6	1.8
Other current receivables	32.2	14.8
Trade payables	23.1	24.0
Other current payables	0.1	0.4

INCOME STATEMENT (in millions of euro)	**2018**	**2017**
Revenues from sales and services	6.2	-
Other income	2.1	2.4
Other costs	42.7	37.3
Financial income	1.2	0.9
Financial expenses	-	0.1

CASH FLOW (in millions of euro)	**2018**	**2017**
Net cash flows provided by / (used in) investing activities	(62.5)	8.6

Transactions – Statement of Financial Position

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

The item **trade receivables** includes receivables for services rendered to PT Evoluzione Tyres to the amount of euro 2.1 million and to the Joint Stock Company, the *Kirov Tyre Plant* to the amount of euro 0.6 million.

The item **other current receivables** mainly refers to receivables for advances from Pirelli Tyre S.p.A. to PT Evoluzione Tyres to the amount of euro 15 million for the supply of motorcycle products and the sale of materials and moulds to the Joint Stock Company, the *Kirov Tyre Plant* to the amount of euro 6.7 million, to receivables for the recovery of costs sustained by Pirelli Tyre Co. towards Jining Shenzhou Tyres Co., Ltd to the amount of euro 1.8 million, and to the loan granted by Pirelli International Plc to PT Evoluzione Tyres for euro 6.1 million.

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

Transactions - Income statement

The item **revenues from sales and services** mainly refers to royalties charged to PT Evoluzione Tyres to the amount of euro 1.6 million, and sales of materials and services to the Joint Stock Company, the Kirov Tyre Plant for the amount of euro 4.4 million.

This item **other costs** mainly refers to acquisition costs for the purchase of energy and machine hire from Industriekraftwerk Breuberg GmbH to the amount of euro 21.7 million, and costs for the acquisition of products from PT Evoluzione Tyres to the amount of euro 19.8 million.

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

TRANSACTIONS WITH OTHER RELATED PARTIES

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

STATEMENT OF FINANCIAL POSITION		
(in millions of euro)	**12/31/2018**	**12/31/2017**
Trade receivables	12.0	61.0
Other current receivables	23.2	21.7
Current tax receivables	-	0.1
Trade payables	168.5	174.0
Other current payables	7.4	16.1
Current tax payables	0.0	9.9

INCOME STATEMENT		
(in millions of euro)	**2018**	**2017**
Revenues from sales and services	2.7	8.4
Other income	106.4	230.6
Raw materials and consumables used	12.7	46.5
Other costs	239.4	328.0
Financial income	1.9	34.4
Financial expenses	-	41.0
Net impairment loss on financial assets	9.0	-
Other income from discontinued operations	7.8	56.4
Other costs from discontinued operations	18.5	65.9

With reference to transactions with the Prometeon Group, comparative income amounts refer to the entire 2017 even though the Prometeon Group became a related party as of March 15, 2017 (date of assignment by Pirelli & C. S.p.A. of TP Industrial Holding S.p.A. shares to Marco Polo International Holding Italy S.p.A.).

CASH FLOW		
(in millions di euro)	**2018**	**2017**
Change in trade receivables	47.1	90.6
Change in trade payables	(6.3)	86.2
Change in Other receivables/Other payables	(29.3)	70.5
Net cash flows provided by / (used in) investing activities	(31.2)	61.0
Net cash flows provided by / (used in) financing activities	-	190.0
Net cash flows provided by (used in) discontinued operations	43.5	0.0

Transactions – Statement of Financial Position

The item **trade receivables** mainly refers to receivables from companies of the Prometeon Group to the amount of euro 12 million.

The item **other current receivables** mainly refers to receivables for royalties from the Aeolus Tyre Co. Ltd. to the amount of euro 6 million (these receivables are shown net of the relative provision for bad debts Group equal to euro 9 million attributable to the extraordinary reshaping of the technology license agreement granted to the Aeolus Tyre Co., and trade receivables to the amount of euro 14.3 million from companies of the Prometeon Group.

The item **trade payables** almost exclusively refers to payables to companies of the Prometeon Group to the amount of euro 163.8 million.

The item **other current payables** mainly refers to other current payables to companies of the Prometeon Group to the amount of euro 6.9 million.

Transactions - Income statement

The item **revenues from sales and services** mainly refers the sale of goods and services rendered by Pirelli Pneus Ltda to Pirelli de Venezuela C.A. for the amount of euro 2.4 million, The amount, unchanged as compared to September 30, 2018, refers to the revenues recognised as of January 1, 2018 until September 7, 2018, the date on which the sale of the Venezuelan company was completed.

The item **other income** at December 31, 2018 includes recognised royalties from Aeolus Tyre Co. Ltd. in respect of the license agreement stipulated in 2016 to the amount of euro 15 million. The item also includes income from companies of the Prometeon Group mainly relative to:

- the sale of raw materials by Pirelli Pneus Ltda for the amount of euro 17.5 million;
- royalties recorded in respect the license contract for the use of the Pirelli trademark to the amount of euro 18.1 million;
- the sale of finished and semi-finished products for the total amount of euro 10.2 million of which euro 5.4 million was carried out by Pirelli Tyres (Suisse) S.A., and sales by other Group companies to the amount of euro 4.8 million;
- the Long Term Service Agreement to the amount of euro 12.2 million, of which euro 5.4 million to Pirelli Sistemi Informativi S.r.l., euro 1.4 million to Pirelli Pneus Ltda, and euro 5.4 million to other Group companies;
- logistic services for a total amount of euro 8.4 million of which euro 6.9 million carried out by the Brazilian company Total Logistic Management Serviços del Logistica Ltda;
- the licence agreement for know-how charged by Pirelli Tyre S.p.A. for the amount of euro 10 million
- other for a total amount of euro 14.2 million.

The decrease in other financial income compared to the corresponding period of the previous financial year was mainly attributable to the fact that raw materials are no longer supplied to the Prometeon Group by the British subsidiary Pirelli International Plc. (euro 112.521 thousand at December 31, 2017).

The item **raw and consumable materials** used mainly refers to costs payable to companies of the Prometeon Group for the purchase of direct materials/consumables/compounds for a total amount of euro 12.7 million of which euro 9.7 million carried out by the Turkish company Pirelli Otomobil Latikleri A.S.

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

- the purchase of truck products for a total amount of euro 126.2 million of which euro 113.1 million was carried out by the Brazilian company Comercial e Importadora de Pneus Ltda. for the Brazilian sales network, of which euro 4.4 million carried out by the German company Driver Reifen und KFZ-Technik GmbH, and purchases by other companies of the Pirelli Group to the amount of euro 8.7 million;
- the purchase of Car/Motorcycle and semi-finished products for a total amount of euro 79.5 million of which euro 75 million carried out by the Turkish company Pirelli Otomobil Latikleri A.S. in respect of the Off-Take contract, and euro 4.4 million on the part of Pirelli Pneus Ltda for the purchase of inner tubes for tyres;
- Costs to the amount of euro 12.2 million sustained by Pirelli Pneus Ltda for the transformation of raw materials following Toll manufacturing contract activities;
- Reimbursement of costs sustained by Pirelli Pneus Ltda for euro 7.3 million;
- other for a total amount of euro 9.7 million.

The item net impairment loss on financial assets refers to the impairment equal to euro 9 million attributable to the extraordinary reshaping of the technology license agreement granted to the Aeolus Tyre Co. Ltd.

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

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

BENEFITS FOR KEY MANAGERS OF THE COMPANY

At December 31, 2018 the remuneration payable to key managers totalled euro 22,362 thousand (euro 20,614 thousand for 2017).The portion relative to employee benefits was recognised in the Income Statement under *"Personnel expenses"* to the amount of euro 14,133 thousand (euro 11,004 thousand for 2017), and under the item *"Other Costs"* in the Income Statement to the amount of euro 8,229 thousand (euro 9,610 thousand for 2017).

46. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

No significant events occurred since the end of the year.

47. OTHER INFORMATION

Research and development expenses

Research expenses for the 2018 financial year amounted to euro 219 million and represented 4.2% of sales.

Remuneration for Directors and Auditors

The compensation paid to the Directors and Auditors was as follows:

(In thousands of euro)	**2018**	**2017**
Directors	6,910	7,554
Statutory Auditors	315	296
TOTAL	**7,225**	**7,850**

Employees

The breakdown by category of the average consolidated headcount of employees is as follows:

	2018	**2017**
Executives and white collar staff	6,737	6,611
Blue collar staff	23,786	22,412
Temporary workers	1,015	1,621
TOTAL	**31,538**	**30,644**

Remuneration for Independent Auditors

Pursuant to the applicable laws, the total fees for the 2018 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	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	71		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	611		
	Network PricewaterhouseCoopers	Subsidiaries	1,428	**2,110**	*66%*
Independent certification services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	220		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	240		
	Network PricewaterhouseCoopers	Subsidiaries	72	**532**	*17%*
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	46		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	195		
	Network PricewaterhouseCoopers	Subsidiaries	293	**534**	*17%*
				3,176	100%

(1) the item "independent certification services" includes amounts paid for other services that envisage the issuance of an auditor's report as w ell as amounts paid for the so called certification services

Disclosure requested by Law no.124/2017 art.1 paragraphs 125-129

During the financial year 2018 Pirelli Tyre S.p.A. received from the M.I.U.R. - Ministry of Education, University and Research - a subsidised loan of euro 5.305 thousand with a 5-year duration e annual interest rate of 0.50%, as an incentive for the development of an R&D project for the development of innovative materials in the tyre construction process.

Furthermore, Pirelli Tyre S.p.A. obtained a non-repayable grant from the Lombardy Region totalling euro 2.462 thousand, as incentives for an R&D project on Smart Manufacturing issues, of which euro 847 thousand was collected during the year.

Unusual and/or exceptional transactions

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it is hereby specified that during the course of the 2018 financial year that no exceptional and/or unusual transactions as defined in the aforesaid Notice were carried out by the Company.

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 %**
	12/31/2018	**12/31/2017**		**2018**	**2017**	
Swedish Krona	**10.2548**	9.8438	4.18%	**10.2600**	9.6339	6.50%
Australian Dollar	**1.6220**	1.5346	5.70%	**1.5798**	1.4729	7.26%
Canadian Dollar	**1.5605**	1.5039	3.76%	**1.5295**	1.4646	4.43%
Singaporean Dollar	**1.5591**	1.6024	(2.70%)	**1.5926**	1.5587	2.17%
U.S. Dollar	**1.1450**	1.1993	(4.53%)	**1.1812**	1.1295	4.58%
Taiwan Dollar	**34.9786**	35.6588	(1.91%)	**35.6178**	34.3737	3.62%
Swiss Franc	**1.1269**	1.1702	(3.70%)	**1.1550**	1.1115	3.91%
Egyptian Pound	**20.5806**	21.3245	(3.49%)	**21.1035**	20.2283	4.33%
Turkish Lira (new)	**6.0280**	4.5155	33.50%	**5.6655**	4.1174	37.60%
New Romanian Leu	**4.6639**	4.6597	0.09%	**4.6535**	4.5676	1.88%
Argentinian Peso	**43.1665**	22.3658	93.00%	**43.1665**	18.7185	130.61%
Mexican Peso	**22.5170**	23.6250	(4.69%)	**22.7260**	21.3756	6.32%
South African Rand	**16.4594**	14.8054	11.17%	**15.6192**	15.0433	3.83%
Brazilian Real	**4.4390**	3.9693	11.83%	**4.3084**	3.6094	19.37%
Chinese Renminbi	**7.8584**	7.8365	0.28%	**7.8167**	7.6269	2.49%
Russian Ruble	**79.6581**	68.8668	15.67%	**73.9444**	65.8497	12.29%
British Pound	**0.8945**	0.8872	0.82%	**0.8847**	0.8766	0.92%
Japanese Yen	**125.8500**	135.0100	(6.78%)	**130.3778**	126.6909	2.91%

NET FINANCIAL POSITION

(Alternative performance indicators not provided for by the accounting standards)

(In thousands of euro)	**Note**	**12/31/2018**	**of which related parties**	**12/31/2017**	**of which related parties**
Current borrowings from banks and other financial institutions	**24**	800,145		559,168	
Current derivative financial instruments (liabilities)	**28**	53,510		11,248	
Non-current borrowings from banks and other financial institutions	**24**	3,929,079		3,897,089	
Non current derivative financial instruments (liabilities)	**28**	13,738		54,963	
Total gross debt		**4,796,472**		**4,522,468**	
Cash and cash equivalents	**20**	(1,326,900)		(1,118,437)	
Securities held for trading		-		(33,027)	
Other financial assets at fair value through income statement	**19**	(27,196)		-	
Current financial receivables and other assets**	**16**	(27,320)	*(6,154)*	(36,511)	*(5,837)*
Current derivative financial instruments (assets)	**28**	(91,245)		(21,413)	
Net financial debt *		**3,323,811**		**3,313,080**	
Non-current derivative financial instruments (assets)	**28**	(20,134)		-	
Non-current financial receivables and other assets**	**16**	(123,547)	*(12,576)*	(94,585)	*(12,007)*
Total net financial (liquidity)/debt position		**3,180,130**		**3,218,495**	

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

** The amount of "financial receivables and other assets" is reported net of the relative impairment amounting to euro 6,085 thousand.

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.
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
Driver Reifen und KFZ-Technik GmbH (ex Pneumobil Reifen und KFZ-	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	71.21%	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	50,000	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 International Treasury S.p.A.	Tyre	Milano	Euro	50,000	70.00%	Pirelli Tyre S.p.A.
					30.00%	Pirelli & C. 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.
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	100.00%	Pirelli Tyre S.p.A.
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	64.50%	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						
Pirelli & C. Eco Technology RO S.r.l.	Sustainable mobility	Slatina	Rom. Leu	20,002,000	100.00%	Pirelli Tyre S.p.A.
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 institute of medical polymers"	Tyre	Moscow	Russian Rouble	7,392,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Joint Stock Company "R&D Training Center of New Technologies & Materials "ATOM"	Tyre	Moscow	Russian Rouble	312,411,000	100.00%	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" (in liquidation)	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	6,153,846	65.00%	E-VOLUTION Tyre B.V.

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	3,000,000	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 Lastikleri Dis Ticaret A.S.	Tyre	Istanbul	Turkey Lira	50,000,000	100.00%	Pirelli Otomobil Lastikleri A.S.
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.
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

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Central/South America						
Argentina						
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	2,948,055,176	99.83%	Pirelli Tyre S.p.A.
					0.17%	Pirelli Pneus Ltda
TP Industrial Tyres S.A. (in liquidation)	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
JMC Pneus Comercio Importação e Exportação Ltda.	Tyre	Sao Paulo	Bra. Real	1,271,694	100.00%	Comercial e Importadora de 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	247,519,052	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	1,132,178,494	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
Comércio e Importação Multimarcas de Pneus Ltda.	Tyre	Sao Paulo	Bra. Real	3,691,500	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
C.P.Complexo Automotivo de Testes, Eventos e Entretenimento Ltda. (ex	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	85.25%	Pirelli Comercial de Pneus Brasil Ltda
					14.73%	Pirelli Latam Participaçoes Ltda
					0.02%	Pirelli Ltda
Colombia						
Pirelli Tyre Colombia S.A.S.	Tyre	Santa Fe De Bogota	Col. Peso/000	222,522,000	85.00%	Pirelli Comercial de Pneus Brasil Ltda
					15.00%	Pirelli Latam Participaçoes Ltda
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	8,080,816,500	99.76%	Pirelli Tyre S.p.A.
					0.24%	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.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Africa						
Egypt						
Pirelli Egypt Tyre Trading S.A.E.	Tyre	Giza	Egy. Pound	84,250,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Egypt Consumer Tyre Distribution S.A.E.	Tyre	Giza	Egy. Pound	89,000,000	99.89%	Pirelli Egypt Tyre Trading S.A.E.
					0.06%	Pirelli Tyre S.p.A.
					0.06%	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 Taiwan Co. Ltd	Tyre	New Taipei City	N.T. $	10,000,000	100.00%	Pirelli Tyre (Suisse) SA
Pirelli Trading (Beijing) Co., Ltd.	Tyre	Beijing	Ch. Renminbi	4,200,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre (Jiaozuo) Co., Ltd.	Tyre	Jiaozuo	Ch. Renminbi	350,000,000	80.00%	Pirelli Tyre S.p.A.
					20.00%	Aeolus Tyre Co., Ltd
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	Shanghai	US $	700,000	100.00%	Pirelli China Tyre N.V.
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

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.
Focus Investments S.p.A.	Financial	Milan	Euro	183,333	8.33%	Pirelli & C. S.p.A. (25% of the voting share capital)
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						
China						
Xushen Tyre (Shanghai) Co, Ltd	Tyre	Shanghai	Ch. Renminbi	1,050,000,000	49.00%	Pirelli Tyre S.p.A.
Jining Shenzhou Tyre Co, Ltd	Tyre	Jining City	Ch. Renminbi	1,050,000,000	100.00%	Xushen Tyre (Shanghai) Co, Ltd
Indonesia						
PT Evoluzione Tyres	Tyre	Subang	$ USA	68,000,000	60.00%	Pirelli Tyre S.p.A.

SEPARATE FINANCIAL STATEMENTS

AT DECEMBER 31, 2018

STATEMENT OF FINANCIAL POSITION

(in euro)	Note	12/31/2018	of which related parties (Note 38)	12/31/2017	of which related parties (Note 38)
Property, plant and equipment	8	36,626,844		41,335,010	
Intangible assets	9	2,273,663,830		2,274,121,987	
Investments in subsidiaries	10	4,568,324,362		4,568,309,362	
Investments in associates	11	6,374,501		10,204,402	
Other financial assets	12	-		224,593,085	
Other financial assets at fair value through other comprehensive income	12	66,999,913		-	
Other receivables	13	600,543,719	*600,000,000*	14,819,551	
Derivative financial instruments	17	19,402,654	*19,402,654*	-	
Non-current assets		**7,571,935,823**		**7,133,383,397**	
Trade receivables	14	35,365,570	*32,352,151*	52,045,402	*43,721,766*
Other receivables	13	1,548,690,528	*1,524,041,518*	45,164,222	*13,972,980*
Cash and cash equivalents	15	101,764,103		1,749,490	
Tax receivables	16	49,745,832	*48,490,491*	110,632,072	*104,054,274*
Derivative financial instruments	17	3,749,194	*3,749,194*	94,846	*94,846*
Current assets		**1,739,315,227**		**209,686,032**	
Total assets		**9,311,251,050**		**7,343,069,429**	
Shareholders' equity:					
- Share capital		1,904,374,936		1,904,374,936	
- Other reserves		2,144,425,954		2,163,146,083	
- Retained earnings reserve		181,511,751		-	
- Net income (loss) for the year		262,362,043		170,850,918	
Total shareholders' equity	18	**4,492,674,684**		**4,238,371,937**	
Borrowings from banks and other financial institutions	19	3,921,508,709		2,331,646,999	-
Other payables	23	211,511		211,511	
Provisions for liabilities and charges	20	40,530,891		45,677,712	
Provision for deferred tax liabilities	24	527,806,343		554,828,134	
Employee benefit obligations	21	2,210,239		2,071,744	
Derivative financial instruments	17	10,565,158	*10,565,158*	29,715,928	*29,715,928*
Non-current liabilities		**4,502,832,851**		**2,964,152,028**	
Borrowings from banks and other financial institutions	19	222,503,724	*6,591*	16,856,013	*9,411,654*
Trade payables	22	19,380,689	*2,986,850*	29,694,193	*4,819,768*
Other payables	23	48,351,164	*26,177,691*	75,212,817	*27,491,367*
Provisions for liabilities and charges	20	1,815,160		-	
Employee benefit obligations	21	1,964,819		-	
Tax payables	25	16,436,159	*16,207,276*	18,636,545	*18,407,661*
Derivative financial instruments	17	5,291,800	*5,291,800*	145,896	*145,896*
Current liabilities		**315,743,515**		**140,545,464**	
Total Liabilities and Equity		**9,311,251,050**		**7,343,069,429**	

INCOME STATEMENT

(in euro)	**Note**	**2018**	*of which related parties (Note 38)*	**2017**	*of which related parties (Note 38)*
Revenues from sales and services	26	38,718,521	*37,363,694*	42,084,384	*41,349,034*
Other income	27	112,178,568	*102,183,610*	105,778,332	*99,323,081*
Raw materials and consumables used	28	(210,126)		(183,120)	
Personnel expenses	29	(34,130,338)	*(2,185,521)*	(26,709,830)	*(4,779,614)*
- of which non recurring events	37	-		*(1,691,015)*	
Amortisation, depreciation and impairment	30	(3,983,656)		(4,899,942)	
Other costs	31	(105,044,273)	*(20,168,662)*	(167,059,757)	*(18,618,209)*
- of which non recurring events	37	*(1,025,850)*		*(62,390,073)*	
Net impairment loss on financial assets	32	(1,930,360)		-	
Operating income (loss)		**5,598,336**		**(50,989,933)**	
Net income (loss) from equity investments	33	284,943,288		204,415,855	
- gains on equity investments		*4,006,808*		2,752,299	*2,564,250*
- losses on equity investments		*(3,580,191)*	*(3,580,191)*	(13,833,292)	*(11,479,999)*
- dividends		*284,516,671*	*283,549,189*	215,496,848	*208,870,744*
Financial income	34	60,818,832	*59,276,892*	116,744,745	*10,680,847*
Financial expenses	35	(93,669,719)	*(6,519,324)*	(240,118,416)	*(103,275,015)*
- of which non recurring events	37	*(9,964,795)*	*(21,977,000)*	*(41,966,793)*	
Net income (loss) before taxes		**257,690,737**		**30,052,251**	
Taxes	36	4,671,306		140,798,667	
- of which non recurring events	37	*2,677,575*		96,107,664	
Total net income (loss) for the year		**262,362,043**		**170,850,918**	

STATEMENT OF COMPREHENSIVE INCOME

(in euro)	**2018**	**2017**
A - Net income (loss)	**262,362,043**	**170,850,918**
Other components of comprehensive income:		
B - Items that will not be reclassified to income statement:		
- Net actuarial gains (losses) on employee benefits	(8,269)	17,555
- Tax effect	1,985	
- Fair value adjustment of other financial assets at fair value through other comprehensive income	(5,709,065)	
Total B	**(5,715,349)**	**17,555**
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	54,928,567	(7,117,489)
- (Gains) / losses reclassified to income statement	(64,453,722)	(270,006)
- Tax effect	2,286,037	1,708,197
Cost of hedging		
- Gains /(losses) arising from adjustment to fair value	10,481,543	
- (Gains) / losses reclassified to income statement	(4,040,529)	
- Tax effect	(1,545,843)	
Fair value adjustment of other financial assets available for sale:		
- Gains /(losses) arising from adjustment to fair value	-	40,486,365
- (Gains) / losses reclassified to income statement	-	1,439,103
Total C	**(2,343,947)**	**36,246,170**
B+C Total other components of comprehensive income	**(8,059,296)**	**36,263,725**
A+B+C Total comprehensive income (loss) for the year	**254,302,747**	**207,114,643**

STATEMENT OF CHANGES IN EQUITY

(in euro)	Share Capital	Legal Reserve	Surplus Reserve	Concentration Reserve	Other reserves	IAS Reserves *	Merger Reserve	Reserve from results carried forward	Net result of the year	Total
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)
Result carried forward as per resolution of April 27, 2017	-	-	-	-	-	-	-	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**
Adoption of new accounting standard IFRS 9										
- Reclassification from available for sale financial assets to other financial assets at FV through income statement	-	-	-	-	-	(10,554,761)	-	10,554,761	-	-
Total at 01/01/2018	**1,904,374,936**	**380,874,988**	**630,380,599**	**12,466,897**	**92,534,791**	**13,406,332**	**1,022,927,715**	**10,554,761**	**170,850,918**	**4,238,371,937**
Result carried forward as per resolution of May 15, 2018	-	-	-	-	-	-	-	170,850,918	(170,850,918)	
Other items of the comprehensive income statement	-	-	-	-	-	(8,059,296)	-	-	-	(8,059,296)
Result for the year	-	-	-	-	-	-	-	-	262,362,043	262,362,043
Total comprehensive income/(loss) for the year	-	-	-	-	-	*(8,059,296)*	-	-	*262,362,043*	*254,302,747*
Other changes						(106,073)		106,073		
Total at 31/12/2018	**1,904,374,936**	**380,874,988**	**630,380,599**	**12,466,897**	**92,534,791**	**5,240,963**	**1,022,927,715**	**181,511,752**	**262,362,043**	**4,492,674,684**

(in euro)	**Breakdown of IAS Reserves ***						
	Reserve for fair Value adjustment of available-for-sale financial assets	**Reserve for fair value adjustment of financial assets at fair value through other comprehensive income**	**Reserve for actuarial gains/losses**	**Reserve for cost of hedging**	**Cash flow hedge reserve**	**Tax effect**	**TOTAL**
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**
Adoption of new accounting standard IFRS 9	(27,342,368)	16,787,607	-	394,804	(394,804)	-	**(10,554,761)**
Balance at 1/01/2018	**-**	**16,787,607**	**2,028,017**	**394,804**	**(7,512,293)**	**1,708,197**	**13,406,332**
Other components of comprehensive income	-	(5,709,064)	(8,269)	6,441,013	(9,525,155)	742,179	(8,059,296)
Other changes	-	(106,073)	-	-	-	-	(106,073)
Balance at 12/31/2018	**-**	**10,972,470**	**2,019,748**	**6,835,817**	**(17,037,448)**	**2,450,376**	**5,240,963**

CASH FLOW STATEMENT

(in Euro)

		2018	*of which related parties (Note 38)*	2017	*of which related parties (Note 38)*
	Result before taxes	257,690,737		30,052,251	
	Reversal depreciation, amortization and write-downs	3,983,656		4,899,942	
	Reversal financial expenses	93,669,719	*6,519,324*	240,118,416	*103,275,015*
	Reversal financial income	(60,818,832)	*(59,276,892)*	(116,744,745)	*(10,680,847)*
	Reversal result from investments	(284,943,288)	*(283,549,189)*	(204,415,855)	*(199,954,995)*
	Taxes paid	-		-	
	Change in trade receivables	16,679,832	*11,369,615*	9,646,590	*13,193,646*
	Change in trade payables	(10,594,441)	*(1,832,918)*	(2,731,044)	*3,237,898*
	Change in other receivables/other payables	(9,800,604)	*(3,428,000)*	22,708,000	*12,585,217*
	Change in tax receivables/tax payables	42,775,429	*42,775,429*	22,393,548	*36,366,068*
	Change in personnel provisions and other provisions	(1,228,347)		(2,165,575)	
	(Gains)/losses from sales of tangible and intangible assets	(575,786)		11,240	
A	**Net cash generated/(used) by operating activities**	**46,838,075**		**3,772,768**	
	Investments in tangible assets	(1,384)		(338,274)	
	Disinvestments of property, plant & equipment	3,000,000		26,639	
	Investments in intangible assets	(1,024,267)		(1,550,850)	
	Disinvestments of intangible assets	-		750,000	
	Investments in shareholdings in subsidiaries	(15,000)	*(15,000)*	(9,705,361)	*(9,705,361)*
	Disinvestments of shareholdings in subsidiaries	-	-	7,938	*7,938*
	Investments in other financial assets	-		(2,459,092)	
	Disinvestments of other financial assets	-		2,365	
	Disinvestments of other financial assets non corrent at fair value through other comprehensive income	109,254		-	
	Disinvestments /(Investments) in other financial assets non current at fair value through other comprehensive income	152,807,660		-	
	Disinvestments of shareholdings in associated companies	249,710	*249,710*	17,209,724	*17,209,724*
	Dividends received	284,516,671	*283,549,189*	215,496,848	*208,870,744*
B	**Net cash generated/(used) by investment activities**	**439,642,644**		**219,439,937**	
	Change in share capital	-		1,189,375,000	
	Change in financial receivables	(2,103,421,000)	*(2,103,912,000)*	629,710,507	*629,710,507*
	Interest income and other financial income	15,820,233	*15,820,233*	1,817,000	
	Change in financial payables	1,744,063,616	*(9,000,000)*	(1,884,066,984)	*9,000,000*
	Interest expense and other financial expenses	(42,928,955)	*2,233,556*	(160,104,080)	*(53,865,315)*
C	**Net cash generated/(used) by financing activities**	**(386,466,106)**		**(223,268,557)**	
D	**Total net cash generated/(used) in the year (A+B+C)**	**100,014,613**		**(55,851)**	
E	**Cash and cash equivalents at the beginning of the year**	**1,749,490**		**1,805,342**	
F	**Cash and cash equivalents at the end of the year (D+E)**	**101,764,103**		**1,749,490**	

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.

As from October 4, 2017, Pirelli & C. S.p.A. shares are now traded on the Mercato Telematico Azionario (MTA Telematic Stock Market), managed by Borsa Italiana S.p.A.

Following the total non-proportional demerger of Marco Polo International Italy S.p.A., which took place in August 2018, Pirelli & C. S.p.A. is directly controlled by Marco Polo International Italy S.r.l., newly established company 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.

Marco Polo International Italy S.r.l. controls the Company with 45.52% of the capital and does not exercise management and coordination activities.

On February 26, 2019, the Board of Directors authorised publication of these Annual Financial Statements (“Annual Financial Statements or Separate Financial Statements”).

Significant Events 2018

On **January 11, 2018**, Pirelli sold, through an operation reserved to qualified investors in Italy and institutional investors abroad, the entire investment held directly in Mediobanca S.p.A. - corresponding to about 1.8% of the relative share capital - with total net income of Euro 152.8 million.

On **January 22, 2018**, under the EMTN program approved at the end of 2017, Pirelli & C. S.p.A. placed a bond at international institutional investors for a nominal amount of Euro 600 million with a five-year term at fixed rate. The effective yield at maturity is 1.479% and the securities were listed on the Luxembourg Stock Exchange. Furthermore, during the first weeks of January, Pirelli undertook an operation to change the economic conditions of the Group’s main banking line - involving a total notional amount of Euro 4.2 billion, including a revolving line of Euro 700 million - which allowed reducing the interest margin applied by 30 basis points.

On **March 15, 2018**, Pirelli & C. S.p.A. placed a “Floating Rate Note” bond with a value of Euro 200 million with maturity in September 2020. The variable rate bond issue - intended exclusively for institutional investors - allowed the repayment of the existing debt for an equal amount, further optimising the company’s financial structure by reducing the cost of debt.

On **July 26, 2018**, Pirelli & C. S.p.A. concluded a “Schuldschein” loan for a total of Euro 525 million. The loan, guaranteed by Pirelli Tyre S.p.A. and entered into by leading market operators, consists of a tranche of Euro 82 million with maturity in 3 years, a tranche of Euro 423 million with maturity in 5 years and a tranche of Euro 20 million with maturity in 7 years. The transaction allowed repayment of part of the existing debt, further optimizing the structure and costs.

On **August 7, 2018,** the Board of Directors of Pirelli - with reference to the bond referred to as “Pirelli & C. S.p.A. Euro 600,000,000 1.375 per cent. Guaranteed Notes due 25 January 2023” (ISIN: XS1757843146) issued by Pirelli & C. S.p.A. as part of the EMTN programme of Euro 2 billion and listed on the Luxembourg Stock Exchange - resolved to proceed with the purchase of said bonds for a total nominal value of a maximum of Euro 150 million. As part of this resolution, on October 30, 2018, Pirelli conferred a mandate to Goldman Sachs International to proceed with the partial repurchase of the bond for a maximum nominal amount of Euro 50 million. At the end of the partial repurchase program that was completed on December 19, 2018, bonds were repurchased and annulled for a nominal value of Euro 47 million at an average price of 96.110% and, consequently, the total nominal value of bonds outstanding as of December 31, 2018 is equal to Euro 553 million.

2. BASIS FOR PREPARATION

The 2018 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 Notes.

In application of Legislative Decree of February 28, 2005, no. 38, “Exercise of the options provided for by article 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 under the conventional historical cost basis, except for the following items which have been measured at fair value:

- derivate financial instruments;

- financial assets available for sale (until December 31, 2017);
- financial assets at fair value through other comprehensive income (as January 1, 2018);
- financial assets at fair value through income statement (as January 1, 2018).

Financial Statements

The separate Financial Statements at December 31, 2018 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.

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 recognised at cost, net of any impairment losses.

In the presence of specific impairment indicators, the value of investments in subsidiaries and associates, 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 same investee;
- The operating result achieved by the investee company is significantly lower than the amount envisaged 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 book value 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 recognised 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.

If the reason for impairment ceases to exist, the carrying amount of the investment is recognised in the Income Statement, up to the original cost.

Dividends

Dividend income is recognised 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.

3.1 Accounting standards and interpretations endorsed and in force from January 1, 2018

In accordance with IAS 8 “Accounting standards, changes in accounting estimates and errors”, the IFRS effective from January 1, 2018 are indicated below:

- IFRS 15 – Revenues from contracts with customers

  The impacts deriving from the application of this standard, which replaces the previous IAS 18, are described in Note 3.3 “Impacts deriving from the adoption of IFRS 15 and IFRS 9” for the impacts resulting from the first application of this standard.

- IFRS 9 – Financial Instruments

  IFRS 9 replaces the previous IAS 39 standard regarding the classification and measurement of financial assets and liabilities, the impairment of financial assets and hedge accounting. See Note 3.3 “Impacts deriving from the adoption of IFRS 15 and IFRS 9” for the impacts resulting from the first application of this standard.

- Amendments to IFRS 2 – Share-based payments and Classification and measurement of transactions with share-based payment

  The objective of these amendments is to clarify the accounting treatment of some types of share-based payments. Application of these amendments will not have any impact on the separate financial statements.

- IFRIC 22 – Transactions in Foreign Currency and Advances

  The objective of this interpretation is to establish the exchange rate to be used in the conversion of advances in foreign currency, paid or received. In the presence of advances paid or received, the exchange rate to be used to convert assets, liabilities, revenues or costs recognised at a subsequent time is the same used to convert the advance. There are no impacts on the separate financial statements.

- Amendments to IAS 40 – Transfers of property investments

  These amendments further clarify the situations in which it is possible to reclassify a property asset within or outside the category of property investments. These amendments do not apply to the separate financial statements.

- Improvements to IFRS – 2014-2016 cycle (issued by the IASB in December 2016).

  The IASB has issued a series of amendments to 3 current standards, which concern, in particular, the following aspects: clarification on the scope of application of IFRS 12 – Supplementary information relating to interests in other entities - in the presence of re-entrant entities within the scope of application of IFRS 5 – Non-current assets held for sale and discontinued operations; valuation of associates or joint ventures at fair value in the presence of investment entities in IAS 28 – Investment in associated companies; elimination of short-term exemptions for those adopting IFRS for the first time in IFRS 1 – First-time adoption of IFRS. The amendments to IAS 28 and IFRS 1 are not applicable to the Company, while the amendments to IFRS 12 are applicable only in the presence of entities classified under IFRS 5. There are no impacts on the separate financial statements due to application of these amendments.

- Amendments to IFRS 4 – Application of IFRS 9 Financial instruments in case of application of IFRS 4 Insurance contracts.

  These amendments govern the implementation of the new standard IFRS 9 Financial instruments, in case IFRS 4, still subject to further changes, is applicable. These amendments are not applicable to the Company.

3.2 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, 2018, 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.

- Amendments to IFRS 10 and IAS 28 – Sale or transfer of assets from an investing company to an associate or joint venture

  The IASB issued said amendments to eliminate an inconsistency between IFRS 10 and IAS 28, stating that if the assets sold/transferred constitute a business as defined by IFRS 3; the possible gain or loss must be recognised fully and any gain or loss shall be recognised only for the related portion.

  These amendments, the entry into force of which was deferred to an indefinite time, have not yet been endorsed by the European Union. No impacts are expected on the Financial Statements deriving from the future application of these amendments as the current accounting treatment followed by the Company is already compliant.

- IFRS 16 – Leases

  The new lease standard, which will replace the current IAS 17, provides a new definition of lease and introduces a criterion based on control (right of use) of an asset to distinguish lease contracts from service provision contracts, identifying as discriminants: the identification of the asset, the right to replace the same, the right to obtain substantially all of the economic benefits arising from the use of the asset and lastly, the right to direct the use of the asset underlying the contract.

  The standard establishes for the lessee a single model of recognition and evaluation of lease contracts that provides for the recognition of the asset subject to a lease, also operating, in balance sheet asset with a financial payable as balancing entry, for an amount equal to the current value of the future payments. The concept of operating leasing is no longer included. By contrast, the Standard does not include significant changes for lessors.

  Said standard, endorsed by the European Union, is applicable from January 1, 2019. The Company will apply the new standard starting from the date of entry into force.

  The Company completed the preliminary assessment project of potential impacts deriving from the application of the new standard on the transition date (January 1, 2019). This process was in several phases, including the complete mapping of contracts potentially suitable for containing a lease and the analysis of the same in order to understand the main clauses relevant to IFRS 16.

  The Company referred to the practical expedient provided for by the standard, which makes it possible to refer to the conclusions reached in the past on the basis of IFRIC 4 and IAS 17 regarding the quantification of operating leases for a specific contract. This practical expedient was applied to all contracts.

The process of implementation of the standard is being completed, which provides for the setting up of the IT infrastructure aimed at accounting management of the standard and the alignment of administrative processes and controls to oversee critical areas concerned with the standard. This process is expected to be completed within the first quarter of 2019.

The Company has chosen to apply the standard retrospectively, with recognition of the cumulative effect deriving from the application of the standard in shareholders' equity at January 1, 2019 (modified retrospective method). In particular, the Company will recognise, for lease contracts previously classified as operational:

- a financial liability, equal to the present value of the future residual payments at the transition date, discounted using the incremental borrowing rate applicable at the transition date for each contract;
- a right of use equal to the value of the financial liability at the transition date, net of any accrued and deferred assets/liabilities related to the lease and recorded in the balance sheet at the closing date of these financial statements.

The following table shows the impacts estimated from the adoption of IFRS 16 at the transition date:

(in thousands of euro)	
NON-CURRENT ASSETS	
Tangible assets	
- Right of use assets - buildings	33,470
- Right of use assets - car, light vehicles	1,944
Total	**35,415**
CURRENT ASSETS	
Other receivables	(127)
Total	**35,288**

(in thousands of euro)	
NON-CURRENT LIABILITIES	
Borrowings from banks and other financial institutions	36,389
CURRENT LIABILITIES	
Borrowings from banks and other financial institutions	2,015
Other payables	(3,116)
Totale	**35,288**

The value of non-current assets relating to operating lease contracts was increased for the balance of accrued/deferred assets recognised at December 31, 2018 for an amount equal to

Euro 127 thousand (included under the item other current receivables) and decreased for the balance of accrued liabilities recognised at December 31, 2018 for an amount equal to Euro 3,116 thousand (included under the item other current payables).

In adopting IFRS 16, the Company decided to avail itself of the exemption granted by the standard in relation to short-term leases (contracts with a duration of less than 12 months) for all asset classes. For such contracts the introduction of IFRS 16 will not entail the recognition of the financial liability of the lease and the related right of use, but the lease payments will be recorded in the income statement on a linear basis for the duration of the respective contracts.

The Company also intends to avail itself of the exemption granted by the standard with regard to lease contracts for which the underlying asset is configured as a low-value asset, i.e. lease contracts for which the unit value of the underlying assets is not greater than Euro 8 thousand when new. Contracts for which the exemption was applied fall mainly within the following categories:

- computers, telephones and tablets;
- office and multifunction printers;
- other electronic devices.

For these contracts, the introduction of IFRS 16 will not entail the recognition of the financial liability of the lease and the related right of use. However, the lease payments will be recognised in the income statement on a straight-line basis for the duration of the respective contracts.

The Company intends to use the practical expedient envisaged by IFRS 16 with regard to the separation of non-lease components for vehicles. The non-lease components on these assets will not be separated and accounted separately from the lease components, but will be considered together with the latter in determining the financial liability of the lease and the related right of use.

Furthermore, with reference to the transition rules, the Company intends to avail itself of the following practical expedients available if choosing the modified retrospective transition method:

- classification of contracts that expire within 12 months from the date of transition as a short-term lease. For these contracts, lease payments will be recognised in the income statement on a straight-line basis;
- use of the information present on the transition date for the determination of the lease term, with particular reference to the exercise of extension and early closure options.

The transition to IFRS 16 introduces some elements of professional opinion and the use of assumptions and estimates in relation to the lease term, to the definition of the increase in the borrowing rate. The main ones are summarised below:

- the Company has decided not to apply IFRS 16 for contracts containing a lease that have an intangible asset as an underlying asset;
- contract renewal clauses are considered for the purposes of determining the duration of the contract when the Company has the option of exercising them without the need to obtain the consent of the counterparty and their exercise is deemed reasonably certain. In the case of clauses providing for multiple renewals that can be exercised unilaterally by the Company, only the first extension period has been considered;
- automatic renewal clauses in which both parties have the right to terminate the contract are not considered for the purposes of determining the duration of the contract, as the ability to extend the duration of the same is not under the unilateral control of the Company and the penalty to which the lessor could be exposed is not significant. However, in the event that the lessor is exposed to a significant penalty, the Company includes the renewal option in determining the duration of the contract. This assessment is also carried out considering the degree of customisation of the asset subject to leasing: if the customisation is high, the lessor may incur a significant penalty if opposing renewal;
- early termination clauses of contracts: these clauses are not considered in determining the duration of the contract if they can only be exercised by the lessor or by both parties. If they can be unilaterally exercised by the Company, specific assessments are made contract by contract (for example, the Company is already negotiating a new contract or has already given termination notice to the lessor);
- incremental borrowing rate: the Company decided to use the incremental borrowing rate as discount rate to discount lease contract payments. This rate consists of the free risk rate of the country in which the contract is negotiated and based on the duration of the contract. It is then adjusted according to the Company's credit spread.

Reconciliation with commitments for future minimum payments due for non-cancellable operating leases

In order to facilitate the understanding of the impacts arising from the first application of the standard, the following table provides a reconciliation between future commitments relating to lease contracts, which is referred to in paragraph 8, and the impact expected from the adoption of IFRS 16 as of January 1, 2019:

(in thousands of euro)	
Future minimum lease payments for operating leases at 12/31/2018 (IAS 17)	47,796
Short term leases	(136)
Leases of low value assets	(127)
Discounting	(11,144)
Financial liabilities for leases contracts at 1/1/2019 (IFRS 16)	**36,389**

- IFRIC 23 – Uncertainty on the treatment of income taxes

  This interpretation clarifies the criteria to be applied for the recognition and measurement of current and deferred tax liabilities/assets in the event of uncertainty regarding the tax treatment, i.e. situations in which it is not certain that a specific treatment will be accepted by the tax authorities (ex. deductibility some costs or exemption of some income), but also uncertainty regarding the determination of taxable income, the tax base of assets and liabilities, tax losses and rates to be applied.

  The accounting treatment depends on the probability of whether tax authorities will accept the tax treatment or not. In the event it is not probable that the tax authority accept the uncertain tax treatment, uncertainty is recorded by recognising an additional tax liability or by applying a higher rate.

  Said interpretation, endorsed by the European Union, is applicable from January 1, 2019. No significant impacts are expected on the Financial Statements of the Company.

- Amendments to IFRS 9 – Financial Instruments: prepayment features with negative compensation and amendments to financial liabilities

  Said amendments concern the following:

  - financial assets (financial receivables and debt securities) which, in the presence of certain characteristics, can be measured at amortised cost, whereas previously they had to be measured at fair value recorded in the income statement;

  - accounting treatment in the presence of changes to financial liabilities that do not lead to derecognition from the financial statements: in such situations, a profit or loss calculated as the difference between the contractual cash flows of the original liability and the changed cash flows must be recorded in the income statement, both discounted at the original effective interest rate.

These amendments, which will come into force on January 1, 2019, have not yet been endorsed by the European Union. With regard to the change relating to financial assets, assessments are underway to verify their applicability to the Group and to the Company; the change in the accounting treatment of financial liabilities in the event of changes that do not lead to derecognition is applicable to the Company and has no impact as the Company 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 clarified that, if investments in associates and joint ventures are not valued using the equity method (IAS 28), they must be valued in accordance with the provisions of IFRS 9.

  These amendments, which will come into force on January 1, 2019, have not yet been endorsed by the European Union. No impacts are expected on the Financial Statements of the Company.

- "Improvements" to IFRS 2015-2017 (issued by the IASB in December 2017).

  The IASB issued a series of amendments to 4 standards in force in particular regarding the following aspects:

  - IFRS 3 – business combinations: obtaining control of a business that is classified as a joint operation must be accounted for as a business combination in phases and the investment previously held must be remeasured at fair value on the date of acquisition.
  - IFRS 11 – Joint arrangements: in the case of obtaining joint control over a business that is classified as a joint operation, the investment previously held does not have to be remeasured at fair value.
  - IAS 12 – 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 – financial expenses: if a specific loan relating to a qualifying asset is still outstanding at the time the asset is ready for use or sale, it becomes part of the generic loans.

These amendments, which will come into force on January 1, 2019, have not yet been endorsed by the European Union. Any impacts on the financial statements of the Group and the Company are currently being analysed.

- Amendments to IAS 19 – Employee benefits

  Said amendments require that:

  - the cost for the current service and the net interest for the period following a modification and/or reduction of the plan are determined using updated assumptions;

  - any reductions in the surplus of a plan are recognised in the income statement, even if the surplus had not been recognised in the income statement due to the asset ceiling.

  These amendments, which will come into force on January 1, 2019, have not yet been endorsed by the European Union.

- Amendments to IFRS 3 – Business Combinations

  These amendments introduced a new definition of business, as the current one is too complex with the result that too many transactions qualified as a business combination.

  These amendments, which will come into force on January 1, 2020, have not yet been endorsed by the European Union.

- Amendments to IAS 1 – Presentation of Financial Statements and to IAS 8 – Accounting standards, Changes in accounting estimates and errors

  In addition to clarifying the concept of materiality, these amendments focus on the definition of a coherent and unique concept of materiality among the various accounting standards and incorporate the guidelines included in IAS 1 on intangible information.

  These amendments, which will come into force on January 1, 2020, have not yet been endorsed by the European Union.

3.3 Impacts deriving from the adoption of IFRS 15 and IFRS 9

The table below shows the effects on the opening balance sheet at January 1, 2018 following the first application of IFRS 15 and IFRS 9:

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

	Note	12/31/2017	IFRS 15 1st adoption	IFRS 9 1st adoption	01/01/2018
Property, plant and equipment	8	41,335			41,335
Intangible assets	9	2,274,122			2,274,122
Investments in subsidiaries	10	4,568,309			4,568,309
Investments in associates	11	10,204			10,204
Other financial assets	12	224,593		*(224,593)*	-
Other financial assets at fair value through other comprehensive income	12	-		*75,566*	75,566
Other financial assets at fair value through income statement	12	-		*149,027*	149,027
Other receivables	13	14,820			14,820
Non-current assets		**7,133,383**	**-**	**-**	**7,133,383**
Trade receivables	14	52,046			52,046
Other receivables	13	45,164			45,164
Cash and cash equivalents	15	1,749			1,749
Tax creditis	16	110,632			110,632
Derivative financial instruments	17	95			95
Current assets		**209,686**	**-**	**-**	**209,686**
Total Assets		**7,343,069**	**-**	**-**	**7,343,069**
Equity attributable to owners of the Group:		**4,238,372**	**-**	**-**	**4,238,372**
-Share capital		1,904,375			1,904,375
-Reserves		2,163,146			2,163,146
-Net income (loss) for the period		170,851			170,851
Total Equity	18	**4,238,372**	**-**	**-**	**4,238,372**
Borrowings from banks and other financial institutions	19	2,331,647			2,331,647
Other payables	23	212			212
Provisions for liabilities and charges	20	45,677			45,677
Provisions for deferred tax liabilities	24	554,828			554,828
Employee benefit obligations	21	2,072			2,072
Derivative financial instruments	17	29,716			29,716
Non-current liabilities		**2,964,152**	**-**	**-**	**2,964,152**
Borrowings from banks and other financial institutions	19	16,856			16,856
Trade payables	22	29,694			29,694
Other payables	23	75,213			75,213
Tax payables	25	18,636			18,636
Derivative financial instruments	17	146			146
Current liabilities		**140,545**	**-**	**-**	**140,545**
Total Liabilities and Equity		**7,343,069**	**-**	**-**	**7,343,069**

IFRS 15

IFRS 15 had no impact on the methods for recognising revenues and the reporting of said revenues. Consequently, there were no impacts on the Company's shareholders' equity at the transition date.

IFRS 9 – Financial Instruments

IFRS 9 has been applied retrospectively and the date of first application coincides with January 1, 2018. The comparable data for 2017 was not subject to restatement.

- Classification and measurement

  At January 1, 2018, based on the assessment of the applicable business model and the contractual conditions of the cash flows associated with the assets, financial assets were classified in the categories envisaged by IFRS 9. Equity instruments that at December 31, 2017 were classified as available for sale financial assets (AFS) were designated as financial assets at fair value recorded in the other components of the comprehensive income statement (FVOCI), as they do not belong to the Company's core operations. The sole exception concerns the investment in Mediobanca S.p.A., which has instead been classified in financial assets for which fair value changes are recognised through profit or loss (FVPL). The investment in Mediobanca S.p.A. was sold in the first days of January 2018 and the positive fair value change of Euro 3,780 thousand was recognised in the income statement under the item "Gains on equity investments" (Note 33.1).

The following table summarises the reclassifications made:

(In thousands of euro)	**Other non current financial assets at FV through income statement**	**Other financial assets at FV through other comprehensive income (available for sale financial assets 2017)**	**Financial assets at amortised cost (gross trade receivables and gross other receivables)**
Total at 12/31/2017	**-**	**224,593**	**116,235**
Reclassification from available for sale financial assets to other financial assets at FV through income statement	149,027	(149,027)	
Total at 01/01/2018	**149,027**	**75,566**	**116,235**

- *Impairment of financial assets*

  The Company analysed the impacts of the new impairment model of IFRS 9 based on expected losses in relation to trade and financial receivables.

  For trade receivables, the Company has applied the simplified approach permitted by the standard, according to which expected losses are calculated over the life of receivables and has used a matrix based on historical experience and related to credit aging, adjusted to take account of specific factors to some creditors. There are no impacts on Company assets at the transition date due to the application of the new impairment model to trade receivables.

- Hedge accounting: the Company has adopted the new rules for hedge accounting required by IFRS 9 prospectively starting from January 1, 2018. Hedging relations outstanding at December 31, 2017 met the conditions required by IFRS 9 to continue adopting hedge accounting. It should be noted that, based on the provisions of IFRS 9, the cash flow hedge reserve relating to cash flow hedges outstanding at December 31, 2017 was partly reclassified to a new reserve for cost of hedging in equity for an amount equal to Euro 394 thousand. The reclassification relates to the change in the fair value of the cross currency basis spread which, not being hedge accounting, is separated and recorded in a separate equity reserve, while the cash flow hedge reserve only includes changes in fair value in hedge accounting.

The impacts on the individual components of Company equity deriving from the first application of IFRS 9 are summarised in the following table:

(In thousands of euro)	Reserve for fair value adjustment of available for sale financial assets	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cash flow hedge	Reserve for cost of hedging	Other reserves / retained earnings
Total at 12/31/2017	**27,342**	**-**	**(7,117)**	**-**	**92,535**
Reclassification from available for sale financial assets to other financial assets at FV through income statement (Mediobanca)	(10,554)	-	-	-	10,554
Reclassification from available for sale financial assets to other financial assets at FV through other comprehensive income	(16,788)	16,788	-	-	-
Impairment of financial assets	-	-	-	-	-
Reclassification for hedge accounting	-	-	(394)	394	-
Total at 01/01/2018	**-**	**16,788**	**(7,511)**	**394**	**103,089**

It should be noted that the fair value adjustment reserve for available for sale financial assets at December 31, 2017 (positive for Euro 27,342 thousand) was reclassified to a new reserve in equity for investments designated as assets at fair value recorded in the other components of the comprehensive income statement, while it was reclassified in retained earnings for investments for which the changes in fair value are recognised in the income statement. These reserves will not be reversed to the income statement if the investments are sold.

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 IFRS 9, 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 (ex. 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 IFRS 9 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 IFRS 9 are fulfilled.

At December 31, 2018, 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 7,110 thousand.

(in thousands of euro)	**+0.50%**		**-0.50%**	
	2018	**2017**	**2018**	**2017**
Impact on the net result	(7,110)	(8,920)	7,110	8,920

The effects on the Company shareholders' equity resulting from changes in the LIBOR and EURIBOR rates calculated on the interest rate hedging instruments outstanding at December 31, 2018 are described 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 at fair value recognised as other components of the comprehensive income statement.

Derivatives hedges are not set up to limit the volatility of these assets.

Financial assets measured at fair value through the Income Statement

Financial assets at fair value recognised as other components of the comprehensive income statement consist of listed securities amounted to Euro 28,448 thousand (Euro 30,177 thousand at December 31, 2017) and those represented by securities indirectly associated with listed shares (Fin. Priv. S.r.l.) amounted to Euro 15,604 thousand (Euro 19,908 thousand at December 31, 2017); these financial assets represent 66% of total financial assets subject to price risk; a +5% price change in the above listed securities, other things being equal, would result in a positive change of Euro 1,422 thousand of the Company's shareholders' equity (positive for Euro 8,960 thousand at December 31, 2017), while a -5% change of these listed securities, other things being equal, would result in a negative change of Euro 1,422 thousand of the Company's shareholders' equity (at December 31, 2017, negative for Euro 8,960 thousand of the Company's shareholders' equity).

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.

To limit the risk for commercial obligations towards third parties, the Company has implemented procedures to evaluate its customers' potential and financial solidity, for the monitoring of expected cash flows and taking credit recovery action if necessary. The Company operates only with highly rated financial counterparties for the management of its temporary cash surpluses and constantly monitors its exposure 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, 2018, the Company had, aside from cash equal to Euro 101,764 thousand (Euro 1,749 thousand at December 31, 2017), unused credit lines equal to Euro 700,000 thousand (Euro 100,000 thousand at December 31, 2017) maturing in the second quarter of 2022, due to the transfer of all the Facilities that included an RCF line not used at the transfer date equal to 600,000 thousand.

The maturities of financial liabilities at December 31, 2018 may be broken down as follows:

(in thousands of euro)	**12/31/2018**				
	up to 1 year	**from 1 to 2 years**	**from 2 to 5 years**	**over 5 years**	**Total 12/31/2017**
Payables to banks and other lenders	295,729	1,316,688	2,859,928	21,029	4,493,374
Trade payables	19,381	-	-	-	19,381
Other payables	48,351	-	-	-	48,351
Derivative financial instruments	(19,608)	(24,403)	(37,148)	(62)	(81,221)
Total	**343,853**	**1,292,285**	**2,822,780**	**20,967**	**4,479,885**

The maturities of financial liabilities at December 31, 2017 could 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	57,667	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	**162,720**	**57,164**	**2,473,411**	**-**	**2,693,295**

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, 2018, divided into the three levels defined above:

(in thousands of euro)	Note	12/31/2018	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Other financial assets at fair value through income statement					
Non current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	325	-	325	-
Other financial assets at fair value through other comprehensive income					
Equities and shares	12	51,425	28,449	15,604	7,372
Investment funds	12	15,575	-	15,575	-
Derivative hedging instruments					
Non current derivative financial instruments	17	19,403	-	19,403	-
Current derivative financial instruments	17	3,424	-	3,424	-
TOTAL ASSETS		**90,152**	**28,449**	**54,331**	**7,372**
FINANCIAL LIABILITIES					
Financial liabilities at fair value through profit or loss					
Current derivative financial instruments	17	(44)	-	(44)	-
Derivative hedging instruments					
Non current derivative financial instruments	17	(5,248)	-	(5,248)	-
Current derivative financial instruments	17	(10,565)	-	(10,565)	-
TOTAL LIABILITIES		**(15,857)**	**-**	**(15,857)**	**-**

At December 31, 2017, the breakdown was as follows:

(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)**	**-**

The following table shows the changes of financial assets that occurred in level 3:

(in thousands of euro)	12/31/2018	12/31/2017
Opening balance	**10,210**	**7,248**
Increases	-	781
Decreases	(2,857)	-
Reclassification	-	-
Transfer from level 2 to level 3	-	2,730
Impairment	-	(912)
Fair value adjustments through other comprehensive income	19	363
Closing balance	**7,372**	**10,210**

These financial assets mainly consist of the equity investment in Istituto Europeo di Oncologia (European Institute of Oncology) (Euro 6,961 thousand).

Decreases mainly refer to the liquidation of the investment in Emittenti Titoli S.p.A..

In the year ended December 31, 2018, there were no transfers from level 1 to level 2 and vice versa, nor from level 3 to other levels and vice versa.

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 financial assets at fair value through other comprehensive income.

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 IFRS 9:

(in thousands of euro)	**Note**	**12/31/2018**	**12/31/2017**
FINANCIAL ASSETS			
Financial assets at fair value through profit or loss			
Derivative financial instruments	17	325	-
Financial assets at amortized cost			
Other non-current receivables	13	600,544	14,820
Current trade receivabels	14	35,366	52,045
Other current receivables	13	1,548,690	45,164
Cash	15	101,764	1,749
Available-for-sale financial assets			
Other financial assets	12	-	224,593
Financial assets at fair value through other comprehensive income	12	67,000	-
Derivative hedging instruments			
Current derivative financial instruments	17	3,424	95
Non current derivative financial instruments	17	19,403	-
Total financial assets		**2,376,516**	**338,466**
FINANCIAL LIABILITIES			
Financial liabilities at fair value through profit or loss			
Derivative financial instruments	17	44	146
Financial liabilities at amortized cost			
Non-current borrowings from banks and other financial institutions	19	3,921,509	2,331,647
Current borrowings from banks and other financial institutions	19	222,504	16,856
Current trade payables	22	19,380	29,694
Other non-current payables	23	212	212
Other current payables	23	48,351	75,213
Derivative hedging instruments			
Current derivative financial instruments	17	5,248	-
Non current derivative financial instruments	17	10,565	29,716
Total financial liabilities		**4,227,813**	**2,483,484**

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 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 asset with an indefinite useful life)

The Pirelli Brand is intangible fixed asset with an indefinite useful life are 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, 2018 was performed using the assistance of an independent third-party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2018 was 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).

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 emerged.

Investments in subsidiaries

Investments are assessed to establish whether there was a decrease in value, if there are indications that it will be difficult to recover their net accounting value 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 fiscal liabilities related to indirect tax, 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. PROPERTY, PLANT AND EQUIPMENT

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, 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	-	-	-	-	1	-	1
Decreases	(2,437)	(53)	-	-	-	-	(2,490)
Reclassification	-	-	-	-	-	-	-
Depreciation	-	(1,708)	(208)	(3)	(300)	-	(2,219)
At 31 December 2018	**6,584**	**25,535**	**453**	**9**	**4,046**	**-**	**36,627**
Of which							
- Historical cost	6,584	48,974	3,628	942	14,430	-	74,558
- Accumulated depreciation	-	(23,439)	(3,175)	(933)	(10,384)	-	(37,931)
Net value as of December 31, 2018	**6,584**	**25,535**	**453**	**9**	**4,046**	**-**	**36,627**

No investments were made in 2018.

The decreases for the year refer to the sale of a piece of land in Milan, against which a gain of Euro 563 thousand was realised.

The total of the future minimum payments due for non-cancellable operating leases amount to Euro 47,796 thousand, of which:

- Euro 3,465 thousand within one year;
- Euro 31,049 thousand between one and five years;
- Euro 13,200 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 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**
Increases	-	224	1,081	-	1,305
Decreases	-	-	-	-	-
Reclassification	-	-	156	(156)	-
Amortisation	-	(393)	(1,370)	-	(1,763)
At 31 December 2018	**2,270,000**	**833**	**2,831**	**-**	**2,273,664**

The item Trademark refers to the value of the Pirelli Brand (asset with indefinite useful life) for Euro 2,270,000 thousand, which originated following the allocation of the merger deficit, generated as a result of 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 valuation of the useful life of the brands is based on a series of factors including the competitive environment, market share, history of the brand, life cycles of the underlying product, operational plans and macroeconomic environment of the countries in which the related products are sold. In particular, the useful life of the Pirelli Brand was assessed as indefinite based on its history of over one hundred years of success (created in 1872) and the intention and ability of the Group to continue investing to support and maintain the brand.

The increases in the year mainly include charges for the purchase of software applications (Euro 746 thousand), licenses (Euro 224 thousand), systems for personnel management (Euro 256 thousand) and treasury (Euro 79 thousand).

No impairment was carried out during the 2018 financial year.

The impairment testing of the Pirelli Brand (intangible fixed asset with an 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 an impairment.

The impairment test as at December 31, 2018 was carried out with the assistance of an independent third party professional.

The configuration for the recoverable amount for the purposes of impairment testing at December 31, 2018 was 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 2019-2020 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 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 5.01%. With reference to the contribution in terms of royalties from the Prometeon Tyre Group, the royalty rates used were those provided for by

the license agreement subject to the reshaping of the contract as approved by the Board of Directors on February 14, 2019;

- a discount rate of 8.38%, 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 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 downward 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 upward change in the discount rate of150 basis points;
- a downward change in the g growth rate of 150 basis points.

10. INVESTMENTS IN SUBSIDIARIES

At December 31, 2018, this item amounted to Euro 4,568,324 thousand (Euro 4,568,309 thousand at December 31, 2017) and the breakdown is as follows:

(in thousands of euro)	**12/31/2018**	**12/31/2017**
HB Servizi S.r.l.	230	230
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.	4,523,887	4,521,792
Pirelli UK Ltd.	21,871	21,871
Servizi Aziendali Pirelli S.C.p.A.	101	101
Pirelli International Treasury S.p.A.	15	-
Total investments in subsidiaries	**4,568,324**	**4,568,309**

Below are the changes during the year:

(in thousands of euro)	**12/31/2018**	**12/31/2017**
Opening balance	**4,568,309**	**4,930,701**
Increases	15	9,707
Impairment	-	(2,262)
Decreases	-	(364,360)
Reclassification from provision for risks and charges	-	(5,477)
Closing balance	**4,568,324**	**4,568,309**

The increases refer for Euro 15 thousand to the subscription of 30 percent of the share capital of Pirelli International Treasury S.p.A., established on October 25, 2018; the residual 70 per cent was subscripted by the subsidiary Pirelli Tyre S.p.A..

In April 2018 the Company Pirelli & C. Ambiente S.r.l. was merged by incorporation into the subsidiary Pirelli Tyre S.p.A..

The company checks the recognised 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 associated companies For investments in subsidiaries, no impairment indicators were identified and therefore no impairment tests were necessary.

Further details are set out in the Annexes to the explanatory notes.

11. INVESTMENTS IN ASSOCIATES

At December 31, 2018, this item amounted to Euro 6,375 thousand (Euro 10,204 thousand at December 31, 2017) and the breakdown is as follows:

(in thousands of euro)	**12/31/2018**	**12/31/2017**
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
Focus Investments S.p.A.	-	1,352
Total investment in associates	**6,375**	**10,204**

The breakdown of changes is indicated below:

(in thousands of euro)	**12/31/2018**	**12/31/2017**
Opening balance	**10,204**	**33,078**
Increases	-	-
Decreases	(249)	(13,655)
Impairment	(3,580)	(9,219)
Closing balance	**6,375**	**10,204**

The write-downs refer:

- for Euro 2,229 thousand to the investment in Fenice S.r.l. which, following the sale of the investment of Prelios S.p.A. on December 28, 2017 to Lavaredo S.p.A., a newly established joint-stock company designated by the Burlington fund counterparty in the transaction was placed in liquidation; the liquidation was concluded in July 2018 with the distribution of as resulting from the allocation plan of Euro 249 thousand;

- for Euro 1,351 thousand to the investment in Focus Investments S.p.A. attributable to the adjustment of the carrying amount to the fair value, including the liquidation preference.

Further details are set out in the Annexes to the explanatory notes.

12. OTHER FINANCIAL ASSETS – OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – OTHER FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS – NON CURRENT PORTION

Other financial assets

Following the entry into force on January 1, 2018 of IFRS 9, other financial assets, consisting of financial assets available for sale and equal to Euro 224,593 thousand at December 31, 2017, have been designated as financial assets at fair value recorded in the other components of the comprehensive income statement (FVOCI) for Euro 75,566 thousand and as financial assets for which fair value changes are through profit or loss (FVPL) for Euro 149,027 thousand.

(in thousand of euro)	
Total financial assets at fair value (IAS 39) at 12/31/2017	**224,593**
Reclassification to other financial assets at fair value through other comprehensive income	(75,566)
Reclassification to other financial assets at fair value through income statement	(149,027)
Total financial assets at fair value (IFRS 9) at 01/01/2018	**-**

Other financial assets at fair value through other comprehensive income (FVOCI)

Other financial assets at fair value recorded in the other components of the comprehensive income statement amount to Euro 67,000 thousand at December 31, 2018.

The breakdown of the item for each security is as follows:

(in thousands of euro)	**12/31/2018**	**01/01/2018**
Listed securities		
RCS Mediagroup S.p.A. - Milano	28,449	30,177
Unlisted securities		
Fin. Priv Srl	15,604	19,908
Fondo Comune di Investimento Immobiliare Anastasia	15,575	15,270
Istituto Europeo di Oncologia S.r.l.	6,961	6,599
Emittenti Titoli S.p.A.	-	2,748
Other companies	411	864
Total financial assets at fair value through OCI	**67,000**	**75,566**

The changes in the year are shown below.

(in thousand of euro)	
Other financial assets at fair value in through other components of comprehensive income (FVOCI) at 1/01/2018	**75,566**
Decreases	(2,863)
Adjustment to fair value recognized in other components of comprehensive income	(5,703)
Total	**67,000**

Decreases mainly refer to the liquidation of the investment in Emittenti Titoli S.p.A.

The **fair value adjustments in other components of the comprehensive income statement** mainly refer to the investment in Fin.Priv. S.r.l. (negative for Euro 4,305 thousand), in RCS Mediagroup S.p.A. (negative for Euro 1,729 thousand), in Genextra (negative for 442 thousand), in Fondo Comune di investimento Anastasia (positive for Euro 305 thousand) and in Istituto Europeo di Oncologia (positive for Euro 362 thousand).

For listed securities, the fair value corresponds to the Stock Exchange listing at December 31, 2018. 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.

Other financial assets at fair value through profit or loss (FVPL) – Non current portion

The changes in the fair value of other financial assets at fair value recorded in the income statement in the year are shown below:

(in thousand of euro)	
Other financial assets at fair value through other comprehensive income (IFRS 9) at 01/01/2018	**149,027**
Fair value through income statement	3,780
Disposal	(152,807)
Total	**-**

The initial value of other non-current financial assets at fair value recorded in the income statement refers to the investment in Mediobanca S.p.A. sold in January 2018.

13. OTHER RECEIVABLES

The breakdown of other receivables is as follows:

(in thousands of euro)		12/31/2018			12/31/2017	
	Total	Non-current	Current	Total	Non-current	Current
Other receivables from subsidiaries	3,921	-	3,921	2,040	-	2,040
Financial receivables from subsidiaries	2,112,705	600,000	1,512,705	8,793	-	8,793
Guarantee deposits	221	221	-	712	712	-
Other receivables from third parties	2,221	323	1,898	18,604	14,108	4,496
Receivables from tax authorities for taxes not related to income	21,976	-	21,976	26,224	-	26,224
Financial accrued interest income	7,415	-	7,415	3,122	-	3,122
Financial prepaid expenses	776	-	776	489	-	489
Total other receivables	**2,149,235**	**600,544**	**1,548,691**	**59,984**	**14,820**	**45,164**

Financial receivables from subsidiaries mainly include the loan granted to Pirelli Tyre S.p.A. for a total amount of Euro 1,540 million, of which a current portion of Euro 940 million and a non-current portion of Euro 600 million, entered into on January 31, 2018 and maturing on January 31, 2020 and the receivable for interest accrued and not yet paid for Euro 4,329 thousand.

Financial receivables also include receivables with Pirelli International Plc related to the interest-bearing current account, settled at market rates, for Euro 561,399 thousand (at December 31, 2017 equal to Euro 4,082 thousand) and related to the charge-back of guarantee commissions for Euro 3,259 thousand.

For the purpose of applying the IFRS 9 accounting standard for intercompany loans, the analysis carried out take into account qualitative, quantitative, historical and prospective information, to determine the credit risk of an intragroup loan as of 31 December 2018. As a consequence, using a probability of default of an investment grade loan, the company management has concluded that any write-down required by the standard would be not-material.

Receivables from the tax authorities for taxes not related to income for Euro 21,976 thousand mainly refer to receivables for VAT.

Accrued financial assets 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.

Deferred financial assets 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 35,366 thousand compared to Euro 52,045 thousand of the previous year and the breakdown is as follows:

(in thousands of euro)	**12/31/2018**	**12/31/2017**
Receivables from subsidiaries	32,229	42,159
Receivables from associates	3	3
Receivables from other companies	6,105	14,088
Total receivables - gross amount	**38,336**	**56,250**
Provision for bad debt	(2,970)	(4,205)
Total receivables	**35,366**	**52,045**

Below is the breakdown of trade receivables based on the currency in which they are expressed:

(in thousands of euro)	**12/31/2018**	**% of total trade receivables**	**12/31/2017**	**% of total trade receivables**
EUR	34,180	89%	48,139	86%
USD (Dollar USA)	2,083	6%	2,381	4%
RUB (Ruble Russia)	2,039	4%	5,699	10%
Other currencies	33	-	31	-
Total	**38,336**		**56,250**	

Receivables from subsidiaries at December 31, 2018 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 6,105 thousand (Euro 14,088 thousand at December 31, 2017), shown gross of the bad debt provision of Euro 2,970 thousand, are past due for Euro 2,119 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)	**12/31/2018**	**12/31/2017**
Opening balance	**4,205**	**4,059**
Accruals	2,962	275
Utilisations/reversals	(4,197)	(129)
Closing balance	**2,970**	**4,205**

Accruals to the provision for bad debts are recognised in the Income Statement as “Impairment of financial assets” (Note 32).

For trade receivables, the carrying amount is considered to approximate the applicable fair value.

15. CASH AND CASH EQUIVALENTS

At December 31, 2018, they amount to Euro 101,764 thousand, against Euro 1,749 thousand at December 31, 2017 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, 2018, they amount to Euro 49,746 thousand (Euro 110,632 thousand at December 31, 2017).

The amount mainly includes:

- receivables from Group companies participating in the tax consolidation for Euro 48,489 thousand (Euro 104,054 thousand at December 31, 2017). The decrease compared to the previous year substantially depends on the lower contribution of the positive taxable result by the subsidiary Pirelli Tyre S.p.A., deriving from the Patent Box benefit;
- 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)	12/31/2018				12/31/2017			
	Non Current Assets	**Current Assets**	**Non Current Liabilities**	**Current Liabilities**	**Non Current Assets**	**Current Assets**	**Non Current Liabilities**	**Current Liabilities**
Without adoption of hedge accounting								
Forex instruments - trade positions	-	325	-	(44)	-	95	-	(146)
In hedge accounting								
- cash flow hedge:								
Derivatives for interest rate	-	-	(2,824)	-	-	-	-	-
Other derivatives instruments	19,403	3,424	(7,741)	(5,248)	-	-	(29,716)	-
Total derivative instruments	**19,403**	**3,749**	**(10,565)**	**(5,292)**	**-**	**95**	**(29,716)**	**(146)**

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 **exchange rate 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 **derivatives on interest rates**, recorded as non-current liabilities for Euro 2,824 thousand, refers to the fair value measurement of 4 interest rate swaps forward start contracts with a notional of Euro 550 million and that exchange fixed rate against variable EURIBOR to hedge both future transactions and liabilities already recognised in the financial statements.

Instrument	Underlying item	Notional (in thousands of euro)	Start date	Deadline	
IRS forward start	Forecast transaction	250,000	Jun-19	Jun-22	receive fix / pay floating
IRS forward start	Term loan	100,000	Oct-19	Jun-22	receive fix / pay floating
IRS forward start	Schuldschein	180,000	Jul-20	Jul-23	receive fix / pay floating
IRS forward start	Schuldschein	20,000	Jul-20	Jul-25	receive fix / pay floating
Total		**550,000**			

The change in fair value of IRS for the period, negative for Euro 2,824 thousand, was entirely suspended in equity for Euro 2,810 thousand.

A +0.5% change in the EURIBOR curve, other things being equal, would result in a positive change of Euro 8,152 thousand in the Group's shareholders' equity, while a -0.5% change in the same curve would result in a negative change of Euro 8,527 thousand in the Group's shareholders' equity.

The value of **other derivatives**, recognised as non-current assets for Euro 19,403 thousand, current asset for Euro 3,424 thousand, non-current liabilities for Euro 7,741 thousand and current liabilities for 5,248 thousand, refers to the fair value measurement of 6 cross currency interest rate swaps with the following characteristics:

Instrument	Notional (in thousands of USD)	Start date	Deadline	Description
CCIRS	170,422	July 2017	July 2019	pay floating EURIBOR / receive floating LIBOR
CCIRS	284,037	July 2017	June 2020	pay floating EURIBOR / receive floating LIBOR
CCIRS	681,690	July 2017	June 2022	pay floating EURIBOR / receive floating LIBOR
CCIRS	908,920	November 2018	July 2019	pay floating EURIBOR / receive floating LIBOR
	2,045,069			
CCIRS forward start	170,422	July 2019	June 2022	pay fix EURIBOR / receive floating LIBOR
CCIRS forward start	908,920	July 2019	June 2022	pay fix EURIBOR / receive floating LIBOR
	1,079,342			

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 2,045,069 thousand, equivalent to Euro 1,786,072 thousand (see note 19 Payables to banks and other lenders).

The positive change in fair value for the period was suspended in equity for Euro 68,220 thousand (cash flow hedge reserve for Euro 57,739 thousand and cost of hedging reserve for Euro 10,482 thousand), while Euro 39,973 thousand was reversed to the income statement in the item "net profits on derivatives" (Note 34 "Financial income") to offset unrealised exchange rate losses recorded on liabilities hedged and Euro 28,523 thousand was instead reversed in the item "Financial expenses" (Note 35) correcting the financial expenses recorded on the liability hedged.

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 12,412 thousand and a negative net impact of Euro 12,730 thousand on the shareholders' equity of the Company.

Hedging relationships relating to IRS and CCIRS are considered effective prospectively as the following conditions are met:

- there is an economic relationship between the hedging instrument and the hedged item, as the characteristics of the hedging instrument (nominal interest rate, reset of the interest rate and frequency of the payment of interest) are substantially in line with those of the hedged item. As a consequence, changes in the fair value of the hedging instrument regularly offset those of the hedged item;

- the effect of credit risk is not predominant within the hedging relationship: based on the Group's operating rules, derivatives are traded only with high standing banking counterparties and the credit quality of the existing derivatives portfolio is constantly monitored;

- the designated hedge ratio is in line with the one used for financial risk management and is 100% (1:1).

The ineffectiveness of the hedging relationship is calculated at each reporting date with the Dollar Offset method, which provides for the comparison of changes in the fair value risk adjusted of the hedging instrument (with the exception of those attributable to the spread referring to the currency basis) with changes in the fair value risk free of the hedged item, through the identification of a hypothetical derivative with the same characteristics of the underlying financial liability.

Possible causes of ineffectiveness are as follows:

- application of adjustment for credit risk only to the hedging instrument but not to the hedged item;
- the hedged item incorporates a floor that is not reflected in the hedging instrument;
- misalignment between the actual contractual conditions of the future transaction and those of the hedging instrument.

At December 31, 2018, no ineffectiveness was recognised with reference to the aforementioned hedging relationships.

18. SHAREHOLDERS’ EQUITY

Equity amounts to Euro 4,492,675 thousand (Euro 4,238,372 thousand at December 31, 2017).

The statement of changes in equity is shown in the main financial statements.

Equity went from Euro 4,238,372 thousand at December 31, 2017 to Euro 4,492,675 thousand at December 31, 2018. The positive change is essentially due to the net result for the year (positive for Euro 262,362 thousand), offset by the adjustment to the fair value of derivatives designated as cash flow hedges (negative for 3,084 thousand) and to the adjustment to the fair value of financial assets at fair value recognised as other components of the comprehensive income statement (negative for Euro 5,709 thousand).

Share capital

The share capital at December 31, 2018, fully subscribed and paid-in, amounts to Euro 1,904,374,935.66 divided into 1,000,000,000 ordinary shares without nominal value and unchanged compared to December 31, 2017.

Legal reserve

At December 31, 2018, the legal reserve amounted to Euro 380,875 thousand, unchanged compared to December 31, 2017.

Share premium reserve

At December 31, 2018, the share premium reserve amounted to Euro 630,381 thousand and unchanged compared to December 31, 2017.

Concentration reserve

At December 31, 2018, the concentration reserve amounted to Euro 12,467 thousand and unchanged compared to December 31, 2017.

Other reserves

At December 31, 2018, other reserves amounted to Euro 92,535 thousand and unchanged compared to December 31, 2017.

IAS reserve

At December 31, 2018, the IAS reserves amounted to Euro 5,241 thousand and refer to the reserve for the fair value adjustment recognised in the comprehensive income statement (positive for Euro 10,972 thousand), to the actuarial gains/losses reserve (positive for Euro 2,020 thousand), the cash flow hedge reserve and the cost of hedging reserve, net of the tax effect (negative for Euro 7,751 thousand).

Merger reserve

At December 31, 2018, the merger reserve amounted to Euro 1,022,928 thousand, unchanged compared to December 31, 2017. The reserve was generated following the merger by incorporation of Marco Polo International Holding S.p.A. in Pirelli & C. S.p.A. in 2016.

Retained earnings

The reserve from results carried forward amounts to Euro 181,512 thousand compared to a zero value at December 31, 2017. The increase is mainly attributable to the result for the previous year for Euro 170,851 thousand, which has been carried forward and to the classification to retained earnings for Euro 10,554 thousand of the fair value adjustment reserve for available for sale financial assets at December 31, 2017, for investments for which the changes in fair value are recognised in the income statement.

In accordance with the provisions of article 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	5,241	-	-	-
- Merger Reserve	1,022,928	A, B, C	1,022,928	175,912
Retained earnings	181,512	A, B, C	181,512	188,439
Total	**4,230,314**		**2,320,698**	**364,351**
Non distributable			473,410	
Residual quota available			**1,847,288**	

A to increase the share capital
B to cover losses
C to distribute to the shareholders

19. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTION

The breakdown of the item borrowings from banks and other financial institutions is as follows:

(in thousands of euro)	**Total**	**Not currents**	**Currents**	**Total**	**Not currents**	**Currents**
Bonds	1,269,514	1,269,514	-	-	-	-
Borrowings from banks	2,851,995	2,651,995	200,000	2,331,086	2,331,086	-
Other financial payables	2,949	-	2,949	12,021	561	11,460
Accrued liabilities	19,555	-	19,555	5,396	-	5,396
Current borrowings from banks & other financial Institution	**4,144,013**	**3,921,509**	**222,504**	**2,348,503**	**2,331,647**	**16,856**

The item **bonds** refers to:

- unrated public bonds, for a total nominal amount of Euro 753 million of which Euro 553 million (originally Euro 600 million partially repurchased for a total amount of Euro 47 million during the last quarter of the year) placed on January 22, 2018 with a fixed coupon of 1.375% and with an original maturity of 5 years and a second security issued on March 15, 2018 for a nominal amount of Euro 200 million at variable rate with an original maturity of 2.5 years. Both loans, placed with international institutional investors, were issued under the EMTN program approved by the Board of Directors at the end of 2017, entered into on January 10, 2018 and updated on December 19, 2018.

- "Schuldschein" loan at variable rate entered into for a total of Euro 525 million on July 26, 2018. The loan, guaranteed by Pirelli Tyre S.p.A. and entered into by leading market operators, consists of a tranche of Euro 82 million with maturity in 3 years, a tranche of Euro 423 million with maturity in 5 years and a tranche of Euro 20 million with maturity in 7 years.

The carrying amount of the item bonds was determined as follows:

(In thousands of euro)	**12/31/2018**
Nominal value	1,278,000
Transaction costs	(7,683)
Bond discount	(2,988)
Amortisation of effective interest rate	2,185
Total	**1,269,514**

Borrowings from banks mainly refers to:

- use of the unsecured loan ("Facilities") granted to Pirelli & C. S.p.A. and Pirelli International Plc for Euro 2,651,994 thousand. The contractual amount of the refinancing operation, signed on June 27, 2017 (with closing on June 29, 2017), is equal to Euro 3.4 billion (net of reimbursements made from the signing date – original amount of lines granted equal to Euro 4.2 billion). The loan was repriced in January 2018 with the recognition of a benefit in the income statement related to the debt remeasurement (see Note 35 "Financial expenses"). The loan had an original maturity of three and five years and is entirely classified as non-current payables to banks. On November 29, 2018, the loan was modified to include the right of the Pirelli Group to extend the maturity of the individual lines of the loan up to 2 years at its discretion with respect to their original contractual maturity of 3 and 5 years. Lastly, it is noted that also on November 29, 2018 was the conclusion of the transfer to Pirelli & C. S.p.A. of all the lines of the loan granted to Pirelli International Plc and therefore at December 31, 2018, the entire financing line is held by the Parent Company;

- Euro 200,000 thousand relating to the loan granted by Intesa Sanpaolo to Pirelli & C. S.p.A. at a fixed rate and maturing in January 2019, classified as current payables to banks. It should be noted that in July 2018, the maturity of the loan was extended until July 19, 2019.

The item **other financial payables** includes the payable to shareholders for Euro 2,460 thousand following the squeeze out operation. The decrease compared to the previous year is due to the closure of the payable of Euro 9,000 thousand to the subsidiary Pirelli International Plc.

The item **accrued liabilities** essentially refers to interest that has accrued on the term loans but has not yet been paid (Euro 10,144 thousand) and to interest accrued on bonds for Euro 9,269 thousand.

Below are the changes in payables to banks:

(In thousands of euro)	
Borrowings from banks at December 31, 2017	**2,331,086**
Reimbursements of *secured* loan (*Senior Facilities*)	(700,000)
Transfer of loan from Pirelli International Plc	986,965
Additional financing from Intesa	200,000
Amortisation of bank/financial expenses (including repricing)	(6,590)
Translation differences	40,533
Borrowings from banks at December 31, 2018	**2,851,994**

Below is the change in total borrowing from banks for to the previous year:

(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
Translation differences	(113,281)
Borrowings from banks at December 31, 2017	**2,331,086**

For current financial payables, it is maintained that the book value is approximately the fair value. The table below compares the fair value of non-current financial payables with their book value:

(in thousands of euro)	12/31/2018		12/31/2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,269,514	1,252,468	-	-
Borrowings from banks	2,651,995	2,686,087	2,331,086	2,364,230
Other financial payables	-	-	561	561
Total borrowings from banks and other financial institutions - non current	**3,921,509**	**3,938,555**	**2,331,647**	**2,364,791**

The unrated public bonds issued by Pirelli & C. S.p.A. are listed on an active market and the related fair value was measured with reference to its prices at the end of the year. Therefore, it is classified in level 1 of the hierarchy required by IFRS 13 – Fair Value Measurement. The fair value of the "Schuldschein" loan and payables to banks was calculated by discounting each debtor cash flow expected at the market swap rate for the currency and at the reference maturity date, increased by the Group credit rating for similar debt instruments by nature and technical characteristics and is therefore classified as level 2 in the hierarchy required by IFRS 13 – Fair Value Measurement.

The distribution of payables to banks and other lenders by currency of origin of the payable at December 31, 2018 and December 31, 2017 is as follows:

(in thousands of euro)	**12/31/2018**	**12/31/2017**
EUR	2,368,434	1,403,382
USD (Dollar USA)	1,775,578	945,121
Total	**4,144,012**	**2,348,503**

At December 31, 2018, 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 main bank financing of the Group ("Facilities") granted to Pirelli & C. S.p.A. and Pirelli International Plc (currently entirely held by the Parent Company) and the "Schuldschein" loan require 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.

As part of the bank financing, failure to comply with the financial covenant is identified as an event of default which, if exercised according to the contract terms by a number of lending banks representing at least 66 2/3% percent of the total commitment, would 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, 2018.

Also in the case of the Schuldschein loan, failure to comply with the financial covenant is identified as an event of default. However, unlike as occurs in the case of the bank financing, qualified majorities are not required for the early repayment request as each lender may proceed independently for the relative portion.

The Facilities and the "Schuldschein" loan envisage 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 at December 31, 2018 do not contain financial covenants.

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, 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**	**12/31/2018**	*of which related parties (note 38)*	**12/31/2017**	*of which related parties (note 38)*
Current borrowings from banks and other financial institutions	**19**	222,504	*7*	16,856	*9,001*
Non-current borrowings from banks and other financial institutions	**19**	3,921,509	-	2,331,647	-
Current derivative financial instruments (liabilities)	**17**	5,248	*5,248*	29,716	*29,716*
Non-current derivative financial instruments (liabilities)	**17**	10,252	*10,252*	-	-
Total gross debt		**4,159,513**		**2,378,219**	
Cash and cash equivalents	**15**	(101,764)	-	(1,749)	-
Current financial receivables and other assets	**13**	(1,520,896)	*(1,520,120)*	(12,404)	*(11,915)*
Derivative financial instruments - assets	**17**	*(3,424)*	*(3,424)*	-	-
Net financial debt *		**2,533,429**		**2,364,066**	
Non-current financial receivables and other assets	**13**	(600,221)	*(600,000)*	(712)	-
Derivative financial instruments	**17**	*(19,403)*	*(19,403)*	-	-
Total net financial (liquidity)/debt position		**1,913,805**		**2,363,354**	

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

20. PROVISIONS FOR LIABILITIES AND CHARGES

The following is a detail of changes of the item in question:

(in thousands of euro)	**12/31/2018**			**12/31/2017**		
	Total	**Non-current**	**Current**	**Totale**	**Non correnti**	**Correnti**
Opening balance	**45,678**	**45,678**	**-**	**51,427**	**45,950**	**5,477**
Increases	5,000	3,497	1,503	3,656	3,656	-
Reversals	(4,082)	(4,082)	-	(530)	(530)	-
Uses	(4,562)	(4,562)	-	(8,875)	(3,398)	(5,477)
Reclassification	312	-	312	-	-	-
Total provision for liabilities and charges	**42,346**	**40,531**	**1,815**	**45,678**	**45,678**	**-**

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 following the acquisition of the Pirelli Group by Marco Polo Industrial Holding S.p.A. and the subsequent reverse merger in Pirelli & C. S.p.A.; they refer to the decision taken by the European Commission – and subsequently confirmed by the sentence of the Tribunal of the European Union of July 12, 2018 – at the conclusion of the antitrust investigation initiated with respect to the business of energy cables, which provides for a fine for Prysmian Cavi e Sistemi S.r.l. (“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 amount set aside corresponds to the amount of the first demand bank guarantee issued by Pirelli - similar to as was carried out by Prysmian - for the benefit of the Commission (and at the request of the latter) for an amount equal to 50% of the aforementioned Euro 67 million.

The **non-current portion** also mainly includes provisions for labour disputes (Euro 3,586 thousand), reclamation of abandoned areas (Euro 1,922 thousand) and legal and tax disputes (Euro 1,523 thousand).

Increases mainly refer to provisions for environmental reclamation and labour disputes.

Uses are mainly attributable to the closure of pending disputes relating to occupational diseases and reclamation of abandoned areas.

Reversals of excess funds are mainly related to the adjustment of provisions for tax risks.

21. EMPLOYEE BENEFIT OBLIGATIONS

Personnel provisions amount to Euro 4,175 thousand (Euro 2,072 thousand at December 31, 2017). This item includes provision for severance pay which amounts to Euro 1,077 thousand (Euro 1,385 thousand at December 31, 2017) and other employee benefits of Euro 3,098 thousand (Euro 687 thousand at December 31, 2017).

The increase compared to the previous year is attributable for Euro 1,964 thousand to the portion accrued at December 31, 2018 of the second instalment of the retention plan, assessed in accordance with the accounting standard IAS 19 – Employee Benefits – which will be liquidated in the first half of 2019. The plan was approved by the Board of Directors on February 26, 2018 and is intended for Key Managers and a selected number of Senior Managers and Executives whose contribution for the implementation of the Strategic Plan is considered particularly significant.

Personnel provisions also include the portion pertaining to the 2018-2020 three-year monetary incentive plan (LTI Plan) for Group management, approved by the Board of Directors on February 26, 2018. This incentive plan is monetary (cash settled), as it does not provide for the allocation of shares or options on shares or other securities but exclusively a cash incentive, partly linked to the performance of the ordinary share of Pirelli & C. S.p.A.

Employee severance indemnity (TFR)

The changes in the year 2018 for the employee severance indemnity are the following:

(in thousands of euro)	**12/31/2018**	**12/31/2017**
Opening balance	**1,385**	**1,248**
Movements through income statement	934	1,136
Actuarial (gains)/losses recognized in equity	8	17
Indemnities, advance payments, relocations, payment to funds	(1,250)	(1,016)
Total employees' leaving indemnities (TFR)	**1,077**	**1,385**

The amounts recognised in the income statement are included in the item “Personnel Costs” (note 29).

Net actuarial gains accrued in 2018, recognised directly in equity, amount to Euro 8 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, 2018 are as follows:

2018

Discount rate	1.5%
Inflation rate	1.5%

The principal actuarial assumptions used at December 31, 2017 were as follows:

2017

Discount rate	1.6%
Inflation rate	1.5%

Hired employees at December 31, 2018 amount to 151 units (141 units at December 31, 2017).

In other conditions being equal, a hypothetical change of 0.25% in the discount rate would result in a decrease in liabilities equal to 1.82%, in the case of an increase (1.78% at December 31, 2017), and an increase in liabilities of 1.83%, in the case of a decrease (1.84% at December 31, 2017).

22. TRADE PAYABLES

The breakdown of trade payables is as follows:

(in thousands of euro)	**12/31/2018**	**12/31/2017**
Payables to subsidiaries	2,392	4,755
Payables to associates	60	64
Payables to other companies	16,929	24,875
Total trade payables	**19,381**	**29,694**

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)	**12/31/2018**			**12/31/2017**		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Payables to subsidiaries	25,944	-	25,944	27,491	-	27,491
Payables to social security and welfare institution	1,905	-	1,905	3,067	-	3,067
Payables to employees	8,275	-	8,275	8,303	-	8,303
Other payables	9,088	211	8,877	35,377	211	35,166
Accrued liabilities	3,343	-	3,343	1,177	-	1,177
Deferred income	7	-	7	8	-	8
Total other payable	**48,562**	**211**	**48,351**	**75,423**	**211**	**75,212**

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 to employees refer to contributions for fees to be paid to employees.

The item Other payables includes payables for fees to be paid to directors and 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 deferred tax provision amounted to Euro 527,807 thousand at December 31, 2018 (Euro 554,828 thousand at December 31, 2017).

The breakdown of deferred tax provisions gross of the offsets made is as follows:

(in thousands of euro)	12/31/2018	12/31/2017
Deferred tax assets	**113,005**	**85,983**
- of which within 12 months	55,649	52,964
- of which over 12 months	57,356	33,019
Provision for deferred tax liabilities	**(640,811)**	**(640,811)**
- of which within 12 months	-	-
- of which over 12 months	(640,811)	(640,811)
Total	**(527,806)**	**(554,828)**

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)	12/31/2018	12/31/2017
Deferred tax assets		
Provision for risk and charges	1,897	2,103
Property, plant and equipment	65	422
Employees provision	864	189
Provision for bad debt	713	1,009
Tax losses carried forward	50,339	35,421
ACE Benefit	43,498	30,913
Interests	13,180	14,218
Derivatives	2,448	1,708
Total deferred tax assets	**113,005**	**85,983**
Provision for deferred tax liabilities		
Brand Pirelli	(633,330)	(633,330)
Exchange differences not realised	(7,481)	(7,481)
Total provision for deferred tax liabilities	**(640,811)**	**(640,811)**
Total	**(527,806)**	**(554,828)**

25. TAX PAYABLES

These amounted to Euro 16,436 thousand (Euro 18,636 thousand at December 31, 2017) 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 38,719 thousand for 2018 compared to Euro 42,084 thousand in 2017 and the breakdown is as follows:

(in thousands of euro)	2018	2017
Sales of services to subsidiaries	37,054	40,070
Sales of services to other companies	1,665	2,014
Total revenues from sales and services	**38,719**	**42,084**

Revenues from subsidiaries refer to services provided through Corporate functions.

27. OTHER INCOME

Other income amounts to Euro 112,179 thousand (Euro 105,778 thousand in 2017) and the breakdown is as follows:

(in thousands of euro)	**2018**	**2017**
Other income from subsidiaries	102,110	98,903
Other revenues from third parties	10,069	6,875
Other income from other companies	**112,179**	**105,778**

Other income from subsidiaries mainly include royalties paid by Group companies for the use of the brand (Euro 69,562 thousand in 2018 compared to Euro 71,897 thousand in 2017). They also include other revenues deriving from the charge-back of costs to Group companies and revenues for sub-leases and related accessory charges.

Other revenues from other companies mainly include royalties paid by other companies for the use of the Pirelli brand (Euro 1,409 thousand in 2018 compared to Euro 2,221 thousand in 2017) and the gain of Euro 575 thousand deriving from the sale of the land located in Milan.

28. RAW MATERIALS & CONSUMABLES USED

They amount to Euro 210 thousand in 2018 (Euro 183 thousand in 2017) and include purchases of advertising material, fuels and various materials.

29. PERSONNEL COSTS

Personnel costs amount to Euro 34,130 thousand (Euro 26,710 thousand in 2017) and the breakdown is as follows:

(in thousands of euro)	**2018**	**2017**
Wages and salaries	23,744	19,969
Social security and welfare contributions	4,982	5,129
Employee leaving indemnities (TFR)	973	1,027
Retirement and similar obbligations	241	232
Other costs	4,190	353
Total	**34,130**	**26,710**

The average staff headcount is the following:

- Executives 39

- Employees 109
- Workers 3

30. AMORTISATION, DEPRECIATION AND IMPAIRMENTS

The breakdown is as follows:

(In thousands of euro)	**2018**	**2017**
Amortisation - intangible assets	1,764	2,514
Depreciation - property, plant and equipment	2,220	2,386
Total depreciation, amortisation and impairments	**3,984**	**4,900**

31. OTHER COSTS

The breakdown of other costs is the following:

(in thousands of euro)	**2018**	**2017**
Services rendered by subsidiaries	10,840	16,032
Advertising	31,243	33,249
Consultancy and collaboration services	8,551	11,863
Accruals to provisions (net of reversals)	(786)	3,931
Legal and notarial expenses	671	4,434
Travel expenses	11,119	10,653
Remuneration of Directors and supervisory bodies	8,449	2,515
Membership fees and contributions	2,251	1,484
Rental and lease instalments	10,854	10,662
IT expenses	2,551	2,946
Energy, gas and water expenses	1,332	1,483
Security service	2,634	2,863
Insurance premiums	3,056	3,796
Patents and trademarks expenses	845	719
Cleaning and property ordinary maintenance expenses	689	1,381
Property maintenance	2,124	901
Bank charges for IPO	163	44,274
Other	8,458	13,874
Total other costs	**105,044**	**167,060**

Other costs include non-recurring costs for an amount of Euro 1,025 thousand and refer mainly to the queue of costs related to the listing project occurred in 2017. The reduction of other costs compared to 2017 is mainly attributable to advisors and fee costs related to the IPO incurred in 2017 for Euro 62,390 thousand.

32. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

The item, negative for Euro 1,930 thousand, mainly includes the net impairment of trade receivables.

At December 31, 2017, the net write-down of trade receivables amounted to Euro 275 thousand and was included in the item “Other costs” (Note 31).

33. NET INCOME(LOSS) FROM EQUITY INVESTMENTS

33.1. Gains on equity investments

They amount to Euro 4,007 thousand in 2018 (Euro 2,752 thousand in 2017) and the breakdown is as follows:

(In thousands of euro)	**2018**	**2017**
Capital gain on disposal of investment in Prelios S.p.A.	-	2,564
Fair value adjustment of investment in Mediobanca S.p.A.	3,780	-
Other gains on equity investments	227	188
Total	**4,007**	**2,752**

The item mainly refers to the positive impact of Euro 3,780 thousand related to the investment in Mediobanca S.p.A., classified as “Other financial assets at fair value through profit or loss” (Note 12) and sold on January 11, 2018.

33.2. Losses on equity investments

They amount to Euro 3,580 thousand (Euro 13,833 thousand in 2017) and the breakdown is as follows:

(In thousands of euro)	**2018**	**2017**
Impairment losses on equity investments in subsidiaries:		
- Pirelli & C. Ambiente S.r.l.	-	1,128
- Hb Servizi S.r.l.	-	1,134
Impairment losses on equity investments in associates:		
- Prelios S.p.A.	-	-
- Focus Investments S.p.A.	1,351	2,648
- Fenice S.r.l.	2,229	6,570
Impairment losses on other financial assets:		
- Alitalia S.p.A.- Compagnia Aerea Italiana S.p,A,	-	781
- Movincom Servizi S.p.A.	-	120
- Emittente Titoli S.p.A.	-	1,441
- Others	-	11
Total	**3,580**	**13,833**

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).

33.3 Dividends

They amount to Euro 284,517 thousand in 2018 compared to Euro 215,497 thousand in 2017and the breakdown is as follows:

(In thousands of euro)	**2018**	**2017**
From subsidiaries:		
- Pirelli Tyre S.p.A. - Italy	270,000	200,000
- Pirelli Group Reinsurance Company SA - Switzerland	5,025	-
- Pirelli Servizi Amministrazione e Tesoreria S.p.A. - Italia	500	-
- Pirelli Sistemi Informativi S.r.l. - Italy	5,800	300
From associates:		
- Fenice Srl - Italy	2,225	8,556
- International Media Holding S.p.A.- Italy	-	15
From other financial assets:		
- Mediobanca S.p.A. - Italy	-	5,829
- ECA Ltd - United the Kingdom	10	10
- Fin. Priv. S.r.l. - Italy	957	757
- Emittenti Titoli S.p.A. - Italy	-	30
Total	**284,517**	**215,497**

34. FINANCIAL INCOME

The breakdown is as follows:

(in thousands of euro)	**2018**	**2017**
Interests	15,419	1,686
Other financial income	5,108	4,744
Net gains on derivatives	40,292	-
Net gains on exchange rates	-	110,315
Total financial income	**60,819**	**116,745**

Interest mainly refers to interest accrued on loans granted in 2018 to the subsidiary Pirelli Tyre S.p.A.

The item **other financial income** mainly includes Euro 3,259 thousand of guarantee fees charged to other Group companies and Euro 1,828 thousand relating to the gain realised on the early partial repayment of the unrated bond completed on December 19, 2018 for a total amount of Euro 47 million.

Net profits on derivatives refer to forward purchases/sales of foreign currencies to hedge the financial payables in foreign 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 assessment includes two elements: the interest component linked to the interest rate spread between the currencies subject to the individual hedges, a net cost of Euro 365 thousand, and the exchange rate component, a net revenue of Euro 40,657 thousand.

Comparing net foreign exchange losses, equal to Euro 40,841 thousand, with the exchange rate component of net profits on derivatives (equal to Euro 40,657 thousand), the impact is almost nil.

35. FINANCIAL EXPENSES

The breakdown is as follows:

(in thousands of euro)	**2018**	**2017**
Interests	51,416	136,839
Commissions	1,228	1,147
Net interest on the personal provision	185	24
Net losses on exchange rates	40,841	-
Net losses on derivative financial instruments	-	102,108
Total financial expenses	**93,670**	**240,118**

Interest and other financial expenses for a total of Euro 51,416 thousand mainly include:

- Euro 56,760 thousand of financial expenses for the unsecured financing line (“Facilities”) granted to Pirelli & C. S.p.A. and Pirelli International Plc (as of November 29, 2018, held entirely by the Parent Company) entered into on June 27, 2017;

- Euro 12,585 thousand of financial expenses related to bonds, of which Euro 10,256 thousand related to unrated bonds and Euro 2,329 thousand related to the “Schuldschein” loan, both issued by Pirelli & C. S.p.A.;

- Euro 21,977 thousand of indemnity paid to Pirelli International Plc for costs incurred for early closing of the bond (from Euro 600 million, 1.75% coupon and original maturity in November 2019), which took place through the exercise of the so-called make-whole option.

The components above are partially offset by:

- Euro 28,523 thousand for net interest income on Cross Currency Interest Rate Swaps to adjust the flow of interest expense on the liability hedged.

- Euro 12,012 thousand of positive effect deriving from the repricing of the unsecured financing line (“Facilities”) in January 2018 and which entailed a re-measurement of the related debt.

At December 31, 2017, the item “interest and other financial expenses” included Euro 41,967 thousand of wash down of the fees not yet amortised relating to the bank loan, repaid in advance in June 2017.

Net exchange rate losses of Euro 40,841 thousand refer to the adjustment to the exchange rate at the end of the year 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 losses on items closed during the year.

Financial expenses include non-recurring events for a total negative impact of Euro 9,964 thousand, which include Euro 21,977 thousand related to the indemnity paid to Pirelli International Plc for costs incurred for early closing of the bond, net of gains for Euro 12,012 thousand (already net of the relative amortised portion) relating to the repricing of the unsecured bank line (“Facilities”) in January 2018.

36. TAXES

The breakdown of taxes is as follows:

(in thousands of euro)	**2018**	**2017**
Current taxes	21,608	(64,005)
Deferred taxes	(26,279)	(76,794)
Total income taxes	**(4,671)**	**(140,799)**

Current taxes for the year 2018 mainly include a negative effect of expenses deriving from tax consolidation relating to previous years (Euro 53,836 thousand), essentially due to the reduction in the taxable income of the subsidiary Pirelli Tyre thanks to the benefit deriving from the application of the Patent Box facilitated tax regime, offset by a positive effect mainly deriving from income from tax consolidation for the year 2018 (Euro 32,363 thousand).

Deferred tax assets include the recognition of deferred tax assets on previous tax losses, on the ACE benefit and excess non-deducted interest expense, which was partially used during the year.

The significant change in the tax burden compared to the previous year is mainly due to the recognition in 2017 of deferred tax assets on previous tax losses, excess non-deducted interest expense, ACE benefit and other temporary differences.

The table below shows the reconciliation of the effective tax rate with the theoretical rate of the Parent Company:

(in thousands of euro)	**2018**	**2017**
A) Profit/(loss) before taxes	257,691	30,052
B) Theoretical taxes	**61,846**	**7,212**
Main causes that give rise to changes between theoretical and effective taxes:		
Tax incentives	(3,482)	(7,864)
Dividends and gains from investments not subject to taxation	(65,571)	(49,897)
Non-deductible costs	2,209	19,837
Uses losses previous years not activated	-	(37,648)
Deferred tax assets on previous tax losses and other temporary differences	-	(80,552)
Taxes relating to previous years	327	8,112
C) Effective taxes	**(4,671)**	**(140,799)**
Theoretical tax rate (B/A)	24%	24%
Effective tax rate (C/A)	-1.8%	-468.5%

Tax consolidation

It shall be noted that starting from 2004, the Company exercised the option for consolidated taxation as consolidator, pursuant to article 117 and following of the TUIR, with regulation of relations arising from adhesion to consolidation through a special Regulation, which involves a common procedure for the application of laws and regulations.

Said regulation was updated in subsequent years as a result of amendments made within the companies participating in the agreement and the related shareholding structure, as well as in light of the corrective and supplementary interventions of the relevant legislation.

The above amendments particularly concerned the remuneration of the tax losses used by the companies adhering to 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.

37. 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 8,312 thousand in 2018 and net expenses of Euro 9,940 thousand in 2017.

(in thousands of euro)	**2018**	**2017**
Personnel costs:		
- Retention Plan	-	(1,691)
Other costs:		
- IPO costs	(841)	(62,390)
- Other	(184)	-
Impact on operating result	**(1,025)**	**(64,081)**
Financial expenses:		
- Refinancing impact June 2017 transaction costs	-	(41,967)
- indemnification to Pirelli Internation Plc against costs incurred for early repayment of the bond	(21,977)	-
- Impact of reprincing of unsecured debt ("Facilities")	12,012	-
Impact on result before taxes	**(10,990)**	**(106,048)**
Taxes:		
- Recognition of deferred tax assets on previous losses and other temporary differences	-	80,552
- Tax impact on operating result adjustments and financial expenses	2,678	15,556
Impact on net result	**(8,312)**	**(9,940)**

38. TRANSACTIONS WITH RELATED PARTIES

Transactions between Pirelli & C. S.p.A. and the subsidiaries mainly concern:

- services (technical, organisational, 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 statement below shows a summary of the Statement of Financial Position and the Income Statement that include transactions with related parties and their impact:

(in thousands of euro)	**12/31/2018**	***of which related parties***	**% share**	**12/31/2017**	***of which related parties***	**% share**
BALANCE SHEET						
Non current assets						
Other receivables	600,544	600,000	99.9%	-	-	0.0%
Derivative financial instruments	19,403	19,403	100%	-	-	0.0%
Current assets						
Trade receivables	35,366	*32,352*	91.5%	52,045	*43,722*	84.0%
Other receivables	1,548,691	*1,524,042*	98.4%	45,164	*13,973*	30.9%
Tax receivables	49,746	*48,490*	97.5%	110,632	*104,054*	94.1%
Derivative financial instruments	3,749	*3,749*	100%	95	*95*	100%
Non-current liabilities						
Derivative financial instruments	10,565	*10,565*	100%	29,716	*29,716*	100%
Current liabilities						
Payables to banks and other financial lenders	222,504	*7*	0.0%	16,856	*9,412*	55.8%
Trade payables	19,381	*2,987*	15.4%	29,694	*4,820*	16.2%
Other payables	48,351	*26,178*	54.1%	75,213	*27,491*	36.6%
Tax payables	16,436	*16,207*	98.6%	18,637	*18,408*	98.8%
Derivative financial instruments	5,292	*5,292*	100%	146	*146*	100%

(in thousands of euro)	**2018**	***of which related parties***	**% share**	**2017**	***of which related parties***	**% share**
INCOME STATEMENT						
Revenues from sales and services	38,719	*37,364*	96.5%	42,084	*41,349*	98.3%
Other income	112,179	*102,184*	91.1%	105,778	*99,323*	93.9%
Personnel expenses	(34,130)	*(2,186)*	0.0%	(26,710)	*(4,780)*	17.9%
Other costs	(105,044)	*(20,169)*	19.2%	(167,060)	*(18,618)*	11.1%
Income on equity investments	-	-	0.0%	2,752	*2,564*	93.2%
Losses on equity investments	(3,580)	*(3,580)*	100%	(13,833)	*(11,480)*	83.0%
Dividends	284,517	*283,549*	99.7%	215,496	*208,871*	96.9%
Financial income	60,819	*59,277*	97.5%	116,745	*10,681*	9.1%
Financial expenses	(93,670)	*(6,519)*	7.0%	(240,118)	*(103,275)*	43.0%

Transactions with related parties

The tables below shows the main equity transactions with related parties for the years ended December 31, 2018 and December 31, 2017.

(in thousands of euro)	**Subsidiaries**	**Associates**	**Other related parties**	**Total 31 December 2018**
Trade receivables	32,229	3	120	32,352
Other current receivables	1,524,042	-	-	1,524,042
Other non current receivables	600,000	-	-	600,000
Tax receivables	48,490	-	-	48,490
Derivative financial instruments (current assets)	3,749	-	-	3,749
Derivative financial instruments (non current assets)	19,403	-	-	19,403
Payables to banks and other lenders (current liabilities)	7	-	-	7
Trade payables	2,393	60	535	2,987
Other payables	25,944	-	234	26,178
Tax payables	16,207	-	-	16,207
Derivative financial instruments (current liabilities)	5,292	-	-	5,292
Derivative financial instruments (non-current liabilities)	10,565	-	-	10,565

(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

Trade receivables amounted to Euro 32,352 thousand (Euro 43,722 thousand at December 31, 2017) and mainly refer to receivables for services/provisions provided to Group companies (Euro 29,354 thousand from Pirelli Tyre S.p.A., Euro 2,163 thousand from Limited Liability Company Pirelli Tyre Russia, Euro 400 thousand from Pirelli Tyre Trading (Shanghai) Co. Ltd., Euro 163 thousand from Pirelli International Plc).

Other current receivables amounted to Euro 1,524,042 thousand (Euro 13,973 thousand at December 31, 2017) and mainly refer: for Euro 944,329 thousand to the loan granted to Pirelli Tyre S.p.A.; for Euro 561,400 thousand to the intra-group current account with Pirelli International Plc; for Euro 3,259 thousand to guarantee fees charged to Pirelli International Plc; for Euro 7,415 thousand to the interest accrual accrued on CCIRS stipulated with Pirelli International Plc; for Euro 3,310 thousand to VAT receivables transferred to the consolidation (Euro 2,695 thousand from Pirelli Industrie Pneumatici S.r.l., Euro 227 thousand from Pirelli Sistemi Informativi S.r.l., Euro 224 thousand from Pirelli Servizi Amministrazione e Tesoreria S.p.A., Euro 101 thousand from HB Servizi S.r.l., Euro 63 thousand from Servizi Aziendali Pirelli S.C.p.A.).

Other non-current receivables amount to Euro 600,000 thousand (zero amount at December 31, 2017) and refer to the loan granted to Pirelli Tyre S.p.A. with maturity January 31, 2020.

Tax receivables amounted to Euro 48,490 thousand (Euro 104,054 thousand at December 31, 2017) and refer to receivables from Group companies that adhere to tax consolidation (mainly Euro 46,102 thousand from Pirelli Tyre S.p.A., Euro 2,313 thousand from Pirelli Industrie Pneumatici S.r.l.)

Derivative financial instruments (current assets) for Euro 3,749 thousand (Euro 95 thousand at December 31, 2017) refer to hedging transactions with Pirelli International Plc. The most significant amount refers for Euro 3,424 thousand to the fair value measurement of the Cross Currency Interest Rate Swap.

Derivative financial instruments (non-current assets) for Euro 19,403 thousand (zero amount at December 31, 2017) refer to the hedging transaction of the Cross Currency Interest Rate Swap with Pirelli International Plc.

Payables to banks and other lenders (current) amounted to Euro 7 thousand (Euro 9,412 thousand at December 31, 2017) and refer to guarantee fees to Pirelli International Plc.

Trade payables amounted to Euro 2,987 thousand (Euro 4,820 thousand at December 31, 2017) and mainly refer to payables for the provision of services. The main ones are: Euro 1,525 thousand to HB Servizi S.r.l., Euro 617 thousand to Pirelli Tyre S.p.A.

The amount recorded under other related parties for Euro 535 thousand refers to the current relationship with TP Trading (Beijing) Co. Ltd.

Other payables amounted to Euro 26,178 thousand (Euro 27,491 thousand at December 31, 2017) and mainly refer to payables with Group companies that adhere to the VAT consolidation. The main ones are: Euro 25,128 thousand to Pirelli Tyre S.p.A., Euro 115 thousand to Driver Italia S.p.A.

Tax payables amounted to Euro 16,207 thousand (Euro 18,408 thousand at December 31, 2017) and refer to payables to subsidiaries that adhere to tax consolidation (Euro 16,126 thousand Pirelli Tyre S.p.A., Euro 81 thousand Driver Italia S.p.A.).

The amount of Euro 5,292 thousand (Euro 146 thousand at December 31, 2017) of **derivative financial instruments – current liabilities** refers to the hedging transaction with Pirelli International Plc and is mainly represented for Euro 5,248 thousand by the fair value measurement of the Cross Currency Interest Rate Swap.

The amount of Euro 10,565 thousand (Euro 29,716 thousand at December 31, 2017) of **derivative financial instruments (non-current liabilities)** refers to the fair value measurement of the Cross Currency Interest Rate Swap (Euro 7,741 thousand) and IRS (Euro 2,511 thousand) with Pirelli International Plc.

Transactions with related parties

The tables below show the main financial transactions with related parties for the years 2018 and 2017.

(in thousands of euro)	Subsidiaries	Associates	Other related parties	Total 2018
Revenues from sales and services	37,054	-	310	37,364
Other income	102,110	-	74	102,184
Personnel expenses	-	-	(2,186)	(2,186)
Other costs	(10,579)	(261)	(9,328)	(20,168)
Losses from investments	-	(3,580)	-	(3,580)
Dividends	281,325	2,224	-	283,549
Financial income	59,277	-	-	59,277
Financial expenses	(6,519)	-	-	(6,519)

(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)

Revenues from sales and services amounted to Euro 37,364 thousand in 2018 (Euro 41,349 thousand in 2017) and mainly refer to service contracts. The main transactions with subsidiaries are: Euro 36,139 thousand - Pirelli Tyre S.p.A., Euro 301 thousand - Pirelli Sistemi Informativi S.r.l., Euro 270 thousand - HB Servizi S.r.l.

Transactions with other related parties refer for Euro 310 thousand to the service/provisions contract with Prometeon Tyre Group S.r.l.

Other income of Euro 102,184 thousand in 2018 (Euro 99,323 thousand in 2078) mainly refers to: royalties (Euro 67,388 thousand with Pirelli Tyre S.p.A., Euro 2,164 thousand with Limited Liability Company Pirelli Tyre Russia); other recoveries (Euro 25,674 thousand from Pirelli Tyre S.p.A., Euro 548 thousand from Pirelli International Plc, Euro 237 thousand from Pirelli Sistemi Informativi S.r.l., Euro 78 thousand from Pirelli Servizi Amministrazione e Tesoreria S.p.A.); lease contracts (Euro 5,572 thousand with Pirelli Tyre S.p.A., Euro 231 thousand with Pirelli Servizi Amministrazione e Tesoreria S.p.A., Euro 170 thousand with Pirelli Sistemi Informativi S.r.l.).

The amount recorded under related parties for Euro 74 thousand mainly refers to service contracts with Camfin S.p.A. (Euro 30 thousand) and with Marco Tronchetti Provera & C. S.p.A. (Euro 25 thousand).

The item **labour costs** includes the emoluments related to key managers.

Other costs for Euro 20,169 thousand in 2018 (Euro 18,618 thousand in 2017) mainly refer to expenses for services and miscellaneous costs (Euro 5,000 thousand - HB Servizi S.r.l., Euro 3,178 thousand - Pirelli Sistemi Informativi S.r.l., Euro 1,082 thousand - Pirelli Servizi Amministrazione e Tesoreria S.p.A., Euro 559 thousand - Pirelli Tyre S.p.A., Euro 345 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 item other related parties includes transactions with TP Trading (Beijing) Co. Ltd. for Euro 1,099 thousand, and the remuneration of directors and key managers for Euro 8,229 thousand.

Losses from investments for Euro 3,580 thousand in 2018 (Euro 11,480 thousand in 2017) refer to the write-downs of the investments in Fenice S.r.l. for Euro 2,229 thousand and Focus Investments S.p.A. for Euro 1,351 thousand. For further details, reference is made to note 33.

Dividends for Euro 283,549 thousand in 2018 (Euro 208,871 thousand in 2017) refer to dividends collected during the year (Euro 270,000 thousand from Pirelli Tyre S.p.A., Euro 5,800 thousand from Pirelli Sistemi Informativi S.r.l., Euro 5,025 thousand from Pirelli Group Reinsurance Company SA and Euro 500 thousand from Pirelli Servizi Amministrazione and Tesoreria S.p.A.).

The amount recorded in the item associates mainly refers to the dividends distributed by Fenice S.r.l. (Euro 2,224 thousand).

Financial income for Euro 59,277 thousand in 2018 (Euro 10,681 thousand in 2017) refers for Euro 40,292 to net profits on derivatives made with Pirelli International Plc, Euro 3,259 thousand to the charge-back of fees to Pirelli International Plc and for Euro 15,406 thousand for interest income on loans to Pirelli Tyre S.p.A..

Financial expenses of Euro 6,519 thousand in 2018 (Euro 103,275 thousand in 2017) mainly refer to Euro 21,977 thousand for the indemnity paid to Pirelli International Plc for costs incurred for the early termination of the loan offset for Euro 28,523 thousands from net interest income on Cross Currency Interest Rate Swap.

Benefits for key managers

At December 31, 2018, remuneration payable to key managers amounted to Euro 10,415 thousand. The portion relating to employee benefits was recognised in the Income Statement item “personnel costs” for Euro 2,186 thousand and for Euro 8,229 thousand in the Income Statement item “other costs”.

39. OTHER INFORMATION

Remuneration of Directors and Statutory Auditors

The fees due to Directors of Pirelli & C. S.p.A. amounted to Euro 4,440 thousand in 2018 and Euro 2,133 thousand in 2017. The fees due to the Statutory Auditors for the function performed at Pirelli & C. S.p.A. amounted to Euro 275 thousand in 2018 (Euro 296 thousand in 2017).

Auditors' fees

Pursuant to applicable regulation, the following table shows the fees pertaining to 2018 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	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	71	
Independent certification services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	220	
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	46	
				337

(1) the item "independent certification services" includes amounts paid for other services that envisage the issuance of an auditor's report as w ell as amounts paid for the so called certification services since they create synergies w ith the auditing services.

Information required by the Law n.124/2017 art.1 – paragraphs 125-129

There is no information to be highlighted pursuant to the law in question referring to Pirelli & C. S.p.A. for the financial year 2018.

Any information referring to the subsidiaries of Pirelli & C. S.p.A. they are included in the consolidated financial statements.

40. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob Communication no. 6064293 of July 28, 2006, the Company certifies that no atypical and/or unusual transactions as defined in said Communication were carried out in 2018.

41. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

Effective January 1, 2019 was the sale by the subsidiary Pirelli Tyre to the parent company Pirelli & C. S.p.A. of the business unit consisting of all the staff and business support functions related to Human Resources, Health and Safety, Security, Planning and Controlling, CFO, Legal Affairs, Digital, Communication. This operation is part of a large project for the reorganization of activities within the Group.

— ANNEXES TO THE NOTES

MOVEMENTS OF INVESTMENTS IN SUBSIDIARIES FROM 12/31/2017 TO 12/31/2018

	12/31/2017				CHANGES		12/31/2018			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	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
Pirelli International Treasury SpA	-	-	-	-	15,000	15	15,000	15	100	30
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	2,095	100	100	-	(2,096)	-	-	-	-
Pirelli Tyre S.p.A. - Milan	558,154,000	4,521,792	100	100	-	2,096	558,154,000	4,523,888	100	100
Servizi Aziendali Pirelli S.C.p.A. - Milan	94,978	101	100	91.3	-	-	94,978	101	100	91.3
HB Servizi Srl	1 quota	230	100	100	-	-	1 quota	230	100	100
Total investments in Italian subsidiaries		4,530,427				15		4,530,442		

	12/31/2017				CHANGES		12/31/2018			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
FOREIGN COMPANIES										
Brazil										
Pirelli Ltda - Sao Paulo	14,000,000	9,666	100	100	-	-	14,000,000	9,666	100	100
T3 Brasil Industrial de Pneus Agricol	-	-	-	-	-	-	-	-	-	-
Pirelli Latam Participações Ltda.	1	-	-	-	-	-	1	-	-	-
Pirelli Pneus Ltda	1	-	-	-	-	-	1	-	-	-
Pirelli Comercial de Pneus Brasil Ltda.	1	-	-	-	-	-	1	-	-	-
France						-				
Pirelli Solutions France Sarl - Villepinte	1 quota	-	-	100	-	-	1 quota	-	-	100
UK										
Pirelli UK ltd. - London - ordinary	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	(500,000)	-	300,000	6,346	100	100
Total investments in foreign subsidiaries		37,883				-		37,883		
Total investments in subsidiaries		4,568,309				15		4,568,324		

MOVEMENTS OF INVESTMENTS IN ASSOCIATES FROM 12/31/2017 TO 12/31/2018

	12/31/2017				CHANGES		12/31/2018			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
INVESTMENTS IN ASSOCIATES										
ITALY										
Unlisted:										
Fenice Srl - in liquidazione	1 quota	2,478	69.9	69.9	-	(2,478)	-	-	-	-
Consorzio per le Ricerche sui Materiali Avanzati (CORIMAV)	1 quota	104	100	100	-	-	1 quota	104	100	100
Eurostazioni S.p.A. - Roma	52,333,333	6,271	32.7	32.7	-	-	52,333,333	6,271	32.7	32.7
Focus Investments S.p.A.	111,111	1,352	8.3	8.3	-	(1,352)	111,111	-	8.3	8.3
Total unlisted companies		10,204				(3,830)		6,375		
Total investments in associates - Italy		10,204				(3,830)		6,375		
Total investments in associates		10,204				(3,830)		6,375		

MOVEMENTS OF OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME FROM 01/01/2018 TO 12/31/2018

	01/01/2018				Changes		12/31/2018			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
INVESTMENTS IN OTHER COMPANIES										
ITALIAN LISTED COMPANIES										
Mediobanca S.p.A. - Milan	15,753,367	149,027	1.8	1.8	(15,753,367)	(149,026.9)	-	-	-	-
Total other Italian listed companies		149,027				(149,026.9)		-		
Total other listed companies		149,027				(149,026.9)		-		

MOVEMENTS OF OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FROM 01/01/2018 TO 12/31/2018 (CONTINUED)

	01/01/2018				Changes		12/31/2018			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
INVESTMENTS IN OTHER COMPANIES										
ITALIAN LISTED COMPANIES										
RCS Mediagroup S.p.A. - Milan	24,694,918	30,177	4.7	4.7	-	(1,729)	24,694,918	28,449	4.7	4.7
Total other Italian listed companies		30,177				(1,729)		28,449		
Total other listed companies		30,177				(1,729)		28,449		

	01/01/2018				Changes		12/31/2018			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
ITALIAN UNLISTED COMPANIES										
Aree Urbane S.r.l. (in liquidation) - Milan	1 quota	-	-	-	-	-	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	1,162,098,622	-	1.7	1.5	-	-	1,162,098,622	-	1.4	1.4
CEFRIEL - Società Consortile a Responsabilità limitata	1 quota	-	4.9	4.9	-	-	1 quota	-	4.9	4.9
Consorzio DIXIT (in liquidation) - Milan	1 quota	-	14.3	14.3	-	-	1 quota	-	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	-	3.1	3.1	-	-	12,000	-	2.9	2.9
Consorzio Milano Ricerche - Milan	1 quota	-	9.0	9.0	-	-	1 quota	-	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	2,748	2.8	2.8	(229,000)	(2,748)	-	-	-	-
F.C. Internazionale Milano S.p.A. - Milan	55,805,625	-	0.4	0.4	-	-	55,805,625	-	0.4	0.4
Fin. Priv. S.r.l. - Milan	1 quota	19,909	14.3	14.3	-	(4,305)	1 quota	15,604	14.3	14.3
Istituto Europeo di Oncologia S.r.l. - Milan	1 quota	6,599	6.1	6.1	-	362	1 quota	6,961	6.1	6.1
Nomisma - Società di Studi Economici S.p.A. - Bologna	959,429	245	3.3	3.3	-	13	959,429	258	3.3	3.3
Redaelli Sidas S.p.A. (in liquidation) - Milan	750,000	-	4.6	4.6	(750,000)	-	-	-	-	-
Consorzio Movincom scrl	1	6	5.9	5.9	(1)	(6)	-	-	-	-
Movincom Servizi S.p.A.	1 quota	-	4.4	4.4	-	-	-	-	-	-
Tiglio I S.r.l. - Milan	1 quota	87	0.6	0.6	-	(17)	1 quota	70	0.6	0.6
Genextra S.p.A.	592,450	481	0.6	0.6	-	(442)	592,450	39	0.6	0.6
Total other Italian unlisted companies		30,075				(7,142)		22,932		

MOVEMENTS OF OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FROM 12/31/2017 TO 12/31/2018

	01/01/2018				Changes		12/31/2018			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	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 quote	15,270	-	-	-	305	53 quote	15,575	-	-
Total other portfolio securities		15,270				305		15,575		
TOTAL OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		75,566				(8,566)		67,000		

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 (loss)
INVESTMENTS IN SUBSIDIARIES - ITALY						
Pirelli Servizi Amministrazioni e Tesoreria S.p.A.	Milan	3,238	100%	2,047	3,386	211
Maristel S.p.A.	Milan	1,315	100%	50	2,009	(30)
Pirelli Sistemi Informativi S.r.l.	Milan	1,655	100%	1,010	2,587	356
Pirelli Tyre S.p.A.	Milan	4,523,887	100%	558,154	1,593,714	417,251
Servizi Aziendali Pirelli S.c.p.a.	Milan	101	91.3%	104	283	22
HB Servizi S.r.l	Milan	230	100%	10	309	216
Pirelli International Treasury S.p.A.	Milan	15	30%	50	15	-
Total investments in subsidiaries - Italy		**4,530,441**				
INVESTMENTS IN FOREIGN SUBSIDIARIES						
Switzerland						
Pirelli Group Reinsurance Company S.A.	Lugano	6,346	100%	2,662	22,010	6,592
Brasil						
Pirelli Ltda	Sao Paulo	9,666	100%	3,154	1,706	286
UK						
Pirelli UK Ltd.	London	21,871	100%	183,326	18,581	(6,305)
Total investments in foreign subsidiaries		**37,883**				
Total investments in subsidiaries		**4,568,324**				
INVESTMENTS IN ASSOCIATES - ITALY						
Consortium for the Reserach into Advanced Materials (CORIMAV)	Milan	104	100%	104	104	-
Eurostazioni S.p.A. **	Rome	6,271	32.7%	16,000	6,394	129
Focus Investments S.r.l.	Milan	-	8.3%	*	*	*
Total investments in associates - Italy		**6,375**				
Total investments in associates		**6,375**				

* Data not yet available
** balance sheet at July 31, 2018

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

Dear Shareholders,

pursuant to art. 153 of Legislative Decree 58/1998 ("**TUF**") and the applicable provisions of the Italian Civil Code, the Board of Statutory Auditors (which also operates as internal control and audit committee), is called on to report to the Shareholders' Meeting convened to approve the financial statements on the supervisory activity carried out and any omissions or misconduct which it might have identified. The Board of Statutory Auditors may also make proposals regarding the financial statements and their approval and other matters under its responsibility.

During the year the Board of Statutory Auditors carried out its supervisory activities as required by the law in force, taking account of the standards of conduct for the Boards of Statutory Auditors of listed companies recommended in the document by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (the Italian national association of chartered accountants and auditors) last updated in April 2018, and of the Consob provisions on company controls and the activity of the Boards of Statutory Auditors and its Corporate Governance Code for listed companies, to which Pirelli & C. S.p.A. (hereinafter also "**Pirelli**" or the "**Company**") has adhered.

As well as through the attendance of all or some of the Statutory Auditors at meetings of the Board of Directors and its committees, this also took place through the constant exchange of information between the Board of Statutory Auditors and the relevant administrative, audit and compliance departments, and with the Supervisory Body created pursuant to Legislative Decree no. 231 of 8 June 2001, as well as with the members of the boards of statutory auditors of the principal subsidiaries and with the firm appointed as external auditor.

APPOINTMENT AND COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors in office at the date of this report was appointed by the Shareholders' Meeting held on 15 May 2018. This Meeting confirmed the appointment of all the standing members of the Board of Statutory Auditors whose mandates were due to expire, and hence the Board itself can state that it worked seamlessly throughout the whole of 2018.

In particular, the Board of Statutory Auditors is made up of Standing Auditors Francesco Fallacara (Chairman), Fabio Artoni, Antonella Carù, Luca Nicodemi and Alberto Villani, and Alternate Auditors Franca Brusco and Elenio Bidoggia.

Pursuant to article 148, subsection 3 of the TUF, and the provisions of the Corporate Governance Code for listed companies, with which Pirelli has resolved to adhere, the Board of Statutory Auditors checked that its serving members retained, on 31 December 2018, the requirements of independence they had been ascertained to possess at the time of their appointment (see paragraph below on the considerations regarding the size and operation of the control body).

COMMENTS ON THE 2018 FINANCIAL STATEMENTS AND ON TRANSACTIONS OF MAJOR IMPORTANCE CARRIED OUT DURING THE YEAR

It should be noted that Pirelli's Financial Statements have been drawn up based on the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, in force on 31 December 2018 and in accordance with the instructions issued in implementation of article 9 of Legislative Decree 38/2005. The Financial Statements also include the notice required by law 124/2017 (art. 1, subsections 125-129).

The principal risks and uncertainties are summarised in the Directors' Report on Operations, and there is a section on the outlook for the coming year.

The Company's Financial Statements are made up of the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Explanatory Notes.

The Financial Statements are accompanied by the Directors' Report on Operations, and include the Report on the Corporate Governance and Structure of Share Ownership – prepared pursuant to Article 123-bis of the TUF – as well as the Report on responsible management of the value chain (consolidated non-financial declaration pursuant to Legislative Decree No. 254, of 30 December 2016), drawn up by the Company in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) - Comprehensive option - and the principles of inclusiveness, materiality and compliance with the AA1000 Standard.
Pirelli's 2018 Separate Financial Statements and Consolidated Financial Statements include statements of compliance by the CEO and by the Manager responsible for the preparation of the corporate financial documents, as required by prevailing legislation.

As a result of the assignment of the shares of TP Industrial Holding S.p.A, the company that held almost all of Pirelli's industrial assets, to controlling shareholder Marco Polo International Holding Italy S.p.A., in March 2017, in continuity with the 2017 financial year, some of the residual assets of the Industrial business in China and Argentina qualify as "discontinued operations". The year's results of these discontinued operations are classified in the Income Statement as a single item "net income (loss) related to discontinued operations". The process of separation was completed in the month of June 2018 with reference to Argentina, and in the fourth quarter of 2018 with reference to China.

Pirelli's 2018 Consolidated Financial Statements present the following summary data:

Revenues	€ 5,194.5 million
Operating income (EBIT)	€ 703.1 million
Adjusted EBIT before startup costs	€ 1,002.7 million
Total consolidated net income (including divested assets)	€ 442.4 million

The consolidated net financial (liquidity)/debt position was negative to the amount of euro 3,180.1 million (euro 3,218.5 million at 31 December 2017).

Parent company Pirelli closed the financial year with positive net income to the amount of euro 262.4 million (euro 170.8 million in 2017).

Transactions of major importance are accounted for in detail in the Directors' Report on Operations, and in the financial statements. The following transactions, in particular, should be noted:

- on **11 January 2018** Pirelli disposed of its entire direct holding in Mediobanca S.p.A. - corresponding to approximately 1.8% of the bank's share capital - in an operation reserved to qualified investors in Italy and institutional investors abroad - generating income of euro 152.8 million in total;

- on **22 January 2018,** after the adoption of the *Euro Medium Term Note* (EMTN) programme approved by the Board of Directors on 21 December 2017, Pirelli placed a 5 year fixed rate bond for a nominal amount of euro 600 million with international institutional investors. The effective yield on maturity is 1.479% and the bonds were listed on the Luxembourg stock exchange;

- on **15 March 2018** Pirelli placed a "Floating Rate Note" for euro 200 million, with maturity September 2020. The floating rate bond issue - for institutional investors only - allowed the company to repay the same amount of its existing debt, further optimising financial structure by reducing the cost of debt;

- on **20 March 2018** subsidiary Pirelli International PLC reimbursed early the euro 600 million bond with maturity in November 2019. The reimbursement was at the price of euro 1,031.15 as make-whole amount for each euro 1,000 bond, plus euro 5.85 for interest accrued to the date of repayment;

- on **14 May 2018**, the Board of Directors of Pirelli approved a development of the organisational structure, intended to consolidate implementation of the integrated business model, proposed by Executive Vice President and CEO Marco Tronchetti Provera;

- on **15 May 2018**, the Pirelli Shareholders' Meeting approved the financial statements for the year to 31 December 2017 (as approved by the BoD on **26 February 2018**) and the increase in the number of members of the Board of Directors to 15, and - at the proposal of a group of institutional investors - appointed Giovanni Lo Storto as the new director. Mr Lo Storto became a member of the Audit, Risks, Sustainability and Corporate Governance Committee and the Remuneration Committee. Mr Lo Storto declared that he possessed the requirements to qualify as an independent director pursuant to the Consolidated Law on Finance and the Corporate Governance Code for listed companies. With his appointment, a majority of the members of the Board of Directors of Pirelli (8 out of 15 members) are independent. The Shareholders' Meeting also appointed the new Board of Statutory Auditors for the financial years 2018-2020, using the slate voting system. The Shareholders' Meeting also authorised the Board of Directors to stipulate a new D&O (Directors & Officers Liability Insurance) insurance policy, expressed its approval of the Remuneration Policy and approved - for the part linked to Total Shareholder Return - the adoption of the three year monetary incentive plan 2018-2020 (the "LTI Plan"), destined for all the management and linked to the 2018/2020 targets contained in the 2017/2020 business plan;

- on **22 June 2018**, the Board of Directors of Pirelli postponed the expiry (from 31 January to 31 December 2019) and extended the size of the preceding board authorisation on bonds from euro 1 billion to 1.8 billion, euro 800 million of which placed in the first quarter of 2018;

- on **26 July 2018**, Pirelli concluded a "*Schuldschein*" loan for a total of euro 525 million (approved by the Board of Directors on 22 June 2018). The loan, guaranteed by Pirelli Tyre S.p.A. and underwritten by primary market operators, is composed of a tranche of euro 82 million due in 3 years, a tranche of euro 423 million due in 5 years and a tranche of 20 million euros due in 7 years. The transaction allowed the Company to repay existing debt, further optimising its debt structure and costs;

- on **7 August 2018**, the Board of Directors of Pirelli - with reference to the Pirelli & C. S.p.A. euro 600,000,000 1.375 percent Guaranteed Notes due 25 January 2023" (ISIN: XS1757843146) issued by Pirelli under the euro 2 billion EMTN programme and listed on the Luxembourg stock exchange - resolved to proceed with the partial buyback of these bonds. At the end of the partial buyback programme, the Company announced on **19 December 2018** that - through a primary intermediary - it had bought back and at the same time cancelled bonds for a nominal value of euro 47 million;

- on **7 August 2018**, the Board of Directors of Pirelli, at the proposal of the Executive Vice President and CEO, Marco Tronchetti Provera, proceeded to co-opt Ning Gaoning and appoint him Chairman of the Board of Directors, to replace Ren Jianxin, who resigned on **30 July 2018**. The Board qualified Ning Gaoning - who declared that he was not in possession of the requirements of independence pursuant to the TUF and the Corporate Governance Code - as a non-executive director, and he was assigned legal representation of the Company pursuant to the bylaws. The Board also appointed the new director a member of the Appointments and Successions Committee;

- on **7 September 2018** Pirelli announced that it had sold its Car factory in Guacara, in Venezuela, together with all the assets the company owns in that country. The transaction, which follows the accounting deconsolidation that was carried out in 31 December 2015, had no financial effects on the group;

- on **9 October 2018**, Pirelli Tyre S.p.A. completed the acquisition of a 49% stake in the Joint Venture that, through Jining Shenzhou Tyre Co., owns a new Consumer tyre manufacturing plant in China. The investment totalled around euro 65 million. Pirelli Tyre S.p.A. will have the right - which it can exercise in the period from 1 January 2021 to 31 December 2025 - to increase its stake to up to 70%;

- on **15 October 2018** Pirelli signed the prior agreement with the Italian Revenues Agency for access to the Patent Box tax concession, with reference to tax years 2015-2019. The tax benefit for the three-year period from 2015-2017 is approximately euro 54 million, plus the estimated benefit of euro 35 million for 2018. At the proposal of the CEO, the Board of Directors allocated the resources from the Patent Box to cost cutting actions to be implemented in 2019 to continue to support a double-digit reduction in exposure on the Standard segment and the High Value strategy;

- on **18 December 2018** Pirelli announced that - together with subsidiary Pirelli Tyre S.p.A. - it had been admitted to the Collaborative Compliance regime. This is a new way of interacting with the Italian Revenues Agency based on a transparent relationship that will further increase certainty on major tax issues. The admission came at the end of the positive assessment by the Italian Revenues Agency of the company's Tax Control Framework, the system to detect, manage, control and mitigate tax risk.

UNUSUAL OR EXCEPTIONAL TRANSACTIONS

Significant transactions in 2018 are detailed in the Directors' Report on Operations. We are unaware of any atypical or unusual transactions, as defined by Consob in notice DEM/6064293 of 28 July 2006.

INTRAGROUP OR RELATED PARTY TRANSACTIONS

Pursuant to article 2391-bis of the Italian Civil Code and Consob resolution 17221 of 12 March 2010, containing the "Regulations on Related Party Transactions", subsequently amended by Consob Resolution 17389 of 23 June 2010, the Board of Directors of Pirelli, on 31 August 2017, unanimously approved the "Procedure for Related-Party Transactions" with effect from 4 October 2017, when listing of the Company's ordinary shares started on the Mercato Telematico Azionario (the screen-based "Main Market") organised and managed by Borsa Italiana S.p.A.

In line with the information set out in the listing prospectus, on 6 November 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 aforementioned Regulations with a specific resolution passed by the Board of Directors) unanimously confirmed the text of the “Procedure for Related-Party Transactions” approved before listing.

It should be noted that, pursuant to article 4, subsection 6 of the aforementioned Regulations, the Procedure adopted by the Company (i) is coherent with the principles contained in said Regulations, and (ii) is published on the Company’s website www.pirelli.com).

During the 2018 financial year there were both intra-group and third party related-party transactions.

The intra-group transactions, the effects of which are shown in the financial statements, were found to be of an ordinary nature, since they essentially consist of the reciprocal provision of administrative, financial and organisational services. They were regulated applying normal conditions determined using standard parameters that reflect the actual use made of the services and were carried out in the interests of the Company, since they were aimed at rationalising the use of the Group’s resources.

The non-intragroup related-party transactions that we reviewed were also of an ordinary nature (since they were part of normal business operations or related financial activities) and/or concluded at market or standard equivalent terms and were in the interest of the Company. These transactions were reported to us periodically by the Company.

We attended the meetings of the Related-Party Transactions Committee during which the Committee expressed a favourable opinion of some related party transactions of “lesser importance”, after having considered the interest of the Company in the completion of the transaction and the expediency and substantial correctness of their conditions.

Regarding such transactions, we have always expressed the view that they were in the interests of the Company.

The Board of Directors attended the meetings of the Related-Party Transactions Committee, and on 14 February 2019, attended the meeting of the Company’s Board of Directors that, for all intents and purposes, approved the redrafting of some of the terms of the licence agreements with Prometeon Tyre Group S.r.l. and Aeolus Tyre Co. Ltd (companies with the same parent company as the Company), the effects of which - including in the 2018 results and in the preliminary results announced to the market - had been previously communicated to the market when the draft 2018 consolidated results were announced. It should be noted that, to ensure maximum transparency to the market, the Company prudentially decided to voluntarily publish an Information Document for these transactions, drafted pursuant to art. 5 of the Regulations on Related Party Transactions approved by Consob with resolution 17221 of 12 March 2010 (as subsequently amended) and to art. 18 of the Procedure for Related-Party Transactions adopted by the Company. The Information Document was published on 20 February 2019.

We have monitored compliance with the Procedure for Related-Party Transactions adopted by the Company and the correctness of the process followed by the Board and the competent Committee for the qualification of related parties and have nothing to report.

The transactions with related parties are detailed in the notes to the Company's separate and consolidated financial statements, including information on the consequent effects on the Income Statement and the Statement of Financial Position. The Statutory Auditors deem the information on transactions with related parties provided in the financial statements to be adequate.

IMPAIRMENT TEST PROCEDURE

It should be noted that, as suggested in the joint Banca d'Italia/Consob/ISVAP document of 3 March 2010, the Board of Directors, independently, and before the formal approval of the financial statements by the Board of Directors (which occurred at the meeting on 26 February 2019), resolved that the impairment test procedure complied with the prescriptions of international accounting standard IAS 36, after said procedure had been approved by the Audit, Risks, Sustainability and Corporate Governance Committee and the Board of Statutory Auditors.

Specifically, the Company carried out an impairment test on the goodwill allocated to the group of Consumer cash generating units and to the Pirelli brand.

Information on the assessment process conducted with the assistance of a highly qualified expert, and on its outcomes, is provided in the explanatory notes to the financial statements.

The Statutory Auditors consider the procedure adopted by the Company to be adequate.

SUPERVISORY ACTIVITY PURSUANT TO LEGISLATI|VE DECREE 39/2010 - EXTERNAL AUDITOR

The Board of Statutory Auditors, in collaboration with the 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 external audit of the annual and consolidated accounts;
- the independence of the external auditor, in particular with regard to the provision of non-auditing services;
- the results of the external audit with specific reference to the additional report pursuant to article 11 of European regulation 537/2014.

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SUPERVISING THE FINANCIAL REPORTING PROCESS

The Board of Statutory Auditors, having verified that there are adequate rules and processes governing the process of “formulating” and “disseminating” financial information, considers that the financial reporting information process is adequate, and believes that there are no issues to raise with the Shareholders’ Meeting in this regard.

In addition to the annual and half-year reports, the Company voluntarily publishes the additional periodic financial information specified in art. 82-ter of Consob Regulation 11971/99 (“interim reports on operations”) for the periods that end on 31 March and 30 September each year.

SUPERVISING THE NON-FINANCIAL REPORTING PROCESS

The Board of Statutory Auditors monitored compliance with the provisions contained in legislative decree 254/2016 with reference to the declaration of a non-financial nature (the “**NFD**”), also verifying that there are adequate rules and processes governing the process of “formulating” and “disseminating” non-financial information, and considers that the non-financial reporting information process is adequate, and believes that there are no issues to raise with the Shareholders’ Meeting in this regard.

In particular, the Board of Statutory Auditors acknowledged that the Company has adopted a structured system to monitor the content of the NFD which includes: (i) a dedicated operating rule to ensure adequate reporting of information of a non-financial nature; (ii) a control system to ensure greater assurance that the principal non-financial information is reported correctly; (iii) checks of the data of a non-financial nature in the NFD, after appropriate highlighting and verification; (iv) signature of a letter of attestation by the senior management on the non-financial data included in the paragraphs on this subject in the financial statements.

The Company did not avail itself of its right pursuant to art. 3, subsection 8 of legislative decree 254/2016 to omit information concerning imminent developments and transactions being negotiated.

With reference to the issue of the protection of personal data, the Board of Statutory Auditors acknowledges that the Pirelli group has put in place the activities needed to ensure that the company complies with the new provisions introduced by EU Regulation 2016/279. In particular, in the European Group companies, activities to attribute roles and responsibilities in the company organisation, formalisation of internal rules, and updating of the documents required by the law were completed over the course of 2018.

SUPERVISING THE EFFECTIVENESS OF THE INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS, AND THE EXTERNAL AUDIT OF THE ANNUAL SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

The Board of Statutory Auditors, together with the Audit, Risks, Sustainability and Corporate Governance Committee met with the Head of Internal Audit once every quarter. At those meetings, information was provided on the results of the audits designed to ascertain the adequacy and operational effectiveness of the Internal Control System, compliance with the laws and the business procedures and processes, as well as on the implementation of the related improvement plans. The Board also received the Audit Plan for the financial year, its final results and the risk analysis, expressing a favourable opinion of their approval by the Board, where requested. During the meetings it was also constantly updated about the application of the “Whistleblowing” procedure in the Pirelli Group.

Furthermore, every six months it received the reports of the Audit, Risks, Sustainability and Corporate Governance Committee and the Supervisory Body on the activities they had undertaken.

The Board of Statutory Auditors also took note of the report made by the Manager responsible for the preparation of the corporate financial documents who, when the draft financial statements were being approved, 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 Manager Responsible had reported that he had participated in the internal flows of information for accounting purposes and had approved all corporate procedures which impacted the Company’s profitability, financial position and/or assets and liabilities.

Accordingly, the Board of Statutory Auditors expresses a positive opinion of the adequacy of the internal control and risk governance system as a whole, and has no issues to raise with the Shareholders’ Meeting in this regard.

The Board of Statutory Auditors also met with the external auditor at least once every quarter. No fundamental issues or significant shortcomings in the internal control system related to the financial reporting process arose in these meetings, also with regard to the provisions set out in article 19, subsection 3 of legislative decree 39/2010.

In particular, it should be noted that the Board of Statutory Auditors found that the controls specified in Law 262/2005 on the financial statements as at 31 December 2018 evidenced that the administrative-accounting procedures had been applied correctly. The prescribed controls on the application of the control framework for the NFD evidenced that the internal procedures had also been applied correctly.

The Board of Statutory Auditors considered that no “significant shortcomings” in the internal control system for the financial reporting process and the NFD emerged in the letter of recommendations to the management drafted by the external auditor.

The firm appointed to undertake the external audit of the accounts of the Company is PricewaterhouseCoopers S.p.A. (“PWC”). The appointment as external auditor of the accounts was made by the Shareholders’ Meeting, on the reasoned proposal of the control body, in its meeting on 1 August 2017, for the nine year period 2017/2025, pursuant to the applicable provisions for listed companies (the appointment was effective from 4 October 2017, the date Pirelli’s shares were admitted to trading). PWC was also appointed as external auditor of the accounts of the principal Pirelli Group companies in Italy and abroad.

Pursuant to art. 14 of legislative decree 39/2010 and art. 10 of Regulation EU 537/3014, PWC issued its Reports on the separate and consolidated financial statements as at 31 December 2018 on 3 April 2019. On the same date, the auditing firm issued its Additional report for the internal control and audit committee, drafted pursuant to art. 11 of Regulation EU 537/3014. On the same date, 3 April 2019, PWC issued its Report on the consolidated non-financial declaration pursuant to art. 3, subsection 10 of legislative decree 254/2016.

The texts of the aforementioned reports - drafted in accordance with the applicable legal provisions - do not contain any elements to bring to the attention of the Shareholders’ Meeting.

SUPERVISING THE INDEPENDENCE OF THE EXTERNAL AUDITOR, IN PARTICULAR WITH REGARD TO THE PROVISION OF NON-AUDITING SERVICES

The Board of Statutory Auditors monitored the independence of the external auditor and in particular received periodic evidence of non-audit work assigned to PWC, also by virtue of specific regulatory provisions.

Regarding the independence of the external auditor, a structured procedure has been issued at Group level. In line with the provisions of legislative decree 39/2010, this sets out that no Pirelli Group company may assign tasks other than the external audit of the accounts, to companies that are members of the network of the appointed external auditor without the prior express authorisation of the Board of Statutory Auditors, which, with the assistance of the Chief Financial Officer and Board Secretary, has the responsibility of checking that the proposed assignment is not of a type listed among those not permitted by art. 5 of Regulation EU 537/2014, and that in any event, given its characteristics, said assignment has no impact on the independence of the external auditor.

In a letter dated 3 April 2019, PWC confirmed its independence pursuant to art. 6, paragraph 2) of Regulation EU 537/2014 and paragraph 17, letter a) of International Audit Standard (IAS) 260.

During the 2018 financial year, PWC and its network carried out the activities summarised below for the Group. These activities were the object of assignments approved by the Board of Statutory Auditors where they do not relate to tasks assigned before the Company was listed:

COMPENSATION OF INDEPENDENT AUDITORS

(In thousands of euro)	Company that provided the service	Company that received the service	Partial fees	Total fees	
Independent auditing services	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	71		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	611		
	Network PricewaterhouseCoopers	Subsidiaries	1.428	**2.110**	*66%*
Independent certification services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	220		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	240		
	Network PricewaterhouseCoopers	Subsidiaries	72	**532**	*17%*
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	46		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	195		
	Network PricewaterhouseCoopers	Subsidiaries	293	**533**	*17%*
				3.176	100%

(1) the item "independent certification services" includes amounts paid for other services that envisage the issuance of an auditor's report as well as amounts paid for the so called certification services since they create synergies with the auditing services.

The Board of Statutory Auditors considers the fees mentioned above to be adequate to the size, complexity and characteristics of the work carried out, and also considers that the non-audit assignments (and their fees) are not such as to have an impact on the independence of the external auditor.

In this latter regard, it should be noted that the Board of Directors, after having obtained the assessment of the Audit, Risks, Sustainability and Corporate Governance Committee, was in agreement with the Statutory Auditors' opinion.

ORGANISATIONAL STRUCTURE

The Board of Statutory Auditors considered the Company's organisational structure to be adequate for the needs of the Company and appropriate to ensure that the principles of correct administration are respected.

The Report on corporate governance and the share ownership structure describes in detail the types of powers conferred on the Executive Vice President and Chief Executive Officer Marco Tronchetti Provera and indicates the matters reserved to the competence of the Board of Directors of Pirelli & C.

The Board of Statutory Audits deemed the organisational structure to be adequate, also after the creation of the General Manager Operations role, assigned to Andrea Casaluci, approved by the Board of Directors in its meeting on 14 May 2018.

It should be noted that on 26 February 2019 the Board of Directors confirmed its preceding assessments regarding the absence of a subject that exercises direction and coordination of the

Company pursuant to art. 2497 of the Italian Civil Code, without prejudice to the right of the parent company to include Pirelli within its own consolidation perimeter for accounting purposes.

REMUNERATION OF THE DIRECTORS, GENERAL MANAGER AND KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES

During the year, the Board of Statutory Auditors has expressed the opinions required by law regarding proposals for the remuneration of directors holding special offices, expressing the opinions prescribed in article 2389 of the Italian Civil Code.

In particular, the Board of Statutory Auditors, in the meeting of the Board of Directors on 26 February 2018, expressed a favourable opinion of the proposal to remodulate the remuneration of the Executive Vice President and Chief Executive Officer.

In the same meeting, the Board of Statutory Auditors further expressed favourable opinions: (i) of the 2017 variable incentive paid to the Head of Internal Audit, (ii) of the achievement of the targets set for the preceding LTI Plan, (iii) of the consequent launch of the 2018-2020 LTI Plan, (iv) of the award of the 2017 MBO incentives and the 2018 MBO Plan. The part of the 2018-2020 LTI Plan linked to Total Shareholder Return was approved by the Shareholders' Meeting on 15 May 2018.

During the meeting of the Board of Directors on 14 May 2018, the Board of Statutory Auditors expressed a favourable opinion of the remuneration awarded to the "new" General Manager Operations (revised on 26 February 2019) and the Key Managers with strategic responsibilities appointed on that date.

In the meeting of the Board of Directors on 26 February 2019, the Board of Statutory Auditors expressed its positive assessment of the structure of the 2019 MBO which, among the targets set to obtain the variable annual component for the 2019 financial year, includes a new target (on Sustainability) with a weight of 10% at target, consisting of green revenues on the whole range, with a mechanism to set the targets for the MBO plan that is more challenging than the targets disclosed to the market.

For more details, see the annual Remuneration Report.

FURTHER ACTIVITIES OF THE BOARD OF STATUTORY AUDUTORS AND INFORMATION REQUIRED BY CONSOB

In exercising its duties, the Board of Statutory Auditors, as prescribed in article 149 of the TUF, monitored:

– observance of the law and the deed of incorporation;

– compliance with the principles of correct administration;

- the adequacy, for those aspects within its remit, of the organisational structure of the Company, the internal control system and the administrative-accounting system, and of the reliability of the latter to correctly represent operations;

- how the corporate governance rules contained in the codes of behaviour which the Company, in a notice to the public, declares that it complies with are actually implemented. In this respect, it should be noted that, pursuant to article 123-*bis* of the TUF, the Company has, for the 2018 financial year, drafted its annual Report on corporate governance and the structure of share ownership which provides information on (i) the corporate governance practices actually applied by the Company, over and above the obligations specified in the legal or regulatory provisions, (ii) the principal features of the risk and internal control systems that exist in relation to the financial reporting process, including the consolidate financial reports, (iii) how the Shareholders' Meeting functions, including its principal powers and shareholders' rights and how they are exercised, (iv) the composition and operation of the administration and control bodies and their committees, and the other information specified in article 123-*bis* of the TUF;

- the adequacy of the instructions imparted by the Company to its subsidiaries pursuant to article 114, subsection 2 of legislative decree 58/1998, having ascertained that the Company is able to promptly and regularly fulfil the disclosure obligations set out in law and in the EU regulations, as prescribed in the aforementioned article, also by collecting information from the heads of the organisational departments, and periodic meetings with the external auditor, to exchange relevant data and information. In this regard, we have no particular comments to make.

It should also be noted that the Directors' Report on Operations includes a paragraph containing a description of the principal features of the internal control and risk management system in relation to the financial reporting process, including the reporting of consolidated financial information.

The Board of Statutory Auditors notes:

- that the Directors' Report on Operations complies with the current laws, reflecting the resolutions made by the administrative body and the results in the financial statements, and contains adequate information on operations during the year and on intra-group transactions. The section containing the report on transactions with related parties has been included in the explanatory notes to the financial statements, in compliance with the IFRS standards;

- that the explanatory notes comply with the current standards, indicating the criteria used in determining the balance sheet items and in the value adjustments, and that the separate and consolidated financial statements of the Company appear to have been drafted in accordance with the structure and frameworks imposed by the current standards. In application of Consob's provisions, the effects of relations with related parties on the Company's profitability, financial position, assets and liabilities and cash flows;

- that Directors and/or Senior Managers of the Parent Company are members of the Boards of Directors of the principal subsidiary companies to guarantee coordinated direction and an adequate flow of information, also supported by suitable accounting information.

It should also be noted that the Board of Statutory Auditors:

– received information from the Directors at least once every quarter concerning their activity and the transactions carried out by the Company having the greatest impact on its strategy, earnings, financial position and equity, and that it received this information in compliance with the specific procedure approved by the Board of Directors. The Board of Statutory Auditors can give reasonable assurance that the resolved and executed transactions comply with the law and the Articles of Association, 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 the company's assets;

– received from the Supervisory Body, of which 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 external auditor in order to exchange important data and information for the performance of its duties, as prescribed in article 150, subsection 3 of the TUF. In this regard, it should be noted that 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 subsections 1 and 2 of article 151 of the TUF);

– during the 2018 financial year, issued opinions pursuant to article 2386 of the Italian Civil Code, on the occasion of the appointment of Ning Gaoning as a Director by co-option (Mr Gaoning was then appointed Chairman of the Board of Directors) on 7 August 2018.

During the 2018 financial year the Board of Statutory Auditors did not receive any complaints.

The Board of Statutory Auditors acknowledges that it received a complaint pursuant to art. 2408 of the Italian Civil Code from shareholder Mr Marco Bava, who asked the Statutory Auditors to ascertain whether each shareholder, even if a "minority" shareholder, could submit the names of candidates for the appointment of a new Director, an item on the agenda of the Shareholders' Meeting called for 15 May 2018.

The Company - in agreement with the Board of Statutory Auditors - ensured that the shareholder received the documentation on the "Appointment of a Director" item on the agenda of the aforementioned shareholders' meeting that had previously been made available to the public pursuant to law, which indicated that not only was it possible for any shareholder to do so, but that the Board had decided to put the proposal that a new Director be appointed to the shareholders' meeting solely for the purpose of enabling the "minority" shareholders to appoint their representative on the Board.

Based on the investigation it carried out, and taking account of the above, the Board of Statutory Auditors decided that the complaint received was without merit.

With regard to the external auditor, the Board of Statutory Auditors noted that PricewaterhouseCoopers S.p.A.:

- issued its report pursuant to article 14 of legislative decree 39/2010 and article 10 of Regulation EU 537/201 on 3 April 2019. This containing its unqualified opinion stating that the separate and consolidated financial statements provide a truthful and accurate representation of the equity and financial position of Pirelli and of the Group as at 31 December 2018, and of the economic results and cash flow for the financial year that closed on that date, in compliance with applicable accounting standards, and provided evidence of key aspects of their audit;

- issued a coherence opinion indicating that the Report on Operations accompanying the separate and consolidated financial statements as at 31 December 2018, and some specific information contained in the Report on Corporate Governance and the Structure of Share Ownership, as laid down in article 123-bis, subsection 4 of the TUF have been drafted in compliance with current legislation;

- as regards possible significant errors in the Report on Operations, stated that, based on the knowledge and understanding of the company and its market that it had acquired in the course of the audit activities, it had no matters to raise;

- confirmed the Company's statement regarding the fact that no other assignments have been given to persons or entities with on-going relationships with the external auditor itself;

- on 3 April 2019, provided the Board of Statutory Auditors with the Additional Report referred to in article 11 of regulation EU 537/2014, indicating that there were no significant shortcomings in the internal control system in relation to the financial reporting process that needed to be brought to the attention of persons responsible for "governance" activities;

- on 3 April 2019, pursuant to article 3,subsection 10 of legislative decree 254/2016, issued the Report on the responsible management of the value chain (consolidated non-financial declaration pursuant to legislative decree No. 254, of 30 December 2016), concluding that no elements had come to PWC's attention that led it to believe that the group's NFD for the year to 31 December 2018 had not been drawn up, in all significant aspects, in accordance with the requirements set out in legislative decree 254/2016 and the GRI Standards;

- annexed to the Additional Report, the external auditor provided the Board of Statutory Auditors, pursuant to article 6 of regulation EU 537/2014, with a statement from which no situations emerge that could compromise the independence of the external auditor (for more details concerning the provision of non-auditing services, see the paragraph entitled "supervising the independence of the external auditor, in particular with regard to the provision of non-auditing services" in this report).

The Board of Statutory Auditors also took note of the Transparency Report drafted by the external 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 noted that:

- the current Board of Directors - the mandate of which expires with the Shareholders' Meeting called to approve the financial statements for the year to 31 December 2019 - is composed of 15 Directors, 14 of whom qualified as non-executive directors and, of these, 8 deemed to possess the requirements of independence specified in the Corporate Governance Code and the TUF. During 2018, it met 6 times.

At the date of this report:

- the Audit, Risk, Sustainability and Corporate Governance Committee is composed of four Directors, all independent. During 2018, it met 5 times;
- the Remuneration Committee is composed of four Directors, a majority of whom independent (the Chairman is an independent Director). During 2018, it met 3 times;
- the Related-Party Transactions Committee is composed of three Directors, all independent. During 2018, it met 10 times;
- the Appointments and Successions Committee is composed of four Directors, one of whom is the executive Director. It did not meet during 2018;
- the Strategies Committee is composed of seven Directors, of whom two are independent. It did not meet during 2018.

The Board of Statutory Auditors has always attended the meetings of the Board of Directors and the board committees, also in its capacity as internal control and audit committee pursuant to art. 19 of legislative decree 39/2010.

The Board of Statutory Auditors also attended the ordinary Shareholders' Meeting that in 2018 was held on 15 May.

The percentage attendance figures of the single members of the Board of Statutory Auditors at the meetings of the above bodies are provided in the report on corporate governance and the share ownership structure.

Finally, the Statutory Auditors acknowledge:

- that they have monitored fulfilment of the requirements linked to the "Market Abuse" and "Investor Protection" regulations on the subject of corporate information and internal dealing, with particular reference to the handling of inside information and the procedure for the dissemination of press releases and information to the public;
- that they ascertained, upon their appointment and most recently in their meeting on 26 February 2019, as recommended by the Borsa Italiana Corporate Governance Code, that members possess the same independence requirements - where applicable - as those requested for the

directors in the aforementioned Code;

- that they have found that the criteria and procedures to ascertain the independence requirements adopted by the Board of Directors to annually check the independence of its members are correctly applied, and have no comments to make on this point;
- that they have determined that the Director's report on the Company's financial statements describes the principle risks and uncertainties to which the Company is exposed;
- that, with reference to the provisions of article 15 of Consob Regulation 20249 of 28 December 2017 concerning market discipline, they have ascertained that the organisation of the company and the procedures adopted enable Pirelli to ensure that the companies it controls and which are constituted in and regulated by the laws of States that are not members of the European Union subject to respecting the aforementioned Consob provisions, have administrative-accounting systems appropriate to regularly provide the senior management and external auditor of the Company with the information on its profitability, financial position and assets and liabilities needed to draw up the consolidated financial statements.

During the course of its supervisory activities, and on the basis of the information obtained from the external auditor, no omissions, misconduct, irregularities or significant facts were found which are worthy of being reported or mentioned in this report.

The activities described above, conducted both collectively and individually, have been documented in the minutes of the 12 meetings of the Board of Statutory Auditors held during 2018 both before and after its renewal.

SELF-ASSESSMENT OF THE BOARD OF STATUTORY AUDITORS

During 2018 the Board of Statutory Auditors started, for the first time - as recommended by the rules of behaviour for listed companies issued by the Italian national association of chartered accountants and auditors - a self-assessment process, carried out with the assistance of independent consulting firm SpencerStuart.

This self-assessment was carried out through individual interviews, with questions on the suitability, size, composition and operation of the Board of Statutory Auditors, so as to attest that the body is operating correctly and effectively and has an adequate composition.

The Board of Statutory Auditors can report that the self-assessment provided a broadly positive picture of the composition and operation of the control body. In particular, the Board of Statutory Auditors considered that its current size, of 5 standing members, introduced before listing on the stock exchange, is perfectly adequate for the effective execution of the tasks the Statutory Auditors are required to undertake in a company of Pirelli's size.

Furthermore, the Board of Statutory Auditors particularly appreciated the Induction and training activities organised by the Company for Directors and Statutory Auditors and hopes that such activities - which provide further opportunities for the different corporate bodies to meet and exchange knowledge - might also continue in the current year.

PROPOSALS TO THE SHAREHOLDERS' MEETING

FINANCIAL STATEMENTS AT 31 DECEMBER 2018

The Board of Statutory Auditors expresses its favourable opinion on the approval of the Financial Statements at 31 December 2018 and has no objections to raise regarding the proposal made for the allocation of the profits.

GROUP REMUNERATION POLICY

We inform you that the Board of Statutory Auditors has expressed a favourable opinion on the 2019 Remuneration Policy submitted for consultation to the Shareholders' Meeting called on 15 May 2019.

OTHER ISSUES SUBMITTED TO THE SHAREHOLDERS' MEETING FOR APPROVAL

Regarding the other issues submitted to you for approval (the appointment of a director and of the Chairman of the Board of Directors), the Statutory Auditors have no comment to make.

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Pursuant to article 144-*quinquiesdecies* of the Issuer Regulations, duly approved by Consob with resolution 11971/99, as subsequently amended and supplemented, the list of offices 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 should be noted that article 144-*quaterdecies* (Consob reporting obligations) establishes that a person who is a member of the supervisory body of just one issuer is not subject to the reporting obligations prescribed in this article, and therefore, in this case, they do not appear in the lists published by Consob.

The Company lists the main positions held by the members of the Board of Statutory Auditors in its Report on Corporate Governance and the Structure of Share Ownership.

The Board of Statutory Auditors here acknowledges that all its members were in full compliance of the aforementioned regulatory provisions laid down by Consob governing the “maximum number of positions to be held”.

Milan, 3 April 2019

Mr Francesco Fallacara

Mr Fabio Artoni

Ms Antonella Carù

Mr Luca Nicodemi

Mr Alberto Villani

PROPOSAL FOR APPROVAL OF THE FINANCIAL STATEMENTS AND ALLOCATION OF THE RESULT FOR THE YEAR

Dear Shareholders,

The year ended December 31, 2018 closed with a profit of Euro 262,362,043.00.

Considering that following the shareholders' meeting resolutions adopted in 2017, the legal reserve was completed and reached the limit established by article 2430 of the Civil Code, the Board of Directors proposes the distribution of a dividend, gross of withholding taxes, of Euro 0.177 for each of the 1,000,000,000 outstanding ordinary shares and the carry-forward of the remaining profit of Euro 85,362,043.

The abovementioned proposal is in line with the dividend policy adopted by the Company in context of the Initial Public Offering, which, starting from the approval of the financial statements as at and for the year ended December 31, 2018, provides for a distribution of, on average, 40% of consolidated net income over the period 2017-2020.

If you agree with our proposal, we request that you adopt the following

RESOLUTIONS

“The Shareholders' Meeting,

- having examined the annual report at December 31, 2018;
- having acknowledged the Statutory Auditors' Report;
- having acknowledged the report of the Independent Auditors;

RESOLVED

a) to approve the Company's financial statements for the year ended December 31, 2018, as presented by the Board of Directors as a whole, in the individual entries and with the proposed provisions, showing a profit of Euro 262,362,043.00;

b) to distribute to shareholders a dividend, gross of withholding taxes, of Euro 0.177 for each of the 1,000,000,000 outstanding ordinary shares, for a total of Euro 177,000,000.00;

c) to carry forward the remaining profit of Euro 85,362,043.00;

d) to authorise the Directors to allocate to profits carried forward the balance of the rounding that may be determined at the time of payment of the dividend.

The dividend for the year 2018 will be paid as from May 22, 2019, with ex dividend date on May 20, 2019 (record date May 21, 2019).

APPOINTMENT OF A MEMBER OF THE BOARD OF DIRECTORS AND THE CHAIRMAN OF THE BOARD OF DIRECTORS.

Dear Shareholders,

- On 30 July 2018, the Chairman of the Board of Directors Ren Jianxin resigned from all the positions he held on the Board of Directors of the Company based on his announced resignations from the position of Chairman of China National Chemical Corporation – the company that indirectly controls Pirelli & C. S.p.A.– due to reaching the age limit;

- on 07 August 2018, the Board of Directors, upon a proposal by the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera, decided, in accordance with Art. 2386 of the Italian Civil Code, with the approval of the Board of Statutory Auditors, upon the nomination for co-optation as a member of the Board of Directors of Ning Gaoning and his subsequent nomination as Chairman of the Board of Directors, to replace Ren Jianxin.

Ning Gaoning – who stated he does not fulfil the independence requirements in accordance with Legislative Decree 58/1998 ("Consolidated Finance Act") and the Italian Stock Exchange Self-governance Code in his position as, inter alia, Chairman of China National Chemical Corporation – has been qualified by the Board of Directors as a non-executive director and has been tasked with the legal representation of the Company in accordance with the Articles of Association.[54]

The Board of Directors also appointed Ning Gaoning as a member of the Appointments and Succession Committee, also to replace Ren Jianxin.

In co-opting the new Director, the Board of Directors in particular took into account: (i) the professional and skills profile of Ning Gaoning; (ii) the number of positions held thereby in other companies or entities; and (iii) the fact that the current membership of the Board of Directors of Pirelli & C. S.p.A. **("Pirelli"**or the**"Company")** complies with the current regulations concerning gender balance and the presence of the independent Directors on the Board.[55]

In accordance with Art. 2386, paragraph 1 of the Italian Civil Code, the Chairmanship and Directorship of Ning Gaoning expire at this Shareholders' Meeting, which was therefore called upon

[54] Art. 13.1 of the Articles of Association provides as follows: "The representation of the Company to third parties and to the Courts falls separately to the Chairman of the Board of Directors and, within the limits to the powers granted thereto by the Board of Directors, to the Chief Executive Officer (Art. 11.5 of the Articles of Association provides that powers for the ordinary management of the Company are granted to the Chief Executive Officer).

[55] For further details, please see the Report on Corporate Governance and Ownership Structure contained in the 2018 financial statements dossier, available on the Company website at www.pirelli.com.

the decide upon the confirmation of the co-opted Director (or the appointment of a new member of the Board of Directors) and the appointment of the Chairman of the Board of Directors.[56]

In that regard, it was noted that the Ordinary Shareholders' Meeting, held on 01 August 2017, as part of the Company's re-flotation on the Stock Exchange (the "**IPO**"), passed the renewal of the Pirelli Board of Directors, determining the number of members at fourteen and setting the mandate thereof at three financial years, which will expire at the meeting called upon to approve the Company financial statements as at 31 December 2019.[57] During the aforementioned Shareholders' Meeting of 01 August 2017, the controlling shareholder of the Company undertook to ensure that after flotation on the Stock Exchange, the "minorities" would have been able to appoint another independent Director. As a result, on 15 May 2018, at the first useful opportunity, the Shareholders' Meeting approved the increase in the number of members of the Board of Directors to 15 and appointed as another independent Director Mr Giovanni Lo Storto.[58]

The current membership of the Board of Directors reflects what represented during the IPO process and the current Shareholders' Agreements,[59] in accordance with which the Pirelli Board of Directors is expected to consist of 15 members, 8 of whom are independent.[60]

It should be noted that, for the purposes of adopting the decisions of the Shareholders' Meeting, the statutory procedure of the list vote does not apply, as there is no full renewal of the Board of Directors. Therefore, as provided for in Art. 10 of the Articles of Association, for the appointment of Directors not appointed for any reason in accordance with the list vote procedure, the Shareholders' Meeting makes a decision with a legal majority.

It is also recalled that:

- each member of the Board of Directors is paid a gross annual salary for the position of €60,000, in addition to any further salary set by the Board of Directors in accordance with Art. 2389, paragraph 3 of the Italian Civil Code or in the event of participation in Board Committees;[61]

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[56] Art. 2380-*bis,* paragraph 5 of the Italian Civil Code provides as follows: *"The Board of Directors shall choose a Chairman from the members thereof should the Chairman not be appointed by the Shareholders' Meeting".*

[57] The appointment takes effect as of 31 August 2018.

[58] The Company Articles of Association (Article 10.1) provides as follows: *"The company is administered by a Board of Directors consisting of up to fifteen members who shall remain in office for three financial years and may be re-elected."*

[59] The Shareholders' Agreement can be accessed at the following Company web address: https://corporate.pirelli.com/corporate/it-it/governance/patti.

[60] As at the date of this Report, the Pirelli Board of Directors consists of the following fifteen Directors: Ning Gaoning (Chairman), Marco Tronchetti Provera (Executive Vice Chairman and Chief Executive Officer), Yang Xingqiang, Bai Xinping, Giorgio Luca Bruno, Laura Cioli (independent), Domenico De Sole (independent), Ze'ev Goldberg, Tao Haisu (independent), Marisa Pappalardo (independent), Cristina Scocchia (independent), Giovanni Tronchetti Provera, Fan Xiaohua (independent), Wei Yintao (independent) and Giovanni Lo Storto (independent).

[61] See: Remuneration Report for the 2018 financial year contained in the 2018 Annual Report.

- the term of the new Director will expire at the same time as those currently in office, therefore on the date of the Shareholders' Meeting called upon the approve the Company financial statements as at 31 December 2019.

BOARD OF DIRECTORS DECISION PROPOSALS

Given the above, the Board of Directors wishes to propose to you the following decisions:

A) to confirm as fifteen the number of members of the Board of Directors of Pirelli & C. S.p.A. and to confirm the appointment as member of the Board of Directors of Mr Ning Gaoning, born in Binzhou (People's Republic of China) on 09 November 1958, who will remain in office until the date of the Shareholder's Meeting called upon to approve the Company financial statements closed on 31 December 2019,

and, if the Shareholders' Meeting approves the proposal referred to in point A) above

B) to appoint the member of the Board of Directors Ning Gaoning as Chairman of the Board of Directors of Pirelli & C. S.p.A..

Shareholders are informed that the Meeting will be called upon to rule on the decision proposals referred to in points A) and B) above in separate votes.

The updated *curriculum vitae* of Director Ning Gaoning is available on the Company website at www.pirelli.com.

* * *

CONSULTATION ON THE PIRELLI GROUP REMUNERATION POLICY

Dear Shareholders,

In accordance with Art. 123-*ter.* paragraphs 3 and 6 of the Consolidated Finance Act ("**TUF**"), we have called upon you to submit to your advisory vote section 1 of the Remuneration Report, explaining the Remuneration Policy on the members of the governing bodies, the General Managers and Executives with strategic responsibilities to which Pirelli refers for the definition of the remuneration of the *Senior Managers* and *Executives* of Pirelli.

The Policy submitted to your vote has been drafted on the basis of last year's Policy and relevant practical experience and takes into account the regulatory provisions adopted by Consob, as well the 2018 adoption of a new *Long-Term Incentive Cash Plan* for the period 2018-2020 ("**LTI Plan**") – as approved by last year's Shareholders' Meeting, which, inter alia, provided that part of the incentive be determined on the bases of *Total Shareholder Return* objectives calculated as *Pirelli performance* and with respect to an index consisting of selected*"peers"*in the Tyre sector – to support the new 2017-2020 Industrial Plan, disclosed to the market upon the flotation on 04 October 2017.

As provided for in Art. 123-ter of the TUF, the Remuneration Report submitted for your vote is divided into two distinct sections:

I. Section 1 explains:

   a. the Policy for the remuneration of the Directors, General Managers and Executives with strategic responsibilities, to which Pirelli also refers to define the remuneration of *Senior Managers* and *Executives;*

   b. the procedures used to adopt and implement the said Policy.

II. Section 2, on behalf of the members of the governing and audit bodies, for the *Operations* General Manager, and, in aggregated form, for Executives with strategic responsibilities explains:

   a. the items making up the remuneration, including payments to be made in the event of severance of employment or termination of the working relationship;

   b. the salary paid in the 2018 financial year for any reason and in any form by the Company and its subsidiaries and affiliates, indicating any components of the said salary that refer to work carried out in financial years prior to the year in question, and also highlighting the salaries to be paid in one or more subsequent financial years for work carried out in the year in question, which may indicate an estimated value for components that cannot be objectively quantified during the year in question.

As provided for by the Consolidated Finance Act, we request that you express your advisory vote on the part of the remuneration report referred to in section 1.

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, 2018 – December 31, 2018.

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, 2018 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 financial position, result of operations and cash flows 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, 2019

The Executive Vice Chairman and Chief Executive Officer

(Marco Tronchetti Provera)

The Corporate Financial Reporting Manager

(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 2018

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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 (the Pirelli group), which comprise the statement of financial position as of 31 December 2018, 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 2018, 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 38/2005.

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 2018 the indefinite-lived intangible assets Pirelli brand and goodwill amount to € 2,270 million and € 1,886 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, the impairment test 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 carrying 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 tested the accuracy and completeness of the disclosure presented in the notes to the consolidated financial statements.

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Key Audit Matters	***How our audit addressed the key audit matter***
Revenue recognition	
Note 3 " Adopted Accounting Standards"	
Taking into account the adoption of the new accounting standard IFRS15 – "Revenue from contracts with customers" and considering the magnitude and the high volume of sales transactions carried out through a global distribution network, different sales channels and logistic platforms, revenue recognition represented a key matter in the audit of the consolidated financial statements.	We have carried out our procedures to verifying existence, completeness, accuracy and proper period of sales transactions. For the main revenue streams identified using the requirements of the new accounting standard IFRS15, we have performed an understanding and evaluation of the internal controls over the revenue recognition and a validation of relevant controls. We have tested the proper recognition of revenue through testing samples of sales transactions, obtaining appropriate supporting evidence with specific attention to key contractual terms that regulate the various performance obligations. We have performed confirmation procedures over accounts receivable balances with the objective of validating trade receivables balances recorded in the consolidated accounts. We have tested samples of sales returns transactions, credit notes and year-end accruals. We have tested the accuracy and completeness of the disclosure presented in the notes to the consolidated financial statements.

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Effects of the Patent Box tax benefit over the income tax provision	
Note 39 "Taxes"	
The net result of the group for the year 2018 has been favourably affected by lower income taxes for the introduction of the tax benefit mechanism for patents, technology, designs and brands, named "Patent Box". The tax benefit was agreed with the Italian tax authority by the subsidiary Pirelli Tyre SpA on 15 October 2018. The benefit recorded in the 2018 consolidated accounts amounts to € 89 million, of which € 54 million relating to fiscal years 2015 to 2017. Considering the magnitude of the impact in the 2018 consolidated accounts and the level of complexity regarding the calculation of the tax benefit, the Patent Box 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 calculation of the Patent Box tax benefit. We have analysed, with the support of PwC tax experts, the agreement with the Italian tax authority and the coherence between the agreement and the methodology used for the calculation the tax benefit recorded in the 2018 consolidated financial statements. We have tested the mathematical accuracy of the calculation model used and tested, on a sample basis, the information used with the supporting documentation. We have tested the accuracy and completeness of the disclosure presented in the notes to the consolidated financial statements.

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 38/2005 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 in accordance with 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 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree 58/1998

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 2018, 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 58/1998, with the consolidated financial statements of the Pirelli group as of 31 December 2018 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 2018 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 39/2010, 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 254/2016

Management of Pirelli & C SpA is responsible for the preparation of the non-financial disclosure in accordance with Legislative Decree 254/2016. We have verified that the non-financial disclosure was approved by the board of directors.

In accordance with article 3, paragraph 10, of Legislative Decree 254/2016, the non-financial disclosure is subject to separate audit reporting by our firm.

Milan, 3 April 2019

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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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, 2018 – December 31, 2018.

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, 2018 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 financial position, the results of operations and cash flows of the reporting entity.

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, 2019

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**

SEPARATE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

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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 2018, 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 2018, 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 38/2005.

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.

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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 2018 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, the impairment test 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 Pirelli 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.

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 38/2005 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.

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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 in accordance with 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 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree 58/1998

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 2018, 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 58/1998, with the separate financial statements of the Company as of 31 December

2018 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 2018 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 39/2010, 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, 3 April 2019

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

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	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

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<tr><th>Areas of the Global Compact</th><th>Global Compact Principles</th><th>Directly Relevant GRI Indicators</th><th>Indirectly Relevant GRI Indicators</th></tr>
<tr><td rowspan="2"></td><td>Principle 5 – Business should uphold the effective elimination of child labour.</td><td>Disclosure 408: Child Labor
Disclosure 410: Security Practices</td><td>Disclosure 412: Human Rights Assessment</td></tr>
<tr><td>Principle 6 – Business should uphold the elimination of discrimination in respect of employment and occupation.</td><td>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</td><td>Disclosure 202: Market Presence
Disclosure 401: Employment
Disclosure 412: Human Rights Assessment
Disclosure 414: Supplier Social Assessment
Disclosure 102-41: Collective Bargaining Agreements</td></tr>
<tr><td rowspan="2">Environment</td><td>Principle 7 – Businesses should support a precautionary approach to environmental challenges.</td><td>Disclosure 102-11: Precautionary Principle or Approach
Disclosure 201: Economic Performance</td><td>Disclosure 301: Materials
Disclosure 302: Energy
Disclosure 303: Water
Disclosure 304: Biodiversity
Disclosure 305: Emissions
Disclosure 306: Effluents and Waste
Disclosure 307: Environmental Compliance</td></tr>
<tr><td>Principle 8 – Business should undertake initiatives to promote greater environmental responsibility.</td><td>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</td><td>Disclosure 201: Economic Performance</td></tr>
</table>

Areas of the Global Compact	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
	Principle 9 – Businesses should encourage the development and diffusion of environmentally friendly technologies.	Disclosure 301: Materials 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. 192-193)
2 - Zero Hunger	Company Initiatives for the External Community (Solidarity pp. 192-193)
3 - Good Health and Well-being	Welfare and Initiatives for the Internal Community (pp. 166-168) Occupational Health, Safety and Hygiene (pp. 172-174) Company Initiatives for the External Community (Road Safety pp.188-190, Sport and Social Responsibility p. 192, Health p. 194) Target: • Accident Frequency Index: -87% by 2020 compared to 2009
4 - Quality Education	Training (pp. 160-165) Company Initiatives for the External Community (Training pp.190-191, Culture and Social Value pp. 195-196) Target: • Training: investment in employee training of at least an average of 7 man days
5 - Gender Equality	Diversity Management (pp. 151-157)
6 - Clean Water and Sanitation	Water Management (pp. 129-131) Target: • Specific withdrawal of water -66% by 2020 compared to 2009
7 - Affordable and Clean Energy	Joining the Task Force on Climate-Related Financial Disclosures (TCFD) (pp. 114-115) Energy Management (pp. 121-124) Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 124-129) Targets: • Specific Energy Consumption: -19% by 2020 compared to 2009
8 - Decent Work and Economic Growth	Our Suppliers (pp. 95-112) Internal Community (pp. 146-182)

9 - Industry, Innovation and Infrastructure	Company Initiatives for the External Community (Training pp. 190-191) <u>Target</u>: • 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. 151-157)
11 - Sustainable Cities and Communities	Principal International Commitments for Sustainability (WBCSD pp. 184-186) Company Initiatives for the External Community (Road Safety pp. 188-190, Solidarity pp. 192-193) <u>Target</u>: • 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	Joining the Task Force on Climate-Related Financial Disclosures (TCFD) (pp. 114-115) Energy Management (pp. 121-124) Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 124-129) Water Management (pp. 129-131) Waste Management (pp. 131-132) Company Initiatives for the External Community (Training pp. 190-191) <u>Targets</u>: • 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. 108-109) Joining the Task Force on Climate-Related Financial Disclosures (TCFD) (pp. 114-115) Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 124-129) Principal International Commitments for Sustainability (International Commitments against Climate Change pp. 186-187) 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: o Car products: -20% average rolling resistance, +15% performance 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)
14 - Life below Water	Water Management (pp. 129-131)
15- Life on Land	Sustainability of the Natural Rubber Supply Chain (pp. 101-104) Company Initiatives for the External Community (Training pp. 190-191)
16- Peace, Justice and Strong Institutions	Programs of Compliance 231, Anti-corruption, Privacy and Antitrust (pp. 76-79)
17 - Partnerships for the Goals	Sustainability of the Natural Rubber Supply Chain (pp. 101-104) Main International Commitments for Sustainability (pp. 182-187) Company Initiatives for the External Community (pp. 187-196)

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	48, 121-124
	Use of Water Resources	• Risks Related To Environmental Issues • Water Management	48, 129-131
	Greenhouse Gas Emissions and Air-Polluting Emissions	• Risks Related To Climate Change • Joining the Task Force on Climate-Related Financial Disclosures (TCFD) • Management Of Greenhouse Gas Emissions and Carbon Action Plan • Solvents • NO_x Emissions • Other Emissions and Environmental Aspects	44, 114-115, 124-129, 132-135
Social Aspects	**Health and Safety**	• Employee Health and Safety Risks • Health, Safety and Hygiene at Work	48, 172-179
	Training and Development	• Risks associated with Human Resources • Development • Training	47-48, 159-165
	Welfare	• Welfare and Initiatives for the Internal Community	166-168
	Dialogue with Employees	• Litigations Risks • Listening: Group Opinion Survey • Industrial Relations	49, 165-166, 168-172
	Actions for Gender Equality	• Diversity Management • Sustainability and Diversity Policy	151-157, 207-208
	Respect for Human Rights: Measures Taken and Prevention	• Risks in term of Corporate Social and Environmental Responsibility, Business Ethics, and Third-Party Audits • Human Rights Governance • Diversity Management	52, 143-145, 151-157
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	52, 76-79

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INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED NON-FINANCIAL DISCLOSURE IN ACCORDANCE WITH ARTICLE 3, PARAGRAPH 10 OF LEGISLATIVE DECREE 254/2016 AND WITH ARTICLE 5 OF CONSOB REGULATION 20267 ADOPTED BY RESOLUTION OF JANUARY 2018

FOR THE YEAR ENDED 31 DECEMBER 2018

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Independent auditor's report on the consolidated non-financial disclosure

In accordance with article 3, paragraph 10 of Legislative Decree 254/2016 and with article 5 of Consob Regulation 20267 adopted by resolution of January 2018

To the board of directors of Pirelli & C SpA

In accordance with article 3, paragraph 10 of the Legislative Decree 254/2016 (the Decree) and with article 5 of CONSOB Regulation 20267/2018, 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 (Pirelli group) as of and for the year ended 31 December 2018, prepared in accordance with article 4 of the Decree and included in section Report on Responsible Management of the Value Chain of the annual report 2018 of Pirelli group, approved by the board of directors of Pirelli & C SpA on 26 February 2019 (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 articles 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 or faced by the group.

The board of statutory auditors is responsible for overseeing, in accordance with the law, the compliance with the Decree.

PricewaterhouseCoopers SpA

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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 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 (reasonable assurance engagement) 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. comparison of 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;

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- ○ 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 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 other audit procedures as described under point 6. 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 Pirelli Neumaticos SA de CV, Pirelli Pneus Ltda and Pirelli Tyre SpA 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 UNI 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 proper consolidation of the information;
- for the industrial sites located in Silao (Mexico) and Feira de Santana (Brazil), 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 2018 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.

Milan, 3 April 2019

Signed by

Paolo Caccini
(Partner)

Signed by

Paolo Bersani
(Authorized signatory)

This report has been translated into English from the Italian original solely for the convenience of international readers

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