Annual Report 2019

The Road Ahead

PIRELLI

Pirelli Annual Report 2019
The Road Ahead

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The Road Ahead

LETTER FROM THE CHAIRMAN

NING GAONING

Dear Stakeholders,

The unexpected weakness of the automotive sector at the global level in 2019 was a challenge to the entire tyre sector that Pirelli was able to manage through its consolidated business model and thanks to the counter measures implemented by management. However, new challenges are already appearing. As I address you, in fact, the Covid-19 health emergency is causing an unprecedented deterioration of the global economy. Together, we have already taken steps to contain its effects and I am sure we will overcome this particularly complicated moment, capitalizing on the experience that enabled us to overcome the difficulties in China. I would also like to thank the Board of Directors, whose mandate ends with the approval of this annual report, for the manner in which they have dealt with the Covid-19 emergency, as well as the ability displayed in its management of the company during its mandate.

Through teamwork, Pirelli has in recent years achieved goals that are fundamental to how it will face the future: its transformation into the sole tyre producer focused on the Consumer segment, the consolidation of its technological leadership, the strengthening of its brand. The company, in fact, boasts one of the highest levels of investment in the Research & Development sector and is at the cutting edge of technology, for example, in the area of connected tyres. These factors have helped to make Pirelli an exemplar in the area of environmental responsibility and sustainability, as evidenced by the many acknowledgements received during the year. We will further enhance this role through the strategy underlying the sustainability plan that augments the guidelines of the group's industrial plan for 2020-2022 and supports the United Nations 2030 goals for sustainable development.

The strategies announced, which take into account the actions launched to mitigate the economic impacts stemming from the health emergency, will enable Pirelli to embark on a path to continued competitiveness at the global level, as happened last year. This is thanks to the company's lean and flexible structure and governance, inspired by international best practices, and the central role of the board committees and independent board members.

We will continue to meet the coming challenges with professionalism, strategic vision, creativity and enthusiasm. I extend my personal thanks to you dear Stakeholders for the contributions you make every day.

LETTER FROM THE EXECUTIVE VICE CHAIRMAN AND CEO

MARCO TRONCHETTI PROVERA

Dear Stakeholders,

The speed with which we were able to adapt our business model to the external scenario enabled us to close 2019, which was more challenging than expected, with positive results. The further focus of High Value, a more marked reduction of Standard and an operation to contain costs allowed us to protect profitability, with an adjusted Ebit margin of 17.2% and to increase cash generation (332.9 million euro compared with 38.4 million euro in 2018) and total net profit (around 458 million euro, an increase of 3.5% compared with 2018).

With equal speed – to protect employees, the wider community and our business – we are also reacting to the unforeseeable Covid-19 emergency that is certain to effect the current year very deeply. We have worked, and continue to do so, to adapt the company to a world that will undoubtedly be different after the emergency, simplifying products and structures, reducing costs and maintaining technological leadership and cash generation as the priorities. We will during the year reinforce and supplement these actions, which had already been identified at the beginning of 2020 as the basis of our industrial plan, to enable us to face and move beyond the emergency, mitigating impacts at the economic-financial level.

As well as already having enacted a series of measures in response to the emergency and adjusted our targets to a scenario that has changed so profoundly and fast, Pirelli has the tools to manage this particularly difficult moment well at the global level. We have cutting-edge technology and a distinctive position in High Value that have made us a leader in the Premium and Prestige segments, distinguishing us from our competitors. We can count on products and production processes that are innovative thanks to the constant and valuable done every day by our Research & Development. Our advanced system of data analytics, in addition, enables us to cross-reference that data from our Original Equipment partners, replacement distributors and a number of external sources to reach both our existing clients and potential ones. We are leaders in sustainability and we aim to enhance that position by sourcing 100% of our electricity from renewable sources by 2025 and achieving Carbon Neutrality in our factories in 2030.

The Pirelli brand is admired throughout the world. Pirelli, in fact, is everywhere synonymous with safety, technology, reliability, as well as competition, aesthetics, and entrepreneurial culture. These are elements that are strengthened through our leading role in numerous sporting competitions, like Formula 1, Superbike, the America's Cup, and through the valuable work of identity enhancement done by the Fondazione Pirelli and Pirelli HangarBicocca that keep us in touch with contemporary culture.

The courage, awareness, knowhow and passion of the women and men of Pirelli, who work every day to make or company more competitive, will enable us to meet the great and difficult challenges ahead. The future of Pirelli, which has been one of the symbols of Italian industrial excellence for 150 years, depends on our work and commitment.

Everything is based on our people, our capacity for teamwork, our commitment and our passion. Above all, on the trust of our Stakeholders, you, who I thank once again.

NOON AT OUR DOOR

EMMANUEL CARRÈRE

Born in Paris, he is considered one of the most influential contemporary writers. In his later literary works, Carrère drew from his cinematographic background exploring reality to capturing its simple terribleness. Among his works, *The Adversary* (2000), *Other Lives But Mine* (2009), *Limonov* (2011) and *The Kingdom* (2015).

There's a French proverb that I like: "Everyone sees noon at his door." Translation: just as our perception of time varies depending on where we are, so our perception of things varies depending on our personal situation. To put it more bluntly: we see our own interests first and believe that our own problems are the most important. Philosophically, this is disappointing: we would like more altruism and higher views. Humanly, however, I find it rather reassuring that everyone sees noon at their door. It's reassuring because it's human, and that's why since the beginning of the confinement (you didn't *seriously* imagine we were going to talk about something else?), I decided to write a little text every day about how a person sees noon at their door, right now.

In the beginning, I used to do that with people I know, friends who I call with or Skype. Those who are in Paris, those who are in the country, those who are alone, those who are with their family or with their partner, those who have sick or dead people around them, those who, like me, are still virgins in this matter... And then I started interviewing my neighbours in the building, and then people in the street. Those queuing in front of the supermarket, the homeless, the small dealers who operate under my windows... I collected a few dozen micro stories, of very uneven interest, but, hey, it's my way of practicing this new literary genre that is the confinement journal.

Now, if you want to know what noon looks like on my own doorstep and what I'm *really* busy with, the answer is: a book. Not the beginning of a book: the end of a book. I'm well aware that there are more important things in the world, but there are none more important to me. This book I am finishing is a book about yoga – that's what it's called: *Yoga*. It's a funny book about yoga because it also deals with jihadist terrorism, the refugee crisis and a melancholy depression that caused me to spend four months in a psychiatric hospital where I was subjected to 14 electric shocks. A book about yoga, then, but one could also say: a book that, from a yoga perspective, tells of five years of a life. With this book, I had reached the very precise moment when you start putting commas back in the places where you took them out – a sign that doesn't deceive: if you keep going, you're going to damage the text instead of improving it. I had promised to send the final file to my publisher in mid-April, I had promised myself I'd finish it by mid-April no matter what, but what happened was that on March 17th we all, in France, found ourselves confined, and so it was that, confined to my Parisian apartment, between two chess games with my 13-year-old daughter (she starts beating me), I brought mid-April the last corrections to this book.

Each time I open the file, I feel an unprecedented anxiety. My question is not so much: is it good? – I normally ask myself this question, it's a typical and reassuring question in normal times – but: isn't it *outdated*? A book from the world before, a book that would perhaps have been interesting in the world before, but which, if it doesn't incorporate this enormous thing that has happened to us in the meantime, risks being, yes, out of date.

The aspiration to be who you want to be is our struggle, more or less, all of us.

I've never had that feeling, nor has anyone, I think. We were all stunned by the fall of the Twin Towers, the mightiest historical event that had ever happened in our lifetime, but no writer, I think, thought that his novel about a love triangle or the first disillusions of his childhood had become obsolete after September 11th, 2001. So what then? So it doesn't matter: I'm continuing, correcting, putting the finishing touches to my book on yoga. It may sound ridiculous, but if Yoga is what I think it is, it is trying to describe not so much a little life, but through a little life, the aspiration to be who you want to be and the destructive forces that prevent you from being: our struggle, more or less, all of us. I go on like this: this is my form of resilience.

This morning, I fell back into my scrupulous squaring of the text on a passage in which I recount a dinner at a friend's house in December 2014. We'd had a lot to drink and, as we were leaving, on the doorstep, we had a rather funny discussion about whether to shake hands, as we'd been doing until now, or to give each other a kiss. We wondered how and when exactly the habit of kissing male friends had spread, a habit which in our remote youth would have seemed to us both to be completely ridiculous. Finally we kissed. A month later, this friend named Bernard Maris was murdered in the attack on *Charlie Hebdo*. And now, more than five years later, I am seized with heart-wrenching nostalgia when I re-read that passage. For that time when we could hesitate between a handshake and a kiss, that time when we kissed so easily in both senses of the word: by taking the other one in our arms or by putting our lips on his cheek. More and more of us are afraid that time is gone, that it will not come back, that even when the confinement is lifted we will no longer be able to embrace each other.

THE ZOOM BRIGATA

JOHN SEABROOK

John Seabrook is the author *The Song Machine: Inside the Hit Factory*, *Nobrow* and other books. He is a longtime staff writer at the *New Yorker magazine*. He and his family live in New York City.

I was in a Zoom session recently with a group of ten old friends – a regular virtual meet-up that began with the pandemic, and I hope will continue when it ends. Each of us was telling stories about life in our separate places of self-imposed isolation. Strict schoolmaster that Zoom is, the software doesn't allow for over-talk, so we take turns amusing each other by telling stories, bad jokes, and recalled exploits from pre-pandemic days. There's a premium on wit and storytelling.

The structure of the conversation made me think of a wonderful book – *The Decameron*. (Later, when I saw the book trending on Twitter, I realized others had the same thought.) I first encountered the book and its creator, the Florentine poet and author Giovanni Boccaccio (1313-1375), long ago in a university class on the Italian Renaissance. In retrospect, it was a class that changed my life.

Now, sitting in front of my laptop, with the faces of my squad arrayed around the edges of the screen, I had the strange sense that this 21st century mode of communication was zooming me back to that medieval villa in Fiesole, outside Florence, where the "brigata" in Boccaccio's story (ten characters, the same number as our group) are sheltering in place to escape the La Pestilenza – the Black Death, the global pandemic that killed more than half of Florence's population, most between March and June of 1348. Dioneo, Philamata, and the other characters pass their days in the villa's garden and their evenings telling each other stories that recall the pre-pandemic worldly delights – just like us. In our regular Zoom sessions, we had been unconsciously doing the same thing as the brigata in Boccaccio's tale, which was first published in 1353.

Without the Black Death, nothing would have changed and we would not have had the Renaissance.

"Have any of you read *The Decameron*?" I asked, when it was my turn to speak. No one had, although several in the group had seen the raunchy Pier Paolo Pasolini film version from 1971. So, since I had the floor, I told my story about the book. As a young man, I had planned to be an engineer, like my father, or a scientist; instead I became a writer (like my mother) devoted to telling stories about people like my father – scientists and engineers. I try to look for the human element in complex and technical subject matter – the soul inside the machine. Artificial intelligence has made terrific strides in the last decade, as a result of the switch to deep learning-based neural nets, but for all its processing power, A.I. is still in its Dark Ages; it lacks "humanism," the core philosophy embedded in the Renaissance.

Much of the credit (or blame, as my father saw it) for this realignment of my career goals belongs to Boccaccio, and that class, and the man who taught it, Professor Anthony Grafton, of Princeton University, who is the single most learned person I have ever known. The professor's first lecture concerned *The Decameron*, and Grafton began by reading from the Preface, a vivid and horrifying account of the effects of the pandemic on Florence.

"But why begin a course on the Renaissance with the Black Death?" one of my friends asked, his face momentarily replacing mine on the Zoom screen.

"Because without the Black Death, nothing would have changed," I answer. My friend's face looked doubtful.

I recalled for the group the professor's remarks on how the plague had unleashed technology. With so many scribes dead, experiments were launched in machine printing, leading Gutenberg's world-changing 1452 invention, the printing press.
"Did you know that *The Decameron* was one of the first books printed?"

"But what does *The Decameron* have to do with the Renaissance?" one of the brigata asked.

"Only everything," I replied. "Think of it: the world is ending, and five years later comes the first epic prose masterpiece of modern western literature. The canon begins with Boccaccio. And the moral of his story is, 'As long as there is storytelling, humanity will go on.' Even the Black Death couldn't quench that life force. Is there a better example of human resilience in the face of unimaginable adversity than *the Decameron*?"

"You mean, 'Creativity Goes On," someone put in, quoting Apple's post-pandemic commercial.

"I'm saying that it takes a crisis to remind us that we all possess this essential human gift – storytelling. Which is why," I said, summing up my tale, "I became a writer, and not an engineer." Sorry Dad, I was young and foolish.

"So take heart, friends," I went on, easily slipping into the role of Dioneo, the Boccaccio stand-in, who gets to have the last word in the book. "We are saving the world, one Zoom session, Tic Toc video, and Google Hangout at a time, by telling each other stories. This is *The Decameron* in real time."

We signed off, promising to meet next week. As our virtual villa evaporated, so did those leafy medieval gardens in Fiesole where Boccaccio's characters pass the heat of the day, until the storytelling begins again.

NOTICE OF SHAREHOLDERS' MEETING

The persons entitled to vote at the shareholders' meeting of Pirelli & C. Società per Azioni are called to an Ordinary and Extraordinary Shareholders' Meeting in Milan, at the offices of Studio Notarile Marchetti in Via Agnello n. 18, at 10:30 a.m. on Thursday 18 June 2020, in a single call, to discuss and resolve on the following

AGENDA

ORDINARY SESSION

1. Financial Statements at 31 December 2019:
   - → approval of the financial statements;
   - → allocation of the profits for the year.

Related and consequent resolutions.

2. Appointment of the Board of Directors:
   - → Determination of the number of members of the Board of Directors;
   - → Appointment of the Directors;
   - → Appointment of the Chairman of the Board of Directors;
   - → Determination of the annual remuneration of the members of the Board of Directors.
3. Report on the Remuneration policy and compensation paid
   - → approval of the 2020 remuneration policy;
   - → advisory vote on the remuneration paid in 2019.
4. Three-year monetary incentive plan (2020-2022) for the Pirelli Group's management. Related and consequent resolutions.
5. The "Directors and Officers Liability Insurance" policy. Related and consequent resolutions.

EXTRAORDINARY SESSION:

→ Amendment of Articles 6 (Share Capital); 9 (Shareholders' Meeting); 10, 11, 12, 13 (Management of the Company) and 16 (Board of Statutory Auditors) of the Company Bylaws. Related and consequent resolutions.

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

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, RISK, SUSTAINABILITY AND CORPORATE GOVERNANCE COMMITTEE

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

COMMITTEE FOR RELATED PARTY TRANSACTIONS

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

1 Appointment: August 1, 2017 effective August 31, 2017. Expiry: Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2019. The Director Giovanni Lo Storto was appointed by the Shareholders' Meeting held on May 15, 2018. Ning Gaoning was co-opted by the Board of Directors on August 7, 2018, (replacing Ren Jianxin, who resigned on July 30, 2018) and was confirmed as Director and Chairman by the Shareholders' Meeting held on May 15, 2019.
2 Appointment: May 15, 2018. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2020.

NOMINATIONS AND SUCCESSIONS COMMITTEE

Chairman	Marco Tronchetti Provera
	Ning Gaoning
	Bai Xinping
	Giovanni Tronchetti Provera

REMUNERATION COMMITTEE

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

STRATEGIES COMMITTEE

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

INDEPENDENT AUDITING FIRM[3]	PricewaterhouseCoopers S,p,A,
CORPORATE FINANCIAL REPORTING MANAGER[4]	Francesco Tanzi

The Supervisory Board (as provided for by 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 2019 INTEGRATED ANNUAL REPORT

The Pirelli 2019 integrated Report (Annual Report 2019) 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 capitals and is in turn influenced by the value created by the latter. In 2019 the business operations generated an adjusted[5] EBIT of €917.3 million (€955 million in 2018) with a margin of 17.2% (18.4% in 2018). Internal levers (price/mix, efficiencies and the cost reduction programme) have helped to contain the impacts of the external scenario (increased in the cost of production factors, weak demand and price pressure).

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 in terms of reducing water withdrawal, energy consumption, CO_2 emissions and increasing waste recovery. In this regard, in 2019 compared to 2018, Pirelli recorded a 14.7% decrease in absolute water withdrawal, a reduction in absolute energy consumption of over 2%, and a reduction in absolute CO_2 emissions of around 2%. In addition, 97% of waste was sent to recovery, effectively pursuing the Group's "*zero waste to landfill*" target.

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 2019 totalled €232.5 million (4.4% of sales), of which €215.7 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 2019 represent 55.8%[6] of total tyre turnover (49.8% in 2018 and 43.5% in 2017). By restricting the scope of the analysis to High Value products[7], the percentage of Green Performance products rises to 63.3%.

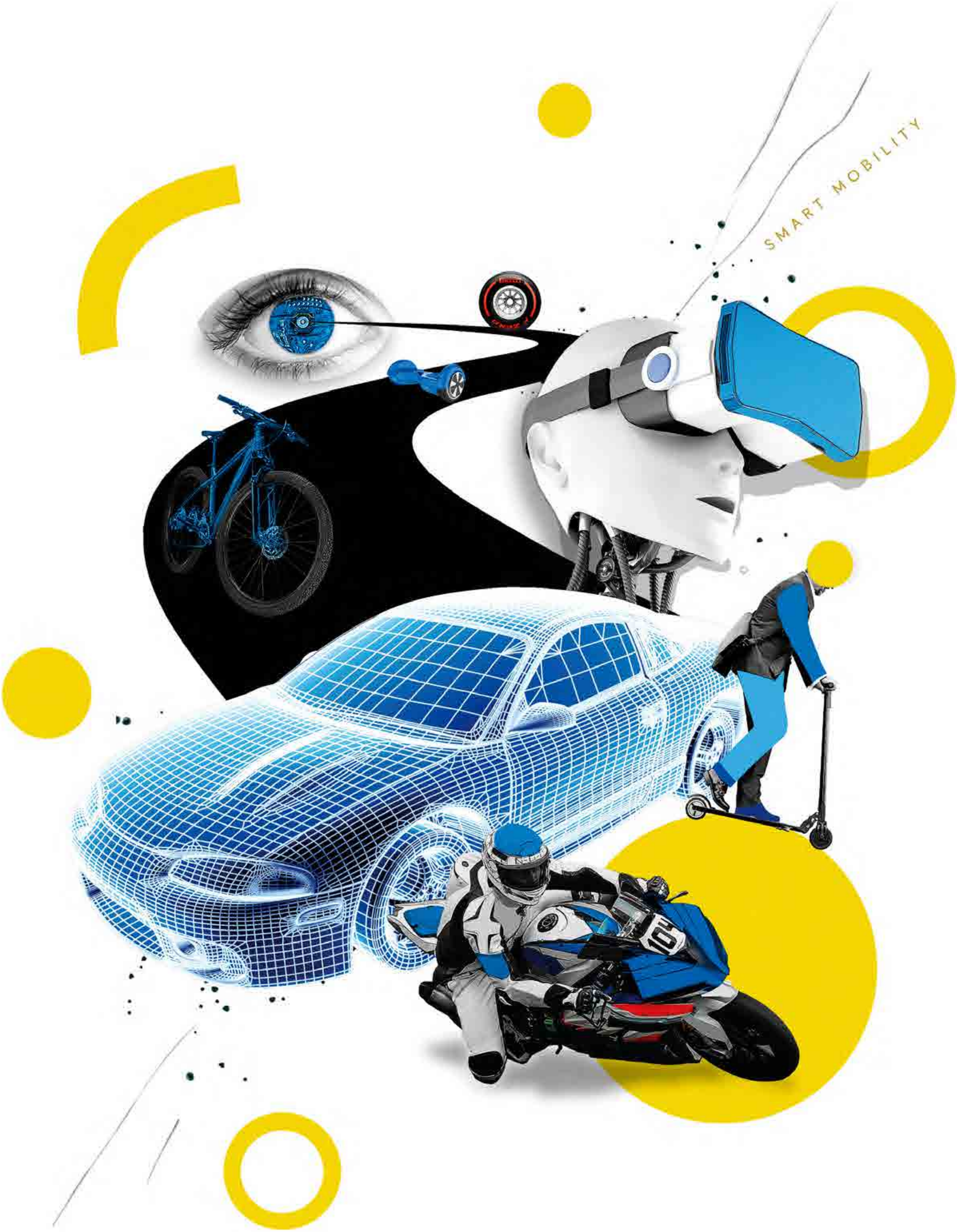
The heavy investment in innovation also fuels Pirelli's intellectual capital, as it has a portfolio of active patents grouped into more than 780 families covering product, process and materials innovations, as well as a globally recognised brand.

These types of capital evolve thanks to the commitment, competence and dedication of 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 2019 was in line with the previous year with a reduction of 83% compared to 2009, while investment in training was, for the seventh consecutive year, greater than 7 average days per employee.

Pirelli's social and relational capitals are based on the continuous and transparent dialogue that the Company maintains with its Stakeholders. During 2019, particular importance was given to the engagement and training of natural rubber suppliers on the contents of the "Pirelli Policy on Sustainable Natural Rubber Management" and its Implementation Manual, published in 2017 and 2018 respectively, following consultations with relevant stakeholders (including international NGOs, Pirelli's main natural rubber suppliers, retailers and farmers in the supply chain, automotive customers, international multilateral organisations).

In methodological terms, in the preparation of the Annual Report 2019 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.

5 Before non-recurring and restructuring costs.
6 Figure obtained by weighing the value of sales of Green Performance tyres on the total value of sales of Group car tyres. Green Performance products identify the car 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.
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).


SMART MOBILITY

Directors' report on operations at December 31, 2019

MACROECONOMIC AND MARKET SCENARIO

For 2019, global growth in GDP growth averaged approximately +2.9%, having slowed compared to +3.6% for 2018, also due to the effect of trade tensions between the US and China, which were lessened in part as a result of the preliminary agreement on customs duties reached between the two countries at the end of the year.

In Europe, in particular, economic activity was held back by weakness in the manufacturing sector, especially in Germany, and by political uncertainty in the United Kingdom, which lessened only at the end of the year with the elections, and the agreement to define the country's exit from the EU.

GDP growth in the US equalled +2.3% (+2.9% for 2018), buoyed by the positive performance of the labour market, and the US Government's fiscal stimulus package.

ECONOMIC OVERVIEW

ECONOMIC GROWTH, PERCENTAGE CHANGE IN GDP

	2017	2018	2019
UE 28	2.7	2.0	1.4
USA	2.4	2.9	2.3
China	6.8	6.6	6.1
Brazil	1.3	1.3	1.1
Russia	1.7	2.2	1.1
World	3.9	3.6	2.9

Note: Change in year-on-year percentages. Global growth based on purchasing power parities.
Source: IHS Markit, January 2020.

In China, economic activity was affected by the aforementioned trade tensions with the US, while the use of any fiscal or monetary stimulus was limited by high levels of private sector debt. Growth also slowed in Brazil, weighed down by political uncertainty which impacted reforms, and by weak foreign demand. Russia also suffered a slowdown in private consumption due to a VAT increase in 2019, and weak oil prices.

EXCHANGE RATES

During the course of the year, the euro/US dollar exchange rate averaged 1.12, down by -5.2% compared to 2018. This change reflected the strengthening of the US dollar against the euro and the main currencies of emerging countries, supported by expectations of falling European interest rates, the strength of the US economy, and above all, by the search for a safe haven currency by investors amid trade tensions.

The Chinese yuan went from an average of 6.62 against the US dollar in 2018, to 6.90 for 2019, with a depreciation of approximately -4% linked to worsening trade tensions with the US. The Brazilian real and the Russian rouble also suffered compared to the US dollar during 2019. The real depreciated by -7.3% against the US dollar, while during the same period the rouble depreciated by -3.2% against the US dollar.

KEY EXCHANGE RATES	FOURTH QUARTER		FULL YEAR AVERAGE	
	2019	2018	2019	2018
US$ per euro	1.11	1.15	1.12	1.18
Yuan cinese per US$	7.03	6.91	6.90	6.62
Real brasiliano per US$	4.12	3.80	3.95	3.66
Rublo russo per US$	63.70	66.37	64.66	62.60

Note: Average exchange rates for the period. Source: National central banks.

RAW MATERIALS' PRICES

The slowdown in global demand led to a general drop in the prices of the main energy raw materials during 2019. The average price of Brent stood at US$ 64.2 per barrel, down by -10.3% compared to 2018, when prices were sustained by the announcement of American sanctions against Iran. In 2019, instead, the increase in supply by non-OPEC countries compensated for both the reduction in production in Iran, and the limits imposed by OPEC countries on their production, to contain the surplus of oil on the market.

The trend for Butadiene followed a trend similar to that of oil, with an average price of euro 824 per tonne for 2019, down by -18.5% compared to 2018.

The price of natural rubber instead, remained relatively stable, with a recovery of +3% compared to the average price for 2018. On a monthly basis, the prices wavered between euro 1290 and euro 1515 per tonne, below the peak of over euro 2100 per tonne touched on at the beginning of 2017.

RAW MATERIAL PRICES	FOURTH QUARTER			FULL YEAR AVERAGE		
	2019	2018	% change	2019	2018	% change
Brent (US$ / barrel)	62.5	68.1	-8.2%	64.2	71.5	-10.3%
Butadiene (€ / tonne)	740	1,058	-30.1%	824	1,011	-18.5%
Natural rubber TSR20 (US$ / tonne)	1,371	1,266	8.3%	1,406	1,365	3.0%

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

TREND IN CAR TYRE MARKETS

For 2019 global tyre sales for 2019 fell by -1.4% particularly for the Original Equipment channel (-5.9%), due to macroeconomic uncertainties and a slowdown in global vehicle production (-5.9%), which was particularly accentuated in China at -8.5%, in Europe at -4.2% and North America (-4.0%). The performance of the Replacement channel was more stable with a growth of +0.4% for the year.

The New Premium segment (tyres with rim diameter ≥18 inches) was the segment with the highest growth, with +5.9% at global level for 2019, thanks to a good performance by the Replacement channel (+9.9% for 2019), and the resilience of the Original Equipment market (+0.8% for 2019).

Standard segment sales (tyres with rim diameter ≤17 inches) fell by -2.7%, with Original Equipment down by -8.0%, particularly in EMEA (-9.1%), APAC (-8.0%), and North America (-9.4%), with the Replacement channel at -0.9%, with negative results in Russia (-5.4%), South America (-3.3%) and EMEA (-2.6%).

TRENDS IN CAR TYRE MARKETS

% YEAR-ON-YEAR	1 Q	2 Q	3 Q	4 Q	TOTAL YEAR 2019
Total Car Tyre Market					
Total	**-1.6**	**-2.0**	**-0.1**	**-1.9**	**-1.4**
Original equipment	-6.0	-8.4	-3.9	-5.1	-5.9
Replacement	0.4	0.7	1.2	-0.6	0.4
New Premium Market ≥ 18”					
Total	**5.4**	**4.6**	**8.4**	**5.3**	**5.9**
Original equipment	-0.4	-1.1	4.4	0.7	0.8
Replacement	10.4	9.3	11.2	8.9	9.9
Standard Market ≤ 17”					
Total	**-2.8**	**-3.2**	**-1.6**	**-3.2**	**-2.7**
Original equipment	-7.7	-10.6	-6.5	-6.9	-8.0
Replacement	-0.9	-0.5	-0.1	-1.9	-0.9

Source: Pirelli estimates.

SIGNIFICANT EVENTS OF 2019

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

On **May 13, 2019** Pirelli announced the reorganisation of its production facilities in Brazil in order to improve its competitiveness in that country, through the creation of a technology hub for High Value Car, Motorsport and Motorcycle tyres at Campinas, to where the production of Motorcycle tyres currently produced at Gravataì will be transferred. An investment plan for the modernisation and conversion of production facilities from Standard to High Value, plus the continuous improvement of the mix and product quality in the Campinas (Sào Paolo) and Feira de Santana (Bahia) manufacturing plants. The resources for this reorganisation derive mainly from the signing of the Patent Box tax agreement which took place in October 2018, and which as was expected at the time, are destined for the further focusing on High Value production, and to the more rapid reduction of the Standard segment.

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

GROUP PERFORMANCE AND RESULTS

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

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

* * *

This Interim Financial Report at December 31, 2019 has been prepared by applying the new accounting standard IFRS 16 – Leases, which came into force as of January 1, 2019 (transition date).

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

→ a financial liability of euro 494.3 million, equal to the present value of residual future payments at the transition date, discounted using the incremental borrowing rate applicable at the transition date for each contract. Financial liabilities at December 31, 2019 equalled euro 483.1 million;
→ rights of use included under assets of euro 491.7 million, equal to the value of the financial liability at the transition date, net of any accruals and deferrals relative to the lease and recognised in the Statement of Financial Position at the transition date. Rights of use at December 31, 2019 amounted to euro 462.6 million.

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

The Income Statement, Statement of Financial Position and Financial Statement figures at December 31, 2019 include the impacts deriving from the application of the new standard, while the comparative data for 2018 have not been restated. With the transition, the Group did in fact adopt the modified retrospective method, and has recognised the cumulated effects deriving from the first application at January 1, 2019.

* * *

The tyre sector during 2019, was characterised by weak demand (-1.4% compared to 2018), particularly for the Original Equipment channel (the market at -5.9%), consistent with the drop in global car production. In order to guarantee an adequate level of saturation in the manufacturing plants, and contain inventories, many operators in the sector redirected production originally planned for the Original Equipment channel, to the Replacement market, with a consequent impact on prices. These reductions mainly affected the Standard segment and High Value products with a lower technological content.

Given this context, Pirelli continued its strategy of focusing on the High Value segment, which is more resilient (growth in the Car tyre market ≥18" was +5.9%), and less exposed to competitive pressure, and as such consolidating its leadership position, and strengthening its presence on the market for products which are characterised by a high technological content. For the Standard Segment, where demand remained weak (the market at -2.7% for 2019), Pirelli continued with the reduction of exposure to less profitable products, at the same time reducing inventory levels (-23% in terms of Standard Car inventory volumes), which had increased by the end of 2018 due to the crisis in the Brazilian economy. The company closed 2019 with an impact of inventories on revenues equal to 20.5%, compared to 21.7% at the end of 2018.

Pirelli's results for 2019 were characterised by:

→ **revenues equal to euro 5,323.1 million (a target of ≥5.3 billion)**, a growth of +2.5% compared to 2018 (an organic change of +2.2%), thanks to the further strengthening of the High Value segment, which represented 66.5% of consolidated revenues, (+2.8 percentage points compared to 63.7% for 2018);
→ **profitability (EBIT margin adjusted) at 17.2%, consistent with the target (>17% ÷ 17.5%).** EBIT adjusted amounted to euro 917.3 million. The contribution of internal levers (price/mix, efficiencies and cost containment measures) limited the impact of the worsening external scenario (increase in the cost of production factors, weakness in market demand and pressure on prices);
→ **total net income** equal to euro 457.7 million, a growth of +3.5% compared to euro 442.4 million for 2018;
→ **solid cash flow generation**, with net cash flow before dividends without IFRS 16 equal to euro 332.9 million, **consistent with the target of euro 330-350 million**, thanks to the efficient management of investments and working capital. For the **fourth quarter**, net cash flow before dividends without IFRS 16 amounted to euro 978.2 million, an improvement of euro 120 million compared to euro 858.2 million for the fourth quarter of 2018;
→ **reduction in the level of debt.** For 2019 the Net Financial Position was equal to euro 3,024.1 million (euro 3,507.2 million including euro 483.1 million derived from the accounting standard IFRS 16), a reduction compared to euro 3,180.1 million at December 31, 2018. The ratio between the Net Financial Position and the EBITDA adjusted without start-up costs stood at 2.42x (2.49x at the end of 2018), consistent with the target (2.42x/2.36x), or 2.59x including the impact of the accounting standard IFRS16 (a target of 2.59x/2.53x).

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

(In millions of euro)

	2019	2018
Net sales	**5,323.1**	**5,194.5**
EBITDA adjusted without start-up costs*	**1,350.7**	**1,279.1**
% of net sales	25.4%	24.6%
EBITDA adjusted**	**1,310.0**	**1,234.7**
% of net sales	24.6%	23.8%
EBITDA***	**1,250.0**	**1,097.4**
% of net sales	23.5%	21.1%
EBIT adjusted without start-up costs*	**958.6**	**1,002.7**
% of net sales	18.0%	19.3%
EBIT adjusted	**917.3**	**955.0**
% of net sales	17.2%	18.4%
Adjustments: - amortisation of intangible assets included in PPA	(114.6)	(114.6)
- non-recurring, restructuring expenses and other	(131.0)	(137.3)
- income from Brazilian tax credits	71.0	-
EBIT	**742.7**	**703.1**
% of net sales	14.0%	13.5%
Net income/(loss) from equity investments	(11.0)	(5.0)
Financial income/(expenses)***	(109.4)	(196.3)
- of which financial income from Brazilian tax credits	*107.3*	-
Net income/(loss) before tax	**622.3**	**501.8**
Tax expenses	(164.6)	(53.0)
Tax rate %	26.5%	10.6%
Net income/(loss) related to continuing operations	**457.7**	**448.8**
Eanings/(loss) per share related to continuing operations (in euro per share)	0.44	0.44
Net income/(loss) related to continuing operations adjusted	514.3	576.3
Net income/(loss) related to discontinued operations	-	(6.4)
Total net income/(loss)	**457.7**	**442.4**
Net income attributable to owners of the Parent Company	438.1	431.6

* Start-up costs refers to contribution to EBITDA and EBIT (amounting to euro 40.7 million (euro 44.4 million in 2018) and euro 41.3 million (euro 47.7 million in 2018)) respectively of the Cyber and Velo activities and costs sustained for the digital transformation of the Group.
** Adjustments refer to restructuring expenses amounting to euro 97 million (euro 67.5 million in 2018), the benefit derived from tax credits in Brazil amounting to euro 71 million, expenses relative to the retention plan amounting to euro 6.9 million (euro 13.3 million in 2018) and costs (i) relative to renegotiation of commercial agreements amounting to euro 13.1 million (euro 14.2 million in 2018) and (ii) not pertinent to normal business operations amounting to euro 14 million (euro 18.3 million in 2018). In 2018 adjustments also included non recurring expenses amounting to euro 24 million.
*** The item includes for 2019, the impacts deriving from the application of the new accounting standard IFRS 16 - Leases to the amount of euro 104.3 million on EBITDA and euro -24 million on financial expenses.

(In millions of euro)

	12/31/2019	12/31/2018
Fixed assets related to continuing operations without IFRS 16	9,007.2	9,017.8
Rights of use IFRS 16	462.6	n/a
Fixed assets related to continuing operations	**9,469.8**	**9,017.8**
Inventories	1,093.8	1,128.5
Trade receivables	649.4	628.0
Trade payables	(1,611.5)	(1,604.7)
Operating working capital related to continuing operations	**131.7**	**151.8**
% of net sales	2.5%	2.9%
Other receivables/other payables	81.0	(39.8)
Net working capital related to continuing operations	**212.7**	**112.0**
% of net sales	4.0%	2.2%
Net invested capital held for sale	-	10.7
Net invested capital	**9,682.5**	**9,140.5**
Equity	**4,826.6**	**4,550.9**
Provisions	1,348.7	1,409.5
Net financial (liquidity)/debt position without IFRS 16	**3,024.1**	**3,180.1**
Lease obligations IFRS 16	483.1	n/a
Net financial (liquidity)/debt position	**3,507.2**	**3,180.1**
Equity attributable to owners of the Parent Company	4,724.4	4,468.1
Investments in property, plant and equipment and intangible assets without IFRS16 (Capex)	390.5	463.4
Increases in Rights of use IFRS16	51.2	n/a
Research and development expenses	232.5	219.0
% of net sales	4.4%	4.2%
Research and development expenses - High Value	215.7	202.9
% on sales High Value	6.1%	6.1%
Employees (headcount at end of period)	31,575	31,489
Industrial sites (number)	19	19

For a better understanding of the Group's performance, the following **quarterly performance figures** are provided below:

(In millions of euro)

	1 Q		2 Q		3 Q		4 Q		TOTAL YEAR	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net sales	**1,313.8**	1,310.3	**1,341.0**	1,320.0	**1,381.6**	1,294.9	**1,286.7**	1,269.3	**5,323.1**	5,194.5
yoy	0.3%		1.6%		6.7%		1.4%		2.5%	
*organic yoy **	1.2%		1.6%		4.1%		2.0%		2.2%	
EBITDA adjusted without start-up costs	327.0	298.0	330.5	310.3	350.1	328.0	343.1	342.8	1,350.7	1,279.1
% of net sales	24.9%	22.7%	24.6%	23.5%	25.3%	25.3%	26.7%	27.0%	25.4%	24.6%
EBITDA adjusted	**315.6**	288.1	**320.5**	299.8	**342.4**	319.8	**331.5**	327.0	**1,310.0**	1,234.7
% of net sales	24.0%	22.0%	23.9%	22.7%	24.8%	24.7%	25.8%	25.8%	24.6%	23.8%
EBITDA	**308.2**	282.4	**369.7**	290.4	**299.5**	312.2	**272.6**	212.4	**1,250.0**	1,097.4
% of net sales	23.5%	21.6%	27.6%	22.0%	21.7%	24.1%	21.2%	16.7%	23.5%	21.1%
EBIT adjusted and without start-up costs	230.7	229.4	231.7	243.9	252.0	258.8	244.2	270.6	958.6	1,002.7
% of net sales	17.6%	17.5%	17.3%	18.5%	18.2%	20.0%	19.0%	21.3%	18.0%	19.3%
EBIT adjusted	**219.2**	218.4	**221.3**	231.7	**244.5**	250.0	**232.3**	254.9	**917.3**	955.0
% of net sales	16.7%	16.7%	16.5%	17.6%	17.7%	19.3%	18.1%	20.1%	17.2%	18.4%
Adjustments: - amortisation of intangible assets included in PPA	(28.7)	(28.7)	(28.6)	(28.6)	(28.7)	(28.7)	(28.6)	(28.6)	(114.6)	(114.6)
- non-recurring, restructuring expenses and other	(7.4)	(5.7)	(22.6)	(9.4)	(42.9)	(7.6)	(58.1)	(114.6)	(131.0)	(137.3)
- income from Brazilian tax credits	-	-	71.8	-	-	-	(0.8)	-	71.0	-
EBIT	**183.1**	184.0	**241.9**	193.7	**172.9**	213.7	**144.8**	111.7	**742.7**	703.1
% of net sales	13.9%	14.0%	18.0%	14.7%	12.5%	16.5%	11.3%	8.8%	14.0%	13.5%

* before exchange rate effect and high inflation accounting in Argentina

Net sales amounted to euro 5,323.1 million and recorded an organic growth of +2.2% compared to the previous year, or +2.5% including the combined impact of the exchange rate effect and the adoption of hyper-inflation accounting in Argentina (totalling +0.3%).

High Value revenues amounted to euro 3,539.9 million, and recorded a growth of +6.9% compared to the corresponding period of 2018 (an organic growth of +5.2% excluding the positive exchange rate effect of +1.7 percentage points), which accounted for a 66.5% share of the total turnover which had increased compared to 63.7% for 2018.

(In millions of euro)

	2019	% of total	2018	% of total	Change YoY	Organic change YoY
High Value	3,539.9	66.5%	3,309.9	63.7%	6.9%	5.2%
Standard	1,783.2	33.5%	1,884.6	36.3%	-5.4%	-3.2%
Total net sales	**5,323.1**	**100.0%**	**5,194.5**	**100.0%**	**2.5%**	**2.2%**

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

	1 Q	2 Q	3 Q	4 Q	TOTAL YEAR 2019
Volume	-6.5%	-3.5%	0.6%	1.5%	-2.0%
of which:					
- High Value	*4.5%*	*3.4%*	*10.2%*	*7.8%*	*6.4%*
- Standard	*-16.6%*	*-11.0%*	*-8.8%*	*-0.7%*	*-9.7%*
Price/mix	7.7%	5.1%	3.5%	0.5%	4.2%
Change on a like-for-like basis	**1.2%**	**1.6%**	**4.1%**	**2.0%**	**2.2%**
Translation effect/High inflation Argentina	-0.9%	-	2.6%	-0.6%	0.3%
Total change	**0.3%**	**1.6%**	**6.7%**	**1.4%**	**2.5%**

The trend in sales **volumes** (-2% for 2019, and +1.5% for the fourth quarter), on the one hand reflected the increase in High Value volumes (+6.4%), and on the other, the drop in Standard volumes (-9.7%). During the fourth quarter, overall volumes grew by +1.5% due to a +7.8% growth in High Value segment sales, and a -0.7% drop in Standard segment sales.

High Value segment volumes increased by +6.4% (+7.8% for the fourth quarter) while **Car New Premium (≥18 inches)** volumes increased by +8.0% (market performance at +5.9%), and by +8.7% for the fourth quarter (market at +5.3%), with an improvement in market share in the main geographic regions.

For the fourth quarter of 2019 Pirelli recorded a growth in volume of +15.3% for Car tyres ≥18 inches on the Original Equipment channel due to new supplies in Europe of High Value, high technological content products which are compliant with the new regulations for the reduction of CO_2 emissions, as well as new contracts in North America and APAC. There was more contained growth for the Replacement channel (+3.5%), which reflected the unfavourable basis of comparison (+15.6% growth for the fourth quarter of 2018), and the trend for *Winter* products which was impacted by mild winter temperatures. The difference, compared to the 2019 target, was the growth of the High Value segment by ≥+7.5%, attributable to the weakening demand for *Specialties* ≤17 inches mainly on the Original Equipment channel, which was consistent with the fall in Car tyre production, and the more contained growth for *Winter* products.

There was a positive price/mix performance (+4.2%) supported by the growing turnover share of the High Value segment, and by the improvement of the product mix both for the High Value and Standard segment. The price/mix performance for 2019 reflected the different trends for the individual components during the year. During the first half-year, price/mix performance (+6.4%) benefited from higher sales for the Replacement channel (+13.1% for Replacement Car tyres ≥18 inches compared to -3.4% for the Original Equipment channel), and from the sharp reduction in Standard volumes (-13.9%). Improvement in the price/mix was however more contained during the second half-year (+2%) and particularly in the fourth quarter (+0.5%) due to, higher Original Equipment channel sales (+15.3% in volumes for Car tyres ≥18 inches for the fourth quarter compared to +3.5% for the Replacement channel), and to the more contained reduction of the Standard segment (-0.7% for the fourth quarter of 2019), which reflected the unfavourable basis of comparison (-22.6% for the fourth quarter of 2018).

Given the weak market scenario, the competitive pressure on prices persisted particularly for the Original Equipment channel. The trend in prices for the Replacement channel improved during the fourth quarter compared to the previous quarter, thanks to price increases in Europe, the US and Brazil.

The exchange rate effect was slightly positive: during the fourth quarter the impact had been negative by -0.6%, mainly due to the volatility of emerging market currencies against the euro.

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

	2019				2018**
	euro\mln	%	yoy	Organic Yoy*	%
EMEA	2,288.7	43.0%	-1.7%	-1.5%	44.9%
North America	1,101.9	20.7%	9.7%	4.2%	19.3%
APAC	975.1	18.3%	7.9%	6.3%	17.4%
South America	682.0	12.8%	-1.4%	6.1%	13.3%
Russia and Nordics	275.4	5.2%	3.7%	3.5%	5.1%
Total	**5,323.1**	**100.0%**	**2.5%**	**2.2%**	**100.0%**

* before exchange rate effect and high inflation accounting in Argentina
** the comparative data for 2018 have been restated in accordance with the new repartitions by geographic regions

EMEA (43% of sales) closed 2019 with a fall in revenues of -1.7%, impacted by the strong drop in sales for the Standard Segment, consistent with the Company's strategy to reduce exposure to this segment. Profitability was positioned in the mid-teens range, and had declined compared to 2018, impacted by the previously mentioned decline in Standard sales volumes, and the increased pressure on prices for Standard segment products and for High Value products with lower technological content.

North America (20.7% of sales) recorded a revenue growth of +9.7% driven by the High Value segment where Pirelli recorded an increase in market share for the Original Equipment channel thanks to new contracts. Profitability (EBIT margin adjusted) stood in the twenties range.

APAC (18.3% of sales) which recorded a revenue growth of +7.9% was the geographic region with the highest profitability (an EBIT margin adjusted in the twenties range).

South America (12.8% of sales) recorded a decline in revenues of -1.4%, of +6.1% net of the exchange rate effect, with a drop in volumes of -7.4%, as a result of:

- the weakness of the market (-3.3% for the total car market);
- the continued focus on the mix, with the reduction of sales of less profitable Standard segment products with lower rim diameters;
- the destination of a part of production for export to North America in consideration of the growing demand for High Value Pirelli products, and the continued growth of the mix recorded by the Brazilian factories.

The price/mix saw a marked improvement (+13.4% for 2019 compared to the corresponding period of 2018), thanks to the price increases implemented in Brazil which occurred during the fourth quarter of 2018, and to the strong improvement in the product mix.

Profitability (EBIT margin adjusted) in the low-teens range had improved compared to 2018, due to the improvement and conversion of the mix. Efficiency measures helped reduce the impact of costs arising from the under-utilisation of factories.

Russia and Nordics (5.2% of sales) recorded a change in revenues of +3.7% thanks to the strengthening of the High Value segment and the increased focus on the most profitable segments. Profitability was at mid-teens level.

EBITDA adjusted without start-up costs for 2019 was equal to euro 1,350.7 million, a growth of +5.6% compared to euro 1,279.1 million for 2018. It included a benefit of euro 104.3 million derived from the application - as of January 1, 2019 - of the new accounting standard IFRS 16 which established a new method of accounting for lease contracts.

EBIT adjusted without start-up costs equalled euro 958.6 million (euro 1,002.7 million for 2018). The EBIT margin adjusted without start-up costs stood at 18% (19.3% for 2018), impacted by High Value volumes which accounted for an 84% share of total turnover, which had increased compared to 83% for 2018.

EBIT adjusted equalled euro 917.3 million (euro 955 million for 2018) with a margin of 17.2% (18.4% for 2018). Internal levers (price/mix, efficiencies and the costs reduction program) contributed in containing the impacts of the external scenario (an increase in the cost of production factors, weakness in market demand and the pressure on prices).

In more detail:

- improvement in the price/mix (euro +122.9 million) offset the rise in the price of raw materials (euro -66.7 million) and the previously mentioned fall in volumes (euro -44.8 million);
- efficiencies (euro +70 million, 1.3% of revenues) offset cost inflation (euro -76.6 million);
- the cost reduction plan (euro 50 million) contributed in limiting the impact of higher amortisation and depreciation (euro 25 million), of expenses linked to the development of the High Value segment (euro 56 million), and costs (approximately euro 20 million) linked to the temporary increase in the under-utilisation of the Standard capacity in order to reduce inventories.

(In millions of euro)

	1 Q	2 Q	3 Q	4 Q	TOTAL YEAR
2018 EBIT Adjusted	**218.4**	**231.7**	**250.0**	**254.9**	**955.0**
- Internal levers:					
Volumes	(37.7)	(19.2)	3.0	9.1	(44.8)
Price/mix	62.7	37.9	20.0	2.3	122.9
Amortisation, depreciation and other	3.4	5.3	(25.5)	(27.4)	(44.2)
Efficiencies	16.4	19.7	20.0	13.9	70.0
- External levers:					
Cost of production factors (commodities)	(27.0)	(31.5)	(9.1)	0.9	(66.7)
Cost of production factors (labour/energy/others)	(14.9)	(20.0)	(20.0)	(21.7)	(76.6)
Difference from foreign currency translation	(2.1)	(2.6)	6.1	0.3	1.7
Total change	**0.8**	**(10.4)**	**(5.5)**	**(22.6)**	**(37.7)**
2019 EBIT adjusted	**219.2**	**221.3**	**244.5**	**232.3**	**917.3**

EBIT equalled euro 742.7 million (euro 703.1 million for 2018) and included:

- the amortisation of intangible assets identified during the Purchase Price Allocation (PPA) of euro 114.6 million (consistent with 2018);
- restructuring expenses to the amount of euro 97.0 million relative to the impairment of property, plant and equipment and other costs for restructuring mainly in Brazil and Italy;
- other expenses to the amount of euro 34 million, of which euro 6.9 million were relative to the retention plan, euro 14.0 million relative to costs not pertinent to operations management and euro 13.1 euro million relative to the renegotiation of commercial agreements with customers;
- income of euro 71.0 million due to the recognition of tax credits in Brazil, net of the associated legal expenses.

Income/(loss) from equity investments was negative to the amount of euro 11.0 million compared to the negative amount of euro 5.0 million for 2018, and includes the pro-rata share of the loss attributable to the Chinese joint venture Xushen Tyre (Shanghai) Co., Ltd. (euro 7.2 million), the pro-rata share of the loss attributable to the Indonesian joint venture PT Evoluzione Tyres (euro 2.8 million).

Net financial expenses amounted to euro 109.4 million (euro 196.3 million for 2018) which mainly reflected:

- the positive effect to the amount of euro 107.3 million deriving from the recognition of tax credits in Brazil;
- the negative impact of euro 23.5 million in lease expenses deriving from the application of the new accounting standard IFRS 16 - Leases.

On a like-for-like basis with respect to 2018, net financial expenses which amounted to euro 193.2 million were substantially consistent with the previous year (euro 196.3 million).

The cost of debt year-on-year stood at 2.83% compared to 2.95% for 2018.

The reduction in the cost of debt during the course of 2019 mainly reflected:

- a reduction in the cost of the central credit facilities thanks to the partial replacement of existing debt with new debt at a lower cost, and to the reduction of the interest margin on the main bank credit facilities following an improvement in the Group's leverage to which these margins are indexed;
- reduced exposure for the Group to countries with high interest rates, which at December 31, 2019 represented less than 19% of the Group's gross debt (20.3% at December 2018).

Tax expenses for 2019 amounted to euro 164.6 million against net income before tax of euro 622.3 million, with a tax rate which stood at 26.5%, consistent with the expected tax rate for the 2019 financial year. For 2018 the tax rate had equalled 10.6% in that it had included the benefit of the subsidised Patent Box tax relief scheme for the 2015 – 2018 financial years, due to the agreement signed on October 15, 2018 with the Italian Tax Office.

Net income related to continuing operations amounted to euro 457.7 million compared to gains of euro 448.8 million for 2018. The results for 2019 also benefited from tax credits in Brazil, while the results for the previous financial year had benefitted from the contribution derived from the subsidised Patent Box tax relief scheme for the 2015 – 2018 financial years.

Net income related to continuing operations adjusted amounted to euro 514.3 million, compared to euro 576.3 million for 2018.

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

(In millions of euro)

	2019	2018
Net income/(loss) related to continuing operations	**457.7**	**448.8**
Amortisation of intangible assets included in PPA	114.6	114.6
Non-recurring expenses	-	24.0
Restructuring expenses	97.0	67.5
Costs relative to renegotiation of commercial agreements with customers	13.1	14.2
Costs not pertinent to normal business operations	14.0	18.3
Income from Brazilian tax credits	(71.0)	-
Retention plan	6.9	13.3
Financial income from Brazilian tax credits	(107.3)	-
Other net financial income	-	2.1
Tax	(10.7)	(126.5)
Net income/(loss) related to continuing operations adjusted	**514.3**	**576.3**

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

Net income attributable to owners of the Parent Company amounted to euro 438.1 million compared to the positive result of euro 431.6 million for 2018.

Equity went from euro 4,550.9 million at December 31, 2018 to euro 4,826.6 million at December 31, 2019.

Equity attributable to the owners of the Parent Company at December 31, 2019 equalled euro 4,724.4 million compared to euro 4,468.1 million at December 31, 2018.

The change is shown in the table below:

(In millions of euro)

	GROUP	NON-CONTROLLING INTERESTS	TOTAL
Equity at 12/31/2018	**4,468.1**	**82.8**	**4,550.9**
Translation differences	(10.2)	4.3	(5.9)
Net income/(loss)	438.1	19.6	457.7
Actuarial gains/(losses) on employee benefits	(13.1)	-	(13.1)
Dividends approved	(177.0)	(9.0)	(186.0)
High inflation accounting Argentina	27.5	-	27.5
Other	(9.0)	4.5	(4.5)
Total changes	**256.3**	**19.4**	**275.7**
Equity at 12/31/2019	**4,724.4**	**102.2**	**4,826.6**

The reconciliation statement for equity attributable to the Parent Company and 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 12/31/2019	**1,904.4**	**2,402.8**	**273.2**	**4,580.4**
Net income/(loss) of consolidated companies (before consolidation adjustments)	-	-	420.5	420.5
Share capital and reserves of consolidated companies (before consolidation adjustments)	-	4,364.2	-	4,364.2
Consolidation adjustments:				
- carrying amount of equity investments in consolidated companies	-	(4,647.8)	-	(4,647.8)
- intragroup dividends	-	263.8	(263.8)	-
- others	-	(1.1)	8.2	7.1
Consolidated equity of Group at 12/31/2019	**1,904.4**	**2,381.9**	**438.1**	**4,724.4**

The **net financial position** was negative to the amount of euro 3,024.1 million (euro 3,507.2 million excluding lease obligations pursuant to IFRS 16 equal to euro 483.1 million), compared to euro 3,180.1 million at December 31, 2018. It was composed as follows:

(In millions of euro)

	12/31/2019	12/31/2018
Current borrowings from banks and other financial institutions without IFRS 16	1,341.6	800.1
Current derivative financial instruments	31.7	53.5
Non-Current borrowings from banks and other financial institutions without IFRS 16	3,544.5	3,929.1
Non-Current derivative financial instruments	10.3	13.8
Lease obligations IFRS 16	483.1	-
Total gross debt	**5,411.2**	**4,796.5**
Cash and cash equivalents	(1,609.8)	(1,326.9)
Other financial assets at fair value through Income Statement	(38.1)	(27.2)
Current financial receivables and other assets**	(35.5)	(27.4)
Current derivative financial instruments	(32.1)	(91.2)
Net financial debt *	**3,695.7**	**3,323.8**
Non-Current derivative financial instruments	(52.5)	(20.1)
Non-current financial receivables and other assets**	(136.0)	(123.6)
Total net financial (liquidity) / debt position	**3,507.2**	**3,180.1**
Lease obligations IFRS 16	(483.1)	-
Net financial (liquidity) / debt position without IFRS 16	**3,024.1**	**3,180.1**

* Pursuant to Consob Notice of July 28, 2006 and in compliance with ESMA/2013/319 Recommendations.
** The amount for "financial receivables and other assets" is reported net of the relative provision for impairment amounting to euro 8.7 million as at December 31, 2019 and euro 6.1 million as at December 31, 2018.

The **structure of gross debt** which amounted to euro 5,411.2 million, was as follows:

in thousand of euro

	12/31/2019	MATURITY DATE					
		within 1 year	between 1 and 2 years	between 2 and 3 years	between 3 and 4 years	between 4 and 5 years	more than 5 years
Use of unsecured financing ("Facilities")	1,994.8	252.1	-	1,742.7	-	-	-
Bond EURIBOR +0,70% - 2018/2020	199.9	199.9	-	-	-	-	-
Bond 1,375% - 2018/2023	547.8	-	-	-	547.8	-	-
Schuldschein	523.7	-	81.8	-	421.9	-	20.0
Bilateral long term borrowings	722.4	-	-	-	124.6	597.8	-
ISP short term borrowing	200.0	200.0	-	-	-	-	-
Other loans	739.5	720.8	2.6	12.4	3.0	0.7	-
Lease obligations IFRS 16	483.1	77.8	65.9	56.0	47.7	40.8	194.9
Total gross debt	**5,411.2**	**1,450.6**	**150.3**	**1,811.1**	**1,145.0**	**639.3**	**214.9**
		26.8%	*2.8%*	*33.5%*	*21.1%*	*11.8%*	*4.0%*

At December 31, 2019 the Group had a liquidity margin equal to euro 2,347.9 million composed of euro 700.0 million in the form of non-utilised committed credit facilities, and euro 1,609.8 million in cash and cash equivalents, in addition to financial assets at fair value through the Income Statement to the amount of euro 38.1 million.

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

(In millions of euro)

Net financial (liquidity) / debt position 12/31/2018	**3,180.1**
Net cash flow without IFRS 16	(156.0)
Net financial (liquidity) / debt position 12/31/2019 without IFRS 16	**3,024.1**
Lease obligations IFRS 16 at transition date (01/01/2019)	494.3
Change in NFP from lease obligations IFRS 16	(11.2)
Net financial (liquidity) / debt position 12/31/2019	**3,507.2**

Net cash flow in terms of change in the Net Financial Position was positive to the amount of euro 167.2 million (positive at euro 156.0 million without IFRS 16) and is summarised as follows:

(In millions of euro)

	1 Q		2 Q		3 Q		4 Q		TOTAL	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
EBIT adjusted	219.2	218.4	221.3	231.7	244.5	250.0	232.3	254.9	917.3	955.0
Amortisation and depreciation (excluding PPA amortisation)	96.5	69.7	99.1	68.1	98.0	69.8	99.1	72.1	392.7	279.7
Investments in property, plant and equipment and intangible assets (Capex)	(78.0)	(85.3)	(89.7)	(93.9)	(74.6)	(117.5)	(148.2)	(166.7)	(390.5)	(463.4)
Increases in Rights of use IFRS16	(3.2)	n/a	(14.0)	n/a	(8.5)	n/a	(25.5)	n/a	(51.2)	n/a
Change in working capital / other	(836.0)	(928.8)	10.1	(68.9)	(136.8)	(247.4)	901.9	856.9	(60.8)	(388.2)
Operating net cash flow	**(601.5)**	**(726.0)**	**226.8**	**137.0**	**122.6**	**(45.1)**	**1,059.6**	**1,017.2**	**807.5**	**383.1**
Financial income / (expenses)	(48.1)	(55.2)	38.1	(62.8)	(65.2)	(20.8)	(34.2)	(57.5)	(109.4)	(196.3)
Reversal of financial income from tax credits in Brazil	-	-	(99.8)	-	(0.8)	-	(6.7)	-	(107.3)	-
Taxes paid	(30.1)	(31.1)	(45.9)	(36.2)	(37.4)	(33.8)	(28.6)	(17.9)	(142.0)	(119.0)
Cash Out for non-recurring and restructuring expenses / other	(16.0)	(38.2)	(17.9)	(11.9)	(7.4)	(4.6)	(10.9)	(17.3)	(52.2)	(72.0)
Other dividends paid	-	-	(8.9)	-	-	(8.4)	-	-	(8.9)	(8.4)
Differences from foreign currency translation / other	-	(11.7)	(19.8)	6.4	(0.2)	(18.7)	(6.2)	14.8	(26.2)	(9.2)
Net cash flow before dividends, extraordinary transactions and investments	**(695.7)**	**(862.2)**	**72.6**	**32.5**	**11.6**	**(131.4)**	**973.0**	**939.3**	**361.5**	**(21.8)**
Industrial reorganisation	-	5.3	-	(10.3)	-	9.6	-	(14.5)	-	(9.9)
Disposals/(Acquisition) of investments	(17.2)	136.5	(0.2)	0.2	-	-	-	(66.6)	(17.4)	70.1
Net cash flow before dividends paid by Parent Company	**(712.9)**	**(720.4)**	**72.4**	**22.4**	**11.6**	**(121.8)**	**973.0**	**858.2**	**344.1**	**38.4**
Net cash flow before dividends paid by Parent Company w/o IFRS 16	*(732.9)*	*(720.4)*	*67.9*	*22.4*	*19.7*	*(121.8)*	*978.2*	*858.2*	*332.9*	*38.4*
Dividends paid by Parent Company	-	-	(176.9)	-	-	-	-	-	(176.9)	-
Net cash flow (*)	**(712.9)**	**(720.4)**	**(104.5)**	**22.4**	**11.6**	**(121.8)**	**973.0**	**858.2**	**167.2**	**38.4**
Net cash flow without IFRS 16	*(732.9)*	*(720.4)*	*(109.0)*	*22.4*	*19.7*	*(121.8)*	*978.2*	*858.2*	*156.0*	*38.4*

* The item for the year 2019 refers to the change in the Net FinancialPosition calculated by including, as of 01/01/2019, lease obligations recorded due to the application of the new accounting standard IFRS 16 – Leases.

Net cash flow before dividends, extraordinary transactions and investments which was positive to the amount of euro 361.5 million, had improved by euro 383.3 million compared to 2018 (negative at euro 21.8 million), thanks mainly to the improvement in the management of operating cash flow.

More specifically, **operating net cash flow** for 2019 was positive to the amount of euro 807.5 million, and had improved by euro 424.4 million compared to 2018 (positive at euro 383.1 million), and reflected:

- investments in property, plant & equipment and intangible assets (CapEx) to the amount of euro 390.5 million (euro 463.4 million for 2018). These investments were primarily aimed at High Value activities, and at the constant improvement of the quality and mix in all manufacturing plants;
- increases in the rights of use IFRS 16 to the amount of euro 51.2 million which derived from the application of the new accounting standard IFRS 16, and were relative to the new lease contracts signed during the course of 2019;
- effective working capital management with cash absorption equal to a negative euro 60.8 million (negative at euro 388.2 million for 2018), which was an improvement compared to the previous year, thanks mostly to the normalisation of inventory levels.

In fact, in addition to the recovery measures implemented for trade receivables, through the realignment of payment terms with the main dealers in Brazil which had temporarily been extended to the end of 2018 due to the difficult market conditions, measures for the normalisation of inventories were carried out, which at the end of December 2019 had recorded a -7% reduction in volumes compared to the end of the previous year, with:

- a decline of -23% in Standard products, consistent with the recovery plan announced at the beginning of the year; and,
- a slight in increase of +5% in High Value products, also in order to ensure a better level of service to the end customer.

Thanks to the measures taken for the containment of inventories for finished products, and to further measures also taken to reduce inventories for raw materials, by the end of December 2019 inventories levels had reached a percentage share of sales equal to 20.5%, consistent with the year-end target of 20.5% - 21% of revenues, compared to 21.7% at the end of 2018.

Net cash flow before dividends paid by the Parent Company before the application of the IFRS 16 accounting standard, was positive to the amount of euro 332.9 million (positive at euro 38.4 million for 2018), and positive to the amount of euro 344.1 million including the impact of IFRS 16. Net cash flow also included the impact of extraordinary transactions and investments (euro -17.4 million), mainly attributable to the recapitalisation of the Indonesian joint venture PT Evoluzione Tyres. During 2018, the impact of investments and extraordinary transactions had been positive to the amount of euro 60.2 million, and was mainly attributable to the disposal of the investment in Mediobanca (euro +152.8 million), to the acquisition of a 49% stake in the new joint venture in China (euro -65.2 million), and to the completion of the strengthening of the distribution chain in Brazil (euro -19.9 million).

Net cash flow which included the distribution of dividends by the Parent Company amounting to euro 176.9 million, was positive at euro 167.2 million compared to euro 38.4 million for 2018.

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 over 2,100 personnel (equal to approximately 6.7% of the Group's human resources) between its Milan headquarters and the 12 technology centres located in various geographical regions, which allow for a direct relationship with 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 vehicle manufacturers - for the purposes of pre-empting 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 2019 totalled euro 232.5 million, (4.4% of sales) of which euro 215.7 million was destined for High Value activities (6.1% of High Value revenues).

Pirelli also continued to develop their CYBER™ technologies which, thanks to the sensor technology inside the tyre, contributes in rendering information available, in order to periodically improve the safety or performance of vehicles. Pirelli was the first company in the world from the tyre sector, to share information on the 5G network regarding road surfaces as detected by intelligent tyres. A demonstration took place during the *The 5G Path of Vehicle-to-Everything Communication* event organised by the 5GAA - Automotive Association, of which Pirelli is a member. Thanks to the cooperation between Pirelli, Ericsson, Audi, Tim, Italdesign and KTH, on the test track on the roof of the Lingotto building, it was demonstrated as to how a vehicle equipped with Pirelli *Cyber* sensorised tyres and connected to the 5G network, was able to transmit the aquaplaning risk detected by the tyres, to another oncoming vehicle, through the use of ultra-wide broadband and the low latency of 5G. In 2019 Pirelli also presented *Track Adrenaline* in Italy, a product for track day enthusiasts, which includes a range of *P Zero Trofeo R* sensorised tyres. *Track Adrenaline* features true virtual track engineering which monitors tyre pressure and temperatures in real time, and combines this information with telemetric data, in order to provide the driver with indications and suggestions on how to best improve performance on the track.

PRODUCT INNOVATION

In order to develop new products specifically designed to meet the needs and technical specifications of its customers, Pirelli has established long-lasting relationships with major Prestige and Premium car manufacturers. The development of products in partnership with these car manufacturers, is geared towards producing tyres that match the dynamic characteristics and electronics of the vehicles (the so-called *Perfect Fit*). Pirelli is the absolute leader in the Prestige segment with a market share that exceeds 50% for the Original Equipment channel. Pirelli is also the leading supplier to brands such as Aston Martin, Bentley, Ferrari, Porsche, and Maserati, and is the sole supplier to Lamborghini, McLaren and Pagani Automobili. For the Premium sector there was further proof of the special relationship with companies such as Alfa Romeo, Audi, BMW, Mercedes, Jaguar and Land Rover.

In 2019 Pirelli was also given an award by the Ford Motor Company, after being chosen from amongst its best suppliers for its commitment to sustainability, the *Brand Pillar of Sustainability World Excellence Award*, which recognises companies that exceed expectations and attain the highest levels of excellence.

Pirelli's strong market presence is proven by a portfolio of approximately 3,400 homologations, of which 2,800 are High Value (82%) and more than 900 are *Specialties*. Pirelli can count on a portfolio of over 600 homologations for *Run Flat* products, a technology which allows you to drive with a perforated tyre for 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's *Run Flat* technology is available in *P Zero, Cinturato, Scorpion* and *Scorpion Winter, Winter Sottozero 3* and *Winter Sottozero Series II* tyres: a range which is able to satisfy 97% of rim diameters from 18" and upwards. For rim sizes of 18" and upwards, Pirelli has also established itself as the market leader in the winter segment, where it has the largest number of marked tyres, which represent 69% of the total market. The complete range now includes 900 homologated winter tyres. A fundamental part of this strategy are the two new Pirelli proving grounds. These are located at the Passo del Tonale (Tonale Pass) in Italy, which is the closest to Pirelli's R&D Headquarters in Milan, and at Flurheden in Sweden, which offer more than 20 kilometres of icy and snow covered tracks, and where each season over 100 days of testing can be carried out, taking in more than 25,000 kilometres using more than 30,000 tyres.

The new studded *Ice Zero 2* tyre was introduced on Pirelli's proving ground in Sweden for high end vehicles in extreme winter conditions. Compared to its previous generation, traction and braking have improved, while at the same time Pirelli's engineers have also managed to reduce rolling noise, thanks to a new stud arrangement. Dry weather performance has improved as well, thanks to a reduction in the depth of the tread and of the 3D grooves on the shoulder. The *P ZERO WINTER*, the first winter tyre with the driving feel of a summer tyre, was presented at the 2019 Geneva International Motor Show. It draws both safety and performance on cold asphalt from Pirelli's vast experience with winter tyres, while the driving experience which remains unaltered, is drawn directly from the *P Zero*. Requests from car manufacturers highlighted the necessity in providing tyres for high performance cars that can cope with the prodigious power and torque that these vehicles are capable of generating, even in low grip conditions. The evolution of the *P Zero* also takes aim at the growing market for electric sports cars. The *Elect* marking which identifies tyres created for electric cars or plug-in hybrids, was presented at Geneva. Pirelli tyres distinguished by the *Elect* marking offer multiple advantages for eco-friendly cars, thanks to a specific package of technical solutions. First and foremost is the low rolling resistance which allows for maximised autonomy for these vehicles. Then there is the reduction of rolling noise, resulting in quieter car interiors, particularly for electric cars, where the engine is no longer the primary source of noise, which means that combating the frequencies produced by the tyres maximises one of the main advantages of the electric drive: silence. Finally, Pirelli tyres marked *Elect* offer immediate grip in response to the stresses from the transmission. Electric motors in fact, deliver maximum available torque from minimum rpm, and therefore need tyres capable of capable of efficiently gripping the asphalt. Every tyre marked Pirelli *Elect* is customised for the vehicle for which it is intended in accordance with the *Perfect Fit* strategy.

For the Motorcycle sector, Pirelli presented the *ANGEL™ GT II*, the new tyre that rewrites the standards for the Sport Touring sector in terms of mileage, wet performance and sportiness combined with safety. The innovative variable density carcass and the high silica content compounds, combined with the new tread design which derives from the intermediate racing solutions developed for the FIM Superbike World Championship, allows for benchmark performances and maximises the effect of the electronic guidance systems. The *Pirelli ANGEL™ GT* II won the comparative test for Sport Touring tyres carried out by the Italian magazine *Motociclismo*, obtaining the highest possible points attainable in all instrumented tests carried out both on dry and wet surfaces, and being judged as the tyre with the lowest wear after 7,000 kilometres.

Also in 2019, Pirelli was confirmed as the first and natural choice of the many motorcycle manufacturers which have chosen Pirelli tyres, including the most powerful naked tyres on the market, as Original Equipment for their new models arriving in 2020. Seven tyres were chosen to equip thirty-four new motorcycle models from nine different motorcycle manufacturers: Ducati, MV Agusta, Aprilia, Kawasaki, Triumph, Indian Motorcycle and the electric Energica Motor Company, Zero Motorcycles and Tacita.

In the *Velo* world, after the launch of the *P Zero Velo Cinturato*, and the *Cycl-e* tyres, in 2019 Pirelli entered the MTB (mountain bike) market with its dedicated range, the *Scorpion MTB* which shifts the focus from the bike to the ground, offering tyres suitable for any type of road surface, guaranteeing road holding, handling, speed and grip, independent of climate and weather conditions. The innovative *SmartGRIP Compound*, the technological core of the new tyres, was produced in the same location where the F1 tyre compounds were engineered, guaranteeing rolling resistance as well as grip in both wet and dry surfaces. Still in 2019, Pirelli expanded the range of the *Cinturato™ Velo* with a new line of gravel and cyclo-cross tyres, featuring diversified treads, a new compound and development dedicated to each tyre size. Designed to handle the most demanding off-road Cross and Gravel bike use, regardless of weather conditions, thanks to the properties of the new Pirelli *SpeedGRIP* compound, specially designed for the new line. These tyres were developed, starting from the formulation applied to *Scorpion™ MTB* tyres – the *SmartGRIP*. The new *SpeedGRIP* maintains the same polymer matrix with improved rolling efficiency.

NEW MATERIALS

The Group is active in the development of new polymers in order to improve the characteristics of the 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 grip on the wet, rolling resistance and mileage; bio-materials 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 a 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 three year duration (2017-2020), focuses on two macro-strands of research: an area of design for innovative materials and an area for product development and Cyber development.

PROCESS AND PRODUCTIVITY INNOVATION

In order to allow for the effective management of the diverse ranges of products in the manufacturing plants, the Group has launched the *"Smart Manufacturing"* program based on "Big Data Analytics" techniques, which flank the consolidated Lean Manufacturing programs, in order 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 lots.

COMMITTENT TO MOTORSPORTS

In 2019 Pirelli was chosen by the FIA - International Automobile Federation - as the sole supplier of tyres for the Mondo Rally Championship for the 2021 to 2024 seasons. Of note, is that Pirelli will supply all the 4x4 cars that will take part in the qualifying WRC (World Rally Car) championship races, that is, contenders from the WRC Plus which compete for the ultimate title, to the R5 which are the protagonists of the WRC2, but also cars competing in various regional and national championships around the world. For the WRC, Pirelli will supply its range of tyres already used in the various world rally championships for which it is a supplier. For asphalt surfaces, there is the *P Zero RA* with its asymmetrical design, and with different compounds available accordingly to suit the terrain and climatic conditions. For snow there is the *Sottozero Snow* with or without studs. For ice there is the *Sottozero Ice J1* expressly designed for the Swedish rally, and for dirt roads there is the *Scorpion K* with its reinforced structure and different available compounds which can be chosen to suit conditions. The FIA's choice confirms Pirelli's leading position in competitions which draws on over 110 years of accumulated racing experience. This new investment in the queen of speciality road racing, flanks an identical role that Pirelli has played since 2011, as Global Tyre Partner for the most prestigious of Motorsports on the circuit, Formula 1,where Pirelli has extended its involvement until 2023. The new agreement foresees the introduction of new 18 inch rim diameter tyres in 2021. Pirelli's involvement in the Formula 1® World Championship has allowed it to develop new simulation models which allow for a further reduction in the time it takes to launch a product onto the market, and an improvement in the quality of road products, rendering them better performing and compliant with the highest of requirements. Pirelli is currently involved in over 350 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 global brands such as the Ferrari Challenge and the Lamborghini Super Trofeo. In order to understand Pirelli's enormous commitment to Motorsport, it bears considering that all these events translate into 1,170 races per year all over the world, and which employ approximately 1,000 people including engineers, track technicians and other personnel dedicated to Research and Development.

In the European two wheel Championships, where the participation of several tyre producers is expected, Pirelli on average fits 70% of the motorcycles deployed on the paddock, which confirms the appreciation demonstrated by motorbike riders around the world for the Pirelli brand. Pirelli has been chosen by the Dorna WorldSBK Organisation, in agreement with FIM (the International Motorcycle Federation), for the role of Official Tyre Supplier for all classes of the MOTUL FIM Superbike World Championship, up to and including the 2023 season. In the cycling field, Pirelli made its entrance in 2018, signing a partnership with one of the most important teams on the professional road circuit, the Mitchelton-SCOTT team which in the same year, with Simon Yates, achieved top ranking in the World Tour. Pirelli's partnership with the Australian team went ahead for 2019 and led to four stage wins in the Tour de France.

PARENT COMPANY HIGHLIGHTS

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

(In millions of euro)

	12/31/2019	12/31/2018
Operating Income	15.8	5.6
Net Financial income/(expenses)	(23.7)	(32.8)
Income from equity investments	268.9	284.9
Taxes	12.2	4.7
Net income	**273.2**	**262.4**
Financial assets	4,711.2	4,641.7
Net Equity	**4580.4**	**4,492.7**
Net financial position	1,897.4	1,913.8

Operating income was positive to the amount of euro 15.8 million, compared to the positive amount of euro 5.6 million for 2018. The improvement was mainly attributable to the reduction of costs, and to the higher fees charged to the subsidiaries by Pirelli & C. S.p.A. for services rendered by its central functions, following the acquisition by the subsidiary Pirelli Tyre S.p.A. of the company branch, including all staff and business support functions.

The reduction in **net financial expenses** was mainly attributable to the increase in interest receivables from loans to Group companies, which resulted as being only partially offset by an increase in interest payables on the credit facilties granted by third parties. This latter phenomenon was attributable to the fact that as of November 29, 2019, the entire unsecured credit facility (*"Facilities"*) was in the hands of the Parent Company.

Income from equity investments mainly included dividends from Pirelli Tyre S.p.A. which amounted to euro 250 million (euro 270 million in 2018), and dividends from the Pirelli Group Reinsurance Company S.A., which amounted to euro 13.3 million (euro 5 million for 2018).

Taxes for 2019 were positive to the amount of euro 12.2 million compared to the positive amount of euro 4.7 million for 2018.

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

(In millions of euro)

	12/31/2019	12/31/2018
Investments in subsidiaries		
- Pirelli Tyre S.p.A.	4,528.2	4,523.8
- Pirelli Ltda	9.7	9.7
- 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
- Pirelli International Treasury S.p.A.	75.0	-
- Other companies	3.3	3.4
Total equity investments in subsidiaries	**4,647.6**	**4,568.3**
Investments in associates and other financial assets at fair value through other comprehensive income		
- Eurostazioni S.p.A. - Roma	6.3	6.3
- RCS Mediagroup S.p.A. - Milano	24.9	28.4
- Fin. Priv S.r.l.	20.6	15.6
- Fondo Comune di Investimento Immobiliare Anastasia	3.9	15.6
- Istituto Europeo di Oncologia S.r.l.	7.5	7.0
- Other	0.4	0.5
Total investments in associates and other financial assets at fair value through other comprehensive income	**63.6**	**73.4**
Total financial assets	**4,711.2**	**4,641.7**

Equity went from euro 4,492.7 million at December 31, 2018 to euro 4,580.4 million at December 31, 2019, as detailed in the following table:

(In millions of euro)

Equity at 12/31/2018	**4,492.7**
Net income for the financial year	273.2
Dividends approved	(177.0)
Other components of comprehensive income	(8.5)
Equity at 12/31/2019	**4,580.4**

The table below shows the **composition of equity**:

(In millions of euro)

	12/31/2019	12/31/2018
Share capital	1,904.4	1,904.4
Legal reserve	380.9	380.9
Share premium reserve	630.4	630.4
Concentration reserve	12.5	12.4
Other reserves	92.5	92.5
IAS Reserve	(3.2)	5.3
Retained earnings	266.8	181.5
Merger Reserves	1,022.9	1,022.9
Net income for the financial year	273.2	262.4
Total Equity	**4,580.4**	**4,492.7**

RISK FACTORS AND UNCERTAINTY

The volatility of the macroeconomic environment, the instability of the financial markets, the complexity of management processes and continuous legislative and regulatory changes, demands the capacity to protect and maximise the tangible and intangible sources of value which characterise the Company's 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 result in any competitive advantage. These types of risks include Information Technology, Business Interruption, Legal & Compliance, Health, Safety & Environment, and Security related risks.

Transversal to the aforementioned 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 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 growth in the world economy to be substantially consistent with what was recorded in 2019. The uncertainty that characterised the macroeconomic outlook over the past year should decrease - at least in the short term - thanks, among other things, to a relaxation in the trade disputes between the United States and China, to the ratification by the US Congress of the new trade agreement between the United States, Canada and Mexico (USMCA), and the results of the elections in the United Kingdom that have brought greater clarity - at least until the end of 2020 - regarding Brexit. The highly accommodative monetary policies of the main central banks should continue to support global demand thanks also to the very contained growth in consumer prices. These forecasts however are not without risk. The easing of the trade war between the United States and China could prove to be short-lived as tensions between the two economies is of a systemic nature. More generally, current monetary easing alone will not be able to sustain demand in the medium to long term, also due to the structural problems that weigh on the slowdown in global productivity growth. Further elements of risk could derive from the intensification of Middle Eastern tensions with possible repercussions on commodity prices.

COUNTRY RISK

Where appropriate, Pirelli has adopted a local-for-local strategy, creating a productive presence in rapidly developing countries in order to respond to the local demand with competitive industrial and logistical costs. This strategy is aimed at increasing the competitiveness of the Group, as well as allowing the Group to overcome potential protectionist measures (customs barriers or other measures such as technical prerequisites, product certification, and administrative costs related to import procedures, etc.). In 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 tensions between China and the United States and, more generally, on the medium-long term equilibrium of 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.

BREXIT RISKS

The Group is pro-actively monitoring potential critical issues (and related mitigation plans) in the event of the failure by the UK and the EU to reach a commercial agreement at the end of the transitional period (currently established as 31.12.20). These risks are both macroeconomic (amongst other volatilities such as FX and duties), and operational (mainly linked to possible delays in the supply of raw materials and/or finished products). Although the most likely scenario continues to suggest the achievement of a commercial agreement that is acceptable to both parties by 2020, the fact that the Conservative British Government has inserted a legal clause in the withdrawal agreement, to not extend the transitional period beyond the end of 2020, has certainly increased feelings of uncertainty regarding the final outcome of negotiations.

CORONAVIRUS RISK (COVID -19)

Pirelli sells its products on a world wide basis in over 160 countries and owns industrial sites located in different countries, some of which are also significantly affected by the Covid-19 (SARS-CoV-2) outbreak.

Sensitivity assumptions have been formulated regarding the effects of the spread of Covid-19, and elaborated on the basis of first estimates. By their nature, these hypotheses contain elements of uncertainty and are subject to changes, even significant ones, due to the continuous changes in the scenario and in the context for reference, which could lead to a significant alteration to the normal dynamics of the market and, more generally, to business operating conditions.

The negative impact currently expected at the level of the EBIT adjusted for the first quarter of 2020, is expected to be reabsorbed during the course of the year. However should the crisis continue, Pirelli will take steps to implement further mitigation measures.

Pirelli is following developments in the spread of the Coronavirus with constant contact with national and international organisations. The Company immediately adopted control and preventative measures for all their employees across the world, with particular attention to China, where all expatriate workers returned to their countries of origin with their families.

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 behaviours of younger generations (increase in the average age when a driver's license is obtained, loss of importance of owning a car, the 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 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 Transforming Urban Mobility project, sponsored by the World Business Council for Sustainable Development (WBCSD), which has been active since 2019. 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

With the adherence to the Task force on Climate-related Financial Disclosures (TCFD) issued in September 2018, Pirelli is committed, on a voluntary basis, to the dissemination of transparent reporting on the risks and opportunities related to climate change. To this end, Pirelli monitors these elements of uncertainty through sensitivity analyses and risk assessments in order to assess and quantify the financial impacts (risks and opportunities) associated with Climate Change, with respect to IPCC (Intergovernmental Panel on Climate Change) climatic scenarios and IEA (International Energy Agency) transitions in energy. In accordance with what emerged from the last Climate Change Risk Assessment of the Group, there are no significant risks in relative to the production processes Pirelli utilises or the markets where Pirelli operates over the short to medium-term period. 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. 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, and brands that enjoy a significant level of international or local notoriety. To date, Pirelli is the only player in the tyre industry entirely focused on the Consumer market on a global scale, with its single brand positioned in the segment which interests 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 managed 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 currencies other than the euro. 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 constituted by one year and three year financial plans and 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 subjected to constant analysis.

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 the 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, 2019 resulted as being completely unused, the Pirelli Group does use 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 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 as provided for by IFRS 9 are met.

PRICE RISK ASSOCIATED WITH FINANCIAL ASSETS

The Group is exposed to price risk only regarding the volatility of financial assets such as listed and unlisted stock securities and bonds, which represent 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 71% acceptance rate at December 2019). Insurance coverage has been extended to also cover the two year 2019-2020 period. At December 31, 2019, the amount of trade receivables remained essentially consistent with the amount at closing of the previous 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 that are periodically updated also due to 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 (which also have a retention effect) designed amongst other things, to fit the risk profiles of the activities of 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 the health and safety regulations in force 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 in accordance with a European model of the absolute liability of the Company, which has also been implemented 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, commercial, trade or labour law disputes. The Group adopts the necessary measures to prevent and mitigate any consequences that may result from such proceedings.

PERSONAL DATA PROCESSING RISKS

In the normal course of Pirelli's business activities, personal data relating to employees, customers and suppliers are processed. The processing of the personal data collected by Group's companies is subject to the laws and regulations applicable in the countries in which these companies are. The Group has therefore put in place measures to achieve full compliance with all data protection regulations in force (and, in particular, with Regulation (EU) 2016/679 (the *GDPR* or *General Data Protection Regulation*) which came into force in May 2018, in this manner mitigating the risk of being subjected to sanctions. However, changes to applicable legislation, the launch of new products on the market and, in general, any new initiatives involving the processing of personal data (or changes to the processing of personal data already carried out) could involve the need to incur significant costs or oblige the Group to change its modus operandi.

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 2019 as being fundamental to the achievement 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 Company's information assets, through the enhancement of the security systems against unauthorised access, and of the Company's data management solutions. 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. Particular attention has been paid to the renewal of the infrastructural components subject to technological obsolescence, which could entail a greater risk for breakdowns and incidents which could impact on the Group's activities. The 2019 initiatives in particular, which directly or indirectly led to the mitigation of security risks, were as follows:

- Move the Bicocca Data Centre

  The project has made it possible to identify a new generation and best-in-its-class new data-centre, which will take the place of the Bicocca data centre (moving to be completed by the end of 2020), and therefore to move the applications hosted in it, thereby improving:

  - Redundancy and Uptime, now guaranteed according to the TIER IV/ RATING 4 FAULT TOLLERANT standards of the new data centre;
  - active protection and security, through 24/7 access and monitoring control systems managed by the provider;
  - Control Room and technical and security staff which are present 24/7;
  - The guarantee of service, through defined SLAs (Service Level Agreements) and service management procedures.

  In further taking advantage of the move, Pirelli was able to perform a technological refresh of its TLC (telecommunication) equipment and its hardware infrastructures (intended as storage and servers), increasing the level of reliability of the infrastructure, and the guarantee of support and maintenance by the vendor.

- Cloud Governance Project

  The project made it possible to define a governance model which could be adopted in public and private cloud environments, with the aim of guaranteeing its correct management both in terms of security, compliance and costs. Especially as regards the safety aspects, the project has allowed Pirelli to define:

  - The new account structure, with the segregation of production and development accounts in order to improve access control, user authorisations and data security;
  - The implementation of a single sign-on solution in order to prevent unwanted access;

- The implementation of automated procedures to be used during the creation of new environments, reducing the probability of human errors that may also result in security problems.

- Software-Defined data centre Project
  This project began with the main objective being that of transforming traditional factory data centres into modern data centres based on hyper-convergent and software based architectures, leading to an increase in the availability of critical factory business systems, allowing for a more flexible and dynamic management of the system's capacities and the peaks of use.
- Software-Defined WAN & Voice Encryption Projects
  All the wide area network connectivity between the offices located in the EMEA and APAC regions and all the internal calls to the group belonging to the EMEA region are now encrypted.
- Pirelli/Prometeon Split API Infrastructure Project
  The launch of the project for the physical segregation of the Pirelli /Prometeon API (Application Programming Interfaces) infrastructure, (basic infrastructure and end-user services such as e-mail, identity management, software distribution, etc.), with the objective of making the two environments completely separate also from a physical point of view.
- Email protection

  - The activation of an advanced cloud-based threat protection service that protects corporate emails from phishing, ransom ware and fraud attacks (for example, BEC - Business Email Compromise);
  - Staff training (in classrooms and/or through on-line courses) on, how to recognise malicious emails, on the risks they represent, on the active Company counter-measures, and instructions on the actions to be taken in case of receiving fraudulent emails, and to increase staff awareness regarding these issues.

- CERT-P (CERT Pirelli)

  - Activation of a Computer Emergency Response Team (CERT). The objective is to improve the Company's cyber-readiness, or the ability to prevent cyber threats in a proactive manner, and avoiding, as far as is possible, any attacks having any significant impact on employees, assets, services and, in general, on the competitiveness and reputation of the Company. Among the important aspects of CERT's mission, the following (though not exhaustive) can most certainly be listed:
  - to monitor the occurrences of cyber incidents by contributing to the process of the continuous improvement of IT security controls and countermeasures;
  - to analyse any incidents in order to both mitigate their impact and to reduce and limit future occurrences;
  - to coordinate the response to cyber incidents by involving both the relevant internal staff of the Company as well as external counterparties (for example, national CERTs);
  - to produce reports for corporate functions and internal management;
  - to increase internal culture know-how in the management of security incidents through simulations and exercises.

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 periods which could be more or less prolonged, with the consequent impact on the operational capabilities and results of the Group itself. Risk scenarios related to natural or accidental events (fires, floods, earthquakes, etc.), to wilful misconduct (vandalism, sabotage, etc.), to breakdowns of the auxiliary plants or to interruptions in 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) and estimates 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 for the prevention of harmful events and for 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 during 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 the companies that belong to the Group and the relevant processes is carried out annually on the basis of quantitative and qualitative criteria. Quantitative criteria consists of the identification of the companies of the Group which, in accordance to the selected processes, represent an aggregate value which exceeds a certain threshold of materiality. Qualitative criteria consists of the examination of processes and the 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 then verified in subsequent closings.

There is even the half-yearly issue of a declaration by the Chief Executive Officer and the Chief Financial Officer of each subsidiary on the reliability and accuracy of the data supplied for the purposes of preparing the Group's consolidated Financial Statements. In the lead up to the dates of the Board of Directors' Meetings which approve the consolidated data at June 30 and December 31st, the results of the verification procedures are discussed with the Chief Financial Officer of the Group.

The Internal Audit Department performs regular audits aimed at verifying the adequacy of the design and operability of the controls carried out on 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 its 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-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. This chosen methodology has led to the identification of a specific set of reputational risks. This mapping derives from an analysis of a series of internal and external drivers including: negative events with an impact on reputation which have occurred in the sector worldwide over the last ten years; interviews with external Key Opinion Leaders on sector trends, on aspects of mobility and sustainability; interviews with internal Key Opinion Leaders with particular reference to the analysis of the probability of the occurrence of the risks identified.

The risk events identified were then subjected to the qualitative-quantitative assessments of a sample representative of the general public in the three key Pirelli countries, which led to the definition of the governance and management structures as well as to the preparation of mitigation and/or crisis management plans. This tool is checked and updated regarding both its content and the quantification of its impacts on a periodic basis.

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 business 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 regulations 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 regard to its own supply chain, which is periodically audited by specialised third party companies. In both cases, if instances of non-compliances are found, it is envisaged that a re-compliance plan is defined and whose implementation is promptly monitored by the auditing body.

OUTLOOK FOR THE 2020 - 2022 THREE-YEAR PERIOD

Targets 2020-2022 (euro billions)

	2019	2020E	2022E	
Revenues	5.3	~5.4	~5.8	
Ebit adjusted	*0.9*	*~Stable y/y*		
Ebit margin adjusted	17.2%		18% ÷ 19%	
Investments (CapEx)	0.39	~0.3	tot, '20-'22 ~0.9	vs tot, '17-'19 ~1.3
Net cash flow before dividends	0.33	~0.4	tot, '20-'22 ~1.5	Of which ~0.5 in '21 ~0.6 in '22
Net financial position* (including IFRS 16)	3.5	~3.3	~2.5	

* assuming a dividend policy with a payout equal to 40% of consolidated net earnings.

Revenues are expected to grow to approximately euro 5.4 billion in 2020, and approximately euro 5.8 billion for 2022, with an average annual growth rate of approximately +3%. High Value revenues will account for approximately 73% of total revenues at the end of the plan, compared to the 69% expected for 2020 (approximately 67% for 2019).

Forecasts for total volumes are for an average annual growth over the time-frame of the plan of between +1.5% and +2%. For total High Value volumes, an acceleration is expected with an average annual growth rate of +8%, while the reduction in Standard volumes will continue, for which a -5% decrease is expected per year.

The price/mix is expected to improve by an average of approximately +3% per year due to:

- a slight decrease in the price component;
- a positive contribution from the mix.

The negative exchange rate impact is estimated at approximately -2% per year, due to the expected strengthening of the euro against the US dollar, and the increasing volatility of currencies in emerging economies.

EBIT adjusted for 2020 is expected to be almost stable compared to 2019. The effect of internal levers (price / mix, volumes and efficiencies) will offset the impact of the external scenario (inflation of production costs, raw materials and pressures on prices).

EBIT margin adjusted is estimated to grow to 18-19% for 2022 compared to 17.2% for 2019.

The already high technological levels and adjusted capacities of the manufacturing plants are the basis of the **investment** plan, which is more contained compared to the previous three years - equal to euro 900 million between 2020 and 2022 following euro 1.3 billion for 2017 - 2019, thus contributing in sustaining high cash generation together with the forecast improvement in operating income, with more contained financial and tax expenses, and the effective management of working capital.

For the plan time-frame **net cash flow before dividends** of totalling euro 1.5 billion is forecast, of which approximately euro 400 million is for 2020, approximately euro 500 million is for 2021, and approximately euro 600 million is for 2022.

The policy for dividends provides for a confirmed pay out of 40% of consolidated net earnings.

By the end of the plan, the **net financial position** of the Group, including the impact of the IFRS 16 accounting standard, is expected to decline from euro 3.5 billion for 2019, to approximately euro 3.3 billion for 2020, to approximately euro 2.5 billion for 2022.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

In **January 2020** Pirelli received three important ESG awards. On **January 20**, the company was recognised as the global leader in the fight against climate change, which put Pirelli on the Climate A-List drawn up by the CDP (the former Carbon Disclosure Project), an international non-profit organisation that deals with collecting, disseminating and promoting information on environmental issues. On **January 31**, however, Pirelli won the highest recognition in the SAM Sustainability Yearbook 2020 published by S&P Global, achieving recognition as the ESG sector Leader in the FTSE4Good Index Series, which sees Pirelli now ranked at the top of the Tyre and Consumer Goods sector.

On **February 19, 2020** Pirelli presented the 2020 - 2022 Industrial Plan/Vision 2025 to the financial community. For further details, reference should be made to the section *"Outlook for the 2020 – 2022 Three-Year Period"*. On the same date, the Board of Directors approved the adoption of a new monetary incentive plan - the Long Term Incentive (LTI) plan - aimed at all areas of Group Management (currently approximately 270 participants) correlated to the objectives of the plan. The New LTI Plan, is as in the past, totally self-financed, in that the relative expenses are included in the financial data of the Industrial Plan. The New LTI Plan provides for the following objectives:

- Total Shareholder Return (TSR) for the Group relative to the Tier 1 panel of peers, with an overall target of 40% of the LTI monetary incentive;
- cash flow for the Group (before dividends) with a target of 40% of the LTI monetary incentive;
- the positioning of Pirelli in selected global sustainability indicators, with an overall target of 20% of the LTI monetary incentive.

At the same time, the Board of Directors - with effect as of December 31, 2019 - resolved to close early, and without any disbursements not even pro-rata, the previous plan adopted in 2018 relative to the objectives of the 2018-2020 period.

Participants of the New LTI (Long Term Incentive) Plan, amongst others, include the Executive Vice Chairman and Chief Executive Officer of Pirelli, Marco Tronchetti Provera, the General Manager of Operations, Andrea Casaluci, and the ESR executives identified through the express decision of the Board of Directors as *"executives with strategic responsibility".* The new LTI Plan is also aimed at Senior Managers, (including the Director Giovanni Tronchetti Provera, as Senior Manager), and to the Group's Executives (managers of Italian companies or employees of foreign Group companies with a position or role equivalent to that of Executive in Italy).

ALTERNATIVE PERFORMANCE INDICATORS

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

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

- **EBITDA:** is equal to the EBIT but which excludes the depreciation and amortisation of property, plant and equipment and intangible assets. The EBITDA is used to measure the ability to generate earnings, excluding the impact of investments;
- **EBITDA adjusted:** is an alternative measure to the EBITDA which excludes non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil, costs not pertinent to normal business operations, costs relative to the renegotiation of commercial agreements, and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBITDA adjusted without start-up costs:** is equal to the EBITDA adjusted but excludes the contribution to the EBITDA (start-up costs) of the *Cyber* and *Velo* Activities and costs sustained for the digital transformation of the Group. At December 31, 2018 this measure also included costs for the conversion of Aeolus brand car products;
- **EBITDA adjusted without start-up costs without IFRS 16:** is equal to the EBITDA adjusted without start-up costs but excludes the impact deriving from the application of the new accounting standard IFRS 16 – Leases;
- **EBITDA margin**: this is calculated by dividing the EBITDA by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts arising from investments;
- **EBITDA margin adjusted:** this is calculated by dividing the EBITDA adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts arising from investments, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil, costs not pertinent to normal business operations, costs relative to the renegotiation of commercial agreements, and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBITDA margin adjusted without start-up costs:** this is calculated by dividing the EBITDA adjusted without start-up costs by revenues from sales and services (net sales). This is an alternative measure to the EBITDA margin adjusted which excludes start-up costs;
- **EBIT:** is an intermediate measure which is derived from the net income/(loss) but which excludes the net income/

(loss) from discontinued operations, taxes, financial income, financial expenses and net income/(loss) from equity investments. The EBIT is used to measure the ability to generate earnings, including the impact arising from investments;

- **EBIT adjusted:** is an alternative measure to the EBIT which excludes the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil, costs not pertinent to normal business operations, costs relative to the renegotiation of commercial agreements, and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBIT adjusted without start-up costs:** is equal to the EBIT adjusted but excludes the contribution to the EBIT (start-up costs) of the *Cyber* and *Velo* Activities and costs sustained for the digital transformation of the Group. At December 31, 2018 this measure also included costs for the conversion of Aeolus brand car products;
- **EBIT margin:** this is calculated by dividing the EBIT by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency;
- **EBIT margin adjusted:** this is calculated by dividing the EBIT adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency excluding the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil, costs not pertinent to normal business operations, costs relative to the renegotiation of commercial agreements, and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBIT margin adjusted without start-up costs:** this is calculated by dividing the EBIT adjusted without start-up costs by revenues from sales and services (net sales);
- **Net income/(loss) related to continuing operations adjusted:** this is calculated by excluding the following items from the net income/(loss) related to continuing operations;

  - the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil, costs unrelated to the normal operating management of business, costs relative to the renegotiation of commercial agreements, and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
  - non-recurring costs/income recognised under financial income and financial expenses
  - non-recurring costs/income recognised as a tax item, as well as the tax impact relative to the adjustments referred to in the previous points.

- **Fixed assets related to continuing operations:** this measure is constituted of the sum of the financial statement items, *"Property, plant and equipment", "Intangible assets", "Investments in Associates and Joint Ventures", "Other financial assets at fair value through other Comprehensive Income"* and *"Other financial assets at fair value through the Income Statement".* Fixed assets related to continuing operations represents non-current assets included in the net invested capital;
- **Fixed assets related to continuing operations without IFRS 16:** this measure is calculated by excluding the rights of use detected following the application of the new standard IFRS 16 - Leases, from fixed assets related to continuing operations;
- **Net operating working capital related to continuing operations:** this measure is constituted by the sum of the items, *"Inventories", "Trade receivables"* and *"Trade payables";*
- **Net working capital related to continuing operations:** this measure is constituted by the operating working capital, and other receivables and payables, and the derivative financial instruments not included in the net financial (liquidity)/debt position. This measure represents short-term assets and liabilities included in the net invested capital, and is used to measure short-term financial stability;
- **Net invested capital assets held for sale:** this measure is constituted by the difference between *"Assets held for sale"* and *"Liabilities held for sale"*;
- **Net invested capital:** this measure is constituted by the sum of (i) fixed assets related to continuing operations, (ii) net working capital related to continuing operations, and (iii) net invested capital assets held for sale. Net invested capital is used to represent the investment of financial resources;
- **Average net invested capital:** this measure consists of the average between the net invested capital at the beginning and end of the period, excluding *"Investments in Associates and Joint Ventures", "Other financial assets at fair value through other Comprehensive Income", "Other non-current financial assets at fair value through the Income Statement"* and the intangible assets relative to assets recognised as a consequence of Business Combinations. This measure is used to calculate the ROI;
- **Provisions:** this measure is constituted by the sum of "Provisions for liabilities and charges (current and non-current)", "Employee benefit obligations (current and non-current)" and "Provisions for deferred taxes". The item provisions represents the total amount of liabilities due to obligations of a probable but not certain nature;
- **ROI:** this is calculated as the ratio between the EBIT adjusted and the average net invested capital. The ROI is used as to measure the profitability of invested capital;
- **Net financial debt:** this is calculated pursuant to the CONSOB Communication dated July 28, 2006, and in compliance with ESMA/2013/319 Recommendations. Net financial debt represents, borrowings from banks and other financial institutions net of cash and cash equivalents, other financial assets at fair value through the Income Statement, current financial receivables (included in the financial statements under *"Other receivables"*) and, current derivative financial instruments included in the net financial (liquidity)/debt position (included in the financial statements under current assets as *"Derivative financial instruments"*);

- **Net financial (liquidity)/debt position:** this measure represents the net financial debt less the *"Non-current financial receivables"* (included in the financial statements under *"Other receivables"*) and non-current derivative financial instruments included in the net financial (liquidity)/debt position (included in the financial statements under non-current assets as *"Derivative financial instruments"*). Total net financial (liquidity)/debt position is an alternative measure to net financial debt which includes non-current financial assets;
- **Net financial (liquidity)/debt position without IFRS 16:** this measure is calculated by excluding lease obligations detected following the application of the new standard IFRS 16 – Leases from the net financial (liquidity)/debt position;
- **Net financial (liquidity)/debt position without IFRS 16 / EBITDA adjusted without start-up costs without IFRS 16:** this is calculated as the ratio between the net financial (liquidity)/debt position without IFRS 16 and the EBITDA adjusted without start-up costs without IFRS 16. This is used to measure the sustainability of the debt;
- **Operating net cash flow:** is calculated as the change in the net financial position relative to operations management;
- **Net cash flow before dividends and extraordinary transactions/investments:** is calculated by adding the change in the net financial position due to financial and tax management, to the operating net cash flow;
- **Net cash flow before dividends paid by Parent company:** is calculated by adding the change in the net financial position due to extraordinary transactions and the management of investments, to net cash flow before dividends and extraordinary transactions/investments;
- **Net cash flow before dividends without IFRS 16:** is calculated by adding the change in the net financial position due to the implementation of the new accounting standard IFRS 16 - Leases, to net cash flow before dividends paid by Parent company;
- **Net cash flow** is calculated by adding the change in the net financial position due to the payment of dividends by Parent company, to the net cash flow before dividends paid by Parent company;
- **Net cash flow without IFRS 16:** is calculated by adding the change in the net financial position due to the implementation of the new accounting standard IFRS 16 - Leases, to net cash flow.
- **Capital Expenditures or Investments in property, plant & equipment and intangible assets (CapEx):** this is calculated as the sum of investments (increases) in intangible assets, and investments (increases) in property, plant and equipment excluding any increases relative to the rights of use;
- **Increases in the Rights of Use IFRS 16:** this is calculated as the increases relative to the rights of use detected during the application of the new standard IFRS 16 – Leases;
- **Ratio of investments to depreciation:** is calculated by dividing the investments (increases) in property, plant and equipment with the depreciation for the period. The ratio of investments to depreciation is used to measure the ability to maintain or restore amounts for property, plant and equipment.

OTHER INFORMATION

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the strategic guidance and supervision of the overall business activities, with the power to address the administration in its entirety, with the competence for undertaking of the most important financial/strategic decisions, or 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 also endowed with the legal representation of the Company including in the Company's legal proceedings, as well as all other powers attributed to the Chairman pursuant to the Articles of Association.

The Executive Vice Chairman and Chief Executive Officer are exclusively delegated powers for the ordinary management of the Company and the Group, as well as the power to make proposals regarding the Industrial Plan 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 and propositional tasks:

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

INFORMATION ON THE SHARE CAPITAL AND OWNERSHIP STRUCTURE

The subscribed and paid up share capital at the date of approval of this Financial Report amounted to euro 1,904,374,935.66 and was represented by 1,000,000,000 registered ordinary shares without indication of their nominal value.

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

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

For further details on the governance and ownership structure of the Company reference should be made to the *Report on Corporate Governance and Ownership Structure* contained in the *2019 Annual Report*, as well as other additional information published in the *Governance and Investor Relations* section of the Company's website (www.pirelli.com).

WAIVER OF THE PUBLICATION OF INFORMATION DOCUMENTS

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

FOREIGN SUBSIDIARIES NOT BELONGING TO THE EUROPEAN UNION (EXTRA-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 28, 2017 concerning Market Regulations.

With reference to data at December 31, 2019, the Extra-EU Companies controlled, directly or indirectly, by Pirelli & C. S.p.A. which are of relevance pursuant to Article 15 of the Market Regulations 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 pursuant to the same aforesaid provisions, the Company has specific and appropriate *"Group Operating Regulations"* in place which ensures immediate, constant and full compliance with the provisions of the aforementioned CONSOB Regulation. In particular, the competent corporate departments ensure the timely and punctual identification and publication of the more significant Extra-EU Companies, pursuant to the provisions of the Market Regulations, and - with the necessary and timely cooperation of the companies concerned - ensure the collection of data and information and the assessment of the circumstances referred to in the aforementioned Article 15, ensuring the availability of the information and data provided by the subsidiaries in the event of a CONSOB request. The periodic flow information is also provided for to guarantee to the Board of Statutory Auditors that the Company is carrying out of the required and appropriate checks. Finally, the aforesaid Operating Regulations, consistent with regulatory provisions, govern the making of the financial statements available to the public, (that is 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 is declared 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

The Company's Board of Directors again approved the procedure for Related Party Transactions (*"OPC Procedure"*) as part of the new listing process initiated and completed in 2017. Subsequently, following the renewal of the administrative body and the constitution of the Committee for Related Party Transactions (*"OPC Committee"*), the OPC Procedure was approved, 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 other corporate governance procedures, in the section of the website www.pirelli.com dedicated to Corporate Governance. For more details on the OPC Procedure, reference should be made to the section *"Directors' Interests and Related Party Transactions"* included in the Annual Report on the *Corporate Governance and Ownership Structure* contained in the Financial Statements group of documents.

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 2019 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.

For the purposes of providing complete information, it is to be noted that 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 reshaping and financial effects of the same (attributable in part to the 2019 financial year) reference should be made to the sections of the 2019 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 as 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 2019 Annual Report. 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 is carried out in compliance with the OPC Procedure.

Furthermore, there were no Related Party Transactions - or changes or developments to the transactions described in the preceding Financial Statements - that have had a significant impact on the financial position or results of Group for the 2019 financial year.

EXCEPTIONAL AND/OR UNUSUAL OPERATIONS

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it is hereby specified that during the course of 2019, 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 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 lawyer Alberto Bastanzio as the Data Protection Officer (*"DPO"*), whose contact details have been duly communicated to the Guarantor for the Protection of Personal Data July 25, 2018. The DPO can be contacted at, other than at the registered office of the Company, also through 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, March 2, 2020


SUSTAINABILITY

Report on responsible management of the value chain

Consolidated non-financial disclosure pursuant to legislative decree of December 30, 2016, n. 254

METHODOLOGICAL NOTE

This section of the Annual Report 2019, entitled "Report on Responsible Management of the Value Chain" (hereinafter "the Report"), constitutes the "Consolidated Non-Financial Statement" 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 2019 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 2019 compared to 2018 and 2017, with respect to the targets set for 2019 from the 2017-2020 Industrial Plan. In this regard, please note that in February 2020 the Company will be presenting the new Industrial Plan and the related long-term strategic sustainability targets. The Plan will be published at the same time on the institutional website www.pirelli.com.

The Report is published annually (the previous Pirelli Annual Report was published in April 2019 with reference to the year 2018), 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 that information considered to be of particular relevance since, for example, it falls within the Group Sustainability Plan targets;
- a verification, following a circuling 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 investors, 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 2019, 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 2019;
- 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, ISO 45001/OHSAS 18001 for the management of Health and Safety in the workplace, ISO 14001 for environmental management. The company is also inspired by the 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 "231 Compliance, Anti-Corruption, Privacy and Antitrust Programmes", "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 Statement, 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 Institutional Affairs and Sustainability Department reporting directly to the CEO of the company, which has oversight of the management at a Group level and proposes plans for sustainable development to the Sustainability Steering Committee. The Institutional Affairs and 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 AND THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

Pirelli's sustainable development planning aims to make a tangible contribution to the global effort to achieve the 2030 Sustainable Development Goals (SDGs) presented by the United Nations in September 2015.

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.

In February 2020, the Company will present the new Industrial Plan and the related long-term strategic sustainability targets. The Plan will be published at the same time on the institutional website www.pirelli.com.

During 2019 Pirelli continued to implement the Sustainability Plan 2017-2020 with selected target for 2025, published in 2017, fully complementary with the Company's "High Value" development strategy. 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 of the Sustainability Plan 2017-2020 with selected target for 2025 (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 Roadmap 2019-2021 relating to the sustainable management of the natural rubber supply chain.

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 above mentioned targets are intended to contribute to the achievement of 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 "Transforming Urban Mobility";
- 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 our suppliers in the implementation of the Roadmap of Activities at 2021, and "WBCSD", with reference to the project "Transforming Urban Mobility" and the Global Platform for Sustainable Natural Rubber.

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.

Please be aware that:

- the Pirelli Sustainability Plan 2017-2020 with selected target for 2025 is published in the "Sustainability" section of the Company's website (www.pirelli.com), where the new Industrial Plan and related long-term strategic sustainability targets that the Company will present in February 2020 will also be published;
- at the end of the 2019 Annual Report, prior to the Independent Auditors' Report, the Summary Tables including a correlation table between the Group's performance/targets and the United Nations Sustainable Development Goals, on which the aforementioned performance and targets have an impact.

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 2019, particular relevance was given to the engagement and training of the Group's natural rubber suppliers, in the implementation of the 2019-2021 roadmap of activities defined by the Company following the consultation with the relevant local and global Stakeholders for the implementation of the Pirelli Policy on the Sustainable Management of Natural Rubber (for further information on the sustainable management of natural rubber, see the dedicated paragraph to this Report).

In the preceding years, several consultation meetings were held for the relevant national and regional Stakeholders, 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. In 2018 meetings were held in the United States and the United Kingdom, in 2017 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

The Pirelli materiality matrix was published in 2019, updating the materiality matrix prepared in 2016.

The thorough Stakeholder Engagement activities allowed the observation of the priorities assigned by the key Stakeholders relating to a panel of sustainability issues critical for the Autoparts sector, and therefore to compare these expectations with the importance of the same issues for the success of the business according to the experience and expectations of the Top Management.

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.

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.

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[8];
- 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;
- 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.

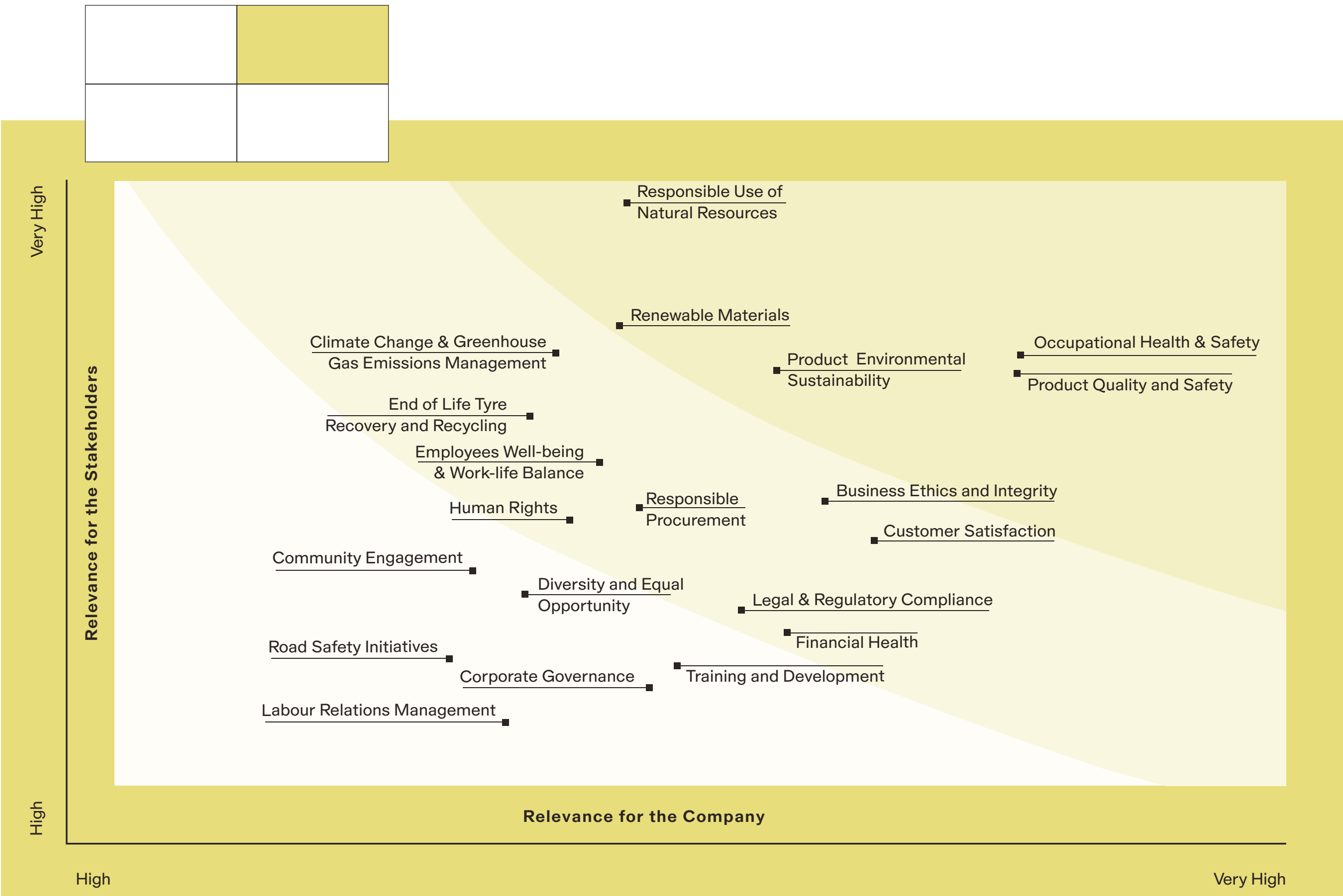
It should be noted that the consolidation of the materiality matrix at Group level tends, by its very nature, to deviate

8 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.

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 materiality matrix is a key element for the definition of a sustainable development strategy in the Group and as such is considered in the definition of the new Industrial Plan and related long-term strategic targets that the Company will be presenting in February 2020.



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” Privacy 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.

During 2019, the Board of Directors of the Company approved the new version of the Model, updated taking into account the legislative and jurisprudential innovations and, in particular, in compliance with Article 2 of Law no. 179/2017, concerning whistleblowing, the management methods of the internal reporting system and the disciplinary system were modified. In addition, the changes introduced by Legislative Decree no. 107 of 10 August 2018 and the provisions of Law no. 3 of 9 January 2019, which expanded the catalogue of offences and tightened the penalties applicable to entities, were also implemented.

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 communicating and implementing the Group Anti-Corruption Programme continued in 2019 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*”.

As part of the anti-corruption programme implementation process, country-specific training courses have been implemented through e-learning platforms or classroom courses. In addition, during the year, a worldwide anti-corruption training course was prepared for the Purchasing Department to raise awareness of the issue so as to make it easier for employees to identify potential critical situations and activate the procedures set out in the internal rules.

The activity aimed at analysing the profiles of corruption risk and continued through the assessment of conformity with local regulations in force in the Countries where the Company is present, the verification of the adequacy of the corporate oversight and the updating of the risk analysis.

Finally, specific procedures have been formalised on the third party due diligence process through the verification of the activities, conducted in the main countries, of gathering and verifying information of an ethical, legal and reputational nature relating to counterparties and aimed at identifying potential compliance risks in advance. During the year, the certification body performed periodic audits on the ISO 37001 Anti-Corruption Management System of Pirelli & C., Pirelli Tyre S.p.A and the Russian and Brazilian entities, reconfirming the validity of the certifications previously obtained. In 2019, the process of certification of the Spanish company began and will be completed in early 2020.

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 2019, on the basis of the reports received through the whistleblowing reporting channel, 2 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 2019 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 2019, Pirelli supported the activities of Transparency International, to which it 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 2019 the processing activities carried out by the Group companies based within the European Union and the Russian Federation were monitored in order to verify their compliance with the EU Regulation 2016/679 and the Russian Data Protection Act respectively, taking the most appropriate corrective actions where necessary. At the same time, a project was launched and completed to bring the US companies of the Group into compliance with the new regulations on the protection of personal data introduced by the California Consumer Privacy Act. Work also continued on compliance with Brazilian legislation on the protection of personal data in anticipation of its entry into force.

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*.

Throughout 2019 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 2019 Pirelli was not involved in any antitrust proceedings or investigations as participant 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 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 2019, 2018 and 2017, below is a summary table and then a further study of reports from 2019[9].

9 The data reported are related only to the consolidated scope of the Consumer business. Furthermore, with regard to the 6 reports that were still in progress at the reporting date of the 2018 Annual Report, following the conclusion of the verification activities in 4 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.

	2019	2018	2017
Total reports	77	70	34
Of which anonymous	29	22	7
Of which filed closed for being absolutely generic	6	2	1
Of which founded	24	25	9
Countries of origin of the reports ascertained	Brazil, Bulgaria, Dubai, Greece, Italy, Romania, and Russia	Brazil, China, Italy, Romania, Russia, United States and UK	Brazil, Chile, Spain, United States and UK
Matter alleged in the reports ascertained	Violation of the Code of Ethics and/or company procedures, fraud against the Company or third parties, product quality anomalies, discrimination.	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.
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.

During the course of 2019 the Whistleblowing procedure was activated 77 times. In particular:

- the 77 reports were received from 14 different Countries (Argentina, Brazil, Bulgaria, China, Dubai, Egypt, Germany, Greece, Italy, Romania, Russia, the United States, South Africa and the UK);
- 82% of the reports (63 cases) were forwarded using the email address ethics@pirelli.com provided, while 18% (14 cases) by sending a letter to management which dealt with informing Internal Audit Department as per corporate rules;
- 62% of the reports (48 cases) were signed whereas the remaining 38% (29 cases) were received in anonymous form;
- among the signed notifications, 19 were activated by external Stakeholders, of which 13 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 2 cases 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 77 reports received during the 2019 year, at the beginning of 2020, 6 were found to be at the verification and in-depth investigation stage, whereas 71 were found to have been concluded. In respect of these latter, specific activities of verification involving, where necessary, the corporate functions concerned were conducted, and based on the analyses carried out and the documentation made available during the assessment, it emerged that:

- in 47 cases objective corroborating evidence was detected such as to hold the facts contended in the reports received to be true;
- in the remaining 24 cases the substantial truthfulness of the facts attributed was found, in particular, 2 cases concerned fraud against the Company or third parties, 1 case connected to discriminatory attitudes, 1 case relating to product quality anomalies and 20 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.

In terms of trends over the last three years, in 2019 there was a slight increase in reports compared to 2018, a year that showed significant growth compared to 2017. The leap observed between 2017 and 2018 is likely to be linked to the focus placed by the company on strengthening the knowledge of the Policy by Group employees, particularly during Internal Sustainability Audits. The trend also confirms the substantial confidence placed in the Company in the management of 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 commitment of the Company to operate to ensure responsible development over the long term, while being aware the connections and interactions between economic, social and environmental dimensions. This is to wed the creation of value, the progress of the company, the attention given to Stakeholders and the 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 €)

	2019		2018		2017	
Gross Global Added Value	**2,315,148**		**2,177,745**		**2,079,628**	
Remuneration of personnel	(1,072,167)	46.3%	(1,067,579)	49.0%	(1,034,647)	49.8%
Remuneration of Public Administration	(164,562)	7.2%	(52,964)	2.4%	(40,848)	2.0%
Remuneration of borrowed capital	(109,480)	4.7%	(196,311)	9.0%	(362,610)	17.4%
Remuneration of risk capital	(177,000)	7.6%	-	0.0%	-	0.0%
Remuneration of the company	(788,044)	34.0%	(857,079)	39.4%	(634,727)	30.5%
Contributions to the external community	(3,895)	0.2%	(3,811)	0.2%	(6,796)	0.3%

The added value created in 2019 recorded an increase of 6.3% compared to 2018. This change is mainly due to the increase in the remuneration of the Public Administration and risk capital, partially offset by the reduction in the remuneration of 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 2019 for the external community on the net result of the Group amounted to 0.9% (0.9% in 2018). The table below shows the expenses incurred in the last three years, which grew slightly in 2019 compared to 2018 and contracted compared to 2017 due to cost containment activities at Headquarters.

CONTRIBUTIONS TO THE EXTERNAL COMMUNITY

(in thousands €)

	2019	2018	2017
Training and research	691	823	877
Social-cultural initiatives	2,136	2,181	4,877
Sports and solidarity	1,068	807	1,042
Total contributions to the external community	**3,895**	**3,811**	**6,796**

For further study of the main initiatives supported by the contributions indicated above and related model of governance, please refer to the paragraphs in this report devoted to corporate contributions and initiatives for 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 2019 are shown below.

ROMANIA

The fourth and last tranche, amounting to €10 million, of the loan granted in 2009 by the European Investment Bank (EIB) to Pirelli Tyres Romania S.r.l. for a total of €50 million was repaid in March 2019. The loan was granted for the expansion of the Slatina plant for the production of tyres for cars and light commercial vehicles. For the sake of completeness, it should be noted that the first tranche, amounting to €20 million, was repaid in May 2017 and that the second and third tranches, amounting to €10 million each, were repaid in March and July 2018, respectively. This loan was in addition to a similar one, received to support 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 of €28.5 million from the Romanian state as an incentive for local investments, of which €7.6 million in 2019 (the incentives were paid from 2018 onwards).

ITALY

No receipts for national or regional contributions were recorded during the 2019 financial year. For the sake of completeness, Pirelli Tyre S.p.A. obtained incentives from the Lombardy Region in the form of non-repayable grants of €1.7 million and €2.4 million for the implementation of two R&D projects on Safety and Smart Manufacturing, of which €0.8 million was collected. During the year, the company also signed an agreement with MiSE (Ministry of Economic Development) for the facilitation of three R&D projects up to a total of €6.3 million.

MEXICO

In 2019 Pirelli Neumaticos S.A. de C.V. (Mexico) received a new grant contribution from the Government of the State of Guanajuato (Mexico) for investments and generation of employment for a total of €2.4 million entirely collected during the year. The company also received grant contributions from the Mexican Federal Government for investments and generation of employment for the ProMéxico project, for a total of €10 million. No further government grants were received during 2019 (the incentives were paid from 2012).

RELATIONS WITH INVESTORS

In accordance with what is set out in the Values and Ethical Code of the Group, Pirelli engages in constant dialogue with shareholders, bondholders, institutional and individual investors, and analysts at the major investment banks via the Investor Relations function and the Group's Top Management to promote communication that is equal, transparent, timely and accurate.

Financial Communication activities continued during 2019 with the promotion of meetings with Italian and foreign analysts and investors. In line with international Best Practices, the "Investors" section of the Pirelli website is constantly updated with information on strategy, business model, market performance and positioning with respect to competitors.

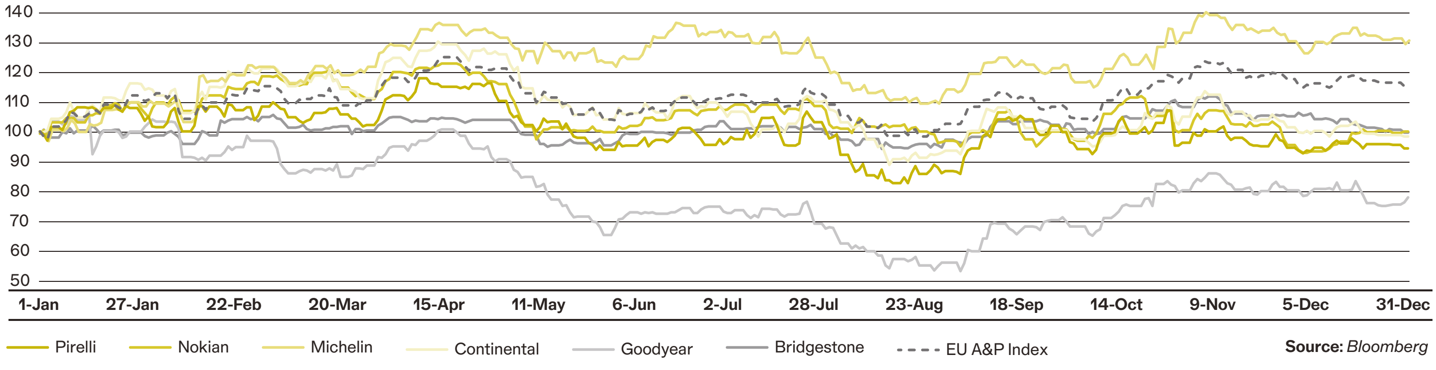
The interest of the financial community towards Pirelli is proved by the broad coverage of the stock by 20 of the main national and international business banks and brokers and by the inclusion of the company in the FTSE MIB, Dow Jones 600 A&P indexes and in the FTSE Italian Brands index.

The evaluation (Target Price) and the analysts' estimates (Consensus) are published in the "Investors" section on the company's website and periodically updated.

2019 was a year of high volatility in the main equity markets. Uncertainty over economic growth, international trade tensions, as well as the progressive decline in global Auto production, impacted the Auto & Parts sector for much of the year. Pirelli closed 2019 with a market capitalisation of €5.2 billion (average capitalisation in December), down 5%[10]. This compares with -21%[10] for Goodyear, -1%[10] for Continental, +1% for Nokian, 0%[10] for Bridgestone, +30%[10] for Michelin, +15%[10] for the EU Stoxx 600 A&P index.

10 Stock market trend 1 January - 31 December; the value is net of dividend distribution and/or other extraordinary transactions.

Below is a summary of stock market performance since the beginning of the year:



Pirelli's commitment to the creation of sustainable value that characterizes the Company's responsible management and its economic, social and environmental performance allows it to be included in some of the world's most prestigious sustainability stock market indices, including Dow Jones Sustainability Index World and Europe and FTSE4Good, both of which have top industry ratings globally, Euronext Vigeo World 120 and Europe 120, Ethibel Sustainability Index (ESI) Excellence Europe, ECPI, ISS ESG Rating and MSCI ESG Rating.

With particular reference to the Dow Jones Sustainability indices, in September 2019 Pirelli was recognised, as in 2018, as world leader in the Auto & Components sector in the Dow Jones Sustainability Indexes World and Europe, with a score of 85 compared to a sector average of 36. In addition, in January 2020, Pirelli was the only company in the Auto Components sector worldwide to be awarded "Gold Class Distinction" in the SAM Sustainability Yearbook 2020 published by S&P Global; both the Dow Jones Sustainability Index and the Sustainability Yearbook are based on RobecoSAM's Corporate Sustainability Assessment, which analyses the ESG performance of over 4,700 listed companies in 61 different sectors.

It should also be noted that, in January 2020, Pirelli was reconfirmed on the Climate A List of the CDP (Carbon Disclosure Project) and became one of the global leaders in the fight against climate change. In 2019, more than 8,400 companies reported their greenhouse gas emissions through the CDP, a non-profit organisation supported by 525 institutional investors, managing assets worth more than US$3.6 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 Original Equipment Vehicles, Sport Utility Vehicles (SUVs) and light commercial vehicles segment, Pirelli can count on a Premium customer market share of around 20% globally and more than 20% in Europe; in the Prestige segment, which represents the top of the range, Pirelli exceeds 50%.

In the Replacement segment, 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 2019, Pirelli can count on more than 16,500 Loyal Resellers globally, with a particular concentration in Europe, Asia-Pacific and South America (about 75% of the total points of sale). The degree of affiliation varies according to the market and the very presence of Pirelli, ranging from a softer loyalty (Fidelity Club), which has as main objective for

Pirelli territorial coverage and for the dealer sales support; to franchise 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 (318 points of sale worldwide).

Starting in 2016, and in line with Pirelli's "Prestige" strategy, a new retail concept called P ZERO WORLD™ was born, with the aim of offering the best services to satisfy the most demanding consumers. P ZERO WORLD™ offers its customers the entire range of Pirelli products (Car, P ZERO™ Trofeo®, Pirelli Collection, Moto and Velo) and a series of "customer-oriented" services such as car valets and courtesy cars, all immersed in an environment that allows you to fully experience the Pirelli World, being able to touch the most important assets such as F1®, the Calendar and the partnerships of Pirelli Design. By 2020, the P ZERO WORLD™ Network will identify approximately 135 stores among Pirelli's best customers, located in the main countries of the world. Among these, 5 are already active Flagship Stores (Los Angeles, Munich, Monte Carlo, Dubai and Melbourne), while the remaining are authorised dealers, with about 90 new openings planned for 2020.

"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, will lead to an evolution of mobility with a speed that 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.

This is the context in which the Cyber™ project and tyres sensorization, an integral part of Pirelli's strategy that makes technological innovation a distinctive and key element in responding to the major issues that will transform the concept of mobility, which sees a future of independently-driven electric cars that are shared and connected, through 5G, to the entire road infrastructure.

Pirelli is present in the world of bicycle tyres with several product lines: the line dedicated to road racing bikes: P ZERO™ Velo and CINTURATO™ Velo, the line dedicated to the off road world of mountain bikes SCORPION™ MTB and the Urban CYCL-e™ line.

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 Department, 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 20 Motorcycle websites (in 14 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 2019, these websites attracted 7.5 million unique users, for a total of 9.7 million sessions and 31.8 million page views.

A further digital touchpoint that brings the consumer to the point of sale is represented by the Retail sites: present in 10 countries, it has intercepted 2.1 million users in 2019 (for a total of 7.1 million page views) and generated about 106,000 appointment bookings, over 50,000 calls to the dealer, about 7,000 contact requests via e-mail.

In 2019, 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 adapted to 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.

Of particular relevance in terms of communication on product developments is participation in the main *Autoshow events.* At the Geneva Motor Show 2019 Pirelli presented the P ZERO™ product family, unveiling the brand new P ZERO WINTER™. Also in 2019 Pirelli took part in the most important *Consumer Prestige* events, such as the *Salon Privé* (England) and the *Villa d'Este Elegance Competition* and conducted three driving events called the P ZERO™ Experience in Italy, Germany and Abu Dhabi.

Pirelli continues 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 record* in 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 most prestigious motorsport championships like the GT World Challenge Europe, America and Asia and in particular Formula 1®, of which Pirelli is the Global Tyre Partner until 2023.

In 2019 Pirelli took part in *Eurobike*, the main international cycle fair, where it presented the entry into the Gravel segment with the CINTURATO™ Gravel line.

The training of customers on the product even in 2019 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 15,000 participations by dealers, belonging to the 24 main markets, in classroom training courses on the Pirelli product, technology and sale of tyres; 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 order to support the product trainers, Pirelli has developed a library of technical content 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.

During 2019 the use of the new online training site TYRE-CAMPUS™ was consolidated, now covering 24 markets in 16 different languages. To date, more than 14,000 points of sale are registered on the new site, with a total of over 18,200 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 addition to being involved in a modern and intuitive environment, users are also involved in the "Product Expert" certification which can be obtained and downloaded from the site once all the training courses assigned during the year have been completed.

Pirelli also continues to certify all its dealers who complete the product training successfully. The certificate is indicated by a "Product Expert" plaque to be displayed 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 2019, 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 2.6 million followers, with a growth of 3% over the previous year. Also on Twitter, the Pirelli accounts have seen an increase in followers, reaching more than 302,000 people, over 12% more than in 2018. A very important step forward was on Instagram, where Pirelli channels reach more than 790,000 followers, an increase, year-on-year, of 40%. Finally, there are about 22,200 followers of Pirelli on the main online video platform, YouTube, and over 450,000 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 2019, on the new digital communication platform, Pirelli published 350 articles - on product, motorsport, culture and sustainability - gathering over 6.6 million visits, of which almost half were attracted through social networks and more than 5 million unique users, an increase of 17% compared to 2018.

As for the Motorcycle world, the Pirelli and Metzeler brands boast a structured and widespread presence on the main social networks: the Pirelli brand, as well as on the Facebook channel (with more than 979,000 fans connected to the Global Page which includes 19 local pages) is on Instagram with over 145,000 followers and has dedicated profiles on Twitter and YouTube. Worthy of note is the mobile application DIABLO™ Super Biker, which has been downloaded by more than 615,000 people around 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 24 countries worldwide, is present on Facebook with a Global Page that has more than 434,000 fans and includes 17 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 community of motorcyclists: over 400,000 for Pirelli Moto and over 61,000 for Metzeler.

Pirelli Velo, in turn, speaks with its consumers also through a website dedicated to the world of cycling. 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 2019 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.

In terms of performance indicators, Pirelli considers *Top of Mind*, *Brand Awareness* and *Brand Consideration*. With reference to the *Target Premium 18" Up* represented by Premium car owners which can mount tyres with rims equal or higher than 18 inches, the analysis carried out in 2019 saw Pirelli positioned in the *Top Three* of the main tyre brands: in first place for *Top of Mind*, and second place for *Brand Awareness* and *Brand Consideration* in the United Kingdom, in first place for *Top of Mind* and *Brand Awareness* and second place for *Brand Consideration* in Italy, third place for Top of Mind, *Brand Awareness Brand Consideration* in Germany and in second place for *Brand Awareness* and third for *Top of Mind* in France. Outside Europe, Pirelli is in first place for all KPIs (*Top of Mind, Brand Awareness* and *Brand Consideration*) in Brazil, second place for all KPIs in Russia, and third place for *Top of Mind* and *Brand Awareness and second place for Brand Consideration* in China.

PRODUCT SAFETY, PERFORMANCE AND ECO-SUSTAINABILITY

Safety and technological solutions to support the environment are essential values of Pirelli's product offering and commitment. In 2019, the company once again distinguished itself on the market in the development of tyres and technologies that are aimed at raising the limits of safety, performance and environmental protection.

During 2019, Pirelli presented its first tyres with the ELECT marking that distinguishes all Pirelli tyres developed together with original equipment on electric vehicles. The marking represents the clear identification of a tyre built through technological solutions and material packages able to enhance the technical peculiarities of electric vehicles, in particular in terms of:

- 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 grip.

In addition to the above, the continuous renewal of the range has made it possible to offer the market products with lower rolling resistance values, which as a result are more eco-sustainable. Among the price lists (Pricat Germany) of January 2018 and September 2019, the number of items in class A and B rolling resistance increased from 150 to 230, showing a growth of over 50%.

In 2019 the commercial offering in North America saw the introduction of two products with an improvement in both performance and safety: SCORPION All Season Plus II and CINTURATO P7 All Season Plus II. The product has seen significant improvements in performance on wet surfaces, braking in particular.

Among the products in Pirelli's portfolio, ICE ZERO 2™ and SCORPION ICE ZERO 2™ are new generation studded tyres developed for a wide range of cars and SUVs, designed to ensure excellent performance in extreme winter conditions on snowy and icy roads. Higher levels of safety and driving control are guaranteed by specific innovations related to tread design and studded technology.

The company's strength is highlighted even in the most extreme winter conditions. In 2019, two podium finishes were taken by Pirelli ICE ZERO™ FR, the non-studded product developed for harsh winters that offers excellent levels of grip and safety even on snowy and icy surfaces. Excellent positioning also for the WINTER CINTURATO™, a winter product for the European market that obtained a place on the podium thanks to its high performance in all conditions of use.

Volumes are continually growing of Pirelli PNCS™ tyres, whose innovation is crucial to reducing the noise inside the passenger compartment generated by tyre rolling 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 Jaguar-Land Rover, Audi, Volvo, Mercedes, Ford, Tesla, Porsche, Bentley, McLaren, Aston Martin and BMW, but also by end customers who choose to fit Pirelli PNCS™ tyres in replacement, with a 75% higher volume increase in 2019 than the previous year.

The safety and performance of Pirelli products are finally certified by tests conducted by leading automotive magazines. In 2019 Pirelli came first in 2 tests with PZERO™, a product for high performance cars, thanks to its high driving characteristics in dry and wet asphalt conditions.

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. In 2019, all the certifications obtained were verified by third-party bodies and kept active.

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. In 2019, all the certifications obtained were verified by third-party bodies and kept active.

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. In accordance with the rules for transition to ISO/IEC 17025:2017, in 2019 the Pirelli Tyre S.p.A. Laboratory successfully obtained accreditation for the new version. The labs participate in proficiency tests organised by the International Standard Organisation, by ETRTO or by international circuits organised by auto manufacturers. Specifically with 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 2019:

- 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 which have led to the imposition of sanctions and/or injunctions by the applicable authorities;
- 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 supply chain management model adopted by Pirelli fully complies with the provisions of the international guidelines for sustainable procurement ISO 20400 - "Sustainable Procurement Guidance", as certified at the beginning of 2018 by a third party (SGS Italia S.p.A.) following an in-depth evaluation. The analysis confirmed that the requirements of the ISO 20400 standard are fully met by Pirelli's procurement model, both in terms of corporate policies and strategies and in terms of managing the internal processes needed to implement sustainability requirements in purchasing dynamics, and at a more operational level in the direct management of supplier ethical performance. The certification of full compliance with ISO20400 is in addition to the certification of compliance obtained by the Company with the guidelines on social responsibility dictated by ISO 26000.

The Group's relations with suppliers 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.

The sustainable management of the supply chain is handled in the "Green Sourcing Policy", the "Social Responsibility Policy on Occupational Health, Safety and Labour Rights, Environment", the "Global Health, Safety and Environment Policy", the "Global Human Rights Policy", the "Global Quality Policy", the "Product Stewardship Policy", and in the Group's "Sustainable Natural Rubber Policy". In all the documents cited, with reference to the specific social and environmental issues discussed from the individual Policies, 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 extend its responsible management in the supply chain as far as possible back to the origin of the chain.

The Policies mentioned are available to suppliers in their local languages; for the full text in several languages please see the Sustainability Section on the Pirelli website.

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.

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 stages.

During a first phase of **scouting**, and thus assessment of potential suppliers of goods or services, a buyer who has been adequately trained is able to gain a first impression of the abidance by the ESG and product or service requirements 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 **on-boarding** (pre-qualification and qualification) phase to fill in the questionnaire through which the supplier can view and simultaneously accept Pirelli's requests in terms of economic, social, environment and business ethics responsibilities. Among the questions asked to the potential supplier, for example, the request to certify 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 then continues with further questions aimed at identifying potential integrity and corruption risks in advance and with the request to attach any certificates such as ISO 9001. For specific product categories (raw materials), information on loss prevention is also requested, 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, 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 during 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 signing the corrective action plan shall block the qualification of the supplier.

This is also the context of more than ten years of preventive assessment of new raw materials and new auxiliary products from the perspective of workers' health and the environment. This assessment - conducted centrally - is carried out before the materials in question are used extensively by the Group's operating units. The assessments are carried out taking into account not only the requirements of the more restrictive European regulations on the management of hazardous substances (for example, the so-called "REACH" and "CLP" Regulations), but also by virtue of the standards and knowledge available at international level (specific databases, etc.). Also worthy of mention are the activities of monitoring the producers and suppliers of the raw materials used by the entire Group (in accordance with the above Regulations), as well as those carried out with regard to compliance with the requirements of Regulation (EU) 2017/821 on so-called "conflict minerals" (to which a paragraph is dedicated below).

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 or any other form of exploitation;
    - 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 2019, 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.

FOCUS: ESG ON-SITE AUDIT

The Pirelli management model has been characterised by third-party on-site audits since 2009. The on-site audit is already carried out in the pre-qualification phase for all potential new suppliers and/or plants of raw materials and high value-added goods that, by their nature, can become development partners/long-term partners for the Company, to which a large part of the purchase spending is allocated.

In addition, every year Pirelli conducts an on-site third-party ESG audit campaign at active suppliers' sites to cover all product and geographic areas of purchase.

The results of the on-site ESG Audit, together with further assessments made during the supplier's on-boarding phase, are integrated into the annual Vendor Rating process, according to which the supplier is given a rating that sums up their ESG performance, the quality of the supplies, the quality of the business relationship and the technical-scientific collaboration.

The annual Audit Campaign determines the list of suppliers to be audited based on an approach that integrates materiality and risk. The Group's Purchasing and Sustainability Departments define the Guidelines for Risk Assessment which, carried out by local Purchasing Managers and Sustainability Managers, will lead to the selection of suppliers to be audited on site. The following basic parameters are considered in the assessment:

- 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.

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. 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 to which loss prevention KPIs have been added since 2019. For natural rubber suppliers, the checklist of verified parameters is derived from Pirelli's Policy for the sustainable management of natural rubber, on which a paragraph is dedicated below.

Here below, the number of ESG on-site third-party audits performed in the last three years:

Year	Audit Number
2017	83[11]
2018	85[12]
2019	90[13]

In most cases the 2019 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 China, France, Belgium, Netherlands, Germany, Malaysia, Indonesia and Brazil.

The results of the audits carried out during the 2019 annual campaign show:

- 44% of suppliers without non-compliance;
- a total number of non-conformities found on-site decreased by 4% compared to 2018.

The non-conformities registered in 2019 are substantially linked to the processes of health and safety management, the use of overtime and the correct implementation of environmental management systems.

On the basis of audit findings, and where non-conformities are found, the supplier signs off a corrective action plan suggested by the independent auditor, to be implemented within specific deadlines. The implementation of the recovery plan is verified by a follow-up activity (documentary or a new on-site audit) directly followed by the Auditor, who report to Pirelli. The Group Internal Audit Department verifies the adequacy of supply chain management by the local responsible Functions (Sustainability and Purchasing).

MATERIALITY OF ESG IMPACTS ON THE SUPPLY CHAIN

Social impact (human and labour rights in particular) is evidenced 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.

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 Pirelli's indirect emissions, 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.

Pirelli mitigates the risks mentioned through the Management Model adopted above 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/farmers, traders, processors, 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

11 of which 14 on potential new suppliers of raw materials.
12 of which 16 on potential new suppliers of raw materials.
13 of which 26 on potential new suppliers of raw materials.

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 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 and detailed its Action Plan for 2019.

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

During the course of 2019, Pirelli implemented the activities planned for the Action Plan 2019, with the support of central and local specialists from Earthworm Foundation.

The first activity envisaged in the 2019 plan concerned the engagement of suppliers on the sustainable development strategy envisaged in the Pirelli Policy, the Implementation Manual and the 2019-2021 Activity Roadmap, with a view to partnership and collaboration for a common goal. To this end, Pirelli organised interviews with the management of all suppliers, including a number of dialogue sessions at the factories. At the end of 2019, the engagement activities carried out covered 100% of the volumes purchased by Pirelli during the year.

A further objective of the 2019 roadmap was the identification, together with suppliers, of the geographical areas of purchase of the natural rubber supplied. The ability to identify the origin of natural rubber is in fact crucial for mapping potential risks within the supply chain, both deforestation and social, and to enable further efforts in terms of traceability. Thanks to the relationship of collaboration, trust and the necessary respect for confidentiality on competitive details for suppliers, at the end of the year Pirelli was able to have a map of supply chain areas with information that in many cases identifies the village of origin of natural rubber. At the same time, together with the Earthworm Foundation, Pirelli conducted an analysis of potential socio-environmental risks by geographic area mapped, sharing it with its suppliers so that it could serve as a basis for defining roadmaps for appropriately targeted activities.

With regard to mapping deforestation risk, the desk activity was supported by an innovative tool that uses satellite images to identify areas of deforestation in selected areas. At the end of 2019 and beginning of 2020 the test is underway and the results will be integrated into the risk maps to allow updates of risk mitigation plans where appropriate.

The main objective of the 2019 plan was also training on the contents of the Pirelli Policy and the related Implementation Manual for all employees of Pirelli suppliers directly involved in "field" activities, in the local language and in all countries from which Pirelli sources its supplies. 100% of natural rubber suppliers participated in six seminars organised by Pirelli in five countries (Indonesia, Thailand, Malaysia, China and Brazil), which were also attended on various occasions by national authorities active in the sector. The three-day training sessions were supported by local specialists, who lowered the topics covered in the Policy on local realities, making the training particularly effective and appreciated by participants.

In support of what was broadcast during the training days, Pirelli has created a set of infographics reporting key concepts in the policy, in order to support suppliers in transmitting the knowledge learned during the training along the supply chain in a simple and effective way.

After the training sessions, the suppliers began to define their own roadmap for implementing the Pirelli Policy, describing in detail the activities that will make it possible to fill the gaps identified to date. At the end of 2019, Pirelli received roadmaps covering about 97% of the volumes of natural rubber purchased in 2019.

In 2019 Pirelli participated as usual in the "tapping competition" event held in Indonesia by Kirana Megatara, one of its main suppliers. The event saw the best local "tappers" compete amicably on the best methods of tapping, an important moment of training and spreading awareness among the farmers present about the best cultivation and tapping techniques, necessary to obtain a product that is increasingly pure, free from contamination and therefore distinguished by its high level of quality, which is necessary to increase productivity and therefore household earnings, and at the same time to reduce the impact of deforestation. During the event Pirelli held an in-depth dialogue with those present on natural rubber tree diseases, which have recently begun to have an important impact on the livelihoods of smallholders (an estimated loss of productivity of around 15%), so that together we could identify causes and possible solutions. The result is a study that Pirelli will be publishing in early 2020 on the Pirelli website, in the section dedicated to natural rubber, for anyone interested.

Also held in 2019 was the scholarship delivery ceremony organised 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.

In 2020 Pirelli will continue on the path of engagement and partnership with its suppliers, focusing training on specific issues that meet the needs of the supply chain and dedicating it to players increasingly close to the origin of the chain. Pirelli will support suppliers in the implementation of their roadmap of activities to implement the Pirelli Policy and will continue to map the socio-environmental risks of the supply chain, strengthened by increasingly precise traceability and an increasingly close relationship with the various players involved.

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.

During 2019 Pirelli actively participated in three working groups launched by the platform, co-chairing two of them: the "Smallholder Representation Working group" and the "Capacity Building Working Group".

- → The "Smallholder Representation Working Group" aims to identify a geographically diverse group of farmers capable of effectively representing the interests of smallholders within the platform and to identify three representatives to sit on the Executive Committee;
- → The "Capacity Building Working Group" aims to develop a capacity building strategy in favour of smallholders and industrial plantations, identifying potential sources of financing.

Pirelli also participates in the "Traceability and Transparency Working Group" which aims to identify an appropriate tool to improve the large-scale traceability, and therefore transparency, of the complex natural rubber supply chain.

THE "GREEN SOURCING" POLICY

Since 2012 Pirelli has had a "Green Sourcing Policy", with the aim of stimulating and encouraging environmental awareness throughout the supply chain, as well as encouraging choices that could reduce the impact on the environment of Pirelli's procurement of goods and services. The system for implementing the Green Sourcing Policy, both within Pirelli and in relations with suppliers, 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 purchasing 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.

The Green Sourcing Manual is a unique document that contains:

- a general part on Green Sourcing topics;
- 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.

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.

Pirelli has also 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.

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 3TG minerals (Tantalum, Tungsten, Tin, Gold).

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 (3TG) 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 Company and which is equally distributed among most of the tyres produced. To give an example, a tyre weighing 10 kg contains about 10 mg (milligrams) equivalent of tin, in the extremely low 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 3TG metals. The update of the Cobalt Reporting Template (CRT) was recently published (30 October 2019) by RMI. Pirelli uses some Cobalt salts, a type of raw material commonly used in the production of tyres. In 2019, Pirelli therefore decided to join the "Cobalt Initiative" launched by RMI and to ask its suppliers to fill in the CRT. The suppliers surveyed cover 100% of the "conflict minerals" risk associated with the use of raw materials using cobalt in tyres. All suppliers surveyed responded: 80% of these suppliers excluded that foundries in their supply chain source their cobalt from conflict areas; the remaining 20% gave precise indications of the source of cobalt, listing foundries as required by the procedure, and no evidence of conflict minerals emerged.

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 10,000 m^3 of water and about 560 tonnes of CO_2.

This innovation provides economic benefits related directly to the material for about €280,000 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 CDP (ex Carbon Disclosure Project). 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 2019, 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 2019, the set of emission reduction actions implemented by Pirelli suppliers made it possible to avoid overall the emission of approximately 71 million tonnes of CO_2 equivalent into the atmosphere, combined with estimated economic savings of US$462 million.

First company among tyre manufacturers to have globally introduced the CDP Supply Chain in its own supply chain, Pirelli aims to achieve a response rate for suppliers of Raw Materials of 90% in 2020. The response rate recorded in 2019 was 81%, an upward trend compared to previous years (74% in 2018, 71% in 2017).

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.

During 2019, in line with what was stated in the 2019-2021 Roadmap on the implementation of the Policy on the sustainable management of natural rubber, Pirelli organized several training sessions dedicated to the issues covered by the Group Policy. The three-day workshops were held in local languages and were attended by all the natural rubber suppliers, as well as various national authorities active in the sector.

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 2019 Supplier Award was held at Pirelli's headquarters in Bicocca, in the presence of Pirelli's General Manager Operations and Chief Procurement Officer, who awarded prizes to nine suppliers operating internationally, particularly in Brazil, China, Turkey, Sweden, Italy and France, which had distinguished themselves for quality, innovation, speed, sustainable performance, global presence and level of service.

A specific award is dedicated to sustainable performance, recognizing the importance of "responsibility" strategies that make a real difference by bringing benefits to the entire value chain. In 2019 the Sustainability award was given to a natural rubber supplier that in recent years has demonstrated a strong and growing commitment to social and environmental sustainability along the entire supply chain, through technological innovation and commitment to traceability starting from the origin of the material.

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, as well as the number of suppliers, is slightly higher in OECD area[14] with respect to non-OECD areas.

76% of suppliers (unchanged from 76% in 2018) 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.

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

VALUE OF PURCHASES BY GEOGRAPHIC AREA

		2019	2018	2017
OECD COUNTRIES	Europe	54.9%	49.9%	49.3%
	North America	6.7%	5.9%	4.2%
	Others	5.0%	4.1%	4.7%
NON-OECD COUNTRIES	Latin America	12.1%	14.8%	15.7%
	Asia	11.9%	14.9%	14.7%
	Africa	0.4%	0.4%	0.4%
	Others	9.0%	10.0%	11.0%

NUMBER OF SUPPLIERS BY GEOGRAPHIC AREA

		2019	2018	2017
OECD COUNTRIES	Europe	47.2%	54.2%	55.7%
	North America	5.5%	4.8%	4.9%
	Others	5.4%	5.2%	4.4%
NON-OECD COUNTRIES	Latin America	22.8%	21.7%	25.7%
	Asia	8.4%	6.3%	4.9%
	Africa	0.4%	0.2%	0.1%
	Others	10.3%	7.6%	4.3%

The following table shows the breakdown in percentage of the value of Pirelli Tyre's purchases by type. With a weight equal to 47% of the total, the purchasing category which is decidedly more relevant and significant, as in previous years, is that of raw materials.

VALUE OF PURCHASES BY CATEGORY

	2019	2018	2017
Raw Materials	47%	46%	46%
Consumable Materials[15]	7%	5%	5%
Services[16]	37%	36%	36%
Capital goods[17]	9%	13%	13%

With reference to the percentage of Pirelli Tyre's suppliers by type presented in the table below, it is noted that suppliers of consumables and services weigh about 93% 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.

15 Indirect materials, auxiliary materials.
16 Energy, logistics services, shared services, ICT, R&D, marketing, trademarks and patents.
17 Machinery, civil works, moulds.

NUMBER OF SUPPLIERS BY CATEGORY

	2019	2018	2017
Raw Materials	2%	2%	3%
Consumable Materials	35%	29%	23%
Services	58%	61%	64%
Capital goods	5%	8%	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 2017-2019. The volume of raw materials utilised for the production of tyres in 2019 amounted to approximately 840,000 tonnes, of which approximately 4% derives from recycled materials (in line with the previous year) and 18.3% of renewable materials[18].

MIX OF RAW MATERIALS PURCHASED (VALUE)

	2019	2018	2017
Natural Rubber	13%	13%	15%
Synthetic Rubber	26%	27%	29%
Carbon black	12%	10%	9%
Chemicals	22%	23%	21%
Textile	17%	17%	16%
Steel	10%	10%	10%

TARGETS

2020:

- CDP Supply Chain: increase in raw material suppliers' response rate from 81% in 2019 to 90% in 2020;
- Natural Rubber supply chain sustainability: implementation of the 2020 plan in line with the 2019-2021 roadmap published in the Sustainability section of the website www.pirelli.com. In 2020 Pirelli will continue on the path of engagement and partnership with its suppliers, focusing training on specific issues that meet the needs of the supply chain and dedicating it to players increasingly close to the origin of the chain. Pirelli will support suppliers in the implementation of their roadmap of activities to implement the Pirelli Policy and will continue to map the socio-environmental risks of the supply chain, with increasingly precise traceability and an increasingly close relationship with the various players involved.

In February 2020, the Company will present the new Industrial Plan and related long-term strategic sustainability targets, including those impacting the supply chain. The Plan will be published at the same time on the institutional website www.pirelli.com, to which reference should be made for details of future targets.

18 Pirelli aligns itself with the OECD, which defines "Renewable Natural Resources" as natural resources, which, after their exploitation, can return to their original stock levels through natural growth or regeneration processes.

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 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[19].

In supporting the initiative, Pirelli is committed to the voluntary disclosure of transparent reporting 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, since Pirelli publishes an integrated annual report, 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 topics" and "Audit, Risks, 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 and Footprint" 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. In addition, Pirelli periodically performs sensitivity analyses and risk assessments in order to have a constantly updated picture of potential risks and opportunities linked to Climate Change which are of interest to the business and the related quantification of potential financial impacts.
- Risk management: the Group's latest Climate Change Risk Assessment examined the possible financial impacts linked to Climate Change, in terms of medium/long-term risks and opportunities according to the IPCC[20] climate scenarios (RCP 4.5 and RCP 8.5) and the energy transition (IEA 450). For its conclusions, please 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

19 The Task Force on Climate-related Financial Disclosures (TCFD) was established in 2015 by the Financial Stability Board (FSB) - a body that monitors the global financial system - with the goal of developing a set of recommendations on the reporting of climate change risks. The aim is to guide and encourage companies to align the information disclosed with investors' expectations and needs. In June 2017, the Task Force published 11 recommendations in the areas of governance, strategy, risk management, metrics and targets.
20 Intergovernmental Panel on Climate Change.

at the end of this Annual Report for the requests of the GRI 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 AND FOOTPRINT

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 2019.

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 91.3% of total impacts throughout the entire life cycle of the product, compared to a production phase that has a weight of only 2.7% of total impacts. As regards the impact of the Water Footprint, the use phase of the product is the most significant (52.5% of the total impacts), followed by the production phase of raw materials (34.7% 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[21]" 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.

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 tons of CO_2 equivalent (the greenhouse effect potential of the gas considered is assessed in relation to CO_2, considering a residence time in the atmosphere of 100 years).

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 the alteration of the aquatic ecosystem with potential effects in terms of biodiversity.

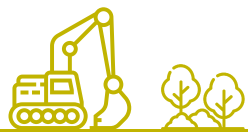
In terms of environmental materiality, the use phase of the tyre is overall the most prevalent. In terms of economic materiality,

21 Product Category Rule: Set of rules, requirements and specific guidelines for the development of environmental declarations, for one or more product categories, defined according to ISO 14025.

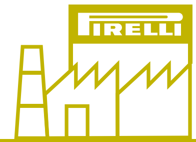
instead, the amount of company spending in the process phase is the most relevant, which results in the opportunity to reduce impacts through investments in energy efficiency.

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 according to the 2017-2020 Industrial Plan with selected target to 2025. In this regard, it should be noted that in February 2020 the Company will present the new Industrial Plan and the related strategic long-term sustainability targets that will see a further evolution of the environmental objectives compared to those indicated in the infographic. The Plan will be published at the same time on the institutional website www.pirelli.com.

STAGES OF LIFE CYCLE



RAW MATERIALS



MANUFACTURING

DRIVERS

Suppliers

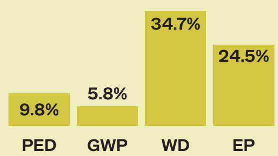
Raw materials production and transport: the impact is due to resources use by suppliers' plants

Pirelli

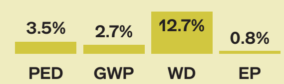
Tyre manufacturing: at Pirelli factories the impact mainly derives from the consumption of electricity and natural gas

IMPACT: CARBON & WATER FOOTPRINT**

Scope 3



Scope 1+2+3



MATERIALITY

Raw materials: Economic **High** | Environmental **Medium**

Manufacturing: Economic **High** | Environmental **Medium**

RESPONSE STRATEGY

IT SHOULD BE NOTED THAT IN FEBRUARY 2020 THE COMPANY WILL PRESENT THE NEW INDUSTRIAL PLAN AND THE RELATED STRATEGIC LONG-TERM SUSTAINABILITY TARGETS THAT WILL SEE A FURTHER EVOLUTION OF THE ENVIRONMENTAL OBJECTIVES COMPARED TO THOSE INDICATED IN THE INFOGRAPHIC. THE PLAN WILL BE PUBLISHED AT THE SAME TIME ON THE INSTITUTIONAL WEBSITE WWW.PIRELLI.COM

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

Target 2025 vs 2017:

for specific product segments, the doubling in weight of renewable materials used and a 30% reduction in fossil-derived raw materials

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:

- **-66%** Specific water withdrawal
- **-19%** Specific energy consumption
- **-17%** Specific emissions of CO_2
- **>95%** Waste recovery

ISO 14001 AT ALL PRODUCTION PLANTS

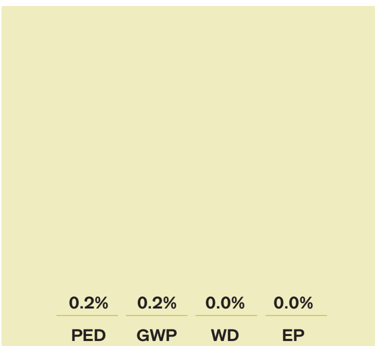
SCRAP REDUCTION PROGRAMME

DISTRIBUTION

Suppliers

Consumption and related production of fuel used by trucks and ships of logistics providers, which deliver Pirelli tyres worldwide

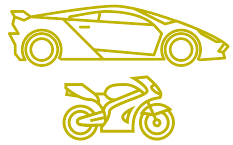
Scope 3



Economic **Medium** | Environmental **Low**

GREEN SOURCING POLICY

- Green Logistic Procedure
- Engagement to reduce Supply chain Carbon & Water Footprint

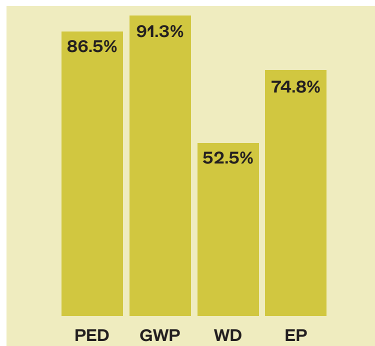


USE

Customers

Production and consumption of the fuel of customers' vehicles due to rolling resistance

Scope 3



Economic **High** | Environmental **High**

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

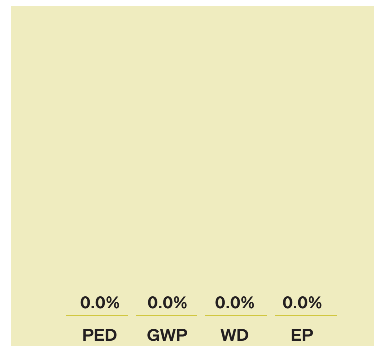
- OE Platforms: thanks to the interaction with the car, the information that the tyre provides can influence its behaviour, improving safety and performance.
- Cyber Fleet™: modular solutions dedicated to fleet management.

END-OF-LIFE

Waste Recovery Players

End of Life tyre management: old tyres are prepared by specialized companies to be reused as energy or as regenerated raw material

Scope 3



Economic **Low** | Environmental **Low**

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

PED: Primary Energy Demand
GWP: Global Warming Potential
WD: Water Depletion
EP: Eutrophication Potential (Freshwater - Peq)

** 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).*

*** Values expressed as % of the impacts in the stages of the life cycle*

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 2017-2020 with selected target for 2025 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.

It should be noted that in February 2020 the Company will present the new Industrial Plan and the related strategic long-term sustainability targets that will see a further evolution of the material objectives. The Plan will be published at the same time on the institutional website www.pirelli.com for the benefit of all Stakeholders.

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

- high-dispersion silica for wet grip, rolling resistance and durability;
- new technologies applied to the development of polymers, fillers and plasticisers to improve the wear rate of tyres;
- biomaterials, such as silica from renewable sources, biofillers such as lignin and sepiolite, 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 and plasticisers/resins 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 biopolymers and new bifunctional chemicals (e.g. serinol-pyrrole for improving polymer-charge interaction with reduced emission of volatile organic compounds - VOCs).

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, such as sepiolite. 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.

Pirelli Research and Development is also committed to the recovery and use of recycled material, i.e. secondary raw materials that can be used in the production of new tyres. This activity always takes place in compliance with the safety of the high-end product that characterises Pirelli's production, for which the use of recycled material has limits of substitution in terms of quality and safety of the final product.

Among the recycled materials, mention should be made of the use of rubber powder and pyrolysis material recycled from end-of-life tyres (ELTs) in combination with fillers of natural origin that are ideal for maintaining tyre pressure over time, an element strongly linked to safety.

There is constant research into material efficiency, which makes it possible to reduce the volumes purchased, as well as the weight of the finished product, with a significant positive environmental impact throughout the entire life cycle of the material and product.

Research is also continuing 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. The sustainable management of the natural rubber supply chain, the so-called conflict minerals and the cobalt chain are specifically discussed in the "Our Suppliers" section of this report.

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).

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 2017-2018-2019 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.

The amount of finished product used in the calculation of the specific indices indicated below, in 2019 was approximately 753,000 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 2.7% of total greenhouse gas emissions impacts and for 12.7% of total water-related impacts.

The year 2019 saw a significant decrease of production volumes: the number of tonnes of finished products fell by around -5% compared to the previous year (value calculated on a like-for-like basis), mainly due to exogenous factors related to a strong slowdown in the automotive market. This change in volumes, together with the geographical redistribution of production, had a particular impact on the specific indices (calculated on tonnes of finished product) relating to energy consumption and greenhouse gas emissions. On the other hand, the indices relating to specific water withdrawal, specific waste production and the percentage of waste recovery have improved.

Similar trends in the indicators are also observed with respect to the specific indices weighted on operating profit (compared to the Adjusted EBIT value).

It should be noted that the trend of all 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.

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 current Sustainability Plan provides for a reduction of -19% of specific energy consumption by 2020 compared to 2009 values. It should be noted that in February 2020 the Company will present the new Industrial Plan and the related strategic long-term sustainability targets that will see a further evolution of the objectives on energy efficiency and use of renewable energy. The Plan will be published at the same time on the institutional website www.pirelli.com for the benefit of all Stakeholders.

In the course of 2019, 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;
- → optimising 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).

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 2019, 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 define guaranteed levels of both energy savings 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. There were also activities on site to increase the efficiency of compressed air generation, through high efficiency compressors.

Excellent results were recorded for the reduction of compressed air and steam losses whether on machinery or on the distribution lines also thanks to the energy audit activities already started, and progressively extended to all the Group factories, with the help of a single external partner. The advantage of this choice is the possibility to have similar electric and thermal consumption models for each plant, to accelerate and optimise benchmarking activities between factories, and to map accurately the efficiency actions of the various plants.

Moreover, the electrical absorption measurements performed on individual plants are continuing in order to correlate the specific consumption to production in detail and then 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 2019 was significantly affected by the strong slowdown in the automotive market: the impact on production volumes fell by about -5% compared to the previous year. Another factor that conditioned energy performance was the installation of new energy-efficient systems dedicated to the abatement of Volatile Organic Compounds (VOCs), which increased electricity and gas consumption with the same amount of finished product.

These exogenous factors are joined by the optimisation of the production mix towards *Premium* and *Prestige* products, characterised by very high technological and performance content 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.

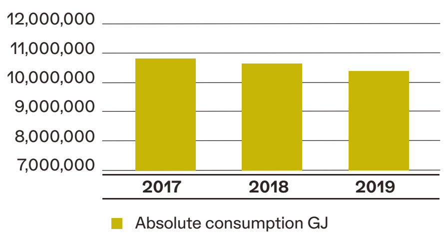
Management with a view to maximise the industrial efficiency, despite the extremely penalising factors previously described, allowed a slight increase in consumption in the industrial sector, of approximately 313,101 GJ. This value was calculated for each factory on the basis of the production volumes of the reporting year and the change in efficiencies achieved in 2019 from the previous year. In terms of absolute consumption (also expressed in GJ), there was a reduction of over -2% compared to 2018.

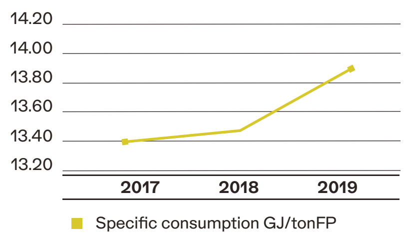
The Group's specific energy index 2019, which includes both the industrial and commercial and administrative sectors, thus increased by 3.2% compared to 2018. The reduction compared to 2009 is -13.1%.

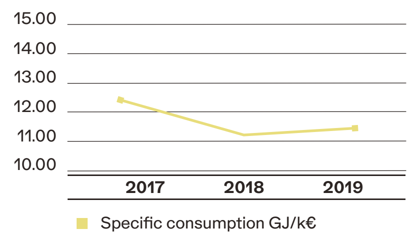
The absolute and specific consumption data reported in the following table were calculated by using direct measurements and were subsequently converted into GJ by using heating values from official IPCC sources.

		2017	2018	2019
Absolute consumption	GJ	10,860,266	10,688,588	10,467,443
Specific consumption	GJ/tonFP	13.40	13.48	13.90
	GJ/k€	12.39	11.19	11.41

The same 2019 data, weighted in economic terms, show a slight improvement compared to the previous year.



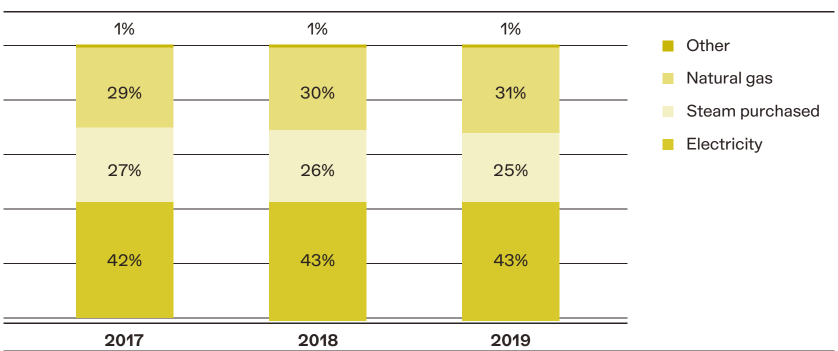




The graph below highlights the "Distribution of energy sources" used in Pirelli production process: among the direct sources, all non-renewable, which account for 32% of the total, are natural gas and, to a lesser extent, other liquid fuels such as oil, LPG and diesel (classified as "other"); the remaining 68% 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[22] database) while for steam, the share generated by renewable sources corresponds to around 15% of the total.

DISTRIBUTION OF ENERGY SOURCES



MANAGEMENT OF GREENHOUSE GAS EMISSIONS AND CARBON ACTION PLAN

Pirelli monitors and reports its[23] emissions of greenhouse gases through the calculation of CO_2-equivalent (CO_2e) – unit of measurement used for the emissions reported here below –, which 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.

22 International Energy Agency.
23 GHG inventory perimeter as indicated in paragraph "Scope of Reporting".

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 in the paragraph "The Pirelli Group Environmental Strategy and Footprint" 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)[24];
- Within Scope 2 *location-based*:
  - National emission factors[25] taken from IEA: CO_2 Emissions from Fuel Combustion[26];
- Within Scope 2 *market-based*:
  - Specific emission factors of suppliers where available;
  - Residual-mix emission factors[27] taken from RE-DISS AIB (EU)[28] and Green-e (US)[29];
  - Emission factors used in the context of location-based if other sources of data are not available;

and are reported according to the models proposed by:

- GHG Protocol: 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_2e (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 tons per euro of Operating Income.

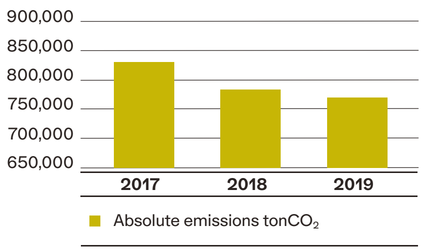
The management, calculation and reporting model of Pirelli's greenhouse gas emissions has been defined according to the ISO 14064 standard and the related data have been subjected to specific limited audit activity by an independent third party company according to ISAE 3000.

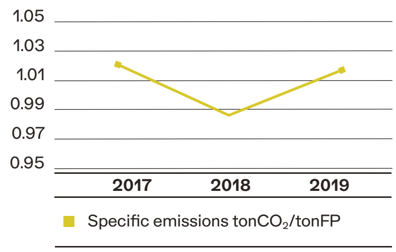
According to the Guidelines of the GHG Protocol Guide, the level of inventory uncertainty was evaluated as "Good".

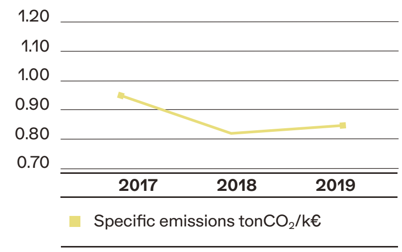
The Sustainability Plan envisages a reduction in specific emissions (on tonnes of finished product) of CO_2 equal to -17% by 2020 compared to 2009 values. At the time, the target was developed according to the methodology in force, i.e. Scope 1 and Scope 2 *location-based*. In this regard, it should be noted that in February 2020 the Company will present the new Industrial Plan and the related strategic long-term sustainability targets that will see a further evolution of the objectives on the reduction of CO_2 emissions. The Plan will be published at the same time on the institutional website www.pirelli.com for the benefit of all Stakeholders.

24 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).
25 Emission factors expressed in CO_2/kWh.
26 2019 Publication with update to the 2017 figure.
27 Emission factors expressed in CO_2/kWh.
28 2019 Publication with update to the 2018 figure.
29 2019 Publication with update to the 2017 figure.

The following charts show the performance of the last three-year period:







The Group's absolute emissions in 2019 were almost -2% lower than in 2018. The 2019 trend in the specific energy index and the reduction in volumes produced, on the other hand, caused an increase in specific emissions (weighed on the tonnes of finished product) of 3.4% compared to 2018. The performance towards 2009, the year on which the 2020 specific emissions reduction target is based, remains positive with a reduction of about -11%.

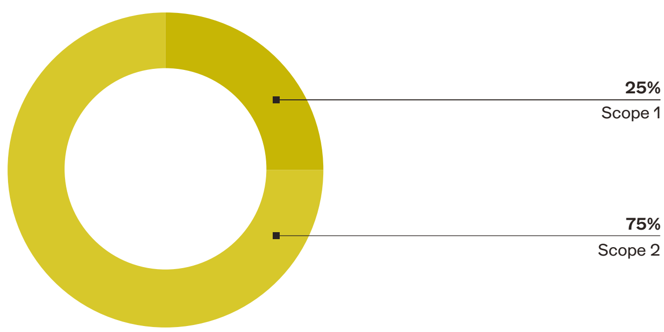
The portion of indirect emissions generated by the projects implemented in Silao (Mexico), Carlisle and Burton (UK), Settimo Torinese (Italy), Campinas and Gravataì (Brazil) - described below - was reported as prescribed by the Guidelines of the GHG Protocol, respectively for the procurement of electrical 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		2017	2018	2019
Absolute emissions (Scope 1 and Scope 2 *location-based*)	$tonCO_2e$	829,035	780,998	766,498
Scope 1	$tonCO_2e$	188,777	190,037	192,149
Scope 2 *(location-based)*	$tonCO_2e$	640,258	590,961	574,349
Scope 2 *(market-based)*	$tonCO_2e$	659,501	666,886	636,239
Specific emissions (Scope 1 and Scope 2 *location-based*)	$tonCO_2e$/tonFP	1.023	0.985	1.018
	$tonCO_2e$/k€	0.95	0.82	0.84

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.

DISTRIBUTION OF GHG EMISSIONS ACCORDING TO SCOPE



To support the aim of reducing climate-altering gas emissions, Pirelli has defined a "Carbon Action Plan" with the aim of making increasing use of 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 2019, the savings in terms of avoided CO_2e emissions exceeded 20,000 tonnes (Scope 2);
- the procurement of electrical energy from renewable sources at the plant in Silao (Mexico). In 2019 the agreement continued for the dedicated supply of electricity generated from wind sources, which in the year allowed the replacement of over 13 GWh of energy from fossil fuels, for a saving in terms of CO_2e emissions of around 6,300 tonnes (Scope 2);
- the procurement of electrical energy from renewable sources at the plants in Burton and Carlisle (UK). In the year 2019 the share of electricity certified from renewable sources exceeded 63 GWh, for an annual savings in terms of CO_2e emissions of more than 24,000 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		2017	2018	2019[30]
Raw Materials (Scope 3)	10^3 tonCO_2e	2,674.2	2,659.6	2,563.9
Manufacturing (Scope 1 + 2 + 3)	10^3 tonCO_2e	1,261.7	1,231.1	1,198.8
Distribution (Scope 3)	10^3 tonCO_2e	91.9	90.0	84.4
Customers (Scope 3)	10^3 tonCO_2e	41,863.6	40,187.2	40,220.9
End-of-Life (Scope 3)	10^3 tonCO_2e	2.6	2.5	2.2
Total	10^3 tonCO_2e	45,894.0	44,170.4	44,070.2

In 2019, 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 2018 emitted 900 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 Indonesia, to finance a project for wind energy production 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 2019. The combination of the two projects has allowed the reduction of a share of about 127% of the emissions generated by company cars in 2018, 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 current Sustainability Plan provides for a reduction target of specific withdrawal of water of -66% by 2020 compared to the 2009 value. In this regard, it should be noted that in February 2020 the Company will present the new Industrial Plan and related strategic long-term sustainability targets that will see a further evolution of the objectives on water withdrawal reduction. The Plan will be published at the same time on the institutional website www.pirelli.com for the benefit of all Stakeholders.

30 The 2019 figure includes the emissions generated by the Group's business air travel and the commuting of employees at the Milan Headquarters. The value also includes some primary data collected directly from suppliers.

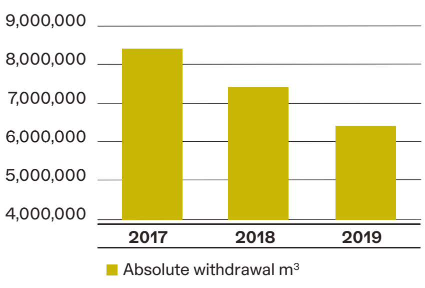
In 2019, an absolute water withdrawal of about 6.3 million cubic metres was recorded, with a reduction of around -14.7% compared to 2018. The specific water withdrawal per tonne of finished product is approximately -10% lower than in 2018 and -70% lower than in 2009, compared with a target of -66% for 2020.

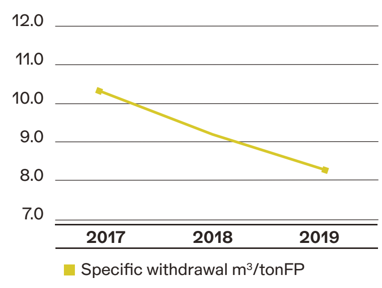
Thanks to the actions implemented, since 2009 Pirelli has saved around 90 million cubic metres of water: an amount almost equivalent to the absolute withdrawal of about fifteen years of the entire Group.

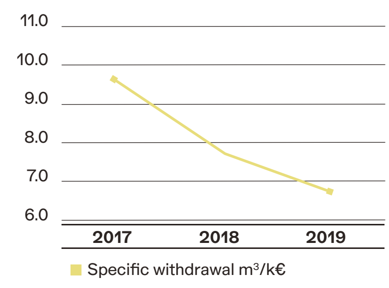
To provide an overall view of the performance in terms of water withdrawal year on year, the following tables report the indicators:

→ 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.

		2017	2018	2019
Absolute Withdrawal	m^3	8,371,000	7,382,000	6,299,000
Specific Withdrawal	m^3/tonFP	10.3	9.3	8.4
	m^3/k€	9.6	7.7	6.9

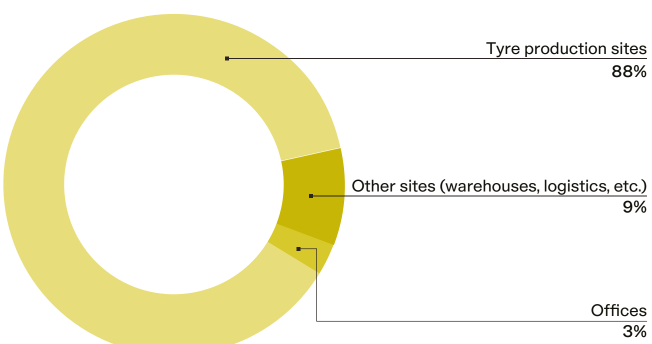




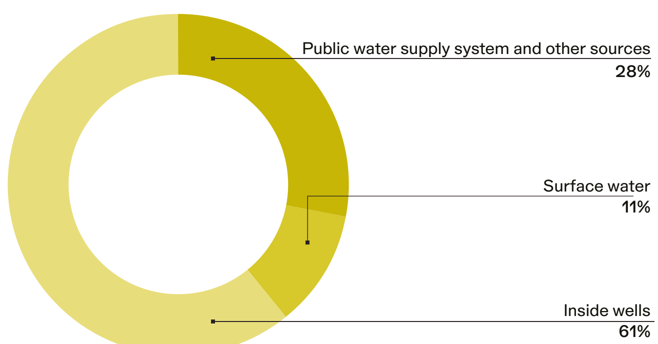


All the figures reported in this paragraph have been collected by taking direct or indirect measurements and are communicated by the local units. The following two graphs show the distribution of absolute withdrawals by type of use and the weight of water supply by type of source.

DISTRIBUTION OF WITHDRAWALS BY USE



TYPE OF WATER SOURCES (m^3)



TYPE OF WATER SOURCES (m^3)	
Public water supply system and other sources	1,750,000
Surface water	673,000
Internal wells	3,876,000
Total	6,299,000

61% of the water withdrawn is pumped from wells inside the facilities and authorized by the competent authorities. Furthermore, Pirelli obtains 11% 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 730 cubic metres. Lastly, about 184,000 cubic metres of water used, equivalent to approximately 2.9% of total withdrawal, are obtained from the waste water treatment of its production processes.

A total of about 4.6 million cubic metres of domestic and industrial waste water were discharged, with 53% 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: 19 mg/l of BOD_5 (Biochemical Oxygen Demand), 41 mg/l of COD (Chemical Oxygen Demand) and 20 mg/l of Total Suspended Solids.

WASTE MANAGEMENT

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

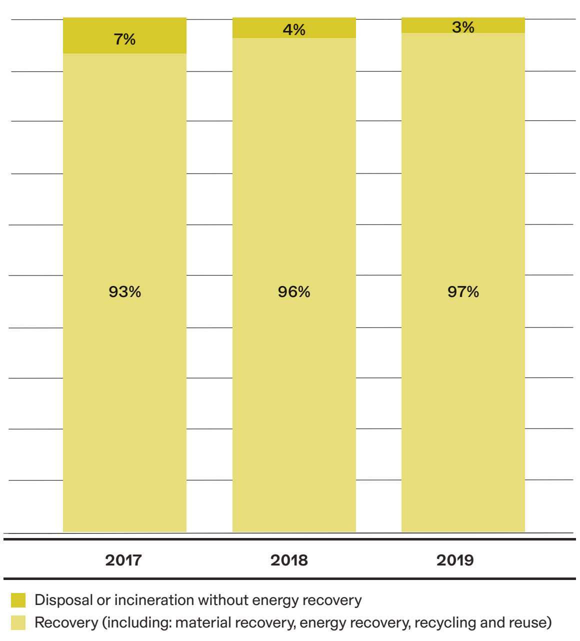
- innovation of production processes, with the aim of preventing the production of waste at the source, progressively reducing the processing of rejects and replacing current raw materials with new materials that have a lower environmental impact;
- operating management of generated waste, aimed at identifying 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 2019, 97% of waste sent for recovery was achieved, up by 1% compared to the previous year and with an increase of 28% compared to 2009, base year of reference. This result made it possible to confirm the achievement of 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.

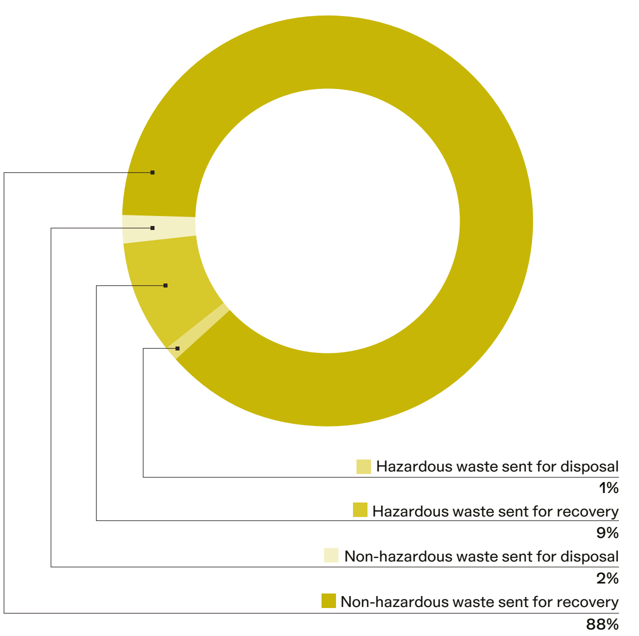
There was a significant reduction in specific waste production in 2019, equal to 141 kg per tonne of finished product and therefore down -7% compared to 2018, and a significant reduction in waste production in absolute terms, which in 2019 was down more than -11% compared to the previous year.

Hazardous waste, which fell in absolute terms by -10% compared to the previous year, represents 10% of total production and is sent in its entirety to plants located in the same Country where it is produced.

WASTE BY TYPE OF TREATMENT



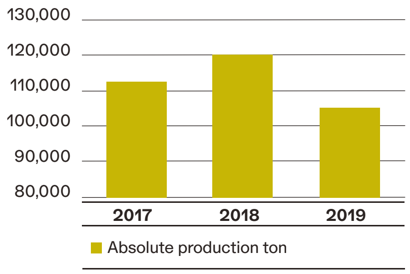
TYPE OF WASTE - 2019

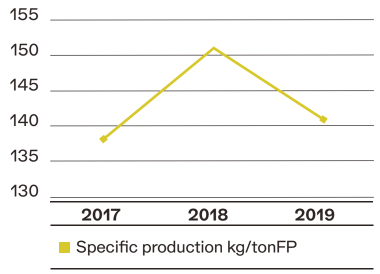


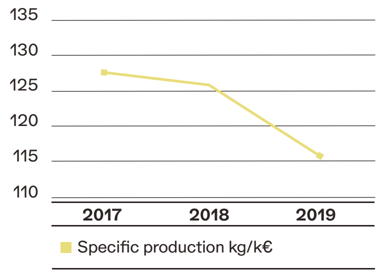
The graphs below detail waste production through three main indicators:

- → 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.

		2017	2018	2019
Absolute production	ton	111,800	120,100	106,000
Specific production	kg/tonFP	138	151	141
	kg/k€	128	126	116



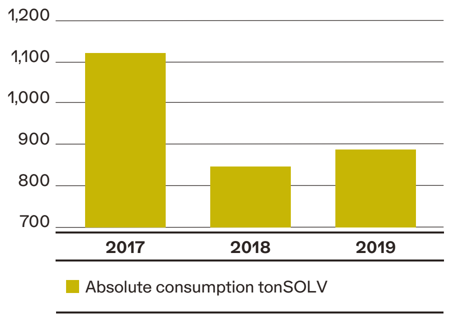


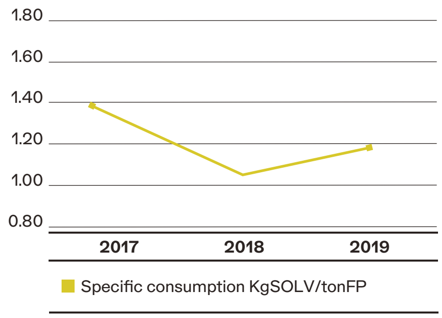


OTHER ENVIRONMENTAL ASPECTS

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 -15% at the end of 2019 compared to 2017 and of -64% compared to 2009, with emissions of related VOCs slightly lower than total consumption.

		2017	2018	2019
Absolute consumption	tonSOLV	1,125	841	883
Specific consumption	kgSOLV/tonFP	1.4	1.1	1.2





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, there are two Pirelli sites located within protected areas of high biological diversity: the site of Vizzola Ticino (Italy) and that of Elias Fausto (Brazil), both sites are the locations of tyre test tracks.

The Vizzola site hosting 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[31] 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 carried out, which highlighted the substantial negligence of the impacts of the activity compared to the context in which the test field is inserted.

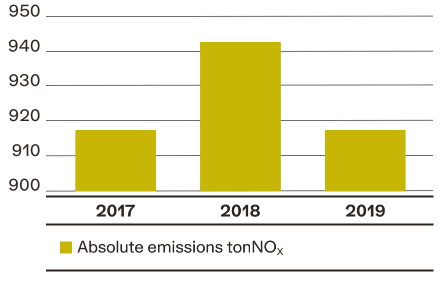
The site of Elias Fausto (Brazil) is the new Brazilian test track, with an area of 1,588 square kilometres, and is located in an area with a prevalent cultivation of sugar cane where there are two streams (Itapocu and Tietê rivers) that provide permanent protection areas. There are 162 species on the IUCN Red List, of which 1 is classified as 'vulnerable' (V), 2 as 'near-threatened' (NT), 158 as 'of minor concern' (LC) and 1 as 'missing data' (DD). In order to maximise environmental protection in the area, Pirelli manages environmental issues, monitors and implements measures to conserve fauna and water resources, including the planting of native species and the control of noise levels in accordance with the environmental impact study carried out prior to the project, according to which the environmental impact of the activities on the region's biodiversity is not significant.

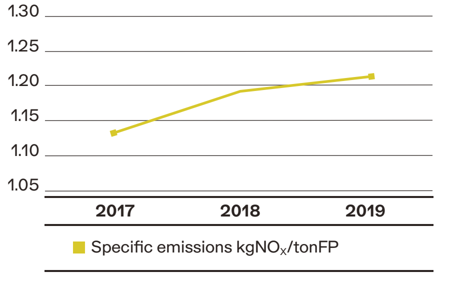
Pirelli's focus on biodiversity is also very high with regard to the supply chain, as in the case of sustainable management of the natural rubber supply chain based on a no deforestation policy. For an extensive description of the sustainable management of the natural rubber supply chain, please refer to "Our suppliers" in this report.

NO_x EMISSIONS NO_x emissions derive directly from the energy-generating processes used. In 2019, the index based on the tons of finished product increased by 2.5% compared to the 2018 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.

In absolute terms, NO_x emissions in 2019 fell by -2.8% compared to the previous year.

		2017	2018	2019
Absolute emissions	tonNO_x	917	943	917
Specific emissions	kgNO_x/tonFP	1.13	1.29	1.22

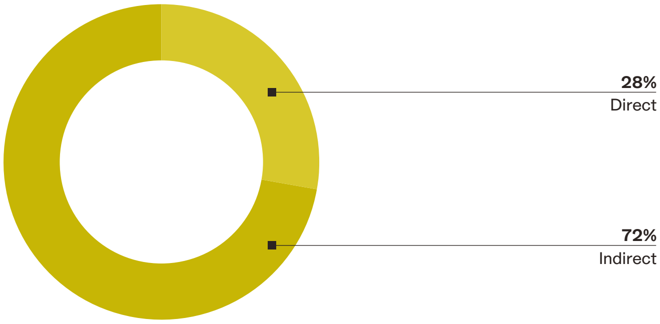




31 Man and Biosphere is a group of biosphere reserves in many countries in the world protected by UNESCO with the aim of promoting socio-economic development and conservation of ecosystems and biological diversity.

The following graph shows the 2019 weight of direct and indirect NO_x emissions out of total NO_x emissions.

DISTRIBUTION OF 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 2019, direct emissions of SO_x, caused by the combustion of diesel and fuel oil, came to 13.7 tonnes (respectively 10.8 tonnes in 2018 and 19.1 tonnes in 2017); the value is estimated based on EEA - European Environment Agency - emissions standards.

In terms of packaging management, the car tyre is a product generally sold without packaging.

The environmental management systems implemented at the production units have assured constant and prompt monitoring and intervention regarding potential emergency situations that may arise, as well as the reports received from Stakeholders. During 2019, no incidents, complaints or significant sanctions related to environmental issues were recorded.

EXPENSES AND INVESTMENTS

In the three-year period 2017-2019, environmental expenditure related to the production process exceeded Euro 55 million, of which about 34% was allocated in 2019. About 74% of this amount concerned normal management and administration of factories, while the remaining 26% 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 2019, the Company invested Euro 232.5 million in research and innovation of its products, with a constant focus on safety performance and reduction of environmental impacts and, simultaneously, production efficiency.

In 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

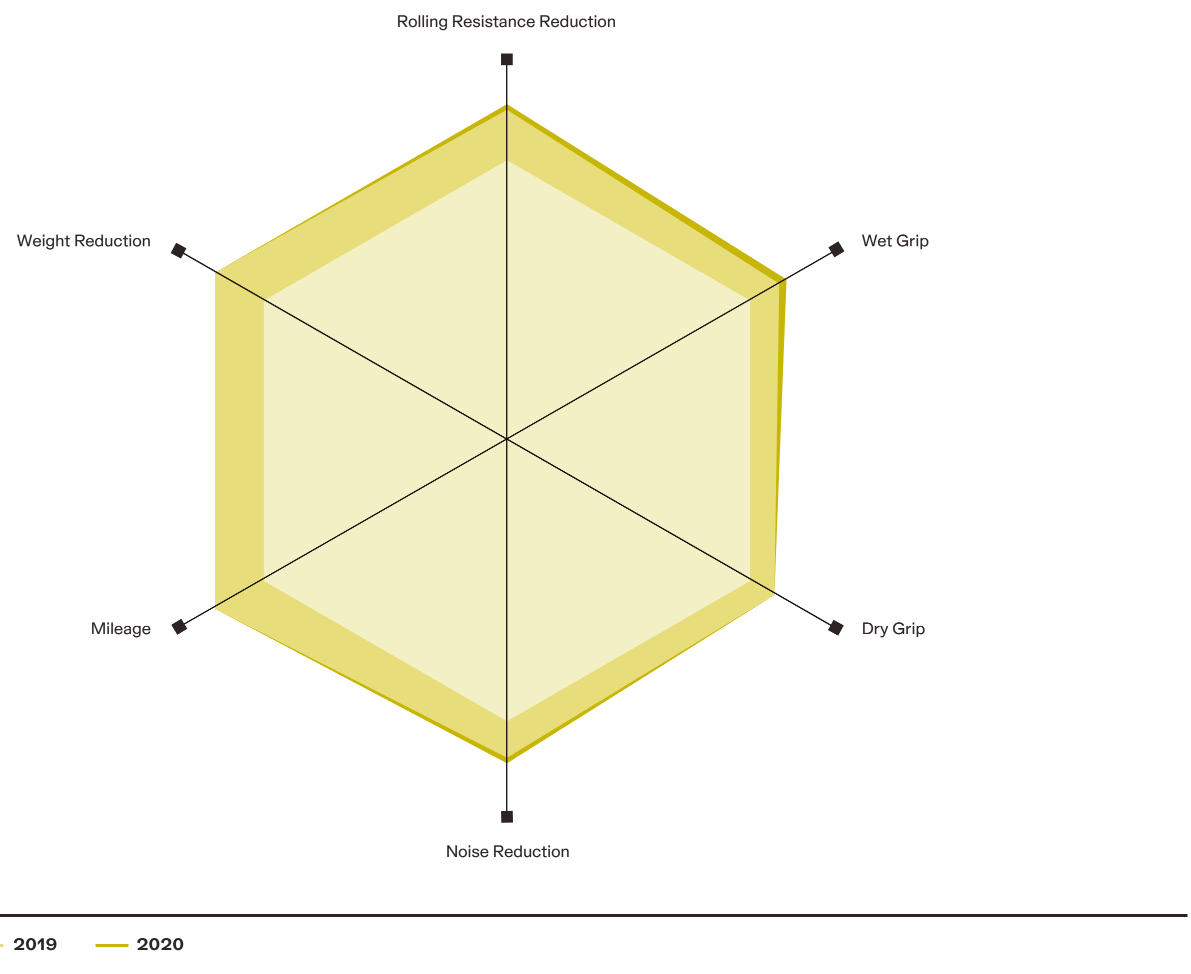
In line with its position in the *Premium* and *Prestige* segments, Pirelli develops and introduces increasingly sophisticated products on the market, responding to a macroeconomic scenario in constant and rapid evolution. The significant corporate investment in research and development on materials,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

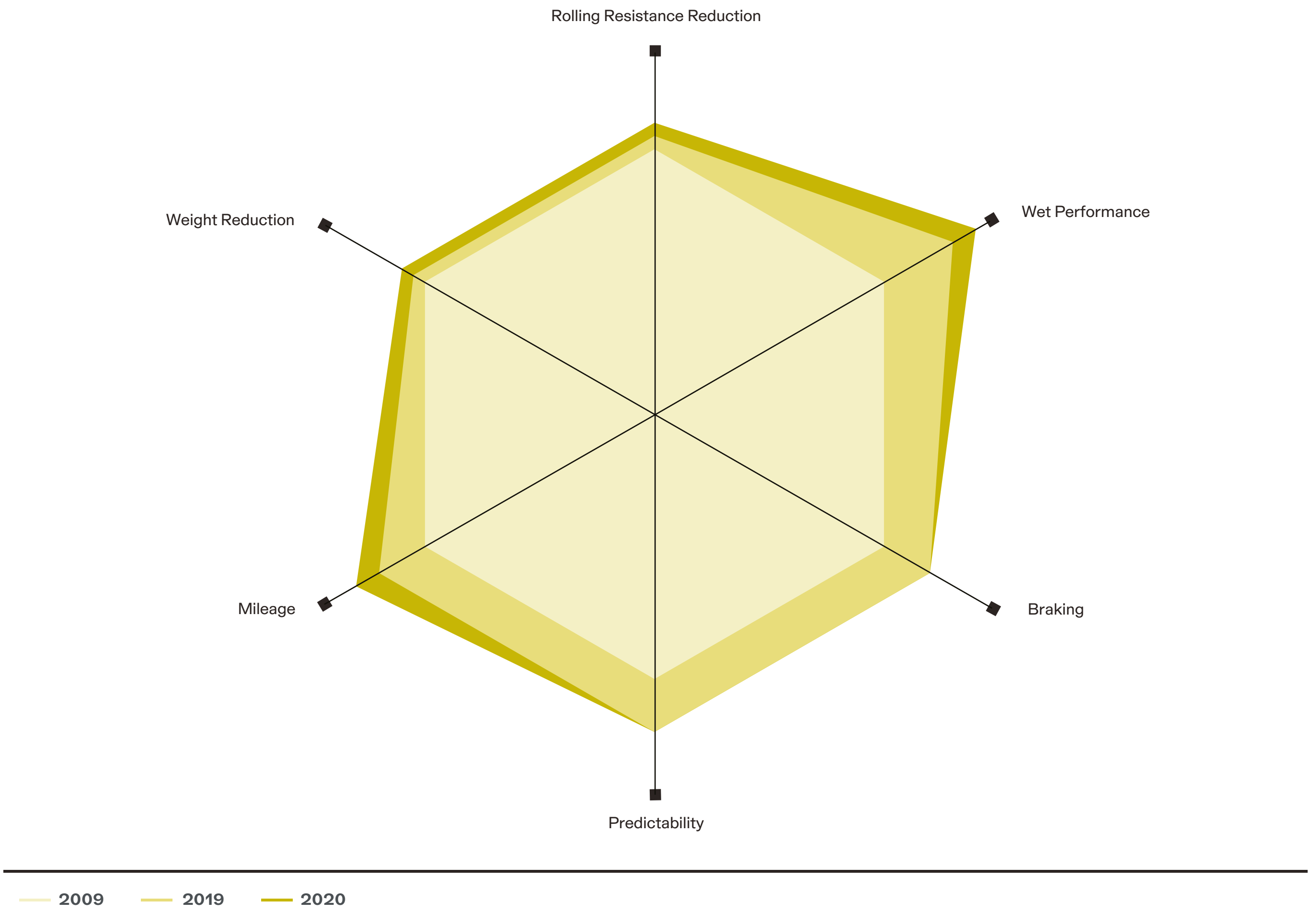
The targets to improve the environmental performances adopted by Pirelli for its products are objective, measurable and they consider the level of materiality of the impacts along the life cycle of the product with a perspective of the maximum effectiveness of the action. In particular, it was seen that 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 2019, the weighted average rolling resistance of CAR products decreased by -18% compared to the average for 2009.

CAR



MOTORCYCLE



Green Performance[32] 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 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".

32 Green Performance products identify the car 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.

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. At the 2019 Geneva Motor Show, Pirelli presented the Elect marking that distinguishes tyres specifically created for the needs of plug-in electric and hybrid cars. Among the fastest and most powerful fully electric hypercars equipped by Pirelli is the Rimac C, the most powerful hypercar ever produced in the world. Already a champion in power (1914 hp and a maximum torque of 2300 Nm) and acceleration (from 0 to 100 km/h in 1.85 seconds and from 0 to 300 in 11.8), the Rimac C also offers an exceptional range (650 km), thanks to the work of the 4 electrically powered engines, and should debut on the world's roads by 2020.

Evija, the first fully electric Lotus hypercar (target power of 2000 hp), will also be equipped with the following tyres:

- Pirelli P ZERO™, specially developed to ensure low rolling resistance and improve performance on the road: fundamental requirements to offer maximum range with a recharge as well as high precision in the wet;
- Pirelli PZero Trofeo®, to guarantee better performance on the track with optimal management of the torque supplied by electric motors.

The choice of two possible fitments enhances opposing driving experiences: the first, for use on the road with respect for the environment; the second, for the track thanks to the ideal characteristics of electric technology. Evija's fully electric powertrain was developed by Williams Advanced Engineering and takes advantage of the experience not only of Formula 1, but also of Formula E.

As far as motorcycle tyres are concerned, for the Sport Touring segment, 2019 saw the introduction on the market of PIRELLI ANGEL™ GTII, a product line that represents a further evolution in terms of safety on wet surfaces compared to its predecessor ANGEL™ GT (already recognised as the best in its category by the specialist press). Internal tests have shown that PIRELLI ANGEL™ GTII is capable of improving braking distances on wet asphalt by up to 5%, compared to the best competitor in the segment, as well as guaranteeing excellent handling qualities in favour of a feeling of safety and controllability.

As far as bicycle tyres are concerned, Pirelli recently 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.

Pirelli has also recently launched the Cycl-e™ range dedicated to traditional electric bicycles, in urban areas, trekking and tourism. The range of Pirelli tyres for electric bicycles boasts many 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 products of the highest technology do not stop at tyres. Pirelli continues, in fact, the development of CYBER™ technologies, based on the introduction of sensors inside the tyre, in order to obtain from the single point of contact with the road, useful information to increase the safety, sustainability and performance of vehicles.

CYBER™ technologies are divided into products dedicated to original equipment (Cyber™ Tyre), end consumer (Track Adrenaline) and fleet (Cyber™ Fleet). The common denominator of the three projects, which differ in technology, purpose and market segment, is the constant monitoring of tyre usage conditions (pressure and temperature) and the dynamic forces acting on them. All this in order to improve safety and optimise fuel consumption, thereby reducing CO_2 emissions attributable to road transport. In 2017, in fact, 27% of greenhouse gas emissions in Europe came from the transport sector, an increase of 2.2% compared to 2016 (*Source: European Environment Agency https://www.eea.europa.eu/data-and-maps/indicators/transport-emissions-of-greenhouse-gases/transport-emissions-of-greenhouse-gases-12*).

With Cyber Tyre, Pirelli will provide the car with information about the tyre model, mileage, dynamic load and, for the first time, potentially dangerous situations on the road surface. On the basis of this information, the car will be able to adapt its driver assistance systems to significantly improve safety, comfort and performance levels.

Pirelli is thus projected towards a future in which the tyre communicates with the consumer, with the vehicle and tomorrow, thanks to the potential of 5G, with the entire road infrastructure, helping to increase the safety, sustainability and efficiency of public and private transport.

On November 14, 2019 this vision was taken onto the track in Turin at the Lingotto test track where Pirelli, in partnership with Ericsson, Audi, Tim, Italdesign and KTH, demonstrated the "World-first 5G enhanced ADAS services" use case. During this demonstration, a vehicle equipped with Cyber Tyre tyres and connected to the 5G network, was able to transmit the risk of aquaplaning to the incoming vehicle. In such a reality, therefore, the communication paradigm changes further and the information, until now transmitted from the tyre to the vehicle, will be transmitted to the entire ecosystem by activating a "Vehicle to Vehicle" and "Vehicle to Infrastructure" communication.

2019 was also the year of the market debut of Track Adrenaline, a product for track day enthusiasts that includes a line of P Zero Trofeo® sensor-fitted tyres. Presented at the Geneva Motor Show in March 2019, Track Adrenaline monitors tyre pressure and temperature in real time and combines this information with telemetry data to provide the driver with information and tips on how to improve performance on the track while using tyres more consciously and efficiently to extend tyre life and save fuel.

In 2019, developments continued on CYBER FLEET™, the fleet tyre monitoring and management system designed to optimise running costs and increase safety and efficiency in public and private transport.

The sensor-fitting of tyres is an integral part of Pirelli's strategy, which makes technological innovation a distinctive and key element in responding to the major issues that will transform the concept of mobility, leading us towards a future of self-driven, electric cars, shared and connected, through 5G, to the entire road infrastructure.

Among the Open Innovation initiatives, it should be highlighted 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 area and the product technology and CYBER™ development area.

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. Recently, experimental tyre aerodynamic modelling studies have also been launched in the bicycle and automotive sectors.

TYRE AND ROAD WEAR PARTICLES

For many years, Pirelli has paid great attention to the theme of "Tyre and Road Wear Particles" (TRWP), the micrometric particles produced by the combined wear and tear of the road and tyre during vehicle circulation. The phenomenon of TRWP is complex, since the generation of these particles is not only linked to the combined wear of the road and tyre, but also substantially to the characteristics and conditions of use of the vehicle (weight, mass distribution, correct tyre pressure, etc.), the characteristics of the roads (material and roughness of the roads, being straight or winding, uphill or downhill, etc.), environmental conditions (dry or humid climate, hot or cold) and driving style (aggressive or relaxed, at high or moderate speeds, with sharp or progressive braking, etc.). Scientific studies (see "WBCSD" in this report) conducted so far have not shown significant risks to human health and the environment: however, the definition and implementation of effective actions for the mitigation of TRWP generation is strongly linked to the variety and number of causal factors mentioned above: it should be noted that some of them, such as driving style, road and vehicle characteristics, have more influence than the tyre considered individually.

The multiple causal factors extrinsic to the tyre and belonging to the sphere of influence of multiple Stakeholders require a combined action by all actors in order to define and implement the most effective mitigation actions. The need for a multi-stakeholder commitment led to the creation of the "European TRWP Platform" launched by ETRMA (see details in the "ETRMA" section of this report), which saw the participation, in addition to the Tyre Industry, of Road Authorities, Automobile Manufacturers Association, Automobile Clubs, Waste Water Treatment Sector, Universities and Research Centres, NGOs, European Institutions and national authorities. The platform will continue its work in 2020 and, as in 2018 and 2019, will be supported by CSR Europe.

As far as specific actions on tyres are concerned, Pirelli's commitment to TRWP is expressed both through active participation in the most important collaborative projects of the tyre industry on TRWP (see the "ETRMA" and "WBCSD" sections of this report) and through its own Research and Development activities on tyre materials and design, aimed at continuously improving tyre wear and, consequently, minimising the contribution to TRWP. In addition to this, it collaborates with public authorities and the tyre industry to support the development of standardised methods for measuring tyre wear, for example within the European Union, where a dedicated activity has begun.

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, 60% of end-of-life tyres (ELTs) are recovered (Source: WBCSD - Global ELT Management – A global state of knowledge on regulation, management systems, impacts of recovery and technologies), while in Europe and the United States the recovery stands at 92% (Source: ETRMA 2017) 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 "best practices", i.e. 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 (secondary raw materials), 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 following our Open Innovation model are continuing, aimed at improving the quality of recovered secondary raw materials in terms of affinity with the other raw materials and 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 Department, which acts in concert with the affected and responsible functions, at central level and in the various Countries, with reference to both the Internal and External Community.

Pirelli's commitment on 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 are also 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 employees 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. From 2019, Pirelli has also subscribed to the "Cobalt Initiative" launched by RMI. 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 Company value chain, the respect for human rights and labour rights assumes particular importance in human resources and supply chain management.

In late 2019, Pirelli updated its analysis of the risk of violation of human rights on its own premises, in the related value chain (suppliers and customers) and in the local context external to Pirelli, asking the main Stakeholders to fill out a dedicated survey. With regard to the perception of internal risk at the Pirelli's sites and in the relative value chain, the survey was submitted to the function managers and to the Sustainability Managers of the Group's sites, while regarding the perception of risk in the external context the survey was submitted to both the aforementioned Pirelli functions and to local Non-Governmental Organisations of reference.

The survey asked for an indication of the current and potential (referring to the next 5-10 years) perceived risk value on a scale from 1 to 4 (1 = low risk, 2 = medium-low risk, 3 = medium-high risk and 4 = high risk) for each of the 20 indicated 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.

With reference to the internal situation at Pirelli's sites, the consolidation of the feedback received revealed not significant risks; the average values recorded are, in fact, less than 1.12 for current risks and less than 1.15 for medium-long-term risks. A similar situation is recorded with reference to the Group's value chain, whose average values recorded do not exceed 1.18 for current risks and 1.29 for potential risks.

The consolidation of the feedback received from Non-Governmental Organisations, with reference to the risk perceived in the local context external to Pirelli, showed, on average, low or medium-low risks; the average values recorded are, in fact, less than 1.74 for current risks, while they reach 1.98 for medium-long-term risks. The value of 1.98 corresponds to the risk of violation of the right to fair justice, which coincides, moreover, with the risk perceived as increasing the most in the coming years.

INTERNAL COMMUNITY

PIRELLI EMPLOYEES AROUND THE WORLD

The total Pirelli workforce as at 31 December 2019 - expressed in *Full Time Equivalent* and including agency workers - stood at 31,575 resources (vs. 31,489 in 2018 and 30,189 in 2017), recording a net growth of 86 employees compared to the previous year.

BREAKDOWN OF WORKFORCE[33] BY CATEGORY

	EXECUTIVES	CADRE	WHITE COLLARS	BLUE COLLARS	TOTAL
2019	271	1,893	4,617	24,794	31,575
2018	288	1,945	4,643	24,612	31,489
2017	283	1,856	4,630	23,420	30,189

BREAKDOWN OF WORKFORCE[33] BY GEOGRAPHICAL AREA[34] AND GENDER

	2019			2018			2017		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
EMEA	11,345	1,813	**13,158**	11,225	1,783	**13,008**	10,554	1,608	**12,162**
NORTH AMERICA	2,758	507	**3,265**	2,497	503	**3,000**	2,120	499	**2,619**
SOUTH AMERICA	7,288	677	**7,964**	7,577	693	**8,270**	7,168	671	**7,839**
APAC	3,288	855	**4,143**	3,254	870	**4,124**	3,347	823	**4,170**
RUSSIA & NORDICS	2,373	673	**3,046**	2,384	703	**3,088**	2,626	774	**3,399**
TOTAL	**27,051**	**4,524**	**31,575**	**26,937**	**4,552**	**31,489**	**25,814**	**4,375**	**30,189**

BREAKDOWN OF WORKFORCE[33] BY GEOGRAPHICAL AREA[34] AND CONTRACT

	2019			
	Permanent	Temporary	Agency	Total
EMEA	12,571	565	22	**13,158**
NORTH AMERICA	3,237	0	28	**3,265**
SOUTH AMERICA	7,779	185	0	**7,964**
APAC	4,140	3	0	**4,143**
RUSSIA & NORDICS	2,947	98	0	**3,045**
TOTAL	**30,674**	**851**	**50**	**31,575**

33These data include agency workers, corresponding to 0.1% of total workforce in 2017 and 2018 and to 0.2% in 2019.
34 EMEA: Austria, Belgium, Czech Rep., France, Germany, Greece, Hungary, Italy, Netherlands, Poland, Romania, Saudi Arabia, Slovakia, South Africa, Spain, Switzerland, Turkey, UAE, United Kingdom. North America: Canada, Mexico, United States. South America: Argentina, Brazil, Chile, Colombia. Asia Pacific: Australia, China, India, Japan, Singapore, South Korea, Taiwan. Russia & Nordics: Russia, Sweden.

2018				
	Permanent	Temporary	Agency	Total
EMEA	12,410	572	26	**13,008**
NORTH AMERICA	2,987	0	13	**3,000**
SOUTH AMERICA	8,099	171	0	**8,270**
APAC	4,118	6	0	**4,124**
RUSSIA & NORDICS	3,028	56	3	**3,088**
TOTAL	**30,642**	**805**	**42**	**31,489**

2017				
	Permanent	Temporary	Agency	Total
EMEA	11,298	848	16	**12,162**
NORTH AMERICA	2,599	0	20	**2,619**
SOUTH AMERICA	7,469	370	1	**7,839**
APAC	4,146	24	0	**4,170**
RUSSIA & NORDICS	3,253	142	4	**3,399**
TOTAL	**28,764**	**1,384**	**41**	**30,189**

PERCENTAGE OF EMPLOYEES BY CATEGORY, GENDER AND AGE

2019															
	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%	22%	30%	25%	26%	24%	26%	24%	24%	24%
30 - 50	55%	69%	57%	66%	75%	68%	64%	56%	61%	62%	70%	63%	63%	66%	63%
>50	45%	31%	43%	31%	21%	29%	14%	14%	14%	12%	6%	11%	13%	11%	13%

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%	3%	3%	24%	33%	27%	29%	27%	28%	26%	27%	26%
30 - 50	48%	66%	50%	64%	74%	67%	60%	53%	58%	59%	66%	60%	60%	62%	60%
>50	52%	34%	50%	33%	23%	30%	16%	14%	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%	31%	31%	31%	28%	29%	28%
30 - 50	50%	66%	51%	66%	77%	68%	61%	54%	58%	57%	61%	57%	58%	60%	58%
>50	50%	34%	49%	31%	20%	29%	15%	14%	15%	12%	8%	12%	14%	11%	14%

EMPLOYEES WITH PART TIME CONTRACT BY GENDER

2019			2018			2017		
Male	Female	TOTAL	Male	Female	TOTAL	Male	Female	TOTAL
157	205	362	137	183	320	174	186	360

EMPLOYEE FLOWS BY GEOGRAPHIC AREA[35], 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.

2019 FLOWS: ABSOLUTE VALUES AND RATES

	INCOMING						OUTGOING					
	<30	30 - 50	>50	M	F	Total	<30	30 - 50	>50	M	F	Total
EMEA	906	659	79	1,466	178	**1,644**	699	557	256	1,332	180	**1,512**
	35%	8%	3%	13%	10%	**13%**	27%	7%	10%	12%	10%	**12%**
NORTH AMERICA	982	406	26	1,252	162	**1,414**	750	377	27	1,001	153	**1,154**
	57%	29%	25%	46%	32%	**44%**	44%	27%	26%	37%	30%	**36%**
SOUTH AMERICA	199	212	12	349	74	**423**	271	425	91	715	72	**787**
	14%	4%	2%	5%	11%	**5%**	19%	7%	12%	10%	11%	**10%**
APAC	294	303	4	522	79	**601**	235	268	12	433	82	**515**
	26%	10%	5%	16%	9%	**15%**	21%	9%	16%	13%	10%	**12%**
RUSSIA & NORDICS	157	114	6	215	62	**277**	149	157	68	284	90	**374**
	22%	6%	1%	9%	9%	**9%**	21%	9%	14%	12%	14%	**13%**
TOTAL	2,538	1,694	127	3,804	555	**4,359**	2,104	1,784	454	3,765	577	**4,342**
	33%	9%	3%	14%	12%	**14%**	28%	9%	11%	14%	13%	**14%**

35 EMEA: Austria, Belgium, Czech Rep., France, Germany, Greece, Hungary, Italy, Netherlands, Poland, Romania, Saudi Arabia, Slovakia, South Africa, Spain, Switzerland, Turkey, UAE, United Kingdom. North America: Canada, Mexico, United States. South America: Argentina, Brazil, Chile, Colombia. Asia Pacific: Australia, China, India, Japan, Singapore, South Korea, Taiwan. Russia & Nordics: Russia, Sweden.

2018 FLOWS: ABSOLUTE VALUES AND RATES

	INCOMING						OUTGOING					
	<30	30 - 50	>50	M	F	Total	<30	30 - 50	>50	M	F	Total
EMEA	1,366	992	112	2,109	361	**2,470**	701	661	264	1,455	171	**1,626**
	51%	13%	4%	19%	20%	**19%**	26%	9%	9%	13%	10%	**13%**
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%**
APAC	339	297	8	478	166	**644**	328	318	6	550	102	**652**
	24%	11%	9%	15%	19%	**16%**	23%	12%	7%	17%	12%	**16%**
RUSSIA & NORDICS	219	112	27	300	59	**359**	233	256	193	551	132	**683**
	27%	7%	5%	13%	8%	**12%**	29%	15%	35%	23%	19%	**22%**
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 FLOWS: ABSOLUTE VALUES AND RATES

	INCOMING						OUTGOING					
	<30	30 - 50	>50	M	F	Total	<30	30 - 50	>50	M	F	Total
EMEA	1,010	661	88	1,520	239	**1,759**	444	506	222	994	178	**1,172**
	43%	9%	3%	14%	15%	**14%**	19%	7%	8%	9%	11%	**10%**
NORTH AMERICA	934	420	17	1,044	327	**1,371**	555	243	11	655	154	**809**
	63%	41%	20%	50%	65%	**53%**	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%**	21%	13%	17%	15%	22%	**15%**
APAC	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%**
RUSSIA & NORDICS	266	187	38	356	135	**491**	197	348	209	531	223	**754**
	28%	10%	6%	13%	17%	**14%**	20%	19%	32%	20%	29%	**22%**
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%	20%	**17%**

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 slightly positive occupational balance compared to 2018.

At Pirelli there are 45 young people older than 14 and under 18 years old (20 in Germany, 12 in Switzerland, 10 in Brazil, 2 in Sweden and 1 in the UK), 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", the "Equal Opportunities Statement" and the "Global Human Rights" Policy.

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 2019) 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: 78% of Senior Managers work in their country of origin, where Senior Managers are those reporting directly to the Executive Vice Chairman and CEO, and Region CEOs and Executives with strategic responsibilities 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: 56% of active Senior Managers in 2019 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 2019 57 new inter-group expatriates were recorded, compared with 66 postings in 2018 and 54 in 2017. Approximately one third of the new postings were destined for the main industrial countries, such as Germany, Mexico and Romania. At year-end 2019, the expatriate population totalled 170 persons (vs. 190 in 2018 and 195 in 2017), belonging to 16 nationalities and who moved to 25 different Countries on five continents, of which 12% women. 46% 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 "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 2019, 1 report was ascertained relating to a case that could be linked to discriminatory attitudes, on which the Company took action with specific actions aimed at removing the causes of the complaints and 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 "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 2017-2019, the data show a substantial stability, with a percentage of women in the total population, which stands at 14.3%. The percentage of women in relation to managerial positions (executives + cadres) rose from 22% in 2018 to 22.4% in 2019, with growth recorded within the population of cadres, an important element since the category constitutes a growth area and a landing place for future executive positions.

WOMEN'S INCIDENCE ON THE TOTAL WORKFORCE[36] BY CATEGORY

YEAR	EXECUTIVES	CADRES	EXEC + CADRES (= Tot Manager)	WHITE COLLARS	BLUE COLLARS	TOTAL
2019	10.7%	24.1%	22.4%	33.8%	10.0%	**14.3%**
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%**

Analysing the breakdown by gender in terms of employment contract, the table below shows that also in 2019, a substantial balance was maintained between men and women.

WORKFORCE[36] BY GENDER AND BY TYPE OF CONTRACT

	2019			2018			2017		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
PERMANENT	97.3%	96.6%	97.1%	97.5%	96.4%	97.3%	95.2%	95.7%	95.3%
TEMPORARY	2.6%	3.1%	2.7%	2.4%	3.5%	2.6%	4.7%	4.1%	4.6%
AGENCY	0.1%	0.3%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%

In 2019 the number of parental leaves used by Pirelli employees corresponds to 311 for women and 792 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 2019, out of the total number of workers who have ended parental leave, 67% of women and 95% of men have returned to the Company. Also, during 2019, one year after the maternity and paternity event (which occurred in 2018), 75% of women and 84% of men are still employed at the Company. It should 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 in the analysis at the end of 2019 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) and the significance of each cluster. 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 3% in favour of women, compared with 8% in 2018 and 3% in 2017 also in favour of women; for the cadre category it is equal to 2% in favour of men, compared with 3% in 2018 and 1% in 2017 also in favour of men. A few examples:

- → Italy, which has an difference between average remuneration for men and average remuneration for women of around 3% in favour of women for the category of employees (compared to 2% in 2018 and 3% in 2017 in favour of women); and 4% in favour of men for the category of cadres (compared to 2% in 2018 in favour of men and 1% in 2017 in favour of women);
- → Romania, where for the category of employees there is 4% in favour of men (consistent with 2018 and to the equal pay of 2017) and for the category of cadre there is 9% in favour of men as against 4% in favour of women in 2018;
- → Brazil, where for the category of employees there is a 3% in favour of men (compared to 1% in favour of women in 2018 and 1% in favour of men in 2017) and for the category of cadres there is 4% in favour of men (compared to equal pay in 2018 and 1% in favour of men in 2017);

36 These data include agency workers, corresponding to 0.1% of total workforce in 2017 and 2018 and to 0.2% in 2019.

- Germany, which showed an average pay gap between men and women of around 1% in favour of men for the category of employees (2% in 2018 and 1% in 2017 in favour of men) and 9% also in favour of men for the category of cadres (compared to 7% in 2018 and 6% in 2017).

With reference to the population of managers, of which women represent 10.7%, there is an average pay gap of 5% in favour of women (in 2018 it was 3% and in 2017 it was 11% 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 and UK. For each country the pay gap between men and women has been calculated. The average, weighted by the number of employees, showed a 2% difference in favour of men. Some examples:

- China presents a difference between average men's salary and average women's salary around 7% in favour of men, compared to 9% in 2018 and 2017 and due to the organisational roles currently in favour of the male population;
- Brazil has a pay gap of 2% in favour of men compared to 6% in favour of women in 2018;
- in Italy there is a gap of 2% in favour of men, compared to 4% in 2018 and 2017, both in favour of men;
- in Romania there is a gap of 2% in favour of women, compared to substantial pay equity in 2018 and a gap of 2% in 2017 in favour of women.

With regard to the standard salary of new hires during their first year of work at Pirelli, this is greater than the minimum levels 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 1.7% of total employees in 2019 (an increase of 0.3 pp from the figure for 2018 and 2017) 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, subdivided by professional category, it is homogeneous between genders, as can be seen from the table below.

AVERAGE EMPLOYEE AGE BY CATEGORY AND GENDER

2019	Executives	Cadres	White collars	Blue collars	Group Average
Female	48	43	37	36	37
Male	50	45	38	37	38
Total	49	45	38	37	38

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

The following table represents the average seniority of service per professional category and gender: also in 2019, there were no significant differences between men and women.

AVERAGE EMPLOYEE SENIORITY OF SERVICE BY CATEGORY AND GENDER

2019					
	Executives	Cadres	White collars	Blue collars	Group Average
Female	14	14	9	7	8
Male	16	15	9	9	10
Total	16	15	9	9	9

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

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;
- 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;
- 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, supervised from central level. Once again in 2019, and in accordance with market best practices, the impact of the (short-term and medium-term) variable component on the total remuneration for each Group manager 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 (STI/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 2019, in addition to the objectives already present in the MBO, a new sustainability objective was introduced, linked to the value of the Group's "Green Performance Revenues[37]".

In 2014, some changes and improvements were made to the annual incentive system (STI/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.

For 2020, an amendment is proposed regarding the rules for the disbursement of the additional amount, which will see continuity in the 25% deferral of the accrued annual incentive, with the possibility of repayment/doubling the deferred portion, depending on the level of achievement of the MBO in the following year.

In early 2018, following the return to the stock exchange in October 2017, 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. At the end of 2019, its early closure is being considered, in light of the presentation of the new multi-year Strategic Plan that will be presented by the Company in February 2020 and which will include new objectives for the Management; it is planned to launch a long-term cash incentive plan in line with market best practices, based on a rolling mechanism (a new three-year incentive plan is proposed every year), without an ON/OFF condition of access and with some objectives of which, in general, at least one market-based, one business-based and one of sustainability.

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 termination of employment;
- → clawback clauses for Top 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 2019, 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 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.

37 Green Performance products identify the car 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.

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 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 priorities and focus of the performance;
- the assessment model is based on two dimensions: the "what" (results) and the "how" (key behaviours);
- *key behaviours* are the same for the entire company population and are considered essential to the achievement of the company's strategic objectives, namely- *Accountability, Teamwork and collaboration, Forward thinking, Agility, Cross-functional approach, Initiative and drives.*

The first performance assessment under this new model was carried out in 2019. As with the launch of the new process in 2018, training sessions for managers focused on the evaluation and feedback process.

The Performance Management process involves all staff worldwide (executives, cadres and white collar employees) and in 2019 saw a redemption rate (i.e., completed 2018 assessments compared to the total of planned assessments) of 99.9%; in particular, the redemption rate for women was 99.88%, compared to 99.95% for men.

The percentages of completion by level are shown below:

Executives	Cadres	White collars
99.3%	100%	99.9%

In support of the quality of the Performance assessments, 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).

During 2018, an analysis and redesign of the entire Global Talent Development process was carried out. 2019 saw the implementation of the new process through a mapping of the talent population and a first wave of assessment of the managerial skills of this population. It was then possible to activate specific and dedicated action plans to support the development path of the talents involved in the assessments.

The first mapping performed in 2019 allowed to identify a talent population of about 400 people (about 6% of the white collar population) with an average company seniority of 7 years and a strong international and multicultural connotation, with talent from as many as 25 nationalities. The 2019 assessment program covered about 25% of this population, other waves are expected in the coming years to involve the rest of the population.

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 2019, Pirelli was called in various international locations to illustrate its Training Model, recognized as benchmark of quality and robustness, already awarded in 2015/16 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 four "pillars" on which Training@Pirelli is based are the *Professional Academy,* the *School of Management, Global Activities* and *Local Education.* The first three 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 Pirelli 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 environmental efficiency of the process, health and safety, sustainable management of the supply chain, risk management and 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. Pirelli Professional Academy trainers are also certified through a standard process in all countries and are periodically updated on their ability to transmit know-how and skills effectively.

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 2019, globally, the Professional Academies offered 205 courses; the training offer was delivered not only through traditional classrooms but also, and increasingly, through digital methods such as webinars, online courses and virtual classrooms.

Among the programmes provided in 2019 was the Value Based Management training programme, which involved, both in the presence and in virtual and remote mode, about 150 managers representing different company functions, with the aim of strengthening their economic-financial skills with a focus on long-term value creation. In support of the gradual transformation of work processes in factories, of particular importance is the High Value Competencies programme launched in 2019 with the aim of measuring the level of basic and more analytical-digital skills possessed by factory staff. To support increasingly aware and compliant management of business processes and market requirements, two fundamental training campaigns were conducted in 2019: for all colleagues involved in accounting processes, the "Internal Control Principles" training campaign was provided, while the "Product Liability" training campaign was organised for the functions involved in the processes of product development, production and marketing. Finally, in 2019, a work project was launched with the aim of increasingly enriching the digital offering of the Professional Academies' training content over the three-year period 2020-2022.

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 and the "Warming Up learning platform" dedicated to all recent graduates.

Among the programmes conducted in 2019, the following are of particular note:

- the programme to support the performance evaluation and feedback phase, which involved more than 800 managers in the various countries where Pirelli is present;
- the Developing Managerial Excellence programme which, as occurs every year, involved new managers and underwent a major redesign to reflect the company's business model and strategic priorities.

More than 6,800 training days were provided within the School of Management during 2019.

The participation in the Warming Up@Pirelli training course, dedicated to the new graduates in the entire group and lasting two years, involved about 250 young colleagues in training activities at various Pirelli offices.

GLOBAL ACTIVITIES

Within Global Activities are available all training campaigns launched globally and designed to promote awareness of corporate guidelines while respecting local diversity. Topics such as GDPR, Security and Diversity are the primary focus of these training activities.

In 2019, an important awareness-raising programme on Cyber Security issues was launched worldwide, aimed at preventing phishing risks and introducing the company's Digital Signature. The course provided, which can be used entirely online, was made available in 10 languages to reach the largest number of colleagues in the corporate email user world.

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.

FOCUS: TRAINING ON SUSTAINABILITY AND CORPORATE GOVERNANCE

Also in 2019, 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.

In 2019 Pirelli also dedicated a professional training session to the Group's Sustainability Managers and the colleagues who support them locally in data collection activities for the preparation of the Annual Report; aimed at deepening on all activities (local and central) related to the preparation of the Group's Non-Financial Statement, the training covered the reporting standards used, the data collection systems and the control systems implemented.

PIRELLI TRAINING PERFORMANCE

In 2019 the total training provided was approximately 7.5 days of average training per capita. This number reflects, on the one hand, Pirelli's continuing desire to invest in training and, on the other hand, the consolidation of training in newly established plants (such as Mexico and Romania), which until the previous year had seen massive inflows and consequent incoming role training activities.

Following is the subdivision of average training days by gender and by professional category[38]:

<table>
<tr><th>GROUP</th><th colspan="3">WOMEN</th><th colspan="3">MEN</th></tr>
<tr><td rowspan="3">7.48</td><td colspan="3">6.49</td><td colspan="3">7.67</td></tr>
<tr><td colspan="2">EXECUTIVES</td><td colspan="2">CADRES & WHITE COLLARS</td><td colspan="2">BLUE COLLARS</td></tr>
<tr><td colspan="2">2.49</td><td colspan="2">3.84</td><td colspan="2">8.51</td></tr>
</table>

The high level of training is confirmed for both genders, with 1 day more for men to be correlated with the clear prevalence of the male gender in the working population which has thus affected the gender distribution.

87% of employees (taking into account the average workforce for the year) participated in at least one training activity during the year.

The investments made for the different categories 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.

On a global level, the Professional Academies cover the most significant portion (56%) 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 particular, with regard to the training of white collars, Quality, Manufacturing, R&D and Digital Academy represent over 70% of the total training.

The issues of Health, Safety and Environment maintained a significant share also in 2019, confirming their relative weight equal to 9% of the total training provided at Group level.

Consistent with the great *digital transformation* processes undertaken by the company, the training processes are 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.

LISTENING: GROUP OPINION SURVEY

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

The management of the global “My Voice” questionnaire is entrusted to a third party and the results are provided to Pirelli in aggregate form in order to fully guarantee the anonymity of the respondents. The 2018 edition of My Voice used the Sustainable Engagement Model, showing how challenging the work environment is for workers, and whether people’s engagement 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.

The frequency of the global survey is every two years in order to ensure adequate time to define, implement and consolidate comprehensive action plans by Country/Function/Business Unit, responding to the needs arising from the survey results.

During 2019 Pirelli worked on defining and implementing the action plans resulting from the global survey conducted in the second half of 2018, the results of which were consolidated and released internally to employees between late 2018 and early 2019. Implementation of the action plans will continue to be completed in 2020, while the next My Voice survey is scheduled for 2021.

38 Data at Group level and by category calculated with average headcount for 2019;
data by gender calculated with actual headcount as at 31/12/2019.

With reference to the results of the latest My Voice survey, which was administered to all Pirelli employees worldwide online, the global participation rate was over 80% (81% global rate, 82% for management and office workers and 80% for blue-collar workers). The overall result for Pirelli employees globally was 75% "Sustainable Engagement": on a scale of 1 to 5, responses to the 6 Sustainable Engagement questions were therefore positive for 3 out of 4 colleagues worldwide.

The survey also confirmed Pirelli as a company attentive to the inclusion of diversity, with a result that is well above the market benchmarks. In addition, 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. Pirelli is above the benchmark average (manufacturing companies) as well as the relative satisfaction in the area of professional development.

The areas to be monitored to ensure lasting engagement over time related to the level of information regarding company results, to "how much" the working environment allows expression of their ideas on innovation, to a sense of actualisation among personnel and their "energy level".

WELFARE AND INITIATIVES FOR THE INTERNAL COMMUNITY

For years, Pirelli has had the organisational 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 and Sustainability Managers.

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:

- health and wellbeing (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, online portals of products and services with significant employee deals and discounts);
- 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 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 around 299,000 in 2019.

Many Pirelli offices have activated Smart Working projects, 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. Smart Working is in fact active in the Headquarters in Milan Bicocca, which represents the Group's largest headquarters in terms of Staff employees, in the USA (New York, Rome, Southfield, Los Angeles and the sales force in the field), in the Sao Paulo headquarters in Brazil and in Paris and Craiova (Romania). In 2019, the feasibility analysis of the project for the Moscow and German sites was also conducted. In Milan Bicocca alone, 14,858 smart working days were carried out by workers in 2019.

To support work-life balance, and in particular family support, the large population of Bicocca counts on the support of the company concierge service (which includes services such as laundry, tailoring, shoemaking, postal and administrative services), on the Project "Bambini in Bicocca", which guarantees a care and entertainment service for the children of employees of school age (6-10 years) during school closures, and from 2019 also on the "Family Care" listening and orientation desk, designed to support those who are engaged in caring for a dependent relative or those who are facing moments of family transition.

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 and are also open to the local community; consider the initiative in Brazil "Fantastica Fábrica de Pneu", "Una aventura en familia" in Argentina, the "Social Leisure Internal Event" in Mexico or the now traditional Diversity day in Germany.

There were many prevention and awareness campaigns 2019 for a healthy lifestyle, including the "Nutrition workshop" conducted in Romania, the innovative "Snack car" in Brazil and the "Snack Saludable" in Argentina, all aimed at promoting a healthy diet, including in the office.

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 an equally active participation on the part of the unions and workers. In fact, 78% of the Group's employees are covered by representative bodies that periodically, with the Company, monitor and address current topics as well as 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 2019, the Industrial Relations activities achieved significant negotiating results. Collective agreements were renewed, without any conflict, in Argentina and Mexico.

In May 2019 the Company announced the reorganisation of its production structure in Brazil, which will accelerate the focus on High Value products and improve the competitiveness of its manufacturing sites in the country, taking into account the difficult economic scenario. The reorganisation includes, in particular, the expansion of the Campinas factory, which is currently only active in the production of Car tyres, through the transfer of Motorcycle tyre production from the Gravataí plant, which will be completed by mid-2021. This reorganisation will allow the creation of an industrial hub serving the Latin American markets, which will be dedicated to the production of Car, Motorcycle and Motorsport tyres, with a growing focus on High Value and the hiring of 300 people. At the same time, an agreement was reached with the trade unions in Gravataí, with a shared plan to reduce the social impacts for the approximately 900 people employed there.

In June 2019, the company announced the reorganisation of production in Italy and specifically assigned the new mission to the Bollate plant, which will focus from 2021 on Bicycle production to replace Car production. An agreement was discussed and signed with the trade unions on the tools to manage the change of mission of the plant and the organic structure.

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, the "Equal Opportunities Statement" 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)
2019	China (Jiaozuo plant), Russia (Voronezh plant) and Singapore

The non-conformities emerged as a result of the audits performed in 2019 were subject of the action plans agreed between the local managers and central management, and will be subject to follow-ups in 2020 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 2019, 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 2019 it stood at 78% (vs. 77% in 2018). This figure is associated with the historical, regulatory and cultural differences between each country. Collective agreements to be renewed in 2019 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 funds" 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.

At all of its production sites, Pirelli adopts an occupational health and safety management system structured and certified according to Standard ISO45001/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 language" that guarantees sharing, alignment and effective management in the Group. In 2019, four production sites migrated to ISO 45001 certification. During 2020, all other production units are expected to migrate to ISO 45001.

In 2019, the 11th edition of the *Pirelli Health, Safety and Environment Global Meeting* was held. The annual meeting took place at the Pirelli production site in Kirov, Russia. 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 and discussing the future vision and the roles and responsibilities of health and safety professionals.

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.

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 2016-2019 to all production sites of the Group. A specific Steering Committee, chaired by the Operations

General Manager, monitors the progress of the programme. Pirelli has also implemented internal tools to support the Excellence in Safety Programme, aimed at supporting the processes implemented and the results obtained.

The most important areas of intervention of the “Excellence in Safety” Programme are in fact related to the improvement of the governance of safety, the clarity of the tasks and roles, empowering of all 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 appropriate and stimulating, in which workers feel valued and all the risks are effectively prevented and countered.

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 9% of the total training provided by Pirelli in 2019 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, fitting 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.

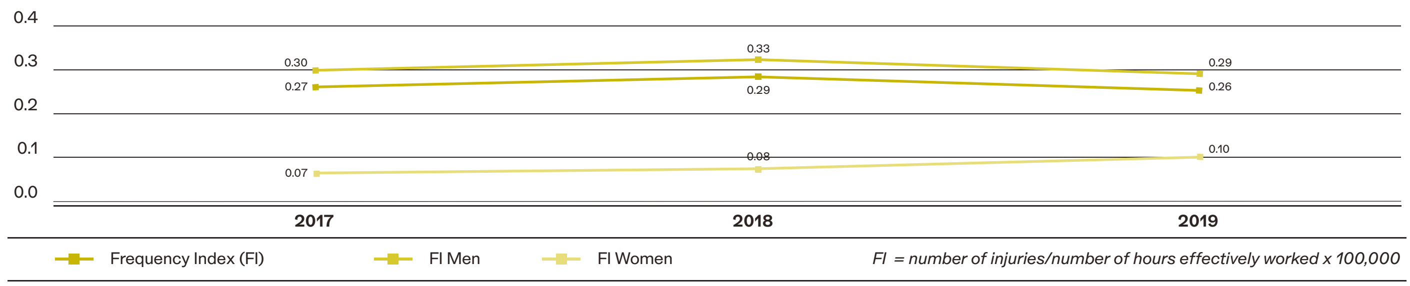
The focus on *Leading Indicators* was also further developed, namely measuring what preventive measures should be implemented and how this should be done, without prejudice to the monitoring of the *Lagging Indicators*, namely reactive indicators such as the number of accidents and their frequency index.

The performances reported below are for the three-year period 2017-2019 and cover the same scope of the Group’s consolidation.

The 2020 target in the Sustainability Plan 2017-2020 is for a reduction in the Frequency Index of 87% compared to 2009. Please note that in February 2020 the Company will be presenting the new long-term Industrial Plan and related strategic sustainability targets. The updated targets will be published on Pirelli’s website for the benefit of all stakeholders. In 2019, Pirelli registered an accident Frequency Index (FI) of 0.26, in line with the figure from 2018, with a reduction of 83% compared to 2009. The most representative injuries concern events involving contusions, cuts and fractures of the upper limbs.

For 2019, 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 TREND

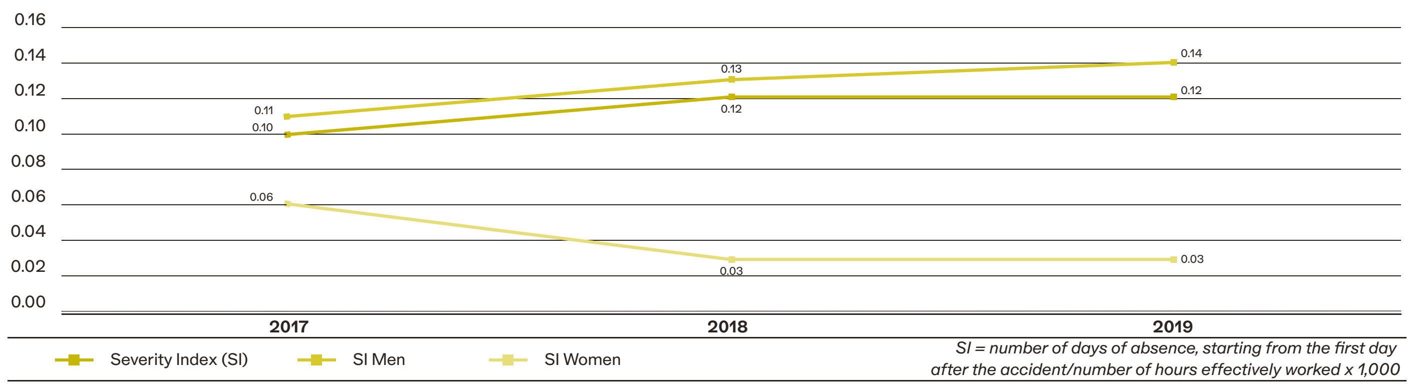


The following table summarises the distribution of the 2019 Frequency Index by geographical area:

FREQUENCY INDEX	EMEA	North America	South America	Russia & Nordics	Asia Pacific
2018	0.28	0.20	0.31	0.03	0.02
2019	0.35	0.16	0.35	0.15	0.02

The injury Severity Index (SI) in the Group in 2019 was 0.12, in line with the 2018 figure.

SI TREND



The following table summarises the distribution of the 2019 Severity Index by geographical area:

SEVERITY INDEX	EMEA	North America	South America	Russia & Nordics	Asia Pacific
2018	0.09	0.17	0.11	0.03	0.01
2019	0.14	0.07	0.19	0.12	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 2019.

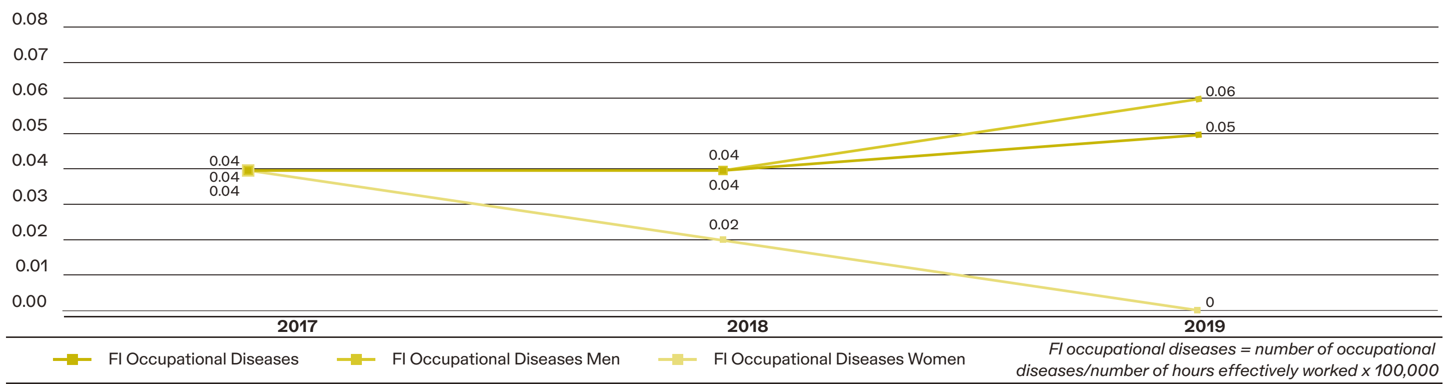
COMMUTING ACCIDENTS	2017	2018	2019
	108	121	119

COMMUTING ACCIDENTS	EMEA	North America	South America	Russia & Nordics	Asia Pacific
2018	17	42	49	0	0
2019	37	43	39	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 2019 stands at 0.05.

FI TREND - OCCUPATIONAL DISEASES



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 2019:

FI OCCUPATIONAL DISEASES	EMEA	North America	South America	Russia & Nordics	Asia Pacific
2018	0.03	0.00	0.10	0.00	0.00
2019	0.02	0.00	0.14	0.00	0.00

With regard to accidents of agency workers, the following tables show the number of accidents recorded in the last three years and the distribution of the accident frequency index of 2019 by gender and, subsequently, by geographical area:

ACCIDENTS OF AGENCY WORKERS	2017	2018	2019
Number	3	8	5
FI agency workers - Men	1.19	1.02	0.55
FI agency workers - Women	0.00	0.00	0.44

ACCIDENTS OF AGENCY WORKERS	EMEA	North America	South America	Russia & Nordics	Asia Pacific
2018	8	0	0	0	0
2019	3	2	0	0	0
FI agency workers 2018	16.38	0.00	0.00	0.00	0.00
FI agency workers 2019	6.00	4.80	0.00	0.00	0.00

The Accident Frequency Index for employees of suppliers operating at the Group's production sites[39] shows a declining trend over the three-year period, standing at 0.13 in 2019. Below are the data for the last three years and the distribution by geographical area of the cases in 2019.

FI CONTRACTORS	2017	2018	2019
	0.19	0.18	0.13

FI CONTRACTORS	EMEA	North America	South America	Russia & Nordics	Asia Pacific
2018	0.04	0.11	0.28	0.35	0.00
2019	0.19	0.09	0.08	0.10	0.00

Below are the figures relating to fatal accidents recorded in the last three years with reference to Pirelli employees and employees of suppliers operating at Group production sites.

FATAL ACCIDENTS	2017	2018	2019
Pirelli employees	1	0	1
Contractors	0	0	0

In the last three years, no fatalities have been recorded among the contractors working at Pirelli's production sites. A far as Pirelli's employees are concerned, 2 events have been recorded, one in 2017, of an employee of the Brazilian equity of Campneus and one in 2019 of an employee working in the Russian plant of Kirov.

FOCUS: TOWARDS THE "ZERO ACCIDENT OBJECTIVE"

15 Pirelli manufacturing plants were named "sites of excellence" in 2019, since no employees were injured there during the year:

Unit	Industrial sites
Plants	Jiaozuo, Breuberg MIRS, CMP, Burton MIRS
Fitting unit	Camacari, Sorocaba, Hurlingham, Goiana, Didcot, Ibirite
Logistics - TLM	TLM Campinas, TLM Barueri, TLM St André
Other	St André HQ, Elias Fausto

HEALTH AND SAFETY INVESTMENTS

In the three-year period 2017-2019, investments in health and safety by the Group exceeded €42 million, of which over €15 million was invested in 2019.

The investments made targeted improvements on machines and plants 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.).

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

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 targets and the development of the business. Among the various instruments of "economic diplomacy", in addition to the promotion of bilateral initiatives, Pirelli is active in certain Business Councils, including the China Business Forum (BFIC), in which it held the chairmanship from December 2015 to December 2018 and of which it continues to be a member, the Council for Relations between Italy and the United States, the Italy Mexico Business Forum and the Italy Thailand Business Forum.

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 2019 with institutional representatives in Italy and abroad. In this context, a series of bilateral meetings were held, aimed at deepening the Group's industrial and commercial issues with significant institutional impacts. These included meetings with several representatives of the EU, ex-NAFTA, APAC and CSI blocs.

In China, the Group is committed to enhancing relations with local institutional interlocutors, particularly in areas where it is present with industrial sites, such as the Shandong Province and the Henan Province. During 2019 Pirelli maintained a dialogue with the main local institutions on multiple areas of interest, especially research and development projects with a view to improving the quality and efficiency of the tyre industry in Shandong, with particular regard to safety and environmental dynamics.

In the United States, Pirelli is present with industrial and commercial activities, and carries out institutional relations by monitoring legislative and regulatory developments with impacts on the production, import and distribution of tyres in the territory. Pirelli is a member of the following trade associations: United States Tire Manufacturers Association, Original Equipment Suppliers Association, Organization for International Investment and participates in the main working groups.

Also in Brazil, Pirelli continued to celebrate the country's strong links with Italy, promoting, among others, meetings with institutional representatives at federal and central level. Pirelli also maintains relations with local institutions and associations 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 urban mobility, 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. Relations with the United Kingdom were particularly important in 2019; on the occasion of the 50th anniversary of the Carlisle plant, in April HRH the Prince of Wales visited the Carlisle plant - one of the two Pirelli plants in the United Kingdom - in the presence of top management.

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 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, including throughout 2019. The Group also participated in the 23rd edition of the St. Petersburg International Economic Forum and supported the 12th Euro-Asian Forum held in Verona. Finally, Pirelli participated in the Russian-Italian Civil Society Dialogue Forum in Rome, organised in the margins of the visit of the President of the Russian Federation to Italy.

Relations with the European Institutions are focused on consolidating relations with the Stakeholders of reference, also considering the start of the new European institutional cycle in 2019, on monitoring of legislation and on the constant activity of representing the Group in associations. The ongoing dialogue and discussion with representatives of the European Commission, the Council and the European Parliament covers a wide range of topics of corporate interest including industrial policy, research and innovation, energy and environmental policies, transport and mobility, technical regulations, the domestic market and international trade. Of particular interest is the Green Deal, the European plan on the new sustainable growth strategy launched by the European Commission in December. In 2019, in the legislative field, activity focused specifically on regulatory developments relating to mobility and road safety issues as well as technical regulations with particular reference to the revision of the Regulation on tyre labelling and general motor vehicle safety. In the various stages of drafting and defining European legislation, Pirelli represents the Group's interests among its European Stakeholders. Pirelli is enrolled in the European Transparency Register, which was established 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. The Group's relations with the Directorate General for internationalisation policies and the promotion of exchanges of the Ministry of Economic Development.

Of particular note during the year was the visit by the Chairman of the Board who visited the company's Research & Development Centre and Headquarters. During the visit, a memorandum of understanding was also signed between the Ministry of Justice's Department of Penitentiary Administration and Pirelli aimed at promoting work for inmates through a training programme to create skills that can be utilised in the world of work.

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. During the year, Pirelli also supported various initiatives to raise awareness of road safety issues and to promote culture.

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.

Since December 2019 Pirelli has also been on the Board of the Global Compact Network Italia.

In 2019, the Global Compact 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 participates to two 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; during 2019, the working table worked on the "Decent Work Toolkit for Sustainable Procurement", a tool whose objective is to train the company's representatives working in the Purchasing area to support them in integrating sustainability into their daily decision-making processes.
- "*Financial Innovation for the SDGs*": in September 2018 the working group presented its first publication "*SDGs Bonds & Corporate Finance - A Roadmap to Mainstream Investments*"; to this, several other publications on the subject were added during 2019. In December 2019 the platform launched the "CFO Taskforce for the SDGs", which Pirelli joined as a Founding Member. The Taskforce is a collaborative platform that brings together leaders from different sectors and aims to develop innovative strategies for mobilizing finance towards sustainable development.

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 2019, 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.

During 2019 ETRMA, in order to present and guide the work of the new European Commission and European Parliament, developed the Policy Paper 2020-2030 Keep Moving, which reiterates the need for a balanced regulatory approach on tyre performance, an assessment of the interaction between tyre and vehicle to avoid conflicting regulations, and legislative initiatives guided by robust science-based evidence and proven technological feasibility.

Since 2018, Pirelli has been part of the Connected & Autonomous Driving (CAD) working group, set up by ETRMA to respond to new technological challenges concerning the mobility sector (connectivity, autonomous driving, cyber security, etc.) and their impact on the tyre, with a particular focus on how data is managed and exchanged between the various players in the system.

Moreover, ETRMA continued its heavy involvement in the implementation of the European Innovation Partnership on Raw Materials, with the aim of ensuring fair and unrestricted access to key raw materials for the sector.

The association continues to work alongside the European Commission in defining policies on the Circular Economy for the sector and continues successfully to promote sustainable practices of producer responsibility for the management of tyres at the end of their life, thanks to which Europe maintains a recovery rate of over 90%, through strong collaboration with the various management consortia present in European countries. ETRMA's (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 (TRWP), micrometric particles produced by the combined road and tyre wear during vehicle circulation, and health, e.g. granulated filler material obtained from end-of-life tyres for sports fields. With regard to TRWP, ETRMA in 2018, with the support of CSR Europe, launched the "European TRWP Platform", a multi-stakeholder initiative aimed at sharing scientific knowledge and involving relevant Sectors and Organisations, in order to identify a holistic and balanced approach for the definition of possible actions for the mitigation of TRWP impacts. In 2019, the "European TRWP Platform" concluded its work with the publication of the State of Knowledge ("Scientific Report on Tyre and Road Wear Particles, TRWP, in the aquatic environment") and the possible mitigation actions that can be taken by the various stakeholders regarding TRWP ("The Way Forward Report"). The activities of the platform will continue in 2020 in order to continue the dialogue between the various stakeholders and to support the implementation of pilot mitigation projects. In 2019, ETRMA also set up a micro-site (https://www.tyreandroadwear.com/) aimed at providing information on TRWPs to the general public and the need for a holistic multi-stakeholder approach to understanding root causes and defining/implementing mitigation actions for TRWP.

A section in the Environmental Dimension chapter of this Report is also dedicated to TRWP, to which reference should be made for further details.

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 Transforming Urban Mobility).

The Tire Industry Project (TIP), whose members account for approximately 65% of global production capacity of tyres, was founded in 2005 with the aim of meeting and anticipating the challenges related to the potential impacts on health and the environment of tyres throughout their life cycle. The project extends its evaluation activities to raw materials, TRWP (with research activities that have seen the completion of monitoring the impact of TRWP on air quality in the city of New Delhi, India) and nanomaterials. On the latter issue, in collaboration with the OECD (Organisation for Economic Cooperation and Development), TIP has developed a sector-specific guide containing best practices of reference for the 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 "*Environmental Key Performance Indicators for Tire Manufacturing 2009-2018*" 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 2019, 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 December 2019, the report "Global ELT Management - A global state of knowledge on regulation, management systems, impacts of recovery and technologies" was published, a document that presents the current state of end-of-life tyre management in 45 countries, together with an analysis of regulations, management systems and recovery methods.

Important international stakeholders and TIP launched in October 2018 the "Global Platform for Sustainable Natural Rubber" (GPSNR), a voluntary multi-stakeholder platform aimed at promoting a more sustainable management of the natural rubber value chain, both in socioeconomic and environmental aspects. The first general meeting of the platform was held in March 2019. Pirelli is a founding member and actively contributes to the platform's activities by co-chairing two of the working groups: the first dedicated to the representation of small landowners within the platform and the second dedicated to capacity building activities at plantation level. At the end of 2019 more than 50 stakeholders joined the platform. Platform members include manufacturers, processors and traders, tyre manufacturers/buyers, car manufacturers, financial institutions and civil society.

As part of the WBCSD Projects, Pirelli also participates in the "Transforming Urban Mobility" (TUM) and "Future of Work" projects.

TUM aims to promote and accelerate the transition to safe, universally accessible and environmentally friendly urban mobility. Thanks to the analysis of new trends and available technological evolutions, the project proposes to the cities with which it interfaces, the most suitable solutions for each specific context among the best practices available worldwide. International companies from the automotive, autoparts, transportation, oil & gas, information and communication technology sectors will participate in the working table.

The Future of Work project brings together a group of companies from different sectors and has as its objectives the analysis of macro-trends that will affect the world of work in the medium-long term, and the development of scalable business solutions to address the challenges that will arise.

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.

During 2019 IRSG signed a Memorandum of Understanding with the Global Platform for Sustainable Natural Rubber (GPSNR), whose aim is to develop and consolidate cooperation between the two organisations. The MoU is fundamental in ensuring effectiveness in achieving the common objectives of the two organisations with regard to the sustainable production and consumption of natural rubber.

EU-OSHA – EUROPEAN OCCUPATIONAL SAFETY AND HEALTH AGENCY

In 2019, for the eleventh 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. Among the campaigns the Company has joined during the last few years, it's worth mentioning the 2016-2017 campaign "*Healthy Workplaces for all Ages*", dedicated to the importance of a sustainable workplace, which is able to guarantee employees' lifelong health and safety, and the 2014-2015 campaign "*Healthy Workplaces Manage Stress*", focused on the topic of stress and psycho-social risks on the workplace, and whose main objective was to encourage employers, managers, employees and their representatives to collaborate to manage these risks.

CSR EUROPE

Since 2010, Pirelli has been a member of the Board of CSR Europe, a network of companies in Europe that are leaders in the area of corporate social responsibility. Its members include more than 39 multinational companies and 41 national partner organisations from 33 European countries.

Since 2016 Pirelli has been supported by CSR Europe in the organization and moderation of its Stakeholder Dialogue Stakeholders, which the Company holds at the local Affiliate level or internationally at Headquarters.

In this regard, reference should be made to the Stakeholder consultations held in Romania, Mexico, Germany, Turkey, Russia, Argentina, the United Kingdom and the United States. CSR Europe moderated the two multi-stakeholder consultations held by Pirelli for the definition of the Company's Sustainable Natural Rubber Management Policy, the related Implementation Manual and the 2019-2021 Activity Roadmap, published on the Pirelli website. For more information on Pirelli's sustainable management of natural rubber, please refer to the dedicated section in the "Our Suppliers" chapter of this Report.

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 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 "Sustainability Planning and the United Nations 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 a fundamental element 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 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 2019 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 the dissemination of the culture of road safety. 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.

Also at Group level, as part of its collaboration with the WBCSD (World Business Council for Sustainable Development), Pirelli participated in the new Transforming Urban Mobility project, which explores the major trends in mobility (electric, shared and autonomous) to offer cities that interface with more sustainable, safer, cleaner and more efficient solutions. For further details on Pirelli's involvement in this project, please refer to the "WBCSD" section of this Report.

There are numerous road safety initiatives implemented in the countries where the Group operates.

In Italy, in 2019, the partnership with the Traffic Police was strengthened, both through joint training activities aimed at raising awareness of road safety issues, aimed primarily at young people in schools, whether through local events dedicated to road safety, or through specific courses on tyres provided to the Traffic Police or directly by Pirelli, as in the case of the Piedmont Traffic Police at the Turin Police Headquarters, or, within Assogomma, as part of the Safe Summer ("Estate in Sicurezza") activities.

Knowledge of the tyre and its role in road safety is also the theme of the training programme that Pirelli holds annually at the Don Orione technical high school in Fano.

In the United States and Canada, a "Tire Safety Week" was organised, a series of initiatives on safe driving that also involved other tyre manufacturers. In the United States, Pirelli also made a donation to the "Together for Safer Roads" consortium. In the United Kingdom the "Tyre Safety Month" was organised, contributing to road safety education. In Argentina, through the "STC2000 va a la Escuela" project, Pirelli sponsored several workshops on road safety, participating in more than 50 events at the country's schools. In Mexico, in collaboration with a local television channel, road safety messages have been developed and broadcast in Guanajuato State since 2018. Also in Mexico, Pirelli sponsored an automobile museum, lending different types of tyres for the exhibition.

Multiple initiatives in favour of road safety education on two wheels. Pirelli Moto in 2019 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, Enduro Republic, Motorace People, 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, the University of Pitesti 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 Würzburg, Aschaffenburg and Darmstadt, the DHBW of Mannheim and the Vocational School of Michelstadt, Germany, to name a few.

In China, Pirelli sponsored 36 scholarships for Science and Technology students of the University of Qingdao. In Greece, Pirelli donated computer monitors to a school. In several countries, the company opened its doors to groups of students to introduce them to manufacturing for educational purposes. In the UK, Pirelli invited automotive students to the factory during the month dedicated to tyre safety.

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's degree 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 2019 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 36 short-term interns and 14 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. Pirelli worked with Impact Hub Istanbul on this important challenge, involving 567 high school students in 19 cities in Turkey this year. The students, who joined 97 teams, tackled problems identified by them and applied creative solutions. They received dedicated online training over a six-week period, and 33 teams then sent projects for the competition. Eight teams from eight different schools were selected by the jury as finalists. Subsequently, a mobile innovation lab called "Mobile Maker" dedicated one week to each school. With the help of the lab, students built prototypes, submitting their models to the jury for the final competition. The prize for the winning team is a trip to Italy to get to know the Pirelli factory. Among the problems identified by the students in 2019: waste water, posture problems, urban pollution, street animal feed and polluting waste in the ocean.

In Spain Pirelli donated space to host a student workshop, where students designed to build a single-seater racing car, and a motorcycle, to compete in the international race "Formula Student" against almost 500 teams from all over the world. The Spanish team found a formidable competitor: also in Turkey, Pirelli sponsored a team, in this case the Technical University of Istanbul, the first Turkish team to compete in the Formula Student with a self-guided electric car.

In Italy, during 2019, 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 three 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 the United States, Pirelli supported the local Chamber of Commerce in developing the skills required by the industrial fabric in the local area.

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 two 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).
- → giving scholarships to the children of natural rubber growers, to allow them to go to school and buy school books.

165 families participated in the programme in 2019.

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 2019, 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 the United Kingdom, Pirelli sponsored various charity fundraising events.

In Kirov, Russia, Pirelli sponsored the *"Pirelli Cup"* in ice hockey, involving several teams of boys (120 participants).

In Brazil, Pirelli supported football, volleyball, judo and karting programmes 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 the Santa Clara Convent Foundation, which manages programmes that provide food for needy families, and a warehouse for the storage of food for the poor.

In Moscow, Pirelli contributed to the "*Chance*" project that provides private lessons to orphans, and an important activity undertaken by Pirelli for the Kirov community is the support of the Verkhovondanka orphanage with 124 children, with visits by Pirelli staff and collections of food, shoes and toys.

In Voronezh, also in Russia, Pirelli helped to build a children's playground in Rostovkiy park. The construction of the park began in 2018 with a multifunctional sports area, again with the support of Pirelli. Pirelli employees in Voronezh also helped the shelter for local animals by assisting dogs and cats with hygiene, medicines and food.

In China, Pirelli supported 90 orphaned and/or impoverished children in Yanzhou. In Turkey, Pirelli participated in a conference on volunteering with donations to two associations. In Australia, Pirelli has partnered with Variety Child, a non-profit organisation, through volunteer work and financial support. In Japan Pirelli made a donation to a charity auction for "Runway for Hope" for orphans and refugees.

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. Pirelli Mexico, together with the Centro de Innovacion Aplicada en Tecnologias Competitivas, has created a prosthesis for Ivan Davila, Inter Campus instructor. Ivan had lost a leg and an arm in an electrical accident at the age of nine. Now Ivan is also a semi-professional football player in Mexico.

In the UK, Pirelli supported a philanthropic trip to Ghana and various charitable initiatives. In Romania, Pirelli supported a centre for abused children with a financial donation.

In Germany, Pirelli has sponsored an association for the training of service dogs for the disabled, and has provided donations for a school, the outdoor sports area, and support for the local community. Pirelli also supported the expansion of a shelter for women and children who are victims of domestic violence. Also in Germany, employees raised funds to support four other initiatives for children.

In Brazil Pirelli supported various social solidarity activities: Associacao Imaculada Coracao de Maria Educandario, an educational activity for children run by Italian nuns; Aprender Brincando, an after-school project with activities for children; Servico de Convivencia Meninos and Meninas, also an important after-school activity; Creche Escadinha do Tempo, a nursery school, and Projeto Guri, an important musical activity for children and young people.

At the end of June 2019 in the Irkutsk region of Russia, near Lake Baikal, there was a very severe flood, with more than 1,000 people in need of medical assistance. A natural emergency was declared and Pirelli participated in the fundraising for the victims.

At the beginning of the year 2020 while a significant part of Australia was burning, Pirelli wanted to do its part with donations to the Red Cross also in collaboration with some customers.

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 400 children in Slatina through the project Overland for Smile. In addition, Pirelli employees in Romania made a collection of books to supply to the hospital.

In many countries Pirelli promotes a healthy and active lifestyle with various projects, both among its employees and in the local community.

In several countries, Pirelli makes donations to scientific research and supports voluntary projects by employees to raise funds for research. In the Netherlands, Pirelli sponsored the "*Friends of Sophia*", projects for children at the Rotterdam hospital and in Belgium, the company held a fundraising event in favour of activities for sick children. In the UK donations were made for brain cancer research. Employees of Pirelli Turkey ran a marathon run by raising funds for Down's syndrome, and a group of volunteers raised funds for cerebral palsy.

In Spain, Pirelli participated in the "*Somos Uno*" Solidarity Day, raising funds for biomedical research into childhood diseases and Alzheimer's. In Brazil Pirelli is a supporter of the Pequeno Principe Children's Hospital.

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. The Rome, Georgia office in the USA obtained the "Green Seal Green Office Partner" certification.

In Romania, more than 250 Pirelli employees participated in "World Cleanup Day", while in Voronezh, Russia, employees collected batteries for recycling and cleaned the park near the Pirelli factory during "City Cleaning Day". In September 2019 in Kirov, with Pirelli's participation, the "Clean Games" were held, competitions to collect and sort rubbish. In collaboration with the University of Vyatka, 270 garbage bags weighing more than a tonne were collected.

In Mexico, Pirelli continued to sponsor a reforestation project with the State of Guanajuato on 40 hectares of land, with benefits from the project also for groundwater, involving employees. Pirelli also coordinated a "llantaton" (or "tyreathon"), i.e., the collection of at least 15,000 end-of-life tyres, which were then used as fuel for cement factories.

In Turkey, in order to award 19 "champions" (employees recognised for excellent projects), a donation was made to the World Wildlife Fund for the adoption of tigers.

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 2019. 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 Sao Paulo, in 2019 Pirelli sponsored the Museum of Modern Art, one of the most important museums in Latin America, and an immersive exhibition on the life and works of Leonardo Da Vinci. Pirelli also sponsored the Instituto Inhotim in Brumadinho, also in Brazil, an important collection of contemporary art along with a collection of rare plants from all continents. Finally, Pirelli sponsored the Festival de Inverno de Capos do Jordao, an important seasonal festival in Brazil.

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 Voronezh in Russia, 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. Also at the Multimedia Art Museum, Pirelli supported the exhibition "Orizzonti d'Italia" by Massimo Sestini. Pirelli has also contributed to the support of the solidarity project "Chance" by sponsoring an exhibition with holographic images that trace two scenarios of life for an orphan boy: one positive, in which the boy is supported and manages to build a dignified life, the other negative, showing the public the difference that an action of solidarity can make. The motto is: "Give a chance by taking a step".

In Turkey, Pirelli took an interest in the topic of women, speaking at a conference on women in Turkey, and making a donation to the Foundation for the Support of Women's Work, with a recognition of Pirelli's women employees.

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.

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, as well as in collaboration with other cultural institutions.

Among the numerous activities launched again in 2019 aimed at enhancing the company's assets and consequently its brand, we would like to highlight:

Editorial project: "Industrial Humanism. An anthology of thoughts, words, images and innovations" (Mondadori, June 2019, Italian and English edition), dedicated to the experience of the Pirelli Magazine, published between 1948 and 1972, one of the main meeting places between scientific and humanistic culture, a venue for innovative and inclusive debate. The project has also developed in the digital field with the implementation of the dedicated site rivistapirelli.org. In June 2019 the book was previewed in the Auditorium of Pirelli Headquarters to the employees' community (150 people), and then at the Franco Parenti Theatre in Milan to about 500 people. The evening was attended by guests such as singer Ornella Vanoni, writer Gian Arturo Ferrari and actress Anna Ammirati, who interpreted readings from the magazine. The event in the theatre was characterised by an exhibition of materials from the Historical Archives, including blow-ups of the 131 covers of the Pirelli Magazine. Communication of the project and the event reached over 330,000 users through the Foundation's social media channels; about 20 press releases were made. The book was also presented at the "Il Libro Possibile" Festival in Polignano a Mare, at Bookcity Milano at the Bocconi University and the Corriere della Sera Foundation, and at the Technology Festival at the Politecnico di Torino.

Educational and training projects for students and teachers:

- → educational workshops for schools (Pirelli Educational Foundation): about 2,250 primary and secondary school students and about 240 teachers involved in education and training. The Pirelli Foundation also participated in: the National Geographic Festival of Science at the Auditorium Parco della Musica in Rome, with an exhibition on the evolution and technology of tyres; the "Viaggiare...ma sul sicuro" project, in collaboration with the Italian State Police, at the Wow-Spazio del Fumetto. These latter training activities have seen the overall participation of about 4,900 young people;
- → reading promotion event "Let's team up with books" within #ioleggoperchè 2019. The meeting, organised in collaboration with FC Internazionale Milano, was held inside the Pirelli Headquarters and was attended by about 250 students and teachers as well as journalists and Pirelli employees. The students were able to discuss the theme of "teamwork" and the importance of reading with personalities from the world of sport and culture such as the footballers Javier Zanetti and Regina Baresi, the journalist Luigi Garlando, the Milanese councillor Laura Galimberti and Mario Isola, Pirelli's Head of Formula 1 and Car Racing;
- → event on art and technology "Our Bach. La fabbrica tra musica e scienza" promoted during the 18th Corporate Culture Week, with the participation of Pirelli engineers and maestro Salvatore Accardo, accompanied by the Italian Chamber Orchestra. The event involved 290 students and teachers;
- → university: lessons and guided visits to about 270 students coming from the main Italian and foreign universities (particularly UCSC Catholic University of the Sacred Heart, University of Milan-Bicocca, LIUC University, IUAD, IULM, NABA, Salesian Paul VI University College of Milan, Linköping University, Delft UniversityInstitute of Technology in Carlow - Ireland).

Digital communication: activation of the new Fondazione Pirelli website with the launch of the virtual tour "Fondazione Pirelli Experience" and a chatbot, a software with artificial intelligence for direct site-user interaction. The site was visited a total of about 66,500 times (+23% vs. 2018). The social accounts of Fondazione Facebook, Instagram and Twitter reached 10,708 followers (+14% vs 2018) and about 600 items of social content were produced (including about 90 videos).

Brand enhancement projects to support the Business Units:

- → archive researches, Pirelli plants and offices settings in Italy and abroad, loans of materials for fairs and events, product brochures: about 50 requests (e.g. Blancapain GT Series Europe; Concorso di Eleganza Villa D'Este, Como; P Zero Experience Italy, Mugello; Salon Privé, UK; Luftgekuhlt 6, Los Angeles; setting of Carlisle plant, UK; Circuito Panamericano, Brazil);
- → guided tours and events in the Pirelli Foundation (about 1,850 guests, including the institutional visit of Prime Minister Giuseppe Conte).

Projects to enhance the historical heritage in the eyes of the external community:

- → research and loans of materials: 84 requests divided between exhibitions in collaboration with other cultural institutions (e.g. Fondazione Matera-Basilicata 2019 and Fondazione De Vecchi, Milan), documentaries and interviews (e.g. for Discovery Channel and Sky), publications (e.g. "Prendersi cura dell'Italia bene comune", for the 125th anniversary celebrations of the Italian Touring Club);
- → initiatives to promote corporate culture at the Pirelli Foundation and Pirelli Headquarters (600 visitors): Museocity (focus on sustainability - 250 participants); Milano Digital Week (focus on Pirelli's Digital Transformation with biketour of the Bicocca area - 90 participants); Milano Photo Week (focus on the claim "Power is nothing without control" - 85 participants); Archivi Aperti Fotografici (photo-biketour with focus on the transformation of the Bicocca area - 40 participants); 17th Corporate Culture Week promoted by Museimpresa, with the creation of an exhibition in collaboration with Kartell Museo.

Works on the Historical Archive and heritage digital management:

- → corporate In-House Organ: 5,228 articles catalogued and 6,177 pages digitalised and published online from the magazine "Noticias Pirelli" and processing of other collections in the Historical Archives (photographic, iconographic and audiovisual collections; Corporate section and Research and Development section);
- → preparation and development of the Digital Asset Management platform on OpentText software for the document management of images, videos and documents and for the long-term preservation of digital materials.

Initiatives for the internal community:

- → management of Pirelli's corporate libraries in Milan Bicocca and Bollate: in 2019, the library holdings reached about 8,000 catalogue titles; more than 3,300 loans, over 4,100 movements (loans and extensions) and over 600 users were registered. The Biblionews newsletter with periodical updates on books and libraries reaches about 400 subscribers;
- → "Words Together" ("Parole insieme"): a programme of meetings with guests linked to the publishing world, such as the writers Gianni Biondillo, Marco Malvaldi and Giuseppe Lupo and the publisher Eugenia Dubini of NN Editore (over 130 participants);
- → "Christmas at the Pirelli Foundation" ("Natale in Fondazione Pirelli"): decoration of the Foundation's spaces with historical advertising and documents on winter products and festivities (about 250 participants)

During 2019, a total of more than 12,250 people took part in the Foundation's activities, projects, guided tours and exhibitions - both at the Foundation's headquarters and at the institutions with which the Foundation collaborated.

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 2019 artistic programme, curated by Artistic Director Vicente Todolí, curator Roberta Tenconi and the Assistant Curators Lucia Aspesi and Fiammeta Griccioli, 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 177,000 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:

- → Leonor Antunes, "the Last Days in Galliate" (until 13 January 2019);
- → Mario Merz, "Igloos" (until 24 February 2019);
- → Giorgio Andreotta Calò, "CITTÀDIMILANO" (14 February - 21 July 2019);
- → Sheela Gowda, "Remains" (4 April-15 September 2019);
- → Daniel Steegmann Mangrané, "A Leaf-Shaped Animal Draws The Hand" (from 12 September 2019);
- → Cerith Wyn Evans, "...the Illuminating Gas" (from 31 October 2019).

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.

On 13 March 2019 Pirelli HangarBicocca™ won the 2018 Global Fine Art Award in the "Best Impressionist and Modern" category for personal exhibitions. The award - which is part of the Global Fine Art Awards programme established to map the best curated art, culture and design exhibitions in museums, galleries, fairs, biennials and public installations worldwide - was given to Pirelli HangarBicocca™ for the exhibition "Lucio Fontana: Ambienti/Environments", presented in Milan from 21 September 2017 to 25 February 2018.

On 29 May 2019, Dr. Marco Tronchetti Provera was awarded the Rosa Camuna Award of the Lombardy Region as President of Pirelli HangarBicocca™.

In 2019, the Public Programme 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 12 cultural events (daytime and/or evening) that involved about 3,300 participants in activities related to current exhibitions, including the summer event Against Method by Mark Fell at the "Remains" exhibition, which was attended by around 1,100 visitors.

In 2016 Pirelli HangarBicocca™ launched the Membership programme with the aim of creating a community that shares a passion for contemporary art. In 2019, Membership reached approximately 407 active members. In 2019 specific agreements were signed for Members, for the cultural events hosted by Milano Musica and Terraforma.

In 2019 there were 10 activities dedicated to Members, of which: 4 preview visits to exhibitions, 3 curatorial visits, 2 Family Labs reserved for Member Families and 1 in the specific Palazzo Grassi-Punta della Dogana, Venice). 11 dedicated newsletters. Among the benefits, it was 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.

Kids activities, dedicated to children between 4 and 14 years old, saw the participation of about 1,820 children and teenagers, in line with the figures from preceding years. The number of participants who took part in the School activities was over 8,100 pupils, while visits by Italian and foreign students and university teachers (including Master's courses) involved 1,545 people.

The Educational Department continued the activity of guided tours proposing activities in both Italian and foreign languages in addition to the "Art on Sunday" format, which involves cultural mediators in Sunday lessons on art history related to exhibitions and Bike Tours to discover the Bicocca area. The guided tours were attended by about 3,400 visitors. The Educational Department also collaborated with the Italian artist Alice Ronchi for the 2019 Summer Campus.

With a view to enhancing Anselm Kiefer's I Sette Palazzi Celesti 2004-2015, the collaboration with the Milano Musica Festival continued with a weekend of concerts in October 2019. In the same month, the permanent installation was the setting for the musical event Positive Feedback in collaboration with Threes Productions (Festival Terraforma).


CONNECTION

Report on the corporate governance and share ownership of Pirelli & C.S.p.A.

pursuant to article 123-BIS of the Consolidated Law on Finance (TUF)

(Traditional model of Administration and Control)

(Report approved by the Board of Directors of Pirelli & C. S.p.A. on 2 March 2020 in relation to the year ended on 31 December 2019. 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 2019.

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-Monza Brianza-Lodi Companies Register number 00795290154.

ChemChina: China National Chemical Corporation Limited, 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 currently in force 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 2 March 2020, 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..

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 of the 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. (now Tacticum Investments S.A.), a company established under Luxembourg law, 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, at via G. Carducci 32, Tax Code, VAT and Milan-Monza Brianza-Lodi Companies Register number 10449980969, removed from the Companies Register following liquidation 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-Monza Brianza-Lodi Companies Register number 09052130961; the company was terminated when the Marco Polo demerger took place.

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-Monza Brianza-Lodi Companies Register number 11963760159.

Shareholders' Agreement: the 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 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-Monza Brianza-Lodi Companies Register number 00860340157.

Pirelli International: Pirelli International plc, a company established under UK 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, Milan-Monza Brianza-Lodi 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 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 APS.

Remuneration Report: the report prepared pursuant to art. 123-ter TUF.

Renewal of the Shareholders' Agreement: the agreement entered into on 1 August 2019 by ChemChina, CNRC, SPV HK1, SPVHK2, SPV LUX, MPI Italy, SRF, MTP&C and Camfin to renew the Shareholders' Agreement. The provisions contained in the Shareholders' Agreement Renewal are effective as of the date of publication of the notice of call issued for the Pirelli shareholders' meeting for the approval of the Company's financial statements at 31 December 2019 and will expire after 3 years from said date. The essential content of the Shareholders' Agreement Renewal, to which reference is made for further information, is available on the Website (www.pirelli.com).

Marco Polo Demerger: non-proportional total demerger of Marco Polo into beneficiaries MPI Italy, Camfin and LTI Italy, resolved by the meeting of the shareholders 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 formed under the laws of Hong Kong (People's Republic of China), with registered offices at RMS 05-15, 13A/F South Tower World Finance CTR Harbour City, 17 Canton Rd TST KLN, Hong Kong (People's Republic of China), Hong Kong Companies Register number 2222516.

SPV HK2: CNRC International Holding (HK) Limited, limited company formed under the laws of Hong Kong (People's Republic of China), with registered offices at RMS 05-15, 13A/F South Tower World Finance CTR Harbour City, 17 Canton RD TST KLN, Hong Kong (People's Republic of China), Hong Kong Companies Register number 2228664.

SPV Lux: Fourteen Sundew S.à r.l., Luxembourg limited company (*société à responsabilité limitée*) with registered offices at rue Robert Stümper 7A, L-2557, Luxembourg (Grand Duchy of Luxembourg), Luxembourg Companies and Commerce Register number B-195473.

SRF: Silk Road Fund Co., Ltd., 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).

INTRODUCTION

The 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[40].

Pirelli is aware that an efficient system of corporate governance is an essential element for achieving the objective of sustainable value creation[41].

1. COMPANY PROFILE

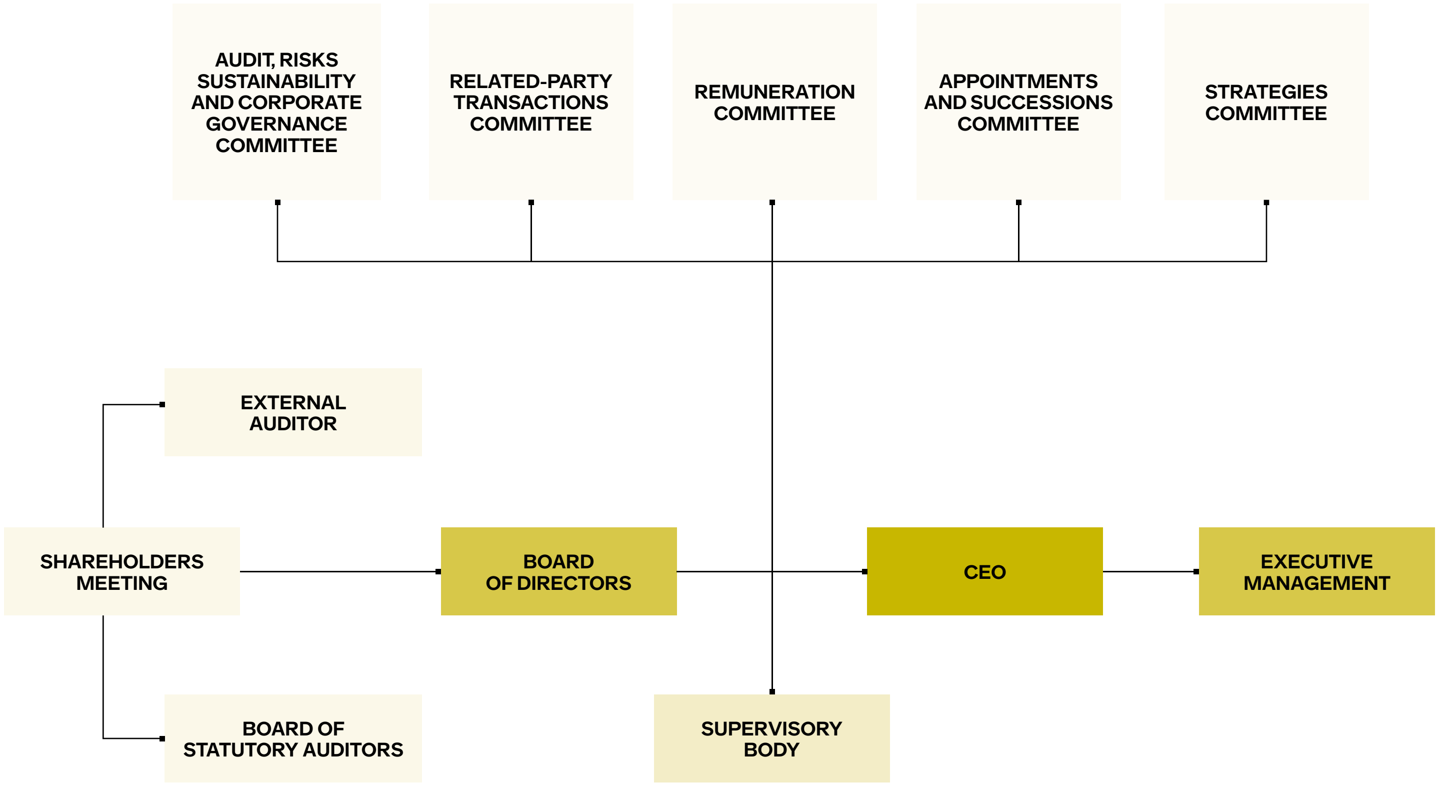
Pirelli, with its approximately 31,600 employees and annual sales of over Euro 5.3 billion in 2019, ranks among the principal global manufacturers of tyres and supplier of ancillary services, the only operator in the sector exclusively specialised in the consumer market (tyres for cars, motorcycles and 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, Specialities and Super Specialities 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 volume terms, and in the radial segment of the Replacement market for motorcycle tyres. Pirelli is also the leader in Europe, China and Brazil, in the Replacement market for New Premium car tyres and Premium motorcycle tyres.

For a profile of the issuer see also the Company's website.

40 Resolution of agreement adopted by the Board of Directors, effective as of 31 August 2017.
41 To that end, the Articles of Association state (Article 3.3): "*Pirelli's corporate government will be characterised by the international best practice.*"

1.1. MODEL OF CORPORATE GOVERNANCE

Pirelli adopts the traditional governance and control system. The following diagram summarises the Company's current governance structure.



The legal audit of the accounts is entrusted to PricewaterhouseCoopers S.p.A., an external auditing firm included in the register of accounting auditors.

1.2. DIVERSITY POLICIES

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.

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.

On 14 February 2019, following approval from the Audit, Risks, Sustainability and Corporate Governance Committee and the Appointments and Successions Committee, the Board of Directors adopted a statement on diversity and independence (Diversity and Independence Statement) in relation to the composition of the Board of Directors and the Board of Statutory Auditors. The Company recommends that these values be respected when its own corporate bodies are being 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.

In addition to the administration management and control bodies, the value of diversity characterises the entire business organisation, according to the procedures and terms outlined in the NFD Report included in the Company's annual financial statements, which should be referred to for more information.

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 as at the Report Date pursuant to art. 120 of the 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

At the meeting of 31 August 2017, the Board of Directors acknowledged the termination of direction and coordination activities under Article 2497 et seqq. of the Civil Code by Marco Polo, effective as of the First Trading Day, without prejudice to CNRC's right to include Pirelli within its own consolidation perimeter for accounting purposes. 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 activities and therefore, by way of example:

- Pirelli conducts relations with customers and suppliers in full autonomy without any external interference;
- Pirelli independently prepares the strategic, industrial, financial and/or budget plans of the Company or the Group;
- Pirelli is not subject to any group regulations;
- no organisational-functional link exists between Pirelli on the one hand and Marco Polo and the companies that control it on the other hand;
- Marco Polo, CNRC and/or ChemChina have not carried out any deeds, adopted any resolutions or made any communications that might cause reasonable belief that the decisions of Pirelli are in some way imposed or required by Marco Polo, CNRC and/or ChemChina;
- Marco Polo, CNRC and/or ChemChina do not centralise treasury management activities or other financial support or coordination functions;
- Marco Polo, CNRC and/or ChemChina do not issue directives or instructions – and in any case do not coordinate initiatives – concerning the financial and borrowing decisions of Pirelli;
- 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.;
- Marco Polo, CNRC and/or ChemChina do not make any crucial decisions regarding the operating strategies of Pirelli or formulate group strategic guidelines.

The Board of Directors periodically reiterated the aforementioned assessments (also in relation to MPI Italy), confirming the absence of any entity exercising direction and coordination activities over Pirelli most recently at the meeting of 2 March 2020.

Conversely, Pirelli exercises direction and coordination activity on numerous subsidiaries, having made the communications required by art. 2497-*bis* of the Civil Code.

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.

No securities have been issued that carry special rights of control.

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 capitalisation of the issuer's shares or to the composition of its share ownership structure, the Corporate Governance Code recommends that the board of directors assess the appropriateness of proposing, to the shareholders' meeting, changes to the articles of association in relation to the percentages required for the exercise of shares and the prerogatives provided to protect the minorities. In 2019, this did not occur, since the conditions provided for by the Corporate Governance Code were not met.

2.5. SHAREHOLDERS' AGREEMENTS

For more information on the provisions contained in the shareholders' agreements referred to herein, please refer to the relevant extracts available on the Website, published pursuant to Article 130 of the Issuers' Regulation

2.5.1. THE SHAREHOLDERS' AGREEMENT AND THE SHAREHOLDERS' AGREEMENT RENEWAL

On 28 July 2017 ChemChina, CNRC, SRF, SPV HK 1, SPV HK 2, SPV Lux, Camfin, LTI and MTP&C signed the Shareholders' Agreement that governs 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 with the assignment of, *inter alia*, the Pirelli shares held by it to the shareholders of Marco Polo. As a result of the Marco Polo Demerger (which took place on 8 August 2018), LTI is no longer party to the Shareholders' Agreement in relation to the agreements pertaining to Pirelli.

According to the Shareholders' Agreement, while CNRC has retained control of Pirelli, and CNRC 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 Day. As a general principle, the Shareholders' Agreement recognises that, in line with the provisions of the previous agreements, the aim of the governance structure is to preserve the entrepreneurial culture of Pirelli leveraging the long-term maintenance of its management and must be inspired by international best practice among listed companies. For this reason, the Shareholders Agreement provides that the task of managing Pirelli is the prerogative of the current top management, with a fundamental role for 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 expiry of the Shareholders' Agreement (see below), ensuring continuity in Pirelli's business culture. All 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.

The provisions provided in the Shareholders' Agreement, as detailed above, are valid and effective, by virtue and as a consequence of the provisions of the Shareholders' Agreement Renewal, up until the date of publication of the notice of call issued for the Pirelli shareholders' meeting for the approval of the Company's financial statements at 31 December 2019. The provisions provided under the Shareholders' Agreement Renewal will be applicable as of the aforementioned date.

On 1 August 2019 ChemChina, CNRC, SPV HK1, SPV HK2, SPV LUX, MPI Italy, SRF, MTP&C and Camfin entered into the Shareholders' Agreement Renewal. In particular, the parties assessed the opportunity to renew the Shareholders' Agreement – as of the date of publication of the notice of call issued for the Pirelli shareholders' meeting for the approval of the Company's financial statements at 31 December 2019 and for an additional period of three years starting from that date in order to (i) reaffirm the stability of the partnership between ChemChina/CNRC, SRF and Camfin/ MTP&C, in continuity and coherence with the governance principles already expressed in the Shareholders' Agreement and in any case with the aim of creating value for Pirelli and all of its shareholders; (ii) confirm the role of ChemChina and Camfin/MTP&C as stable shareholders of Pirelli with the latter maintaining the shareholding currently held in Pirelli at a level of more than 10% of the share capital for the entire duration of the Shareholders' Agreement Renewal; (iii) confirm the central role played by Marco Tronchetti Provera, in his capacity as the Company's Executive Vice Chairman and Chief Executive Officer, (*a*) in his guidance of Pirelli's top management, ensuring the continuity of Pirelli's managerial culture and (*b*) in the appointment of his successor, with the implementation of the succession procedure that will have to be completed by the end of October 2022 and, therefore, a few months before the renewal of Pirelli's Board of Directors, scheduled for spring 2023.

With regard to the renewal of the Board of Directors – which will take place at the Annual General Meeting – it will be composed of 15 members with a majority of independent Directors. The CNRC and MTP&C shareholders have, by virtue of the Shareholders' Agreement Renewal, agreed to specify a number of members in proportion to shares held and therefore (i) 9 directors (4 of which are to be independent) will be appointed by CNRC, (ii) 3 directors (1 of which is to be independent) will be appointed by MTP&C and (iii) 3 independent directors will be appointed by the minority shareholders.

2.5.2. SRF CONTRACT

On 5 June 2015, SRF, CNRC and ChemChina signed an "Investment Contract" (the "**SRF Contract**") regarding the 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 SFR Contract (the "**Supplemental Agreement**") pursuant to which, as soon as possible upon completion of the Marco Polo Demerger, SPV Lux, *inter alia*, assigns to CNRC and SRF or to companies they 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 are 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 contains 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 SFR Contract signed a further supplemental agreement (the "**Second Supplemental Agreement**") that regulates some aspects of the corporate governance of MPI Italy. The SFR 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 Pirelli's shares generated from the SPV Lux Allocation, equal to 5% of the capital of Pirelli.

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. on the other hand, in their roles as mandated lead arrangers, bookrunners, underwriters and global coordinators signed a mandate letter regarding the grant of an unsecured loan to Pirelli and Pirelli International (the "**Beneficiaries**") for a maximum amount of Euro 4,200,000,000 (the "**New Loan**").

The contract signed on 27 June 2017 in relation to the New Loan envisages, *inter alia*, that the Beneficiaries shall repay early that part of the New Loan made available by each lender should certain events occur, including changes in the control structure of Pirelli.

In particular, this change of control clause may be invoked solely in one of the following circumstances: (i) ChemChina ceases to hold, directly or indirectly, individually or together with Camfin or another company controlled by Marco Tronchetti Provera or his close family members, more than 25% of Pirelli post IPO; or (ii) ChemChina ceases to be, directly or indirectly, individually or together with Camfin or another company controlled by Marco Tronchetti Provera or his close family members, the relative majority holder of the voting rights in Pirelli (*i.e.* ceases to hold more voting rights 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 shareholders 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 investment 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.* ceases to hold more voting rights 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 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 in which 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.

2.6.8. BILATERAL LOAN WITH MEDIOBANCA

On 1 August 2019, the Board of Directors approved the stipulation by Pirelli of a two-year variable rate loan of Euro 125 million with Mediobanca – Banca di Credito Finanziario S.p.A. (the "**Loan**").

The loan agreement signed on 2 August 2019 provides, *inter alia*, that Pirelli must repay the Loan early should certain events occur, including changes in the control structure of Pirelli.

In particular, the change of control clause may only be activated in case any 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 the sake of clarity, the loan contract provides 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, directly or indirectly, individually or in concert with one or more subjects, to designate the CEO of Pirelli.

For the sake of completeness, it should be specified that, in addition to the foregoing, as is common in the commercial and financial context, some companies belonging to the Pirelli group have entered into contracts containing a change of control clause relating only to the shareholding that, directly or indirectly, Pirelli holds in them.

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* of the TUF.

2.8. MANDATE TO INCREASE SHARE CAPITAL AND AUTHORISATIONS TO PURCHASE OWN SHARES

With regard to the financial year ended 31 December 2019, the Directors were not granted with mandates to increase share capital for payment in one or more tranches, 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, available to the public on the website of the Corporate Governance Committee, at the following link https://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.

The new edition of the Corporate Governance Code was published on 31 January 2020, and will become applicable as of the 2021 financial year, with information to be provided in the Report on Corporate Governance to be published in 2022.

The Report has been essentially 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

4.1. APPOINTMENT AND REPLACEMENT 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-Party Committee - Remuneration Committee - Audit, Risks, Sustainability and Corporate Governance Committee

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 AND REPLACEMENT[42]

Pursuant to art. 10 of the Articles, the Company is managed by a Board of Directors composed 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 slates presented by the shareholders, in which the candidates must each be listed with a sequence number.

The slates 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 the Board members. 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 shareholder may present or contribute to the presentation of just one slate and each candidate may be included in just one slate, subject otherwise to becoming ineligible.

Shareholders are only entitled to present slates 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 the applicable regulations, with the obligation to evidence their ownership of the number of shares needed for the presentation of slates by the deadline envisaged for the publication of such slates by the Company.

Each slate 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, slates containing three or more candidates must include a number of candidates of different gender that at least satisfies the minimum required by the law and/or regulations in force at the time, as specified in the notice of call issued for the Shareholders' Meeting[43]. Any changes arising prior to the actual date of the Shareholders' Meeting must be promptly notified to the Company on a timely basis.

Any slates 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 slate.

42 This paragraph contains the information required by art. 123-*bis*, para. 1, letter l) of 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*").
43 For the sake of completeness, it should be noted that this clause is currently being adapted to the new legislation on gender quotas in the composition of corporate bodies and that the related proposal will be submitted to the Annual General Meeting. For more information, see the Directors' Report to the Shareholders' Meeting, which illustrates the proposed changes to the Articles and will be made available to the public on the Website according to law.

The Board of Directors is appointed as follows:

a) four-fifths of the directors to be elected are drawn from the slate that obtains the majority of the votes expressed by the shareholders, rounded down to the nearest whole number in the case of a fractional number;
b) the remaining directors are drawn from the other slates, using the quota method described in the Articles.

Should several candidates obtain the same quota, the candidate elected will be drawn from the slate that has not yet elected a director or that has elected the minor number of directors.

If none of those slates has elected a director yet or all of them have elected the same number of directors, the candidate elected will be drawn from the slate 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 slate is presented, all the directors will be elected from that slate.

Should application of the slate voting mechanism not ensure the minimum number of directors belonging to the less represented gender set out by applicable law, the candidate belonging to the most represented gender and elected, indicated in the slate 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 slate pursuant to the sequential order of presentation and so on, for each slate (solely for slates that contain three or more candidates) until the minimum number of directors belonging to the less represented gender has been obtained. 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 candidates belonging to the less represented gender.

Should application of the slate voting mechanism not obtain the minimum number of independent directors envisaged by applicable law, the non-independent candidate elected indicated with the highest progressive number in the slate that obtained the largest number of votes shall be replaced by the first independent candidate not already elected from that slate following the sequential order of presentation, and so on for each slate until the minimum number of independent directors has been obtained, in all cases in compliance with the applicable law and/or regulations governing gender balance in force at the time.

Loss of the independence requirements by a director is not a cause of removal if the number of directors still in possession of the legal independence requirements is not lower than the minimum specified by the laws and/or regulations in force.

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.

Should one or more directors cease to hold office during the financial year, they shall be replaced pursuant to art. 2386 of the Civil Code, without prejudice in any event to comply with the legal and/or regulatory provisions in force at the time on gender balance and the independence of the directors.

4.1.2. SUCCESSION PLANS

As provided under the Shareholders' Agreement and the Shareholders' Agreement Renewal, 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.

On 26 July 2019, the Board of Directors of Pirelli detailed the procedure for the succession of Marco Tronchetti Provera in relation to the position that he currently holds. In particular, Pirelli's Executive Vice Chairman and Chief Executive Officer will continue and complete the procedure for identifying his successor by 31 October 2022 in order to allow for a smooth transition. If: (i) Marco Tronchetti Provera does not specify a candidate to the Appointments and Successions Committee or (ii) Marco Tronchetti Provera is for any reason unable to complete the aforementioned activities and the member appointed by MTP&C to the Appointments and Successions Committee, as specified by MTP&C, does not specify a candidate to the Appointments and Successions Committee, the foregoing provisions will cease to be effective and, as a result, CNRC may freely choose and propose its own successor candidate and include that candidate on the list for the appointment of Pirelli's new Board of Directors.

Following the completion of the succession procedure referred to above and the identification of the candidate, CNRC (and MTP&C to the extent possible) must (i) ensure that Pirelli's shareholders' meeting for the approval of the financial statements at 31 December 2022 and for the appointment of the new Board of Directors takes place before the end of the third year following publication of the notice of call issued for the Pirelli shareholders' meeting for the approval of the Company's financial statements at 31 December 2019, (ii) include the proposed candidate on the list for appointment of Pirelli's new Board of Directors and (iii) ensure, to the extent possible, that the non-independent directors vote at the first board meeting – to be held by the aforementioned deadline – for the proposed candidate as Pirelli's new Chief Executive Officer.

4.2. COMPOSITION

The Board of Directors in charge at the Report Date (the term of which will end on the date of the Annual General Meeting) 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.

Furthermore, following the resignation of Ren Jianxin from the office of Chairman of the Board of Directors and Director of the Company (by virtue of 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 cooptation Ning Gaoning as a Director of the Company, pursuant to art. 2386 of the Civil Code, and also to appoint him Chairman of the Board of Directors. On 15 May 2019 the Shareholders' Meeting confirmed Ning Gaoning in his office as Director and Chairman of the Board of Directors[44].

In light of the above, the Board of Directors is composed of 15 members. In particular:

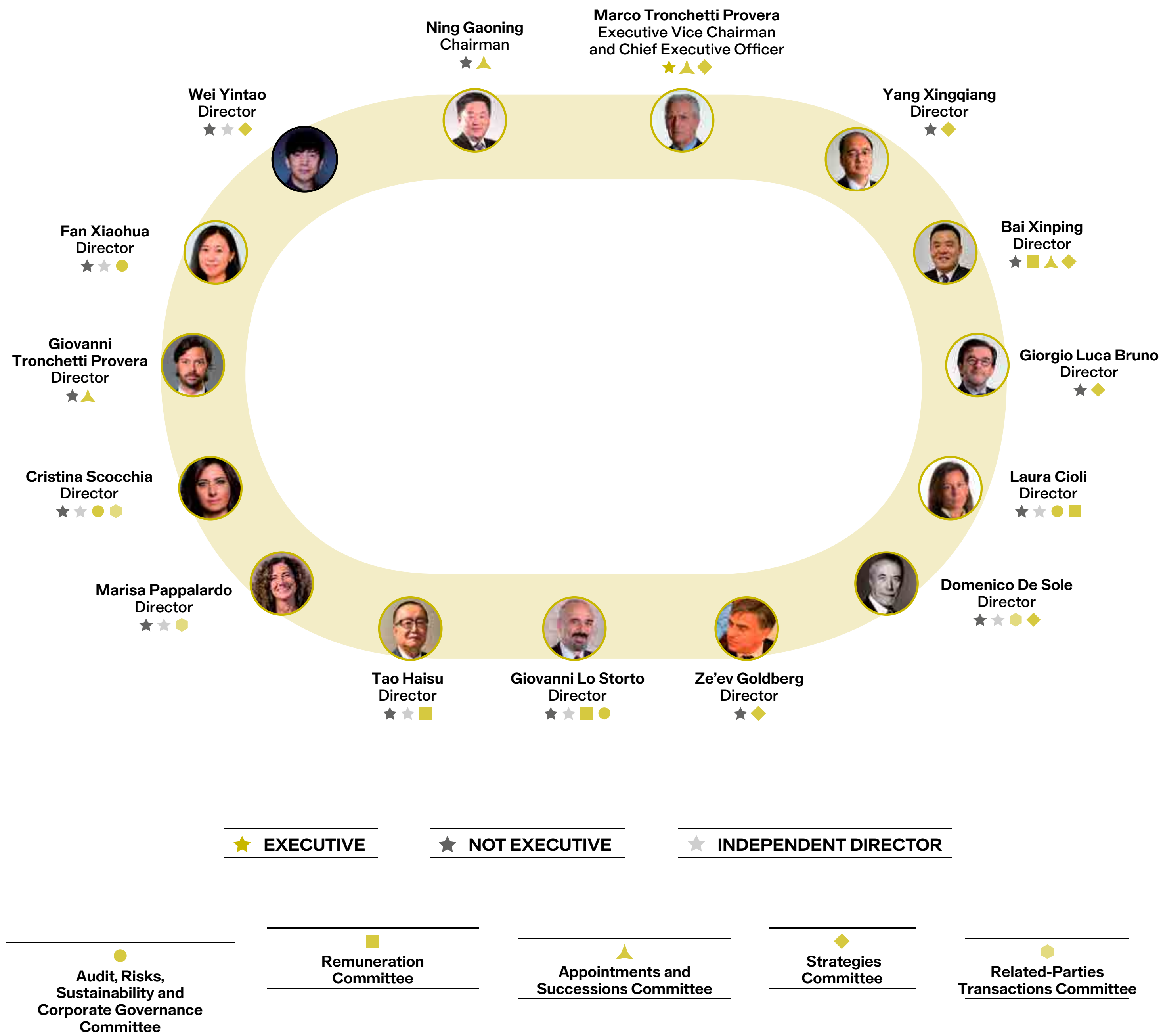
- the Chairman Ning Gaoning was appointed to replace Ren Jianxin, previously appointed by designation of CNRC.
- the Directors Yang Xingqiang, Bai Xinping, Ze'ev Goldberg, Tao Haisu, Marisa Pappalardo, Fan Xiaohua and Wei Yintao were designated by CNRC;
- the Directors Marco Tronchetti Provera, Giovanni Tronchetti Provera, Giorgio Luca Bruno and Laura Cioli were designated by MTP&C;
- the Directors Domenico De Sole and Cristina Scocchia were appointed by Marco Polo on a joint designation by CNRC and MTP&C, taking into account the indications expressed by the Joint Global Coordinators, engaged as part of the IPO procedure;
- the Director Giovanni Lo Storto was designated by a group of asset management companies and institutional investors.

At the Report Date, approximately 26.7% of Board members were female and the remaining 73.3% were male. Further, about 67% of directors are over 50 years of age and the remaining, about 33%, are between 36 and 50 years of age. The average age of the members of the Board is approximately 56 years of age and the average age of the female members is approximately 52 years of age. The Directors' average time in office is about 4 years[45].

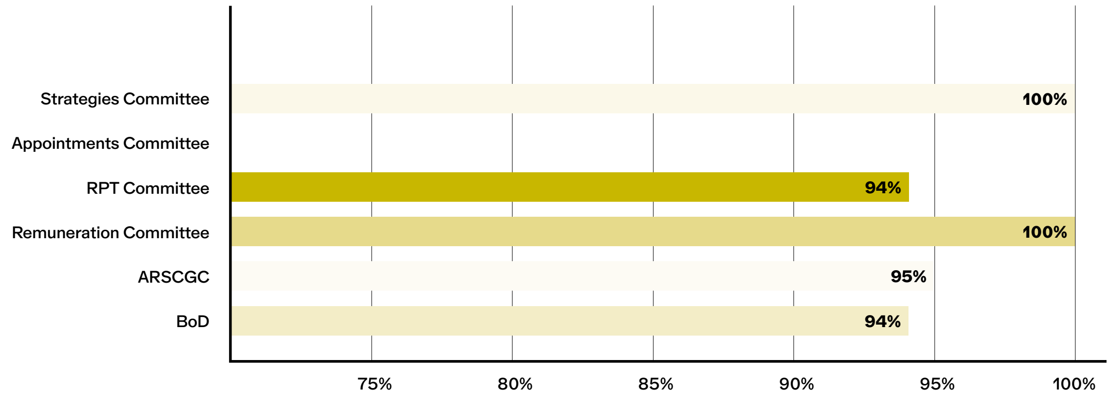
44 The ordinary shareholders' meeting held on 15 May 2019 approved the appointment of Ning Gaoning with a percentage of approximately 87% of the share capital represented at the meeting.
45 It should be noted that for the purposes of calculating the tenure of the Board, the date of first appointment of each Director, indicated in Table 2, was considered.

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.

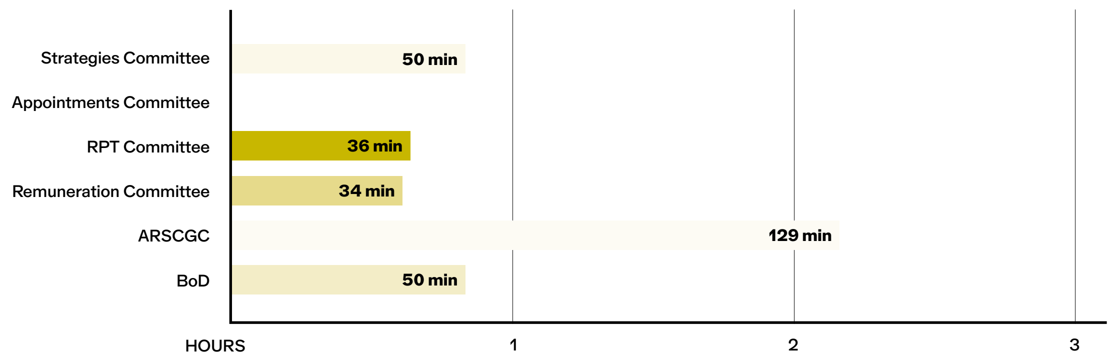
The following charts illustrate (i) the composition of the Board of Directors of the Company at the Report Date (it should be noted that there have been no changes in the composition of the Board of Directors from the end of the Year to the Report Date), in addition to (ii) the average length of the meeting, (iii) the average percentage of attendance and (iv) the number of meetings of the Board of Directors and each Committee during the Year.



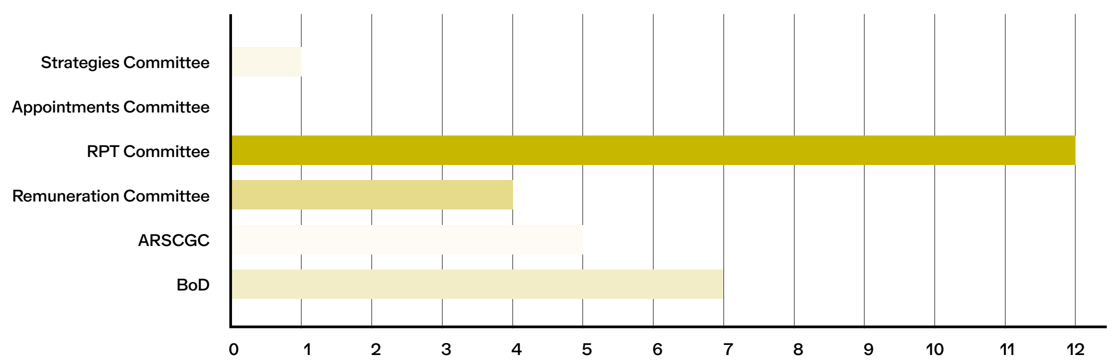
AVERAGE PERCENTAGE OF ATTENDANCE TO THE MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES



AVERAGE LENGTH OF 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 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. 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 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.

Also during the Year, induction sessions were arranged, also with the support of the top management, aimed at providing an explanation of the main characteristics of the activities of Pirelli and its Group and (including through the work of the committees) the reference legislative and regulatory framework and the specific procedures and rules adopted by the Company.

The specific initiatives undertaken during the the Year include the induction activities for (i) commercial distribution, product diversification, internal organisation and key technologies, on the one hand, and (ii) an overview of the "Pirelli Calendar" and the relative backstage perspective and of the Velo (bike) business, on the other hand. In this context, Directors had the opportunity to have direct debate with the Company's key managers (who as a rule normally attend the meetings of the Board of Directors and the committees).

4.5. ROLE OF THE BOARD OF DIRECTORS

The Board of Directors plays a central role in the guidance and management of the Company. Pursuant to art. 11 of the Articles, the Board of Directors manages the business and, for this purpose, exercises all the widest powers of management, except for those reserved by law or the Articles to the Shareholders' Meeting.

4.5.1. OPERATION OF THE BOARD OF DIRECTORS

Meetings of the Board of Directors are called by the Chairman or his deputy and held at the registered offices, or in any another location specified in the notice of call, 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 office at the Report Date met seven times. The average duration of each meeting was 53 minutes, with attendance by around 88% of the Directors and 95% of the Independent Directors. The Independent Directors were able to have informal meetings in the terms illustrated in the preceding paragraph.

For the 2019 financial year and for the current year, Pirelli disclosed a calendar of the main corporate events to the market[46] (also available on the Website). For the 2020 financial year, the Board is scheduled to meet at least 6 times (at the Date of the Report two meetings had 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 advance 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 was 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 best practice and with the recommendations of the Italian Corporate Governance Committee.

Taking account of the international composition of the Board of Directors, with the presence of different nationalities, it is also the Company's practice to proceed to send 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 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.

46 As a rule this happens in November/December.

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 is resolved by 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 operation and the operation of its Committees (board performance evaluation) for the 2019 financial year. For the purposes of the assessment process, the Board – in line with what was done in the previous financial year – 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 highlights a broadly positive situation. In fact, a very high level of overall appreciation was reported, in line with the previous financial year. In particular, the Directors expressed full satisfaction and appreciation of 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 both Italian and international best practice. With reference to the operation of the Board and the Committees in 2019, the areas of excellence that had already emerged during the previous financial year's self-assessment activities had been confirmed overall. The areas for which the most appreciation was reported are outlined below:

- the possibility to have a constructive dialogue and discussion at the Board meetings;
- the detailed, transparent and qualified reporting activity by the management to the Board of Directors;
- the effectiveness of the role played by the Board of Directors in relation to internal control;
- the clarity and completeness of the supporting documentation circulated for each board meetings sufficiently in advance;
- the effectiveness of the support provided by the Secretary of the Board;
- high quality of the minuting of the board meetings, which are confirmed as accurate and complete with respect to the progress of the meetings;
- the open, constructive and transparent relationship between the Board of Directors and the Company's management;
- the effective structure of the committees;
- the well-diversified composition of the Board of Directors (with executive directors, non-executive directors and independent directors).

The Directors expressed particular appreciation for (i) 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 and (ii) the authoritativeness and commitment in the work performed on the board by the Executive Vice Chairman and CEO.

From the analysis, some indications also emerged on how to further improve the operation of the Board, which in particular include the continuation and development of opportunities for informal meetings of the directors, in order to encourage reciprocal knowledge and further strengthen personal relationships and the spirit of the group.

Finally, it should be noted that – in line with what happened in the previous financial year – this Year the Audit, Risks, Sustainability and Corporate Governance Committee also played a guiding role in the board performance evaluation and shared preliminarily the results, subsequently submitted to the Board of Directors at the meeting of 2 March 2020.

4.5.2. MATTERS FOR THE BOD

In accordance with the Articles, the Shareholders' Meeting requires a qualified majority (*i.g.* 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 be approved (as an internal restriction of the power granted to the Chief Executive Office on that date) by the Board of Directors of the Company:

(i) obtaining or granting loans for a total value higher than Euro 200 million and with a duration of more than 12 months;

(ii) issuing financial instruments to be listed on European or non-European regulated markets or multilateral trading systems for a countervalue higher 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, meaning those satisfying the conditions envisaged in Annex 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, para. 3, of the Civil Code;
(xii) approving the strategic, industrial and financial plans of Pirelli and the Group;
(xiii) adopting corporate governance rules for the Company and defining guidelines for the corporate governance of the Group;
(xiv) defining guidelines for the internal control system, including the appointment of a Director responsible for overseeing the internal control system, 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, as amended from time to time;
(xvi) approving the budget and the business plan of the Company and the Group, as well as all significant changes to those documents; and
(xvii) adopting any resolutions regarding industrial partnerships or strategic joint ventures to which Pirelli and/or any Group company are party,

it being understood that the approval of the transactions listed above is reserved solely to the Board of Directors not only if the threshold indicated for each matter are exceeded, but also if the matters listed from (i) to (ix), whether considered as a single action or as a series of coordinated actions (carried out in the context of a common executive programme or a strategic project) exceed the amounts indicated in the business plan and/or the annual budget or (solely for the matters listed from (i) to (viii)) if they were not included, listed or envisaged in the business plan or the annual budget.

As required by the Corporate Governance Code, the Board of Directors has positively assessed 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 the Pirelli Group, with reference to both Pirelli and any other company (including unlisted foreign companies) subject to direction 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 in section 4.5.2 are exceeded; or
   (ii) for the matters listed from (i) to (ix) in section 4.5.2 above, the amounts indicated in the business plan and/or the annual budget are exceeded; or
   (iii) for the matters listed from (i) to (viii) in section 4.5.2 above, 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 the annual 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 Executive Vice Chairman and Chief Executive Officer, the related resolution must be motivated and, in all cases, take into account the best interests of the Company.

The Chief Executive Officer ordinarily reports on the activity carried out during board meetings.

In light of the above, Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera is identified as executive director.

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 qualify as Key Managers of the Company, 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 classified as executive director.[47]

It should also be noted that the office of Chairman of the Board of Directors is not classified as executive, taking account of the governance structure, the powers conferred on the Executive Vice Chairman and Chief Executive Officer, and the circumstance that the Chairman himself is not granted with management powers and that he plays no specific role in the elaboration of business strategies.

4.7. INDEPENDENT DIRECTORS

At the date of the Report, eight of the fifteen members of the Board of Directors - and hence over 50% - 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 on at least 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 account not only of 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 2 March 2020.

In making its assessments, the Board did not derogate from any of the criteria prescribed by the Corporate Governance Code[48].

At the same time as 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, 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.

47 For the sake of completeness, it should be noted that Giovanni Tronchetti Provera is a senior manager of the Company.
48 In particular, none of the independent Directors can be classified as a "relevant members".

Considering the above, the powers system and the share ownership structure, and the provisions on this subject contained in the Corporate Governance Code, the Board of Directors decided to not appoint a lead independent director.

The independent and non-executive directors contribute to the Board and committee discussions, bringing their specific skills, and, given their number, have a decisive weight in the decision-making process of the Board of Directors and the committees in which they take part.

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", meaning 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 required by the laws and/or regulations in force at the time,[49] 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 Successions Committee, the Audit, Risks, Sustainability and Corporate Governance Committee, the Remuneration Committee and the Related-Party Transactions Committee.

6.1. OPERATION OF COMMITTEES

The Committees are appointed by the Board of Directors and remain in office for the entire mandate of the Board, holding meetings 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 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 is 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 Successions Committee held to appoint a successor to the Chief Executive Officer, the outgoing Chief Executive Officer's vote will prevail.

Committee meetings may be held by conference call; their minutes are taken by the Committee Secretary and recorded in the related corporate 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 Chief Financial Officer, the Corporate Vice President Internal Audit, the Head of Sustainability and the Head of Finance & Risks Management attend the meetings of the Audit, Risks, Sustainability and Corporate Governance Committee.

Committees - which may make use of external advisors in carrying out their functions - are granted 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 company departments 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 Successions 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.

49 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.

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 composed 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 has consultative and advisory functions in the definition of strategic guidelines and for the identification and definition of the terms and conditions of the individual operations 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: (i) entry into new geographical markets and businesses; (ii) industrial alliances (*e.g.* joint ventures); (iii) special transactions (mergers, spin-offs, capital increases and capital reductions, except for those to cover losses); (iv) investment projects; (v) 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.

It is required the Strategies Committee to be the recipient of a specific and continuous flow of information from the Chief Executive Officer, assisted by the Secretary of the Company's Board of Directors for such purposes.

8. APPOINTMENTS AND SUCCESSIONS 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

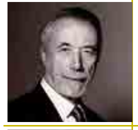
At the Report Date, the Appointments and Successions Committee is composed of 4 members: Marco Tronchetti Provera (Chairman), Ning Gaoning, Giovanni Tronchetti Provera and Bai Xinping. As an exception to the Corporate Governance Code, the majority of the members of this committee are non-executive directors (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; in addition, committee membership takes account of the fact that the Shareholders' Agreement has established a structured procedure for identifying the successor to Marco Tronchetti Provera as the Chief Executive Officer of Pirelli (see section 4.1.2).

In particular, the Appointments and Successions 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 co-opted) for the position of Chief Executive Officer;
- upon 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 composed of 3 independent directors: Domenico De Sole (Chairman), Marisa Pappalardo and Cristina Scocchia.

The Related-Party Transactions Committee has consultative and advisory functions in relation to related-party transactions in the terms laid down in the current regulations and the Procedure for Related-Party Transactions (see section 14).

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 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 hand, 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 holding special offices, 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 non-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 key managers, checks the consistency of their remuneration with the general policy for remuneration and expresses an opinion on it;
- assists the Board of Directors in the examination of proposals to the Shareholders' Meeting for the adoption of remuneration plans based on financial instruments;
- monitors the application of the decisions adopted by the Board, checking in particular the effective achievement of the established performance objectives;
- examines and submits to the Board of Directors the remuneration report that, by name for the members of the management and control bodies and in aggregate for the key managers: (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.

It should be noted that directors who are members of the Remuneration Committee must not attend the meetings of the Committee held to make recommendations to the Board about their own remuneration.

11. REMUNERATION OF THE DIRECTORS

The remuneration system for Group management is designed to attract, motivate and retain key resources. It is defined in a way that aligns the interests of management with those of the shareholders, pursuing the priority objective of creating sustainable value over the medium-long term via an effective and verifiable link between remuneration, on the one hand, and individual and Group performance on the other hand.

Information about the 2020 remuneration policy and the report on remuneration paid in 2019 can be found in the Remuneration Report prepared pursuant to art. 123-*ter* of the 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. It should be noted that said document also includes the information required by Art. 123-*bis*, paragraph 1, letter i) of the TUF.

12. AUDIT, RISK, 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 is composed of 4 independent directors: Fan 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 manager responsible for the preparation of 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 the request of the Board, supports with appropriate preparatory work the evaluations and decisions of the Board of Directors concerning the management of risks arising from any detrimental facts that may have come to its attention;
- monitors compliance with and the periodic update of the corporate governance rules, as well as compliance with any codes of conduct adopted by the Company and its subsidiaries. In particular, the committee proposes procedures and related timing for the annual self-assessment of the Board of Directors;
- monitors sustainability 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 Pirelli's internal control system can be found in the management report. Additionally, 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 tasked with supervising the functioning of the system of internal control and risk management and implementing the related guidelines formulated by the Board of Directors, with support from the 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;
- authorises execution of the guidelines formulated by the Board of Directors, supervising the design, implementation and management of the internal control and risk management system and constantly monitoring its adequacy and effectiveness;
- ensures that this system is compliant with any changes in operating conditions and 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
- reports promptly to the Audit, Risks, 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 once every quarter, to the Board of Statutory Auditors, the Audit, Risks, Sustainability and Corporate Governance Committee, and the Director responsible for the internal control system, and, at least every six months, to the Board of Directors;
- receives and analyses reports obtained in accordance with the whistleblowing 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 for adequate support to the Supervisory Bodies established pursuant to art. 6 of Legislative Decree no. 231/2001;
- provides for 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.

13.4. SYSTEM OF RISK MANAGEMENT AND CONTROL OVER FINANCIAL INFORMATION

Pirelli has implemented a specific and structured risk management and internal control system supported by a dedicated IT software, in relation to control over the process to prepare the separate and consolidated half-yearly and annual financial reports. 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 – with support from 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 selected processes, that exceeds a predetermined threshold of materiality.

Qualitative criteria include the review of those processes and of those companies that, as determined after much discussion 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 results of the verification work are shared with the Chief Financial Officer of each company of the Group.

The Internal Audit Department periodically verifies 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 TOPICS

On 26 February 2019, having acknowledged the renounce to the proxies on sustainability by Director Bruno, the Board of Directors appointed the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera as the Director responsible for sustainability. In that role, he is responsible for supervising sustainability topics 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 Legislative 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**").

Model 231 – periodically updated by the Company in light of legislative developments – includes: (a) a general part covering topics relating, *inter alia*, to the applicability and application of Legislative 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 from Model 231 is available on the Website.

13.7. EXTERNAL AUDITOR

The firm appointed to undertake the external audit of the accounts of the Company is PricewaterhouseCoopers S.p.A. (the "**External Auditing Firm**"), with registered and administrative offices in Milan, at via Monte Rosa 91, recorded on the Register of External Auditors pursuant to Articles 6 et seq. of Italian Legislative Decree no. 39/2010.

The Ordinary Shareholders' Meeting held on 1 August 2017 confirmed the appointment to perform the external audit of the accounts (originally made for three financial years on 27 April 2017), 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 articles 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 details of the fees paid to the External Auditing Firm are reported in the Explanatory Note on the financial statements.

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* of the 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 an expert in administration, finance and control matters and satisfies the integrity requirements established for the directors.

The Chief Reporting Officer puts suitable administrative and accounting procedures in place for the preparation of the separate and consolidated financial statements, as well as of all other financial communications.

The Company deeds and communications made public to the market that contain accounting information, including interim data, must be accompanied by a written declaration from the Chief Reporting Officer confirming that it corresponds to the supporting documentation, records and accounting entries.

The office of the manager responsible for the preparation of the corporate financial documents expires together with the Board of Directors that appointed him.

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.

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 RPT Procedure.

A special section of the financial statements shows the principal transactions with related parties undertaken by the Company.

Every six months, a report on the application of the RPT Procedure, drawn up by the Compliance Department, is submitted to the Related-Party Transactions Committee and subsequently to the Board of Directors. The analyses carried out to date have shown due compliance with and the correct application of the aforementioned procedure in all cases falling within its scope of application.

15. BOARD OF STATUTORY AUDITORS

15.1. APPOINTMENT, REPLACEMENT AND DURATION IN OFFICE

At the Report Date, the Board of Statutory Auditors is composed of five standing auditors and three alternate auditors who satisfy current legislative and regulatory requirements; in this regard the activities 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, are qualified as subjects and sectors of activity closely related to those of the company.

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 to 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, without prejudice to any extension in the cases envisaged by the applicable legislation. 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 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 concerning gender balance, slates - considering both sections - that 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[50].

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); should several slates obtain the same number of votes, a new vote limited to just those slates is held by all those entitled to vote that are present at 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 regulations in force at the time, the candidate belonging to the most represented gender and elected, indicated with the highest sequential number of each section from the slate that obtained the largest number of votes, will be replaced by the candidate belonging to the less represented gender not already elected from the same section of that slate, according 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 those 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, following the order of that slate, 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 regulations in force; 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 supplementing 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 regulations in force; 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 - from 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 guaranteeing representation for the minorities that, pursuant to the Articles, are entitled to participate in the appointment of the Board of Statutory Auditors, without prejudice in all cases to compliance with the gender balance requirements envisaged by the regulations in force. The principle guaranteeing representation for 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 named in the respective sections of the slate are elected as standing auditors and alternate auditors; the person named first on the above slate becomes the Chairman of the Board of Statutory Auditors.

For the appointment of statutory auditors who, for any reason, were not appointed in accordance with the above procedure, the Shareholders' Meeting adopts resolutions with the majorities required by law, without prejudice in all cases to compliance with the gender balance requirements envisaged by the regulations in force. Outgoing Statutory Auditors may be re-elected.

15.2. COMPOSITION

The Board of Statutory Auditors in office at the Report Date was appointed by the ordinary Shareholders' Meeting held on 15 May 2018 and is composed of the following members: Francesco Fallacara (Chairman of the Board of Statutory Auditors, appointed by the minorities), Fabio Artoni, Antonella Carù, Luca Nicodemi and Alberto Villani as standing auditors, and Franca Brusco (appointed by 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 for the year ending on 31 December 2020.

50 For the sake of completeness, it should be noted that this clause is currently being adapted to the new legislation on gender quotas in the composition of corporate bodies and that the related proposal will be submitted to the Annual General Meeting. For more information, see the Directors' Report to the Shareholders' Meeting, which illustrates the proposed changes to the Articles and will be made available to the public on the Website according to law.

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.

All the Statutory Auditors can be qualified as independent on the basis of the criteria specified for Directors 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 annually carried out.

During the Year, the Board of Statutory Auditors of Pirelli met 12 times, with each meeting having an average duration of about 1 hour and 30 minutes.

At the Report Date, approximately 38% of the eight members of the Board of Statutory Auditors (five standing auditors and three alternate auditors), were female (the percentage is 20% of the standing Auditors only). Furthermore, the average age of the members of the Board of Statutory Auditors is approximately 54 years of age (the average age of the standing auditors only is 55). The 80% of the standing auditors were between 55 and 59 years of age, while the remaining standing Auditor was 46.

During the course of the Year, the Board of Statutory Auditors, like the Board of Directors, has again carried out the process for assessing its performance, with assistance from the independent consulting firm SpencerStuart, in line with what was done in the previous year and in compliance with the code of conduct for listed companies published by the Italian national association of chartered accountants and auditors. That self-assessment process, like the process in place for the Board of Directors, is carried out through individual interviews, with questions about the suitability, size, composition and operation of the Board of Statutory Auditors itself, in order to verify suitability, fairness and effectiveness in its operation. Positive outcomes of the Board of Statutory Auditors' self-assessment process are included in the Statutory Auditors' report at 31 December 2019.

Table 3, attached herein, provides for the significant information about each member of the Board of Statutory Auditors in office at the Report Date.

16. GENERAL MANAGER OPERATIONS

It should be noted that the General Manager Operations role was established in May 2018 and is entrusted to Andrea Casaluci.

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 sources of information needed for the efficient performance of its supervisory role.

The flow of information to the directors and statutory auditors is ensured, preferably, by the transmission of documents on a timely basis and, in any case, with sufficient frequency to ensure compliance with the disclosure requirements, and in accordance with deadlines consistent with the timetables set for each board meeting. These documents may be supplemented by explanations provided in the context of the board meetings, or at specific informal meetings organised to examine topics of interest relating to the management of the company.

When 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.

It is required that the Strategies Committee be the recipient of a specific and continuous flow of information from the Chief Executive Officer, assisted by the Secretary of the Company's Board of Directors for such purposes.

18. RELATIONS WITH SHAREHOLDERS

Pirelli attributes strategic importance to Financial Reporting. In accordance with the Group's Values and Code of Ethics, Pirelli maintains constant dialogue with Shareholders, Bondholders, Institutional and Individual Investors and Analysts from major investment banks through the Investor Relations department and the Group's Top Management in order to promote fair, transparent, timely and accurate reporting.

In line with international best practice, the "Investors" section of the Website is constantly updated with content of interest to the financial market, including: strategy ("Equity Story"), economic-financial data on previous 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 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).

Parties entitled to vote may be represented by proxy, given in accordance with the procedures envisaged by law and the regulations in force.

The notice of call may also limit to one of the above methods the specific procedure usable in relation to the Shareholders' Meeting called by that notice.

For each meeting, the Company designates one or more persons to which those entitled to vote may grant proxy, with voting instructions for all or just some of the items on the agenda. The proxy does not apply to items for which no voting instructions were given. The persons designated to receive proxies for the Shareholders' 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, no later than 180 days from the end of the financial year.

In the situations envisaged by law and in accordance with the related procedures, the directors must call a Shareholders' Meeting without delay when requested by shareholders representing at least one-twentieth of share capital.

The shareholders requesting the meeting must prepare a report on their proposals regarding the matters to be discussed. At the time of publishing the notice of call for the meeting and in accordance with the procedures envisaged by law, the Board of Directors must make the report prepared by the shareholders available to the public, together with its considerations, if any.

In the cases, in the manner and with the timing envisaged by law, shareholders that, individually or together, represent at least one-fortieth of share capital may request the integration of the items of the agenda, indicating in their request the additional topics proposed by them, or proposing resolutions on matters already on the agenda.

A notice is published about the addition of items to the agenda or the presentation of additional proposed resolutions on matters already on the agenda, by the legal deadlines, in the manner established for publication of the notice of call.

Shareholders requesting additions to the agenda must prepare and send to the Board of Directors, by the final deadline for the presentation of requests for additions, a report explaining their reasons for the proposed resolutions on the matters they wish to discuss, or their reasons for the additional proposed resolutions presented in relation to matters already on the agenda. At the time of publishing the notice about the additions to the agenda and in accordance with the procedures envisaged by law, the Board of Directors must make the report prepared by the shareholders available to the public, together with its considerations, if any.

The 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 by the end of the third trading day prior to the date fixed for the Shareholders' Meeting, or by any different deadline established by the applicable regulations. Shareholders are still entitled to attend and vote if the communication is received by the Company after the above deadlines, on condition that it is received before business commences at the 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 taken 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 Shareholders' Meeting has been properly convened, verifies the identity of those attending and their right to attend, directly or by proxy; verifies the legal *quorum* for voting; directs the proceedings, with the right to change the order of discussion of the items indicated in the notice of call. The Chairman also adopts suitable measures to ensure orderly discussions and voting, determining the related procedures and checking the results.

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 Shareholders' Meetings must be taken by a Notary designated by the Chairman of the Shareholders' 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 objective is to provide simple and clear information for investors and, in general, all its stakeholders, through the Website, in line with common practice. For this reason, also taking account of the results of assessments by independent agencies - most recently in August 2019 - 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 19 DECEMBER 2019 BY THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE

With a letter of 19 December 2019 (the "**Chairman's Letter**"), in the context of the usual monitoring of the application of the provisions of the Corporate Governance Code, the Chairman of the Corporate Governance Committee of Borsa Italiana has provided listed companies with a further four recommendations (the "**Committee Recommendations for 2020**") listed below:

1. include the sustainability of business activities in the definition of the remuneration strategies and policy, also on the basis of an analysis of the importance of factors that could affect the creation of value in the long term;

2. ensure, including in any board meeting regulation, an adequate management of the information flow to the board of directors, and ensure that confidentiality requirements are protected without compromising the completeness, usability and timeliness of reporting;

3. (i) apply more rigorously the independence requirements defined in the Corporate Governance Code, while inviting the control bodies to monitor the correct application thereof, (ii) having reiterated the exceptional nature and the necessary individual justification for derogation from the aforementioned criteria, pay more attention to the assessment of the significance of the relationships subject to assessment, and (iii) to that end, define *ex ante* the quantitative and/or qualitative criteria to be used for assessing the significance of the relationships subject to examination (criteria which should concern the overall position – not simply the purely economic benefit – of the director whose independence is subject to assessment);

4. together with the committees responsible for remuneration, verify that the remuneration paid to non-executive directors and members of the control bodies are in line with the competence, professionalism and commitment required of their roles, also taking account of comparative analyses with other companies of similar sizes (including foreign companies) operating in the relevant sector.

The Committee's Recommendations for 2020 were brought to the attention of (i) the Audit, Risks, Sustainability and Corporate Governance Committee and the Board of

Statutory Auditors on 17 February 2020, and (ii) the Board of Directors on 2 March 2020.

The Company considers it appropriate to provide the following summary of the considerations formulated by the Board of Directors on the aforementioned Committee's Recommendations for 2020.

It is deemed that the systems of corporate governance rules adopted by Pirelli is already in line with the foregoing recommendations, for the reasons outlined below:

- → the Board of Directors plays a central role in the defining of sustainability policies and strategies, at the proposal of the Executive Vice Chairman and Chief Executive Officer. In addition, the Company's remuneration policy has for some time been establishing sustainability targets on the basis of the variable components of remuneration (for more details in this regard, see the Remuneration Report);
- → pre-board reporting (of a continuous nature or relating to specific topics) during 2019 also took place – as shown by the results of the self-assessment survey conducted by the Board – in compliance with an advance that was deemed consistent (cf. section 4.5.1) with quality standards that are in line with international best practice and broad guarantees as to the confidentiality and traceability of the information and documents sent to Directors and Statutory Auditors;
- → during the board's current term in office, there were no exceptions to the rigorous application of the independence requirements provided for by the Corporate Governance Code and legislation, as also demonstrated by the checks carried out by the control body on the criteria adopted by the Board to assess the ongoing fulfilment of the independence requirements for directors;
- → the setting of the remuneration packages for non-executive directors and members of the control body is also deemed to be adequate, taking account of the specific skills, professionalism and commitment required for the role. This assessment is also confirmed by the analyses conducted by the Company in relation to comparable companies on a national and international basis.

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 Chairman's Letter insofar as the Committee's Recommendations for 2020 were already adequately 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, holds 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[1]

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.[2]	10,10%	10,10%

NOTES TO TABLE 1

The data relating to shareholders who, directly or indirectly, hold ordinary shares representing more than 3% of the share capital with voting rights in ordinary shareholders' meetings of the Company, are taken from Consob's website. In this regard, 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 substantially differ from the real situation, because the obligations to communicate changes in the percentages of holdings 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 (e.g. 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 Articles do not provide for the possibility of increased voting rights or the issue of shares with multiple voting rights.

1 From content of the "Pirelli & C. SpA - Partecipazioni in strumenti finanziari e partecipazioni aggregate" [Equity investments in financial instruments and aggregate equity investments] section of the Consob website, it also appears that Tacticum Capital S.A. (formerly Long-Term Investments Luxembourg S.A. (LTI)) has transferred the equity investment that it held in Pirelli (6.239% of the capital) to a third-party financial counterpart, pursuant to a repurchase contract entered into between the parties in guarantee of a loan granted by the latter. The said counterpart is obliged to retransfer the same equity investment to Tacticum/LTI and do everything in its power to exercise the voting right in accordance with the instructions given by Tacticum/LTI at any given time.
2 For the sake of completeness, it should be noted that in September 2019 Camfin informed the market that it had taken out instruments called "Call Spreads" with major financial institutions, with maturity at September 2022, and with an underlying of 48.9 million Pirelli shares, equivalent to 5% of the share capital. Based on those instruments, Camfin has the right to purchase Pirelli shares at a pre-defined price and to increase its own equity investment from 10.1% to approximately 15% of the share capital.

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND THE COMMITTEES

Board of Directors												
Office	**Members**	**Year of birth**	**Date first appointed***	**In office since**	**In office until**	**Slate ****	**Exec.**	**Non-exec.**	**Indip. Codice**	**Indep. Code**	**No. other offices *****	**(*)**
Chairman	**Ning Gaoning**	1958	7 August 2018	7 August 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2019	-		x			Cf. Annex A	0/7
Executive Vice Chairman and Chief Executive Officer •◊	**Marco Tronchetti Provera**	1948	7 May 2003[1]	31 August 2017	Shareholders' meeting to approve financial statements at 31 Dec. 2019	-	x				Cf. Annex A	7/7
Director	**Yang Xingqiang**	1967	20 October 2015	31 August 2017	Shareholders' meeting to approve financial statements at 31 Dec. 2019	-		x			Cf. Annex A	6/7
Director	**Bai Xinping**	1968	2 September 2015	31 August 2017	Shareholders' meeting to approve financial statements at 31 Dec. 2019	-		x			Cf. Annex A	6/7
Director	**Giorgio Luca Bruno**	1960	15 March 2016	31 August 2017	Shareholders' meeting to approve financial statements at 31 Dec. 2019	-		x			Cf. Annex A	7/7
Director	**Laura Cioli**	1963	1 August 2017	31 August 2017	Shareholders' meeting to approve financial statements at 31 Dec. 2019	-		x	x	x	Cf. Annex A	6/7
Director	**Domenico De Sole**	1944	1 August 2017	31 August 2017	Shareholders' meeting to approve financial statements at 31 Dec. 2019	-		x	x	x	Cf. Annex A	5/7
Director	**Ze'ev Goldberg**	1960	2 September 2015	31 August 2017	Shareholders' meeting to approve financial statements at 31 Dec. 2019	-		x			Cf. Annex A	6/7
Director	**Tao Haisu**	1949	20 October 2015[2]	31 August 2017	Shareholders' meeting to approve financial statements at 31 Dec. 2019	-		x	x	x	Cf. Annex A	7/7
Director	**Giovanni Lo Storto**	1970	15 May 2018	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2019	-		x	x	x	Cf. Annex A	7/7
Director	**Marisa Pappalardo**	1960	1 August 2017	31 August 2017	Shareholders' meeting to approve financial statements at 31 Dec. 2019	-		x	x	x	Cf. Annex A	7/7
Director	**Cristina Scocchia**	1973	1 August 2017	31 August 2017	Shareholders' meeting to approve financial statements at 31 Dec. 2019	-		x	x	x	Cf. Annex A	7/7
Director	**Giovanni Tronchetti Provera**	1983	1 August 2017	31 August 2017	Shareholders' meeting to approve financial statements at 31 Dec. 2019	-		x			Cf. Annex A	7/7
Director	**Fan Xiaohua**	1974	1 August 2017	31 August 2017	Shareholders' meeting to approve financial statements at 31 Dec. 2019	-		x	x	x	Cf. Annex A	7/7
Director	**Wei Yintao**	1971	1 August 2017	31 August 2017	Shareholders' meeting to approve financial statements at 31 Dec. 2019	-		x	x	x	Cf. Annex A	7/7

DIRECTORS WHO CEASED TO HOLD OFFICE DURING THE YEAR

No Director ceased to hold office during the relevant financial year
(Ning Gaoning, previously coopted, has been confirmed in his office by the Shareholders' Meeting of 15 May 2019).

Number of meetings of the Board of Directors held during the year: 7
Audit and Risks Committee: 5 / Remuneration Committee: 4 / Appointments Committee: 0 / Strategies Committee: 1 / RPT Committee: 12

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 in the "Office" column have the following meaning:
• 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 offices are shown in full in the Annex A of the Report.
(*). The attendance of the directors at the BoD meetings and its committees(the number of meetings the person attended out of the total number of meetings he or she could have attended, e.g. 6/8, 8/8, etc.).
(**). The office held by the person on the Committee: "C": chairman; "M": member.

Audit, Risks, Sustainability and Corporate Governance Committee		Remuneration Committee		Appointments Committee		Strategies Committee		RPT Committee	
(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
				-	M				
				-	C	1/1	C		
						1/1	M		
		4/4	M	-	M	1/1	M		
						1/1	M		
5/5	M	4/4	M						
						1/1	M	12/12	C
						1/1	M		
		4/4	C						
5/5	M	4/4	M						
								11/12	M
4/5	M							11/12	M
				-	M				
5/5	C								
						1/1	M		

NOTES TO TABLE 2
1 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.
2 Tao Haisu was a Director of Pirelli from 20 October 2015 to 15 March 2016. He was appointed as Director again on 1 August 2017.

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors

Office	Members	Year of birth	Date first appointed*	In office since	In office until	Slate **	Indep. Code
Chairman	**Francesco Fallacara**	1964	10 May 2012	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2020	m	x
Standing auditor	**Fabio Artoni**	1960	14 May 2015	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2020	M	x
Standing auditor	**Antonella Carù**	1961	10 May 2012	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2020	M	x
Standing auditor	**Luca Nicodemi**	1973	5 September 2017	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2020	M	x
Standing auditor	**Alberto Villani**	1962	5 September 2017	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2020	M	x
Standing auditor	**Franca Brusco**	1971	15 May 2018	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2020	m	x
Standing auditor	**Elenio Bidoggia**	1963	15 May 2018	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2020	M	x
Standing auditor	**Giovanna Oddo**	1967	14 May 2015	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2020	M	x

AUDITORS WHO CEASED TO HOLD OFFICE DURING THE YEAR

No Statutory Auditor ceased to hold office during the relevant financial year.

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 members (pursuant to art. 148 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 ("M": majority slate; "m": minority slate).
*** The attendance of the auditors at the Board of Statutory Auditors meetings (the number of meetings the person attended out of the total number of meetings he or she could have attended, e.g. 6/8, 8/8, etc.).
**** 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. The complete list of offices is published by Consob on its website, pursuant to art. 144-quinquiesdecies of the Consob Issuers' Regulation.

Board of Statutory Auditors

	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 ****
	12/12	7/7	5/5	3/4	-	1/1	12/12	Cf. Annex A
	12/12	7/7	5/5	4/4	-	-	12/12	Cf. Annex A
	12/12	6/7	5/5	3/4	-	-	11/12	Cf. Annex A
	12/12	5/7	5/5	4/4	-	-	11/12	Cf. Annex A
	10/12	7/7	3/5	2/4	-	-	10/12	Cf. Annex A
	-	-	-	-	-	-	-	Cf. Annex A
	-	-	-	-	-	-	-	Cf. Annex A
	-	-	-	-	-	-	-	Cf. Annex A

ANNEX A

SECTION I: LIST OF PRINCIPAL 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: • China Jinmao Holdings Group Ltd. • Far East Horizon Ltd.	Chairman of the Board of Directors Chairman of the Board of Directors Chairman of the Board of Directors
	China National Chemical Corporation: • Syngenta AG	Chairman of the Board of Directors Chairman of the Board of Directors
Marco Tronchetti Provera	Marco Tronchetti Provera & C. S.p.A.: • Camfin S.p.A. • Camfin Industrial S.p.A.	Chairman of the Board of Directors Chairman of the Board of Directors Chairman of the Board of Directors and Chief Executive Officer
	RCS MediaGroup S.p.A.	Director
Yang Xingqiang	China National Chemical Corporation: • China National Bluestar Group Co. Ltd. • ADAMA Agricultural Solutions Ltd. • Marco Polo International Italy S.r.l. • TP Industrial Holding S.p.A.	Chairman of the Board of Directors Director Chairman of the Board of Directors Director Chairman of the Board of Directors
Bai Xinping	China National Chemical Corporation: • China National Tire & Rubber Company Ltd. • CNRC International Holding (HK) Ltd. • CNRC Capital Ltd. • CNRC Capitale Limited • CNRC International Ltd. • Fourteen Sundew S.à.r.l. • Marco Polo International Italy S.r.l. • TP Industrial Holding S.p.A.	 Chairman of the Board of Directors Director Director Director Director Director Chairman of the Board of Directors CEO
Giorgio Luca Bruno	Marco Tronchetti Provera & C. S.p.A.: • Camfin S.p.A. • Camfin Industrial S.p.A.	Director Director Director
	Prometeon Tyre Group S.r.l.	Chairman of the Board of Directors and Chief Executive Officer
Laura Cioli	SOFINA S.A.	Director
	Brembo S.p.A.	Director
	GEDI Gruppo Editoriale S.p.A.	CEO

FIRST AND LAST NAME	COMPANY	OFFICE HELD IN THE COMPANY
Domenico De Sole	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.	Shareholder
	Compass Partners	Shareholder
Giovanni Lo Storto	DoValue S.p.A.	Director
	Internazionale S.p.A.	Director
	Base per Altezza S.r.l.	Director
	Luiss Guido Carli • L. Campus S.r.l. • L. Lab S.r.l. • LUISS (LUIS SSD) sporting association • LUISS ALUMNI 4 Growth S.r.l.	 CEO CEO Director Vice Chairman of the Board of Directors
Tao Haisu	Mercuria Energy Group	Director
Marisa Pappalardo	BPER Banca S.p.A.	Director
	Finstar S.p.A.	Director
Cristina Scocchia	EssilorLuxottica S.A.	Director
	KIKO S.p.A.	CEO
	IllyCaffé S.p.A.	Director
Giovanni Tronchetti Provera	Marco Tronchetti Provera & C. S.p.A.: • Camfin S.p.A. • Camfin Industrial S.p.A.	Director Director Director
Fan Xiaohua	-	-
Wei Yintao	-	-

SECTION II: LIST OF OFFICES HELD BY STATUTORY AUDITORS IN OTHER COMPANIES AT THE DATE OF THE REPORT

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.	Sole 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
	Eni Progetti S.p.A.	Standing Auditor
	ArgoGlobal Assicurazioni S.p.A.	Independent Director
	Creval S.p.A. – Gruppo bancario Credito Valtellinese	Alternate Auditor
	GB Trucks Socio Unico S.r.l.	Sole Auditor
	Nextchem S.r.l.	Standing Auditor
	SIBI S.r.l.	Sole Auditor
	I Casali del Pino S.r.l.	Sole Auditor
	Collegio Provinciale dei Geometri di Roma [Provincial Surveyors' Association of Rome]	Standing Member of the Association of Auditors
	Asfor – Italian Association for Managerial Training	Chairman of the Supervisory Body
	Apaform – ASFOR Professional Association of management trainers	Chairman of the Supervisory Body
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.	Standing Auditor
	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
	Xenia RE S.p.A.	Chairman of the Board of Statutory Auditors
	360 Payment Solutions 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
	FTSE Italy 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.r.l.	Standing Auditor
	AMFIN HOLDING S.P.A.	Standing Auditor

First and last name	Company	Office held in the company
Antonella Carù	Autogrill S.p.A.	Standing Auditor
	Autogrill Advanced Business Service S.r.l.	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
	Pirelli Tyre S.p.A.	Standing Auditor
	F.C. Internazionale S.p.A.	Chairman of the Board of Statutory Auditors
	Inter Media and Communication S.p.A.	Chairman of the Board of Statutory Auditors
	Inter Brand S.r.l.	Chairman of the Board of Statutory Auditors
	Istituti Ospedalieri Bergamaschi S.r.l.	Chairman of the Board of Statutory Auditors
	Farbanca S.p.A.	Alternate Auditor
	Fattorie Osella S.p.A.	Standing Auditor
	Istituto Clinico Villa Aprica S.p.A.	Chairman of the Board of Statutory Auditors
	De Wave S.p.A.	Standing Auditor
	Italian Creation Group S.p.A.	Chairman of the Board of Statutory Auditors
	SPC S.r.l.	Standing Auditor
	C.P.C. S.r.l.	Standing Auditor
	Dainese S.p.A.	Standing Auditor
	Prima TV S.p.A.	Standing Auditor
	Savills I.M. SGR S.p.A.	Standing Auditor
	Koinos Capital SGR S.p.A.	Chairman of the Board of Statutory Auditors
	Argos Wityu Italia S.p.A.	Chairman of the Board of Statutory Auditors
	Imprima S.p.A. (formerly Color Wind S.p.A.)	Standing Auditor
	HPC S.r.l.	Standing Auditor
	MR&MRS ITALY S.r.l.	Chairman of the Board of Statutory Auditors
	Spencer Holding S.r.l.	Standing Auditor
	Spencer Contract S.r.l.	Chairman of the Board of Statutory Auditors
	Fontanaarte S.p.A.	Alternate 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
	Fossadello Real Estate S.p.A. in liquidation	Alternate Auditor
	Roche S.p.A.	Standing Auditor
	Roche Diagnostic S.p.A.	Standing Auditor
	Roche Diabetes Care Italy S.p.A.	Standing Auditor
	Rothschild & Co Wealth Management Italy Società di Intermediazione Mobiliare S.	Chairman of the Board of Statutory Auditors
	DW Group S.p.A.	Standing Auditor
	Alkemia SGR S.p.A.	Chairman of the Board of Statutory Auditors
	OCM S.p.A.	Chairman of the Board of Statutory Auditors
	Serpeverde S.p.A.	Standing Auditor
	BORMIOLI PHARMA S.P.A.	Chairman of the Board of Statutory Auditors

First and last name	Company	Office held in the company
Alberto Villani	AGB Nielsen Media Research Holding S.p.A.	Chairman of the Board of Statutory Auditors
	BBC Italia S.r.l.	Director
	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
	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
	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 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 Costruzioni Grassi&Crespi S.r.l.	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
	SO.SE.A. S.r.l.	Director
	Vianord Engineering Société par action simplifiée	Director
	TP Industrial Holding S.p.A.	Standing Auditor
Franca Brusco	ENAV S.p.A.	Chairman of the Board of Statutory Auditors
	Biancamano 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
	CDP Industria S.p.A.	Standing Auditor
	Cassa Depositi e Prestiti S.p.A.	Standing Auditor
	Autorità di Sistema portuale del Mare Mediterraneo meridionale	Member of the Association of Auditors
	Galleria Borghese National Museum	Member of the Association of Auditors
	Gruppo Garofalo Health Care S.p.A.	Independent Director

First and last name	Company	Office held in the company
Elenio Bidoggia	Camfin Industrial S.p.A.	Alternate Auditor
	Pirelli International Treasury S.p.A.	Alternate Auditor
	Pirelli Tyre S.p.A.	Alternate Auditor
	Casa Editrice Universo S.p.A.	Standing Auditor
	Finpol S.p.A.	Standing Auditor
	Prelios S.p.A.	Alternate Auditor
	Prelios Credit Servicing S.p.A.	Standing Auditor
	Prelios Integra S.p.A.	Standing Auditor
	Prelios Valuations & e- services S.p.A.	Chairman of the Board of Statutory Auditors
	Prelios Credit Solutions S.p.A.	Standing 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.r.l.	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.	Standing Auditor
	C.F.M. CO. FARMACEUTICA MILANESE S.p.A.	Alternate Auditor
	Esselte S.r.l.	Alternate Auditor
	Milanosesto S.p.A.	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
	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.r.l.	Chairman of the Board of Directors
	TP Industrial Holding S.p.A.	Alternate Auditor
	Prometeon Tyre Group S.r.l.	Alternate Auditor
	Manifatture Milano S.p.A.	Alternate Auditor
	Koinè Società tra Avvocati S.r.l.	Sole Director
	Marco Tronchetti Provera & C. S.p.A.	Standing Auditor
	Pirelli International Treasury S.p.A.	Standing Auditor
	Pirelli Sistemi Informativi S.r.l.	Standing Auditor
	Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Standing Auditor
	Pirelli Tyre S.p.A.	Alternate Auditor


CITY OF FUTURE

Report on the remuneration policy and compensation paid

PREAMBLE

This Report on the remuneration policy and the compensation paid (the "**Report**" or the "**Remuneration Report**"), approved by the Board of Directors on 2 March 2020, upon the proposal of the Remuneration Committee, is structured into two sections:

- Section I: "Remuneration Policy" for FY 2020 (the "**2020 Policy**" or the "**Policy**") and
- Section II: "Report on Compensation Paid" in FY 2019 (the "**2019 Compensation Report**" or the "**Compensation Report**").

The Report has been drawn up in accordance with Art. 123-*ter* of the Consolidated Law on Finance ("**TUF**"), as amended and supplemented by Art. 3 of Italian Legislative Decree no. 49 of 10 May 2019 (the "**Decree**")[51], with Art. 84-*quater* of the Issuers' Regulation (Consob Resolution no. 11971 of 14 May 1999) as well as on the basis of Scheme 7-*bis* of Annex 3 A of the Issuers' Regulation, introduced by Consob with resolution no. 18049 of 23 December 2011[52].

In its drafting, due consideration was given to the European Commission recommendations on the remuneration of directors of listed companies, as well as to the recommendations on remuneration given in the current Corporate Governance Code[53] for listed companies, approved by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria, to which Pirelli adhered.

The Report is also been drafted for the purposes established under Art. 14 of the Pirelli related party transactions procedure. The 2020 Policy defines principles and guidelines:

- with which the Board of Directors complies in defining the remuneration of the directors of Pirelli & C. S.p.A. ("Pirelli & C."), in particular Directors holding specific offices, General Managers and KM;
- to which Pirelli & C. refers in defining the remuneration of Senior Managers and, more generally, of Executives;

Additionally, without prejudice to the provisions set forth under Art. 2402 of the Italian Civil Code, the Policy explains the criteria for the remuneration of the members of the controlling body.

The 2019 Compensation Report, submitted for a consultative vote to the Shareholders' Meeting, sets out the final total remuneration for FY 2019.

51 The Decree incorporates into the Italian legal system, Directive (EU) 2017/828, the "Shareholders Right II Directive", which amends Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement.
52 As at the date of approval of the Report, Consob has not adopted the amendments to the Issuers' Regulation and to Scheme 7-*bis* of the related Annex 3A, in regard to: (i) the information to be included in the first section of the report and the characteristics of the remuneration policy, which, according to the provisions of Art. 123-*ter*, paragraph 7 of the TUF, is to be adopted in compliance with Article 9-*bis* of Directive 2007/36/EC and in compliance with the provisions of paragraph 3 of Recommendation 2004/913/EC and paragraph 5 of Recommendation 2009/385/EC; (ii) the information to be included in the second section of the report, which will be adopted in compliance with the provisions of Article 9-*ter* of Directive 2007/36/EC.
53 The current Corporate Governance Code was approved in July 2018. The new Code of Corporate Governance will apply from the first year starting after 31 December 2020.

In order to facilitate the understanding and reading of the Report, please find below a glossary defining some recurring terms:

Directors holding specific offices: mean the directors of Pirelli & C. holding the office of Chairman, Executive Vice Chairman and Chief Executive Officer. The Directors holding specific offices in other Group companies, who are also managers, are, for the purpose of the Policy, Executives or Senior Managers, depending on the role held and, unless otherwise resolved by the Board of Directors of Pirelli & C. which classifies them as KM.

Directors holding no specific offices: mean all the directors of Pirelli & C. who are not Directors holding specific offices. Directors not holding specific offices in other Group companies, who are also managers, are, for the purpose of the Policy, Executives or Senior Managers, depending on the role held and unless otherwise resolved by the Board of Directors of Pirelli & C., which classifies them as KM.

Annual Total Direct Compensation on-Target: means the total sum of the following components, regardless of whether they were disbursed by Pirelli & C. or by another Group company:

(i) gross annual base salary of the remuneration;
(ii) annual variable short-term incentive STI (MBO), if objectives are achieved at target level;
(iii) medium/long-term variable component comprising:
  a. annual value of the long-term incentive (LTI) plan if multi-year objectives are achieved at target level;
  b. pro-quota value of the STI (MBO) accrued and deferred, to be paid if the next year's STI (MBO) is achieved;
  c. an additional value of equal amount of the pro-quota of the STI (MBO) accrued and deferred, to be paid if the next year's STI (MBO) is achieved, at least at target level.

Shareholders' Meeting: means the meeting of the shareholders of Pirelli & C..

Remuneration Committee: means the Pirelli & C. Remuneration Committee.

Board of Directors: indicates the Board of Directors of Pirelli & C. S.p.A..

General Manager(s): the persons identified by the Pirelli & C. Board of Directors to be assigned broad powers of business segment management. The subjects holding the office of General Manager in other Group companies are, for the purpose of the Policy, Executives or Senior Managers, depending on the role held and unless otherwise resolved by the Board of Directors of Pirelli & C., which classifies them as KM.

KM: managers, identified by the Pirelli & C. Board of Directors in accordance with the procedure adopted by Board resolution of 26 July 2019, having the power or responsibility for planning, managing and controlling the Company's activities or the power to make decisions that can impact its evolution or future prospects and, more generally, of Pirelli Group. In accordance with the procedure, the employees holding the following positions must be classified as KM: (i) General Manager; (ii) Executive Vice President; (iii) Manager responsible for the preparation of financial and corporate documents; (iv) the Company Secretary and Corporate Affairs Officer.

Executives: managers of the Italian companies or employees of the Group's foreign companies with a position or role that is comparable to that of an Italian manager.

The **Pirelli Group** or **Pirelli** or the **Group**: means all the companies included in the Pirelli & C. consolidation scope.
LTI Plan (2018-2020): means the 2018-2020 Long-Term Incentive plan approved by the Board of Directors on 26 February 2018 and by the Shareholders' Meeting on 14 May 2018.

LTI Plan (2020-2022): means the Long-Term Incentive plan for the three-year period 2020-2022 approved by the Board of Directors on 19 February 2020 and subject to the approval of the Shareholders' Meeting scheduled for 18 June 2020, in support of the achievement of the new objectives set by the 2020-2022 Strategic Plan.

Management: means all Directors holding specific offices, General Managers, KM, Senior Managers and Executives.

Retention Plan: means the Retention Plan explained in section 9 below, approved by the Board of Directors on 26 February 2018.

2020-2022 Strategic Plan or **Strategic Plan**: means the business plan approved by the Pirelli & C. Board of Directors on 19 February 2020.

GAS: means the gross annual base salary of the remuneration for those employed by a Pirelli Group company.

Senior Managers: means the persons directly responsible, except where they are KM (i) to Directors holding specific offices granted with specific duties; (ii) to General Managers, where the work of the Senior Manager significantly impacts business results.

The **Company** or **Pirelli & C.**: means Pirelli & C. S.p.A..

STI (MBO): means the annual variable component of remuneration that can be achieved if the predefined corporate objectives are achieved, as more fully described in sections 4, 5 and 6 below.

Top Management: means all Directors holding specific offices, General Managers and KM.

EXECUTIVE SUMMARY

	AIMS	HOW IT OPERATES	BENEFICIARIES
Fixed Remuneration	To reward managerial and professional competence and experience, and the contribution made to the role.	It is defined in relation to the characteristics, responsibilities and powers, if any, assigned to the role, taking account of the market references, in order to ensure their competitiveness.	**Chairman:** €400,000 **Executive Vice Chairman and CEO:** €2,400,000 **General Manager:** €750,000 **KM**: no more than 50% of Annual Total Direct Compensation on-Target **Senior Manager and Executive:** no more than 60% (Senior Manager) and 75% (Executive) of the Annual Total Direct Compensation on-Target
Annual variable remuneration STI (MBO)	To motivate managers to achieve the Company's annual objectives, maintaining strong alignment with the business strategy and the Company's interests and medium-long term sustainability, including through a partial deferral mechanism.	Directly linked to the achievement of performance objectives, assigned to each beneficiary in coherence with the role they cover: • EBIT (Group/Region/BU) • Net Cash Flow (Group/Region) • Group Net Income • A sustainability objective • Unit/department objectives (for Senior Managers and Executives) In addition to an on-off condition (which determines access to the plan), represented by a cash indicator (typically Net Cash Flow). There will be an entry level for each objective, equal to 75% of the target premium, below which the related pro-quota of the incentive is not accrued. There is also a maximum cap to the incentive that can be achieved (if all maximum performance objectives are achieved), equal to twice the incentive that can be achieved at target performance. Finally, 25% of the incentive accrued is deferred and its payment, together with any increase, is subject to the achievement of the following year's STI (MBO) objectives.	**Chairman:** not one of the beneficiaries of the plan. **Executive Vice Chairman and CEO:** • *Entry level*: 93.75% of fixed remuneration (75% of the target) • *Target*: 125% of fixed remuneration • *Cap*: 250% of fixed remuneration **General Manager:** • *Entry level*: 56.25% of the GAS (75% of the target) • *Target*: 75% of the GAS • *Cap*: 150% of the GAS **KM:** • *Entry level*: 37.5% of the GAS (75% of the target) • *Target*: 50% of the GAS • *Cap*: 100% of the GAS **Senior Managers and Executives:** • *Entry level*: from a minimum of 15% to a maximum of 30% of the GAS (75% of the target) • *Target*: from a minimum of 20% to a maximum of 40% of the GAS • *Cap*: from a minimum of 40% to a maximum of 80% of the GAS
Medium/long term variable remuneration (LTI)	To promote the creation of value that is sustainable in the long-term and achievement of the objectives in the Company's Strategic Plan, while also promoting management engagement and retention.	**2020-2022 LTI Plan**: a monetary incentive subject to the achievement of the following independent long term objectives: • Cumulative Group Net Cash Flow (before dividends) • Relative TSR versus a panel of peers (TIER1: Continental, Michelin, Nokian, Goodyear and Bridgestone) • a third objective linked to two Sustainability indicators: Dow Jones Sustainability World Index ATX Auto Component sector and CDP Ranking. There will be an entry level for each objective, equal to 75% of the target premium, below which the related pro-quota of the incentive is not accrued. There is also a maximum cap to the incentive that can be achieved, if all maximum performance objectives are achieved. Vesting: 3 years Rolling plan	**Chairman:** not one of the beneficiaries of the plan. **Executive Vice Chairman and CEO:** • *Entry level*: 157.5% of fixed remuneration (75% of the target) • *Three-year target*: 210% of fixed remuneration • *Cap*: 600% of fixed remuneration **General Manager:** • *Entry level*: 135% of the GAS (75% of the target) • *Three-year target*: 180% of the GAS • *Cap*: 480% of the GAS **KM:** • *Entry level*: 112.5% of the GAS (75% of the target) • *Three-year target*: 150% of the GAS • *Cap*: 390% of the GAS **Senior Managers and Executives:** • *Entry level*: from a minimum of 33.75% to a maximum of 112.5% of the GAS (75% of the target) • *Three-year target*: from a minimum of 45% to a maximum of 150% of the GAS • *Cap*: from a minimum of 120% to a maximum of 390% of the GAS
Other tools	To assure organisational stability and the contribution made to the implementation of the Company's Strategic Plan. To safeguard company know-how and protect it from competitors.	• **Retention Plan**: extraordinary four-year retention plan (2017-2021). • **Non-competition agreements**: constraint regarding the market sector in which the Group operates and the territorial coverage. The extent varies according to the role covered.	**Chairman:** not one of the beneficiaries of the Retention Plan or of the non-competition agreements. **Executive Vice Chairman and CEO:** not one of the beneficiaries of the Retention Plan or of the non-competition agreements. **Retention Plan:** only for the General Manager, KM and selected Senior Managers/Executives. The maximum retention bonus provided is 2.3 times the 2017 Total Direct Compensation on-Target. **Non-competition agreements**: for the General Manager, the KM and Senior Managers and Executives with professionalism particularly critical. They provides for the payment of a fee proportional to GAS, in relation to the duration and extent of the constraints imposed.

REMUNERATION POLICY FOR THE 2020 FINANCIAL YEAR

1. PARTIES INVOLVED IN THE PROCESS OF POLICY ADOPTION AND IMPLEMENTATION

PARTIES IN THE PROCESS

The definition of the Policy and any amendments made thereto are the result of a clear and transparent process in which the Remuneration Committee and the Board of Directors play a central role. It is, in fact, annually adopted and approved by the Board of Directors– based on a proposal by the Remuneration Committee – and then the Board submits it to the Shareholders' Meeting for a vote.

The Board of Statutory Auditors issues its opinion on the Policy, in particular on the part regarding the remuneration of Directors holding specific offices.

The Remuneration Committee, the Board of Statutory Auditors and the Board of Directors supervise the application thereof. To that end, at least once per year, when the Compensation Report is submitted, the Head of the Human Resources & Organisation Department reports on the implementation of the Policy to the Remuneration Committee, the Chairman of which reports it to the Board of Directors.

For the sake of completeness, please note that, in accordance with current legislation, the Board of Directors is entitled to adopt (or, if provided by law, to propose to the Shareholders' Meeting) incentive mechanisms for company collaborators, employees or representatives through the attribution of financial instruments or options on financial instruments, which, if approved, shall be disclosed to the public by the legal deadline (without prejudice to any further transparency requirements provided by the applicable law). At the date of this Report, the Company has no incentive plans based on financial instruments in place[54].

SHAREHOLDERS' MEETING

The Shareholders' Meeting:

- at the time of appointment, determines the gross annual remuneration to be paid to the members of the Board of Directors, except for the remuneration of Directors holding specific offices;
- at the time of appointment, determines the gross annual remuneration to be paid to the member of the Board of Statutory Auditors;
- approve the section 1 of the Remuneration Report;
- expresses a consultative vote on section 2 of the Remuneration Report;
- resolves, based on a proposal by the Board of Directors, upon any incentive mechanisms based on the attribution of financial instruments or options on financial instruments.

BOARD OF DIRECTORS

The Board of Directors resolves upon:

- the breakdown of the total remuneration defined for directors by the Shareholders' Meeting;
- the remuneration policy for executive directors, Directors holding specific offices, General Managers and KM;
- the remuneration of Directors holding specific offices in accordance with Art. 2389, paragraph 3 of the Italian Civil Code, as well as the remuneration of General Managers;
- the performance objectives related to the variable part of the remuneration of executive directors, General Managers and KM;
- the remuneration of the Head of the Internal Audit department upon a proposal by the Audit, Risks, Sustainability and Corporate Governance Committee.

54 Please note that on 19 February 2020 the Board of Directors approved the early closure of the 2018-2020 LTI Plan that had two objectives linked to the share performance and simultaneously approved the adoption of a new LTI plan linked to the objectives set out in the 2020-2022 Strategic Plan, which will be submitted for the approval of the Shareholders' Meeting in the part where it establishes that the incentive shall also be determined on the basis of a target relative total shareholder return, calculated as the performance of the Pirelli share in respect of a panel of selected peers from the Tyre sector. For a more extensive description, reference is made to paragraphs 2, 4, 5 and 6 below.

REMUNERATION COMMITTEE

The Remuneration Committee is appointed by the Board of Directors (which also appoints the Chairman thereof) and remains in office for the entire duration of the mandate granted to the Board of Directors.

At the date of this Report, the Committee is composed of four members, all non-executive and the majority of whom are independent. Additionally, in line with the provisions of the current Corporate Governance Code, the Chairman of the Committee is an independent director.

At the date of this Report, the Committee members 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

Directors Laura Cioli and Giovanni Lo Storto were considered by the Board of Directors as having sufficient experience in accounting, financials and remuneration policies matters.

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 the Secretary of the Remuneration Committee.

The Committee has advisory and supervisory functions and makes recommendations to ensure the definition and 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 Group objectives and, on the other hand, are capable of aligning the interests of Management with those of the shareholders, taking into account the objectives set by the company strategy and the pursuit of the Company's long-term sustainability and interests.

In particular, the Remuneration Committee:

- assists the Board of Directors to define the Policy, making recommendations in this regard;
- assesses periodically the adequacy, overall consistency and concrete application of the Policy, making reference in this last regard to the information provided by the managing directors and makes recommendations to the Board of Directors on this matter;
- with regard to the executive directors, other Directors holding specific offices and General Managers, it makes recommendations or expresses opinions to the Board:
    - about their remuneration, in compliance with the Policy;
    - about setting performance objectives linked to the variable part of that remuneration;
    - about the definition of any non-competition agreements;
    - about the definition of any agreements for the termination of working relationships, having regard to the principles established in the Policy;

- verifies the compliance of the remuneration of the executive directors, the other Directors holding specific offices, the General Managers and the KM with the Remuneration Policy and expresses an opinion on this, also in accordance with the related party transaction procedure;
- assists the Board of Directors in the examination of proposals to the Shareholders' Meeting for the adoption of remuneration plans based on financial instruments;
- monitors the application of the decisions adopted by the Board of Directors, checking in particular the effective achievement of the established performance objectives;
- examines and submits to the Board of Directors the Compensation Report, which, for the members of the management and controlling bodies, the General Managers and in aggregate form for the KM:
    a. provides adequate information about each component of their remuneration;
    b. explains in detail the remuneration paid during the relevant financial year, for whatever reason and in any form, by the Company and its subsidiaries and/or affiliates;
- assesses the existence of exceptional circumstances that allow for a derogation to the Policy. In exceptional circumstances, derogations to the Policy are approved in accordance with the procedures adopted by the Company for related party transactions in implementation of the applicable current Consob regulation in force at the time.

In relation to the operation of the Remuneration Committee, see the Report on the Corporate Governance and Share Ownership of Pirelli & C. S.p.A..

In compliance with the related party transactions procedures adopted by the Company in compliance with the Consob Regulation pursuant to resolution no. 17221 of 12 March 2010 (as subsequently amended), the Company may adopt any decisions derogating or implementing the Policy within the limits required or in any case permitted by applicable provisions of law or regulation in force at the time.

As better explained under section 10 below, the Company provides for information on any derogations made to the Policy in exceptional circumstances, in accordance with the terms and conditions set out by provisions of applicable law and regulation in force at the time.

Amongst the measures aimed at avoiding or managing conflicts of interest, it should be noted that, in compliance with the Corporate Governance Code, no member of the Board of Directors shall attend meetings of the Remuneration Committee held to make proposals to the Board of Directors about their own remuneration. More specifically, Directors holding specific offices granted with specific duties shall not attend the meetings of the Remuneration Committee during which proposals to the Board of Directors in regard to their own remuneration are formulated.

2. PURPOSES AND PRINCIPLES OF THE 2020 REMUNERATION POLICY

The Policy contributes to pursue the business strategy. It aims to attract, motivate and retain human resources in possession of the professional qualities required to pursue the business objectives. Through the multi-year variable components, it aims to achieve long-term interests, encouraging the achievement of strategic objectives and sustainable growth of the Company as well as bringing the interests of the Management in line with those of the shareholders.

In particular, the Policy contributes to the business strategy, to the pursuit of the Company's long-term interests and sustainability also through the provision of a medium/long-term variable remuneration mechanism for the Executive Vice Chairman and CEO, the General Manager, the KM, the Senior Managers and Executives, as better explained in sections 4, 5 and 6 below (2018-2020 and 2020-2022 LTI Plans).

The Policy, indeed, is inspired by the principle of "pay for performance", taking into account, as explained further hereto, that (i) the plans' incentive targets, at the "access threshold" level are set consistently with the objectives disclosed to the market, with no "discounts" whatsoever; and (ii) for the 2020-2022 LTI Plan, the setting of objectives relating to total shareholders' return and Cumulative Group Net Cash Flow (again set, as entry-level objective, at the value equal to the value set in 2020-2022 Strategic Plan, with no "discount") allows for the perfect alignment of the interests of the management team with the long-term interests of shareholders.

The Policy has been prepared taking into account the policies of the previous years and the regulatory provisions adopted by Consob in its resolution no. 18049 of 23 December 2011 (which introduced Scheme 7-*bis* of Annex 3A to the Issuers' Regulation)[55], the early closure of the 2018-2020 LTI Plan and the adoption of the 2020-2022 LTI Plan.

The Policy is annual and has been defined taking into account the remuneration, compensation mix and working conditions of the Company's employees. In this regard, it is Pirelli's standard practice to set employee remuneration according to reference market benchmarks for each professional figure, seeking to achieve a different level of appeal depending on the company role and skills.

In particular, Pirelli defines and applies a Policy as regards the first appointment:

- for the Chairman, referring to the market median "Non-Executive Directors in Italy" of Korn Ferry for the year in which said first appointment is occurred;
- for the rest of the Top Management and the Senior Managers, characterised by outstanding characteristics of attractiveness targeting the third quartile of the comparison market (compared to the benchmarks used);
- for Executives, targeting the median of the different comparative markets.

The Annual Total Direct Compensation on-Target is the benchmark for market comparison.

55 See above, note 52.

The analysis of the positioning, composition and more generally the competitiveness of the remuneration of Directors holding specific offices is carried out by the Remuneration Committee and the Board of Directors with the assistance of independent companies specialised in executive compensation, on the basis of methodological approaches that allow the full assessment, although within the typical limits of benchmark analyses, of the complexity of their positions from an organisational point of view, any specific duties granted thereto and the individual's impact on the final business results.

In regard to the comparative market, in the definition of the panel of reference companies updated annually by the Remuneration Committee, various components are taken into account such as business sector, geography, specific features and size of the company.

The reference sample of companies used to analyse the competitiveness and possible review of the remuneration of the Chairman of Pirelli & C. has been established with the assistance of Korn Ferry and consists of MIB40 companies.

The sample of reference companies used for the competitiveness analysis and any potential review of the remuneration of the Executive Vice Chairman and Chief Executive Officer of Pirelli & C. has been updated with the assistance of Willis Towers Watson, also taking account of the main recommendations on pay for performance, and is now composed of the 16 companies shown in the table below (as the benchmark taken as reference last year).

PEER GROUP			
Burberry Group	Electrolux	Peugeot	Richemont
BMW	FCA	Philips	Rolls-Royce
Continental	Hermes Intl.	Reckitt Benckiser Group	VolksWagen
Daimler	Michelin	Renault	Volvo

Finally, the remuneration structure for the General Manager, the KM, Senior Managers and Executives is defined on the basis of the national and international benchmarks prepared by Korn Ferry and shared with the Remuneration Committee.

Management remuneration has three main elements:

- → gross annual base salary (GAS);
- → annual variable component STI (MBO);
- → medium/long term variable component (LTI).

The base salary is established on the basis of the complexity of the position, professional seniority, the skills required to perform in the role, performance over time, and the trend in the comparison remuneration market related to the position held by the individual.

The STI (MBO) and LTI variable components are established - taking into account the benchmarks for each beneficiary - as a percentage of base salary which increases according to the position held by the beneficiary.

The STI (MBO) is extended to all the Management, and intends to reward the beneficiaries short term performance; except for specific cases, it can be extended to managers who have joined the Group during the year.

The STI (MBO) objectives for Directors holding specific offices granted with specific duties, for General Managers and for KM are established by the Board of Directors upon a proposal of the Remuneration Committee (see sections 4 and 5).

The STI (MBO) objectives of the Senior Managers and Executives - which reflect the same structure as those of the Directors holding specific offices granted with specific duties, the General Managers and the KM - are, instead, defined by the hierarchical manager in accordance with the Human Resources & Organisation and Planning and Controlling Departments and provide, amongst others, also objectives linked to the economic performance of the relevant business unit/geography/department (see section 6).

At the end of the year and based on the finalised performance figures, the Department of Human Resources

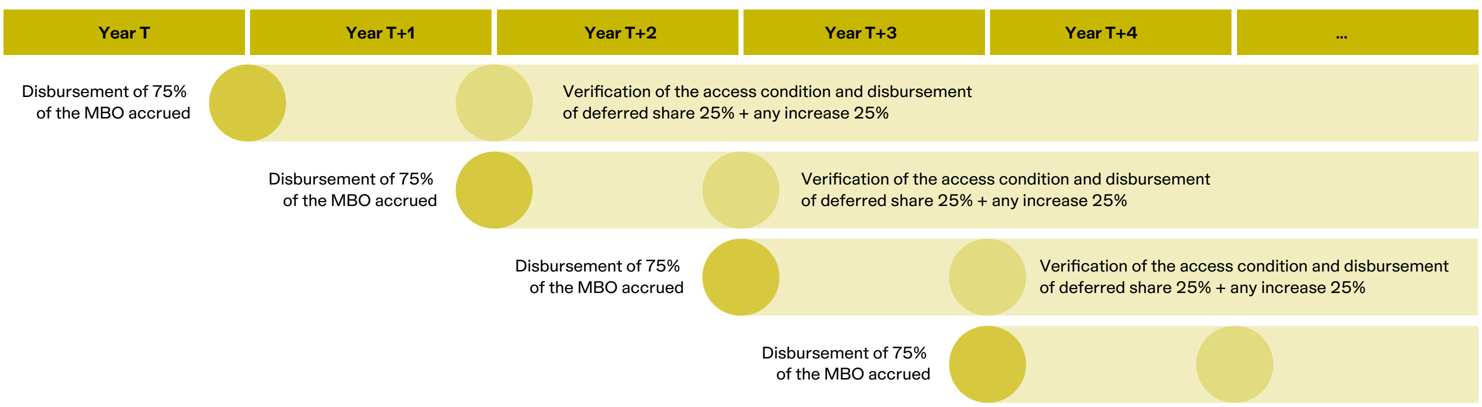
& Organization, with the assistance of the Planning and Controlling Department, proceeds to check the level to which the objectives have been achieved, on which basis then the Board of Directors resolves, after the consideration of the Remuneration Committee, on the entity of the variable compensation to be paid.

In the event of extraordinary transactions affecting the scope of the Group and/or major changes in the macroeconomic and business scenario, the Remuneration Committee may adjust the targets in the STI (MBO) plan, in order to protect the plan's value and purposes, thus ensuring that the objectives of the Company and the objectives of the Management incentive systems are constantly aligned.

The achievement of the individual objectives will be assessed by the Remuneration Committee, neutralising the effects of any extraordinary decisions that could have affected the results (either positively or negatively). The Board of Directors resolves upon the proposed review, after obtaining the opinion of the Remuneration Committee.

Part of the variable remuneration accrued as STI (MBO) is deferred in support of the continuity of results over time. Indeed, the 75% of any STI (MBO) accrued is paid, since the remaining 25% is deferred for 12 months and subject to achievement of the STI (MBO) objectives of the next year. More specifically (see graph below):

- → in the event that no STI (MBO) is accrued in the next year, the deferred STI (MBO) quota of the previous year is definitively "lost";
- → in the event that the STI (MBO) accrued in the next year is below target level, the STI (MBO) quota deferred from the previous year is paid;
- → in the event that the STI (MBO) accrued in the next year is equal to or higher than target level, the STI (MBO) quota deferred from the previous year is paid, together with an additional amount equal to the quota deferred (increase).



For completeness, it is pointed out that, in the context of the actions in response to the Covid-19 health emergency, the Board of Directors on 3 April 2020 acknowledged and shared the willingness of the entire members of the board of directors to renounce part of their compensation and, in particular (i) the willingness of Executive Vice Chairman and CEO to renounce, for three months, the 50% of his gross fixed annual compensation for the positions of Executive Vice Chairman, CEO and board member, as well as for the position of Chairman of the board committees; (ii) the willingness of the members of the board to renounce, for the second quarter of the financial year, to the 50% of the compensation for the positions of board member and member of the board committees.

During the same meeting, the Board of Directors acknowledged the willingness of the leadership team (composed of KM and some Senior Managers, as better defined in the Remuneration Report) to renounce the 20% of their gross fixed annual compensation for a period of three months.

Finally, always during the meeting held on 3 April 2020, following the favourable opinion, as far as necessary, by the board committees and the Board of Statutory Auditors, the Board of Directors resolved – subject to the approval of the 2020 Policy and the consultative vote of the Compensation Report to the Shareholders' Meeting - to early cancel without any disbursement the 2020 STI (MBO) and, consequently (i) to liquidate, in the first quarter of 2021, to the 2019 STI (MBO) beneficiaries the 25% of the 2019 STI (MBO) premium accrued and initially subject to the the achievement of the 2020 STI (MBO) objectives, conditioning the payment to the maintenance of the employment/director relationship between the beneficiary and the Company on such date (excepts for the "good leavers" who will receive this component in any case), and (ii) to cancel the opportunity to increase the 2020 STI (MBO).

The LTI plan is assigned to the Top Management and extended, except for specific cases, to all Management. It is also assigned to those who, during the three-year period, join the Group and/or take over, due to internal career growth, the position of Executive. In this case, their inclusion is subject to the participation to the plan for at least one full financial year and the incentive percentages are scaled to the number of months of effective participation to the plan.

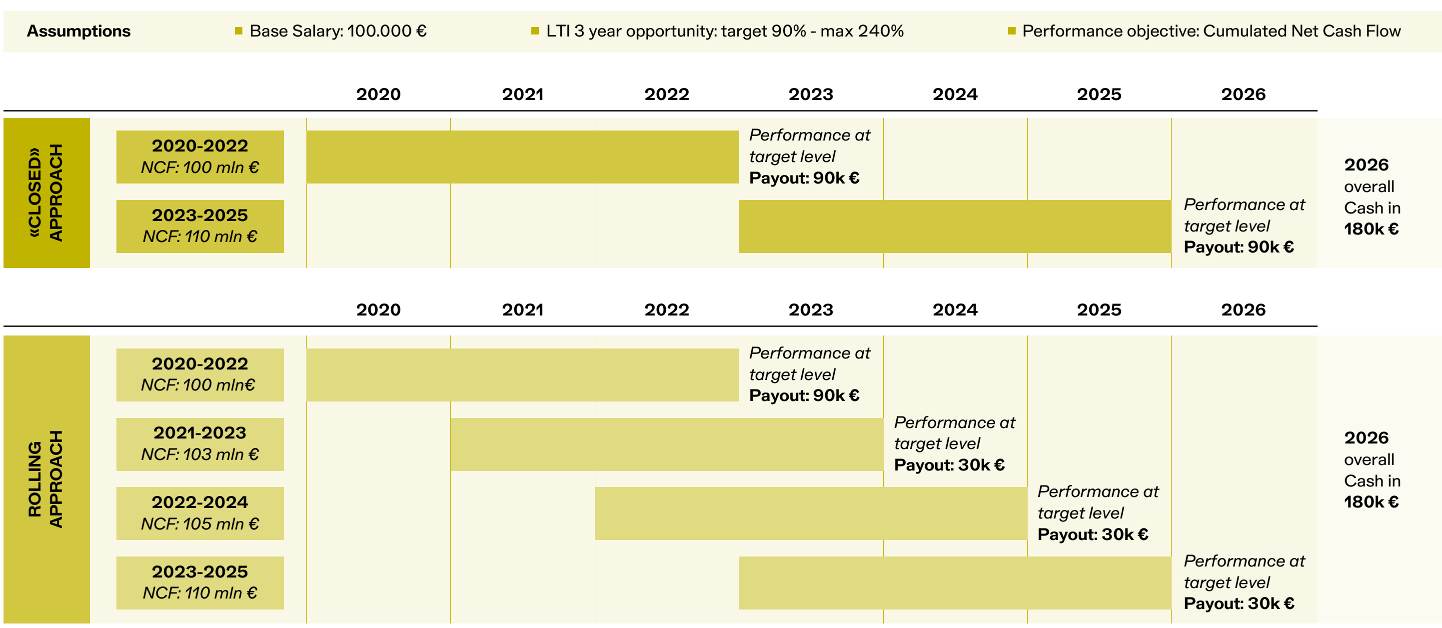
In light of the launch of the Strategic Plan for the period 2020-2022, the Pirelli & C. Board of Directors resolved, on the one hand, to early close the 2018-2020 LTI Plan, with effect from 31 December 2019 (with no payment, not even pro-quota, of the three-year incentive) and, on the other hand, to introduce a new 2020-2022 LTI Plan linked to the objectives of the Strategic Plan approved on 19 February 2020, which will be subject to the approval of the Shareholders' Meeting, in the part where it is provided that the incentive shall be determined on the basis of a total shareholder return objective.

The medium/long term incentive plan (LTI) 2020-2022 is intended to:

→ link Management remuneration with the medium-long term performance of the Group;
→ promote the creation of shareholder value;
→ generate an effective Management retention effect, a key variable for the delivery of the Company's strategic plan.

Additionally, starting from the 2020-2022 LTI Plan, the Company introduced a "rolling" type mechanism, in order to: (i) guarantee a high flexibility, making it possible, for each new three-year cycle, to update performance indicators to the evolution of the market and business and, therefore, to the Company's strategic plan; (ii) create a recurring element of the remuneration policy considering that each year it is provided for the launch of a new cycle of the LTI plan.

Below is an example diagram showing how the rolling mechanism works:



The 2020-2022 LTI Plan assigns each beneficiary an incentive opportunity (the "**LTI Bonus**"), equal to a percentage of the gross annual fixed component (GAS) in place as at the date on which participation to the plan is established. This incentive percentage increases in relation to the position held and takes into account the benchmarks for each role.

The full cost of the 2020-2022 LTI Plan is included in the economics of the 2020-2022 Strategic Plan, so its cost is "self-funded" by achievement of the expected results.

The risk governance process is fully integrated into the strategic planning process in order to ensure that the objectives envisaged for achieving the variable incentive do not expose Pirelli to managerial behaviour not in line with an acceptable level of risk ("risk appetite") as defined by the Board of Directors on the occasion of the approval of the plans.

In case of extraordinary transactions which affect the Group perimeter and / or deep changes in the macroeconomic and business scenario, the Company reserves the right to propose to the Remuneration Committee:

- a possible adjustment of the target (both positive and negative) covered by the 2020-2022 LTI Plan, in order to protect the value and purposes of the LTI Plan itself, ensuring the constant alignment between the Company's objectives and the objectives of the Management incentive systems;
- to review the parameters covered by the 2020-2022 LTI Plan;
- to early close the 2020-2022 LTI Plan.

3. REMUNERATION OF THE BOARD OF DIRECTORS AND THE BOARD OF STATUTORY AUDITORS

THE BOARD OF DIRECTORS

Within the Board of Directors, a distinction can be made between:

(i) Directors holding specific offices whom may be granted with further specific duties;
(ii) Directors holding no specific offices.

The granting of powers to directors only in case of emergency does not qualify them as directors granted with specific duties.

At the time of the appointment of the Board of Directors, the Pirelli Shareholders' Meeting resolves the total annual remuneration of the Board of Directors in accordance with Art. 2389, paragraph 1 of the Italian Civil Code - to be allocated to its members in compliance with the resolutions in this regard adopted by the Board - excluding the remuneration to be assigned by the Board to Directors holding specific offices, pursuant to Art. 2389 of the Italian Civil Code.

More specifically, on 1 August 2017, the Pirelli Shareholders' Meeting resolved to establish, for the years 2017, 2018, 2019 and until termination of the office with the approval of the financial statements as at 31 December 2019, a maximum of euro 2 million as the total annual remuneration of the Board of Directors in accordance with Art. 2389, paragraph 1 of the Italian Civil Code, excluding the remuneration to be assigned by the Board to Directors holding specific offices, pursuant to Art. 2389 of the Italian Civil Code.

The total gross annual remuneration established by the Shareholders' Meeting was allocated by the Board of Directors as follows:

DIRECTORS' REMUNERATION

BODY	OFFICE	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 Successions 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
	Membro	40.000 Euro

With reference to the compensation provided in the table above, please refer to Paragraph 2 above related to the renounces made by the directors in the context of the actions resolved by the Board of Directors on 3 April 2020 in response to Covid-19 health emergency.

In line with best practice, Directors holding no specific offices (as defined above) do not receive a variable part of their remuneration. Expenses incurred for official reasons are also reimbursed to the directors.

In any case, the compensation granted to non-executive directors is determined in such an amount as to guarantee adequacy in terms of the skill, professionalism and effort required by their office.

The Shareholders' Meeting that will be convened to approve the financial statements as at 31 December 2019 will also be called to resolve upon the renewal of the current Board of Directors, which will be expiring due to the end of the mandate. The Shareholders' Meeting will therefore be called to resolve on the total annual remuneration of the Board of Directors in accordance with Art. 2389, paragraph 1 of the Italian Civil Code, as well as the compensation to be assigned by the Board to Directors holding specific offices, pursuant to Art. 2389 of the Italian Civil Code and, thereafter, the Board of Directors shall resolve on its allocation.

The Board of Directors, resolving the said allocation, shall take into account the effort required for the attendance of directors to the single board committees, on the basis of the previous mandate.

Except in case the Shareholders' Meeting resolves otherwise, an allocation of the said remuneration providing the attribution of (i) a remuneration equal at a maximum to +25% vs the directors' remuneration attributed for the previous mandate and (ii) for the members of the board committees a +25% vs the remuneration for the office held, is compliant with the Policy. If new committees should be established, the maximum limit is that of the highest remuneration provided for the corresponding office in other committees.

Again in line with best practices, corporate bodies, General Managers, KM, Senior Managers and Executives, in the exercise of their functions, are covered by a third party civil liability policy ("**D&O**"). Such policy, as a consequence to the provisions established on the matter by the applicable national collective bargaining agreement and rules governing mandates, this policy aims to indemnify Pirelli from any expenses deriving from the related compensation, excluding cases of wilful misconduct or gross negligence.

No insurance coverage, whether for social security or pensions, other than the obligatory coverage, is provided for Directors holding specific offices.

THE BOARD OF STATUTORY AUDITORS

The remuneration of the members of the controlling body is determined by the Shareholders' Meeting as an annual fixed rate that is adequate in terms of the skills, professionalism and effort required by the office.

At the end of their mandate, the Board of Statutory Auditors drafts a specific report setting out the activities carried out, specifying the number of meetings and average length of the meetings, as well as the time taken by each activity carried out and the professional resources used. This report will then be sent to the Company in order to allow shareholders and the candidate auditors to assess the adequacy of the proposed remuneration.

In particular, in the 2018 financial year, upon the renewal of the Board of Statutory Auditors, the gross annual base remuneration of its Chairman was set at euro 75,000 for the years 2018, 2019, 2020 and until termination of office with the approval of the financial statements as at 31 December 2020. The remuneration of the other Standing auditors was set at euro 50,000.

Remuneration in favour of the members of the Board of Statutory Auditors equal at maximum to +25% vs the remuneration attributed for the previous mandate, is compliant with the Policy.

For the Standing auditor called to be part of the Supervisory Body, following its renewal, the Board of Directors established for the years 2018, 2019, 2020 and until termination of office with the approval of the financial statements as at 31 December 2020, a gross annual remuneration of euro 40,000. Expenses incurred for official reasons are also reimbursed to the members of the Board of Statutory Auditors.

In line with best practices, a D&O insurance policy is provided to cover the third party liability of the corporate bodies, including the members of said controlling bodies.

4. REMUNERATION OF DIRECTORS HOLDING SPECIFIC OFFICES

The remuneration of Directors holding specific offices is proposed by the Remuneration Committee to the Board of Directors when they are appointed, or at the first useful meeting thereafter.

CHAIRMAN OF THE BOARD OF DIRECTORS

If a Director has been appointed to a specific office or offices, but no specific duties have been granted to them (at the date of this Report, this applies to Chairman Ning Gaoning) the remuneration consists solely of a fixed gross annual component, as well as the compensation for the office of director and any participation in committees.

At the time of appointment, the Board of Directors determines the remuneration for the Chairman of the Board of Directors, considering the remuneration assigned during the previous mandate (if the same holder of the office) and the market benchmark (if a different person).

A Chairman's compensation equal at maximum to +10% of the remuneration assigned during the previous mandate (if the same holder) or with respect to the market benchmark - median - (if a different person), is considered compliant with the Policy.

The Chairman Ning Gaoning has a compensation for the office of a gross annual euro 400,000. With reference to this compensation, please refer to paragraph 2 above, related to the renounces made by the directors in the context of the actions resolved by the Board of Directors on 3 April 2020 in response to Covid-19 health emergency.

For those Directors holding specific offices to whom no specific duties have been granted, no social security or pension cover is provided other than the obligatory schemes.

EXECUTIVE VICE CHAIRMAN AND CEO

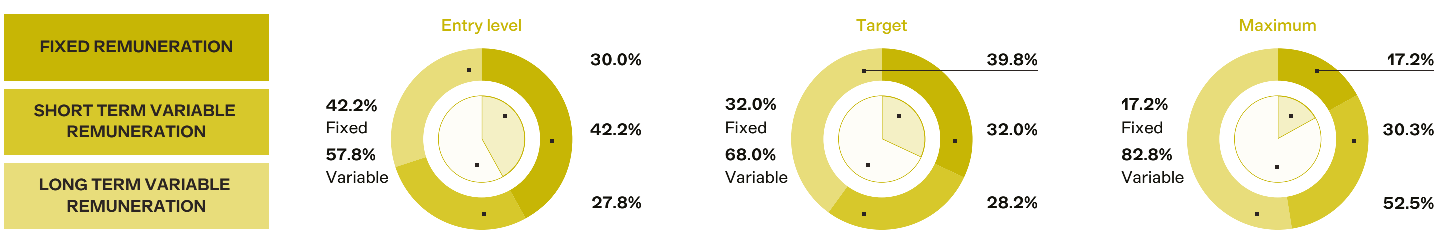
The remuneration of Directors holding specific offices also granted with specific duties (as is the case for the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera) is composed of the following elements:

Fixed remuneration for all offices held in Pirelli No greater than 1/3 of the On-target Annual Total Direct Compensation	**FIXED REMUNERATION**
Annual STI (MBO) incentive plan	**VARIABLE REMUNERATION**
STI (MBO) deferral/increase Medium-long term incentive plan (LTI)	
Severance Indemnity Benefits typical of the office and recognised in company practice Insurance cover	**OTHER COMPONENTS**

Directors holding specific offices also granted with specific duties[56], shall also receive the compensation for the office of director and for any participation in committees[57].

With reference to the incidence of the various components, the structure of the compensation package of the current Executive Vice Chairman and Chief Executive Officer in the event of achieving the annual STI (MBO) objectives and the three-year objectives of the 2020-2022 LTI Plan (i) at the "entry threshold", (ii) on-target and (iii) at the maximum level are set out below.

PAY MIX - EXECUTIVE VICE CHAIRMAN AND CEO



The gross annual base salary for the office of Executive Vice Chairman and Chief Executive Officer is determined at the time of appointment, taking into account the compensation granted during the previous mandate (if the same holder of the office) and the market benchmark (if a different person), so as to be sufficient to remunerate the work undertaken if the variable component should not be paid due to non-achievement of the performance objectives set.

The gross annual fixed component attributed to the Executive Vice Chairman and Chief Executive Officer is euro 2,400,000 (no more than a third of the Total Direct Compensation on-Target). With reference to this compensation, please refer to paragraph 2 above, related to the renounces made by the directors in the context of the actions resolved by the Board of Directors on 3 April 2020 in response to Covid-19 health emergency.

The assignment of a gross annual base salary or a review of such, which, considering the annual and medium/long-term incentive percentages, determines an Annual Total Direct Compensation on-Target equal at maximum to + 5% of the value assigned during the previous mandate (if the same holder of the office) or with respect to the market benchmark - third quartile (if the office is held by a different person) - is compliant with the Policy.

56 As at the date of this Report, the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera is the only Director appointed to a specific office also granted with specific duties.
57 The Executive Vice Chairman and Chief Executive Officer receives also the compensation provided for the offices of director (euro 60,000), Chairman of the Strategies Committee (euro 50,000) and Appointments and Successions Committee (euro 50,000).

ANNUAL VARIABLE REMUNERATION - STI (MBO)

The Executive Vice Chairman and Chief Executive Officer is beneficiary of a STI (MBO) equal to a percentage of the fixed remuneration determined at the time of appointment and thereafter at the launch of the single annual plans.

The attribution of a STI (MBO) incentive percentage no higher than the previous mandate, is considered compliant with the Policy.

The objectives underlying the STI (MBO) plan represent a performance that is consistent with the corresponding objectives disclosed to the market, in particular the objectives for obtaining the incentive at "access threshold" are set as equal to the value disclosed to the market.

For each objective there is an "access threshold", to which is associated payment of a pro-quota bonus that is 75% of the pro-quota achievable on target; there is also a maximum (cap) on the amount of the bonus that can be achieved.

The on/off condition is set as equal to the value disclosed to the market.

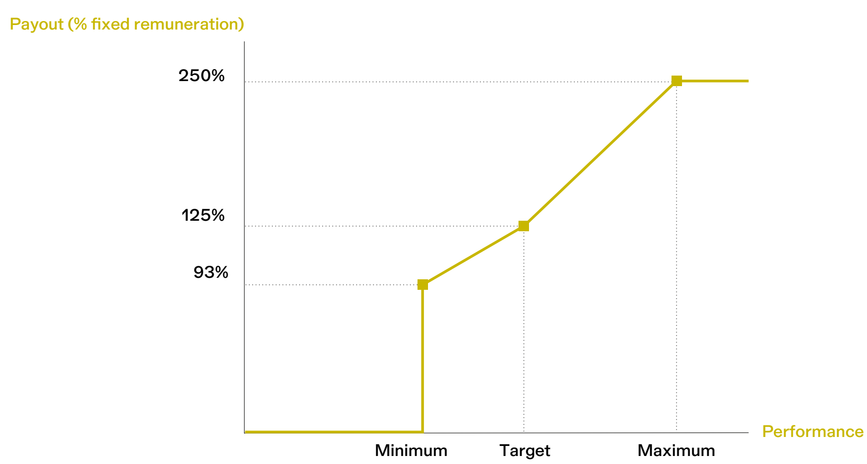
The finalisation of the performance for intermediate results between the "access threshold" and target and between the target value and maximum value is carried out by linear interpolation.

Depending on the level of performance achieved, the Executive Vice Chairman and Chief Executive Officer will receive a bonus of 125% of fixed remuneration for on-target performance, 93.75% of fixed remuneration (75% of the on-target bonus) in case of achievement of the "access threshold", and 250% of fixed remuneration (200% of the on-target bonus) in case of performance at maximum level.

All the objectives provided by the STI (MBO) scheme shall apply independently, once achieved the on/off condition objective, according to the incentive curve shown below. Therefore, on the basis of the level of performance achieved, each objective will contribute to the overall payout, according to the weight shown in the scheme.

PERFORMANCE/PAYOUT CURVE

Example curve if all objectives are achieved at entry level, on-target and maximum.



For 2020, the objectives originally assigned to the Executive Vice Chairman and Chief Executive Officer in the context of 2020 STI (MBO) were the following. In this respect, please refer to paragraph 2 above related to the early closure of the 2020 STI (MBO) in the context of the actions resolved by the Board of Directors on 3 April 2020 in response to Covid-19 health emergency.

STI (MBO) SCORECARD - EXECUTIVE VICE CHAIRMAN AND CEO	OBJECTIVE WEIGHT ON TARGET
Group Net Cash Flow (before dividends)	ON/OFF condition
Group adjusted EBIT	40%
Group Net Cash Flow (before dividends)	30%
Group Net Income	20%
Sustainability objective - value of the green performance revenues on the whole range	10%

MEDIUM-LONG TERM VARIABLE REMUNERATION

Also in order to contribute to the business strategy, the pursuit of the Company's long-term interests and its sustainability, the Executive Vice Chairman and CEO is beneficiary of the 2020-2022 Long Term Monetary Incentive plan linked to the achievement of the objectives of the Strategic Plan set out hereto.

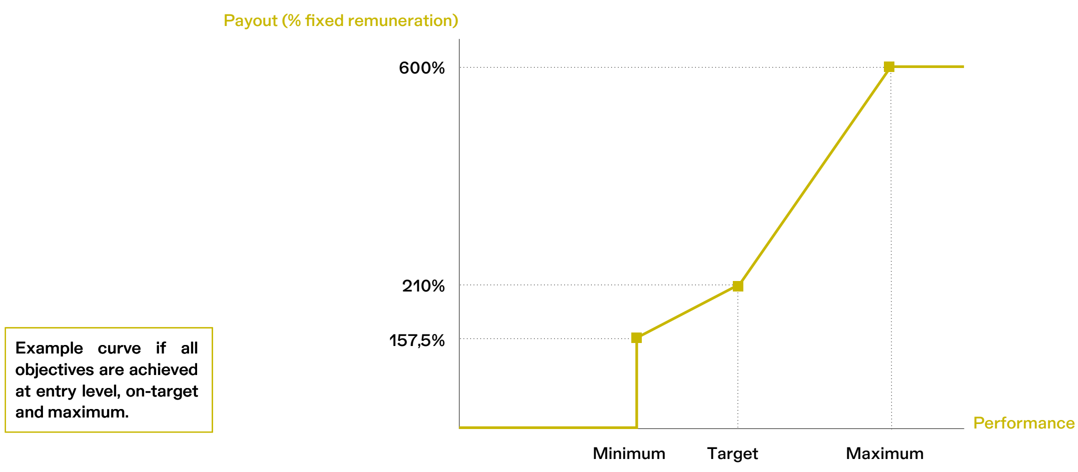
2020-2022 LTI - EXECUTIVE VICE CHAIRMAN AND CEO	OBJECTIVE WEIGHT ON TARGET	KPI
Cumulative Group Net Cash Flow (before dividends)	40%	Value disclosed to the market
Relative TSR versus a panel of peers (TIER1: Continental, Michelin, Nokian, Goodyear and Bridgestone)	40%	Performance equal to panel average
Dow Jones Sustainability World Index ATX Auto Component sector ranking	10%	From -1% to -5% vs Top Industry cluster
CDP ranking	10%	«A-» scoring

The objectives underlying the 2020-2022 LTI Plan represent a performance consistent with the corresponding objectives disclosed to the market, in particular the objectives for obtaining the incentive at "access threshold" are set as equal to the value disclosed to the market (net of sustainability objectives), or consistent with said objectives.

There is an "access threshold" for each objective – to which payment of 75% of the pro-quota of the bonus achievable on-target is associated – and a maximum (cap) on the pro-quota amount of the bonus that can be achieved.

The performance range for the economic-financial objectives is defined as the more challenging of the target and maximum level with respect to that envisaged between the "access threshold" and target. In order to offer incentive to achieving results above target, the incentive curve is fixed in such a way that the incentive opportunities grow significantly faster between the target and the maximum levels than in the range between the "access threshold" and the target level (see graph below). All the objectives provided by the LTI scheme shall apply independently, according to the incentive curve shown below. Therefore, on the basis of the level of performance achieved, each objective will contribute to the overall payout, according to the weight shown in the scheme.

PERFORMANCE/PAYOUT CURVE



For the TSR and cumulative Group Net Cash Flow objectives, for intermediate results falling between the "access threshold" and target value, or between the target value and the maximum value, performance will be calculated by linear interpolation, rather than the sustainability objectives, which are calculated only in three steps: entry level, target and maximum, without considering intermediate performance.

Depending on the level of performance achieved, the Executive Vice Chairman and Chief Executive Officer will receive a three-year bonus of 210% of fixed remuneration for on-target performance, 157.5% of fixed remuneration in case of achievement of the "access threshold" (75% of the on-target bonus), and 600% of the fixed remuneration (cap) in case of maximum performance.

If he ceases to hold office due to the end of his mandate or due to the termination of the entire Board of Directors, and is not subsequently appointed even as a director, the LTI Bonus is to be paid pro-quota.

In addition, the Board of Directors provided in favour of Directors holding specific offices granted with specific duties, not related to the Company with an executive employment relationship (on the date of this Report, the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera), in line with the treatment guaranteed pursuant to the law and/or national collective employment agreement for the Group's Italian executives:

- an Office Termination Payment (T.F.M.) in accordance with Art. 17, paragraph 1, letter c) of the T.U.I.R. No. 917/1986 (Italian consolidated law on income tax), having characteristics similar to those of the Severance Indemnity Payment (TFR) in accordance with Art. 2120 of the Italian Civil Code paid in accordance with the law to Italian executives in the Pirelli Group, including employer contributions that would be due to social security Institutions or Funds in the event of an executive employment relationship;
- an insurance policy related to (i) personal injuries that might be suffered during the execution of their mandate, and (ii) accidents unrelated to the office held, with premiums payable by the Company;
- a policy to cover treatment for permanent disability as a result of illness;
- a policy for death from any cause;
- further benefits typical of the role held, as resolved by the Board of Directors in addition to those currently paid within the Pirelli Group to the General Manager, the KM, the Senior Managers and the Executives (company car).

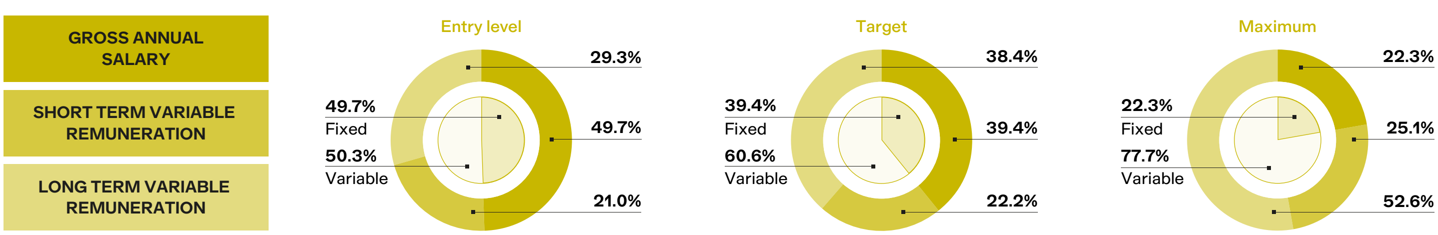
5. GENERAL MANAGER AND KM

The remuneration of the General Manager (at the date of publication of the Policy the General Manager Operations Andrea Casaluci) and the KM has composed as follows:

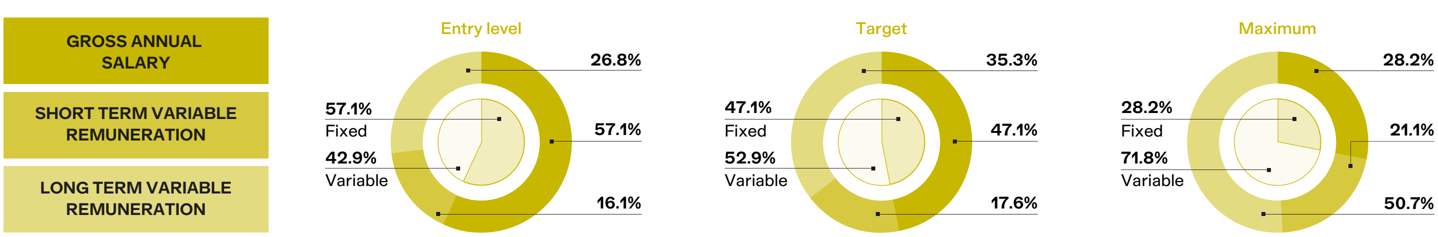
Gross Annual Salary (GAS) No more than 50% of Annual Total Direct Remuneration on-target	**FIXED REMUNERATION**
Annual STI (MBO) incentive plan	**VARIABLE REMUNERATION**
STI (MBO) deferral/increase Medium-long term incentive plan (LTI)	
Retention plan Non-competition agreement Benefits typically recognised in company practice Supplementary pension plan Insurance cover	**OTHER COMPONENTS**

Regarding the incidence of the various components, the structure of the compensation package of the General Manager and the KM in the event of achieving the annual STI (MBO) objectives and the three-year objectives of the 2020-2022 LTI Plan (i) at the "entry threshold", (ii) on-target and (iii) at the maximum level are set out below.

PAY MIX - GENERAL MANAGER



PAY MIX - MANAGERS WITH STRATEGIC RESPONSIBILITIES



The analysis of the remuneration of the General Manager and the KM, reviewed once a year and disclosed in the Compensation Report, is carried out with the support of an independent company specialised in executive compensation (Korn Ferry). The method used is "Job Grading", which compares the roles on the basis of three different components (know-how, problem solving and accountability), whereby the weighting of each role is determined within the organisation.

For the General Manager and the KM, the market benchmark used to verify the competitiveness of the related remuneration includes approximately 400 listed European companies included on the FTE500 list - which includes the 500 highest cap European companies.

FIXED REMUNERATION OF THE GENERAL MANAGER AND KM

The fixed remuneration of the General Manager is determined at the time of appointment by the Board of Directors, based on an opinion of the Remuneration Committee, in compliance with the Policy.

The remuneration of KM is determined by the Executive Vice Chairman and Chief Executive Officer, in compliance with the Policy.

The Remuneration Committee assesses the compliance of the remuneration of the aforementioned subjects with the Policy.

With reference to the fixed remuneration of the General Manager and KM, please refer to paragraph 2 above related to the renounces made by the leadership team in the context of the actions resolved by the Board of Directors on 3 April 2020 in response to Covid-19 health emergency.

In the event of the appointment of a General Manager or the hiring/qualification of a new KM, the Remuneration Committee defines the grade and benchmark of reference on the basis of their role and responsibilities. Fixed remuneration that, considering the annual and medium/long-term incentive percentages, determines an Annual Total Direct Compensation on-Target equal at maximum to + 10% of the market benchmark (third quartile), is compliant with the Policy.

The proposed determinations and revisions of the fixed remuneration are carried out taking into account the purpose of the Policy to attract, retain and motivate key resources to achieve the Company's objectives. A review that, considering the annual and medium/long-term incentive percentages, determines an Annual Total Direct Compensation on-Target equal at maximum to + 10% of the market benchmark (third quartile), is compliant with the Policy.

ANNUAL VARIABLE INCENTIVE STI (MBO)

The General Manager and KM are beneficiaries of the STI (MBO) plan, defined according to the same structure, mechanisms and objectives provided for the Executive Vice Chairman and Chief Executive Officer.

With reference to 2020 STI (MBO) Plan, please refer to paragraph 2 above related to the early closure of the same in the context of the actions resolved by the Board of Directors on 3 April 2020 in response to Covid-19 health emergency.

In the event of performance at target, an annual incentive STI (MBO) is recognised equal to:

→ 75% of the GAS for the General Manager;
→ 50% of the GAS for the KM.

In the event of "access threshold" performance, the bonus opportunity is equal to 56.25% of the GAS for the General Manager and 37.5% of the GAS for the KM (75% of on-target bonus), whilst in the event of maximum performance, it is equal to 150% of the GAS for the General Manager and 100% of the GAS for the KM (200% of on-target bonus).

In addition, for the General Manager and the KM, the 75% of the accrued bonus is paid, and the remaining 25% is deferred for 12 months and payable upon the achievement of the STI (MBO) objectives of the next year, according to the same parameters specified for the Executive Vice Chairman and Chief Executive Officer.

MEDIUM-LONG TERM VARIABLE INCENTIVE

Also in order to contribute to the business strategy, the pursuit of the Company's long-term interests and its sustainability, the General Manager and the KM benefit of the 2020-2022 Long Term Incentive plan defined according to the same structure, mechanisms and objectives provided for the Executive Vice Chairman and CEO.

In the event of performance at target, a three-year (LTI) incentive is recognised equal to:

→ 180% of the GAS for the General Manager;
→ 150% of the GAS for the KM.

In the event of "access threshold" performance, the bonus opportunity is equal to 135% of the GAS for the General Manager and 112.5% of the GAS for the KM (75% of on-target bonus), whilst in the event of maximum performance, it is equal to 480% of the GAS for the General Manager and 390% of the GAS for the KM.

In the event of termination of the employment relationship for any reason before the end of the three-year period, the General Manager and KM will no longer participate to the LTI plan and no award nor pro-quota award will be paid.

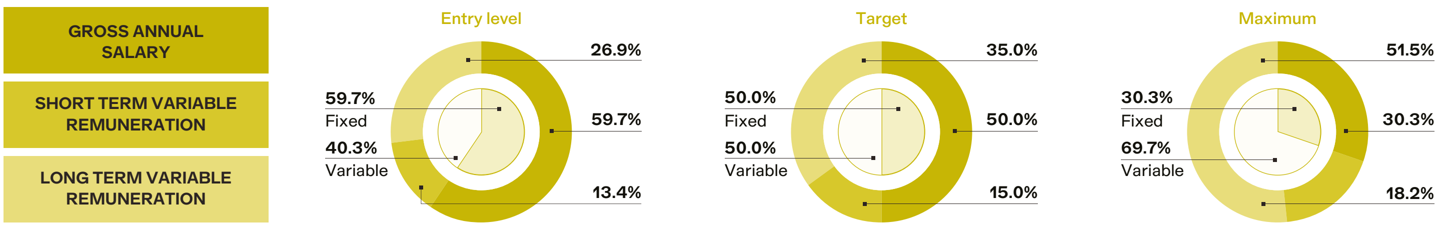
6. SENIOR MANAGERS AND EXECUTIVES

The remuneration of Senior Managers and Executives consists of the following elements:

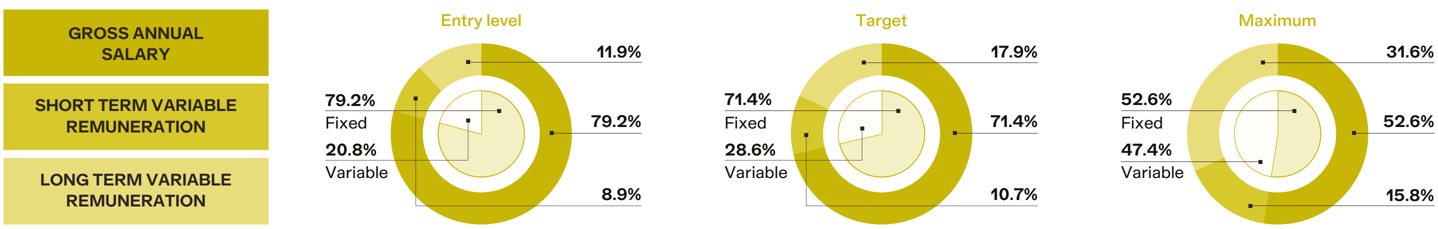
Gross Annual Salary (GAS) No more than 60% for Senior Manager and 75% for Executives of the On-target Annual Total Direct Remuneration	**FIXED REMUNERATION**
Annual STI (MBO) incentive plan	**VARIABLE REMUNERATION**
STI (MBO) deferral/increase Medium-long term incentive plan (LTI)	
Retention plan *(for some Senior Managers)* Non-compete clause *(for some selected managers)* Benefits typically recognised in company practice Supplementary pension plan Insurance cover	**OTHER COMPONENTS**

The remuneration structure for Senior Managers and Executives (as a whole) with evidence of the incidence of the various parts of their compensation packages, in the event that they achieve the annual STI (MBO) objectives and the three-year objectives of the 2020-2022 LTI Plan (i) at the "access threshold", (ii) on-target and (iii) at the maximum level are set out below.

PAY MIX - SENIOR MANAGERS



PAY MIX - EXECUTIVES



Also, the analysis of the remuneration of the Executives and Senior Managers is carried out with the support of an independent company specialised in executive compensation (Korn Ferry) with the same methodology as described previously in regard to the General Manager and the KM.

In favour of the Head of the Internal Audit Department, it should be noted that, in line with best practice, the Board of Directors, upon a proposal by the Audit, Risks, Sustainability and Corporate Governance Committee, provided a higher incidence of base salary than the variable part. Moreover, the Head of the Internal Audit Department (and in general the managers of that Department) is not included in the LTI incentive plan, but is only a beneficiary of the annual STI (MBO) incentive plan related to mainly qualitative objectives, the assessment of which falls to the Audit, Risks, Sustainability and Corporate Governance Committee and to the Board of Directors, upon a proposal by the director responsible for supervising the functioning of the internal control system (or the person with the same responsibilities).

With reference to the renounces to the fixed remuneration made by the Senior Managers belonging to the leadership team in the context of the actions resolved by the Board of Directors on 3 April 2020 in response to Covid-19 health emergency, please refer to paragraph 2 above.

ANNUAL VARIABLE INCENTIVE STI (MBO)

Senior Managers and Executives are beneficiaries of the STI (MBO) plan, defined according to the same structure and the same mechanisms as for the Executive Vice Chairman and Chief Executive Officer, the General Manager and the KM.

For 2020, the objectives originally assigned to the Senior Managers and Executives were the following. In this respect, please refer to paragraph 2 above related to the early closure of the 2020 STI (MBO) in the context of the actions resolved by the Board of Directors on 3 April 2020 in response to Covid-19 health emergency.

STI (MBO) SCORECARD SENIOR/EXECUTIVE HEADQUARTER	OBJECTIVE WEIGHT ON TARGET
Group Net Cash Flow (before dividends)	ON/OFF condition
Group adjusted EBIT	30%
Group Net Cash Flow (before dividends)	20%
Functional objective/s with Group scope	40%
Sustainability objective - value of the green performance revenues on the whole range	10%

STI (MBO) SCORECARD SENIOR/EXECUTIVE OF REGION/BU	OBJECTIVE WEIGHT ON TARGET
Group Net Cash Flow (before dividends) - BU Region Net Cash Flow (before dividends) - Region DSO - Sales Managers[1]	ON/OFF condition
Adjusted EBIT of Region/BU/Country	From 30% to 40%
Group/Region Net Cash Flow (before dividends)	From 10% to 20%
Functional objective/s with Region/BU/Group scope	40%
Sustainability objective - value of the green performance revenues on the whole range	10%

1 If the on/off NCF Region or DSO condition is not met, the on/off NCF Group condition will apply with a 25% reduction of the total payout accrued.

According to the performance level achieved, the Senior Managers and Executives are beneficiaries of:

- a bonus ranging between 20% and 40% of the GAS, depending on the role held if the on-target performance is achieved;
- a bonus ranging between 15% and 30% of the GAS, depending on the role held if the "access-threshold" performance is achieved (75% of the on-target bonus);
- a bonus ranging between 40% and 80% of the GAS, depending on the role held if the maximum performance is achieved (200% of the on-target bonus).

Also for Senior Managers and Executives, the 75% of the accrued bonus is paid, and the remaining 25% is deferred for 12 months and payable upon the achievement of the STI (MBO) objectives of the next year, paid according to the same parameters specified for the Executive Vice Chairman and Chief Executive Officer, the General Manager and the KM.

MEDIUM-LONG TERM VARIABLE INCENTIVE

Also in order to contribute to the business strategy, the pursuit of the Company's long-term interests and its sustainability, the Senior Managers and Executives benefit of the 2020-2022 Long Term Incentive plan defined according to the same structure, mechanisms and objectives provided for the Executive Vice Chairman and CEO, the General Manager and KM.

According to the performance level achieved, the Senior Managers and Executives are beneficiaries of:

- a three-year bonus ranging between 45% and 150% of the GAS, depending on the role held if the on-target performance is achieved;
- a three-year bonus ranging between 33.75% and 112.5% of the GAS, depending on the role held if the "access-threshold" performance is achieved (75% of the on-target bonus);
- a three-year bonus ranging between 120% and 390% of the GAS, depending on the role held if the maximum performance is achieved.

In the event of termination of the employment relationship for any reason before the end of the three-year period, the beneficiary will no longer participate to the LTI plan and no award nor pro-quota award will be paid.

7. "CLAWBACK" CLAUSES

The annual STI (MBO) and multi-year (LTI) incentive plans for Directors holding specific offices granted with specific duties, General Managers and KM provide for *inter alia* clawback mechanisms.

In particular, without prejudice to the possibility of any other action provided by the law aimed to protect the interests of the Company, the Company executes agreements with the aforementioned persons that enable Pirelli to claim back (in whole or in part), within three years of the payment thereof, incentives paid to the said persons who, due to wilful misconduct or gross negligence, are liable for (or are accomplices to) the facts, as indicated below, related to economic and financial indicators included in the Annual Financial Report that involve subsequent comparative information adopted as parameters for the determination of the variable awards in the aforementioned incentive plans:

(i) proven significant errors causing a non-compliance with the accounting standards applied by Pirelli, or
(ii) proven fraudulent conduct aimed at obtaining a specific representation of Pirelli's financial and equity situation, economic result or cash flow.

8. INDEMNITIES IN THE EVENT OF RESIGNATION, DISMISSAL OR TERMINATION OF EMPLOYMENT

It is policy of Pirelli Group not to enter into agreements with directors, General Managers, KM, Senior Managers or Executives regulating ex ante the economic aspects related to any early termination of relationship at the initiative of the Company or the single person ("parachutes").

Pirelli aims to consensually conclude the agreements for the closing of the relationship. Without prejudice to any legal and/or contractual obligations, agreements to end relationship with the Pirelli Group are inspired by the benchmarks in the matter and are within the limits laid down in case law and by the practices in the country in which the agreement was signed.

The Company sets its internal criteria, which the other Group companies also comply with, for the handling of agreements for the early termination of relationship with executives and/or Directors holding specific offices. If an executive director or General Manager should cease to hold office and/or their employment be terminated, the Company will, upon completion of the internal processes that lead to the attribution or award of indemnities and/or other benefits, provide detailed information on the issue, by means of a press release disclosed to the market.

With regard to Directors holding specific offices granted with specific duties and who are not bound by executive employment relationships, Pirelli does not pay compensation or extra bonuses in relation to the end of their mandate. Specific compensation may be paid subject to assessment by the competent corporate bodies, in the following cases:

- termination by the Company not supported by just cause;
- termination by the director for just cause, in case of, by way of example, substantial changes of the role or granted duties and/or in case of a so-called "hostile" takeover bid.

In such cases, the indemnity amounts is equal to 2 years of gross annual salary, meaning the sum of (i) the gross annual base salary due for the office held in the Group, (ii) the average of the annual variable remuneration (STI (MBO)) accrued in the previous three years and (iii) T.F.M. on the aforementioned amounts.

As concerns the General Manager and the KM, the agreements for the consensual termination of the contract of employment are submitted to the Remuneration Committee, which assesses their compliance with the Policy and authorises its negotiation by setting the maximum amounts that can be paid.

The closure amounts are determined with reference to the applicable category national collective bargaining agreements. In particular, as concerns the General Manager and the KM, reference is made to the contract for Industry managers in Italy and the incentive to take voluntary redundancy is determined with reference to the number of months that can be considered by the notice and the supplementary indemnity in the event of arbitration board, according to the years of seniority of service in the employee's Group. Below is an explanatory table:

NO. MONTHS		ARBITRATION PANEL	
Years of seniority	Notice	Min	Max
more than 15 years	12	18	24
up to 15 years	10	12	18
up to 10 years	8	8	12
up to 6 years	6	4	8
up to 2 years	6	4	4

After examination, assessment and approval by the competent Committee, the following elements may be also recognised to the General Manager and the KM:

- an additional amount by way of general and novative transaction, within the limits of the low thresholds established for related party transactions;
- a period of paid leave or equivalent substitute indemnity, between the stipulation of the exit agreement and the effective date of termination of employment.

Finally, a consultancy (or collaboration) agreement may be stipulated between the same subject and a Group company, which is previously arranged in terms of duration after the termination of the employment contract and subject, also in this case, to the assessment and approval of the competent Committee.

9. NON-COMPETITION AGREEMENTS AND RETENTION PLAN

The Group enters into non-competition agreements providing for a payment of a fee to General Managers, KM and, Senior Managers and Executives with professionalism particularly critical, referred to the GAS, in relation to the duration and extent of the constraints arising from the agreement.

The constraints refer to the market sector in which the Group was operating when the agreement was made and to territorial size. The extention of the constraints varies according to the position held when the agreement is completed and, in some highly critical cases, as for General Managers and KM, can be extended to a wider geographical area covering the main countries where the Group operates.

The Executive Vice Chairman and Chief Executive Officer is not subject to a non-competition agreement.

In case of General Managers and KM, the non-competition agreement has the following characteristics:

- the list of competitors: companies operating in the tyre sector and, according to the role held, identification of more specific clusters;
- geography: all the main countries in which the Pirelli Group operates;
- the duration of the non-competition agreement: 24 months starting from the termination of employment contract;
- the amount: 60% of the GAS for each year of the duration of the clause following a potential redundancy, less any portion disbursed during the contract of employment, equal to 10% of the GAS per year of clause validity (usually 5 years).

There is also a medium- long term Retention Plan for the General Manager, the KM and selected Senior Managers/ Executives, whose contribution in implementing the strategic plans is considered particularly critical and significant.

For the General Manager, the KM and some selected Senior Managers/Executives, the Retention Plan provides for the recognition of a maximum amount equal to 2.3 times the Total Direct Compensation on-Target of each at the time of inclusion in the plan (2017). It is paid in four annual instalments of increasing amounts to obtain the maximum retention effect, with the payment of the final instalment planned for 2021. The payment of each instalment is subject to the continuation of the employment of the manager at the Group on the date of each payment.

The Executive Vice Chairman and Chief Executive Officer do not participate to the Retention Plan.

10. EXCEPTIONAL CIRCUMSTANCES THAT ALLOW FOR A DEROGATION TO THE POLICY

In exceptional circumstances, a temporary derogation can be made to the fixed or variable remuneration criteria provided by the Policy. The term "exceptional circumstances" is used to mean the situations in which the derogation from the Policy is required in order to pursue the Company's sustainability and long-term interests as a whole or to ensure it is able to stay on the market.

The Remuneration Committee assesses the existence of exceptional circumstances that allow for a derogation to the Policy. In exceptional circumstances, derogations to the Policy are approved in compliance with the procedures adopted by the Company for related party transactions, in implementation of the applicable Consob regulation in force at the time.

The Company provides for information about any derogations to the Policy applied in exceptional circumstances, in accordance with the terms and conditions of applicable law and regulations in force at the time.

11. POLICY CHANGES SINCE THE LAST FINANCIAL YEAR

The Policy has been drafted on the basis of practical experience and takes into account the regulatory requirements adopted by Consob, pursuant to Art. 123-*ter* of the TUF, as amended and supplemented by Art. 3 of the Decree and Art. 84-*quater* of the Issuers' Regulation, as well as on the basis of Scheme 7-*bis* of Annex 3A to the Issuers' Regulation, introduced by Consob with resolution no. 18049 of 23 December 2011[58].

In respect to last year, the Policy takes into account the adoption of a new LTI plan for the three-year period 2020-2022 in support of the new 2020-2022 Strategic Plan and the consequent early closure of the LTI plan for the three-year period 2018-2020 (without any payment, not even on a pro-quota basis, of the three-year bonus).

58 See above, note 52.

For over-achievement incentives, in the Policy, with respect to last year:

- the percentages of STI (MBO) incentive have been changed with respect to KM, uniforming them;
- the percentages of LTI incentives have been changed, reducing those relating to on-target performance and increasing, more than proportionally, those relating to maximum performance, in order to incentive the over-achievement;
- in the LTI Plan the values of the objectives disclosed to the market represent "access threshold" performance, rather than on-target performance.

Additionally, the Policy, with respect to last year, takes into account the revised function of the deferral mechanism of 25% of the STI (MBO) accrued.

Finally, the Policy acknowledges the actions adopted regarding the remuneration matters by the Board of Directors on 3 April 2020 in response to Covid-19 health emergency.

12. OTHER INFORMATION

In accordance with Consob Resolution No. 18049 of 23 December 2011, it should be noted that:

- in drawing up the 2020 Policy, the Company was assisted by:

  a) Willis Towers Watson for the identification of the sample of benchmark companies used to analyse competitiveness and to review the remuneration of the Executive Vice Chairman and CEO, as well as to generally review the Policy;
  b) Korn Ferry for the preparation of national and international benchmarks used to define the remuneration structure of the Chairman, the General Manager, the KM, the Senior Managers and the Executives.

- Pirelli has no share-based incentive plans;
- in defining the 2020 Policy, Pirelli has not used the specific remuneration policies of other companies as a benchmark. The Policy has been drafted on the basis of scheme no. 7-*bis* adopted by Consob and in force as at the date on which the Policy was approved. This scheme establishes that the section of the Report provided for by Art. 123-*ter* with reference to members of the administrative bodies, General Managers and KM, shall contain at least the information set out in the scheme referred to above. A table with an indication of the information required and the sections of the Report in which the said information is reported follows below:

INFORMATION REQUIRED BY SCHEME 7-BIS	SECTIONS IN WHICH – IN PARTICULAR – THE INFORMATION REQUIRED IS REPORTED
a) bodies or persons involved in the preparation and approval of the Remuneration Policy, specifying their respective roles and the bodies or persons responsible for the proper implementation of the Policy.	1. Parties involved in the process of policy definition and implementation
b) any intervention of a Remuneration Committee or other committee competent in the matter, setting out the membership thereof (with a distinction between non-executive and independent directors), competencies and operating methods;	1. Parties involved in the process of policy definition and implementation
c) the names of any independent experts who have assisted in the preparation of the Remuneration Policy;	12. Other information
d) the purposes of the Remuneration Policy, the principles on which it is based and any changes to the policy on remuneration from the previous financial year;	2. Purposes and Principles of the 2020 Remuneration Policy 11. Policy changes since the previous financial year.
e) a description of the policies on the fixed and variable parts of remuneration, with a particular focus on indicating the relative weighting in terms of overall salary and with a distinction between short-term and medium-/long-term variable parts;	The structure of the remuneration of the various persons is set out in the sections in which an indication is given of the various fixed/variable weightings; short-term variable/medium-/long-term variable 2. Purposes and Principles of the 2020 Remuneration Policy 3. Remuneration of the Board of Directors and the Board of Statutory Auditors 4. Remuneration of Directors holding specific offices 5. General Manager and KM 6. Senior Managers and Executives
f) the policy followed in terms of non-monetary benefits;	Sections for individuals 3. Remuneration of the Board of Directors and the Board of Statutory Auditors 4. Remuneration of Directors holding specific offices 5. General Manager and KM 6. Senior Managers and Executives

INFORMATION REQUIRED BY SCHEME 7-BIS	SECTIONS IN WHICH – IN PARTICULAR – THE INFORMATION REQUIRED IS REPORTED
g) with reference to the variable parts, a description of the performance objectives according to which they are assigned, with a distinction between short-term and medium-/ long-term variable parts, and information on the link between the variation of the results and the variation of remuneration;	2. Purposes and Principles of the 2020 Remuneration Policy
h) the criteria used for the assessment of the performance objectives on which the assignment of shares, options, other financial instruments or other variable parts of remuneration are based;	1. Parties involved in the process of policy definition and implementation
i) information aimed at demonstrating the consistency of the Remuneration Policy with the long-term pursuit of the interests of the company and with the risk management policy, where formalised;	2. Purposes and Principles of the 2020 Remuneration Policy And for individuals 3. Remuneration of the Board of Directors and the Board of Statutory Auditors 4. Remuneration of Directors holding specific offices 5. General Manager and KM 6. Senior Managers and Executives
j) the terms of rights accrual ("vesting period"), any deferred payment systems, with an indication of the deferral period and the criteria used to determine these periods, and, where applicable, the retrospective correction mechanisms;	Pirelli has no share-based incentive plans With regard to the deferral mechanisms for the variable monetary parts, see Section: 2. Purposes and Principles of the 2020 Remuneration Policy
k) information on any provision of clauses for the maintenance in the portfolio of financial instruments after the purchase thereof, with an indication of the maintenance periods and the criteria used to determine these periods;	Pirelli has no share-based incentive plans
l) the policy on payments to be made in the event of severance of employment or termination of the working relationship, specifying which circumstances determine the occurrence of the right and any link between these payments and company performance;	8. Indemnities in the event of resignation, dismissal or termination of employment 9. Non-competition agreements and Retention Plan
m) information on whether there is any insurance coverage, whether for social security or pensions, other than the obligatory coverage;	Sections for individuals 3. Remuneration of the Board of Directors and the Board of Statutory Auditors 4. Remuneration of Directors holding specific offices 5. General Manager and KM 6. Senior Managers and Executives
n) any remuneration policy followed with reference to: (i) independent Directors; (ii) committee attendance; and (iii) the performance of specific tasks (Chairman, Vice Chairman, etc.);	3. Remuneration of the Board of Directors and the Board of Statutory Auditors
o) whether the remuneration policy has been defined using the remuneration policies of other companies as a benchmark, and if so, the criteria used to select these companies	12. Other information

REPORT ON COMPENSATION PAID DURING THE YEAR 2019

1. REPRESENTATION OF REMUNERATION ITEMS

The Report on Compensation Paid during the 2019 financial year (“**2019 Compensation Report**”) sets out the Policy implemented by Pirelli Group during 2019 with regard to remuneration and provides for information on the final remuneration of the various categories of persons involved, without prejudice to the transparency obligations contained in other applicable legal or regulatory provisions, highlighting its coherence with the remuneration policy approved last year (“**2019 Policy**”).

The external auditor verifies that the directors have prepared the Report on Compensation Paid. The Shareholders' Meeting resolves on the Report on Compensation Paid, with a consultative vote.

1.1 TOTAL REMUNERATION

Management remuneration paid in 2019 contributed to the Company's long-term results, thanks to the variable components (both short and medium/long-term) represented by the STI (MBO) plan and the deferral mechanism of part of the STI (MBO) incentive accrued.

With reference to these variable components of remuneration, the table below summarises the performance objectives for 2019 and the resulting incentive value accrued.

EXECUTIVE VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER, GENERAL MANAGER AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES						
Objectives	**"On off (NFP)/ Entry level objective"**	**Target objective**	**Max. objective**	**Weight**	**Result**	**% incentive**
Group NFP (w/o IFRS16)	euro 3,077.7 million			on/off condition	euro 3,024.1 million	ON
Group adjusted EBIT	euro 975.1 million	euro 1,050 million	euro 1,098.5 million	30%	euro 917.3 million	Not achieved
Group EBT*	euro 621.1 million	euro 707.4 million	euro 767.3 million	20%	euro 437.1 million	Not achieved
Group NFP (w/o IFRS16)	euro 3,077.7 million	euro 2,960.1 million	euro 2,868.9 million	40%	euro 3,024.1 million	34.56% of bonus at on-target performance
Green Performance Revenues on total portfolio	50%	52%	55%	10%	55,8%	20% of bonus at on-target performance
Total						**54.56% of bonus at on-target performance**

* In implementation of and in line with the STI 2019 Regulation, the Group EBT result has been rectified, in respect of the value of euro 646.3 million, to take into account the positive effect (for euro 209.2 million) deriving from the non business-related Brazilian PIS/COFINS assets, of which 71.0 million were also rectified in adjusted EBIT

ROLE	2019 STI (MBO) PLAN STRUCTURE	PERFORMANCE SCORE
Executive Vice Chairman and CEO	- Access threshold: 75% of the incentive at target - At target: 125% of fixed remuneration - Cap: 200% of the incentive at target	54,56
General Manager Operations	- Access threshold: 75% of the incentive at target - At target: 75% of the GAS (gross annual salary) - Cap: 200% of the incentive at target	54,56
KM	- Access threshold: 75% of the incentive at target - At target: from 50% to 75% of the GAS (gross annual salary) - Cap: 200% of the incentive at target	54,56

In line with the variable incentive structure described in 2019 Policy, only 75% of the accrued 2019 STI (MBO) incentive is paid, while the payment of the remaining 25% is deferred for 12 months and is subject to the achievement of the STI (MBO) objectives for 2020, as defined in 2020 Policy.

During the meeting held on 3 April 2020, following the favourable opinion, as far as necessary, by the board committees and the Board of Statutory Auditors, the Board of Directors resolved – subject to the approval of the 2020 Policy and the consultative vote of the Compensation Report to the Shareholders' Meeting - to early cancel without any disbursement the 2020 STI (MBO) and, consequently (i) to liquidate, in the first quarter of 2021, to the 2019 STI (MBO) beneficiaries the 25% of the 2019 STI (MBO) premium accrued and initially subject to the the achievement of the 2020 STI (MBO) objectives, conditioning the payment to the maintenance of the employment/director relationship between the beneficiary and the Company on such date (except for the "good leavers" who will receive this component in any case), and (ii) to cancel the opportunity to increase the 2020 STI (MBO).

For completeness, it is pointed out that, in the context of the actions in response to the Covid-19 health emergency, the Board of Directors on 3 April 2020 acknowledged and shared the willingness of the entire members of the board of directors to renounce part of their compensation and, in particular (i) the willingness of Executive Vice Chairman and CEO to renounce, for three months, the 50% of his gross fixed annual compensation for the positions of Executive Vice Chairman, CEO and board member, as well as for the position of Chairman of the board committees; (ii) the willingness of the members of the board to renounce, for the second quarter of the financial year, to the 50% of the compensation for the positions of board member and member of the board committees.

During the same meeting, the Board of Directors acknowledged the willingness of the leadership team (composed of KM and some Senior Managers, as better defined above) to renounce the 20% of their gross fixed annual compensation for a period of three months.

It is reminded that the 2019 STI (MBO) has been achieved and, therefore, 25% of the 2018 STI (MBO) will be paid in accordance with its regulation.

1.2. COMPENSATION IN THE EVENT OF TERMINATION OF OFFICE AND/OR TERMINATION OF EMPLOYMENT RELATIONSHIP DURING THE 2019 FINANCIAL YEAR

It is pointed out that during the year 2019, and precisely on 16 December 2019, the Company and a KM, in accordance with 2019 Policy, executed an agreement for the consensual termination of the employment relationship, which provided the recognition of a paid leave with dispensation from work until 31 March 2020.

For completeness, it is also pointed out that during the year, due to a change in the role and related responsibilities, the Board of Directors assessed that a KM could no longer be qualified as such without this implied the recognition of any indemnity in favour of such manager.

1.3. DEROGATION TO THE 2019 POLICY

It is pointed out that there were no cases of derogation to the 2019 Policy for directors (including Directors holding no specific offices), the General Manager, KM and members of the Board of Statutory Auditors.

1.4. "CLAWBACK" CLAUSES

It is pointed out that the conditions for the application of ex-post return mechanisms of the variable component (claw back clause), provided by the annual STI (MBO) and multi-year (LTI) incentive plans, did not occur during the year.

2. THE "TABLE": REMUNERATION PAID TO MEMBERS OF THE ADMINISTRATIVE AND CONTROLLING BODIES, GENERAL MANAGERS AND KM.

The following tables set out:

- by name, the remuneration paid to directors, Statutory Auditors and the General Manager Operations;
- in aggregate form, the remuneration paid to the KM[59]. On 31 December 2019, in addition to the General Manager Operations (Andrea Casaluci), no. 6 persons were identified as KM.

Remuneration is reported on an accrual 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).

The tables include all those persons who held the aforementioned offices during all or even only part of the 2019 year. Non-monetary benefits, where received, are also identified on an accrual 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 2019, were directors of the Company, accrued/received (on an accrual basis) remuneration established in accordance with the criteria set out in section 3 of the 2019 Policy;
- the persons who, during 2019, were Directors holding specific offices (Executive Vice Chairman and Chief Executive Officer and Chairman), accrued/received (on an accruals basis) remuneration established in accordance with the criteria set out in section 4 of the 2019 Policy;
- the General Manager Operations accrued/perceived (on an accrual basis) a compensation established according to the criteria set out in section 5 of the 2019 Policy;
- KM received/accrued remuneration pertaining to the 2019 year in accordance with the criteria set out in section 5 of the 2019 Policy;

59 Letter b) of Section II of Schedule 7-bis of Annex 3 A of the so-called "Issuers' Regulations" provides that the so-called Report on Compensation paid is structured into two parts:
a) the remuneration of members of the administrative and controlling bodies and the General Managers;
b) the remuneration of any other key managers who have received, in the reporting year, an overall remuneration (obtained by adding their salary and any remuneration based on financial instruments) that exceeded the highest overall remuneration attributed to the persons indicated under point a).
For key managers other than those indicated under point b) information are provided at aggregate level in special tables, indicating the number of persons to whom it refers in place of names".

- each member of the Board of Statutory Auditors received/accrued remuneration for the 2019 financial year in line with the resolutions adopted by the Shareholders' Meeting at the time of their appointment, in accordance with the criteria set out in section 3 of the 2019 Policy;
- each member of the Supervisory Body received/accrued remuneration pertaining to 2019 year, equal to an annual gross remuneration of euro 40,000 and the Chairman received/accrued an annual gross remuneration of euro 60,000, according to the criteria set out in section 3 of the 2019 Policy;
- Senior Managers and Executives received/accrued remunerations for 2019 year in accordance with the criteria set out in section 6 of the 2019 Policy.

It is highlighted that for the General Manager Operations, the KM and, more generally, for selected Senior Managers and Executives, Pirelli introduced the non-competition agreements aimed to protect strategic and operational know-how. The Executive Vice Chairman and CEO does not have a non-competition agreement.

FIRST AND LAST NAME	OFFICE	PERIOD OFFICE HELD	EXPIRY OF TERM OF OFFICE	FIXED REMUNERATION	REMUNERATION FOR MEMBERSHIP OF COMMITTEES
Marco Tronchetti Provera	Executive Vice Chairman and CEO	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2019	**2.460.000,00**	**100.000,00**
Of which remuneration in Pirelli & C. S.p.A.				2.460.000,00[1]	100.000,00[2]
Of which remuneration by subsidiary and affiliated Companies					
Ning Gaoning	Chairman	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2019	**460.000,00**	**30.000,00**
Of which remuneration in Pirelli & C. S.p.A.				460.000,00[5]	30.000,00[6]
Of which remuneration by subsidiary and affiliated Companies					
Yang Xingqiang	Director	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2019	**60.000,00**	**30.000,00**
Of which remuneration in Pirelli & C. S.p.A.				60.000,00[8]	30.000,00[9]
Of which remuneration by subsidiary and affiliated Companies					
Bai Xinping	Director	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2019	**60.000,00**	**85.000,00**
Of which remuneration in Pirelli & C. S.p.A.				60.000,00[8]	85.000,00[10]
Of which remuneration by subsidiary and affiliated Companies					
Giorgio Luca Bruno	Director	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2019	**60.000,00**	**4.603,00**
Of which remuneration in Pirelli & C. S.p.A.				60.000,00[8]	4.603,00[11]
Of which remuneration by subsidiary and affiliated Companies					
Laura Cioli	Director	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2019	**60.000,00**	**50.000,00**
Of which remuneration in Pirelli & C. S.p.A.				60.000,00[8]	50.000,00[13]
Of which remuneration by subsidiary and affiliated Companies					
Domenico De Sole	Director	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2019	**60.000,00**	**90.000,00**
Of which remuneration in Pirelli & C. S.p.A.				60.000,00[8]	90.000,00[14]
Of which remuneration by subsidiary and affiliated Companies					
Fan Xihaoua	Director	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2019	**60.000,00**	**30.000,00**
Of which remuneration in Pirelli & C. S.p.A.				60.000,00[8]	30.000,00[15]
Of which remuneration by subsidiary and affiliated Companies					
Ze'ev Goldberg	Director	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2019	**60.000,00**	**30.000,00**
Of which remuneration in Pirelli & C. S.p.A.				60.000,00[8]	30.000,00[9]
Of which remuneration by subsidiary and affiliated Companies					
Giovanni Lo Storto	Director	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2019	**60.000,00**	**50.000,00**
Of which remuneration in Pirelli & C. S.p.A.				60.000,00[8]	50.000,00[13]
Of which remuneration by subsidiary and affiliated Companies					
Marisa Pappalardo	Director	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2019	**60.000,00**	**40.000,00**
Of which remuneration in Pirelli & C. S.p.A.				60.000,00[8]	40.000,00[16]
Of which remuneration by subsidiary and affiliated Companies					
Cristina Scocchia	Director	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2019	**60.000,00**	**65.000,00**
Of which remuneration in Pirelli & C. S.p.A.				60.000,00[8]	65.000,00[17]
Of which remuneration by subsidiary and affiliated Companies					

VARIABLE NON-EQUITY REMUNERATION		NON-MONETARY BENEFITS	OTHER REMUNERATION	TOTAL	FAIR VALUE OF EQUITY REMUNERATION	END OF EMPLOYMENT OR OFFICE INDEMNITY
BONUS AND OTHER INCENTIVES	PROFIT SHARING					
1.696.121,00	**0,00**	**257.859,00**	**0,00**	**4.513.980,00**	**0,00**	**0,00**
1.696.121,00[3]		257.859,00[4]		4.513.980,00		
0,00	**0,00**	**0,00**	**0,00**	**490.000,00**	**0,00**	**0,00**
				490.000,00[7]		
0,00	**0,00**	**0,00**	**0,00**	**90.000,00**	**0,00**	**0,00**
				90.000,00[7]		
0,00	**0,00**	**0,00**	**0,00**	**145.000,00**	**0,00**	**0,00**
				145.000,00[7]		
0,00	**0,00**	**0,00**	**310.740,00**	**375.343,00**	**0,00**	**0,00**
			310.740,00[12]	375.343,00		
				0,00		
0,00	**0,00**	**0,00**	**0,00**	**110.000,00**	**0,00**	**0,00**
				110.000,00		
0,00	**0,00**	**0,00**	**0,00**	**150.000,00**	**0,00**	**0,00**
				150.000,00		
0,00	**0,00**	**0,00**	**0,00**	**90.000,00**	**0,00**	**0,00**
				90.000,00		
0,00	**0,00**	**0,00**	**0,00**	**90.000,00**	**0,00**	**0,00**
				90.000,00		
0,00	**0,00**	**0,00**	**0,00**	**110.000,00**	**0,00**	**0,00**
				110.000,00		
0,00	**0,00**	**0,00**	**0,00**	**100.000,00**	**0,00**	**0,00**
				100.000,00		
0,00	**0,00**	**0,00**	**0,00**	**125.000,00**	**0,00**	**0,00**
				125.000,00		

FIRST AND LAST NAME	OFFICE	PERIOD OFFICE HELD	EXPIRY OF TERM OF OFFICE	FIXED REMUNERATION	REMUNERATION FOR MEMBERSHIP OF COMMITTEES
Tao Haisu	Director	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2019	**60.000,00**	**30.000,00**
Of which remuneration in Pirelli & C. S.p.A.				60.000,00[8]	30.000,00[18]
Of which remuneration by subsidiary and affiliated Companies					
Giovanni Tronchetti Provera	Director	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2019	**217.307,69**	**30.000,00**
Of which remuneration in Pirelli & C. S.p.A.				60.000,00[8]	30.000,00[19]
Of which remuneration by subsidiary and affiliated Companies				157.307,69 (20)	
Wei Yin Tao	Director	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2019	**60.000,00**	**30.000,00**
Of which remuneration in Pirelli & C. S.p.A.				60.000,00[8]	30.000,00[9]
Of which remuneration by subsidiary and affiliated Companies					
Andrea Casaluci	General Manager Operations		/	**750.000,00**	**0,00**
Of which remuneration in Pirelli & C. S.p.A.					
Of which remuneration by subsidiary and affiliated Companies				750.000,00	
No. 8 Key Managers	(24)		/	**3.925.961,54**	**0,00**
Of which remuneration in Pirelli & C. S.p.A.				1.896.538,46	40.000,00[25]
Of which remuneration by subsidiary and affiliated Companies				2.029.423,08	
Francesco Fallacara	Chairman of the Board of Statutory Auditors	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2020	**75.000,00**	**0,00**
Of which remuneration in Pirelli & C. S.p.A.				75.000,00	
Of which remuneration by subsidiary and affiliated Companies					
Antonella Carù	Standing auditor	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2020	**60.000,00**	**40.000,00**
Of which remuneration in Pirelli & C. S.p.A.				50.000,00	40.000,00[25]
Of which remuneration by subsidiary and affiliated Companies				10.000,00[29]	
Fabio Artoni	Standing auditor	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2020	**70.000,00**	**0,00**
Of which remuneration in Pirelli & C. S.p.A.				50.000,00	
Of which remuneration by subsidiary and affiliated Companies				20.000,00[30]	
Luca Nicodemi	Standing auditor	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2020	**60.000,00**	**0,00**
Of which remuneration in Pirelli & C. S.p.A.				50.000,00	
Of which remuneration by subsidiary and affiliated Companies				10.000,00[29]	
Alberto Villani	Standing auditor	01/01/2019 - 31/12/2019	AGM to approve the financial statements for the year to 31 December 2020	**50.000,00**	**0,00**
Of which remuneration in Pirelli & C. S.p.A.				50.000,00	
Of which remuneration by subsidiary and affiliated Companies					

VARIABLE NON-EQUITY REMUNERATION		NON-MONETARY BENEFITS	OTHER REMUNERATION	TOTAL	FAIR VALUE OF EQUITY REMUNERATION	END OF EMPLOYMENT OR OFFICE INDEMNITY
BONUS AND OTHER INCENTIVES	PROFIT SHARING					
0,00	**0,00**	**0,00**	**0,00**	**90.000,00**	**0,00**	**0,00**
				90.000,00		
17.600,00	**0,00**	**12.445,00**	**0,00**	**277.352,69**	**0,00**	**0,00**
				90.000,00		
17.600,00[3]		12.445,00[21]		187.352,69		
0,00	**0,00**	**0,00**	**0,00**	**90.000,00**	**0,00**	**0,00**
				90.000,00		
309.237,00	**0,00**	**13.017,00**	**350.000,00**	**1.422.254,00**	**0,00**	**0,00**
309.237,00[3]		13.017,00[22]	350.000,00[23]	1.422.254,00		
1.221.733,00	**0,00**	**99.527,00**	**4.052.000,00**	**9.339.221,54**	**0,00**	**1.873.625,00**
549.235,00[3]		52.042,00[26]	1.815.500,00[27]	4.353.315,46		
672.498,00[3]		47.485,00[26]	2.236.500,00[27]	4.985.906,08		1.873.625,00[28]
0,00	**0,00**	**0,00**	**0,00**	**75.000,00**	**0,00**	**0,00**
				75.000,00		
0,00	**0,00**	**0,00**	**0,00**	**100.000,00**	**0,00**	**0,00**
				90.000,00		
				10.000,00		
0,00	**0,00**	**0,00**	**0,00**	**70.000,00**	**0,00**	**0,00**
				50.000,00		
				20.000,00		
0,00	**0,00**	**0,00**	**0,00**	**60.000,00**	**0,00**	**0,00**
				50.000,00		
				10.000,00		
0,00	**0,00**	**0,00**	**0,00**	**50.000,00**	**0,00**	**0,00**
				50.000,00		

FIRST AND LAST NAME	OFFICE	PERIOD OFFICE HELD	EXPIRY OF TERM OF OFFICE	FIXED REMUNERATION	REMUNERATION FOR MEMBERSHIP OF COMMITTEES
* * * * *					
Total remuneration in Pirelli & C. S.p.A.				**5.871.538,46**	**774.603,00**
Total remuneration by subsidiary and affiliated Companies				**2.976.730,77**	
Total				**8.848.269,23**	**774.603,00**

1 Of which: euro 60,000 as Director of Pirelli & C. S.p.A., euro 2.4 million as Executive Vice Chairman 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 75% of the 2019 STI (MBO) incentive accrued and paid out and 25% of the 2018 STI (MBO) incentive paid out. 25% of the 2019 STI (MBO) incentive accrued but deferred and assigned for risks/opportunities according to the results of the 2020 STI (MBO) is not indicated (see the following table for details on the amounts)
4 Of which: euro 252,629 for an insurance policy in line with the provisions of the 2019 Policy, euro 5,230 for a company car.
5 Of which euro 400,000 as Chairman of Pirelli & C. S.p.A., euro 60,000 as Director of Pirelli & C. S.p.A.
6 As member of the Appointments and Successions Committee of Pirelli & C. S.p.A.
7 Remuneration transferred to employer company.
8 As Director of Pirelli & C. S.p.A..
9 As member of the Strategies Committee of Pirelli & C. S.p.A..
10 Of which: euro 25,000 as member of the Remuneration Committee of Pirelli & C. S.p.A., euro 30,000 as member of the Appointments and Successions Committee of Pirelli & C. S.p.A., and euro 30,000 as member of the Strategies Committee of Pirelli & C. S.p.A..
11 As member of the Strategies Committee of Pirelli & C. S.p.A., with remuneration until 25.02.2019. Since 26.02.2019 he is a member of the Strategies Committee, expressly renouncing remuneration.

	VARIABLE NON-EQUITY REMUNERATION		NON-MONETARY BENEFITS	OTHER REMUNERATION	TOTAL	FAIR VALUE OF EQUITY REMUNERATION	END OF EMPLOYMENT OR OFFICE INDEMNITY
	BONUS AND OTHER INCENTIVES	PROFIT SHARING					
	2.245.356,00		**309.901,00**	**2.126.240,00**	**11.327.638,46**		**0,00**
	999.335,00		**72.947,00**	**2.586.500,00**	**6.635.512,77**		**1.873.625,00**
	3.244.691,00		**382.848,00**	**4.712.740,00**	**17.963.151,23**		**1.873.625,00**

12 Of which: euro 10,740 as Director responsible for sustainability issues from 1.01.2019 to 26.02.2019 and euro 300 thousand deriving from the consultancy contract signed with Pirelli & C.S.p.A. which came into force on 1 January 2019 for an annual amount of euro 300 thousand and 5-year duration.
13 Of which euro 25,000 as member of the Audit, Risks, Sustainability and Corporate Governance Committee of Pirelli & C. S.p.A. ("ARSCGC") and euro 25,000 as member of the Remuneration Committee of Pirelli & C. S.p.A..
14 Of which euro 30,000 as member of the Strategies Committee of Pirelli & C. S.p.A. and euro 60,000 as Chairman of the Related Parties Transactions Committee of Pirelli & C. S.p.A. ("RPT Committee").
15 As Chairman of the ARSCGC.
16 As member of the RPT Committee.
17 Of which: euro 25,000 as member of the ARSCGC and euro 40,000 as member of the RPT Committee.
18 As Chairman of the Remuneration Committee of Pirelli & C. S.p.A..
19 As member of the Appointments and Successions Committee of Pirelli & C. S.p.A..
20 As manager of Pirelli Tyre S.p.A. for the whole of 2019.
21 Of which: euro 3,265 for a company car, euro 6,000 for supplementary pension contributions and euro 3,180 for health insurance.
22 Of which: euro 3,837 for a company car, euro 6,000 for supplementary pension contributions and euro 3,180 for health insurance.
23 Of which: euro 275,000 under the Retention Plan and euro 75,000 as payment during the employment contract of a portion of the fee for the non-competition agreement.
24 At 31.12. 2019 no. 6 persons were key managers. The table shows also the remuneration of no. 2 key managers holding this role only for a part of the year. It is pointed out that the remuneration paid to General Manager Andrea Casaluci is not included in this item, as he is indicated separately in the table.
25 As a member of the 231 Supervisory Body.
26 The amounts are for a company car, supplementary pension contributions and health insurance.
27 The amounts are for payment during the employment contract of a portion of the fee for the non-competition agreement, a lump-sum bonus, and the Retention Plan paid in 2019.
28 Amounts referred to termination of the employment relationship with a key manager, better described in section 1.2 of the Report on Compensation Paid in 2019.
29 As a Standing auditor of Pirelli Tyre S.p.A..
30 As a 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 KM

For a description of the monetary incentive plans, see the Remuneration Policy.

Pirelli's variable incentive scheme prescribes that payment of 25% of any STI (MBO) accrued be deferred for 12 months and subject to achievement of the STI (MBO) objectives for the next year. The aforementioned deferral/ increase mechanism has been amended by the Remuneration Policy for FY 2020. The figures given in the table below reflect the mechanism in place until 2019, described in detail in the Remuneration Policy for FY 2019.
During the meeting held on 3 April 2020, following the favourable opinion, as far as necessary, by the board committees and the Board of Statutory Auditors, the Board of Directors resolved – subject to the approval of the 2020 Policy and the consultative vote of the Compensation Report to the Shareholders' Meeting - to early cancel without any disbursement the 2020 STI (MBO) and, consequently (i) to liquidate, in the first quarter of 2021, to the 2019 STI (MBO) beneficiaries the 25% of the 2019 STI (MBO) premium accrued and initially subject to the the achievement of the 2020 STI (MBO) objectives, conditioning the payment to the maintenance of the employment/ director relationship between the beneficiary and the Company on such date (except for the "good leavers" who will receive this component in any case), and (ii) to cancel the opportunity to increase the 2020 STI (MBO).

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 Chairman and CEO	MBO 2019	1.227.551,00	409.184,00	-	-	468.570,00	-	0,00
		LTI Plan 2018-2020	-	-	-	-	-	-	0,00
Giovanni Tronchetti Provera	Director[1]	MBO 2019	13.840,00	4.613,00	-	-	3.760,00	-	0,00
		LTI Plan 2018-2020	-	-	-	-	-	-	0,00
Andrea Casaluci	General Manager Operations	MBO 2019	230.166,00	76.722,00	-	-	79.071,00	-	275.000,00
		LTI Plan 2018-2020	-	-	-	-	-	-	0,00
Key Managers[2]		MBO 2019	884.294,00	294.765,00	-	-	337.439,00	-	3.687.500,00
		LTI Plan 2018-2020	-	-	-	-	-	-	0,00
(I) Remuneration in the Company that has prepared the financial statements		MBO 2019	1.631.064,00	543.688,00	-	-	614.292,00	-	1.650.000,00
		LTI Plan 2018-2020	-	-	-	-	-	-	-
(II) Remuneration from Subsidiary and Affiliated Companies		MBO 2019	724.787,00	241.596,00			274.548,00		2.312.500,00
		LTI Plan 2018-2020	-	-	-	-	-	-	-
(III) Total			**2.355.851,00**	**785.284,00**	**-**	**-**	**888.840,00**	**-**	**3.962.500,00**

1 Giovanni Tronchetti Provera is included in the STI (MBO) and LTI variable incentive plans as a senior manager of Pirelli Tyre S.p.A.
2 At 31.12. 2019 no. 6 persons were key managers. The table shows also the variable remuneration STI (MBO) of no. 2 key managers holding this role only for a part of the year. It is pointed out that the variable remuneration STI (MBO) paid to General Manager Andrea Casaluci is not included in this item, as he is indicated separately in the table.

4. TABLE OF EQUITY INVESTMENTS OF THE MEMBERS OF THE ADMINISTRATIVE AND CONTROL BODIES, GENERAL MANAGERS AND KM.

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;
- KM.

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 key managers, 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 KM, 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 31.12.2018	NO. OF SHARES PURCHASED/ UNDERWRITTEN	NO. OF SHARES SOLD	NO. OF SHARES OWNED AT 31.12.2019
Marco Tronchetti Provera*	Director	Pirelli & C.	100.522.562	436.837	-	100.959.399**
Giorgio Luca Bruno	Director	Pirelli & C.	500***	-	-	500***

* Shares held by the indirect subsidiary Camfin S.p.A.
** Please note that in FY 2019 Camfin S.p.A. took out financial instruments with major financial institutions with maturity in September 2022 called "Call Spread" with an underlying 48.9 million Pirelli & C. S.p.A. shares, equal to 4.89% of the relative share capital.
*** Shares purchased when the Company was listed on 4 October 2017.

2) EQUITY INVESTMENTS OF OTHER KM

NUMBER OF KEY MANAGERS	INVESTEE COMPANY	NO. OF SHARES OWNED AT 31.12.2018	NO. OF SHARES PURCHASED/ UNDERWRITTEN	NO. OF SHARES SOLD	NO. OF SHARES OWNED AT 31.12.2019
-	-	-	-	-	-


RESILIENCE
PIRELLI

Consolidated financial statements at December 31, 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of euro)

	Note	12/31/2019		12/31/2018	
			of which related parties (note 44)		of which related parties (note 44)
Property, plant and equipment	**9**	3,649,809		3,092,927	
Intangible assets	**10**	5,680,175		5,783,338	
Investments in associates and j.v.	**11**	80,846		72,705	
Other financial assets at fair value through other comprehensive income	**12**	58,967		68,781	
Deferred tax assets	**13**	81,188		74,118	
Other receivables	**15**	342,397	*5,617*	225,707	*12,576*
Tax receivables	**16**	9,140		16,169	
Derivative financial instruments	**27**	52,515		20,134	
Non-current assets		**9,955,037**		**9,353,879**	
Inventories	**17**	1,093,754		1,128,466	
Trade receivables	**14**	649,394	*9,823*	627,968	*15,667*
Other receivables	**15**	451,858	*45,154*	416,651	*55,418*
Other financial assets at fair value through income statement	**18**	38,119		27,196	
Cash and cash equivalents	**19**	1,609,821		1,326,900	
Tax receivables	**16**	41,494		41,393	
Derivative financial instruments	**27**	37,148		98,567	
Current assets		**3,921,588**		**3,667,141**	
Assets held for sale	**39**	**-**		**10,677**	
Total Assets		**13,876,625**		**13,031,697**	
Equity attributable to the owners of the Parent Company:	**20.1**	**4,724,449**		**4,468,121**	
Share capital		1,904,375		1,904,375	
Reserves		2,381,940		2,132,140	
Net income / (loss)		438,134		431,606	
Equity attributable to non-controlling interests:	**20.2**	**102,182**		**82,806**	
Reserves		82,619		72,040	
Net income / (loss)		19,563		10,766	
Total Equity	**20**	**4,826,631**		**4,550,927**	
Borrowings from banks and other financial institutions	**23**	3,949,836	*17,386*	3,929,079	-
Other payables	**25**	90,571		83,287	
Provisions for liabilities and charges	**21**	120,469		138,327	
Provisions for deferred tax liabilities	**13**	1,058,760		1,081,605	
Employee benefit obligations	**22**	203,003		224,312	
Tax payables	**26**	12,555		2,091	
Derivative financial instruments	**27**	10,327		16,039	
Non-current liabilities		**5,445,521**		**5,474,740**	
Borrowings from banks and other financial institutions	**23**	1,419,403	*2,267*	800,145	-
Trade payables	**24**	1,611,488	*171,909*	1,604,677	*191,605*
Other payables	**25**	402,757	*4,840*	436,752	*7,436*
Provisions for liabilities and charges	**21**	43,528		33,876	
Employee benefit obligations	**22**	4,104		5,475	
Tax payables	**26**	81,766		65,503	
Derivative financial instruments	**27**	41,427		59,602	
Current liabilities		**3,604,473**		**3,006,030**	
Total Liabilities and Equity		**13,876,625**		**13,031,697**	

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

	Note	2019		2018	
			of which related parties (note 44)		of which related parties (note 44)
Revenues from sales and services	**29**	**5,323,054**	*19,305*	**5,194,471**	*8,962*
Other income	**30**	486,307	*74,783*	483,205	*108,536*
Changes in inventories of unfinished, semi-finished and finished products		5,584		201,416	
Raw materials and consumables used (net of change in inventories)		(1,741,249)	*(4,096)*	(1,818,199)	*(12,704)*
Personnel expenses	**31**	(1,072,167)	*(14,498)*	(1,067,579)	*(14,133)*
- of which non-recurring events		-		*(15,410)*	
Amortisation, depreciation and impairment	**32**	(527,818)		(414,523)	
Other costs	**33**	(1,713,404)	*(278,155)*	(1,858,162)	*(290,380)*
- of which non-recurring events		-		*(7,798)*	
Net impairment loss on financial assets	**34**	(22,266)	-	(21,273)	*(9,000)*
Increase in fixed assets for internal works		4,703		3,700	
Operating income / (loss)		**742,744**		**703,056**	
Net income (loss) from equity investments	**35**	(11,006)		(4,980)	
- share of net income (loss) of associates and j.v.		*(9,678)*	*(9,678)*	*(11,560)*	*(11,560)*
- gains on equity investments		*1,684*		*4,007*	
- losses on equity investments		*(8,538)*		*(1,603)*	
- dividends		*5,526*		*4,176*	
Financial income	**36**	128,761	*1,160*	58,862	*3,120*
Financial expenses	**37**	(238,240)	*(1,049)*	(255,173)	*(25)*
- of which non-recurring events		-		*(2,149)*	
Net income / (loss) before tax		**622,259**		**501,765**	
Taxes	**38**	(164,562)		(52,964)	
- of which non-recurring events		-		*60,607*	
Net income / (loss) from continuing operations		**457,697**		**448,801**	
Net income / (loss) from discontinued operations	**39**	-	-	(6,429)	*(10,642)*
Total net income / (loss)		**457,697**		**442,372**	
Attributable to:					
Owners of the Parent Company		438,134		431,606	
Non-controlling interests		19,563		10,766	
Total earnings / (loss) per share (in euro per share)	**40**	**0.438**		**0.432**	
Earnings / (loss) per share related to continuing operations (in euro per share)		0.438		0.438	
Earnings / (loss) per share related to discontinued operations (in euro per share)		-		(0.006)	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euro)

		Note	2019	2018
A	**Total Net income / (loss)**		**457,697**	**442,372**
Other components of comprehensive income:				
B	**Items that may not be reclassified to income statement:**			
	- Remeasurement of employee benefits	**22**	(13,100)	28,727
	- Tax effect		(1,365)	(6,986)
	- Fair value adjustment of other financial assets at fair value through other comprehensive income	**12**	(366)	(8,642)
	Total B		**(14,831)**	**13,099**
C	**Items reclassified / that may be reclassified to income statement:**			
	Exchange differences from translation of foreign financial statements			
	- Gains / (losses) for the period	**20**	(3,247)	(78,150)
	- (Gains) / losses reclassified to income statement	**35**	(1,567)	-
	Fair value adjustment of derivatives designated as cash flow hedges:			
	- Gains / (losses) for the period	**27**	73,439	107,496
	- (Gains) / losses reclassified to income statement	**27**	(79,060)	(118,747)
	- Tax effect		1,989	548
	Cost of hedging			
	- Gains / (losses) for the period	**27**	2,828	20,056
	- (Gains) / losses reclassified to income statement	**27**	(7,189)	(6,798)
	- Tax effect		546	(1,446)
	Share of other comprehensive income related to associates and j.v. net of tax	**11**	(1,176)	(3,221)
	Total C		**(13,437)**	**(80,262)**
D	**Total other comprehensive income (B+C)**		**(28,268)**	**(67,163)**
A+D	**Total comprehensive income / (loss) for the financial year**		**429,429**	**375,209**
	Attributable to:			
	- Owners of the Parent Company		405,610	363,500
	- Non-controlling interests		23,819	11,709
	Attributable to owners of the Parent Company:			
	- Continuing operations		405,610	369,929
	- Discontinued operations		-	(6,429)
	Total attributable to owners of the Parent Company		**405,610**	**363,500**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2019

(in thousands of euro)

	ATTRIBUTABLE TO THE PARENT COMPANY						
	Share Capital	Translation reserve	Total IAS Reserves*	Other reserves/ retained earnings	**Total attributable to the Parent Company**	**Non-controlling interests**	**Total**
Total at 12/31/2018	**1,904,375**	**(303,557)**	**(66,714)**	**2,934,017**	**4,468,121**	**82,806**	**4,550,927**
Other components of comprehensive income	-	(10,248)	(22,276)	-	(32,524)	4,256	(28,268)
Net income / (loss)	-	-	-	438,134	438,134	19,563	457,697
Total comprehensive income / (loss)	**-**	**(10,248)**	**(22,276)**	**438,134**	**405,610**	**23,819**	**429,429**
Dividends approved	-	-	-	(177,000)	(177,000)	(8,969)	(185,969)
Transactions with non-controlling interests	-	-	-	-	-	4,200	4,200
Effects of High inflation accounting in Argentina	-	-	-	27,514	27,514	-	27,514
Other	-	-	(434)	638	204	326	530
Total at 12/31/2019	**1,904,375**	**(313,805)**	**(89,424)**	**3,223,303**	**4,724,449**	**102,182**	**4,826,631**

(in thousands of euro)

	BREAKDOWN OF IAS RESERVES *					
	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Reserve for cash flow hedge	Remeasurement of employee benefits	Tax effect	**Total IAS reserves**
Total at 12/31/2018	**107**	**14,258**	**(25,705)**	**(30,381)**	**(24,993)**	**(66,714)**
Other components of comprehensive income	(366)	(4,360)	(5,621)	(13,100)	1,171	(22,276)
Other changes	31	-	-	(465)	-	(434)
Total at 12/31/2019	**(228)**	**9,898**	**(31,326)**	**(43,946)**	**(23,822)**	**(89,424)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2018

(in thousands of euro)

	ATTRIBUTABLE TO THE PARENT COMPANY					Non-controlling interests	Total
	Share Capital	Translation reserve	Total IAS Reserves*	Other reserves/ retained earnings	Total attributable to the Parent Company		
Total at 12/31/2017	**1,904,375**	**(220,624)**	**(70,265)**	**2,503,272**	**4,116,758**	**60,251**	**4,177,009**
Adoption of new accounting standard IFRS 9:							
- Reclassification from available for sale financial assets to other financial assets at FV through income statement	-	-	(10,554)	10,554	-	-	-
- Change due to impairment of financial assets at amortised cost	-	-	-	(1,023)	(1,023)	-	(1,023)
Total at 01/01/2018	**1,904,375**	**(220,624)**	**(80,819)**	**2,512,803**	**4,115,735**	**60,251**	**4,175,986**
Other components of comprehensive income	-	(82,314)	14,208	-	(68,106)	943	(67,163)
Net income (loss)	-	-	-	431,606	431,606	10,766	442,372
Total comprehensive income / (loss)	**-**	**(82,314)**	**14,208**	**431,606**	**363,500**	**11,709**	**375,209**
Dividends paid	-	-	-	-	-	(8,366)	(8,366)
Transactions with non-controlling interests	-	(619)	-	(35,726)	(36,345)	19,033	(17,312)
Effects of High inflation accountig 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	Remeasurement of employee benefits	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 CASH FLOWS

(in thousands of euro)

		Note	2019		2018	
				of which related parties (note 44)		of which related parties (note 44)
	Net income / (loss) before taxes		622,259		501,765	
	Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	32	527,818		414,523	
	Reversal of Financial expenses	37	238,240		255,173	
	Reversal of Financial income	36	(128,761)		(58,862)	
	Reversal of Dividends	35	(5,526)		(4,176)	
	Reversal of gains / (losses) on equity investments	35	6,854		(2,404)	
	Reversal of share of net income from associates and joint ventures	35	9,678		11,560	
	Reversal of accruals and other		37,509		(12,915)	
	Taxes paid		(141,985)		(119,042)	
	Change in Inventories	17	28,300		(199,919)	
	Change in Trade receivables	14	(44,637)	*5,844*	(23,388)	*47,064*
	Change in Trade payables	24	18,815	*(19,695)*	104,663	*(6,350)*
	Change in Other receivables / Other payables		(79,606)	*28,048*	(151,425)	*(29,341)*
	Uses of Provisions for employee benefit obligations and Other provisions		(66,255)		(57,227)	
A	**Net cash flow provided by / (used in) operating activities**		**1,022,703**		**658,326**	
	Investments in property, plant and equipment	9	(369,699)		(451,801)	
	Change in payables for investments in property, plant and equipment		3,764		(6,291)	
	Disposal of property, plant and equipment/intangible assets		7,662		16,223	
	Investments in intangible assets	10	(20,812)		(11,640)	
	Disposals (Acquisition) of investments in subsidiaries		10,700		-	
	Acquisition of non-controlling interests		-		(49,722)	*(31,230)*
	Dividends/reserves received from associates		-		2,674	*2,674*
	Disposals (Acquisition) of investments in associates and j.v.		(8,925)	*(8,925)*	(65,222)	*(65,222)*
	Quota reimbursment of other non-current financial assets at fair value through other Comprehensive Income		9,430		-	
	Purchase of Caçula controlled distribution network in Brasil		-		(1,393)	
	Disposals (Acquisition) of other non current financial assets at fair value through income statement		-		152,808	
	Dividends received		5,526		4,176	
B	**Net cash flow provided by / (used in) investing activities**		**(362,354)**		**(410,188)**	
	Other changes				4,500	
	Change in Financial payables		83,116		168,952	
	Change in Financial receivables / Other current financial assets at fair value through income statement		(55,135)	*(13,420)*	(31,761)	
	Financial income / (expenses)		(85,537)		(168,406)	
	Dividends paid		(185,768)		(8,366)	
	Repayment of principal and payment of interest for lease obligations		(101,157)	*(1,921)*	-	
C	**Net cash flow provided by / (used in) financing activities**		**(344,481)**		**(35,081)**	
D	**Net cash flow provided by / (used in) discontinued operations**		-		**37,101**	*43,530*
E	**Total cash flow provided / (used) during the period (A+B+C+D)**		**315,868**		**250,158**	
F	**Cash and cash equivalents at the beginning of the financial year**		**1,303,852**		**1,109,640**	
G	**Exchange rate differences from translation of cash and cash equivalents**		(19,092)		(55,946)	
H	**Cash and cash equivalents at the end of the period (E+F+G) (°)**		**1,600,628**		**1,303,852**	
(°)	**of which:**					
	cash and cash equivalents	19	1,609,822		1,326,900	
	bank overdrafts		(9,194)		(23,048)	

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 Viale Piero e Alberto Pirelli n. 25.

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 pursuant to the resolution of the Shareholders' Meeting of August 1, 2017 which conferred the mandate to the aforesaid company for each of the nine financial years with closings from December 31, 2017 to December 31, 2025.

Pirelli & C. S.p.A. is directly controlled by Marco Polo International Italy S.r.l. which in turn is indirectly controlled by the 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 starting date of trading on the Stock Exchange (October 4, 2017), there are no subjects that exercise management and coordination activities on the Company.

On March 2, 2020 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, 2019 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 Flow 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 format adopted provides for the classification of costs by nature.

The Statement of Comprehensive Income includes the results for the financial year, and for homogeneous categories, income and expenses that 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 includes, in addition to the total comprehensive income of the period, the amounts from transactions with equity holders and the changes which occurred during the period in 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 are 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 activity.

SCOPE OF CONSOLIDATION

The scope of consolidation includes the subsidiaries, associates and joint arrangements.

Subsidiaries are defined as all the companies over which the Group, contemporarily holds:

- the power of decision making, or the capacity to direct the relevant activities, 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 utilise its decision-making power to determine the amounts of 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 when control ceases to exist. The share of equity, and the share of the results, attributable to non-controlling interests are separately reported respectively in the Consolidated Statement of Financial Position, the Consolidated Income Statement, and the Consolidated Statement of Comprehensive Income.

All companies for which the Group can exercise significant influence as defined by IAS 28 – Investments in Associates and Joint Ventures, 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, the 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 activity, established by agreement which exists only when decisions relative to the activity require the unanimous consent of all parties who share control. These agreements may give rise to joint ventures or joint operations.

A joint venture is an agreement for the joint control of an entity whereby the parties that have joint control, have rights to the net assets of the said entity. Joint ventures are distinguished from joint operations which instead are configured as agreements which give the parties of the agreement, which have joint control of the initiative, the rights to the individual assets and the obligations of the individual liabilities relative 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 February 13, 2019 of a 100% stake in the company the Atom Research Training Centre for New Technologies and Materials;
- → acquisition on July 23, 2019 of a 66.20% stake in the company Neumaticos Arco Iris, S.A. - Sociedad Unipersonal;
- → disposal on December 2, 2019 of a 100% stake in the company Inter Wheel Sweden Aktiebolag.

INFORMATION ON SUBSIDIARIES

The Consolidated Financial Statements include the assets and liabilities of 92 legal entities. The following is a list of the significant subsidiaries:

	Headquarter	12/31/2019		12/31/2018	
		% 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 International Treasury S.p.A.	Milano (Italy)	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%	65.00%	35.00%

The complete list of subsidiaries is contained in the attachment *"Scope of Consolidation - list of companies included in Consolidation using the line-by-line method".*

Non-controlling interests in the subsidiaries of the Group are not relevant, either individually or in aggregate form.

CONSOLIDATION PRINCIPLES

For consolidation purposes, the Financial Statements of the companies included in the scope of consolidation, prepared at the reporting date of the Financial Statements of the Parent Company, have been appropriately adjusted to render them consistent with 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 are 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 is reversed to the Income Statement at the time of the disposal of the company which generated the reserve.

The criteria for consolidation can be summarised as follows:

- subsidiaries are consolidated using the line-by-line method according to which:

  - the assets and liabilities, costs and revenues of the Financial Statements of subsidiaries are assumed in their entirety, regardless of the size of the investment held;
  - the carrying amount of investments is de-recognised against the relative equity shares;
  - 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 represented in the appropriate items under equity, and similarly, the share of gains or losses 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 gains or losses arising from the disposal, any goodwill that can be allocated to the subsidiary is taken into account;
  - in the case of an investment share acquired after the assumption of control, any difference between the purchase cost and the corresponding portion 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 evaluated using the equity method, on the basis of which, the carrying amount of the investments is adjusted by:

  - the investor's pertinent share of the financial results of the subsidiary realised after the acquisition date;
  - the pertinent share of gains and losses recognised directly in the equity of the subsidiary, in accordance with the applicable standards;
  - dividends paid by the subsidiary;
  - when the Group's pertinent 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 is contractually or implicitly obligated 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, 2019, 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, 2019, as well as all the revised International Accounting Standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).

The Consolidated Financial Statements have been prepared using the historical costs method with the exception of the following items which have been evaluated at their fair value:

- derivative financial instruments;
- other financial assets at fair value through other Comprehensive Income;
- other financial assets at fair value through the Income Statement.

BUSINESS COMBINATIONS

Corporate acquisitions are accounted for using 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 paid 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 of the net assets of the acquired company;
- the fair value of the assets acquired and the liabilities assumed.

In cases where the aforesaid difference is negative, the difference is immediately recognised in the Income Statement under income.

In the case of the acquisition of the control of a company in which a non-controlling interest is already held (step acquisition), the previously held investment is measured at fair value, and the effects of this adjustment are recognised the Income Statement.

The costs of business combination operations are recognised in the Income Statement.

Contingent considerations, that is, the obligations of the acquiring company to transfer additional assets or shares to the seller in cases certain future events occur or specific conditions are fulfilled, are recognised at fair value at the date of acquisition as part of the amount transferred in exchange for the acquisition itself. Any subsequent changes in the fair value of these agreements are normally recognised in the Income Statement.

INTANGIBLE ASSETS

Intangible assets with finite useful lives are valuated at cost, net of any accumulated amortisation and impairment.

Amortisation is calculated on a straight-line basis and begins when the asset becomes available for use or capable of operating in the manner intended by 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 deriving 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 subject to evaluation, aimed at identifying any impairment losses, at least annually or whenever there are indicators of impairment. For the purposes of this verification, goodwill is allocated to the cash generating units (CGUs), or groups of units, in compliance with the maximum aggregation, which cannot exceed the restriction set for that sector of activity 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 whichever period is shorter between the duration of the contract or the useful life of the asset. The trademarks for which the conditions for classification as intangible assets with an indefinite useful life have been met, are not systematically amortised, and are subjected to an impairment test at least once a year.

SOFTWARE

Software license costs, including incidental expenses, are capitalised and recognised in the Statement of Financial Position 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 Statement of Financial Position 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, and process technology, as well as product development technology identified during the Purchase Price Allocation. Technology is recognised in the Statement of Financial Position 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 cost or production cost, including any directly attributable incidental expenses.

Any costs incurred subsequent to the acquisition of the assets, plus the cost of replacing any parts or portions of the assets of this category, are capitalised only if they increase the future economic benefits inherent to the actual 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, except for land which is not depreciated but which 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 economic 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%
Machiery	5% - 20%
Equipment	10% - 33%
Furniture	10% - 33%
Motor vehicles	10% - 25%

Of note, is that that during the 2016 financial year a Purchase Price Allocation was completed, following the acquisition of the Pirelli Group by Marco Polo Industrial Holding S.p.A, which resulted in the detection of a 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 the acquisition of control by Marco Polo Industrial Holding S.p.A., on the basis of their new remaining useful lives determined at the time of the evaluation.

Government capital grants relative to property, plant and equipment are recognised as deferred income, and accredited to the Income Statement for the duration of the depreciation of the relevant assets.

Leasehold improvements are classified as property, plant and equipment, consistent with the nature of the cost incurred. The depreciation period corresponds to whichever is shorter between the remaining useful life of the asset, or the residual term of the lease agreement.

Replacement parts of significant value are capitalised and depreciated for the duration of the estimated useful life of their respective assets.

Any decommissioning costs are estimated and added to the cost of the property, plant and equipment, as a counter entry to the provision for liabilities and charges, if the requirements for setting up a provision for liabilities and charges are met. They are then depreciated for the duration of the remaining useful life of the respective asset.

Property, plant and equipment are derecognised from the Statement of Financial Position at the time of disposal or their permanent retirement from use and, as a consequence, no future economic benefits can be expected to 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.

LEASING CONTRACTS (IAS 17 UNTIL DECEMBER 31, 2018)

Any property, plant and equipment acquired through finance lease agreements, through which essentially all the risks and rewards of ownership are transferred to the Group, are accounted for as property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, with a counter entry in the financial liabilities. The cost of the lease payment is separated into two components: a financial expense which is recognised in the Income Statement, and the reimbursement of capital which is recorded as a reduction of the financial liability.

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.

LEASES – RIGHT OF USE (IFRS 16 AS OF JANUARY 1, 2019)

As of the date on which the assets which are the subject of a lease contract become available for use by the Group, lease contracts are accounted for as a right of use under non-current assets with a counter entry under financial liabilities.

The cost of lease payments is separated into two components: a financial expense which is recognised in the Income Statement for the duration of the contract, and a reimbursement of capital which is recorded as a reduction of the financial liability. The right of use is amortised on a monthly basis at constant rates, for whichever period is shorter, between the useful life of the asset and the duration of the contract.

Rights of use and financial liabilities are initially valuated at the present value of future lease payments.

The present value of financial liabilities for lease contracts includes the following payments:

- fixed payments;
- variable payments based on an index or rate;
- the exercise price of a purchase option, in the event that the exercise of the option is considered reasonably certain;
- the payment of penalties for the termination of the contract, if the exercise of the option to terminate the contract is considered reasonably certain;
- optional payments subsequent to the non-cancellable period, if the extension of the contract beyond the non-cancellable period is considered reasonably certain.

Future payments are discounted using the incremental borrowing rate. 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.

The rights of use are valuated at cost, and composed of the following elements:

- initial amount of the financial liability;
- payments made before the start of the contract net of the leasing incentives received;
- directly attributable incidental expenses;
- estimated costs for decommisioning or restatement.

Lease payments associated with the following types of lease contracts are recorded in the Income Statement on a linear basis for the duration of the respective contracts:

- contracts with a duration of less than twelve months for all asset classes;
- lease contracts for which the underlying asset is configured as a low-value asset, that is, the unitary value of the underlying assets is not greater than euro 8 thousand when new;
- contracts for which the payment for the right of use of the underlying asset varies in accordance with any changes in the facts or circumstances (not related to sales performances), which are not foreseeable at the starting date.

Low-value contracts are mainly relative to the following categories of assets:

- computers, telephones and tablets;
- office and multi-function printers;
- other electronic devices.

IMPAIRMENT OF ASSETS

PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND RIGHT-OF-USE ASSETS Whenever there are specific indicators of impairment, and at least on an annual basis for intangible assets with an indefinite useful life including goodwill, property, plant and equipment, intangible assets and rights-of-use 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 property, plant and equipment and intangible assets is whichever is higher between its fair value less the costs to sell, or its value-in-use, where the latter is the present 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 and 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.

For rights-of-use assets, value in use is the present value of the estimated future cash flows generated by the rights- of-use asset for the period of the lease term and of the cash outflow to replace the rights- of-use asset at the end of the lease term (for example, the purchase cost of an asset to replace the leased 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 restriction, which cannot be exceeded, for 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 or rights-o-use assets, may no longer exist or may have been reduced, the recoverable amount for the asset is estimated again, and if it results 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 recorded in previous financial years.

The restatement of the value of an asset other than goodwill is recognised in the Income Statement.

Any impairment which has been recorded for goodwill cannot be reversed in subsequent financial years.

Any loss due to the impairment of any goodwill recorded in the interim (half year) Financial Statements cannot be reversed in the Income Statement of the following full financial year.

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 to sell, 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 by 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 its share of the present value of the present value of future cash flows that are estimated to be generated by the associate or joint venture, including the cash flows deriving from the operating activities of the associate or joint venture, and the consideration deriving from the final disposal of the investment (the so-called Discounted Cash Flow – asset side criteria).

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 results higher than the amount of the investment, then the latter amount is increased up to and not exceeding the recoverable amount.

The reinstatement 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 reinstatement of the value of investments in associates and joint ventures is recognised in the Income Statement.

OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

The equity instruments for which the Group - at the time of the initial recognition or at transition - exercised the irrevocable option to present gains and losses deriving from the changes in fair value in equity (FVOCI), fall under this evaluation category, as these are financial assets that do not belong to the Group's usual activity. They have been classified as non-current assets under the item *"Other financial assets at fair value through Other Comprehensive Income".*

They are initially recognised at fair value, including transaction costs directly attributable to the acquisition.

They are subsequently measured at fair value, and any gains and losses deriving from any changes in fair value are recognised in a specific equity reserve. This reserve is not reversed to the Income Statement; in the event of the disposal of the financial asset, the amount suspended in equity is reclassified to retained earnings.

Dividends deriving from these financial assets are recognised in the Income Statement when the right to collect is established.

OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT (FVPL)

The items which fall under this evaluation category are:

- equity instruments for which the Group - at the time of their initial recognition or at transition - did not exercise the irrevocable option to present gains and losses deriving from the changes in fair value in equity. They are classified as non-current assets under the item *"Other financial assets at Fair Value through the Income Statement"*;
- debt instruments for which the Group's business model is "hold to sell" and the cash flows associated with the financial asset represent the payment of the outstanding capital. They are classified as current assets under item *"Other financial assets at Fair Value through the Income Statement"*;
- derivative financial instruments, with the exception of those designated as hedging instruments.

These are initially recognised at fair value. Transaction costs directly attributable to the acquisition are recognised in the Income Statement.

They are subsequently valuated at fair value, and any gains or losses deriving from any changes in their fair value are 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 slow moving inventories are calculated by taking their estimated future use and their realisable value into account. Their 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 agreed consideration 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 using the effective interest rate method, which is equivalent to the discount rate that, when applied to future cash flows, makes the present value of these flows equal to the initial fair value.

Receivables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates with a counter entry in the Income Statement. Receivables are de-recognised when the right to receive cash flows is extinguished, when all the risks and rewards connected with holding the receivable have essentially been transferred, or in cases when the receivable is considered definitively irrecoverable after all the necessary recovery procedures have been completed. At the same time that the receivable is de-recognised, the relative provision is also reversed, if the receivable had previously been impaired.

IMPAIRMENT OF RECEIVABLES

For trade receivables, the Group applies a simplified approach, by calculating the expected losses over the entire life of receivables from the moment of initial recognition. The Group uses a matrix based on historical experience which is tied to the ageing of the receivable itself, and which is adjusted to take forecasting factors into account which are specific to some customers.

For financial receivables, the calculation of the impairment is made with reference to expected losses for the next twelve 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 its initial recognition, if it is determined that the financial instrument has a low credit risk at the reporting date of the Statement of Financial Position.

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 improbable that the Group will receive the entire contractual amount due (for example, when receivables are to the the legal department).

PAYABLES

Payables are initially recognised at fair value, which normally corresponds to the agreed consideration or to the present value of the amount that will be paid. They are subsequently valued at amortised cost. Amortised cost is calculated using the effective interest rate method, which is equivalent to the discount rate that, when applied to future cash flows, makes the present value of these flows equal to the initial fair value. Payables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates with a counter entry in the Income Statement. Payables are de-recognised from the Statement of Financial Position when the specific contractual obligation is extinguished. In the event of a change in a financial liability that does not results in its de-recognition, the gain or loss resulting from the change is calculated by discounting the change in contractual cash flows using the original effective interest rate, and is immediately recognised in the Income Statement.

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 classified under financial payables as current liabilities. The amounts included in cash and cash equivalents are recognised at fair value and the related changes are recognised in the Income Statement.

CONTINGENT ASSETS

Any contingent assets, which arise as a result of past events and whose realisation is linked to the occurrence or non-occurrence of unforeseeable future events, are not recognised in the Statement of Financial Position, unless the realisation of revenue is virtually certain.

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges include provisions for current obligations (legal or implicit) arising from a past event, the fulfilment of which is likely to require the use of resources, and whose amounts can be reliably estimated.

Changes in estimates are recognised in the Income Statement for the year in which the change occurred.

If the effect of discounting is significant, provisions are presented at their present value.

A provision for restructuring is recognised only if, in addition to meeting the conditions for the provisions for liabilities and charges, there is a detailed formal restructuring plan so that third parties affected have a valid expectation that the restructuring will be implemented.

EMPLOYEE BENEFITS

Employee benefits paid after the termination of the employment relationship (defined benefit plans) and other long-term benefits are subject to actuarial evaluations. The liability recognised in the Statement of Financial Position 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 from 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 matured 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.

Costs related to defined contribution plans are recognised in the Income Statement as they are incurred.

In the event that the plan assets of defined benefits outweigh the liabilities, the asset is recognised to the extent that the financial benefit, in the form of a reimbursement or a reduction in 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 the case of the purchase of qualifying insurance policies through the use of plan assets, any additional contributions requested by the insurance company are recognised in equity.

Insurance policies are recognised in the Statement of Financial Position as plan assets and are evaluated on the same basis as the liabilities to which they refer.

DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGING INSTRUMENTS

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 the formal designation and documentation of the hedging relationship, and of the Group's risk management objectives and strategy in carrying out the hedge;
- the hedging relationship meets all the following effectiveness 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 hedged risk;
  - 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.

Derivative financial 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 any changes in the fair value of an asset or liability attributable to a specific risk, the gain or loss deriving 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 asset or liability (basis adjustment), and it is also recognised in the Income Statement;
- Cash flow hedge – if a derivative instrument is designated as a hedge against exposure to the variability in cash flows of an asset or liability recognised in the Statement of Financial Position, 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 recycled to the Income Statement of the year in which the hedged item affects the Income Statement.

If the hedge of a highly probable future transaction subsequently results in 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 in hedge accounting;

- the full fair value (including forward points): the effective portion of the changes in fair value of the entire derivative instrument is recognised in equity (cash flow hedge reserve);
- the single spot component (excluding forward points): the effective portion of the changes in fair value reated to the spot component, is recognised in equity under the cash flow hedge reserve, while the change in forward points for the hedged item is recorded under the cost of hedging reserve, always in 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. 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 affects the Income Statement. Subsequently they are recycled to the Income Statement in the year in which the acquired financial asset or the assumed financial liability affects 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 recycledto the Income Statement.

For the derivative instruments that do not satisfy the conditions required 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 listed on an active market is based on market prices at the reporting date. The market price used for financial assets is the bid price, while for financial liabilities it is the ask price. The fair value of instruments not listed on an active market is determined by using evaluation techniques based on a series of methods and assumptions which are tied to 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 exchange rate at the reporting date.

The fair value of cross currency interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves and converted in euro by using the forward exchange rate at the reporting date.

INCOME TAXES

Current taxes are determined on the basis of a realistic forecast of the tax expenses to be paid in application of the current tax regulations in force in the country.

The Group periodically assesses the choices made when determining taxes with reference to situations where current tax legislation lends itself to interpretation, and if deemed appropriate, adjusts its exposure to the tax authorities on the basis of the taxes it expects to pay. Any 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 which exist between the asset and liability amounts in the Statement of Financial position and their tax value (global allocation 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 in the year in which the asset will be realised or the liability settled, based on the tax legislation in force at the closing date of the current year.

Current and deferred tax assets and liabilities are offset when income taxes are applied by the same tax authority and when there is a legal 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 years during which the temporary differences will arise or be extinguished.

With regard to temporary taxable differences associated with investments in subsidiaries, associates and joint ventures, the related deferred tax liabilities are not recognised when the investing entity is able to control the reversal of the temporary differences and it is likely 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 year or during previous years.

EQUITY

TREASURY SHARES Treasury shares are classified as a reduction of shareholders' equity.

If they are sold, reissued or cancelled, the resulting gains or losses are recognised in equity.

COSTS OF CAPITAL TRANSACTIONS Costs directly attributable to capital transactions of the Parent Company are recoded as a reduction of shareholders' equity.

SHARE-BASED PAYMENT TRANSACTIONS (CASH SETTLED)

The additional cash settled benefits granted to certain Group executives are recognised under *"Employee Benefit Obligations"* (other long-term benefits) with a counter entry under *"Personnel costs"*. The cost is estimated at fair value and is recognised over the duration of the plan according to the the vesting condition at the reporting date. The estimate is reviewed at each reporting date until the settlement date.

REVENUE RECOGNITION

Revenues are recognised at an amount that reflects the consideration to which the Group believes it is entitled in exchange for the transfer of goods and/or services to its customers. The variable considerations that the Group believes it should pay to direct or indirect customers are recognised as a reduction in revenues.

PRODUCT SALES

Revenues from product sales are recognised when the performance obligations towards customers have been satisfied. Performance obligations are deemed to be met when the control of goods has been transferred to the customer, that is, generally when goods are delivered to the customer.

If the products are ready to be delivered, but delivery is postponed to a future date, revenues are recognised only if control of the products has been transferred to the customer. Control is considered to have been transferred to the customer when the following conditions are met;

- the reasons for delivering at a future date are real (for example: the customer has requested delivery at a future date in writing);
- the products in the warehouse are separately identified as being as being the property of the customer;
- the products are ready to be physically delivered to the customer;
- the Group does not have the possibility to use the product or to deliver it to other customers.

Retrospective discounts are applied to product sales based on the achievement of the targets defined in trade agreements. Revenues from sales are recognised net of these discounts, and estimated on the basis of historical experience using the expected value method and for amounts which are not expected to be reversed.

Sales do not include a financial component, as the average payment terms applied to customers are the standard commercial terms for the reference country where sales occur.

PROVISION OF SERVICES

Revenues for services are recognised when the service rendered has been completed or based on the stage of completion of the service at the reporting date.

FINANCIAL INCOME AND EXPENSES

Financial income and expenses are recognised on an accrual basis.

ROYALTIES

Royalties are recognised over time on an accrual basis, according to the content of the relevant agreement, which provides for the transfer of the rights to access to intellectual property to the customer. The amounts for royalties are estimated using the output method. Royalties invoiced in each period are directly related to the value transferred to the customer.

DIVIDENDS

Dividends are recognised when the right to collect is established, which normally corresponds to a the Shareholders' resolution to distribute 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 ordinary shares during the financial year excluding treasury shares.

Earnings (losses) per share - diluted: Diluted earnings per share are calculated by dividing the income (loss) attributable to the Group by the weighted average number of outstanding ordinary shares during the financial year, excluding treasury shares. For the purposes of calculating the diluted earnings per share, the weighted average number of outstanding shares is adjusted by assuming the exercise of all the rights of the assignees for the financial year which could potentially have a dilutive effect, while the Group's net income (loss) is adjusted to take into account any effects, net of taxes, of the exercise of these rights.

OPERATING SEGMENTS

An 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 made available.

The business carried out by the Group is identifiable as a single operating "*Consumer Activities*" sector.

FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are recorded at the prevailing exchange rates on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the prevailing exchange rates at the reporting date. Exchange rate differences arising from the settlement of monetary items or their translation at rates other than those of their initial recognition at the beginning of the financial year, or different to those at the end of the previous financial, are recognised in the separate Consolidated Income Statement.

Whenever the conditions provided for by IAS 21.15 for the designation of inter-company monetary items such as *"Net Investment in Foreign Operations"* are met, in accordance with the guidance of IAS 21.32, the differences in exchange rate as of the date of the designation are recognised 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 the non-monetary assets and liabilities present in their original individual Financial Statements in order 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 are recognised in the Income Statement.

The Financial Statements of companies prepared in currencies other than the euro which operate in high-inflation countries, are 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, 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 DISPOSAL GROUPS

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 in its present condition and the sale is highly probable, or if a binding schedule for the 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 assets/liabilities (current and non-current) of the disposal group are presented under a separate item from other assets and liabilities, and totalled respectively in current assets and liabilities.

Non-current assets classified as held for sale and disposal groups are evaluated as the lesser amount between the carrying amount and the fair value net of sales costs.

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 has been classified as held for sale, and represents an important independent branch of activity or geographical area of activity forming part of a single coordinated disposal program.

In the Consolidated Income Statement for the period, the net income (loss) from discontinued operations, as well as the gain or loss resulting from their fair value valuation net of sales costs, or from the disposal of the assets or disposal groups which constitute the discontinued operations, are combined in a single item at the end of the Income Statement separately from the results for continuing operations.

It is to be noted that in 2018 with regard to transactions between the Industrial business, which qualified as a *"discontinued operation"*, and the remaining activities of the Pirelli Group ("*continuing business*"), the so called *"post disposal"* treatment was opted for the Income Statement. Particularly for transactions of a continuous commercial nature, it was decided to represent these transactions in the Income Statement data for *"continuing business"*, consequently revealing a result that takes these components into account, and to record the relative intereliminations within the item *"discontinued operations"*. The cash flows for discontinued operations are shown separately in the Statement of Cash Flow.

3.1 ACCOUNTING STANDARDS AND INTERPRETATIONS APPROVED AND IN FORCE AS OF JANUARY 1, 2019

Pursuant to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the IFRS standards in force as of January 1, 2019 were as follows:

- 16 IFRS – Leases

  The impacts deriving from the first application of this standard, which replaces the previous IAS 17, are described in Note 3.3 - *"Impacts deriving from the adoption of IFRS 16 - Leases"*.

- IFRIC 23 – Uncertainty over Income Tax Treatments

  This interpretation clarifies the criteria to be applied for the recognition and measurement of current taxes and deferred tax assets / liabilities in the event of uncertainty regarding tax treatments, i.e., situations where 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, tax bases for assets and liabilities, tax losses and 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 probable that the tax authority will accept the uncertain tax treatment, the uncertainty is recognised by recording additional tax liabilities or even by the application of a higher tax rate.

  There were no impacts on the Group's Financial Statements due to the application of this interpretation, with the exception of the reclassification of euro 9,187 thousand, from non-current provisions for liabilities and charges, to non-current tax payables, as the uncertainty recognised in previous years was related to a tax position recorded under tax payables.

- Amendments to IFRS 9 - Financial Instruments: prepayment features with negative compensation and amendments to financial liabilities.
  These amendments concern 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 through the Income Statement;
  - the accounting treatment of financial liabilities in the presence of any changes which do not result in their derecognition from the Statement of Financial Position. In such situations, any gain or loss calculated as the difference between the contractual cash flows of the original liability and any change in cash flows, both discounted using the original effective interest rate, must be recognised in the Income Statement.

    The amendment related to financial assets was not applicable to the Group. The amendment related to the accounting treatment of financial liabilities 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 the provisions of IFRS 9, including those relative to impairment, also apply to the financial instruments which represent long-term interests in an associated company or a joint venture, which in essence form part of the net investment in the associated company or joint venture (the so-called long-term interest). There were no impacts on the Financial Statements of the Group due to the amendments made to the standard in force.

- Improvements to the IFRS 2015-2017 cycle (issued by the IASB in December 2017).

  The IASB has issued a series of amendments to four standards in force, which particularly concern 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 does not have 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 a specific loan relative 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 generic loans.

  There were no impacts on the Group due to the amendments to the standards in force.

- Amendments to IAS 19 - Employee Benefits

  These amendments require that:

  - the current service cost and the net interest for the period following a change and/or reduction of the plan are determined using updated assumptions;
  - any reductions in the surpluses 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.

  There were no impacts on the Group due to the amendments made.

3.2 INTERNATIONAL ACCOUNTING STANDARDS AND/OR INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE IN 2019

Pursuant to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors - the new standards and interpretations that were issued but were not yet effective, or had not yet been endorsed by the European Union at December 31, 2019, and which are therefore not applicable, along with any expected impacts on the Consolidated Financial Statements, are described below.

None of these standards and interpretations were early adopted by the Group.

- Amendments to IFRS 3 - Business Combinations

  These changes have introduced a new definition for the term *"business"*, according to which, for an acquisition to qualify as a business combination, it must include inputs and processes which contribute substantially in obtaining an output. The definition of output has been amended in a restrictive sense, in that it precisely specifies that any cost savings and other financial benefits are to be excluded as outputs. This amendment will result in multiple acquisitions qualifying as asset acquisitions instead of as business acquisitions.

  These amendments, effective on January 1, 2020 have not yet been endorsed 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 of transactions, these amendments focus on the definition of a concept of materiality which is coherent and unique amongst the various accounting standards, and also incorporate the guidelines included in IAS 1 on information that is not material.

  These amendments which were approved by the European Union, came into force on January 1, 2020. No impacts on the Group's Financial Statements are foreseen. Their impacts on disclosures are currently being evaluated.

- Amendments to IFRS 9, IAS 39 and IFRS 7: Reform of interbank offered rates (IBOR reform)

  These changes concern the impacts on the Financial Statements deriving from the replacement of the current benchmark interest rates with alternative interest rates. In the presence of any hedging relationships impacted by the uncertainty of any benchmark rate reform, these changes make it possible to not carry out the evaluations required by IFRS 9 in the presence of any changes in rates. These amendments, which were endorsed by the European Union, are effective January 1, 2020. The impact on the Group's Financial Statements is currently being evaluated as regards the rate component of cross-currency interest rate swaps.

3.3 IMPACTS DERIVING FROM THE ADOPTION OF IFRS 16 - LEASES

Following the application of this standard, at the transition date (January 1, 2019), the Group accounted for lease contracts previously classified as operating leases as:

- a financial liability equal to the present value of residual future lease payments at the transition date, discounted using for each contract the incremental borrowing rate applicable at the transition date. The weighted average incremental borrowing rate applied to the lease liabilities at January 1, 2019 was 5.03%.
- a right of use equal to the value of the lease liability at the transition date, net of any deferred rent asset or liability related to the lease and recognised in the Statement of Financial Position at the date of transition.

The following table shows the impacts due to the adoption of IFRS 16 at the transition date:

(in millions of euro)

NON CURRENT ASSET	01/01/2019
Property, property and equipment	
- Right of use lands	16.2
- Right of use bulldings	376.1
- Right of use plant and machinery	35.8
- Right of use other assets	63.6
Total	**491.7**
CURRENT ASSET	
Other receivables	(1.0)
Total	**490.7**
NON CURRENT LIABILITIES	
Borrowings from banks and other financial institutions	420.7
Provision for liabilities and charges	2.5
CURRENT LIABILITIES	
Borrowings from banks and other financial institutions	73.6
Other payables	(6.1)
Total	**490.7**

The Group has chosen to apply the standard retrospectively, recording the cumulative effect deriving from the application of the standard in equity at January 1, 2019 (modified retrospective approach). The comparative data for the 2018 financial year were not restated.

With reference to transition rules, the Group used the following practical expedients, available when opting for the modified retrospective approach:

- contracts with an expiry date within twelve months from the date of transition are classified as a short-term leases. For these contracts, lease payments are be recorded in the Income Statement on a straight-line basis;
- with reference to the separation of non-lease components for vehicles, the Group has decided not to separate them and not to account for them separately from the lease components. This component has been considered together with the lease component in determining the lease liability and the related right of use;
- 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 termination options.

The Group has also used the practical expedient provided for by the standard on first-time adoption, which makes it possible to rely on the conclusions reached in the past on the basis of IFRIC 4 and IAS 17 regarding the quantification of the operating lease components for a specific contract. This practical expedient has been applied to all contracts.

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 main ones are summarised below:

- the Group has decided not to apply IFRS 16 for contracts containing a lease that has an intangible asset as underlying asset;

- contract renewal clauses are considered for the purposes of determining the duration of the lease contract, when the Group has the option to exercise these clauses without the need to obtain the consent of the other party, and when their exercise is considered reasonably certain. In the case of clauses which provide for multiple renewal periods that can be exercised unilaterally by the Group, only the first extension period was considered;
- automatic renewal clauses in contracts, in which both parties have the right to terminate the contract, were not considered for the purposes of determining the duration of the contract, as the ability to extend its duration is not under the unilateral control of the Group, and the penalty 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 the determination of the duration of the contract. This assessment is also carried out considering the degree of customization of the leased asset. If customization is high, the lessor could incur a significant penalty if he opposes the renewal;
- early termination clauses in contracts are not considered in determining the duration of the contract if they can be exercised only by the lessor or by both parties. In cases where they can be unilaterally exercised by the Group, specific assessments are made contract by contract (for example, the Group is already negotiating a new contract or has already given notice to the lessor).

The following table shows the reconciliation between minimum future lease payments, as provided for by the previous IAS 17, and the lease liabilities at January 1, 2019 deriving from the adoption of IFRS 16:

(in millions of euro)

Minimum future payments due for non-cancellable operating leases 12/31/2018 (IAS 17)	**517.9**
Effects of extension option excercise	155.8
Short term contracts with residual duration at 1/1/2019 of less than 12 months	(9.2)
Low value asset contracts	(12.1)
Service component	0.4
Financial lease liabilities at 31/12/2018	0.2
Discounting effects	(146.3)
Other	(12.4)
Financial liabilities for lease contracts at 1/1/2019 (IFRS 16)	**494.3**

4. FINANCIAL RISK MANAGEMENT POLICIES

The Group is exposed to financial risks which are principally associated with foreign exchange rates trends, with fluctuations in interest rates, with the price of financial assets held in portfolio, with the ability of Pirelli's customers to meet their obligations to the Group (credit risk), and in 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 the risk management strategies defined at a more general level 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. Fluctuations in the exchange rate 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 risks tied 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 hedging is then provided in the form of forward contracts which are entered into with the Group Treasury.

The positions subject to exchange rate risk managed are mainly represented by receivables and payables in foreign currencies.

The Group Treasury is responsible for hedging the resulting net position for each currency and, in accordance with the established guidelines and predetermined restrictions, closes in turn 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, as 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 making use of the aforementioned option.

Of note is that, as part of the annual and three-year planning process, the Group formulates exchange rate forecasts for these time horizons based on the best information available on the market. Fluctuations in the exchange rate 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 evaluates the opportunity to carry out hedging transactions 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 main exposures to translation risk are constantly monitored, however it is not currently deemed necessary to adopt specific policies to hedge this exposure.

At December 31, 2019 approximately 37.9% of the total consolidated equity was expressed in euro (47.8% at December 31, 2018). The most important currencies for the Group other than the euro were the Brazilian real (14.7%; 10.7% at December 31, 2018), the Turkish lira (0.5%; 0.5%; at December 31, 2018), the Chinese renminbi (12.5%, 12.2% at December 31, 2018), the Romanian leu (11.3%; 8.5% at December 31, 2018), the pound sterling (3.8%, 3.9% at December 31, 2018), the US dollar (3.6%; 3.8% at December 31, 2018) the Mexican peso (10.1%, 7.4% at December 31, 2018), and the Russian rouble (2.1%; 1.6% at December 31, 2018).

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%	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Brazilian Real	79,039	54,258	(64,668)	(44,393)
Turkish Lira	2,794	2,543	(2,286)	(2,080)
Chinese Yuan	67,007	61,628	(54,824)	(50,423)
Romanian Leu	60,763	43,204	(49,715)	(35,349)
Russian Rouble	11,329	8,308	(9,269)	(6,797)
British Pound	20,475	19,481	(16,752)	(15,939)
Argentinian Pesos	9,737	8,779	(7,966)	(7,183)
US Dollar	19,453	19,036	(15,916)	(15,575)
Mexican Pesos	54,371	37,594	(44,486)	(30,759)
Total on consolidated equity	**324,968**	**254,831**	**(265,882)**	**(208,498)**

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

Based on market circumstances, the Group assesses, 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) resulting from an increase or decrease of 0.50% in the level of interest rates of all currencies to which the Group is exposed – all other conditions being equal:

(in thousands of euro)

	+0,50%		-0,50%	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Impact on Net income / (loss)	(7,949)	(13,039)	7,949	13,039

The effects on the Group's equity resulting from changes in the LIBOR and EURIBOR rates calculated on the interest rate hedging instruments outstanding at December 31, 2019 are described in Note 27 - *"Derivative Instruments".*

PRICE RISK ASSOCIATED WITH FINANCIAL ASSETS The Group's exposure to price risk is limited to the volatility of financial assets such as listed and unlisted equities and bonds, which constituted approximately 0.7% of the total consolidated assets at December 31, 2019 (0.7% at December 31, 2018). These assets were classified as other financial assets at fair value through other Comprehensive Income, and other financial assets at fair value through the Income Statement.

No derivatives were put in place to limit the volatility risk for these assets.

Other financial assets at fair value through other Comprehensive Income represented by listed securities amounted to euro 24,893 thousand (euro 28,448 thousand at December 31, 2018) and those represented by securities indirectly associated with listed equity securities (Fin. Priv. S.r.l.) amounted to euro 20,565 thousand, (euro 15,604 thousand at December 31, 2018). These financial assets constituted 45.7% of the total financial assets subject to price risk (45.9% at December 31, 2018). 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 1,245 thousand (a positive change of euro 1,422 thousand at December 31, 2018) 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 1,245 thousand (a negative change of euro 1,422 thousand to the Group's equity at December 31, 2018).

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 the customer's 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. Effective as of January 2012, the company had signed a master agreement which expired in December 2018, with a leading insurance company for worldwide coverage of credit risk, mainly relative to sales on the Replacement channel (with an approximate 71% acceptance rate at December 2019). Insurance coverage was extended to also cover the two year 2019 - 2020 period. At December 31, 2019, the amount of trade receivables remained essentially consistent with that at the closing of the previous financial year.

On the other end, as regard the financial counterparties for the management of its temporary cash surpluses or for trading in derivative instruments, the Group deals only with entities with a high credit standing. 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. Expected credit losses on trade receivables are calculated on the entire life of the receivables, starting from the moment of initial recognition, using a matrix based on historical experience which is tied to the ageing of the receivable itself, and which is adjusted to take forecasting factors into account which are specific to some customers, as well as the presence of any collateral securities and other credit risk mitigation instruments. At December 31, 2019 the maximum exposure to credit risk, calculated without considering the presence of any collateral securities and other credit risk mitigation instruments, equalled approximately 72,761 thousand.

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 contractual terms and conditions.

The principal instruments used by the Group to manage liquidity risk are annual and three year financial plans, and treasury plans. These allow for the complete and correct recording and measurement of cash inflows and outflows. Deviations between the plans and final data are the subject of constant analysis.

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

Prudent risk management as described above requires maintaining an adequate level of cash or cash equivalents and/or highly liquid short-term securities, the availability of funds that can be obtained through an adequate amount of committed credit facilities and/or the possibility of using the capital market, and the diversification of products and maturities in order to seize the best available opportunities.

At December 31, 2019 the Group had, in addition to cash and other financial assets at fair value through the Income Statement to the amount of euro 1,647,940 thousand (euro 1,354,096 thousand at December 31, 2018), unused credit facilities to the amount of euro 700,000 thousand (euro 700,000 thousand at December 31, 2018) maturing in the second quarter of 2022.

Maturities for financial liabilities at December 31, 2019 can be summarised as follows:

(in thousands of euro)

	within 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
Trade payables	1,611,488	-	-	-	1,611,488
Other payables	402,757	4,811	26,142	59,618	493,328
Derivative financial instruments	2,378	4,021	4,656	139	11,194
Borrowings from banks and other financial institutions	1,278,759	229,189	2,989,547	285,457	4,782,952
of which financial leasing liabilities	102,595	87,227	*188,597*	*265,017*	*643,436*
	3,295,382	**238,021**	**3,020,345**	**345,214**	**6,898,962**

Maturities for financial liabilities at December 31, 2018 can be summarised 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
Derivative financial 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**

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 provided for by IFRS 13, which reflects the significance of the inputs used in determining 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 other than the quoted prices referred to in the previous point, 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, 2019**, divided into the three levels defined above:

(in thousands of euro)

	Nota	Carrying amount at 12/31/2019	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	18	38,119	-	38,119	-
Current derivative financial instruments	27	26,962	-	26,962	-
Derivative hedging instruments:					
Current derivative financial instruments	27	10,186	-	10,186	-
Non current derivative financial instruments	27	52,515	-	52,515	-
Other financial assets at fair value through other Comprehensive Income					
Securities and shares		55,020	24,893	20,565	9,562
Investment funds		3,947	-	3,947	-
	12	58,967	24,893	24,512	9,562
TOTAL ASSETS		**186,749**	**24,893**	**152,294**	**9,562**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through Income Statement:					
Current derivative financial instruments	27	(41,427)	-	(41,427)	-
Derivative hedging instruments:					
Non current derivative financial instruments	27	(10,327)	-	(10,327)	-
TOTAL LIABILITIES		**(51,754)**		**(51,754)**	

The following table shows **assets and liabilities that were measured at fair value at December 31, 2018**, divided into the three levels defined above:

(in thousands of euro)

	Nota	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	18	27,196	-	27,196	-
Current derivative financial instruments	27	77,650	-	77,650	-
Derivative hedging instruments:					
Current derivative financial instruments	27	20,917	-	20,917	-
Non current derivative financial instruments	27	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	-
	12	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	27	(59,602)	-	(59,602)	-
Derivative hedging instruments:					
Non current derivative financial instruments	27	(16,039)	-	(16,039)	-
TOTAL LIABILITIES		**(75,641)**		**(75,641)**	

The following table shows **changes in the financial assets** classified in **level 3 that occurred during the course of 2019**:

(in thousands of euro)

Opening balance 01/01/2019	**9,155**
Translation differences	10
Increases	86
Decreases	(56)
Fair value adjustments through other comprehensive income	424
Other changes	(57)
Closing balance 12/31/2019	**9,562**

These financial assets are mainly represented by equity investments in the European Institute of Oncology (euro 7,465 thousand), and Tlcom I LP (euro 195 thousand).

The **fair value adjustments through other Comprehensive Income** equalled a positive net value of euro 424 thousand, and mainly refers to the fair value adjustment of the investment in the European Institute of Oncology.

During the course of 2019 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 of 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 observable yield curves and converting them into euro using the exchange rate at the reporting date of the Financial Statements;
- the fair value of any natural rubber futures is determined by using the closing price of the contract 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)

	Nota	Carrying amount at 12/31/2019	Carrying amount at 12/31/2018
FINANCIAL ASSETS			
Financial assets at fair value through income statement			
Other financial assets at fair value through income statement	18	38,119	27,196
Current derivative financial instruments	27	26,962	77,650
		65,081	*104,846*
Financial assets at amortised cost			
Other non-current receivables	15	342,397	225,707
Current trade receivables	14	649,394	627,968
Other current receivables	15	451,858	416,651
Cash and cash equivalents	19	1,609,821	1,326,900
		3,053,470	*2,597,226*
Financial assets at fair value through other comprehensive income (FVOCI)			
Other financial assets at fair value through Other Comprehensive Income	12	58,967	68,781
Financial hedging derivative instruments			
Current derivative financial instruments	27	10,186	20,917
Non-current financial derivative instruments	27	52,515	20,134
		62,701	*41,051*
TOTAL FINANCIAL ASSETS		**3,240,219**	**2,811,904**
FINANCIAL LIABILITIES			
Financial liabilities carried at fair value through income statement			
Current derivative financial instruments	27	41,427	59,602
Financial liabilities valuated at amortised cost			
Non-current borrowings from banks and other financial institutions (excl. lease obligations)	23	3,544,461	3,929,069
Other non-current payables	25	90,571	83,287
Current borrowings from banks and other financial institutions (excl. lease obligations)	23	1,341,606	799,942
Current trade payables	24	1,611,488	1,604,677
Other current payables	25	402,757	436,752
		6,990,883	*6,853,727*
Lease payables			
Non-current ease payables		405,375	10
Current lease payables		77,797	203
	23	483,172	213
Derivative financial hedging instruments			
Non-current derivative financial instruments	27	10,327	16,039
TOTAL FINANCIAL LIABILITIES		**7,525,809**	**6,929,581**

6. CAPITAL MANAGEMENT POLICY

The Company's objective is to maximise the return on net invested capital while maintaining its ability 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 R.O.I. (which is calculated as the percentage ratio between the EBIT adjusted and the average net invested capital, which does not include "*Investments in associates 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"* and intangible assets related to assets recognised as a consequence of Business Combinations.

The R.O.I. for the 2019 financial year was equal to 24% and includes the impact deriving from the application of the accounting standard IFRS 16 – Leases. Excluding the impact of new accounting standard, R.O.I. was equal to 27%, compared to 30% for 2018.

7. ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated Financial Statements requires Management to make estimates and assumptions which, under certain circumstances are based on difficult and subjective evaluations and estimates based on historical experience, and 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 consequentially modified for the period in which the change of circumstances occurred. The estimates and assumptions refer mainly to the assessments of the recoverability of goodwill and other intangible assets with an indefinite useful life, to the definition of the useful lives of property, plant and equipment and intangible assets, 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 loss to be recognised in the Income Statement. In particular, testing involves the allocation of goodwill to the cash generating units (which for the Group coincide with the business sector that is the Consumer Activities), and the subsequent determination of the relative recoverable amount, being the higher amount between either the fair value or the value in use.

If the recoverable amount proves to be lower than the carrying amount of the cash generating units, the goodwill allocated to them is impaired.

With reference to the impacts derived from the adoption of the new accounting standard IFRS 16 - Leases, the carrying amount of the cash generating units includes the value of the rights of use belonging to the CGUs themselves. In determining the present value of future flows, any flows related to the repayment of lease obligations are excluded, as they represent flows deriving from financing activities. Consequently, the value of lease obligations is excluded from the carrying amount of the CGU at the date of the impairment test.

The configuration of the value used to determine the recoverable amount for Consumer Activities at December 31, 2019, is that of the value in use which corresponds to the present value of the future cash flows which are expected to be associated with the group of CGUs, using a rate which reflects the specific risks of the individual CGU at the valuation date.

The key assumptions used by Management were the estimates for future increases in sales, in operating cash flows, in the growth rates of operating cash flows beyond explicit forecast period for terminal value estimation purposes, in the weighted average cost of capital (discount rate). The expected cash flows cover a time-frame of three years (2020 - 2022) and refer to the consensus forecasts on the prospective revenues and EBITDA adjusted for the three-year period 2020 - 2022 made by equity analysts and issued after presentation of the 2020 - 2022 Industrial Plan, as these forecasts are more prudent than the Plan approved by the Board of Directors and presented to the financial community on February 19, 2020.

The impairment test at December 31, 2019 did not show any impairment loss, as the fair value of Consumer Activities was significantly higher than the carrying amount.

PIRELLI BRAND (INTANGIBLE ASSET WITH AN INDEFINITE USEFUL LIFE)

The Pirelli Brand is an intangible asset with an indefinite useful life not subject to amortisation, but pursuant to IAS 36, is tested for impairment annually or more frequently, if specific events or circumstances arise that may indicate an impairment.

The impairment test at December 31, 2019 was performed using the assistance of an independent third-party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2019 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).

PROPERTY, PLANT AND EQUIPMENT EXCLUDING THE RIGHTS OF USE

In accordance with the relevant accounting standards fixed assets are tested, in order to ascertain whether there has been any impairment when there are indicators that difficulties are to be expected for the recovery of their relative net carrying amount, through their use. The verification of the existence of the aforesaid impairment indicators requires that the Directors make subjective judgements based on the information available from both internal and external sources as well as on historical experience. Also if it is determined that a potential impairment may have been generated, the impairment is calculated using suitable evaluation techniques.

The correct identification of the 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 which influence the valuations and estimates made by Management.

RIGHTS OF USE AND LEASE OBLIGATIONS

As regards the estimates and assumptions used for the determination of lease obligations and the rights of use, reference should be made to paragraph 3.3 *"Impacts deriving from the adoption of IFRS 16 - Leases"*.

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.

As regards the situations in which the tax legislation in force lends itself to interpretation, if the Group considers it probable (more than 50%), that the tax authority will accept the tax treatment adopted, the net income (loss) before tax is determined in accordance with the tax treatment applied in the tax return, otherwise the effect of any uncertainty is reflected in the determination of the net income (loss) before tax. The probability refers to the fact that the tax authority will not accept the tax treatment adopted, and not to the probability of the assessment.

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 plans have been closed to new participants, and therefore the actuarial risk refers only to the previous deficit. Management uses different actuarial assumptions to calculate liabilities and plan assets.

The actuarial assumptions of financial nature concern the discount rate, the inflation rate 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 considered balanced, given the context.

PROVISIONS FOR LIABILITIES AND CHARGES

In view of the legal and tax risks related to indirect taxes, provisions for the risk of unfavourable outcomes have been recognised. The value of provisions recognised in the Statement of Financial Position related to these risks represents the best estimate at the date made by Management in relation to legal and tax issues regarding a wide range of issues that are subject to the jurisdiction of various countries. This estimate entails the adoption of assumptions which depend on factors that may change over time and which could therefore have a significant impact on the current estimates made by Management in preparing the Consolidated Financial Statements.

8. OPERATING SEGMENTS

IFRS 8 - Operating segments defines an operating segment as a component:

- which involves entrepreneurial activities 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 in a single operating sector.

For 2019 Pirelli adopted a new organisational model at regional level, composed of five regions instead of six.

In addition to APAC, North America (previously called NAFTA) and South America, two new macro geographic regions were created:

- EMEA which includes Europe, the Middle East and Africa. The Gulf countries fall under this region, that is, markets with increasing exposure to the High Value segment;
- Russia and Nordics, which are markets with high similarities. The objective is to create a productive and commercial synergy, particularly for *Winter* products.

The comparative data for 2018 have been restated to adapt them to the new breakdown by geographical regions.

Revenues from **sales and services by geographical regions** are shown below:

(in thousands of euro)

	2019	2018
EMEA	2,288,680	2,329,150
North America	1,101,890	1,004,027
Asia / Pacific (APAC)	975,095	903,815
South America	681,995	691,874
Russia & Nordics	275,394	265,605
Total	**5,323,054**	**5,194,471**

Non-current assets by geographical regions, allocated on the basis of the country where the assets are located, are shown below.

(in thousands of euro)

	12/31/2019		12/31/2018	
EMEA	5,701,439	61.12%	5,408,690	60.94%
Russia & Nordics	239,080	2.56%	172,618	1.94%
North America	468,610	5.02%	445,894	5.02%
South America	510,318	5.47%	466,441	5.25%
Asia / Pacific (APAC)	523,549	5.61%	495,760	5.59%
Non-current unallocated assets	1,886,988	20.22%	1,886,862	21.26%
Total	**9,329,984**	**100.00%**	**8,876,265**	**100.00%**

The **non-current allocated assets** reported in the table above consist of property, plant and equipment and intangible assets, excluding goodwill. The **non-current unallocated assets** are related to goodwill.

9. PROPERTY, PLANT AND EQUIPMENT

They are composed as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Net Value	**3,649,809**	**3,092,927**
- Tangible assets	3,187,190	3,092,685
- Rights of use	462,619	242

9.1 TANGIBLE ASSETS

The composition and changes are as follows:

NET VALUE

(in thousands of euro)

	12/31/2018	High Inflation Argentina	Translation differ.	Increases	Decreases	Depreciation	Devaluation	Recl./ Other	12/31/2019
Land	**189,026**	1,220	(618)	16	-	-	-	(227)	**189,417**
Buildings	**697,247**	4,069	7,855	47,572	(1,322)	(30,961)	(73)	1,521	**725,908**
Plant and machinery	**1,905,358**	8,267	8,279	235,989	(5,778)	(172,445)	(17,333)	3,533	**1,965,870**
Industrial and trade equipment	**242,242**	930	4,155	77,096	(1,871)	(76,903)	(1,074)	1,901	**246,476**
Other assets	**58,812**	3,915	(1,150)	9,026	(987)	(11,736)	(76)	1,715	**59,519**
Total	**3,092,685**	**18,401**	**18,521**	**369,699**	**(9,958)**	**(292,045)**	**(18,556)**	**8,443**	**3,187,190**

NET VALUE

(in thousands of euro)

	12/31/2017	Assets held for sale	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	**54,125**	-	1,389	(3,469)	22,424	(308)	(13,265)	(3)	(2,081)	**58,812**
Total	**2,979,850**	**(10,677)**	**24,641**	**(77,932)**	**451,801**	**(11,891)**	**(269,084)**	**(14,969)**	**20,946**	**3,092,685**

The item **high inflation Argentina** refers to the revaluation of the assets held by the Argentinian company as a consequence of the application of the accounting standard IAS 29 - Financial Reporting in Hyper-inflationary Economies.

Increases, totalling euro 369,699 thousand, were primarily aimed at increasing the capacity of the High Value segment, and to the continuous improvement in the mix and quality in all manufacturing plants.

The ratio of investments to depreciation for 2019 was equal to 1.27 (1.68 for the year 2018).

The item **devaluation** refers to the impairment of property, plant and equipment mainly due to restructuring plans in Brazil and Italy.

Property, plant and equipment in progress at December 31, 2019, included in the individual categories of fixed assets, amounted to euro 217,620 thousand (euro 227,302 thousand at December 31, 2018).

It should be noted that, as part of the financing stipulated in Brazil, the companies of the Group have pledged their own plants and machinery as guarantees to a total value of euro 1,165 thousand.

9.2 RIGHTS OF USE

The value of the assets for which the Group has entered into lease agreements was composed as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Right of use land	15,323	-
Right of use buildings	355,939	-
Right of use plant and machinery	30,689	114
Right of use other assets	60,668	128
Total	**462,619**	**242**

The figures at December 31, 2018 were relative to financial lease contracts pursuant to IAS 17.

The rights of use for buildings mainly refers to contracts related to offices, warehouses and points of sale.

The rights of use for other assets mainly refers to contracts related to motor vehicles and transport equipment. These contracts also include the service component (non-lease component).

Lease contracts are negotiated on an individual basis and include a wide variety of terms and conditions. **Increases in the rights of use during the 2019 financial year amounted to euro 51,235 thousand.**

At December 31, 2019 depreciation of the rights of use recognised in the Income Statement and included under the item "Amortisation, depreciation and impairment" - (Note 32) was composed as follows:

(in thousands of euro)

	2019
Land	1,130
Building	60,613
Plant e machinery	7,789
Other assets	19,947
Total depreciation of right of use	**89,479**

For interest on lease obligations, reference should be made to Note 37 - *"Financial expenses"*. Information on the costs for lease contracts with duration of less than twelve months, lease contracts for low value assets, and lease contracts with variable lease payments, reference should be made to Note 33 - *"Other costs"*.

10. INTANGIBLE ASSETS

The composition and changes were as follows:

(in thousands of euro)

	12/31/2018	Translation differences	Increase	Decrease	Amortisation	Other	12/31/2019
Concessions / licenses / trademarks - finite life	**63,375**	741	441	-	(5,274)	551	**59,834**
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	-	-	**2,270,000**
Goodwill	**1,886,862**	(204)	-	-	-	330	**1,886,988**
Customer relationships	**342,796**	332	-	-	(34,543)	-	**308,585**
Technology	**1,199,167**	-	-	-	(76,850)	-	**1,122,317**
Software applications	**18,333**	(32)	8,670	(15)	(8,092)	107	**18,971**
Patents and design patent rights	-	-	4,726	-	(236)	-	**4,490**
Other intangible assets	**2,805**	128	6,975	-	(828)	(90)	**8,990**
Total	**5,783,338**	**965**	**20,812**	**(15)**	**(125,823)**	**898**	**5,680,175**

(in thousands of euro)

	12/31/2017	Translation differences	Effect of business combination	Increase	Decrease	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)	-	-	**1,199,167**
Software applications	**20,744**	(118)	-	10,330	(8)	(7,816)	(5,250)	451	**18,333**
Other intangible assets	**4,541**	270	-	331	(679)	(1,194)	-	(464)	**2,805**
Total	**5,893,704**	**(1,080)**	**10,007**	**11,640**	**(687)**	**(125,220)**	**(5,250)**	**224**	**5,783,338**

Intangible assets were composed as follows:

- the Pirelli Brand (indefinite useful life) 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, operating 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 as indefinite 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 52,483 thousand included under the item "Concessions, licenses and brands with a finite useful life;"
- Customer relationships (useful life of 10 - 20 years) which mainly includes the value of commercial relationships both for the Original Equipment channel and 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 by Marco Polo Industrial Holding S.p.A.) amounted to euro 1,047,317 thousand and euro 75,000 thousand respectively. The useful life of 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 1,886,988 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 occurred in 2018.

IMPAIRMENT TESTING OF GOODWILL Pursuant to IAS 36, goodwill is not subject to amortisation, but is tested for impairment annually or more frequently, if specific events or circumstances arise that may suggest 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. Goodwill, amounting to euro 1,886,988 thousand, was allocated to the group of CGUs, the *"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 impairment test consists of comparing the recoverable amount of the Cash Generating Unit (CGU) (or of the set of CGUs) to which the goodwill is allocated and its carrying amount, including its operating assets and goodwill.

The recoverable amount is defined as the higher amount between its value in use (present value of the expected cash flows) and the fair value less costs of disposal (market value net of costs for disposal).

The value configuration used to determine the recoverable amount for Consumer Activities at December 31, 2019, is that of the value in use which corresponds to the present value of the future cash flows expected to be associated with the group of CGUs, using a rate which reflects the risks specific to the group of CGUs at the measurement date.

The key assumptions used by Management were the estimates for future increases in sales, in operating cash flows, in the growth rates of operating cash flows beyond explicit forecast period for terminal value estimation purposes, in the weighted average cost of capital (discount rate). The expected cash flows cover a time-frame of three years (2020 - 2022) and refer to the consensus forecasts on the prospective revenues and EBITDA adjusted for the three-year period 2020 - 2022 period made by equity analysts and issued after presentation of the 2020 - 2022 Industrial Plan, as these forecasts are more prudent than the Plan approved by the Board of Directors and presented to the financial community on February 19, 2020; for the 2020 – 2022, period the average annual revenue growth rate is 2.8%, while the average EBITDA margin is 25.1%.

The impairment test at December 31, 2019 was performed using the assistance of an independent third-party professional.

Also considered were the hypothetical cash flows deriving from the disposal of the CGUs at the end of the explicit period (assumed to be equal to the present value of the perpetual income from cash flows generated during the final year of the forecast).

The discount rate, defined as the Weighted Average Cost of Capital (WACC) net of taxes, which was applied to the prospective cash flows equalled 6.48%, while the operating cash flows growth rate, for the purposes of terminal value estimation (g) equalled zero. Capitalization rate of operating cash flows (WACC – g) is hence equal to 6.48%.

On the basis of the results of the tests carried out, no impairment loss emerged.

The recoverable amount is higher compared to the carrying amount of the Consumer Activities (18.2%); for the value in use to be equal to the carrying amount change in key parameters should be the following:

- an increase in the discount rate by 112 basis points;
- a decrease in the growth rate "g" beyond the explicit forecasted period by 129 basis points;
- a decrease in the EBITDA margin adjusted by 252 basis points.

For the purposes of providing complete information, it should be noted that the share price at December 31, 2019 (euro 5.14 per share) was in any case higher than the carrying amount for Group equity (euro 4.72 per share).

IMPAIRMENT TESTING OF THE PIRELLI BRAND (INTANGIBLE FIXED ASSET WITH AN INDEFINITE USEFUL LIFE): The Pirelli Brand, valued 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 suggest an impairment.

The impairment test at December 31, 2019 was carried out with the assistance of an independent third-party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2019 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 was based on:

- the consensus forecasts of equity analysts for the prospective revenues for the 2020 - 2022 period, as these forecasts are more prudent than the 2020 - 2022 Industrial Plan, where the revenue growth rate for the 2020-2022 period is 2.8%;
- a valuation criterion by sum of parts which also takes into account the contribution of royalties from the Prometeon Tyre Group for the use of the Pirelli trademark in relation to the Industrial segment;
- the royalty rates 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 related to the main brands of the listed companies of the Tyre sector, and was equal to an average royalty rate of 4.46%. With reference to the contribution in

terms of royalties from the Prometeon Tyre Group, the royalties used were those planned;
- a discount rate of 8.00% which included a premium compared to WACC determined on the basis of the risk level 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 which the market participant could benefit in the abstract if it were to acquire the asset separately as a result of the possibility to amortize it for tax purposes.

For the purposes of impairment testing, the recoverable amount of the Pirelli Brand *cum* TAB was compared with the respective carrying amount (*cum* TAB) and no impairment loss emerged.

For the fair value to be equal to the carrying amount of the Pirelli Brand, change in key parameters should be the following:

- a decrease in the royalty rates for the Consumer valuation units by 53 basis points, and the simultaneous zeroing of the balance for royalties from the license agreement with Prometeon Tyre Group;
- an increase in the discount rate by 96 basis points;
- a decrease in the g growth rate of 128 basis points.

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Changes in investments in associates and joint ventures were as follows:

(in thousands of euro)

	12/31/2019			12/31/2018		
	Associates	j.v.	Total	Associates	j.v.	Total
Opening balance	**8,419**	**64,286**	**72,705**	**12,529**	**4,951**	**17,480**
Increases	-	27,580	27,580	-	65,222	65,222
Distribution of dividends	(200)	-	(200)	(2,674)	-	(2,674)
Impairment	-	-	-	(874)	-	(874)
Share of net income / (loss)	249	(9,927)	(9,678)	(274)	(11,286)	(11,560)
Share of other components recognised in Equity	-	(1,176)	(1,176)	-	(3,221)	(3,221)
Use of provision for future risks and expenses	-	(8,620)	(8,620)	-	8,620	8,620
Other	235	-	235	(288)	-	(288)
Closing balance	**8,703**	**72,143**	**80,846**	**8,419**	**64,286**	**72,705**

11.1 INVESTMENTS IN ASSOCIATES

The item was composed as follows:

(in thousands of euro)

	12/31/2018	Distrib. of dividends and reserves	Share of net income (loss)	Other	12/31/2019
Eurostazioni S.p.A.	6,395	-	-	-	6,395
Joint Stock Company Kirov Tyre Plant	1,185	-	55	177	1,417
Other Group companies	839	(200)	194	58	891
Total associates	**8,419**	**(200)**	**249**	**235**	**8,703**

The investments in associated companies evaluated using the equity method were not relevant in terms of the impact on the total consolidated assets, either individually or in aggregate form.

11.2 INVESTMENTS IN JOINT VENTURES

The details of the item were as follows:

(in thousands of euro)

	12/31/2018	Increases	Share of net income/(loss)	Share of other components recognised in Equity	Use of provision for liabilities and charges	12/31/2019
PT Evoluzione Tyres	-	27,580	(2,769)	(1,176)	(8,620)	15,015
Xushen Tyre (Shanghai) Co, Ltd	64,286	-	(7,158)	-	-	57,128
Total joint ventures	**64,286**	**27,580**	**(9,927)**	**(1,176)**	**(8,620)**	**72,143**

The Group holds:

- an investment of 63.04% (ownership was 60% at December 31, 2018) in PT Evoluzione Tyres, an entity which operates in Indonesia and is active in the production of tyres for motorcycles. Even though the company is 63.04% owned, as a result of 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 is 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., Ltd. owns a Consumer tyre manufacturing plant in China. The new plant provides 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 for the Original Equipment channel in China, Japan and Korea. The investment is evaluated using the equity method.

The item **increases** refer to the effects of the recapitalisation of the Indonesian joint venture which was completed during the first half-year through the conversion, by Pirelli Tyre S.p.A., of the Group's outstanding loans at December 31, 2018 of euro18,655 thousand, and a further capital payment of euro 8,925 thousand.

The **share of net income/(loss)** which was negative to the amount of euro 9,927 thousand, refers to euro 7,158 thousand, pro-rata share of the loss for 2019 attributable to the joint venture Xushen Tyre (Shanghai) Co., Ltd., and to euro 2,769 thousand attributable to the joint venture PT Evoluzione Tyres.

The item **use of provision for liabilities and charges** mainly refers to the provision recorded in 2018 for the joint venture PT Evoluzione Tyres, concerning the surplus between the pro-rata share of the loss for the period, and the value of the investment which was used following the recapitalisation of the company during the first half-year of 2019 (Refer to Note 21 - Provisions for liabilities and charges).

The investments in joint ventures were not relevant in terms of their impact on the total consolidated assets.

12. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The changes in other financial assets at fair value through other Comprehensive Income amounted to euro 58,967 thousand at December 31, 2019 (euro 68,781 thousand at December 31, 2018), and were as follows:

(in thousands of euro)

Opening balance at 01/01/2019	**68,781**
Translation differences	10
Increases	86
Decreases	(9,486)
FV adjustments through Other comprehensive income	(366)
Other	(58)
Closing balance at 12/31/2019	**58,967**

The composition of the item according to the individual securities is as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Listed securities		
RCS Mediagroup S.p.A.	24,892	28,449
Total	**24,892**	**28,449**
Unlisted securities		
Fin. Priv. S.r.l.	20,565	15,604
Fondo Anastasia	3,947	15,575
Istituto Europeo di Oncologia S.r.l.	7,465	6,961
Euroqube	10	12
Tlcom I LP	195	184
Other companies	1,893	1,996
Total	**34,075**	**40,332**
Total other financial assets at FV through Other comprehensive income	**58,967**	**68,781**

The item **decreases** refers mainly to the partial quotas repayment for the Fondo Comune di Investimento Immobiliare Anastasia (Anastasia Real Estate Investment Fund) to the amount of euro 9,430 thousand.

The **fair value adjustments through other Comprehensive Income** which equalled a negative net value of euro 366 thousand, mainly refer to Fin. Priv. S.r.l. (positive at euro 4,961 thousand), to the European Oncological Institute (positive at euro 504 thousand), which was offset by RCS MediaGroup S.p.A. (negative at euro 3,556 thousand), and by the Fondo Comune di investimento Anastasia (Anastasia Real Estate Investment Fund), (negative at euro 2,197 thousand).

For listed securities, their fair value corresponded to the stock market price at December 31, 2019. The fair value of unlisted securities was determined by using estimates based on the best available information.

13. DEFERRED TAX ASSETS AND PROVISION FOR DEFERRED TAX LIABILITIES

Their composition is as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Deferred tax assets	81,188	74,118
Provision for deferred tax liabilities	(1,058,760)	(1,081,605)
Total	**(977,572)**	**(1,007,487)**

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, and the deferred taxes refer to the same legal entity and the same taxation authority.

The **provision for deferred tax liabilities** mainly refers to the tax effect recognised on the value of the assets identified during the course of the 2016 financial year, following the completion of the allocation of the price paid by Marco Polo Industrial Holding S.p.A. for the acquisition of the Pirelli Group at fair value of the Pirelli assets and liabilities acquired (Purchase Price Allocation or PPA), and recorded in the Consolidated Financial Statements following the merger by incorporation of the Parent company, Marco Polo Industrial Holding S.p.A. into Pirelli, which took place during the course of the same 2016 financial year.

Their composition, gross of the offsets carried out was as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Deferred tax assets	**351,373**	**304,872**
- of which within 12 months	159,911	126,864
- of which beyond 12 months	191,462	178,008
Provision for deferred tax liabilities	**(1,328,945)**	**(1,312,359)**
- of which within 12 months	(5,935)	(3,361)
- of which beyond 12 months	(1,323,010)	(1,308,998)
Total	**(977,572)**	**(1,007,487)**

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)

	12/31/2019	12/31/2018
Deferred tax assets:		
Provisions for liabilities and charges	62,633	48,478
Property, plant and equipment	6,763	-
Leases (IFRS 16)	1,511	-
Employee benefit obligations	66,389	61,428
Inventories	40,452	50,003
Tax losses carried forward	43,338	70,429
Trade receivables and other receivables	29,307	27,727
Trade payables and other payables	2,210	395
Other	98,770	46,412
Total	**351,373**	**304,872**
Provision for deferred tax liabilities:		
Intangible assets	(1,055,683)	(1,083,896)
Property, plant and equipment	(193,202)	(175,808)
Other	(80,060)	(52,655)
Total	**(1,328,945)**	**(1,312,359)**

The item "*Other*" in deferred tax assets mainly includes deferred tax assets recognised on surpluses of interest charges not deducted, and on the ACE benefit (Allowance for Corporate Equity).

At December 31, 2019 the value of deferred tax assets not recognised on tax losses equalled euro 76,218 thousand, while those relative to temporary differences equalled euro 38,423 thousand. This latter item mainly includes deferred tax assets not recognised on interest charges.

The value of tax losses according to their maturity, against which deferred tax assets are not recognised, are as follows:

(in thousands of euro)

Year of maturity	12/31/2019	12/31/2018
2018	-	4,660
2019	1,713	2,406
2020	3,040	3,039
2021	2,552	2,551
2022	5,493	5,490
2023	1,280	1,280
2024	1,893	1,818
2025	5,122	5,114
2026	3,648	3,648
2027	512	512
2028	675	-
Without maturity date	291,683	284,476
Total	**317,611**	**314,994**

Of the total tax losses with no expiration date, euro 145,880 thousand refers to losses attributable to subsidiaries in the UK, Spain, Chile and Netherlands, for which no future taxable income was expected that could justify their recoverability, and euro 125,199 thousand in tax losses attributable to Pirelli & C. S.p.A., which derived from the company Marco Polo Industrial Holding S.p.A. as a result of the reverse merger in 2016.

The tax effect of gains and losses recognised directly in equity was positive to the amount of euro 1,170 thousand (negative to the amount of euro 7,884 thousand for 2018) and is shown in the Statement of Comprehensive Income. These changes were mainly due to tax effects connected to actuarial gains / losses on employee benefits and to the fair value adjustment of derivatives in cash flow hedging.

14. TRADE RECEIVABLES

Trade receivables were analysed as follows:

(in thousands of euro)

	12/31/2019			12/31/2018		
	Total	Non-current	Current	Total	Non-current	Current
Trade receivables	715,361	-	715,361	685,090	-	685,090
Provision for bad debts	(65,967)	-	(65,967)	(57,122)	-	(57,122)
Total	**649,394**	**-**	**649,394**	**627,968**	**-**	**627,968**

The gross value of trade receivables amounted to euro 715,361 thousand (euro 685,090 thousand at December 31, 2018) of which euro 76,404 thousand was for receivables which were past due (expired) at the reporting date (euro 148,663 thousand at December 31, 2018). Receivables which were past due at December 31, 2019 benefited from better collection procedures, implemented during the last quarter of the financial year.

Receivables which were past due and not yet due were evaluated in accordance to the Group's policy described in the section on adopted accounting standards.

Impairment losses on receivables include both significant individual positions subject to individual impairment, and positions with similar credit risk characteristics which were grouped together and impaired on a collective basis.

The **changes in the provision for bad debts** were as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Opening balance	**57,122**	**267,086**
Translation differences	612	16,548
Accruals	30,251	18,978
Decreases	(14,433)	(237,124)
Reversals	(8,016)	(8,211)
Other	431	(155)
Closing balance	**65,967**	**57,122**

Accruals to the provision for bad debts are recognised in the Income Statement under *"Net impairment loss on financial assets"* - (Refer to Note 34).

The carrying amount for trade receivables is considered to approximate their fair value.

For the fully impaired trade receivables which were subject to legal action, it is estimated that an amount not exceeding 10% of their gross value could be recovered.

15. OTHER RECEIVABLES

Other receivables were analysed as follows:

(in thousands of euro)

	12/31/2019			12/31/2018		
	Total	Non-current	Current	Total	Non-current	Current
Financial receivables	180,150	140,324	39,826	156,952	124,048	32,904
Trade accruals and deferrals	46,399	15,803	30,596	32,837	8,907	23,930
Receivables from employees	7,513	899	6,614	6,625	1,059	5,566
Receivables from social security and welfare institutions	2,136	-	2,136	2,537	-	2,537
Receivables from tax authorities not related to income taxes	458,921	150,513	308,408	306,253	42,021	264,232
Other receivables	108,080	39,186	68,894	152,477	50,173	102,304
	803,199	**346,725**	**456,474**	**657,681**	**226,208**	**431,473**
Provision for bad debts	(8,944)	(4,328)	(4,616)	(15,323)	(501)	(14,822)
Total	**794,255**	**342,397**	**451,858**	**642,358**	**225,707**	**416,651**

The item **non-current financial receivables** (euro 140,324 thousand) refers mainly to, euro 77,656 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 19,158 thousand in sums deposited into escrow accounts in favour of the pension funds of Pirelli UK Ltd. and Pirelli UK Tyres Ltd. to euro 14,075 thousand in contributions paid in cash at the time of signing an association in participation contract, to euro 5,584 thousand in loans disbursed in favour of the Indonesian joint venture PT Evoluzione Tyres.

The item **current financial receivables** (euro 39,826 thousand) refers to, euro 26,131 thousand for the short-term portion of loans disbursed to the joint venture Jining Shenzhou Tyre Co., Ltd. and to euro 6,843 thousand accrued on derivative cross currency interest swap contracts relative to the unsecured syndicated *"Facilities"* loan granted to Pirelli International Treasury S.p.A., and to euro 965 thousand for the short-term portion of insurance premiums paid in advance for the issue of guarantees in favour of the same pension funds.

The **provision for other receivables and financial receivables** (euro 8,944 thousand) mainly includes euro 8,651 thousand relative to the impairment of financial receivables.

The item **receivables from tax authorities not related to income taxes** (euro 458.921 thousand) is mainly comprised of receivables for IVA (value added tax) and other indirect taxes. The increase compared to December 31, 2018 (equalled euro 152,668 thousand) and was mainly attributable to a receivable from the Brazilian tax authorities totalling euro 162,101 thousand, which was recognised following the attainment of a favourable verdict, no longer subject to appeal, which was formally passed into final judgement (*res judicata*) by the Federal Regional Court, with registered offices in Brasilia and San Paolo, which recognised the right to exclude the ICMS tax (*Imposto Sobre Operações Relativas à Circulação* or state Value Added Tax, for the circulation of goods and the provision of interstate and inter-municipal transport and communication services) from the base calculation of PIS (*Programa de Integracao Social*) and COFINS (*Contribucao para Financiamento de Seguridade Social*) social security contributions for the 1992-2017 period.

The item **other non-current receivables** (euro 39,186 thousand) mainly refers to amounts deposited as guarantees for legal and tax disputes involving the Brazilian business units (euro 35,356 thousand), and receivables pledged as guarantees to the amount of euro 2,397 thousand 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), which was subsequently merged into the company Comercial and Importadora de Pneus Ltda.

The item **other current receivables** (euro 68,894 thousand) mainly includes advances to suppliers amounting to euro 25,480 thousand, receivables from related parties and associates to the amount of euro 18,677 thousand, of which euro 4,244 thousand was for the sale of materials and moulds and receivables from the Prometeon Group, and receivables for the disposal of unused real estate property for industrial operations in Brazil amounting to euro 2,207 thousand.

For other current and non-current receivables the carrying amount is considered to approximate their fair value.

16. TAX RECEIVABLES

The item tax receivables refers to income taxes which amounted to euro 50.634 thousand (of which euro 9,140 thousand was non-current) compared to euro 57.562 thousand at December 31, 2018 (of which euro 16,169 thousand was non-current). In more detail, it mainly refers to receivables for advance payments on taxes for the financial year, and to income tax receivables from previous financial years recorded by the Brazilian and Chinese companies.

17. INVENTORIES

The following is an inventories analysis:

(in thousands of euro)

	12/31/2019	12/31/2018
Raw and auxiliary materials and consumables	121,048	155,205
Sundry materials	7,915	6,492
Work in progress and semi-finished products	58,183	55,608
Finished products	905,713	910,447
Advances to suppliers	895	714
Total	**1,093,754**	**1,128,466**

The reinstatement of the value of inventories, which was recognised net of impairments, amounted to euro 7,502 thousand (restatement of euro 21,497 thousand for 2018).

Inventories were not subject to any guarantee pledges.

18. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT - CURRENT

Current other financial assets at Fair Value through the Income Statement amounted to euro 38,119 thousand at December 31, 2019 compared to euro 27,196 thousand at December 31, 2018.

The fair value of unlisted securities was determined by using estimates based on the best available information.

Changes in fair value for the period were recognised in the Income Statement as *"Financial expenses"* - (Refer to Note 37).

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went from euro 1,326,900 thousand at December 31, 2018 to euro 1,609,821 thousand at December 31, 2019.

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 Statement of Cash Flows, the balance of cash and cash equivalents was recorded net of bank overdrafts, to the amount of euro 9,194 thousand at December 31, 2019 (euro 23,048 thousand at December 31, 2018).

20. EQUITY

20.1 ATTRIBUTABLE TO THE PARENT COMPANY

Equity attributable to the Parent company went from euro 4,468,121 thousand at December 31, 2018 to euro 4,724,449 thousand at December 31, 2019.

The subscribed and paid up **share capital** at December 31, 2019 amounted to euro 1,904,375 thousand and was represented by 1,000,000,000 registered ordinary shares without indication of their nominal value.

Translation reserve, arising from the translation into euro of the financial statements of subsidiaries prepared in a functional currency other than the euro, was negative by euro 313,805 thousand at December 31, 2019. The changes occurred during the financial year include a negative change of euro 8,681 thousand, relating to exchange rate differences on the translation of the financial statements of foreign subsidiaries, associates and joint ventures and a negative change of euro 1,567 thousand relating to the reversal to the Income Statement of cumulated translation reserve up to the date of disposal of the Joint Stock Company "R&D Training Center of New Technologies & Materials "ATOM".

IAS reserves increased from a negative amount of euro 66,714 thousand at December 31, 2018 to a negative value of euro 89,424 thousand at December 31, 2019 mainly due to remeasurement of employee benefits (negative for euro 13,100 thousand). Reserves mainly include cumulative remeasurement of employee benefits negative for euro 43,946 thousand and cash flow hedge reserve for euro 31,326 thousand.

Other reserves / retained earnings increased from euro 2,034,917 thousand at December 31, 2018 to 3,323,303 thousand at December 31, 2019, mainly due to the effect of net income for the year (positive for euro 438,134 thousand) and effect of hyper-inflation accounting in Argentina (positive for euro 27,514 thousand) offset by reductions due to dividends approved for distribution to shareholders (euro 177,000 thousand).

20.2 ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Equity attributable to non-controlling interests went from euro 82,806 thousand at December 31, 2018 to euro 102,182 thousand at December 31, 2019. The increase was mainly due to the result for the financial year of euro 19,563 thousand.

21. PROVISIONS FOR LIABILITIES AND CHARGES

The changes that occurred during the period are shown below:

PROVISION FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION

(in thousands of euro)

	12/31/2018	Translation differences	Increases	Uses	Reversals	Reclass./ Other	First time adoption IFRS 16	12/31/2019
Labour disputes	13,111	(342)	6,633	(3,766)	(2,511)	395	-	13,520
Provision for tax risks not related to income taxes	32,046	(17)	238	-	(17,062)	(9,186)	-	6,019
Provision for environmental risks	1,922	-	500	(1,847)	-	2,000	-	2,575
Provision for restructuring and reorganisation	13,000	(385)	13,566	-	-	-	-	26,181
Provision for other risks	78,248	(331)	8,182	(11,673)	(8,255)	3,511	2,492	72,174
Total	**138,327**	**(1,075)**	**29,119**	**(17,286)**	**(27,828)**	**(3,280)**	**2,492**	**120,469**

The item **increases** refers mainly to provisions for labour disputes mainly for the Brazilian subsidiary, to rationalisation measures in Italy to the amount of euro 11,218 thousand, and provisions for commercial risks and supply contracts mainly in Italy to the amount of euro 10,326 thousand.

The item **uses** of other risks, was mainly attributable to the provision for liabilities and charges recorded for 2018 for the investment in the joint venture PT Evoluzione Tyres relative to the surplus between the pro-rata share of the loss for the period and the value of the investment used following recapitalisation which was completed during the first half-year of 2019, and to litigations regarding occupational diseases.

The item **reversals** of tax risks refers mainly to the release of provisions originally recorded for disputes on taxes not related to income of the subsidiary Pirelli Pneus Ltda, while the reversals of other risks were mainly attributable to amounts for disputes the for which the risk of loss is not considered as probable.

The item **reclassifications** mainly refers to the reclassification of tax provisions for income tax, implemented by Italian companies, to tax payables following the application of IFRIC 23 - Uncertainty over Income Tax Treatments. Under other risks, mainly of note were the reclassifications of the provision for the reinstatement of leased assets by the subsidiary Pirelli UK Tyres Ltd., from current to non-current.

The item **other risks** includes a provision of euro 33.5 million attributable to the decision taken by the European Commission – and subsequently confirmed by the verdict of the Court of the European Union on July 12, 2018, against which on September 21, 2018, Pirelli & C. S.p.A. (Pirelli) filed an appeal in the Court of Justice of the European Union following the antitrust investigation initiated in relation to the alleged restrictive conduct of the competition in the European energy cable market. The decision provides for sanctions against Prysmian Cavi e Sistemi S.r.l. (*"Prysmian"*) for having been directly involved in the alleged cartel, a part of which (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, based solely on the application of the principle of so-called parental liability, in that during part of the period of the alleged infringement, the share capital of Prysmian S.p.A. was held, either directly or indirectly by Pirelli. The provisioned amount of euro 33.5 million corresponds to the amount of the first demand 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 sanction imposed jointly and severally on Pirelli and Prysmian to the amount of euro 67 million.

PROVISION FOR LIABILITIES AND CHARGES - CURRENT PORTION

(in thousands of euro)

	12/31/2018	Translation differences	Increases	Uses	Reversals	Reclass./ Other	First time adoption IFRS 16	12/31/2019
Labour disputes	373	(21)	166	-	(206)	-	-	312
Provision for tax risks not related to income taxes	1,116	149	774	-	-	-	-	2,039
Provision for environmental risks	4,700	-	283	(318)	-	(2,000)	-	2,665
Provision for restructuring and reorganisation	-	(349)	13,940	-	-	-	-	13,591
Provision for claims and warranties	10,767	170	1,383	(1,562)	(532)	0	-	10,226
Provision for other risks	16,920	351	7,339	(719)	(3,908)	(5,288)	-	14,695
Total	**33,876**	**300**	**23,885**	**(2,599)**	**(4,646)**	**(7,288)**	**-**	**43,528**

The item **increases** mainly refers to the provisions for insurance risks and accidents at work of the English subsidiary, and rationalisation measures carried out for the subsidiary Pirelli Pneus Ltda, which began during 2018 relative to the Standard business.

The **reversals** of surplus provisions mostly refers to adjustments to the provisions for accidents at work and insurance risks.

The item **reclassifications** refers mainly to the provision for the reinstatement of the leased assets of the subsidiary Pirelli UK Tyres Ltd., from current to non-current.

22. EMPLOYEE BENEFIT OBLIGATIONS

PENSION FUNDS – NON-CURRENT PORTION

The item is composed as follows

(in thousands of euro)

	12/31/2019	12/31/2018
Pension funds:		
- funded	26,235	51,143
- unfunded	89,690	86,639
Employee leaving indemnities (TFR - Italian companies)	32,680	32,175
Healthcare plans	17,825	17,126
Other benefits	36,573	37,229
Total	**203,003**	**224,312**

Pension funds

The following table shows the **composition of pension funds at December 31, 2019.**

(in thousands of euro)

	12/31/2019						
	Germany	**Sweden**	**Total unfunded pension funds**	**USA**	**UK**	**Other countries**	**Total funded pension funds**
Funded funds							
Present value of funded liabilities	-	-	-	124,619	1,181,736	32,957	1,339,312
Fair value of plan assets	-	-	-	(102,720)	(1,183,006)	(27,351)	(1,313,077)
Unfunded funds							
Present value of unfunded liabilities	86,477	3,213	89,690	-	-	-	-
Net liabilities recognised in the Financial Statements	**86,477**	**3,213**	**89,690**	**21,899**	**(1,270)**	**5,606**	**26,235**

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 in the Financial Statements	**83,455**	**3,184**	**86,639**	**23,320**	**23,398**	**4,425**	**51,143**

The characteristics of the main pension funds in place at December 31, 2019 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 guaranteed a pension in addition to the state pension and was administered internally by a Trust. These 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., and included the employees in the Cables and Systems sector which was sold in 2005, and was already frozen at the date of the disposal. At the end of October 2017, three of the smaller UK pension funds - Pirelli General Executive Pension and Life Assurance Fund, Pirelli Tyres Limited Executive Retirement Benefits Scheme, and Pirelli General Overseas Retirement Benefits Scheme, entered into so-called *"buy-in"* contracts which consist of the purchase of insurance policies (so-called *"bulk annuities"*);
- **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 2019 financial year in the net liabilities of defined benefits (for both 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, 2019	1,293,724	(1,155,942)	137,782
Translation difference	59,815	(58,817)	998
Movements through income statement:			
- current service cost	1,606	-	1,606
- cost of services rendered for previous years	128	-	128
- interest expense / (income)	37,166	(34,399)	2,767
	38,900	**(34,399)**	**4,501**
Remeasurements recognized in equity:			
- actuarial (gains) / losses from change in demographic assumptions	(13,585)	-	(13,585)
- actuarial (gains) / losses from change in financial assumptions	130,635	-	130,635
- experience adjustment (gains) losses	(6,002)	-	(6,002)
- return on plan assets, net of interest income	-	(101,172)	(101,172)
	111,048	**(101,172)**	**9,876**
Employer contributions	-	(32,469)	(32,469)
Employee contributions	534	(534)	-
Benefits paid	(74,274)	68,352	(5,922)
Other	(745)	1,904	1,159
Closing balance at December 31, 2019	**1,429,002**	**(1,313,077)**	**115,925**

Changes for the 2018 financial year in the net liabilities of defined benefits (for both funded and unfunded 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)	-
Benefits paid	(78,167)	72,119	(6,048)
Other	(544)	1,630	1,086
Closing balance at December 31, 2018	**1,293,724**	**(1,155,942)**	**137,782**

Costs for current and past services rendered by employees are included in the item *"Personnel expenses"* - (Refer to Note 31) while interest payables are included in the item *"Financial expenses"* - (Refer to Note 37).

The following table shows the **composition of funded pension fund assets**:

(in thousands of euro)

	12/31/2019				12/31/2018			
	listed	unlisted	total	%	listed	unlisted	total	%
Shares	55,412	314,342	369,754	28.2%	54,391	-	54,391	4.7%
Bonds	80,590	79,834	160,424	12.2%	76,181	-	76,181	6.6%
Insurance policies	83,838	-	83,838	6.4%	84,567	-	84,567	7.3%
Deposits	307,900	8,213	316,113	24.1%	355,410	-	355,410	30.8%
Balanced funds	(2,546)	237,017	234,471	17.9%	6,665	559,360	566,025	49.0%
Real Estate	3,867	57,447	61,314	4.7%	2,558	-	2,558	0.2%
Derivatives	-	68,385	68,385	5.2%	3,267	(739)	2,528	0.2%
Other	18,778	-	18,778	1.3%	14,187	95	14,282	1.2%
Total	**547,839**	**765,238**	**1,313,077**	**100%**	**597,226**	**558,716**	**1,155,942**	**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 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 hedged 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). In addition, the buy in operation implemented in 2017 and the consequent stipulation of the policies on a collective basis (one for each of the three pension funds of the buy in) and not on an individual basis (for each member of the funds), which perfectly replicate the financial profiles of the respective liabilities, has allowed the Group to be relieved of all the aforementioned risks.

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 unfunded pension funds during the 2020 financial year amount to euro 5,709 thousand, while for funded pension funds the amount expected is euro 44,026 thousand.

EMPLOYEES' LEAVING INDEMNITIES (TFR)

Changes for the year for the employees' leaving indemnities provision were as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Opening balance	**32,175**	**33,083**
Movements through Income Statement:		
- current service cost	22	62
- interest expense	498	536
Remeasurements recognized in equity:		
- actuarial (gains) / losses arising from changes in demographic assumptions	-	6
- actuarial (gains) / losses arising from changes in financial assumptions	1,443	291
Indemnities/advanced payments	(1,364)	(1,030)
Other	(94)	(773)
Closing balance	**32,680**	**32,175**

The current cost for services rendered by employees is included in the item *"Personnel expenses"* - (Refer to Note 31) while interest payables are included in the item *"Financial expenses"* - (Refer to Note 37).

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 12/31/2019	17,825
Liabilities recognised in the Financial Statements at 12/31/2018	17,126

The following changes occurred:

(in thousands of euro)

	12/31/2019	12/31/2018
Opening balance	**17,126**	**18,885**
Translation differences	328	814
Movements through income statement:		
- current service cost	2	4
- interest expense	682	614
Remeasurements recognised in equity:		
- actuarial / (gains) losses arising from changes in financial assumptions	1,834	(993)
- actuarial / (gains) losses arising from changes in demographic assumptions	(329)	(183)
- experience adjustment (gains) losses	(775)	(957)
Benefits paid	(1,043)	(1,058)
Closing balance	**17,825**	**17,126**

The cost for services rendered by employees is included in the item *"Personnel expenses"* - (Refer to Note 31) while interest payables are included in the item *"Financial expenses"* - (Refer to Note 37).

The contributions which are expected to be paid into the healthcare plan during the 2020 financial year amount to euro 1,431 thousand.

ADDITIONAL INFORMATION REGARDING POST-EMPLOYMENT BENEFITS

Net actuarial losses accrued during 2019 which were recognised directly in equity amounted to euro 13,100 thousand.

The main actuarial assumptions used at **December 31, 2019** were as follows:

	Italy	Germany	Sweden	UK	USA	Switzerland
Discount rate	0.70%	0.90%	1.10%	2.10%	3.00%	0.25%
Inflation rate	1.00%	1.50%	1.70%	2.90%	n.a.	0.75%

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 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	70,343	70,813	214,827	369,111	725,094
Employees' leaving indemnities (TFR)	2,429	2,622	7,435	8,972	21,458
Healthcare plans	1,431	1,423	4,148	6,119	13,121
Total	**74,203**	**74,858**	**226,410**	**384,202**	**759,673**

The weighted average term for bonds for post-employment benefits equalled 15.04 years (14.57 years at December 31, 2018).

A 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	3.53%	decrease of	3.82%
Inflation rate (only UK plans)	0.25%	increase of	2.62%	increase of	2.14%

At the end of 2018 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	3.46%	decrease of	3.67%
Inflation rate (only UK plans)	0.25%	increase of	2.06%	increase of	2.36%

The sole purpose of the analysis outlined above was to estimate the changes in liability as a result of changes in the discount rates and inflation rates in the UK, applying the central hypothesis on the rates themselves, rather than referring to an alternative set of hypotheses.

The sensitivity analysis on the liabilities related to post-employment benefits is based on the same methodology used to calculate the liability recognised in the Financial Statements.

OTHER LONG-TERM BENEFITS

The composition of other benefits is as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Long-term incentive plans	-	2,018
Jubilee awards	19,513	18,433
Leaving indemnities	12,154	10,786
Other long-term benefits	4,906	5,992
Total	**36,573**	**37,229**

On December 31, 2018 the item *"Long Term Incentives Plan"* included 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. As part of the presentation of 2020 - 2022 Industrial Plan on February 19, 2020, the Board of Directors approved the adoption of a new monetary incentive plan - the Long Term Incentive (LTI) plan - aimed at the areas of Group management (currently around 270 participants) - which is closely correlated with the objectives of the plan. At the same time, the Board of Directors - effective as of December 31, 2019 - resolved to close early, and without any disbursement not even pro-rata, the previous plan adopted in 2018 which correlated the objectives of the 2018-2020 period.

EMPLOYEE BENEFIT OBLIGATIONS - CURRENT PORTION The item employee benefit obligations, which amounted to euro 4,104 thousand, refers to the relevant share at December 31, 2019 of the third instalment of the retention plan, which will be liquidated during the first half-year of 2020. The plan was approved by the Pirelli Board of Directors on February 26, 2018 and is aimed at Managers with strategic responsibilities, and at a select number of senior Managers and Executives.

23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Borrowings from banks and other financial institution were as follows:

(in thousands of euro)

	12/31/2019			12/31/2018		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	1,271,392	1,071,475	199,917	1,269,514	1,269,514	-
Borrowings from banks	3,532,377	2,472,056	1,060,321	3,412,940	2,654,914	758,026
Borrowings from other financial institutions	56,384	-	56,384	17,048	393	16,655
Lease obligations	483,172	405,375	77,797	213	10	203
Accrued financial expenses and deferred financial income	21,459	-	21,459	21,711	28	21,683
Other financial payables	4,455	930	3,525	7,798	4,220	3,578
Total Borrowings from banks and other financial institutions	**5,369,239**	**3,949,836**	**1,419,403**	**4,729,224**	**3,929,079**	**800,145**

The item **bonds** refers to:

1) an unrated public bond loan for the total nominal amount of euro 753 million of which euro 553 million, (originally for euro 600 million which was partially repurchased for the total amount of euro 47 million during the last quarter of 2018) placed on January 22, 2018 with a fixed coupon of 1.375% with an original maturity of 5 years, plus a second security issued on March 15, 2018 for the nominal amount of euro 200 million at a floating rate, with an 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;
2) the floating rate *"Schuldschein"* loan for the total nominal value of euro 525 million placed on July 26, 2018. The loan, signed by primary market operators, consists of one tranche for the amount of euro 82 million with a 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)

	12/31/2019	12/31/2018
Nominal value	1,278,000	1,278,000
Transaction costs	(7,683)	(7,683)
Bond discount	(2,988)	(2,988)
Amortisation of effective interest rate	4,063	2,185
Total	**1,271,392**	**1,269,514**

The item **borrowings from banks**, which amounted to euro 3,532,377 thousand, mainly refers to:

→ use of unsecured financing (*"Facilities"*) granted to Pirelli & C. S.p.A. for the amount of euro 1,994,801 thousand, of which euro 252,095 thousand was classified under current borrowings from banks. The nominal amount of the refinancing operation signed on June 27, 2017, (with a closing date of June 29, 2017) equalled euro 2.7 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). On November 29, 2018 the loan was amended to include the right of the Pirelli Group to extend, at its own discretion, the expiry of the individual credit facilities of the financing to up to 2 years with respect to their original contractual maturity of 3 and 5 years;
→ euro 921,473 thousand relative to three bilateral loans disbursed to Pirelli & C. S.p.A. by leading financial institutions, consisting of a nominal euro 600 million with a 5 year maturity (*"Bilateral 600"*), euro 125 million with a 4 year maturity at a floating rate (*"Bilateral 125"*), and euro 200 million whose maturity date has been extended to June 2020 (original maturity in July 2019) at a fixed rate (*"Bilateral 200"*), classified under current borrowings from banks;
→ euro 485,031 thousand relative to loans disbursed in Brazil by international and local banking institutions of which euro 4,605 thousand has been classified under non-current borrowings from banks;
→ euro 42,790 thousand representing the loan granted to the subsidiary Pirelli Tyre (Jiaozuo) Co., Ltd. (China), classified as current borrowings from banks;
→ euro 12,781 thousand representing the loans granted to the subsidiary Pirelli Otomobil Lastikleri (Turkey) by local banks;
→ bank loans and the use of credit facilities at local level in Russia, (euro 61,807 thousand), and in Japan (euro 8,201 thousand) classified entirely as current borrowings from banks.

At December 31, 2019 the Group had a liquidity margin equal to euro 2,347.9 million composed of euro 700.0 million in the form of non-utilised committed credit facilities, and euro 1,609.8 million in cash and cash equivalents, in addition to financial assets at fair value through the Income Statement to the amount of euro 38.1 million.

The item **lease obligations** represents the financial liabilities relative to the application of the IFRS 16 accounting standard as of January 1, 2019. Undiscounted future payments for lease contracts for which the exercise of extension options are not considered to be reasonably certain amounted to euro 52,124 thousand at December 31, 2019, and were not included in this item.

Accrued financial expenses and deferred financial income (euro 21,459 thousand) mainly refers to the accrual of interest on borrowings from banks to the amount of euro 11,731 thousand (euro 12,387 thousand at December 31, 2018), and to the accrued interest matured on bonds to the amount of euro 9,082 thousand (euro 9,269 thousand at December 31, 2018).

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, 2018	**4,729,224**
Drawdowns of unsecured financing (Facilities)	395,931
Repayments of unsecured financing (Facilities)	(1,097,498)
New bilateral borrowings	720,900
Repayment European Investment Bank (EIB) loan	(10,000)
Financial flows for the local credit facilties of Group companies	40,778
Amortised cost for the period	(15,734)
Translation differences and other movements for the period	122,466
Borrowings from banks and other financial institutions at December 31, 2019 w/o IFRS 16	**4,886,067**
IFRS 16 first time adoption impact	494,292
Increase in lease obligations	50,529
Remeasurement and early termination	15,139
Repayment of principal forlease obligations	(77,678)
Translation differences and other movements for the period	890
Borrowings from banks and other financial institutions at December 31, 2019	**5,369,239**

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, 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
Repayments of unsecured financing (Facilities)	(1,737,501)
Intesa financing	200,000
Repayment European Investment Bank (EIB) loan	(20,000)
Financial flows for the local credit facilties of Group companies	26,415
Amortised 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**

Current and non-current financial payables backed by secured guarantees (pledges and mortgages) totalled euro 96 thousand (euro 342 thousand at December 31, 2018).

For current financial payables, it is considered that their carrying amount approximates their relative fair value. For non-current financial payables, their fair value is shown below, compared with their carrying amount:

(in thousands of euro)

	12/31/2019		12/31/2018	
	Carrying amount	*Fair value*	Carrying amount	*Fair value*
Bonds	1,071,475	1,084,830	1,269,514	1,252,468
Borrowings from banks	2,472,056	2,500,469	2,654,914	2,697,096
Other financial payables	406,305	406,306	4,651	4,651
Total non-current financial payables	**3,949,836**	**3,991,604**	**3,929,079**	**3,954,215**

The unrated public bonds issued by Pirelli & C. S.p.A. are listed, and their relative fair value has been measured on the basis of year-end prices. It has therefore been classified in level 1 of the hierarchy provided for by IFRS 13 – Fair Value Measurement. The fair value of the "*Schuldschein*" loan and of current borrowings from banks, was calculated by discounting each expected debt cash flow at the market swap rate for the currency and the maturity date, increased by the Group's credit rating for other debt instruments similar by nature and technical characteristics, which therefore placed 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** was as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
EUR	2,772,361	2,403,626
USD (US Dollar)	2,303,523	2,184,842
CNY (Chinese Yuan)	66,284	12,829
RUR (Russian ruble)	64,939	32,738
BRL (Brasilian Real)	52,480	9,887
SEK (Swedish krona)	29,926	4,511
RON (Romanian leu)	28,263	5
GBP (British pound)	19,482	106
TRY (Turkish Lira)	16,075	13,433
JPY (Japanese yen)	10,147	6,357
MXN (Mexican Peso)	1,684	54,187
Other Currencies	4,075	6,703
Total	**5,369,239**	**4,729,224**

At December 31, 2019 there were derivative hedging instruments for interest rates and exchange rates in place for debts at floating rates 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) is subdivided as follows:

- a floating rate payable to the amount of euro 2,521,850 thousand, whose interest rate is subject to renegotiation within the first six months of 2020;
- a fixed rate payable to the amount of euro 2,847,353 thousand, whose interest rate is not subject to renegotiation until the natural maturity of the debt to which it refers (euro 335,346 thousand with maturity in the following twelve months and euro 2,512,107 thousand euro with maturity after twelve months).

The cost of debt year-on-year stood at 2.83% compared to 2.95% at December 31, 2018.

The reduction in the cost of debt during the course of 2019 mainly reflected:

- the reduction of the cost of the central credit facilities thanks to the partial replacement of existing debt with new debt at a lower cost, and to the reduction of the interest margin on the main credit facilities following the improvement of the Group's leverage to which these margins are indexed;
- lower exposure for the Group, by more than 1.5%, to countries with high interest rates, which at December 31, 2019 represented less than 19% of the Group's gross debt;

With regard to the existence of financial covenants, it is to be noted that (i) the Group's main bank credit facility (*"Facility"*) granted to Pirelli & C. S.p.A. and Pirelli International Plc (up to now usable solely and in its entirety by Pirelli & C) and, (ii) the financing of the "*Schuldschein"* loan, (iii) the bilateral 600 million euro credit facility granted to Pirelli & C. during the course of the first quarter of 2019 (*"Bilateral 600"*), and (iv) the bilateral euro 125 million credit facility granted to Pirelli & C. during the course of the third quarter of 2019 (*"Bilateral 125"*), 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 all of the loans indicated above, any failure to comply with the financial covenant is identified as a default event.

Specifically, a default event of can be exercised in accordance with the terms of the relative contract (i) as part of the Facility 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 (partial or total) of the loan with the simultaneous cancellation of the relative commitment; (ii) as part of the Schuldschein loan, individually and independently by each lending bank for their share and involves the early repayment of the loan only for that share; and (iii) within both the Bilateral 600 and the Bilateral 125, by the only bank that has granted each of the aforementioned loans, resulting in the early repayment for the entire amount disbursed.

Of note is that this parameter had been complied with at December 31, 2019.

The Facility, the Schuldschein loan and the Bilateral 600 also provide for Negative Pledge clauses whose terms are consistent with market standards for each of the aforementioned types of credit facilities.

The other outstanding financial payables at December 31, 2019 did not contain financial covenants.

24. TRADE PAYABLES

Trade payables were composed as follows:

(in thousands of euro)

	12/31/2019			12/31/2018		
	Total	Non-current	Current	Total	Non-current	Current
Trade payables	1,546,714	-	1,546,714	1,567,718	-	1,567,718
Bill and notes payable	64,774	-	64,774	36,959	-	36,959
Total Trade payables	**1,611,488**	**-**	**1,611,488**	**1,604,677**	**-**	**1,604,677**

For trade payables, it is considered that their carrying amount approximates their relative fair value.

25. OTHER PAYABLES

Other payables were as follows:

(in thousands of euro)

	12/31/2019			12/31/2018		
	Total	Non-current	Current	Total	Non-current	Current
Accrued expenses and deferred income	83,268	57,684	25,584	84,338	53,233	31,105
Tax payables not related to income taxes	86,252	7,002	79,250	93,200	6,171	87,029
Payables to employees	91,426	62	91,364	98,167	220	97,947
Payables to social security and welfare intitutions	67,404	24,131	43,273	68,576	21,894	46,682
Dividends payable	270	-	270	350	-	350
Contract liabilities	4,754	-	4,754	4,147	-	4,147
Other payables	159,954	1,692	158,262	171,261	1,769	169,492
Total Other payables	**493,328**	**90,571**	**402,757**	**520,039**	**83,287**	**436,752**

The item **non-current accrued expenses and deferred trade income** refers to euro 50,159 thousand in capital contributions received for investments realised 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 7,502 thousand in costs for trade initiatives in Brazil.

The item **current accrued expenses and deferred trade income** includes euro 6,031 thousand for various trade initiatives realised in Germany and Brazil, euro 8,084 thousand in government grants and tax incentives received mainly in Italy and Romania, and euro 1,872 thousand for insurance costs coverage in some European countries.

The item **tax payables for taxes not related to income** is mainly comprised of IVA payables (value added tax) and other indirect taxes, withholding tax for employees and other taxes not related to income.

The item **current payables to employees** mainly includes amounts accrued 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, pursuant to the provisions of IFRS 15.

The item **other current payables** (euro 158.262 thousand) mainly includes:

- euro 109,634 thousand for the purchase of property, plant and equipment (euro 106,668 thousand at December 31, 2018);
- euro 9,114 thousand in payables to representatives, agents, professionals and consultants;
- euro 6,129 thousand in withholding taxes on income;
- euro 5,227 thousand for debts relative to customs duties, import and transport costs;
- euro 3,482 thousand in payables to companies of the Prometeon group particularly in Brazil and China;
- euro 3,183 thousand in payables to Directors, Auditors and supervisory bodies;
- euro 1,380 thousand relative to the purchase of 34 points of sale in São Paulo (Brazil) by the Brazilian subsidiary Pirelli Comercial de Pneus Brasil Ltda. The amount refers to the consideration for the transaction, net of the amount already paid at December 31, 2019.

26. TAX PAYABLES

Tax payables were for the most part related to national and regional income taxes in different countries and amounted to euro 94,321 thousand (of which euro 12,555 thousand was for non-current liabilities), compared to euro 67,594 thousand at December 31, 2018 (of which euro 2,091 thousand was for non-current liabilities). Income tax payables include Management evaluations with reference to any effects of uncertainty on the treatment of income taxes.

27. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes the fair value measurement of derivative instruments. It is composed as follows:

(in thousands of euro)

	12/31/2019				12/31/2018			
	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	-	5,058	-	(9,724)	-	7,321	-	(6,092)
Exchange rate derivatives - included in net financial position	-	21,904	-	(31,703)	-	70,329	-	(53,510)
Hedge accounting adopted								
- cash flow hedge:								
Interest rate derivatives	481	-	(10,327)	-	-	-	(4,726)	-
Other derivatives	52,034	10,186	-	-	20,134	20,917	(11,313)	-
Total	**52,515**	**37,148**	**(10,327)**	**(41,427)**	**20,134**	**98,567**	**(16,039)**	**(59,602)**
- Total derivatives included in net financial position	52,515	32,090	(10,327)	(31,703)	20,134	91,245	(13,738)	(53,510)

The **composition of the items by type of derivative instrument** is as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Current assets		
Forward foreign exchange contracts - fair value recognised in the Income Statement	26,962	77,650
Cross currency interest rate swaps - cash flow edge	10,186	20,917
Total current assets	**37,148**	**98,567**
Non current assets		
Interest rate swaps - cash flow hedge	481	-
Cross currency interest rate swaps - cash flow hedge	52,034	20,134
Total non current assets	**52,515**	**20,134**
Current liabilities		
Forward foreign exchange contracts - fair value recognised in the Income Statement	(41,427)	(59,602)
Total current liabilities	**(41,427)**	**(59,602)**
Non current liabilities		
Interest rate swaps - cash flow hedge	(10,327)	(4,726)
Cross currency interest rate swaps - cash flow hedge	-	(11,313)
Total non current liabilities	**(10,327)**	**(16,039)**

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 for the period. These were hedge operations for the commercial and financial transactions of the Group for which the hedge accounting option had not been adopted. Their fair value was determined by using the forward exchange rate at the reporting date.

DERIVATIVE FINANCIAL INSTRUMENTS WITH THE ADOPTION OF HEDGE ACCOUNTING The value of **interest rate derivatives** recognised under current assets to the amount of euro 481 thousand, and under non-current liabilities to the amount of euro 10,327 thousand, refers to the fair value measurement of 9 cross currency interest rate swaps.

Derivative	**Hedged element**	**Notional amount (Euro million)**	**Start date**	**Maturity**	
IRS	Term loan in EUR	250	June 2019	June 2022	receive floating / pay fix
IRS	Term loan in EUR	63	August 2019	August 2023	receive floating / pay fix
IRS	Term loan in USD + CCIRS	100	October 2019	June 2022	receive floating / pay fix
IRS forward start	Schuldschein	180	July 2020	July 2023	receive floating / pay fix
IRS forward start	Schuldschein	20	July 2020	July 2025	receive floating / pay fix
Total		**613**			

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 variable rate financial liability which 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 23).

The change in the fair value for the period which was negative to the amount of euro 6,074 thousand was entirely suspended in equity, while euro 954 thousand was reversed to the Income Statement under the item *“Financial expenses”* - (Refer to Note 37), correcting the financial expenses recognised on the hedged liability.

A change of +0.5% in the EURIBOR curve, all other conditions being equal, would result in a positive change of euro 7,905 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 7,135 thousand in the equity of the Group

The value of **other derivatives,** recognised under non-current assets to the amount of euro 52,034 thousand and under non-current assets to the amount of euro 10,186 thousand, refers to the fair value measurement of 11 cross currency interest rate swaps with the following characteristics:

Derivative	Notional amount	Notional amount (USD million)	Start date (Euro million)	Maturity	
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
CCIRS	1,079	920	July 2019	June 2022	pay fix EUR / receive floating LIBOR USD
Total	**2,045**	**1,744**			

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, was to hedge the Group against the risk of cash flow fluctuations associated with changes in the LIBOR rate, and changes in the US$/euro exchange rate generated by a liability in US$ at a floating rate.

The positive change in the fair value for the period was suspended in equity to the amount of euro 83,342 thousand (a cash flow hedge reserve of euro 79,513 thousand and a cost of hedging reserve of euro 2,829 thousand), while euro 36,864 thousand was reversed to the Income Statement under the item “*net gains on exchange rates”,* (Refer to Note 36 - *“Financial income”*) to offset the unrealised exchange rate losses recorded on the hedged liability, and euro 50,338 thousand which was reversed to the item *“Financial expenses”* - (Refer to Note 37), correcting the financial expenses recognised on the hedged liability.

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 11,054 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 11,253 thousand in the equity of the Group.

Hedging relationships relative to any IRS (interest rate swap) and CCIRS (cross-currency interest rate swap - Basis Swap) are considered prospectively effective as 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 with financial counter-parties with a high credit standing, and the credit quality of the outstanding derivatives portfolio is constantly monitored;
- the designated hedge ratio is aligned with that used for financial risk management and is equal to 100% (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 risk adjusted fair value of the hedging instrument (with the exception of those attributable to the currency basis spread), with any changes in the risk free fair value of the hedged item, through the identification of a hypothetical derivative with the same characteristics of the underlying financial liability. Possible causes of ineffectiveness were as follows:

- the application of credit risk adjustments 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;
- the misalignment between the effective contractual conditions of the future transaction and those of the hedging instrument.

At December 31, 2019, no ineffectiveness was identified with reference to the aforementioned hedging relationships.

28. COMMITMENTS AND RISKS

COMMITMENTS FOR THE PURCHASE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The commitments to purchase property, plant and equipment and intangible assets amounted respectively to euro 92,242 thousand and euro 4.753 thousand and refer mainly to subsidiary companies in Italy, Romania, Brazil, Russia, UK and Mexico.

LEASING CONTRACT COMMITMENTS

At December 31, 2019, the total of undiscounted future payments for lease contracts not yet in force, and against which no financial payable was recognised, was equal to euro 34,005 thousand and mainly refers to lease contracts for warehouses and offices.

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 Pending the decision of the EU Community proceedings referred to in Note 21 - *"Provisions for Risks and Charges"*, in November 2014, Pirelli & C. S.p.A. (*"Pirelli"*) commenced legal action before the Court of Milan in order to obtain an examination and declaratory judgement of the obligation of Prysmian Cavi e Sistemi S.r.l. to hold Pirelli harmless from any claim relative to 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 21, against which, on September 21, 2018, Pirelli filed an appeal before the Court of Justice of the European Union.

Prysmian also filed an appearance in the proceedings requesting, that Pirelli's claims be dismissed, as well as to be held harmless by Pirelli in relation to the consequences deriving from the Decision of the European Commission or otherwise in any way connected to it. Proceedings were suspended pending the final ruling by the EU Community Courts.

On the basis of an accurate legal analyses provided by external counsel, Pirelli maintained that it was not involved in the commission of the alleged irregularities, and maintains that the full and final liability for any violation must be borne exclusively by the company directly involved.

In October 2019 Pirelli took further action before the Court of Milan against Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. requesting an assessment and judgement for the obligation of Prysmian Cavi e Sistemi S.r.l. to indemnify and hold Pirelli harmless against all charges, expenses, costs and/or damage consequent to claims by private and/or public third parties (including authorities other than the European Commission) relative, connected and/or consequential to the facts which were subject to the Decision of the European Commission, as well as the consequent order that Prysmian Cavi e Sistemi S.r.l. reimburse any charge, expense, costs or damage incurred or suffered by Pirelli.

Pirelli also requested the examination of Prysmian Cavi e Sistemi S.r.l.'s and Prysmian S.p.A.'s liabilities in relation the illegal conduct connected to the aforementioned alleged anti-competitive agreement, carried out by the same, and, consequently, an order to pay all damage incurred and currently being incurred by Pirelli.

Pirelli also requested the examination and declaratory judgement of the joint liability of Prysmian S.p.A. in relation to the amounts that will be paid both due to these new proceedings and those brought in November 2014, which will not be paid by Prysmian Cavi e Sistemi S.r.l.

OTHER DISPUTES RELATED TO THE EUROPEAN COMMISSION DECISION In November, 2015, Prysmian S.p.A. notified Pirelli of a summons for proceedings for the recovery of damages brought before the London High Court of Justice against Prysmian S.p.A. and other defendants named in the European Commission decision of April 2, 2014, by National Grid and Scottish Power, companies who claim to have been injured by the alleged unlawful agreement. Specifically, Prysmian S.p.A. has 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 compensation obligations (to date unquantified) by National Grid and Scottish Power. Due to the aforementioned pending legal action before the Court of Milan, Pirelli has challenged the lack of jurisdiction of the London High Court of Justice claiming that, that any decision on the merits must be referred to the previous Court of appeal. In April 2016, the High Court of Justice, in proceedings between Pirelli and Prysmian S.p.A. suspended the English proceedings until judgement became final, which would define the Italian proceedings already pending.

In April 2019, Terna S.p.A. - National Electricity Grid (*"Terna"*) jointly and severally sued Pirelli, three Prysmian Group companies and another defendant named in the aforementioned European Commission Decision, in order to obtain compensation for the damage allegedly suffered as a consequence of the alleged anti-competitive conduct, currently quantified by the plaintiff as euro 199.9 million.

Finally, in April 2019, the Electricity & Water Authority of Bahrain, GCC Interconnection Authority, Kuwait Ministry of Electricity and Water and Oman Electricity Transmission Company, served a summons against Pirelli, some of the Prysmian Group companies and other defendants named in the aforementioned European Commission Decision, agreeing both jointly and severally, to obtain compensation for the damage allegedly suffered as a consequence of the alleged anti-competitive conduct. This proceeding was brought before the Court of Amsterdam. At present, the plaintiffs have not yet quantified the damage allegedly suffered.

On the basis of accurate legal analyses provided by external counsel, Pirelli, not being involved in the commission of the alleged irregularities of its former subsidiary, maintains that the full and final liability for any violation must be borne exclusively by the company directly involved. As a consequence of the aforesaid, the assessment of the risk relative to the disputes described above is considered as to not require the allocation of any specific provision in the Consolidated Financial Statements at December 31, 2019, even with the initial status of proceedings having been taken into consideration.

TAX DISPUTES IN BRAZIL The subsidiary Pirelli Pneus is involved in tax disputes and litigations. The most relevant are described below:

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 is 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 *erga omnes*, 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 was designed to put an end to the dispute between various states in Brazil. This legislation validates the incentives, which to date were considered illegitimate, and therefore also extinguishes the relative sanctions imposed by the Brazilian tax authorities. The implementative aspects of this new provision have to date been defined by the Brazilian States, and therefore last December 2019, Pirelli Pneus also filed a petition for amnesty regarding the dispute in question. This petition does not interrupt the ongoing litigation in court, which can therefore continue in case the amnesty petition should have a negative outcome. 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 Sports 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 also in light of the recent judgement in favour of Pirelli Pneus, the Group maintains that it has a good chance of winning. This position is also supported by an appraisal prepared by a Brazilian government institution (the INT - National Institute of Technology) specifically commissioned by Pirelli Pneus, who concluded their analysis by equating the tyres discussed, in light of their similar characteristics, 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 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) which also refers to the particular case of 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 particular 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 precedence 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.

DISPUTE CONCERNING THE TAX IMPACT DERIVING FROM THE SO CALLED "PLANO VERÃO" (GOVERNMENT STABILISATION PLAN) Pirelli Pneus is involved in dispute over taxes with the Brazilian tax authorities, which, in the opinion of the Company - for the period between 1989 and 1994 - were collected by the Brazilian tax administration in amounts that exceeded what was actually due following the so called *"Plano Verão"*, the economic measure introduced by the then Brazilian government, to control the phenomenon of hyperinflation that was affecting the country through price freezes. However, the difference between the real and indexed inflation had the effect of creating significant distortions in the Financial Statements of companies and, last but not least, the amount of taxes paid by the same. Pirelli Pneus made use of the real inflation rate for its own Financial Statements valuations, and, at the same time, began administrative legal proceedings aimed at asserting its reasons for the correct amount of taxes owed. In the course of the aforementioned proceedings, Pirelli Pneus first adhered to an amnesty for the tax disputes in order to define the dispute in question and, only subsequently, on the basis of a ruling with binding effectiveness towards everyone by the Brazilian Supreme Court, requested the annulment of the effects of the amnesty, to which it had previously adhered. The risk is estimated at between euro 17 and 31 million, inclusive of tax, interests and penalties. Also on the basis of the recent jurisprudence on cases similar to that of Pirelli Pneus, the Group revised the assessment of the risk of losing, which at December 31, 2019 is no longer considered as probable. In light of this, during the 2019 financial year, a provision in the Financial Statements of approximately euro 17 million, previously set aside due to the uncertainty regarding the possibility that the competent judicial courts would express themselves in favour of cancelling the effects of the tax amnesty, was completely released.

OTHER PIRELLI PNEUS DISPUTES Pirelli Pneus is involved in two other relevant tax disputes concerning federal taxes and excises (such as the IPI tax rate, the PIS and COFINS tax) as well as the ICMS 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 *"Desenvolve"* litigation relative to a fiscal incentive recognised by the Federal State of Bahia, but which is claimed by the Brazilian tax authorities to have been incorrectly calculated by Pirelli Pneus - approximately euro 9 million inclusive of taxes, penalties and interest;
(ii) 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 two of the aforementioned disputes, also on the basis of the results of the first incidences of proceedings, the risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for these disputes.

29. REVENUES FROM SALES AND SERVICES

Revenues from sales and services were as follows:

(in thousands of euro)

	2019	2018
Revenues from sales of goods	5,174,701	5,049,040
Revenues from services	148,353	145,431
Total	**5,323,054**	**5,194,471**

30. OTHER INCOME

The item is composed as follows:

(in thousands of euro)

	2019	2018
Other income from Prometeon Group	60,922	91,343
Sales of Industrial products	158,709	183,762
Gains on disposal of property, plant and equipment	1,298	7,848
Rent income	3,780	5,465
Income from sublease of rights of use assets	1,662	-
Recoveries and reimbursements	164,475	95,785
Government grants	13,343	14,515
Other income	82,118	84,487
Total	**486,307**	**483,205**

The item **other income from the Prometeon Group** includes the sale of raw materials, semi-finished and finished products for the amount of euro 18,688 thousand, royalties recorded from the trademark license agreement to the amount of euro 10,423 thousand, royalties recorded from the know-how license contract to the amount of euro 16,326 thousand, and services rendered for the amount of euro 15,485 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. Reference should also be made to Note 44 – *"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, purchased mainly from the Prometeon Group, and which are sold by the distribution network controlled by the Pirelli Group.

The item **recoveries and reimbursements** includes, in particular:

- refunds of taxes and duties for a total of euro 110,681 thousand, received mainly from the Brazilian subsidiary. The item includes euro 73,938 thousand derived from the benefit recorded following the attainment of a favourable verdict by the Federal Regional Court, with registered office in in Brasilia, which recognised the right to exclude the ICMS tax (*Imposto Sobre Operações Relativas à Circulação* or state Value Added Tax for the circulation of goods and the provision of interstate and inter-municipal transport and communication services) from the base calculation of PIS (*Programa de Integracao Social*) and COFINS (*Contribucao para Financiamento de Seguridade Social*) social security contributions for the 2003-2014 period. Reference should be made to Note 15 - *"Other Receivables"* for further details.
- tax refunds totalling euro 17,852 thousand deriving from tax incentives obtained mainly in the state of Bahia, Brazil for commercial exports;
- proceeds from the sale of tyres and scrap materials carried out in the United Kingdom for a total of euro 5,814 thousand;
- income from the sale of tyres for testing and the recovery of transport expenses incurred in Germany to the amount of euro 1,838 thousand.

The item **other** includes income from sporting activities amounting to euro 34,953 thousand.

31. PERSONNEL EXPENSES

The item is composed as follows:

(in thousands of euro)

	2019	2018
Wages and salaries	822,647	796,874
Social security and welfare contributions	167,184	167,011
Costs for employee leaving indemnities and similar	16,888	19,087
Costs for defined contribution pension funds	23,583	22,698
Costs for defined benefit pension funds	1,627	13,831
Costs for jubilee awards	3,622	4,247
Costs for defined contribution healthcare plans	5,290	3,007
Other costs	31,326	40,824
Total	**1,072,167**	**1,067,579**

The item **other costs** includes the portion of the retention plan that was approved by the Pirelli Board of Directors on February 26, 2018.

The item **personnel expenses for 2018 had included non-recurring events** for a total of euro 15,410 thousand (1.4% of the total) attributable to provisions for the estimated impacts on pension obligations deriving from the need to recalculate them, in order to rectify some of the disparities in the treatments of Guaranteed Minimum Pension (GMP equalisation) amounts, that emerged for UK pensions following the High Court ruling of October 36, 2018 in the case concerning the Lloyds Banking Group.

32. AMORTISATION, DEPRECIATION AND IMPAIRMENT

The item is composed as follows:

(in thousands of euro)

	2019	2018
Amortisation	125,823	125,220
Depreciation (excl. Depreciation of right of use)	292,045	269,084
Depreciation of right of use	89,479	-
Impairment of property, plant and equipment and intangible assets	20,471	20,219
Total	**527,818**	**414,523**

The item **impairments** mainly refers to property, plant and equipment due to the rationalisation plan carried out in Italy and Brazil, consistent with the reduction of the Standard capacity.

33. OTHER COSTS

The item is subdivided as follows:

(in thousands of euro)

	2019	2018
Selling costs	320,189	310,687
Purchases of goods for resale	367,365	434,201
Fluids and energy	181,650	161,180
Advertising	214,919	231,981
Consultants	48,522	43,872
Maintenance	50,494	51,394
Warehouse operating costs	71,226	70,225
Leases and rentals	36,905	125,359
Outsourcing	34,944	38,572
Travel expenses	37,311	52,847
IT expenses	34,537	34,844
Key managers compensations	7,235	8,229
Other provisions	41,785	37,867
Duty stamps, duties and local taxes	27,507	29,031
Canteen	16,091	17,043
Insurance	31,476	30,319
Cleaning expenses	14,836	14,788
Waste disposal	7,558	7,160
Security expenses	9,714	9,150
Telephone expenses	8,744	9,723
Other	150,396	139,690
Total	**1,713,404**	**1,858,162**

The item **leases and rentals** includes costs relative to the application of the new accounting standard IFRS16, in particular:

- euro 23,555 thousand for lease contracts with duration of less than twelve months;
- euro 7,394 thousand for lease contracts for low unit value assets;
- euro 5,956 thousand for lease contracts with variable payments.

In 2018 the item included costs relating to operating leases recorded in accordance with IAS 17 - Leases replaced from 1 January 2019 by the new accounting standard IFRS 16 - Leases.

The item **other** also includes labour provided by third parties to the amount of euro 31,083 thousand, and expenses for technological tests to the amount of euro 20,190 thousand.

The item **other costs for 2018 had included non-recurring events** for a total of euro 8,639 thousand (0.5% of the total) and mainly relative to costs for consultancy services as part of non-recurring transactions, as well as costs incurred as a result of extraordinary events.

34. NET IMPAIRMENT OF FINANCIAL ASSETS

The item, which was negative euro 22,266 thousand compared to euro 21,273 thousand for 2018, mainly includes the net impairment of trade receivables to the amount of euro 22,235 thousand (euro 12,019 thousand at December 2018).

35. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

35.1 SHARE OF NET INCOME (LOSS) FROM EQUITY INVESTMENTS IN ASSOCIATES AND JOINT VENTURES.

The share of net income (loss) from equity investments in associates and joint ventures evaluated using the equity method amounted to a negative euro 9,678 thousand and refers mainly to investments in the joint venture Xushen Tyre (Shanghai) Co., Ltd. which recorded a loss of euro 7,158 thousand, and in the joint venture PT Evoluzione Tyres in Indonesia which recorded a loss of euro 2,769 thousand (a loss euro 10,350 thousand for 2018).

For further details reference should be made to preceding Note 11 - *"Investments in Associates and Joint Ventures"*.

35.2 GAINS ON EQUITY INVESTMENTS

The amount euro 1,684 thousand mainly refers to the reversal to the Income Statement of the foreign currency translation reserve, accumulated up until the date of disposal of the Joint Stock Company, the Atom Research Training Centre for New Technologies and Materials, of euro 1,567 thousand.

For 2018 this item had mainly referred to the positive impact 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"* sold on January 11, 2018.

35.3 LOSSES ON EQUITY INVESTMENTS

For 2019 the item amounted to euro 8,538 thousand, and referred to the disposal of the investment in Inter Wheel Sweden Aktiebolag.

For 2018 the item had amounted to euro 1,603 thousand, and mainly referred to the impairment of the investment in Focus Investments S.p.A..

35.4 DIVIDENDS

For 2019 this item amounted to euro 5,526 thousand and mainly included dividends received from the RCS Mediagroup S.p.A. (euro 1,482 thousand), from the Fondo Comune di investimento immobiliare Anastasia (Anastasia Real Estate Investment Fund) (euro 2,434 thousand), from Fin. Priv. S.r.l. (euro 957 thousand) and from Genextra S.p.A. (euro 178 thousand).

For 2018 this item had 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, and from Fin. Priv. S.r.l. to the amount of euro 957 thousand.

36. FINANCIAL INCOME

The item is composed as follows:

(in thousands of euro)

	2019	2018
Interest	13,773	17,176
Net interest income on Brazilian tax credits	107,302	-
Hyperinflation impact	-	8,536
Other financial income	5,141	9,627
Net gains on exchange rates	2,461	-
Fair value measurement of currency derivatives	-	23,523
Fair value measurement of other derivatives	83	-
Total	**128,761**	**58,862**

The item **interest** includes euro 5,384 thousand for interest on fixed income securities, and euro 3,095 thousand for interest income due from financial institutions.

The item **net interest on tax credits in Brazil** refers to the interest matured on receivables from the Brazilian tax authorities recorded following the attainment of a favourable judgement by the Federal Regional Court, with registered offices in Brasilia and San Paolo, which recognised the right to deduct the state tax on goods and services (ICMS) from the base calculation of PIS *(Programa de Integracao Social)* and COFINS *(Contribucao para Financiamento de Seguridade Social)* social security contributions. Reference should be made to Note 15 - *"Other receivables"* for further details.

The item **other financial income** mainly includes interest matured on tax credits and on security deposits provided by the Brazilian subsidiaries as a guarantee for legal and tax disputes.

The item **net gains on exchange rates** which amounted to euro 2,461 thousand (gains amounted to euro 2,174,212 thousand and losses amounted to euro 2,171,151 thousand) refers to the adjustment of period-end exchange rates for 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.

37. FINANCIAL EXPENSES

The item is composed as follows:

(in thousands of euro)

	2019	2018
Interests	107,166	103,975
Commissions	20,298	20,522
High inflation effect	19,995	-
Other financial expenses	9,303	13,183
Interest expenses on lease obligations	23,480	-
Net losses on exchange rates	-	111,569
Net interest costs on employee benefit obligations	4,612	5,446
Fair value measurement of exchange rate derivatives	53,386	-
Fair value measurements of other derivatives	-	478
Total	**238,240**	**255,173**

Interests which totalled euro 107,166 thousand included:

- euro 98,639 thousand for bank credit facilities held by Pirelli & C. S.p.A.;
- euro 15,213 thousand in financial expenses relative to bond loans, of which euro 9,869 thousand refers to unrated bonds, and euro 5,344 thousand relative to the *Schuldschein* loan, both issued by Pirelli & C. S.p.A.
- euro 52,169 thousand for net interest on Cross Currency Interest Rate Swaps and *Interest Rate Swaps* to rectify the flow of financial expenses, credit facilities and bond loans referred to in the previous points. For further details reference should be made to Note 27 - *"Derivative financial instruments".*
- euro 34,740 thousand in financial expenses relative to bank finance for foreign affiliates.

The item **commissions** includes, in particular, euro 7,459 thousand in costs for the assignment of receivables with a non-recourse clause mainly in LatAm, Italy and Germany, and euro 12,839 thousand relative to expenses for sureties and other bank commissions.

The item **high inflation effect** refers to the effect on monetary items deriving from the application of IAS 29 - Hyperinflation, by the subsidiary company Pirelli Neumaticos SAIC. Reference should be made to Note 42 for more details.

The item **valuation at fair value of exchange rate derivatives** refers to the purchase/sale of the forward currency contracts to hedge commercial and financial transactions, in accordance with the Group's policy for the management of exchange rate risk. For transactions still open at the end of the financial year, the fair value was determined by applying 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 differential between the currencies which are subject to the individual hedges, equal to a net cost of euro 48,191 thousand, and the exchange rate component equal to a net cost of euro 31,895 thousand.

For 2019 the exchange rate component of the fair value measurement of the cross currency interest rate swaps, for which hedge accounting of the cash flow hedge type was adopted, was positive to the amount of euro 36,864 thousand, and was reclassified under the item net gains on exchange rates, to offset unrealised exchange losses recorded on the hedged liability. To ensure comparability with the previous financial year, the exchange rate component for 2018, positive to the amount of euro 80,868 thousand, was reclassified to reduce net losses on exchange rates in order to offset unrealised currency exchange losses recorded for 2018 on the hedged liability.

Net of the aforementioned reclassification, in comparing the net gains on exchange rates, which totalled euro 2,461 thousand recorded for receivables and payables in currencies other than the functional currency of the various subsidiaries, with the fair value valuation of the exchange rate component of the exchange rate hedge derivative, equal to a net loss of euro 5,056 thousand, there results a negative imbalance of euro 2,595 thousand, which indicates that the management of exchange rate risk is basically in balance.

For **2018 financial expenses had included non-recurring events** to the amount of euro 2,149 thousand (0.8% 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% and original maturity date in November 2019), which resulted in the 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 relative amortised portion) due to the repricing of the unsecured credit facility (*"Facilities"*) which took place in January 2018.

38. TAXES

Taxes were composed as follows:

(in thousands of euro)

	2019	2018
Current taxes	198,460	156,104
Deferred taxes	(33,898)	(103,140)
Total	**164,562**	**52,964**

Taxes for 2019 amounted to euro 164,562 thousand against pre-tax earnings of euro 622.259 thousand. The tax rate which stood at 26.5% was consistent with the expected tax rate for the 2019 financial year.

For 2018 taxes had included non-recurring expenses and was positive to the amount of euro 60,607 thousand, attributable to the benefit derived from the application of the subsidised tax relief scheme, the so called Patent Box, relative to the 2015 – 2018 period due to the preliminary agreement signed by Pirelli Tyre S.p.A. on October 15, 2018 with the Agenzia delle Entrate (Italian Tax Office). The tax rate for the 2018 financial year had stood at 10.6%.

The **reconciliation between theoretical and effective taxes** is as follows:

(in thousands of euro)

	2019
A) Net income / (loss) before taxes	**622,259**
B) Theoretical taxes	**172,424**
Main causes for changes between estimated and effective taxes:	
Tax incentives	(38,787)
Non-deductible costs	8,924
Witholding taxes not recoverable	15,895
Other	6,106
C) Effective taxes	**164,562**
Theoretical tax rate (B/A)	28%
Effective tax rate (C/A)	26%

The difference between the nominal and effective tax rates of the Group was mainly due to tax incentives, net of non-deductible costs which were considered irrecoverable. The tax incentives mainly refer to the benefit estimated for 2019 derived from the subsidised tax relief scheme in Italy, the so called Patent Box.

The difference between the Group theoretical tax of 2019 and 2018 is mainly due to a different composition of profit before tax generated by subsidiaries operating in countries with different nominal tax rates. The main 2019 effect refers to the increase of profit before tax generated in Brazil on which a nominal tax rate of 34% applies.

The Group's theoretical tax burden is calculated by taking into account the **nominal tax rates of the countries** where the Group's main companies operate, as shown below:

	2019
EMEA	
Italy	27.90%
Germany	30.00%
Romania	16.00%
Great Britain	19.00%
Turkey	22.00%
Russia and Nordics	
Russia	20.00%
North America	
USA	25.00%
Mexico	30.00%
South America	
Argentina	30.00%
Brazil	34.00%
APAC	
China	25.00%

The share of taxes paid according to geographical area during the course of the financial year, equal to euro 141,985 thousand, was follows:

- 41% APAC;
- 35% Europe;
- 14% LatAm;
- 7% NAFTA;
- 3% Russia, Nordics 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 2019, to income taxes paid during the course of 2019 but relative to previous financial years (e.g. income tax balances relative to 2018) or to payments relative to tax assessments for previous financial years. Taxes paid also include withholding taxes incurred on cross-border payments such as dividends, interest and royalties which have been reported in the tax residence jurisdictions of the recipient.

39. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

For 2018 the item included the last residual activities in China and Argentina relative to the Industrial business, which as a result of the assignment by Pirelli & C. S.p.A. of the TP Industrial Holding S.p.A. shares in 2017 to the Parent company Marco Polo International Holding Italy S.p.A. were classified as *"discontinued operations"*.

40. 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)

	2019	2018
Net income attributable to the Parent Company related to **continuing operations**	438,134	438,035
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	1,000,000
Earnings / (loss) per share related to continuing operations (in euro per share)	**0.438**	**0.438**
Net income attributable to the Parent Company related to **discontinued operations**	-	(6,429)
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	1,000,000
Earnings / (loss) per share related to discontinued operations (in euro per share)	**-**	**(0.006)**

It should be noted that the earnings/(loss) per basic and diluted share coincide as there are no potential issues of shares with dilutive effects on the results.

41. DIVIDENDS PER SHARE

Based on the results of 2018, during the course of 2019, Pirelli & C. S.p.A. distributed a dividend of euro 0.177 to its shareholders for each of the 1.000.000.000 ordinary shares for a total amount of euro 177.000 thousand.

42. HYPERINFLATION

Based on the provisions of the accounting standards of the Group, with regard to the criteria for entering/exiting inflation accounting, the subsidiary Pirelli Neumaticos SAIC has adopted inflation accounting since July 1, 2018, and 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 Consolidated Financial Statements at December 31, 2019 the official inflation index of 54.3% was used.

Losses on the net monetary position were recognised in the Income Statement as "*Financial expenses*" (Refer to Note 37) to the amount of euro 19,995 thousand.

43. NON-RECURRING EVENTS

Pursuant to CONSOB Notification No. DEM/6064293 of July 28, 2006, there were no non-recurring events recorded during the 2019 financial year.

For the 2018 financial year, the impact of non-recurring events on the operating income had amounted to expenses totalling euro 24 million, while the impact on the net income had been positive to the amount of euro 34.4 million.

44. 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, the Income Statement and the Statement of Cash Flows which include the related party transactions and their relative impact.

STATEMENT OF FINANCIAL POSITION

(in millions of euro)

	Total reported at 12/31/2019	of which related parties	% incidence	Total reported at 12/31/2018	of which related parties	% incidence
Non-current assets						
Other financial assets	**342.4**	5.6	1.6%	**225.7**	12.6	5.6%
Current assets						
Trade receivables	**649.4**	9.8	1.5%	**628.0**	15.7	2.5%
Other receivables	**451.9**	45.2	10.0%	**416.7**	55.4	13.3%
Non-current liabilities						
Borrowings from banks and other financial institutions	**3,949.8**	17.4	0.4%	**3,929.1**	-	n.a.
Current liabilities						
Borrowings from banks and other financial institutions	**1,419.4**	2.2	0.2%	**800.1**	-	n.a.
Trade payables	**1,611.5**	171.9	10.7%	**1,604.7**	191.6	11.9%
Other payables	**402.8**	4.8	1.2%	**436.8**	7.4	1.7%

INCOME STATEMENT

(in millions of euro)

	2019	of which related parties	% incidence	2018	of which related parties	% incidence
Revenue from sales and services	**5.323.1**	19.3	0.4%	**5.194.5**	9.0	0.2%
Other income	**486.3**	74.8	15.4%	**483.2**	108.5	22.5%
Raw materials and consumables used	**(1,741.2)**	(4.1)	0.2%	**(1,818.2)**	(12.7)	0.7%
Personnel expenses	**(1,072.2)**	(14.5)	1.4%	**(1,067.6)**	(14.1)	1.3%
Other costs	**(1,713.4)**	(278.2)	16.2%	**(1,858.2)**	(290.4)	15.6%
Net impairment loss of financial assets	**(22.3)**	-	n.a.	**(21.3)**	(9.0)	42.3%
Financial income	**128.8**	1.2	0.9%	**58.9**	3.1	5.3%
Financial expenses	**(238.2)**	(1.0)	0.4%	**(255.2)**	-	0.0%
Net income/(loss) from equity investments	**(11.0)**	(9.7)	n.a.	**(5.0)**	(11.6)	n.a.
Net income/(loss) from discontinued operations	**-**	-	n.a.	**(6.4)**	(10.6)	n.a.

CASH FLOW

(in millions of euro)

	2019	of which related parties	% incidence	2018	of which related parties	% incidence
Net cash flows operating activities:						
Trade receivables	**(44.6)**	5.8	n.a.	**(23.4)**	47.1	n.a.
Trade payables	**18.8**	(19.7)	n.a.	**104.7**	(6.4)	n.a.
Other receivables/payables	**(79.6)**	28.0	n.a.	**(151.4)**	(29.3)	n.a.
Net cash flows investing activities:						
Acquisition of non-controlling interests	**-**	-	n.a.	**(49.7)**	(31.2)	n.a.
Dividends received from associates	**-**	-	n.a.	**2.7**	2.7	n.a.
Disposals (Acquisition) of investments in associates and JV	**(8.9)**	(8.9)	n.a.	**(65.2)**	(65.2)	n.a.
Net cash flows financing activities:						
Change in Financial receivables/Other current financial assets at fair value through income statement	**(55.1)**	(13.4)	n.a.	**(31.8)**	-	n.a.
Repayment of principal and payment of interest for lease obligations	**(101.2)**	(1.9)	n.a.	**-**	-	n.a.
Net cash flows provided by (used in) discontinued operations	**-**	-	n.a.	**37.1**	43.5	n.a.

Related party transactions 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)

	12/31/2019	12/31/2018
Other non current receivables	5.6	12.6
of which financial	*5.6*	*12.6*
Trade receivables	3.4	3.6
Other current receivables	40.7	32.2
of which financial	*26.5*	*6.2*
Borrowings from banks and other financial institutions non-current	15.4	-
Borrowings from banks and other financial institutions current	1.6	-
Trade payables	36.2	23.1
Other current payables	-	0.1

INCOME STATEMENT

(in millions of euro)

	2019	2018
Revenues from sales and services	19.0	6.2
Other income	6.8	2.1
Raw materials and consumables (net of change in inventory)	0.4	-
Other costs	85.4	42.7
Financial income	1.0	1.2
Financial expenses	0.6	-
Net income/loss from equity investments	9.7	11.6

CASH FLOW

(in millions of euro)

	2019	2018
Change in Trade receivables	0.2	-
Change in Trade payables	13.1	-
Change in Other receivables/Other payables	11.9	-
Net cash flows provided by / (used in) investing activities	(8.9)	2.5
Change in financial receivables / Other financial assets at fair value through Income Statement	(13.4)	-
Repayment of principal and payment of interest for lease obligations	(1.6)	-

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 mainly by Pirelli Tyre Co., Ltd. to the Chinese joint venture Jining Shenzhou Tyre Co., Ltd.

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

- receivables for the sale of materials and moulds to the Joint Stock Company *"Kirov Tyre Plant"* to the amount of euro 8.4 million, and from Jining Shenzhou Tyre Co., Ltd. to the amount of euro 2.7 million;
- receivables from PT Evoluzione Tyres for the recovery of costs sustained by Pirelli Tyre S.p.A. to the amount of euro 2.7 million.

The financial portion refers to a loan granted by Pirelli Tyre Co., Ltd. to Jining Shenzhou Tyre Co., Ltd. for euro 26.1 million.

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

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

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

TRANSACTIONS - INCOME STATEMENT

The item **revenues from sales and services** mainly refers to sales of materials and services to the Jining Shenzhou Tyre Co., Ltd. to the amount of euro 11 million, and to the Joint Stock Company *"Kirov Tyre Plant"* to the amount of euro 3.8 million, as well as royalties charged to PT Evoluzione Tyres and to Jining Shenzhou Tyre Co., Ltd. for a total of euro 2.6 million.

The item **other income** refers mainly to the recharging for labour costs.

The item **other costs** mainly refers to the cost for the purchase of motorcycle products from PT Evoluzione Tyres to the amount of euro 36.6 million, costs for the purchase of tyres from Jining Shenzhou Tyre Co., Ltd. to the amount of euro 26.5 million and costs for the purchase of energy and machine hire from Industriekraftwerk Breuberg GmbH to the amount of euro 21 million.

The item **financial income** refers to interest on the loans disbursed to the two joint ventures.

The item **financial expenses** refers to interest relative to machine hire.

TRANSACTIONS WITH OTHER RELATED PARTIES

The transactions detailed below refer mainly to transactions with the Aeolus Tyre Co., Ltd. and to transactions with the Prometeon Group, both of which are subject to the control of the direct Parent company or indirect Parent companies of Pirelli & C. S.p.A.

STATEMENT OF FINANCIAL POSITION

(in millions of euro)

	12/31/2019	12/31/2018
Trade receivables	6.4	12.0
Other current receivables	4.4	23.2
Borrowings from banks and other financial institutions non-current	2.0	-
Borrowings from banks and other financial institutions current	0.6	-
Trade payables	135.7	168.5
Other current payables	4.8	7.4

INCOME STATEMENT

(in millions of euro)

	2019	2018
Revenues from sales and services	0.3	2.7
Other income	68.0	106.4
Raw materials and consumables (net of change in inventory)	3.7	12.7
Other costs	185.5	239.4
Net impairment loss on financial assets	-	9.0
Financial income	0.1	1.9
Financial expenses	0.4	-
Other income from discontinued operations	-	7.8
Other costs from discontinued operations	-	18.5

CASH FLOW

(in millions of euro)

	2019	2018
Change in trade receivables	5.6	47.1
Change in trade payables	(32.8)	(6.3)
Change in Other receivables/Other payables	16.2	(29.3)
Net cash flows provided by / (used in) investing activities	-	(31.2)
Repayment of principal and payment of interest for lease obligations	(0.3)	-
Net cash flows for discontinued operations	-	43.5

TRANSACTIONS – STATEMENT OF FINANCIAL POSITION

The item **trade receivables** refers to receivables from companies of the Prometeon Group.

The item **other current receivables** refers to receivables from companies of the Prometeon Group to the amount of euro 4.2 million, and receivables for royalties from the Aeolus Tyre Co., Ltd. to the amount of euro 0.2 million.

The item **non-current borrowings from banks and other financial institutions** refers to payables of the company Pirelli Otomobil Lastikleri A.S. for machine hire from the Prometeon company Turkey Endüstriyel ve Ticari Lastikler A.S. to the amount of euro 1.4 million, and the payables of Pirelli Pneus Ltda to TP Industrial de Pneus Brasil Ltda to the amount of euro 0.6 million.

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

The item **trade payables** almost exclusively refers to payables to companies of the Prometeon Group to the amount of euro 134.8 million.

The item **other current payables** mainly refers to other current payables to companies of the Prometeon Group to the amount of euro 4.2 million.

TRANSACTIONS - INCOME STATEMENT

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

- royalties recorded in respect of the license contract for the use of the Pirelli trademark to the amount of euro 16.3 million;
- the sale of raw materials, finished and semi-finished products for the total amount of euro 18.7 million of which euro 15.1 million was carried out by Pirelli Pneus Ltda;
- the Long-Term Service Agreement to the amount of euro 8.4 million of which euro 3.7 million was earned by Pirelli Sistemi Informativi S.r.l., and euro 1.1 million by Pirelli Pneus Ltda;
- logistics services for a total amount of euro 2.1 million of which euro 0.7 million was carried out by the Brazilian company Total Logistic Management Serviços del Logistica Ltda;
- the licence agreement for know-how charged by Pirelli Tyre S.p.A. to the amount of euro 10.4 million.

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

The item **raw and consumable materials used** refers to costs payable to companies of the Prometeon Group for the purchase of direct materials/consumables/compounds, of which euro 2.2 million was carried out by the Turkish company Pirelli Otomobil Latikleri A.S., and euro 1.3 million by the Brazilian company Pirelli Pneus Ltda. The decrease for this item compared to 2018 was mainly attributable to a reorganisation within the purchasing process.

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 100.3 million of which euro 83.9 million was carried out by the Brazilian company Comercial e Importadora de Pneus Ltda. for the Brazilian sales network, and euro 4.3 million was carried out by the German company Driver Reifen und KFZ-Technik GmbH.
- the purchase of Car/Motorcycle and semi-finished products for a total amount of euro 57.6 million (of which euro 52.6 million was carried out by the Turkish company Pirelli Otomobil Lastikleri A.S.) in respect of the Off-Take contract, and euro 3.7 million on the part of Pirelli Pneus Ltda for the purchase of inner tubes for tyres;
- costs to the amount of euro 10.7 million incurred by Pirelli Pneus Ltda for services for the transformation of raw materials as a result of activities pertinent to the Toll manufacturing contract.

The item **financial income** refers to interest between Pirelli Tyre (Suisse) SA and the Prometeon Group.

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

BENEFITS FOR KEY MANAGERS OF THE COMPANY

At December 31, 2019 the compensation to which key managers with strategic responsibilities were entitled to totalled euro 21,732 thousand (euro 22,362 thousand for 2018). The portion relative to employee benefits was recognised in the Income Statement under *"Personnel expenses"* to the amount of euro 14,498 thousand (euro 14,133 thousand for 2018), and under the item "*Other Costs*" in the Income Statement to the amount of euro 7,235 thousand (euro 8,229 thousand for 2018). The remuneration also includes euro 1,535 thousand for employee leaving indemnity (TFR) and retirement benefits (euro 1,625 thousand for 2018), and short-term benefits for euro 6,970 thousand (euro 8,641 thousand for 2018).

45. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

In early 2020, the Covid-19 (SARS-CoV-2) virus spread, initially in the People's Republic of China and later in other countries, including Italy.

Pirelli sells its products on a world wide basis in over 160 countries and owns industrial sites located in different countries, some of which are also significantly affected by the Covid-19 outbreak.

Sensitivity assumptions have been formulated regarding the effects of the spread of Covid-19, and elaborated on the basis of first estimates. By their nature, these hypotheses contain elements of uncertainty and are subject to changes, even significant ones, due to the continuous changes in the scenario and in the context for reference, which could lead to a significant alteration to the normal dynamics of the market and, more generally, to business operating conditions.

The negative impact currently expected at the level of the EBIT adjusted for the first quarter of 2020, is expected to be reabsorbed during the course of the year. However should the crisis continue, Pirelli will take steps to implement further mitigation measures.

Pirelli is following developments in the spread of the Coronavirus with constant contact with national and international organisations. The Company immediately adopted control and preventative measures for all their employees across the world, with particular attention to China, where all expatriate workers returned to their countries of origin with their families.

In **January 2020** Pirelli received three important ESG awards. On **January 20**, the company was recognised as the global leader in the fight against climate change, which put Pirelli on the Climate A-List drawn up by the CDP (the former Carbon Disclosure Project), an international non-profit organisation that deals with collecting, disseminating and promoting information on environmental issues. On **January 31**, however, Pirelli won the highest recognition in the SAM Sustainability Yearbook 2020 published by S&P Global, achieving recognition as the ESG sector Leader in the FTSE4Good Index Series, which sees Pirelli now ranked at the top of the Tyre and Consumer Goods sector.

On **February 19, 2020** Pirelli presented the 2020 - 2022 Industrial Plan/Vision 2025 to the financial community. For further details, reference should be made to the section *"Outlook for the 2020 – 2022 Three-Year Period"* of the Directors' report on operations. On the same date, the Board of Directors approved the adoption of a new monetary incentive plan - the Long Term Incentive (LTI) plan - aimed at all areas of Group Management (currently approximately 270 participants) - correlated to the objectives of the plan. The New LTI Plan, is as in the past, totally self-financed, in that the relative expenses are included in the financial data of the Industrial Plan. The New LTI Plan provides for the following objectives:

- → Total Shareholder Return (TSR) for the Group relative to the Tier 1 panel of peers, with an overall target of 40% of the LTI monetary incentive;
- → cash flow for the Group (before dividends) with a target of 40% of the LTI monetary incentive;
- → the positioning of Pirelli in selected global sustainability indicators, with an overall target of 20% of the LTI monetary incentive.

At the same time, the Board of Directors - effective as of December 31, 2019 - resolved to close early, and without any disbursements not even pro-rata, the previous plan adopted in 2018 relative to the objectives of the 2018-2020 period. Participants of the New LTI (Long Term Incentive) Plan, amongst others, include the Executive Vice Chairman and Chief Executive Officer of Pirelli, Marco Tronchetti Provera, the General Manager of Operations, Andrea Casaluci, and the ESR executives identified through the express decision of the Board of Directors as *"executives with strategic responsibility"*. The new LTI Plan is also aimed at Senior Managers, (including the Director Giovanni Tronchetti Provera, as Senior Manager), and to the Group's Executives (managers of Italian companies or employees of foreign Group companies with a position or role equivalent to that of Executive in Italy).

46. OTHER INFORMATION

RESEARCH AND DEVELOPMENT EXPENSES

Research & Development expenses for 2019 amounted to euro 232.5 million and represented 4.4% of sales, and mainly included expenses destined for High Value activities (euro 215.7 million equal to 6.1% of High Value revenues).

REMUNERATION FOR DIRECTORS AND AUDITORS

The compensation paid to the Directors and Auditors was as follows:

(in thousands of euro)

	2019	2018
Directors	6,020	6,920
Statutory Auditors	315	315
Total	**6,335**	**7,235**

EMPLOYEES- AVERAGE HEADCOUNTS

The average headcounts for employees, sub-divided by category, for the companies included in the scope of consolidation were as follows:

	2019	2018
Executives and white collar staff	6,755	6,737
Blue collar staff	23,920	23,786
Temporary workers	993	1,015
Total	**31,668**	**31,538**

REMUNERATION FOR INDEPENDENT AUDITORS

Pursuant to the applicable laws, the total fees for the 2019 financial year for auditing services and for services other than auditing, 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	894		
	Network PricewaterhouseCoopers	Subsidiaries	1,632	**2,597**	*79%*
Independent certification services[1]	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	277		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	354		
	Network PricewaterhouseCoopers	Subsidiaries	3	**634**	*19%*
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	-		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	-		
	Network PricewaterhouseCoopers	Subsidiaries	55	**55**	*2%*
				3,286	*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.

INFORMATION REQUIRED BY LAW NO.124 / 2017 ART. 1 PARAGRAPHS 125-129

During the 2019 financial year no collections for national or regional contributions were recorded.

For the purposes of providing complete information, it should be noted that during the previous financial year, Pirelli Tyre S.p.A. received from M.I.U.R. - Ministero dell'Istruzione, dell'Università e della Ricerca (Ministry of Education, University and Research) - a subsidised loan of euro 5,305 thousand with a duration of 5 years, and with an interest rate of 0.50% per annum, granted as an incentive for an R&D project for the development of innovative materials for the tyre manufacturing process.

Pirelli Tyre S.p.A. also obtained in 2018 a non-refundable grant from the Lombardy Region for a total of euro 2,462 thousand, as incentive for a Smart Manufacturing R&D project for which euro 847 thousand were collected during the previous 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 2019 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			Average exchange rates		
	12/31/2019	12/31/2018	Change in %	2019	2018	Change in %
Swedish Krona	10.44890	10.2548	1.89%	10.59066	10.2600	3.22%
Australian Dollar	1.59950	1.6220	(1.39%)	1.61088	1.5798	1.97%
Canadian Dollar	1.45980	1.5605	(6.45%)	1.48548	1.5295	(2.88%)
Singaporean Dollar	1.51110	1.5591	(3.08%)	1.52728	1.5926	(4.10%)
U.S. Dollar	1.12340	1.1450	(1.89%)	1.11947	1.1812	(5.23%)
Taiwan Dollar	33.69189	34.9786	(3.68%)	34.59898	35.6178	(2.86%)
Swiss Franc	1.08540	1.1269	(3.68%)	1.11245	1.1550	(3.68%)
Egyptian Pound	18.09359	20.5806	(12.08%)	18.87575	21.1035	(10.56%)
Turkish Lira (new)	6.65060	6.0280	10.33%	6.35116	5.6655	12.10%
New Romanian Leu	4.77930	4.6639	2.47%	4.74513	4.6535	1.97%
Argentinian Peso	67.28043	43.1665	55.86%	67.28043	43.1665	55.86%
Mexican Peso	21.17070	22.5170	(5.98%)	21.56215	22.7260	(5.12%)
South African Rand	15.77730	16.4594	(4.14%)	16.17568	15.6192	3.56%
Brazilian Real	4.53050	4.4390	2.06%	4.41692	4.3084	2.52%
Chinese Renminbi	7.83706	7.8584	(0.27%)	7.72262	7.8167	(1.20%)
Russian Ruble	69.34060	79.6581	(12.95%)	72.38878	73.9444	(2.10%)
British Pound	0.85080	0.8945	(4.89%)	0.87777	0.8847	(0.78%)
Japanese Yen	121.94000	125.8500	(3.11%)	122.00576	130.3778	(6.42%)

NET FINANCIAL POSITION

(Alternative performance indicators not provided for by the accounting standards)

(in thousands of euro)

	Note	12/31/2019		12/31/2018	
			of which related parties (note 44)		*of which related parties (note 44)*
Current borrowings from banks and other financial institutions without IFRS 16	**23**	1,341,607	*2,267*	800,145	-
Current derivative financial instruments (liabilities)	**27**	31,703		53,510	
Non-current borrowings from banks and other financial institutions without IFRS 16	**23**	3,544,461	*17,386*	3,929,079	-
Non current derivative financial instruments (liabilities)	**27**	10,327		13,738	
Lease obligations IFRS 16		483,172		-	
Total gross debt		**5,411,270**		**4,796,472**	
Cash and cash equivalents	**19**	(1,609,821)		(1,326,900)	
Other financial assets at fair value through income statement	**18**	(38,119)		(27,196)	
Current financial receivables and other assets**	**15**	(35,503)	*(26,486)*	(27,320)	*(6,154)*
Current derivative financial instruments (assets)	**27**	(32,090)		(91,245)	
Net financial debt *		**3,695,737**		**3,323,811**	
Non-current derivative financial instruments (assets)	**27**	(52,515)		(20,134)	
Non-current financial receivables and other assets**	**15**	(135,996)	*(5,617)*	(123,547)	*(12,576)*
Total net financial (liquidity) / debt position		**3,507,227**		**3,180,130**	
Lease obligations IFRS 16		(483,172)		-	
Net financial (liquidity) / debt position without IFRS 16		**3,024,055**		**3,180,130**	

* Pursuant to Consob Notice of July 28, 2006 and in compliance with ESMA/2013/319 Recommendations
** The amount for "financial receivables and other assets" is reported net of the relative provision for impairment amounting to euro 8,651 thousand as at December 31, 2019 and euro 6.085 thousand as at Dcember 31, 2018.

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-Technik GmbH)	Tyre	Breuberg / Odenwald	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding GmbH
Greece						
Elastika Pirelli C.S.A.	Tyre	Elliniko-Argyroupoli	Euro	11,630,000	99.90%	Pirelli Tyre S.p.A.
					0.10%	Pirelli Tyre (Suisse) SA
Pirelli Hellas S.A. (in liquidation)	Tyre	Athens	US $	22,050,000	79.86%	Pirelli Tyre S.p.A.
The Experts in Wheels - Driver Hellas C. S.A.	Tyre	Elliniko-Argyroupoli	Euro	100,000	72.80%	Elastika Pirelli C.S.A.

COMPANIES CONSOLIDATED LINE-BY-LINE

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	125,000,000	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	90.35%	Pirelli & C. S.p.A.
					2.95%	Pirelli Tyre S.p.A.
					0.95%	Poliambulatorio Bicocca S.r.l.
					0.98%	Pirelli International Treasury S.p.A.
					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	63.50%	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.

COMPANIES CONSOLIDATED LINE-BY-LINE

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 Limited (ex 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 UK Ltd
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	99.995%	Pirelli Tyre S.p.A.
					0.005%	Pirelli Tyres Romania S.r.l.
Pirelli Tyres Romania S.r.l.	Tyre	Slatina	Rom. Leu	1.612.612.300	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
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 "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
Neumaticos Arco Iris, S.A. - Sociedad Unipersonal	Tyre	Barcellona	Euro	302,303	66.20%	Pirelli Neumaticos 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.
Pirelli Tyre Nordic Aktiebolag	Tyre	Bromma	Swed. Krona	950,000	100.00%	Pirelli Tyre S.p.A.
Switzerland						
Driver (Suisse) SA	Tyre	Bioggio	Swiss Franc	100,000	100.00%	Pirelli Tyre (Suisse) SA
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

COMPANIES CONSOLIDATED LINE-BY-LINE

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
Brazil						
Comercial e Importadora de Pneus Ltda.	Tyre	Sao Paulo	Bra. Real	380,718,453	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
Pirelli Comercial de Pneus Brasil Ltda.	Tyre	Sao Paulo	Bra. Real	1,149,296,303	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
Pirelli Latam Participaçoes Ltda.	Tyre	Sao Paulo	Bra. Real	343,514,252	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.	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	1,863,222,000	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	335,691,500	99.997%	Pirelli Tyre S.p.A.
					0.003%	Pirelli Ltda.
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	10,614,387,348	99.82%	Pirelli Tyre S.p.A.
					0.18%	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	Gauteng 2090	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
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.
Pirelli Tyre Co., Ltd	Tyre	Yanzhou	Ch. Renminbi	2,071,150,000	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	Cogenera-tion	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% diritto di Voto)
Poland						
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsaw	Pln	1,008,000	20.00%	Pirelli Polska Sp. z o.o.
Slovakia						
ELT Management Company Slovakia S.R.O.	Tyre	Bratislava	Euro	132,000	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	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	Rupees	1,313,238,780,000	63.04%	Pirelli Tyre S.p.A.


VELOCITY
PIRELLI
P ZERO
240
220
200

Pirelli & C. S.p.A. separate financial statements at December 31, 2019

STATEMENT OF FINANCIAL POSITION

(in euro)

	Note	12/31/2019	*of which related parties (Note 39)*	12/31/2018	*of which related parties (Note 39)*
Property, plant and equipment	8	67,368,466		36,626,844	
Intangible assets	9	2,275,363,639		2,273,663,830	
Investments in subsidiaries	10	4,647,665,638		4,568,324,362	
Investments in associates	11	6,374,501		6,374,501	
Other financial assets at fair value through other other comprehensive income	12	57,202,933		66,999,913	
Other receivables	13	619,605		600,543,719	*600,000,000*
Derivative financial instruments	17	30,268,648	*30,268,648*	19,402,654	*19,402,654*
Non-current assets		**7,084,863,430**		**7,571,935,823**	
Trade receivables	14	23,774,954	*21,725,022*	35,365,570	*32,352,151*
Other receivables	13	2,347,951,637	*2,327,043,431*	1,548,690,528	*1,524,041,518*
Cash and cash equivalents	15	1,754,093		101,764,103	
Tax receivables	16	31,743,542	*29,829,632*	49,745,832	*48,490,491*
Derivative financial instruments	17	10,154,148	*10,154,148*	3,749,194	*3,749,194*
Current assets		**2,415,378,374**		**1,739,315,227**	
Total assets		**9,500,241,804**		**9,311,251,050**	
Shareholders' equity:					
- Share capital		1,904,374,936		1,904,374,936	
- Other reserves		2,135,985,619		2,144,425,954	
- Retained earnings reserve		266,842,318		181,511,751	
- Net income of the year		273,241,811		262,362,043	
Total shareholders' equity	18	**4,580,444,684**		**4,492,674,684**	
Borrowings from banks and other financial institutions	19	3,577,172,974		3,921,508,709	
Other payables	23	211,511		211,511	
Provisions for liabilities and charges	20	40,330,854		40,530,891	
Provision for deferred tax liabilities	24	538,902,124		527,806,343	
Employee benefit obligations	21	4,276,571		2,210,239	
Derivative financial instruments	17	9,588,636	*9,588,636*	10,565,158	*10,565,158*
Non-current liabilities		**4,170,482,670**		**4,502,832,851**	
Borrowings from banks and other financial institutions	19	678,288,912	*252,124*	222,503,724	*6,591*
Trade payables	22	19,262,363	*4,770,882*	19,380,689	*2,986,850*
Other payables	23	32,107,042	*11,894,924*	48,351,164	*26,177,691*
Provisions for liabilities and charges	20	-		1,815,160	
Employee benefit obligations	21	2,034,344		1,964,819	
Tax payables	25	17,616,705	*17,387,827*	16,436,159	*16,207,276*
Derivative financial instruments	17	5,084	*5,084*	5,291,800	*5,291,800*
Current liabilities		**749,314,450**		**315,743,515**	
Total Liabilities and Equity		**9,500,241,804**		**9,311,251,050**	

INCOME STATEMENT

(in euro)

	Note	2019	*of which related parties (Note 39)*	2018	*of which related parties (Note 39)*
Revenues from sales and services	27	51,992,302	*50,822,605*	38,718,521	*37,363,694*
Other income	28	110,179,851	*106,726,066*	112,178,568	*102,183,610*
Raw materials and consumables used	29	(225,458)		(210,126)	
Personnel expenses	30	(48,228,505)	*(5,571,006)*	(34,130,338)	*(2,185,521)*
Amortisation, depreciation and impairment	31	(8,253,996)		(3,983,656)	
Other costs	32	(89,518,450)	*(22,315,223)*	(105,044,273)	*(20,168,662)*
- of which non recurring events	38	-		*(1,025,850)*	
Net impairment loss on financial assets	33	(96,923)		(1,930,360)	
Operating income		**15,848,821**		**5,598,336**	
Net income from equity investments	34	268,905,541		284,943,288	
- gains on equity investments		*2,065*	*2,065*	*4,006,808*	
- losses on equity investments		-		*(3,580,191)*	*(3,580,191)*
- dividends		*268,903,476*	*263,841,647*	*284,516,671*	*283,549,189*
Financial income	35	40,274,216	*39,705,871*	20,526,846	*18,666,309*
Financial expenses	36	(64,024,611)	*51,506,753*	(53,377,733)	*(6,837,931)*
- of which non recurring events	38	-		*(9,964,795)*	*(21,977,000)*
Net income before taxes		**261,003,967**		**257,690,737**	
Taxes	37	12,237,844		4,671,306	
- of which non recurring events	38	-		*2,677,575*	
Total net income of the year		**273,241,811**		**262,362,043**	

STATEMENT OF COMPREHENSIVE INCOME

(in euro)

	Note	2019	2018
A - Net income of the year		**273,241,811**	**262,362,043**
Other components of comprehensive income:			
B - Items that may not be reclassified to income statement:			
- Remeasurement of employee benefits	**21**	(95,957)	(8,269)
- Tax effect		21,120	1,985
- Fair value adjustment of other financial assets at fair value through other comprehensive income	**12**	(366,374)	(5,709,065)
Total B		**(441,211)**	**(5,715,349)**
C - Items reclassified / that may be reclassified to income statement:			
Fair value adjustment of derivatives designated as cash flow hedge:			
- Gains / (losses) for the period	**17**	69,841,426	54,928,567
- (Gains) / losses reclassified to income statement	**17**	(78,130,940)	(64,453,722)
- Tax effect		1,989,483	2,286,037
Cost of hedging			
- Gains / (losses) for the period	**17**	5,350,715	10,481,543
- (Gains) / losses reclassified to income statement	**17**	(7,627,777)	(4,040,529)
- Tax effect		546,495	(1,545,843)
Total C		**(8,030,598)**	**(2,343,947)**
D - Total other components of comprehensive income (B+C)		**(8,471,809)**	**(8,059,296)**
A+D Total comprehensive income / (loss) for the financial year		**264,770,002**	**254,302,747**

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(in euro)

	Share capital	Legal reserve	Surplus reserve	Concentra-tion reserve	Other reserves	IAS Reserves *	Merger reserve	Reserve from results	Net result of the year	Total
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	-	-	-	-	-	(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 components of comprehensive income	-	-	-	-	-	(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 12/31/2018	**1,904,374,936**	**380,874,988**	**630,380,599**	**12,466,897**	**92,534,791**	**5,240,963**	**1,022,927,715**	**181,511,751**	**262,362,041**	**4,492,674,684**
Dividend distribution	-	-	-	-	-	-	-	-	(177,000,000)	(177,000,000)
Result carried forward as per resolution of May 15, 2019	-	-	-	-	-	-	-	85,362,041	(85,362,041)	-
Other components of comprehensive income	-	-	-	-	-	(8,471,809)	-	-	-	(8,471,809)
Result for the year	-	-	-	-	-	-	-	-	273,241,811	273,241,811
Total comprehensive income/(loss) for the year	-	-	-	-	-	*(8,471,809)*	-	-	*273,241,811*	*264,770,002*
Other changes	-	-	-	-	-	31,475	-	(31,475)	-	-
Total at 12/31/2019	**1,904,374,936**	**380,874,988**	**630,380,599**	**12,466,897**	**92,534,791**	**(3,199,371)**	**1,022,927,715**	**266,842,318**	**273,241,811**	**4,580,444,684**

(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 Remeasurement for employee benefit	Reserve for cost of hedging	Cash flow hedge reserve	Tax effect	Total
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 1/1/2018	**-**	**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**
Other components of comprehensive income	-	(366,374)	(95,957)	(2,277,062)	(8,289,514)	2,557,098	(8,471,809)
Other changes	-	31,475	-	-	-	-	31,475
Balance at 12/31/2019	**-**	**10,637,571**	**1,923,791**	**4,558,755**	**(25,326,962)**	**5,007,474**	**(3,199,371)**

CASH FLOW STATEMENT

(in euro)

		Note	2019	*of which related parties (Note 39)*	2018	*of which related parties (Note 39)*
	Net income before taxes		261,003,967		257,690,737	
	Reversals of amortisation, depreciation, impairment losses	31	8,253,996		3,983,656	
	Reversal of net accruals	32	2,623,933		5,479,360	
	Reversal of Financial expenses	36	64,024,611	*(51,506,753)*	53,377,733	*6,837,931*
	Reversal of Financial income	35	(40,274,216)	*(39,705,871)*	(20,526,846)	*(18,666,309)*
	Reversal of Dividends	34	(268,905,541)	*(263,841,647)*	(284,943,288)	(283,549,189)
	Reversal of Gains/losses from sales of tangible and intangible assets	32	1,909		(575,786)	
	Taxes paid		-		-	
	Change in Trade receivables	14	11,505,912	*10,627,130*	14,749,472	*11,369,615*
	Change in Trade payables	22	(3,070,023)	*(1,784,032)*	(10,594,441)	*(1,832,918)*
	Change in Other receivables/Other payables		(11,739,252)	*(12,915,767)*	(10,015,951)	*(3,428,000)*
	Change in Tax receivables/Tax payables		45,327,218	*45,961,314*	42,775,429	*42,775,429*
	Change in Provisions for employee benefit obligations and Other provisions		(5,111,200)		(4,562,000)	
A	**Net cash flows provided by/(used in) operating activities**		**63,641,315**		**46,838,075**	
	Investments in property, plant and equipment	8	(165,500)		(1,384)	
	Disposal of property, plant and equipment	8	21,000		3,000,000	
	Investments in intangible assets	9	(1,554,334)		(1,024,267)	
	Acquisition of investments in subsidiaries	10	(75,883,269)	*(75,883,269)*	(15,000)	*(15,000)*
	Disposals /(Acquisition) in other non current financial assets at fair value through other comprehensive income		-		109,254	
	Reimbursement of other non current financial assets at fair value through other comprehensive income	12	9,431,000		-	
	Disposals in other non current financial assets at fair value through other comprehensive income		-		152,807,660	
	Repayment of share capital and reserves from associates		-		249,710	*249,710*
	Dividends received		268,270,519	*263,841,647*	284,516,671	*283,549,189*
B	**Net cash generated/(used) by investment activities**		**200,119,416**		**439,642,644**	
	Change in Financial receivables	13	(204,828,000)	*(204,802,000)*	(2,103,421,000)	*(2,103,912,000)*
	Financial income	35	43,889,329	*43,840,121*	15,820,233	*15,820,233*
	Change in Financial payables	19	20,374,734		1,744,063,616	*(9,000,000)*
	Dividends paid	34	(177,000,000)		-	
	Financial expenses	36	(43,508,386)	*52,134,229*	(42,928,955)	*2,233,556*
	Cash outflow for lease obligations	19	(2,698,417)		-	
C	**Net cash generated/(used) by financing activities**		**(363,770,741)**		**(386,466,106)**	
D	**Total net cash generated/(used) in the year (A+B+C)**		**(100,010,010)**		**100,014,613**	
E	**Cash and cash equivalents at the beginning of the year**		**101,764,103**		**1,749,490**	
F	**Cash and cash equivalents at the end of the year (D+E)**		**1,754,093**		**101,764,103**	

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pirelli & C. S.p.A. (hereinafter also 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.

Pirelli & C. S.p.A. is directly controlled by Marco Polo International Italy S.r.l., a 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.

There are no entities that exercise management and coordination activities over the Company.

On March 2, 2020, the Board of Directors authorised publication of these Annual Financial Statements ("Annual Financial Statements or Separate Financial Statements").

SIGNIFICANT EVENTS 2019

ACQUISITION OF BUSINESS UNIT FROM THE SUBSIDIARY PIRELLI TYRE S.P.A. Effective January 1, 2019 was the disposal by the subsidiary Pirelli Tyre S.p.A. 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. The above operation was part of a large project for the reorganisation of activities within the Group. The difference between the amount of the fee and the book value of the business unit acquired, equal to Euro 4.4 million, was considered as a contribution in favor of the subsidiary and consequently recorded as an increase in the value of the investment in the subsidiary.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS AT DECEMBER 31 AND DIVIDEND DISTRIBUTION On May 15, 2019, the Pirelli & C. S.p.A. Shareholders' Meeting approved the financial statements for 2018 and approved the distribution of a dividend of Euro 0.177 per ordinary share equal to total dividends of Euro 177 million. The dividend will be paid as from May 22, 2019, with ex dividend date on May 20, 2019 (record date May 21, 2019).

2. BASIS OF PRESENTATION

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 in Chapter 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 historical cost basis, except for the following items that are measured at fair value:

- derivative financial instruments;
- other financial assets at fair value recorded in the other components of the comprehensive income statement;
- other financial assets at fair value through the income statement.

FINANCIAL STATEMENTS

The separate Financial Statements at December 31, 2019 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, and are accompanied by the Directors' Report on Operations.

The format adopted for the Statement of Financial Position classifies assets and liabilities as current and non-current.

The Company has opted to present the components of profit/loss for the year in a separate Income Statement, rather than include these components directly in the Statement of Comprehensive Income. The Income Statement adopted classifies costs by nature.

The Statement of Comprehensive Income includes the result for the year and, for homogeneous categories, the revenues and costs which, in accordance with IFRSs, are recognised directly in equity.

The Company opted for the presentation of the tax effects and reclassifications to the income statement of profits/

losses recognised in equity in previous years directly in the Statement of Comprehensive Income and not in the Notes.

The Statement of Changes in Equity includes, in addition to the total gains/losses of the period, the amounts from transactions with equity holders and the changes in reserves during the year.

In the Statement of Cash Flows, the cash flows deriving from operating activities are presented using the indirect method, according to which the profit or loss for the period is adjusted by the effects of non-monetary items, by any deferment or accrual of past or future operating receipts or payments, and by any revenue or cost items connected with the cash flows arising from investing activities or financing activities.

It shall also be noted that the Group has applied the provisions of Consob Resolution no. 15519 of July 27, 2006 in regard to the formats of financial statements and Consob Notice no. 6064293 of July 28, 2006 in regard to corporate disclosure.

In order to provide greater clarity and comparability of the financial statement items, the amount of the corresponding items of the previous year were adjusted where necessary.

All amounts included in the Notes, unless otherwise specified, are in thousands of Euro.

3. ACCOUNTING STANDARDS

The accounting standards used in the preparation of separate financial statements are the same as those used for the purposes of preparing the consolidated financial statements where applicable, except in relation to the assessment of investments in subsidiaries and associate companies and dividends, as indicated below.

INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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 comprehensive income of the investee of the year whom dividend refers;
- 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 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, 2019

In accordance with IAS 8 "Accounting standards, changes in accounting estimates and errors", the IFRS effective from January 1, 2019 are indicated below:

- IFRS 16 – Leases
  The impacts deriving from the first application of this standard, which replaces the previous IAS 17, are described in Note 3.3 "Impacts deriving from the adoption of IFRS 16 – Leases".

- 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.
  Accounting treatment depends on whether the tax authorities are likely to accept the tax treatment or not. In the event that it is not probable that the tax authority will accept the uncertain tax treatment, the uncertainty is recorded by recognising an additional tax liability or by applying a higher rate. There are no impacts 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 recognised in the income statement;
  - accounting treatment of financial liabilities in the presence of changes 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 recognised in the income statement, both discounted at the original effective interest rate.

  The change relating to financial assets is not applicable to the Company; the change relating the accounting treatment of financial liabilities 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 the provisions of IFRS, including those on impairment, also apply to financial instruments representing long-term interests in an associated company or joint venture, which, in substance, form part of the net investment in the associated company or joint venture (long-term interest).There are no impacts on the Financial Statements of the Company due to the amendment made to the standard in force.
- "Improvements" to IFRS 2015-2017 (issued by the IASB in December 2017).
  The IASB issued a series of amendments to four 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 of control.
  - 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.

  There are no impacts on the Company due to the amendments made to the standards in force.

- 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. There are no impacts on the Company due to the amendments made.

3.2 INTERNATIONAL ACCOUNTING STANDARDS AND/OR INTERPRETATIONS ISSUED BUT NOT YET IN FORCE IN 2019

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, 2019, 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 3 – Business Combinations
  These amendments introduced a new definition of business, according to which for an acquisition to qualify as a business combination, it must include input and processes that contribute substantially to obtaining an output. The definition of output is modified in a restrictive sense, and it is specified that cost savings and other economic benefits are to be excluded as output. This amendment will result in multiple acquisitions qualifying as asset acquisitions rather than business acquisitions.
  These amendments, which will come into force on January 1, 2020, have not yet been endorsed by the European Union. No impacts are expected on the Financial Statements of the Company.
- 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 of transactions, 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 insignificant information.
  Said amendments have been endorsed by the European Union and will be applicable from January 1, 2020. No impacts are expected on the Financial Statements of the Company. The impacts on disclosure are being evaluated.
- Amendments to IFRS 9, IAS 39 and IFRS 7: Reference interest rate reform (IBOR reform)
  These amendments concern the impacts on the financial statements deriving from the replacement of the current reference interest rates (benchmark) with alternative interest rates: in the presence of hedging relationships affected by the uncertainty of the reform of the reference rates, these amendments do not allow the valuations required by IFRS 9 and IAS 39 in the presence of changes in rates.

These amendments, endorsed by the European Union, will come into force on January 1, 2020. The impact on the Group Financial Statements is currently being evaluated as regards the rate component of the cross-currency interest rate swaps.

3.3 IMPACTS DERIVING FROM THE ADOPTION OF IFRS 16 – LEASES

Following the application of the standard, the Company recognised, at the transition date (January 1, 2019), in relation to the lease contracts previously classified as operating:

- 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; The weighted average marginal loan rate applied to financial liabilities for leasing as of January 1, 2019 was 3.85%.
- right of use equal to the value of the financial liability at the transition date, net of any advanced/deferred payment of lease rent and recorded in the balance sheet at the transition date.

The following table shows the impacts due to the adoption of IFRS 16 at the transition date:

(in thousand of euro)

	01/01/2019
NON CURRENT ASSETS	
Property, plant and equipment	
- Right of use buildings	32,475
- Right of use other assets	1,786
Total	**34,261**
CURRENT ASSETS	
Other receivables	(127)
Total assets	**34,134**
NON CURRENT LIABILITIES	
Borrowings from banks and other financial istitutions	36,144
CURRENT LIABILITIES	
Borrowings from banks and other financial istitutions	1,106
Other payables	(3,116)
Total liabilities	**34,134**

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). The comparable data for 2018 was not subjected to restatement.

With reference to the transition rules, the Company referred to the following practical expedients available in the case of opting for the modified retrospective method:

- classification of contracts that expire within 12 months from the transition date as a short-term lease. For these contracts, lease payments will be recognised in the income statement on a linear basis;
- with reference to the separation of non-lease components for cars, the Company decided not to separate them and not to account for them separately from the lease components. This component was considered together with the lease component to determine the financial liability of the lease and the related right of use;
- 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 Company also referred to the practical expedient provided for by the standard for first application, 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 transition to IFRS 16 introduces some elements of professional opinion as well as the use of assumptions and estimates in relation to the lease term and the definition of the incremental 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;
- the 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 when their exercise is deemed reasonably certain. In the case of clauses which provide for multiple renewals that can be exercised unilaterally by the Company, 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 Company 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 Company considers the inclusion of 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 Company, specific assessments are contractually conducted (for example, the Company is already negotiating a new contract or has already given notice to the lessor).

The following table provides reconciliation between the future commitments of lease contracts as envisaged by the previous IAS 17 and the financial liabilities for leases at January 1, 2019 deriving from the adoption of IFRS 16:

(in thousand of euro)

Minimum future payments due for non-cancellable operating leases 12/31/2018	**47,796**
Short term contracts with residual duration at 1/1/2019 of less than 12 months	(136)
Low value asset contracts	(127)
Disconting effects	(9,056)
Other	(1,227)
Finance liabilitites for lease contracts at 1/1/2019 (IFRS 16)	**37,250**

The adoption of the new IFRS 16 standard has not led to changes in the accounting treatment of active sub-lease contracts.

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 trade 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). Hedge accounting in accordance with IFRS 9 is used when the conditions are met.

With reference to foreign currency loans, 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.

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 505 thousand.

(in thousand of euro)

	+0.50%		-0.50%	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Impact on Net income / (loss)	505	(2,768)	(505)	2,768

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, 2019 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 statement of comprehensive income.

Derivatives hedges are not set up to limit the volatility of these assets.

Financial assets at fair value recognised as other components of the statement of comprehensive income consist of listed securities amounted to Euro 24,892 thousand (Euro 28,449 thousand at December 31, 2018) and those represented by securities indirectly associated with listed shares (Fin. Priv. S.r.l.) amounted to Euro 20,565 thousand (Euro 15,604 thousand at December 31, 2018); these financial assets represent 79% 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 1,245 thousand of the Company's shareholders' equity (positive for Euro 1,422 thousand at December 31, 2018), while a -5% negative change of these listed securities, other things being equal, would result in a negative change of Euro 1,245 thousand of the Company's shareholders' equity (negative for Euro 1,422 thousand at December 31, 2018).

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 and financial obligations is mainly 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, 2019, the Company had, aside from cash equal to Euro 1,754 thousand (Euro 101,764 thousand at December 31, 2018), unused credit facilities equal to Euro 700,000 thousand (Euro 700,000 thousand at December 31, 2018) maturing Q2 2022.

The **maturities of financial liabilities at December 31, 2019** may be broken down as follows:

(in thousand of euro)

	12/31/2019				
	within 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
Borrowings from banks and other financial institutions	729,738	152,065	3,557,415	42,221	4,481,439
of which financial lease liabilities:	*4,143*	*5,448*	*14,497*	*21,880*	45,968
Trade payables	19,262	-	-	-	19,262
Other payables	33,383	-	-	-	33,383
Derivative financial instruments	1,650	3,354	4,008	142	9,154
Total	**784,033**	**155,419**	**3,561,423**	**42,363**	**4,543,238**

The **maturities of financial liabilities at December 31, 2018** may be broken down as follows:

(in thousand of euro)

	12/31/2018				
	within 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
Borrowings from banks and other financial institutions	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**

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 following levels are defined:

- 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 at December 31, 2019, divided into the three levels defined above:

(in thousand of euro)

	Note	Carrying amount at 12/31/2019	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	11	-	11	-
Other financial assets at fair value through other comprehensive income					
Equities and shares	12	53,256	24,892	20,565	7,799
Investment funds	12	3,947	-	3,947	-
Derivative hedging instruments					
Non current derivative financial instruments	17	30,269	-	30,269	-
Current derivative financial instruments	17	10,143	-	10,143	-
TOTAL ASSETS		**97,626**	**24,892**	**64,935**	**7,799**
FINANCIAL LIABILITIES					
Financial liabilities at fair value through income statement					
Current derivative financial instruments	17	(5)	-	(5)	-
Derivative hedging instruments					
Non current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	(9,589)	-	(9,589)	-
TOTAL LIABILITIES		**(9,594)**	**-**	**(9,594)**	**-**

At **December 31, 2018, the breakdown** was as follows:

(in thousand of euro)

	Note	Carrying amount at 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 income statement					
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)**	**-**

The following table shows the **changes of financial assets that occurred in level 3**:

(in thousand of euro)

	12/31/2019	12/31/2018
Opening balance	**7,372**	**10,210**
Decreases	-	(2,857)
Fair value adjustments through other comprehensive income	427	19
Closing balance	**7,799**	**7,372**

These financial assets mainly consist of the equity investment in Istituto Europeo di Oncologia (European Institute of Oncology) (Euro 7,465 thousand).

In the year ended December 31, 2019, 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 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 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 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 thousand of euro)

	Note	Carrying amount at 12/31/2019	Carrying amount at 12/31/2018
FINANCIAL ASSETS			
Financial assets at fair value through income statement			
Non-current derivative financial instruments	17	11	325
Financial assets at amortized cost			
Other non-current receivables	13	620	600,544
Current trade receivabels	14	23,775	35,366
Other current receivables	13	2,347,952	1,548,690
Cash and cash equivalents	15	1,754	101,764
Financial assets at fair value through other comprehensive income	12	57,203	67,000
Derivative hedging instruments			
Current derivative financial instruments	17	10,143	3,424
Non-current derivative financial instruments	17	30,269	19,403
Total financial assets		**2,471,727**	**2,376,516**
FINANCIAL LIABILITIES			
Financial liabilities at fair value through income statement			
Current derivative financial instruments	17	5	44
Financial liabilities at amortised cost			
Non-current borrowings from banks and other financial institutions (excl. lease obligations)	19	3,541,694	3,921,509
Current borrowings from banks and other financial institutions (excl. lease obligations)	19	675,542	222,504
Current trade payables	22	19,262	19,380
Other non-current payables	23	212	212
Other current payables	23	32,107	48,351
Lease payables			
Non-current lease payables	19	35,479	-
Current lease payables	19	2,747	-
Derivative hedging instruments			
Current derivative financial instruments	17	-	5,248
Non current derivative financial instruments	17	9,589	10,565
TOTAL FINANCIAL LIABILITIES		**4,316,637**	**4,227,813**

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 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 characterises the assumptions and conditions on which the estimates are based.

Below is a brief description of the accounting standards that, in relation to Pirelli & C. S.p.A., involve more than others a higher level of subjectivity by the management in making estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on the financial information.

PIRELLI BRAND (INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE)

The Pirelli Brand is an intangible asset with indefinite useful life not subject to amortization, but, pursuant to IAS 36, to impairment test annually or more frequently, if specific events or circumstances occur which may lead to the presumption of impairment.

The impairment test at December 31, 2019 was performed using the assistance of an independent third-party professional.

The recoverable value configuration for the purposes of the impairment test at December 31, 2019 is the Fair Value, calculated on the basis of the income approach (Level 3 of the hierarchy of IFRS 13 – Fair Value measurement)

RIGHTS OF USE AND LEASE PAYABLES With regard to the estimates and assumptions used for the determination of lease payables and rights of use, reference is be made to paragraph 3.3 “Impacts deriving from the adoption of IFRS 16 – Leases”.

INVESTMENTS IN SUBSIDIARIES Investments are assessed to establish whether there was a decrease in value, to be recognised with a write-down, 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 In view of the legal and tax risks related to indirect taxes, provisions for the risk of unfavourable outcomes have been recognised. 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 breakdown of these items is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
Net Value	**67,368**	**36,627**
- Tangible assets	34,878	36,627
- Rights of use	32,490	-

8.1 TANGIBLE ASSETS

The breakdown and changes of these items are as follows:

(in thousand of euro)

	12/31/2019			12/31/2018		
	Gross Value	Accumulated Depreciation	Net Value	Gross Value	Accumulated Depreciation	Net Value
Land	6,584	-	**6,584**	6,584	-	**6,584**
Buildings	48,974	(24,934)	**24,040**	48,974	(23,439)	**25,535**
Plant and machinery	3,627	(3,380)	**247**	3,627	(3,175)	**453**
Industrial and trade equipment	942	(936)	**6**	942	(933)	**9**
Other assets	14,397	(10,560)	**3,836**	14,430	(10,384)	**4,046**
Assets under construction	165	-	**165**	-	-	-
Total	**74,689**	**(39,811)**	**34,878**	**74,557**	**(37,931)**	**36,627**

(in thousand of euro)

NET VALUE	12/31/2018	Increases	Business combination	Decreases	Depreciation	Devaluation	12/31/2019
Land	**6,584**	-	-	-	-	-	**6,584**
Buildings	**25,535**	-	-	-	(1,495)	-	**24,040**
Plant and machinery	**453**	-	-	-	(206)	-	**247**
Industrial and trade equipment	**9**	-	-	-	(3)	-	**6**
Other assets	**4,046**	-	15	(21)	(203)	-	**3,836**
Assets under construction	-	165		-	-	-	**165**
Total	**36,627**	**165**	**15**	**(21)**	**(1,907)**	**-**	**34,878**

(in thousand of euro)

NET VALUE	12/31/2017	Increases	Business combination	Decreases	Depreciation	Devaluation	12/31/2018
Land	**9,021**	-	-	(2,437)	-	-	**6,584**
Buildings	**27,296**	-	-	(53)	(1,708)	-	**25,535**
Plant and machinery	**661**	-	-	-	(208)	-	**453**
Industrial and trade equipment	**12**	-	-	-	(3)	-	**9**
Other assets	**4,345**	1	-	-	(300)	-	**4,046**
Assets under construction	-	-	-	-	-	-	-
Total	**41,335**	**1**	**-**	**(2,490)**	**(2,219)**	**-**	**36,627**

The item other assets increased during the year, totalling Euro 15 thousand following the acquisition of the business unit from the subsidiary Pirelli Tyre S.p.A. The item mainly refers to hardware.

The decreases for the year refer to the disposal of operating equipment.

Property, plant and equipment in progress at December 31, 2019 amounted to Euro 166 thousand.

Financial expenses on tangible assets were not capitalised.

8.2 RIGHTS OF USE

The net value of the assets for which the Company has stipulated a lease contract is as follows:

(in thousand of euro)

	12/31/2019	01/01/2019
Rights of use buildings	30,327	32,475
Rights of use other assets	2,163	1,786
Net value	**32,490**	**34,261**

At December 31, 2018, there were no financial lease contracts recognised based on IAS 17. For the impacts recorded following the adoption of IFRS 16 at January 1, 2019, refer to the information in note 3.3 "Impacts deriving from the adoption of IFRS 16 – Leases".

Increases in rights of use in 2019 amounted to Euro 1,277 thousand.

At December 31, 2019, amortisation of user rights recognised in the income statement and included in the item depreciation, amortisation and impairments are as follows:

(in thousand of euro)

	2019
Buildings	3,234
Other assets	789
Total depreciation of right of use	**4,023**

For interest expense recognised in connection with lease contracts, refer to the information in Note 36 "Financial expenses".

For information on costs for lease contracts with a duration of less than twelve months, lease contracts for low unit value goods and lease contracts with variable fees, refer to note 32 "Other costs".

For information on lease payables, refer to note 19 "Borrowings from banks and other financial institutions".

9. INTANGIBLE ASSETS

The items in question and the related changes are detailed as follows:

(in thousand of euro)

	12/31/2018	Increase	Business combination	Decrease	Amortisation	Reclassification	Impairment	12/31/2019
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	-	-	-	**2,270,000**
Software licenses	**833**	-	-	-	(344)	-	-	**489**
Other intangible assets	**2,831**	2,111	1,912	-	(1,979)	-	-	**4,875**
Total	**2,273,664**	**2,111**	**1,912**	**-**	**(2,323)**	**-**	**-**	**2,275,364**

(in thousand of euro)

	12/31/2017	Increase	Business combination	Decrease	Amortisation	Reclassification	Impairment	12/31/2018
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	-	-	-	**2,270,000**
Software licenses	**1,002**	224	-	-	(393)	-	-	**833**
Other intangible assets	**2,964**	1,081	-	-	(1,370)	156	-	**2,831**
Assets under construction	**156**	-	-	-	-	(156)	-	**-**
Total	**2,274,122**	**1,305**	**-**	**-**	**(1,763)**	**-**	**-**	**2,273,664**

The Pirelli Brand (asset with indefinite useful life) for Euro 2,270,000 thousand, originated following the allocation of the merger deficit, generated following the incorporation of the parent company Marco Polo International Holding Italy S.p.A. in 2016. The allocation of the deficit was made consistently with the consolidated financial statements as a result of the completion of the Purchase Price Allocation.

The 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 1,701 thousand), systems for personnel management (Euro 367 thousand) and treasury (Euro 43 thousand).

Other intangible assets also include the increase during the year of Euro 1,912 thousand deriving from the transfer of software applications from the subsidiary Pirelli Tyre S.p.A. following the acquisition of the business unit.

No impairment was carried out in 2019.

IMPAIRMENT TEST OF THE PIRELLI BRAND (ASSET WITH INDEFINITE USEFUL LIFE)

The Pirelli Brand, amounting to Euro 2,270,000 thousand, is an intangible asset with indefinite useful life and therefore not subject to amortisation. However, pursuant to IAS 36, it is subject to impairment annually or more frequently, if specific events or circumstances occur that may lead to the presumption of impairment.

The impairment test at December 31, 2019 was performed using the assistance of an independent third-party professional.

The recoverable value configuration for the purposes of the impairment test at December 31, 2019 is the fair Value, calculated on the basis of the income approach (Level 3 of the hierarchy of IFRS 13 – Fair Value measurement) and is based on:

- consensus forecasts of equity analysts with respect to forecast revenues for the periods 2020 - 2022 as more conservative than the 2020-2022 Industrial Plan; the revenue growth rate for 2020 – 2022 is 2.8%;
- an evaluation criterion for the sum of parts that also considers the contribution in terms of royalties from the Prometeon Tyre Group for the use of the Pirelli brand in the Industrial segment;
- royalty rate applied to the revenues of the Consumer High Value and Consumer Standard valuation units taken 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 equal to an average royalty rate of 4.46%; with reference to the contribution in terms of royalties from the Prometeon Tyre Group, use was made of the royalties envisaged;
- a discount rate of 8.00%, which includes a premium in relation to wacc determined on the basis of the risk of the specific asset;
- growth rate g in the terminal value assumed to be zero;
- the TAB (Tax Amortisation Benefit), that is the tax benefit which the market participant could benefit in the abstractif it were to acquire the asset separately as a result of the possibility to amortize it for tax purposes.

For the purposes of impairment testing, the recoverable amount of the Pirelli Brand *cum* TAB was compared with the respective carrying amount (*cum* TAB) and no impairment loss emerged.

For the fair value to be equal to the carrying amount, change in key parameters should be the following:

- a decrease in the royalty rates for the Consumer valuation units by 53 basis points, and the simultaneous zeroing of the balance for royalties from the license agreement with Prometeon Tyre Group;
- an increase in the discount rate by 96 basis points;
- a decrease in the g growth rate of 128 basis points.

10. INVESTMENTS IN SUBSIDIARIES

At December 31, 2019, this item amounted to Euro 4,647,666 thousand (Euro 4,568,324 thousand at December 31, 2018) and the breakdown is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
HB Servizi S.r.l.	230	230
Maristel S.p.A.	1,315	1,315
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.	4,528,245	4,523,887
Pirelli UK Ltd.	21,871	21,871
Pirelli International Treasury S.p.A.	75,000	15
Servizi Aziendali Pirelli S.C.p.A.	100	101
Total investments in subsidiaries	**4,647,666**	**4,568,324**

Below are the changes during the year:

(in thousand of euro)

	12/31/2019	12/31/2018
Opening balance	**4,568,324**	**4,568,309**
Increases	79,342	15
Closing balance	**4,647,666**	**4,568,324**

The **increases** refer for Euro 74,985 thousand to the capital increase in favor of the subsidiary Pirelli International Treasury S.p.A. and for Euro 4,358 thousand to the acquisition from the subsidiary Pirelli Tyre S.p.A. of the business unit consisting of all staff and business support activities related to Human Resources, Health and Safety, Security, Planning and Controlling, CFO, Legal Affairs, Digital, Communication. The difference between the amount of the fee and the book value of the business unit acquired, equal to Euro 4,4 million, was considered as a contribution in favor of the subsidiary and consequently recorded as an increase in the value of the investment in the subsidiary..

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 associates. Following the verification of the indicators, the company on which it was necessary to carry out the test was Pirelli Ltda. The test did not determine the need for any impairment.

Further details are set out in the Annexes to the Explanatory Notes.

11. INVESTMENTS IN ASSOCIATED COMPANIES

At December 31, 2019, this item amounted to Euro 6,375 thousand (Euro 6,375 thousand at December 31, 2018) and the breakdown is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
Consorzio per le Ricerche sui Materiali Avanzati (CORIMAV)	104	104
Eurostazioni S.p.A. - Roma	6,271	6,271
Total investment in associates	**6,375**	**6,375**

The breakdown of changes is indicated below:

(in thousand of euro)

	12/31/2019	12/31/2018
Opening balance	**6,375**	**10,204**
Increases	-	-
Decreases	-	(249)
Impairment	-	(3,580)
Closing balance	**6,375**	**6,375**

No changes occurred during the year.

Further details are set out in the Annexes to the Explanatory Notes.

12. OTHER FINANCIAL ASSETS AT FAIR VALUE RECOGNISED IN THE OTHER COMPONENTS OF THE STATEMENT OF COMPREHENSIVE INCOME (FVOCI)

Other financial assets at fair value recognised in the other components of the statement of comprehensive income amounted to Euro 57,203 thousand at December 31, 2019 (Euro 67,000 thousand at December 31, 2018).

The breakdown of the item for each security is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
Listed securities		
RCS Mediagroup S.p.A. - Milano	24,892	28,449
Unlisted securities		
Fin. Priv Srl	20,565	15,604
Fondo Comune di Investimento Immobiliare Anastasia	3,947	15,575
Istituto Europeo di Oncologia S.r.l.	7,465	6,961
Other companies	334	411
Total financial assets at fair value through other comprehensive income	**57,203**	**67,000**

The changes in the year are shown below:

(in thousand of euro)

Opening balance	**67,000**
Decreases	(9,431)
Adjustment to fair value recognised in other comprehensive income	(366)
Closing balance	**57,203**

The **decreases** refer to the partial redemption of units for Euro 9,431 thousand received from Fondo Comune di Investimento Immobiliare - Anastasia in August 2019.

The **fair value adjustments in the other components of the statement of comprehensive income** mainly refer to the investments in Fin.Priv. S.r.l. (positive for Euro 4,961 thousand), in Istituto Europeo di Oncologia (positive for Euro 504 thousand), in RCS Mediagroup S.p.A. (negative for Euro 3,557 thousand), in Fondo Comune di investimento Anastasia (negative for Euro 2,198 thousand) and in Genextra (negative for Euro 13 thousand).

For listed securities, the fair value corresponds to the Stock Exchange listing at December 31, 2019. For unlisted securities and real estate funds, the fair value was estimated according to available information.

13. OTHER RECEIVABLES

The breakdown of other receivables is as follows:

(in thousand of euro)

	12/31/2019			12/31/2018		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Other receivables from subsidiaries	2,554	-	2,554	3,921	-	3,921
Financial receivables from subsidiaries	2,317,507	-	2,317,507	2,112,705	600,000	1,512,705
Guarantee deposits	268	268	-	221	221	-
Other receivables from third parties	11,212	352	10,860	2,221	323	1,898
Receivables from tax authorities for taxes not related to income	9,368	-	9,368	21,976	-	21,976
Financial accrued interest income	6,982	-	6,982	7,415	-	7,415
Financial prepaid expenses	681	-	681	776	-	776
Total other receivables	**2,348,572**	**620**	**2,347,952**	**2,149,235**	**600,544**	**1,548,691**

Financial receivables from subsidiaries mainly include the loan granted to Pirelli Tyre S.p.A. for a total amount of Euro 2,030 million, entirely related to a current portion maturing January 2020 reimbursed at the expiry date and the receivable for interest accrued and not yet paid for Euro 3,453 thousand.

Financial receivables also include transactions with Pirelli International Treasury S.p.A. relating to the interest-bearing current account, regulated at market rates for Euro 284,051 thousand (at December 31, 2018 equal to Euro 561,399 thousand with Pirelli International Plc).

For the purposes of applying accounting standard IFRS 9 in relation to loans to Group companies, the management has made an estimate of the expected credit losses for the 12 months subsequent to the financial statement date. The analysis takes into account qualitative, quantitative, historical and prospective information, to determine whether the intra-group loan has a credit risk at December 31, 2019. Using a probability of default of an investment grade loan and considering the asset refundable grade and the historical solvency of the

Companies, the management of the company concluded that any impairment required by the standard would result in an insignificant amount.

Receivables from the tax authorities for taxes not related to income for Euro 9,368 thousand mainly refer to receivables for VAT, which decreased compared to the previous year.

Financial accrued interest income refer to portions of interest accrued but not yet collected on cross currency interest swap derivative contracts related to the unsecured syndicated financing "Facilities" granted to Pirelli & C. S.p.A.

Prepaid financial expenses relate mainly to the commissions on the revolving and term loan credit line.

The book value of financial receivables and other receivables approximates their fair value.

14. TRADE RECEIVABLES

Trade receivables amounted to Euro 23,775 thousand compared to Euro 35,366 thousand of the previous year and the breakdown is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
Receivables from subsidiaries	21,486	32,229
Receivables from associates	3	3
Receivables from other companies	2,906	6,104
Total receivables - gross amount	**24,395**	**38,336**
Provision for bad debt	(620)	(2,970)
Total receivables	**23,775**	**35,366**

Below is the breakdown of trade receivables based on the currency in which they are expressed:

(in thousand of euro)

	12/31/2019	% of total trade receivables	12/31/2018	% of total trade receivables
EUR	20,657	85%	34,180	89%
USD (Dollar USA)	-	-	2,083	6%
RUB (Ruble Russia)	619	2%	2,039	5%
CHF	3,119	13%	-	-
Other currencies	-	-	34	-
Total	**24,395**		**38,336**	

Receivables from subsidiaries at December 31, 2019 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 2,906 thousand (Euro 6,104 thousand at December 31, 2018), gross of the bad debt provision of Euro 620 thousand, are past due for Euro 2,028 thousand.

Overdue receivables and receivables due have been valued in accordance with the Group policies described in the paragraph relating to credit risk management in the "Financial risk management policy".

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 thousand of euro)

	12/31/2019	12/31/2018
Opening balance	**2,970**	**4,205**
Accruals	96	1,930
Decreases/reversals	(2,446)	(3,165)
Closing balance	**620**	**2,970**

Accruals to the provision for bad debts are recognised in the income statement as "Impairment of financial assets" (Note 33).

For trade receivables, the carrying amount is considered to approximate the applicable fair value.

15. CASH AND CASH EQUIVALENTS

At December 31, 2019, they amounted to Euro 1,754 thousand, against Euro 101,764 thousand at December 31, 2018 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, 2019, they amounted to Euro 31,744 thousand (Euro 49,746 thousand at December 31, 2018).

The amount mainly includes:

- receivables from Group companies participating in the tax consolidation for Euro 29,828 thousand (Euro 48,489 thousand at December 31, 2018). 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.;
- receivables for IRAP advances paid for Euro 925 thousand, unchanged compared to the previous year.

17. FINANCIAL INSTRUMENTS

The item includes the fair value of derivative instruments. The breakdown is as follows:

(in thousand of euro)

	12/31/2019				12/31/2018			
	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	-	11	-	(5)	-	325	-	(44)
In hedge accounting								
- cash flow hedge:								
Interest rate derivatives	449	-	(8,735)	-	-	-	(2,824)	-
Other derivatives instruments	29,820	10,143	(854)	-	19,403	3,424	(7,741)	(5,248)
Total derivative instruments	**30,269**	**10,154**	**(9,589)**	**(5)**	**19,403**	**3,749**	**(10,565)**	**(5,292)**

The above derivatives are intercompany derivatives stipulated mainly with the Group's treasury company, Pirelli International Treasury S.p.A.

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 current assets for Euro 449 thousand and non-current liabilities for Euro 8,735 thousand, refers to the fair value measurement of 2 interest rate swaps forward start contracts and 3 interest rate swaps contracts with the following characteristics:

(in thousand of euro)

Instrument	Description	Notional	Start date	Deadline	
IRS	Term loan in Euro	250,000	June 2019	June 2022	receive fix / pay floating
IRS	Term loan in Euro	62,500	August 2019	August 2023	receive fix / pay floating
IRS	Term loan in USD + CCIRS	100,000	October 2019	June 2022	receive fix / pay floating
IRS forward start	Schuldschein	180,000	July 2020	July 2023	receive fix / pay floating
IRS forward start	Schuldschein	20,000	July 2020	July 2025	receive fix / pay floating
Total		**612,500**			

For these derivatives, hedge accounting of the cash flow hedge type was adopted. Items subjected to hedge accounting are:

- a 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 (see Note 19).

The change in fair value for the year for IRS (interest rate swaps), negative at Euro 6,047 thousand, has been entirely suspended in equity, while in the income statement, Euro 572 thousand was reversed to the item "financial expenses" (Note 36), correcting the financial expenses recognised on the liability hedged.

A +0.5% change in the EURIBOR curve, other things being equal, would result in a positive change of Euro 8,095 thousand in the Company's shareholders' equity, while a -0.5% change in the same curve would result in a negative change of Euro 7,883 thousand in the Company's shareholders' equity.

The value of **other derivatives**, recognised as non-current assets for Euro 29,820 thousand, current assets for Euro 10,143 thousand and non-current liabilities for Euro 854 thousand, refers to the fair value measurement of 4 cross currency interest rate swaps with the following characteristics:

(in thousand of USD)

Instrument	Notional	Start date	Deadline	Description
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	170,422	July 2019	June 2022	pay fix EURIBOR / receive floating LIBOR
CCIRS	908,920	July 2019	June 2022	pay fix EURIBOR / receive floating LIBOR
	2,045,069			

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 1,824,419 thousand (see Note 19 "Borrowings from banks and other financial institutions").

The positive change in fair value for the year was suspended in equity for Euro 81,239 thousand (cash flow hedge reserve for Euro 75,888 thousand and cost of hedging reserve for Euro 5,351 thousand), while Euro 34,309 thousand was reversed to the income statement to offset unrealised exchange rate losses recognised on liabilities hedged and Euro 52,022 thousand was instead reversed in the item "financial expenses" (Note 36) correcting the financial expenses recognised 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 10,854 thousand and a negative net impact of Euro 11,050 thousand on the shareholders' equity of the Company.

18. SHAREHOLDERS' EQUITY

Equity amounted to Euro 4,580,445 thousand (Euro 4,492,675 thousand at December 31, 2018).

The statement of changes in equity is shown in the main financial statements.

Equity went from Euro 4,492,675 thousand at December 31, 2018 to Euro 4,580,445 thousand at December 31, 2019. The positive change is essentially due to the net result for the year (positive for Euro 273,242 thousand), offset by the dividend distribution of Euro 177,000 thousand, by the adjustment to the fair value of derivatives designated as cash flow hedges (negative for Euro 8,031 thousand) and to the adjustment to the fair value of financial assets at fair value recognised as other components of the statement of comprehensive income (negative for Euro 366 thousand).

SHARE CAPITAL

The share capital at December 31, 2019, fully subscribed and paid-in, amounted to Euro 1,904,374,935.66 divided into 1,000,000,000 ordinary shares without nominal value and unchanged compared to December 31, 2018.

LEGAL RESERVE

At December 31, 2019, the legal reserve amounted to Euro 380,875 thousand, unchanged compared to December 31, 2018, having already reached the limit set by art. 2430 Civil Code.

SHARE PREMIUM RESERVE

At December 31, 2019, the share premium reserve amounted to Euro 630,381 thousand and unchanged compared to December 31, 2018.

CONCENTRATION RESERVES

At December 31, 2019, concentration reserves amounted to Euro 12,467 thousand and unchanged compared to December 31, 2018.

OTHER RESERVES

At December 31, 2019, other reserves amounted to Euro 92,535 thousand and unchanged compared to December 31, 2018.

IAS RESERVE

At December 31, 2019, the IAS reserves were negative for a value of Euro 3,199 thousand and refer to the reserve for the fair value adjustment of financial assets at fair value recognised in the statement of comprehensive income (positive for Euro 10,638 thousand), to the reserve for the remeasurement of employee benefit obligations (positive for Euro 1,923 thousand) and the cash flow hedge reserve and the cost of hedging reserve, net of the tax effect (negative for Euro 15,760 thousand).

MERGER RESERVE

At December 31, 2019, the merger reserve amounted to Euro 1,022,928 thousand, unchanged compared to December 31, 2018. The reserve was generated following the merger by incorporation of Marco Polo International Holding Italy S.p.A. in Pirelli & C. S.p.A. in 2016.

RESERVE FROM RESULTS CARRIED FORWARD

The reserve from results carried forward amounted to Euro 266,842 thousand compared to a 181,512 at December 31, 2018. The increase is attributable to the residual result carried forward from the previous year.

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.

EQUITY ITEMS

(in thousand 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	(3,199)	-	-	-
- Merger Reserve	1,022,928	A, B, C	1,022,928	175,912
Retained earnings	266,842	A, B, C	266,842	188,439
Total	**4,307,204**		**2,406,028**	**364,351**
Non distributable			473,410	
Residual quota available			1,932,618	

A to increase the share capital
B to cover losses
C to distribute to the shareholders

19. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The breakdown of the item borrowings from banks and other financial institutions is as follows:

(in thousand of euro)

	12/31/2019			12/31/2018		
	Total	Non-current	Currents	Total	Non-current	Currents
Bonds	1,271,393	1,071,476	199,917	1,269,514	1,269,514	-
Borrowings from banks	2,921,413	2,469,318	452,095	2,851,995	2,651,995	200,000
Lease payables	38,226	35,479	2,747	-	-	-
Other financial obligations	4,222	900	3,322	2,949	-	2,949
Accrued liabilities	20,208	-	20,208	19,555	-	19,555
Total borrowings from banks & other financial institutions	**4,255,462**	**3,577,173**	**678,289**	**4,144,013**	**3,921,509**	**222,504**

The item **bonds** refers to:

- unrated public bonds 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 2018) placed on January 22, 2018 with a fixed coupon of 1.375% and an original 5-year maturity, plus a second bond loans issued on March 15, 2018 for a nominal amount of Euro 200 million at a floating rate, with original 2.5-year maturity. 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;
- the floating rate "Schuldschein" loan for a total nominal value of Euro 525 million placed on July 26, 2018. The loan, and entered into by leading market operators, consists of a tranche of Euro 82 million with 3-year maturity, a tranche of Euro 423 million with 5-year maturity and a tranche of Euro 20 million with 7-year maturity.

The carrying amount of bonds was determined as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
Nominal value	1,278,000	1,278,000
Transaction costs	(7,683)	(7,683)
Bond discount	(2,988)	(2,988)
Amortisation of effective interest rate	4,063	2,185
Total	**1,271,392**	**1,269,514**

The change in the item bonds refers to the amortised cost for the year.

The item **borrowings from banks**, which amounted to Euro 2,921,413 thousand, mainly refers to:

- use of the unsecured loan (Facilities) granted to Pirelli & C. S.p.A. for Euro 1,999,940 thousand, of which Euro 252,095 classified under current borrowings from banks. The nominal refinanced total subscribed to on June 27, 2017, (with a closing date of June 29, 2017) amounted to Euro 2.7 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). 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 3-year and 5-year maturity;
- Euro 921,473 thousand relating to two bilateral loans disbursed in favor of Pirelli & C. S.p.A. by leading banking institutes, of which nominal Euro 600 million with 5-year maturity ("Bilaterale 600"), Euro 125 million with 4-year maturity at floating rate ("Bilaterale 125") and Euro 200 million with maturity extended to June 2020 (original maturity July 2019) at fixed rate ("Bilaterale 200"), classified under current borrowings from banks;

Below are the changes in borrowings from banks:

(in thousand of euro)

Borrowings from banks at December 31, 2018	**2,851,995**
Reimbursements of unsecured financing (Facilities)	(700,000)
New bilateral borrowings	720,900
Amortised cost for the period	14,182
Translation differences	34,336
Borrowings from banks at December 31, 2019	**2,921,413**

The change in total borrowings from banks for the previous year is shown below:

(in thousand of euro)

Borrowings from banks at December 31, 2017	**2,331,086**
Reimbursements of unsecured financing (Facilities)	(700,000)
Transfer of loan from Pirelli International Plc	986,965
Intesa financing	200,000
Amortised cost for the period	(6,590)
Translation differences	40,534
Borrowings from banks at December 31, 2018	**2,851,995**

Lease payables represent financial liabilities relating to the application of IFRS 16 starting from January 1, 2019.

Below are the changes in lease liabilities:

(in thousand of euro)

IFRS 16 first time adoption impact	**37,250**
Increase in lease obligations	1,277
Remeasurement and early termination	972
Repayment of principal for lease obligations	(1,273)
Lease payables as at 12/31/2019 (IFRS 16)	**38,226**

Non-discounted future payments for lease contracts for which the exercise of extension options is not considered reasonably certain amounted to Euro 13,596 thousand at December 31, 2019 and are not included in this item.

The item **other financial payables** includes for Euro 2,423 thousand the payable to shareholders following the squeeze out operation and for Euro 1,800 thousand the short-term portion of the upfront fee on the "Bilaterale 600" loan, of which Euro 900 thousand short-term and Euro 900 thousand non-current.

The item **accrued liabilities** essentially refers to interest that has accrued on the term loans but has not yet been paid (Euro 10,866 thousand) and to interest accrued on bonds for Euro 9,082 thousand.

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 thousand of euro)

	12/31/2019		12/31/2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,071,476	1,084,830	1,269,514	1,252,468
Borrowings from banks	2,469,318	2,492,591	2,651,995	2,686,087
Lease payables	35,479	35,479	-	-
Other financial payables	900	900	-	-
Total borrowings from banks and other financial institutions - non current	**3,577,173**	**3,613,800**	**3,921,509**	**3,938,555**

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 year-end. 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 borrowings from 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 borrowings from banks and other financial institution by currency of origin of the payable at December 31, 2019 and December 31, 2018 is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
EUR	2,439,408	2,368,434
USD (Dollar USA)	1,816,054	1,775,579
Total	**4,255,462**	**4,144,013**

At December 31, 2019, there are hedging derivatives for interest rate and exchange rate on payables at variable rate in foreign currency.

The Company's exposure to changes in interest rates on financial payables, both in terms of the type of interest rate and in terms of their renegotiation date (resetting), is divided into:

- variable rate payables for Euro 1,908,335 thousand, the interest rate of which is subject to renegotiation within the first six months of 2020;
- fixed rate payables for Euro 2,303,520 thousand, the interest rate of which is not subject to renegotiation until the natural maturity of the reference debt (Euro 200,000 thousand with maturity in the next 12 months and Euro 2,103,520 thousand with maturity beyond 12 months).

With regard to the existence of financial covenants, it is noted that (i) Group's main bank credit facility (Facility) granted to Pirelli & C. S.p.A. and Pirelli International Plc (currently usable only by, and in its entirety by Pirelli & C.), (ii) the "Schuldschein" loan (iii) the bilateral line of Euro 600 million granted to Pirelli & C. in the first quarter of 2019 ("Bilaterale 600") and (iv) the bilateral line of Euro 125 million granted to Pirelli & C. in the third quarter of 2019 ("Bilaterale 125") 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.

In all the loans indicated above, failure to comply with the financial covenant is identified as an event of default.

Specifically, this event of default may be exercised in accordance with the terms of the relevant contract (i) as part of the Facility only if requested by a number of lending banks that represents at least 66 2/3% of the total commitment and involves early repayment (partial or total) of the loan with simultaneous cancellation of the relative commitment; (ii) as part of the Schuldschein loan, individually and autonomously by each lending bank for its share and entails the early repayment of the loan only for that share; and (iii) as part of both Bilaterale 600 and Bilaterale 125, by the only bank that granted each of the above loans, leading to early repayment for the entire amount disbursed.

It is noted that at December 31, 2019, this parameter is respected.

The Facility, the "Schuldschein" loan and Bilaterale 600 also provide for Negative Pledge clauses, the terms of which are in line with market standards for each of the aforementioned types of credit facilities.

The other outstanding financial payables at December 31, 2019 did 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 at December 31, 2019 and December 31, 2018, 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 thousand of euro)

	Note	12/31/2019	*of which related parties (note 39)*	12/31/2018	*of which related parties (note 39)*
Current borrowings from banks and other financial institutions without IFRS 16	**19**	675,542	-	222,504	*7*
Current derivative financial instruments (liabilities)	**17**	-	-	5,248	*5,248*
Non-current borrowings from banks and other financial institutions without IFRS 16	**19**	3,541,694	-	3,921,509	-
Non-current derivative financial instruments (liabilities)	**17**	9,589	*9,589*	10,252	*10,252*
Current lease obligations IFRS 16	**19**	35,479	-	-	-
Non-current lease obligations IFRS 16	**19**	2,747	-	-	-
Total gross debt		**4,265,051**		**4,159,513**	
Cash and cash equivalents	**15**	(1,754)	-	(101,764)	-
Current financial receivables and other assets	**13**	(2,325,160)	*(2,324,489)*	(1,520,896)	*(1,520,120)*
Derivative financial instruments - assets	**17**	(10,154)	*(10,143)*	(3,424)	*(3,424)*
Net financial debt *		**1,927,983**		**2,533,429**	
Non-current financial receivables and other assets	**13**	(268)	-	(600,221)	*(600,000)*
Derivative financial instruments	**17**	(30,269)	*(30,269)*	(19,403)	*(19,403)*
Total net financial (liquidity)/debt position		**1,897,446**		**1,913,805**	
Lease obligations IFRS 16	**19**	(38,226)		-	
Total net financial (liquidity)/debt position without IFRS 16		**1,859,220**		**1,913,805**	

* 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 thousand of euro)

	12/31/2018	Increases	Uses	Reversals	Riclassification	Other	12/31/2019
Provision for employees controversies	3,586	1,197	(1,178)	(1,608)	-	-	1,997
Provision for tax risks	1,141	-	-	-	-	-	1,141
Provision for environmental risks	1,922	500	(1,795)	-	-	-	627
Provision for other risks	33,882	1,208	-	(382)	1,631	227	36,566
Provision for liabilities and charges - non current portion	**40,531**	**2,905**	**(2,973)**	**(1,990)**	**1,631**	**227**	**40,331**
Provision for other risks	1,815	-	(173)	(11)	(1,631)	-	-
Provision for liabilities and charges - current portion	**1,815**	**-**	**(173)**	**(11)**	**(1,631)**	**-**	**-**
Closing balance 12/31/2019	**42,346**	**2,905**	**(3,146)**	**(2,001)**	**-**	**227**	**40,331**

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 labour disputes and remediation of disused areas.

The item **other risks** includes the Euro 33.5 million provision referable to the decision taken by the European Commission – subsequently confirmed by the sentence of the European Union Court of July 12, 2018, against which on September 21, 2018, Pirelli & C.S.p.A. (Pirelli) filed an appeal before the Court of Justice of the European Union – at the conclusion of the antitrust investigation started in relation to allegedly restricting competition in the European energy cable market. This decision provides for a sanction against Prysmian Cavi e Sistemi S.r.l. (Prysmian) as directly involved in the alleged cartel, of which a part (Euro 67 million), Pirelli, despite having been found to not have been involved in said cartel, was held as being jointly liable with Prysmian, based solely on the application of the principle of parental liability, in that during part of the period of the alleged infringement, the capital of Prysmian was directly or indirectly held by Pirelli. The amount set aside of Euro 33.5 million corresponds for 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 joint penalty to Pirelli and Prysmian of Euro 67 million.

21. PERSONNEL PROVISIONS

Personnel provisions amounted to Euro 6,311 thousand (Euro 4,175 thousand at December 31, 2018 and the breakdown is as follows:

(in thousand of euro)

	12/31/2019			12/31/2018		
	Total	Non current	Current	Total	Non current	Current
Employee leaving indemnities (TFR)	2,672	2,672	-	1,077	1,077	-
Other benefits	3,639	1,605	2,034	3,098	1,133	1,965
Total employees' benefit obligation	**6,311**	**4,277**	**2,034**	**4,175**	**2,210**	**1,965**

The increase compared to the previous year is mainly due to the increase in severance pay and seniority bonuses following the acquisition of the business unit of the subsidiary Pirelli Tyre S.p.A. consisting of all the staff and business support activities related to Human Resources, Health and Safety, Security, Planning and Controlling, CFO, Legal Affairs, Digital, Communication.

EMPLOYEES' LEAVING INDEMNITY (TFR)

The changes for the employee leaving indemnity (TFR) are the following:

(in thousand of euro)

	12/31/2019	12/31/2018
Opening balance	**1,077**	**1,385**
Movements through income statement:		
- current service cost	1,800	934
- interest expense	23	9
Remeasurements recognised in equity:		
-actuarial (gains) or losses arising from changes in financial assumption	96	8
-Increase related to business combination	1,411	-
Indemnities, advance payments, relocations, payment to funds	(1,735)	(1,259)
Total employees' leaving indemnity (TFR)	**2,672**	**1,077**

The amounts recognised in the income statement are included in the item "Personnel Expenses" (Note 30).

Net actuarial gains accrued in 2019, recognised directly in equity, amounted to Euro 96 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 provision.

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 main actuarial assumptions used at December 31, 2019 are as follows:

	2019
Discount rate	0.7%
Inflation rate	1.0%

The main actuarial assumptions used at December 31, 2018 were as follows:

	2018
Discount rate	1.5%
Inflation rate	1.5%

Hired employees at December 31, 2019 amounted to 353 units (151 units at December 31, 2018). The increase is essentially due to the acquisition by the Company of the business unit of the subsidiary Pirelli Tyre S.p.A. consisting of all the staff and business support activities related to Human Resources, Health and Safety, Security, Planning and Controlling, CFO, Legal Affairs, Digital, Communication.

In other conditions being equal, a hypothetical change of 0.25% in the discount rate would result in a decrease in liabilities equal to 1.84%, in the case of an increase (1.80% at December 31, 2018), and an increase in liabilities of 1.88%, in the case of a decrease (1.83% at December 31, 2018).

OTHER EMPLOYEE BENEFITS

The breakdown of other benefits is as follows:

(in thousand of euro)

	12/31/2019			12/31/2018		
	Total	Non current	Current	Total	Non current	Current
Long-term incentive plans	-	-	-	411	411	-
Jubilee awards	1,605	1,605	-	722	722	-
Other benefits	2,034	-	2,034	1,965	-	1,965
Total	**3,639**	**1,605**	**2,034**	**3,098**	**1,133**	**1,965**

On December 31, 2018, the item Long-term incentive plans included the amount allocated for the three-year monetary incentive plan Long-term incentive 2018-2020 for Group management and related to the 2018-2020 objectives contained in the 2017-2020 Industrial Plan. At the presentation of the 2020-2022 Industrial Plan on February 19, 2020, the Board of Directors approved the adoption of a new monetary incentive plan - Long-term incentive (LTI) - intended for all Group management (to date approximately 270 participants) - related to the objectives of the plan. At the same time, the BoD - with effect from December 31, 2019 - resolved to close early and without any disbursement, not even pro-quota, the previous plan adopted in 2018 and related to the objectives of the 2018-2020 period.

Other benefits for Euro 2,034 thousand refer to the portion of the third installment of the retention plan at December 31, 2019 that will be paid during the first half of 2020. The plan was approved by the Board of Directors on February 26, 2018, and is intended for Executives with strategic and tax responsibilities (to a selected number of senior Managers and Executives whose contribution for the implementation of the Strategic Plan is considered particularly significant.

22. TRADE PAYABLES

The breakdown of trade payables is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
Payables to subsidiaries	4,562	2,392
Payables to associates	102	60
Payables to other companies	14,598	16,929
Total trade payables	**19,262**	**19,381**

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 thousand of euro)

	12/31/2019			12/31/2018		
	Total	Non-current	Current	Total	Non-current	Current
Payables to subsidiaries	11,515	-	11,515	25,944	-	25,944
Payables to social security and welfare institutions	3,193	-	3,193	1,905	-	1,905
Payables to employees	7,213	-	7,213	8,275	-	8,275
Other payables	9,593	211	9,382	9,088	211	8,877
Accrued liabilities	271	-	271	3,343	-	3,343
Deferred income	533	-	533	7	-	7
Total other payables	**32,318**	**211**	**32,107**	**48,562**	**211**	**48,351**

Payables to subsidiaries mainly refer to receivables related to VAT consolidation.

Payables to pension and social security institutions mainly consist of 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 the remuneration to be paid to employees.

Other payables include liabilities for compensation to be paid to directors and auditors, for withholding taxes on income from self-employed and employed work.

For **other current payables** it is considered that the carrying value approximates their fair value.

24. DEFERRED TAX PROVISIONS

The deferred tax provision amounted to Euro 538,902 thousand at December 31, 2019 (Euro 527,807 thousand at December 31, 2018).

The breakdown of the deferred tax provision gross of offsetting is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
Deferred tax assets	**101,909**	**113,005**
- of which within 12 months	64,050	55,649
- of which over 12 months	37,859	57,356
Provision for deferred tax liabilities	**(640,811)**	**(640,811)**
- of which within 12 months	(1,842)	-
- of which over 12 months	(638,969)	(640,811)
Total	**(538,902)**	**(527,806)**

The tax effect of temporary differences and of tax losses carried forward which make up the item is shown in the following table:

(in thousand of euro)

	12/31/2019	12/31/2018
Deferred tax assets		
Provision for risk and charges	665	1,897
Property, plant and equipment	65	65
Employees provision	1,484	864
Provision for bad debt	120	713
Tax losses carried forward	24,080	50,339
ACE Benefit	54,501	43,498
Interests	16,010	13,180
Derivatives	4,984	2,448
Total deferred tax assets	**101,909**	**113,005**
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	**(538,902)**	**(527,806)**

At December 31, 2019, the amount of unrecognised deferred tax assets relating to unlimited carryforward tax losses was equal to Euro 30,048 thousand (Euro 31,335 thousand at December 31, 2018), while those relating to temporary differences was equal to Euro 25,856 thousand (unchanged compared to December 31, 2018).

25. TAX PAYABLES

These amounted to Euro 17,617 thousand (Euro 16,436 thousand at December 31, 2018) and mainly include payables to subsidiaries that adhere to the tax consolidation, which arose following the transfer of withholding taxes incurred abroad (WHT).

26. COMMITMENTS AND RISKS

COMMITMENTS FOR LEASE CONTRACTS

At December 31, 2019, the total of future undiscounted payments for lease contracts not yet in force and for which no financial payable was recognized amounted to Euro 14,400 thousand, mainly referring to office lease contracts.

DISPUTES AGAINST PRYSMIAN BEFORE THE COURT OF MILAN.

Pending the decision of the Community proceeding pursuant to Note 20 "Provision for liabilities and charges", 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 – against which, on September 21, 2018, Pirelli filed an appeal before the Court of Justice of the European Union.

Prysmian appeared in the aforementioned judgment, requesting the rejection of Pirelli's claims, and to be indemnified by Pirelli in relation to the consequences deriving from or related to the Decision of the European Commission. The judgment was suspended pending a final ruling of the EU judges.

On the basis of accurate analyses provided by external counsel, Pirelli believes that the full and final liability for any breach must be borne exclusively by the company directly involved, since it was not involved in committing the alleged irregularities.
In October 2019, Pirelli took further action before the Court of Milan against Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. requesting the assessment and declaration of the obligation of Prysmian Cavi e Sistemi S.r.l. to indemnify and release it from any charge, expense, cost and/or damage resulting from claims of private and/or public third parties (including authorities other than the European Commission) relating, connected and/or consequential to the facts covered by the Decision of the European Commission, as well as the consequent conviction of Prysmian Cavi e Sistemi S.r.l. to reimburse any charge, expense, cost or damage incurred or suffered by Pirelli.

On this occasion, Pirelli also requested to ascertain the liability of Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. in relation to certain illegal conduct connected to the aforementioned alleged anti-competitive agreement, carried out by the same and, as a result, the conviction to compensation for all damages suffered and being suffered by Pirelli.

Lastly, Pirelli requested the ascertainment and declaration of the joint liability of Prysmian S.p.A. in relation to the amounts that will be paid both in this new judgment and in the one in November 2014 and that will not be settled by Prysmian Cavi e Sistemi S.r.l.

OTHER DISPUTES IN RELATION TO THE EUROPEAN COMMISSION DECISION

In November 2015, Prysmian S.p.A. notified Pirelli of proceedings for the recovery of damages before the High Court of Justice of London against Prysmian and other recipients of the European Commission Decision of April 2, 2014 by National Grid and Scottish Power, companies that claim to have been injured by the alleged cartel. Specifically, Prysmian S.p.A. submitted a plea to obtain from Pirelli and Goldman Sachs, based on the role of parent companies during the period 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 of London 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, at the request of Pirelli and Prysmian S.p.A., suspended the proceedings until the final passing of judgment that will define the Italian judgment already pending.

In April 2019, Terna S.p.A. – Rete Elettrica Nazionale (Terna) summoned Pirelli, three Prysmian Group companies and another recipient of the aforementioned European Commission Decision, before the Court of Milan, to obtain compensation for the damage allegedly suffered as a result of the alleged anti-competitive conduct, quantified by the plaintiff at Euro 199.9 million.

Lastly, also in April 2019, the Electricity and Water Authority of Bahrain, the GCC Interconnection Authority, the Kuwait Ministry of Electricity and Water and the Oman Electricity Transmission Company, served a summons against Pirelli, some Prysmian Group companies and others recipients of the aforementioned European Commission Decision, jointly agreeing with each other to obtain compensation for the damage allegedly suffered as a result of the alleged anti-competitive conduct. The proceeding was brought before the Court of Amsterdam. At present, the plaintiffs have not yet quantified the damage allegedly suffered.

On the basis of accurate legal analyses provided by external counsel, Pirelli believes that the full and final liability for any breach must be borne exclusively by the company directly involved, since it was not involved in committing the alleged irregularities. In consequence of the above, the risk assessment related to the disputes described above is such as not to have to request the allocation of any specific provision in the Financial Statements at December 31, 2019, also considering their initial status.

27. REVENUES FROM SALES AND SERVICES

Revenues from sales and services amounted to Euro 51,992 thousand for 2019 compared to Euro 38,719 thousand in 2018 and the breakdown is as follows:

(in thousand of euro)

	2019	2018
Revenue from services to subsidiaries	50,108	37,054
Revenue from services to other companies	1,884	1,665
Total revenues from sales and services	**51,992**	**38,719**

Revenues from subsidiaries refer to services provided by the central functions.

28. OTHER REVENUES

Other revenues amounted to Euro 110,180 thousand in 2019 (Euro 112,179 thousand in 2018) and the breakdown is as follows:

(in thousand of euro)

	2019	2018
Other income from subsidiaries	106,613	102,110
Other revenues from third parties	3,567	10,069
Other income from other companies	**110,180**	**112,179**

Other revenues from subsidiaries mainly include royalties paid by Group companies for the use of the brand (Euro 71,730 thousand in 2019 compared to Euro 69,562 thousand in 2018). 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 1,645 thousand in 2019 compared to Euro 1,409 thousand in 2018).

29. RAW MATERIALS & SUPPLIES USED

They amounted to Euro 225 thousand in 2019 (Euro 210 thousand in 2018) and include purchases of advertising material, fuels and various materials.

30. PERSONNEL EXPENSES

Personnel expenses amounted to Euro 48,229 thousand (Euro 34,130 thousand in 2018) and the breakdown is as follows:

(in thousand of euro)

	2019	2018
Wages and salaries	33,886	23,744
Social security and welfare contributions	8,568	4,982
Employee leaving indemnities	1,933	973
Retirement and similar obbligations	533	241
Other costs	3,309	4,190
Total	**48,229**	**34,130**

The increase compared to the previous year is mainly attributable to the acquisition of the business unit of the subsidiary Pirelli Tyre S.p.A., consisting of all staff and business support activities relating to Human Resources, Health and Safety, Security, Planning and Controlling, CFO, Legal Affairs, Digital, Communication.

The average staff headcount is the following:

- Executives 80
- Employees 270
- Workers 7

31. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

The breakdown of the item is as follows:

(in thousand of euro)

	2019	2018
Amortisation - intangible assets	2,324	1,764
Depreciation - property, plant and equipment (excl. Depreciation of Right of Use)	1,907	2,220
Depreciation of right of use	4,023	-
Total depreciation, amortisation and impairments	**8,254**	**3,984**

The increase in the item “depreciation, amortisation and impairments” is mainly due to the adoption of IFRS 16 starting from January 1, 2019.

32. OTHER COSTS

The breakdown of other costs is the following:

(in thousand of euro)

	2019	2018
Advertising	38,625	36,243
Consultancy and collaboration services	11,204	10,101
Accruals to provisions (net of reversals)	77	(786)
Legal and notarial expenses	835	671
Travel expenses	4,013	11,119
Remuneration of Directors and supervisory bodies	7,086	8,449
Membership fees and contributions	2,418	2,251
Short term leasing contract	980	-
Low value leasing contract	208	-
Variable leasing contract	14	-
Rental and lease instalments	-	10,854
IT expenses	6,327	5,729
Energy, gas and water expenses	1,351	1,332
Security service	2,474	2,861
Insurance premiums	2,594	3,056
Patents and trademarks expenses	1,198	845
Cleaning and property ordinary maintenance expenses	750	689
Property maintenance	683	2,220
Bank charges for IPO	-	163
Other	8,681	9,247
Total other costs	**89,518**	**105,044**

** 2019 figures include IFRS 16 impact.*

The decrease in the item leases and rentals is mainly attributable to the application of IFRS 16 in 2019.

33. NET IMPAIRMENT OF FINANCIAL ASSETS

The item, negative for Euro 97 thousand, mainly includes the net impairment of trade receivables. At December 31, 2018, the net write-down of trade receivables amounted to Euro 1,930 thousand.

34. RESULT FROM EQUITY INVESTMENTS

34.1. PROFITS FROM INVESTMENTS

They amounted to Euro 2 thousand in 2019 (Euro 4,007 thousand in 2018) and the breakdown is as follows:

(in thousand of euro)

	2019	2018
Fair value adjustment of investment in Mediobanca S.p.A.	-	3,780
Other gains on equity investments	2	227
Total	**2**	**4,007**

The item relating to 2019 refers to the disposal of 1,014 Servizi Aziendali Pirelli S.c.p.A.shares to Pirelli International Treasury S.p.A. The decrease compared to the previous year refers to the positive impact of Euro 3,780 thousand relating to the investment in Mediobanca S.p.A., disposed of on January 11, 2018.

34.2. LOSSES FROM INVESTMENTS

There were no losses from investments in 2019 (Euro 3,580 thousand in 2018).

In 2018, the value, equal to Euro 3,580 thousand, referred for Euro 1,351 thousand to the impairment of the investment in Focus Investments S.p.A. and for Euro 2,229 thousand to the impairment of the investment in Fenice S.r.l.

34.3 DIVIDENDS

They amounted to Euro 268,903 thousand in 2019 compared to Euro 284,517 thousand in 2018 and the breakdown is as follows:

(in thousand of euro)

	2019	2018
From subsidiaries:		
- Pirelli Tyre S.p.A. - Italy	250,000	270,000
- Pirelli Group Reinsurance Company SA - Switzerland	13,342	5,025
- Pirelli Servizi Amministrazione e Tesoreria S.p.A. - Italia	200	500
- Pirelli Sistemi Informativi S.r.l. - Italy	300	5,800
From associates:		
- Fenice Srl - Italy	-	2,225
From other financial assets:		
- RCS S.p.A. - Italy	1,482	-
- ECA Ltd - United the Kingdom	10	10
- Fin. Priv. S.r.l. - Italy	957	957
- Genextra S.p.A. - Italy	178	-
- Fondo Anastasia - Italy	2,434	-
Total	**268,903**	**284,517**

35. FINANCIAL INCOME

The breakdown of the item is as follows:

(in thousand of euro)

	2019	2018
Interest	39,723	15,419
Other financial income	32	5,108
Net gains on exchange rates	519	-
Total financial income	**40,274**	**20,527**

Interest mainly refers to interest accrued on loans granted in 2019 to the subsidiary Pirelli Tyre S.p.A.

Net exchange rate gains of Euro 519 thousand refer to the adjustment to the year-end exchange rate of the items expressed in the currency other than the functional one still in effect at the closing date of the Financial Statements and the net profits on items closed during the year.

36. FINANCIAL EXPENSES

The breakdown of the item is as follows

(in thousand of euro)

	2019	2018
Interest	59,712	51,416
Commissions	2,736	1,228
Interest expenses on lease obligations	1,421	-
Net interest on employee benefit obligations	36	25
Net losses on exchange rates	-	308
Net losses on derivative financial instruments	120	401
Total financial expenses	**64,025**	**53,378**

Interest and other financial expenses for a total of Euro 59,712 thousand mainly include:

- Euro 95,689 thousand for the bank loan lines held by Pirelli & C. S.p.A.;
- Euro 15,212 thousand of financial expenses related to bonds, of which Euro 9,869 thousand related to unrated bonds and Euro 5,343 thousand related to the "Schuldschein" loan, both issued by Pirelli & C. S.p.A.;
- net of Euro 51,517 thousand for net interest income on the Cross Currency Interest Rate Swap and Interest Rate Swaps to adjust the flow of interest expense of the bank lines and bonds referred to in the previous points.

For further details, refer to as reported in Note 25 "Derivative financial instruments";

Net expenses on derivatives refer to forward purchases/sales of foreign currencies to hedge the 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 year, the fair value is determined using the forward exchange rate at the reporting date. For 2019 the exchange rate component of the fair value measurement of the cross currency interest rate swaps, for which hedge accounting of the cash flow hedge type was adopted, was positive to the amount of euro 34,399 thousand, and was reclassified under the item net gains on exchange rates, to offset unrealised exchange losses recorded on the hedged liability. To ensure comparability with the previous financial year, the exchange rate component for 2018, positive to the amount of euro 40,292 thousand, was reclassified to reduce net losses on exchange rates in order to offset unrealised currency exchange losses recorded for 2018 on the hedged liability.

37. TAXES

The breakdown of taxes is as follows:

(in thousand of euro)

	2019	2018
Current taxes	(26,120)	21,608
Deferred taxes	13,882	(26,279)
Total income taxes	**(12,238)**	**(4,671)**

Current taxes for the year 2019 recorded a positive effect of Euro 26,120 thousand compared to a negative effect of Euro 21,608 thousand in the previous year and mainly include income from tax consolidation. The change compared to the previous year is attributable to the fact that current taxes for 2018 recorded a negative effect of expenses deriving from tax consolidation relating to previous years, 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.

Deferred tax assets include the use of deferred tax assets on past tax losses, partially offset by the recognition of deferred tax assets on the ACE benefit.

The table below shows the reconciliation of the effective tax rate with the theoretical rate of the Parent Company:

(in thousand of euro)

	2019	2018
A) Profit before taxes	**261,004**	**257,691**
B) Theoretical taxes	**62,641**	**61,846**
Main causes that give rise to changes between theoretical and effective taxes:		
Tax incentives	(5,736)	(3,482)
Dividends and gains from investments not subject to taxation	(60,755)	(65,571)
Non-deductible costs	1,305	2,209
Uses losses previous years not activated	(1,007)	-
Deferred tax assets on previous tax losses and other temporary differences	(8,686)	-
Taxes relating to previous years	-	327
C) Effective taxes	**(12,238)**	**(4,671)**
Theoretical tax rate (B/A)	24%	24%
Effective tax rate (C/A)	-4.7%	-1.8%

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.

38. NON-RECURRING EXPENSES AND INCOME

Pursuant to Consob Communication no. DEM / 6064293 of July 28, 2006, no non-recurring events were recognised in 2019.

With regard to 2018, the impact of non-recurring events on the operating result was equal to a total of Euro 1,025 thousand in expenses, while the impact on the net result was negative for Euro 8,312 thousand.

39. TRANSACTIONS WITH RELATED PARTIES

Transactions between Pirelli & C. S.p.A. and the subsidiaries mainly concern:

- services (technical, organizational, general) provided by the headquarters to subsidiaries;
- royalties for the use of patents for Group companies benefiting from them.

All the transactions listed above are part of the ordinary management of relations between the Parent Company and its subsidiaries.

Transactions with related parties also included the fees paid to Directors and Key Managers.

The 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 thousand of euro)

	12/31/2019	of which related parties	% share	12/31/2018	of which related parties	% share
BALANCE SHEET						
Non current assets						
Other receivables	620	-	0.0%	600,544	*600,000*	99.9%
Derivative financial instruments	30,269	*30,269*	100.0%	19,403	*19,403*	100.0%
Current assets						
Trade receivables	23,775	*21,725*	91.4%	35,366	*32,352*	91.5%
Other receivables	2,347,952	*2,327,043*	99.1%	1,548,691	*1,524,042*	98.4%
Tax receivables	31,744	*29,830*	94.0%	49,746	*48,490*	97.5%
Derivative financial instruments	10,154	*10,154*	100.0%	3,749	*3,749*	100%
Non-current liabilities						
Derivative financial instruments	9,589	*9,589*	100.0%	10,565	*10,565*	100%
Current liabilities						
Payables to banks and other financial lenders	678,289	*252*	0.0%	222,504	*7*	0.0%
Trade payables	19,262	*4,771*	24.8%	19,381	*2,987*	15.4%
Other payables	32,107	*11,895*	37.0%	48,351	*26,178*	54.1%
Tax payables	17,617	*17,388*	98.7%	16,436	*16,207*	98.6%
Derivative financial instruments	5	*5*	100.0%	5,292	*5,292*	100%

(in thousand of euro)

	2019	of which related parties	% share	2018	of which related parties	% share
INCOME STATEMENT						
Revenues from sales and services	51,992	*50,823*	97.8%	38,719	*37,364*	96.5%
Other income	110,180	*106,726*	96.9%	112,179	*102,184*	91.1%
Personnel expenses	(48,229)	*(5,571)*	11.6%	(34,130)	*(2,186)*	6.4%
Other costs	(89,518)	*(22,315)*	24.9%	(105,044)	*(20,169)*	19.2%
Income on equity investments	2	2	100.0%	-	-	0.0%
Losses on equity investments	-	-	0.0%	(3,580)	*(3,580)*	100.0%
Dividends	268,903	*263,842*	98.1%	284,517	*283,549*	99.7%
Financial income	40,274	*39,706*	98.6%	20,527	*18,666*	90.9%
Financial expenses	(64,025)	*51,507*	-80.4%	(53,378)	*(6,838)*	12.8%

TRANSACTIONS WITH RELATED PARTIES

The tables below shows the main equity transactions with related parties for the years ended December 31, 2019 and December 31, 2018.

(in thousand of euro)

	Subsidiaries	Associates	Other related parties	Total 31 December 2019
Trade receivables	21,486	3	236	21,725
Other current receivables	2,327,043	-	-	2,327,043
Tax receivables	29,830	-	-	29,830
Derivative financial instruments (current assets)	10,154	-	-	10,154
Derivative financial instruments (non current assets)	30,269	-	-	30,269
Borrowings from banks and other financial institutions (current liabilities)	252	-	-	252
Trade payables	4,562	102	107	4,771
Other payables	11,698	-	197	11,895
Tax payables	17,388	-	-	17,388
Derivative financial instruments (current liabilities)	5	-	-	5
Derivative financial instruments (non-current liabilities)	9,589	-	-	9,589

(in thousand 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
Borrowings from banks and other financial institutions (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

Trade receivables amounted to Euro 21,725 thousand (Euro 32,352 thousand at December 31, 2018) and mainly refer to receivables for services/provisions provided to Group companies (Euro 15,175 thousand from Pirelli Tyre S.p.A., Euro 3,084 thousand from Pirelli Group Reinsurance Company SA, Euro 1,088 thousand from Limited Liability Company Pirelli Tyre Russia, Euro 596 thousand from Pirelli Tyre Co. Ltd., Euro 400 thousand from Pirelli Tyre Trading (Shanghai Co. Ltd., Euro 321 thousand from Pirelli Tire LLC).

Other related parties mainly include trade relations with the Prometeon group for Euro 234 thousand.

Other current receivables amounted to Euro 2,327,043 thousand (Euro 1,524,042 thousand at December 31, 2018) and mainly refer for Euro 2,033,454 thousand to the loans including interest accruals granted to Pirelli Tyre S.p.A., Euro 284,050 thousand to the intra-group current account with Pirelli International Treasury S.p.A., Euro 6,982 thousand to the accrued asset towards Pirelli International Treasury S.p.A. on the hedging transactions of the Cross Currency Interest Rate Swap in place at December 31, 2019, Euro 2,524 thousand to the VAT receivables transferred to the consolidation (Euro 1,999 thousand from Pirelli Industrie Pneumatici S.r.l., Euro 320 thousand from Pirelli Sistemi Informativi S.r.l., Euro 170 thousand from Pirelli Servizi Amministrazione e Tesoreria S.p.A., Euro 35 thousand from Servizi Aziendali Pirelli S.C.p.A.).

Tax receivables amounted to Euro 29,830 thousand (Euro 48,490 thousand at December 31, 2018) and refer to receivables from Group companies that adhere to tax consolidation (mainly Euro 23,458 thousand from Pirelli Tyre S.p.A., Euro 3,579 thousand from Pirelli Industrie Pneumatici S.r.l., Euro 2,529 thousand from Pirelli International Treasury S.p.A.).

Derivative financial instruments (current assets) for Euro 10,154 thousand (Euro 3,749 thousand at December 31, 2018) refer to hedging transactions with Pirelli International Treasury S.p.A.

The amount mainly refers for Euro 10,143 thousand to the fair value measurement of the cross currency interest rate swap.

Derivative financial instruments (non-current assets) refer for Euro 29,820 thousand (zero amount at December 31, 2018) refer to the hedging transaction of the cross currency interest rate swap with Pirelli International Treasury S.p.A. and for Euro 449 thousand the interest rate swap hedging transaction carried out with Pirelli International Treasury S.p.A..

Borrowings from banks and other financial institution (current) amounted to Euro 252 thousand (Euro 7 thousand at December 31, 2018) and mainly refer to the accrued liability to Pirelli International Treasury S.p.A. on the hedging transactions of the existing interest rate swap at December 31, 2019.

Trade payables amounted to Euro 4,771 thousand (Euro 2,987 thousand at December 31, 2018) and mainly refer to payables for the provision of services. These payables mainly refer for Euro 2,842 thousand to Pirelli Tyre S.p.A., Euro 1,250 thousand to HB Servizi S.r.l.

Trade payables to associated companies refer to Consorzio per la Ricerca di Materiali Avanzati (Consortium for the Research of Advanced Materials CORIMAV) while those to other related parties refer to the existing relationship with TP Trading (Beijing) Co. Ltd..

Other payables amounted to Euro 11,895 thousand (Euro 26,178 thousand at December 31, 2018) and mainly refer to payables with Group companies that adhere to the VAT consolidation. The main ones are: Euro 11,126 thousand to Pirelli Tyre S.p.A., Euro 124 thousand to HB Servizi S.r.l.

Tax payables amounted to Euro 17,388 thousand (Euro 16,207 thousand at December 31, 2018) and refer to payables to subsidiaries that adhere to tax consolidation (Euro 15,945 thousand Pirelli Tyre S.p.A., Euro 1,362 thousand Pirelli International Treasury S.p.A.).

The amount of Euro 5 thousand (Euro 5,292 thousand at December 31, 2018) of **derivative financial instruments** (current liabilities) refers to hedging transactions with Pirelli International Treasury S.p.A.

The amount of Euro 9,589 thousand (Euro 10,565 thousand at December 31, 2018) of **derivative financial instruments** (non-current liabilities) refers to the fair value measurement of the Cross Currency Interest Rate Swap (Euro 854 thousand) and IRS (Euro 8,735 thousand) with Pirelli International Treasury S.p.A.

TRANSACTIONS WITH RELATED PARTIES

The tables below show the main financial transactions with related parties for the years 2019 and 2018.

(in thousand of euro)

	Subsidiaries	Associates	Other related parties	Total 2019
Revenues from sales and services	50,108	-	715	50,823
Other income	106,613	-	113	106,726
Personnel expenses	-	-	(5,571)	(5,571)
Other costs	(14,399)	(270)	(7,646)	(22,315)
Dividends	263,842	-	-	263,842
Financial income	39,706	-	-	39,706
Financial expenses	51,507	-	-	51,507

(in thousand 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	18,666	-	-	18,666
Financial expenses	(6,838)	-	-	(6,838)

Revenues from sales and services amounted to Euro 50,823 thousand in 2019 (Euro 37,364 thousand in 2018) and mainly refer to service contracts. The main transactions with subsidiaries are: Euro 48,630 thousand with Pirelli Tyre S.p.A., Euro 388 thousand with Pirelli Sistemi Informativi S.r.l., Euro 375 thousand with Pirelli Servizi Amministrazione e Tesoreria S.p.A. Transactions with other related parties refer to the service/provisions contract with Prometeon Tyre Group S.r.l.

Other income for Euro 106,726 thousand in 2019 (Euro 102,184 thousand in 2017) mainly refer to: royalties (Euro 69,323 thousand with Pirelli Tyre S.p.A., Euro 2,500 thousand with Limited Liability Company Pirelli Tyre Russia); other recoveries (Euro 25,901 thousand from Pirelli Tyre S.p.A., Euro 3,084 thousand from Pirelli Group Reinsurance Company SA, Euro 903 thousand from Pirelli Tire LLC, Euro 596 thousand from Pirelli Tyre Co.Ltd.); lease contracts (Euro 2,305 thousand with Pirelli Tyre S.p.A., Euro 309 thousand with Pirelli Servizi Amministrazione e Tesoreria S.p.A., Euro 398 thousand from Pirelli Sistemi Informativi S.r.l.).

The amount recognised under related parties for Euro 113 thousand mainly refers to service contracts with Prometeon Tyre Group S.r.l. - O.U. Holding (Euro 87 thousand) and Marco Tronchetti Provera & C. S.p.A. (Euro 20 thousand).

The item **personnel expenses** includes the emoluments related to key managers.

Other costs for Euro 22,315 thousand in 2019 (Euro 20,168 thousand in 2018) mainly refer to charges for services and miscellaneous costs (Euro 5,000 thousand HB Servizi S.r.l., Euro 3,587 thousand Pirelli Sistemi Informativi S.r.l., Euro 3,445 thousand Pirelli Tyre S.p.A., Euro 1,210 thousand Pirelli Servizi Amministrazione e Tesoreria S.p.A., Euro 422 thousand Pirelli Trading (Beijing) Co. Ltd).

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 111 thousand, and the remuneration of directors and key managers for Euro 7,234 thousand.

Dividends for Euro 263,842 thousand in 2019 (Euro 283,549 thousand in 2018) refer to dividends collected during the year (Euro 250,000 thousand from Pirelli Tyre S.p.A., Euro 300 thousand from Pirelli Sistemi Informativi S.r.l., Euro 13,342 thousand from Pirelli Group Reinsurance Company SA and Euro 200 thousand from Pirelli Servizi Amministrazione e Tesoreria S.p.A.).

Financial income for Euro 39,706 thousand in 2019 (Euro 18,666 thousand in 2018) mainly refers to interest income on receivables from Pirelli Tyre S.p.A. (Euro 39,695 thousand).

Financial expense were positive for Euro 51,507 thousand in 2019 (negative for Euro 6,838 thousand in 2018) and mainly refers to net interest income on Cross Currency Interest Rate Swap.

BENEFITS TO KEY MANAGERS

At December 31, 2019, remuneration payable to key managers amounted to Euro 12,806 thousand. The portion relating to employee benefits was recognized in the Income Statement item "personnel expenses" for Euro 5,571 thousand. The difference, equal to Euro 7,235 thousand and mainly related to directors' fees, is recognized in the Income Statement item "other costs". Benefit include Euro 1,332 thousand related to Employee leaving indemnities (Euro 1,398 thousands at December 31,2018) and short term benefit for Euro 3,919 thousands (Euro 4,115 thousands at December 31,2018).

40. OTHER INFORMATION

DIRECTORS' AND AUDITORS' FEES

The fees due to Directors of Pirelli & C. S.p.A. amounted to Euro 4,420 thousand in 2019 and Euro 4,440 thousand in 2018. The fees due to the Statutory Auditors for the function performed at Pirelli & C. S.p.A. amounted to Euro 275 thousand in 2019 (Euro 275 thousand in 2018).

INDEPENDENT AUDITORS' FEES

Pursuant to applicable regulations, the following table shows the fees pertaining to 2019 for the auditing activities and other services rendered by the Auditing Company PricewaterhouseCoopers S.p.A.:

(in thousand 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.	277	
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	-	
				348

(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.

INFORMATION REQUIRED BY LAW NO. 124/2017 ART. 1 PARAGRAPHS 125-129

There is no information to be highlighted pursuant to the legislation in question referring to Pirelli & C. S.p.A. for the year 2019.

Any information relating to the companies controlled by Pirelli & C. S.p.A. are included in the consolidated financial statements.

41. 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 2019.

42. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

In **early 2020**, the Covid-19 (SARS-CoV-2) virus spread, initially in the People's Republic of China and later in other countries, including Italy.

Pirelli sells its products on a world wide basis in over 160 countries and owns industrial sites located in different countries, some of which are also significantly affected by the Covid-19 outbreak.

Sensitivity assumptions have been formulated regarding the effects of the spread of Covid-19, and elaborated on the basis of first estimates. By their nature, these hypotheses contain elements of uncertainty and are subject to changes, even significant ones, due to the continuous changes in the scenario and in the context for reference, which could lead to a significant alteration to the normal dynamics of the market and, more generally, to business operating conditions.

The negative impact currently expected at the level of the EBIT adjusted for the first quarter of 2020, is expected to be reabsorbed during the course of the year. However should the crisis continue, Pirelli will take steps to implement further mitigation measures.

Pirelli is following developments in the spread of the Coronavirus with constant contact with national and international organisations. The Company immediately adopted control and preventative measures for all their employees across the world, with particular attention to China, where all expatriate workers returned to their countries of origin with their families.

On **February 19, 2020,** Pirelli presented the 2020-2022 Industrial Plan with vision 2025 to the financial community. For further details, refer the section of the Directors' Report "Foreseeable evolution in the three-year period 2020-2022". On the same date, the Board of Directors approved the adoption of a new monetary incentive plan - Long Term Incentive (LTI) - intended for all Group management (currently around 270 participants) - related to the objectives of the plan. The New LTI Plan, as in the past, is also fully self-financed, as the related expenses are included in the economic data of the Industrial Plan. The New LTI Plan foresees the following objectives:

- Group Total Shareholder Return (TSR) relating to the Tier 1 peers panel, with an overall target weight of 40% of the LTI bonus;
- Group Cash Flow (before dividends), with target weight of 40% of the LTI bonus;
- Positioning of Pirelli in selected global sustainability indicators, with a target weight of 20% of the LTI bonus.

At the same time, the Board of Directors - with effect from December 31, 2019 - resolved to close early and without any disbursement, even pro-quota, the previous plan adopted in 2018 and related to the objectives of the 2018-2020 period.

Amongst others, the Executive Vice President and CEO of Pirelli & C. Marco Tronchetti Provera, the General Manager of Operations Andrea Casaluci and the managers qualified by the Board as "executives with strategic responsibility" participate in the New LTI Plan. The New LTI Plan is also aimed at Senior Managers (including the Director Giovanni Tronchetti Provera, as Senior Manager) and Group Executives (executives of Italian companies or employees of foreign Group companies with positions or roles equivalent to an Italian executive).

MOVEMENTS OF INVESTMENTS IN SUBSIDIARIES FROM 12/31/2018 TO 12/31/2019

(in thousand of euro)

	12/31/2018				CHANGES		12/31/2019			
	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										
ITALIA										
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.	1,020,000	1,315	100	100	-	-	1,020,000	1,315	100	100
Pirelli International Treasury S.p.A.	15,000	15	100	30	22,500	74,985	37,500	75,000	100	30
Pirelli Sistemi Informativi S.r.l.	1 share	1,655	100	100	-	-	1 share	1,655	100	100
Pirelli Tyre S.p.A.	558,154,000	4,523,888	100	100	-	4,357	558,154,000	4,528,245	100	100
Servizi Aziendali Pirelli S.C.p.A.	94,978	101	100	90	(1,014)	(1)	93,964	100	100	90
HB Servizi S.r.l.	1 share	230	100	100	-	-	1 share	230	100	100
Total investments in Italian subsidiaries		**4,530,442**				**79,341**		**4,609,783**		

	12/31/2018				CHANGES		12/31/2019			
	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	13,999,991	9,666	100	100	-	-	13,999,991	9,666	100	100
Prometeon Tyre Group Industria Brasile Ltda	1	0	-	-	-	-	1	0	-	-
Pirelli Latam Participações Ltda	1	0	-	-	-	-	1	0	-	-
UK										
Pirelli UK ltd.	163,991,278	21,871	100	100	-	-	163,991,278	21,871	100	100
Switzerland										
Pirelli Group Reinsurance Company S.A.	300,000	6,346	100	100	-	-	300,000	6,346	100	100
Total investments in foreign subsidiaries		**37,883**				-		**37,883**		
Total investments in subsidiaries		**4,568,324**				**79,341**		**4,647,666**		

MOVEMENTS OF INVESTMENTS IN SUBSIDIARIES FROM 12/31/2018 TO 12/31/2019

(in thousand of euro)

	12/31/2018				CHANGES		12/31/2019			
	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:										
Consorzio per le Ricerche sui Materiali Avanzati (CORIMAV)	1 share	104	100	100	-	-	1 share	104	100	100
Eurostazioni S.p.A.	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	-	8.3	8.3	-	-	111,111	-	8.3	8.3
Total unlisted companies		**6,375**				**-**		**6,375**		
Total investments in associates - Italy		**6,375**				**-**		**6,375**		
Total investments in associates		**6,375**				**-**		**6,375**		

MOVEMENTS OF OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME FROM 12/31/2018 TO 12/31/2019 (CONTINUE)

(in thousand of euro)

	12/31/2018				CHANGES		12/31/2019			
	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.	24,694,918	28,449	4.7	4.7	-	(3,556)	24,694,918	24,892	4.7	4.7
Total other Italian listed companies		**28,449**				**(3,556)**		**24,892**		
Total other listed companies		**28,449**				**(3,556)**		**24,892**		

MOVEMENTS OF OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME FROM 12/31/2018 TO 12/31/2019 (CONTINUE)

(in thousand of euro)

	12/31/2018				CHANGES		12/31/2019			
	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)	1 share	-	0.3	0.3	-	-	1 share	-	0.3	0.3
C.I.R.A. - Centro Italiano di Ricerche Aerospaziali S.c.p.A.	30	-	0.1	0.1	-	-	30	-	0.1	0.1
Alitalia Compagnia Aerea Italiana S.p.A.	1,162,098,622	-	1.4	1.4	-	-	1,162,098,622	-	1.4	1.4
CEFRIEL - Società Consortile a Responsabilità limitata	1 share	-	4.9	4.9	-	-	1 share	-	4.9	4.9
Consorzio DIXIT (in liquidation)	1 share	-	14.3	14.3	-	-	1 share	-	14.3	14.3
MIP Politecnico di Milano- Graduate School of Business - Società consortile per azioni	12,000	-	2.9	2.9	-	-	12,000	-	2.9	2.9
Consorzio Milano Ricerche	1 share	-	9.0	9.0	-	-	1 share	-	9.0	9.0
Società Generale per la Progettazione Consulenze e Partecipazioni (ex Italconsult) S.p.A.	1,100	-	3.7	3.7	-	-	1,100	-	3.7	3.7
F.C. Internazionale Milano S.p.A.	55,805,625	-	0.4	0.4	-	-	55,805,625	-	0.4	0.4
Fin. Priv. S.r.l.	1 share	15,604	14.3	14.3	-	4,961	1 share	20,565	14.3	14.3
Istituto Europeo di Oncologia S.r.l.	1 share	6,961	6.1	6.1	-	504	1 share	7,465	6.1	6.1
Nomisma - Società di Studi Economici S.p.A.	959,429	258	3.3	3.3	-	22	959,429	280	3.3	3.3
Tiglio I S.r.l.	1 share	70	0.6	0.6	-	(54)	1 share	16	0.6	0.6
Genextra S.p.A.	592,450	39	0.6	0.6	-	(13)	592,450	26	0.6	0.6
Total other Italian unlisted companies		**22,932**				**5,420**		**28,352**		

MOVEMENTS OF OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME FROM 12/31/2018 TO 12/31/2019

(in thousand of euro)

	12/31/2018				CHANGES		12/31/2019			
	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	-	(32)	300	-	1.0	1.0
Belgium										
Euroqube S.A. (in liquidation)	67,570	13	18.0	18.0	-	(2)	67,570	12	18.0	18.0
UK										
Eca International	100	-	2.8	2.8	-	-	100	-	2.8	2.8
Total other foreign companies		**45**				**(33)**		**12**		
OTHER PORTFOLIO SECURITIES										
Fondo Comune di Investimento Immobiliare - Anastasia	53 share	15,575	-	-	-	(11,628)	53 share	3,947	-	-
TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS		**15,575**				**(11,628)**		**3,947**		
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME		**67,000**				**(9,797)**		**57,203**		

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	3,237	100%	2,047	3,344	159
Maristel S.p.A.	Milan	1,315	100%	50	3,430	1,421
Pirelli Sistemi Informativi S.r.l.	Milan	1,655	100%	1,010	2,631	344
Pirelli Tyre S.p.A.	Milan	4,528,245	100%	558,154	1,708,524	364,810
Servizi Aziendali Pirelli S.c.p.a.	Milan	100	91.3%	104	329	46
HB Servizi S.r.l	Milan	230	100%	10	246	(63)
Pirelli International Treasury S.p.A.	Milan	75,000	30%	125,000	77,628	2,628
Total investments in subsidiaries - Italy		**4,609,783**				
INVESTMENTS IN FOREIGN SUBSIDIARIES						
Switzerland						
Pirelli Group Reinsurance Company S.A.	Lugano	6,346	100%	2,764	11,100	2,291
Brasil						
Pirelli Ltda	Sao Paulo	9,666	100%	3,090	1,894	(258)
UK						
Pirelli UK Ltd.	London	21,871	100%	192,749	15,921	(693)
Total investments in foreign subsidiaries		**37,883**				
Total investments in subsidiaries		**4,647,666**				
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	6,398	112
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, 2019

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

Dear Shareholders,

The Board of Statutory Auditors (which, pursuant to legislative decree 39/2010, also acts as the Internal Control and Audit Committee), pursuant to Article 153 of legislative decree 58/1998 ("**TUF**") and the applicable provisions of the Italian Civil Code, is called on to report to the Shareholders' Meeting, convened to approve the financial statements, on the supervisory activities carried out during the financial year and on any omissions and misconduct it might have detected. The Board of Statutory Auditors may also make proposals regarding the financial statements and their approval and other matters under its responsibility.

First, it should be noted that the Board of Statutory Auditors, as of the date of drafting and publication of this Report of the Board of Statutory Auditors to the Shareholders' Meeting ("**Report**"), has received constant updates on the actions to monitor the situation and the social, economic and financial effects for the Group and Pirelli & C. S.p.A. ("**Pirelli & C.**" or the "**Company**") deriving from the spread of the Covid-19 virus ("**Coronavirus**") since January 2020. The considerations made are set out in a specific paragraph in this Report.

During the year, the Board of Statutory Auditors has carried out its supervisory activities as required by the law in force, taking account of the provisions of European Regulation 537/2014, the standards of conduct for the Boards of Statutory Auditors of listed companies recommended in the document issued 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 the Consob provisions on company controls and the activities of the board of statutory auditors and the indications contained in the current Corporate Governance Code for listed companies, to which Pirelli & C. 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.

The Board of Statutory Auditors is composed by Standing Auditors Francesco Fallacara (Chairman), Fabio Artoni, Antonella Carù, Luca Nicodemi and Alberto Villani, and Alternate Auditors Elenio Bidoggia, Franca Brusco and Giovanna Oddo.

Pursuant to article 148, paragraph 3, of the TUF, and the provisions of the Corporate Governance Code for listed companies, to which Pirelli & C. has resolved to adhere, the Board of Statutory Auditors verified that as of 31 December 2019 its members had retained the requirements of independence they had been ascertained to possess at the time of their appointment (see section "Self-assessment process for the Board of Statutory Auditors").

COMMENTS ON THE 2019 FINANCIAL STATEMENTS AND ON TRANSACTIONS OF MAJOR IMPORTANCE CARRIED OUT DURING THE YEAR

It should be noted that Company'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 2019 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, paragraphs125-129).

Also during the 2019 financial year, the Board of Statutory Auditors was continuously updated about the process of implementing accounting standard IFRS 16 and held discussions with the Revenue Agency about it signing up to the Cooperative Compliance Regime.

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 composed by 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 share ownership of Pirelli & C. – prepared pursuant to Article 123-bis of the TUF – as well as the Report on responsible management of the value chain (consolidated non-financial disclosure 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. The financial statements also include the Remuneration Report, composed by the 2020 Remuneration Policy and the Report on Compensation Paid for year 2019.

The 2019 separate financial statements and consolidated financial statements of Pirelli & C. 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.

Pirelli's 2019 consolidated financial statements present the following summary data:

Revenues	5,323.1 million euro
Operating income (EBIT)	742.7 million euro
Adjusted EBIT	€917.3 million
Consolidated net profit	€ 457.7 million euro

The consolidated net financial position was negative by 3,024.1 million euro (3,507.2 million euro including 483.1 million euro deriving from accounting standard IFRS 16) with respect to 3,180.1 at the end of 2018.

Parent company Pirelli & C. closed the financial year with positive net income to the amount of 273.2 million euro (262.4 million euro in 2018).

Events of major importance are accounted for in detail in the Directors' Report on Operations, and in the financial statements. The following events, in particular, should be noted:

- on **8 April 2019** the Federal Regional Court of the first region (T.R.F.-1 based in Brasilia) passed a ruling that recognised the right of the Brazilian subsidiary Pirelli Pneus Ltda. to exclude the ICMS tax (State tax on transactions relating to the circulation of goods and the provision of services for interstate and intercity transport and communication) from the basis for calculating the PIS and COFINS social security contributions for the 2003-2014 period. Following this ruling, as announced to the market on **1 April 2019**, in the second quarter a positive impact on the net result of around 102 million euro was recognised in the income statement;
- on **13 May 2019** Pirelli announced the reorganisation of its production in Brazil to improve competitiveness in the country through the creation of a hub for High Value Car, Motorcycle and Motorsport tyres in Campinas where the production of motorcycle tyres now carried out in Gravataì will be transferred. There is an investment plan for the modernisation and reconversion of the production plants from Standard to High Value and the continuous improvement of the mix and quality of the factories in Campinas (San Paolo) and Feira de Santana (Bahia). The resources for the reorganisation mainly derive from the Patent Box tax agreement signed in October 2018 which, as anticipated at the time, were assigned to focus further on the High Value segment and a more rapid reduction of the Standard segment.

SIGNIFICANT EVENTS THAT OCCURRED AFTER THE CLOSURE OF THE FINANCIAL YEAR

The most significant events that occurred after the closure of the financial year are detailed in the Directors' Report on Operations, and in the financial statements.

Note, in particular, that on **19 February 2020** Pirelli & C. presented the 2020-2022 Business Plan with a vision through to 2025 to the financial community. On the same date the Board of Directors approved the adoption of a new monetary incentive plan - Long Term Incentive ("**LTI Plan**") - intended for the whole management of the Group (at present around 270 participants) – and at the same time resolved on the early closure - effective as of 31 December 2019 - with no disbursement, not even pro-quota, of the previous plan adopted in 2018 and linked to the objectives of the 2018-2020 period.

The Board of Statutory Auditors also points out that, as indicated by the directors during the drafting of the financial statements, some instability factors that should not be underestimated have recently arisen resulting from the spread of the Coronavirus which, in the early months of 2020, initially struck the People's Republic of China and then spread to other countries, including Italy.

The Company has implemented actions to mitigate the risk of contagion at the production sites and its offices. With regard to this matter, the Directors' Report on Operations reports the following: "Pirelli sells its products globally in over 160 countries and has industrial sites located in different countries, some of which have been considerably affected by Covid-19 (SARS-CoV-2).

Sensitivity analyses linked to the effects of the spread of Covid-19 prepared on the basis of hypotheses and preliminary estimates have been carried out. The nature of these hypotheses means that they contain elements of uncertainty and are subject to variations, even significant ones, due to the ongoing changing scenario and reference context which could also lead to a significant alteration of the normal market dynamics and, more generally, the business operating conditions.

The negative impact currently expected in terms of Adjusted EBIT in the first quarter of 2020 is expected to be reabsorbed during the year. Should the crisis drag on, Pirelli will implement additional mitigation measures.

Pirelli is following the developments of the spread of the Coronavirus and is in constant contact with national and international organisations. The company has immediately adopted control and prevention measures for all its staff throughout the world, with particular attention in China where all the expatriate workers have returned to their country of origin with their families."

The effects of the Coronavirus, based on the provisions of international accounting standard IAS 10 "Events after the Reporting period", should be considered as within the scope of non-adjusting events.

For such events, the aforementioned accounting standard states that an entity must indicate the following for each non-adjusting events category:

1) the nature of the event;
2) an estimate of its financial effects or an indication that this estimate cannot be made on the date on which the draft financial statements were prepared (IAS 10.21).

This information is provided in the Directors' Report on Operations at 31 December 2019 (Risk and Uncertainty Factors paragraph) and in the explanatory notes of the consolidated financial statements ("note 45 – Significant events occurring after financial year end").

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UNUSUAL OR EXCEPTIONAL TRANSACTIONS

We are unaware of any atypical or unusual transactions, as defined by Consob in Decision 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 & C., 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 & C., 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, paragraph 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 2019 financial year there were both intragroup and non-intragroup related-party transactions.

The intragroup transactions, the effects of which are reported in the financial statements, are ordinary in that they are essentially made up of the reciprocal provision of services (technical, organisational, general) provided by the headquarters to the subsidiaries and charging royalties for the use of patents to the Group companies that benefit from them. 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 Statutory Auditors attended the meetings of the Related Party Transactions Committee and, on 14 February 2019, attended the meeting of the Company's Board of Directors which 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 - included in the 2018 results and in the consolidated forecast data announced to the market on 14 February 2019 - had already been communicated to the market when the draft 2018 consolidated preliminary 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 article 5 of the Regulations on Related Party Transactions approved by Consob with resolution 17221 of 12 March 2010 (as subsequently amended) and to article 18 of the Procedure for Related-Party Transactions adopted by the Company. The Information Document was published on 20 February 2019. On this occasion, the activities within the purview of the Board of Statutory Auditors were supported by a respected independent expert.

The effects of the aforementioned transactions for the 2019 financial year are fully reflected in the financial statements.

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 of Statutory Auditors 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 2 March 2020), 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 Business 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 Board of Statutory Auditors considered the procedure adopted by the Company adequate and the relative information comprehensive.

SUPERVISORY ACTIVITY PURSUANT TO LEGISLATIVE 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 "formulation" and "dissemination" of 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 article 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 has monitored compliance with the provisions contained in legislative decree 254/2016 with reference to the non-financial declaration (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 article 3, paragraph 8, of legislative decree 254/2016 to omit information concerning imminent developments and transactions being negotiated.

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 of Directors 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, paragraph 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 2019 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 Company'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 article 14 of legislative decree 39/2010 and article 10 of Regulation EU 537/3014, PWC issued its Reports on the separate and consolidated financial statements as at 31 December 2019 on 20 March 2020. On the same date, the auditing firm issued its Additional report for the internal control and audit committee, drafted pursuant to article 11 of Regulation EU 537/3014. On the same date, 20 March 2020, PWC issued its Report on the consolidated non-financial declaration pursuant to article 3, paragraph 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 article 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 20 March 2020, 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 2019 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:

EXTERNAL AUDITOR FEES 2019

(thousands of euros)	Entity supplying the service	Beneficiary	Partial fees	Total fees	
Auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	71		
	PricewaterhouseCoopers S.p.A.	Subsidiary company	894		
	Network PricewaterhouseCoopers	Subsidiary company	1.632	**2,597**	*79%*
Certification services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	277		
	PricewaterhouseCoopers S.p.A.	Subsidiary company	354		
	Network PricewaterhouseCoopers	Subsidiary company	3	**634**	*19%*
Non-audit services	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	-		
	PricewaterhouseCoopers S.p.A.	Subsidiary company	-		
	Network PricewaterhouseCoopers	Subsidiary company	55	**55**	*2%*
				3,286	*100%*

(1) the "Certification services " item indicates amounts paid for other services which entail issuing an audit report as well as amounts paid for so-called certification services insofar as synergic with the external auditing of the accounts.

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.

We would like to remind you that pursuant to Regulation EU no. 537/2014 of 16 April 2014, as of 1 January 2020 the Board of Statutory Auditors of Public-Interest Entities (PIE), as the Internal Control and Audit Committee, is required to monitor the assignments other than auditing attributed to the external auditor in order to comply with the limit of 70% of the average fees paid in the last three financial years for the external audit. The Company has confirmed to the Board of Statutory Auditors that it has launched a procedure to comply with the aforementioned standard.

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 of Pirelli & C. describes in detail the types of powers conferred on the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera and indicates the matters reserved to the competence of the Board of Directors of Pirelli & C..

It should be noted that on 2 March 2020 the Board of Directors confirmed its preceding assessments regarding the absence of a subject that exercises direction and coordination of the Company pursuant to article 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, pursuant to the provisions of article 2389 of the Italian Civil Code.

In particular, the Board of Statutory Auditors, at the Board of Directors meeting on 26 February 2019, expressed its positive assessment of: (i) the 2018 variable incentive paid to the Internal Audit Director and the structure of the variable incentive of the Head of the Internal Audit Department for the 2019 financial year, (ii) payment of the 2018 MBO incentives and the 2019 MBO Plan, (iii) the review of the non-compete agreements signed with the General Manager of Operations and Managers with strategic responsibilities, (iv) the review of the remuneration of the General Manager of Operations, (v) the approval of the Remuneration Report (composed by the Remuneration Policy for the 2019 financial year and the 2018 Report), as well as the Directors' Report to the Shareholders' Meeting.

At the Board of Directors meeting of 14 May 2019, the Board of Statutory Auditors expressed its favourable opinion, subject to appointment by the ordinary Shareholders' Meeting called for 15 May 2019 of Ning Gaoning as Director and Chairman of the Board of Directors of the Company, of the proposal to appoint Ning Gaoning as a member of the Appointments and Successions Committee and, in line with the resolution of the Board of Directors passed on 31 August 2017, to attribute him (i) a gross annual fee of 60 thousand euro for the office of Board Director; (ii) a gross annual fee of 400 thousand euro for the office of Chairman of the Board of Directors; and (iii) a gross annual fee of 30 thousand euro for the office of member of the Appointments and Successions Committee.

At the meeting of the Board of Directors on 19 February 2020, the Board of Statutory Auditors expressed its favourable opinion of (i) payment of the 2019 STI (MBO) incentives on the basis of the preliminary data (later confirmed during approval of the final results at the Board of Directors meeting of 2 March 2020) and the 2020 STI (MBO) Plan; (ii) the closure of the 2018-2020 LTI Plan with no disbursement, not even pro-quota, and the launch of the new 2020-2022 LTI Plan to support the 2020-2022 Strategic Plan (with the inclusion of a new sustainability objective – with 10% weighting – relating to Pirelli's rating in the CDP index).

At the Board of Directors' meeting of 2 March 2020 the Board of Statutory Auditors expressed its favourable opinion, in addition to the above, of the approval of the Remuneration Report (composed by the 2020 Remuneration Policy and the Report on Compensation Paid in 2019), as well as the relative Directors' Reports to the Shareholders' Meeting on compensation.

For more details see the Report on the Remuneration Policy and on Compensation Paid.

FURTHER ACTIVITIES OF THE BOARD OF STATUTORY AUDITORS 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, also for the 2019 financial year, drafted its annual Report on corporate governance and the share ownership of Pirelli & C. 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, paragraph 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, paragraph 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 paragraphs 1 and 2 of article 151 of the TUF);
- received the annual report from the Company's Data Protection Officer which showed the Company is fully compliant with privacy legislation.

During the 2019 financial year the Board of Statutory Auditors did not receive any complaints or reports pursuant to article 2408 of the Italian Civil Code.

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 20 March 2020. 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 2019, 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 Directors' Report on Operations accompanying the separate and consolidated financial statements as at 31 December 2019, and some specific information contained in the Report on corporate governance and the share ownership of Pirelli & C., as laid down in article 123-bis, paragraph 4, of the TUF have been drafted in compliance with current legislation;
- as regards possible significant errors in the Directors' 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 20 March 2020, 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 20 March 2020, pursuant to article 3, paragraph 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 2019 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 section 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 2019, it met 7 times.

At the date of this report:

- the Audit, Risk, Sustainability and Corporate Governance Committee is composed of four Directors, all independent. During 2019, it met 5 times;
- the Remuneration Committee is composed of four Directors, a majority of whom independent (the Chairman is an independent Director). During 2019, it met 4 times;
- the Related-Party Transactions Committee is composed of three Directors, all independent. During 2019 it met 12 times;
- the Appointments and Successions Committee is composed of four Directors, one of whom is the executive Director. It did not meet during 2019;
- the Strategies Committee is composed of seven Directors, of whom two are independent. During 2019 it met once.

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 article 19 of legislative decree 39/2010.

The Board of Statutory Auditors also attended the ordinary Shareholders' Meeting that in 2019 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 of Pirelli & C..

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 periodically ascertained, upon their appointment and most recently in their meeting on 21 February 2020, 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. On 31 December 2019, the subsidiaries set up in and regulated by the laws of States that are not members of the European Union and deemed to have significant importance under article 15 of Consob Market Regulation are: Comercial e Importadora de Pneus Ltda (Brazil), Limited Liability Company Pirelli Tyre Russia (Russia), Pirelli Comercial de Pneus Brasil Ltda (Brazil), Pirelli Neumaticos s.a. De c.v. (Mexico), Pirelli Neumaticos S.a.i.c. (Argentina), Pirelli Pneus Ltda (Brazil), Pirelli Otomobil Lastikleri a.s. (Turkey), Pirelli Tire Llc (United States) and Pirelli Tyre co. Ltd (China).

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 2019.

SELF-ASSESSMENT OF THE BOARD OF STATUTORY AUDITORS

In 2019, the Board of Statutory Auditors – in continuity with the previous financial year and as recommended by the rules of conduct for listed companies issued by the Italian national association of chartered accountants and auditors – conducted a self-assessment with the assistance of the independent consulting firm Spencer Stuart.

This self-assessment was carried out through individual interviews, based on a questionnaire containing questions on the suitability, size, composition and operation of the Board of Statutory Auditors in order to attest that the body is operating correctly and effectively and that its composition is adequate.

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 2019

The Board of Statutory Auditors expresses its favourable opinion on the approval of the Financial Statements at 31 December 2019 and has no objections to raise regarding the proposal made for the allocation of the profits.

REMUNERATION REPORT

Please note that the Board of Statutory Auditors expressed a favourable opinion of the Remuneration Policy for the 2020 financial year subject to the binding vote of the Shareholders' Meeting and the Report on Compensation Paid in the 2019 financial year subject to the advisory vote of the Shareholders' Meeting.

LTI INCENTIVE PLAN

Please note that the Board of Statutory Auditors expressed a favourable opinion of the 2020-2022 Long-Term Incentive Plan, within the scope of its remit.

OTHER ISSUES SUBMITTED TO THE SHAREHOLDERS' MEETING FOR APPROVAL

Regarding the other issues submitted to you for approval (appointment of the Board of Directors, "Directors and Officers Liability Insurance" Policy and bylaw amendments), the Board of Statutory Auditors has no comments to make.

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Pursuant to article 144-quinquiesdecies of the Issuer's Regulation, 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 of the Issuer's Regulation (Consob reporting obligations) establishes that a person who is a member of the controlling body of just one issuer is not subject to the reporting obligations provided by the said article, and therefore, in that 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 Share Ownership of Pirelli & C..

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, 20 March 2020

Mr Francesco Fallacara

Mr Fabio Artoni

Ms Antonella Carù

Mr Luca Nicodemi

Mr Alberto Villani


ARTIFICIAL INTELLIGENCE
03

Resolutions

Please note
The following “proposal for approval of the financial statements and allocation of the result for the year” takes into account the updates approved by the Board of Directors during the meeting held on April 3, 2020 vis-à-vis the previous proposal approved by the Board of Directors during the meeting held on March 2, 2020[60].

PROPOSAL FOR APPROVAL OF THE FINANCIAL STATEMENTS AND ALLOCATION OF THE RESULT FOR THE YEAR

Dear Shareholders,

The year ended December 31, 2019 closed with a profit of Euro 273,241,811.00.

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 and the deterioration of the global economic growth outlook because of the Covid-19 health emergency, the Board of Directors proposes the carry-forward of the entire profit of the year.

The Board of Directors will evaluate the possible calling of a shareholders' meeting, to be held in the second half of the year, to propose the eventual distribution, should cash generation exceed the new target approved by the Board of Directors and communicated to the market on April 3, 2020, and/or the economic scenario allow greater visibility on the total impacts of the Covid-19 emergency.

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, 2019;
- having seen 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, 2019, as presented by the Board of Directors as a whole, in the individual entries and with the proposed provisions, showing a profit of Euro 273,241,811.00;
b) to carry forward the entire profit of the year of Euro 273,241,811.00.

60 On March 2, 2020, the Board of Directors proposed to the Shareholders' Meeting to distribute a dividend of € 0.183 for each of the 1,000,000,000 outstanding shares and to carry forward the residual profit of € 90,241,811.00. This proposal was modified by the Board of Directors on April 3, 2020 as indicated above.

APPOINTMENT OF THE BOARD OF DIRECTORS AND THE CHAIRMAN

(item 2 on the agenda)

Appointment of the Board of Directors:

- Determination of the number of members of the Board of Directors;
- Appointment of the Directors;
- Appointment of the Chairman;
- Determination of the annual remuneration of the members of the Board of Directors.

Dear Shareholders,
With the approval of the financial statements as at 31 December 2019, the Board of Directors in office, appointed by the Ordinary Shareholders' Meeting of 1 August 2017, with effect from 31 August 2017, which fixed the duration of the mandate to three financial years, comes to the end of its mandate.
The Shareholders' Meeting is therefore asked to appoint, in accordance with the recommendations of the Corporate Governance Code and pursuant to article 10 of the Company Bylaws (reported in full as a footnote to this report), the new Board of Directors, after setting the number of its members and their remuneration. The Shareholders' Meeting is also asked to appoint the Chairman of the Board of Directors.
With regard to this, it is noted that pursuant to article 10 of the Company Bylaws, the Company is managed by a Board of Directors made up of a maximum of 15 (fifteen) members, who remain in office for three years and who may be re-elected.
It should be noted that, in accordance with the same article 10 of the Company Bylaws, the appointment of the Board of Directors will be based on slates submitted by Shareholders who, on their own account or with other shareholders, own shares in total representing at least 1% of the share capital entitled to vote at an Ordinary Meeting, or any lower amount specified in regulations issued by Consob, with the obligation to evidence their ownership of the number of shares needed for the submission of slates by the deadline envisaged for the publication of such slates by the Company. With regard to this, it is noted that Consob (with resolution no. 28 of 30 January 2020), established the threshold for the submission of slates of candidates at the same 1% threshold.
The slates of candidates, listed with a progressive number, must be signed by those submitting them and filed at the registered offices of the Company at least 25 days prior to the date fixed for the Shareholders' Meeting called to resolve on the appointment of members of the Board of Directors.
The slates of candidates are made available to the public at the registered office, on the Company website and in the other ways specified by Consob regulations at least 21 days before the date of the Shareholders' Meeting.
Each slate 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. A *curriculum vitae* is to be registered for

each candidate, indicating their personal and professional characteristics and providing information (also in attachments) on the administration and control positions held with other companies and their eligibility, if applicable, to qualify as independent directors, in accordance with the criteria established by law and the criteria adopted by the Company (Corporate Governance Code of listed companies). Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.
In particular, it is noted that Board of Directors' resolution of 14 February 2019 approved the amendments relating to the maximum number of offices deemed to be compatible with the effective performance of the role of Company director; with regard to this, Shareholders interested in submitting slates of candidates are invited to consult the relevant document published on the Company's website at the address www.pirelli.com, in the Corporate governance section.
Furthermore, in order to ensure gender balance in the composition of the Board of Directors, it is noted that Law no. 160 of 27 December 2019, effective from 1 January 2020, introduced a new regulation relative to gender quotas for the composition of listed companies' corporate bodies, establishing that such companies must guarantee, within their Company Bylaws, that for at least six consecutive mandates two fifths of Directors and of Statutory Auditors actually elected represent the least represented gender, without prejudice to the allocation criterion of at least one fifth laid down in article 2 of Law 120/2011, for the first renewal after the first day of trading.
In this respect, it should be noted that the current Bylaws establish that slates containing three or more candidates must contain candidates of a different gender at least to the minimum extent required by the laws and/or regulations in force at the time; it should also be noted that the Board of Directors has asked the extraordinary shareholders' meeting to amend the Company Bylaws and, in particular, in order to better determine the composition of slates in light of the new regulations and ensure gender balance and incorporate some indications made by Consob[61], to specify in art. 10 that slates that contain a number of candidates equal to three must include candidates of different genders, while the slates containing a number of candidates equal to or higher than four must include a number of candidates of the less represented gender at least matching the minimum laid down in statutory and/or regulatory provisions as in force at the time, in accordance with that stated in the notice of call of the Shareholders' Meeting[62].
Each shareholder may submit or contribute to the submission of just one slate and each candidate may be included in just one slate, under penalty of ineligibility.
As established by Consob, shareholders submitting a slate must provide evidence of their identity and of the percentage of total shares held. Slates which are submitted in breach of the provisions pursuant to article 10 of the Company Bylaws are deemed not to have been submitted.
The Board of Directors also invites the Shareholders to take into account the results of the self-evaluation process for the 2019 financial year in relation to the size, composition and performance of the administrative body carried out by the same Board of Directors with the assistance of a leading consulting firm specialised in this area (Spencer Stuart) (the "**Self-evaluation Process**")[63], from which some areas of closer appreciation have emerged and, with reference to the composition of the Board of Directors, in particular, the diversified structure of the Board of Directors and a greater number of independent directors.
Now, therefore, the Board of Directors,

- in view of the provisions of the Company Bylaws in relation to the composition and procedure for the appointment of the Board of Directors;
- in view of the legislative changes in relation to gender quotas;
- in view of the outcomes of the Self-Evaluation Process, and of the guidelines adopted by the Board of Directors related to the composition of the administrative body;

invites the Shareholders' Meeting:

- to set the number of members of the Board of Directors, determining their remuneration;
- to vote the slates of candidates to the office of Director of the Company submitted and notified pursuant to the procedures and the terms of article 10 of the Company Bylaws and of the applicable laws and regulations;
- to appoint the Chairman of the Board of Directors.

ARTICLE 10 OF THE COMPANY BYLAWS

10.1 The Company shall be managed by a Board of Directors composed of up to fifteen members who shall remain in office for three financial years and may be re-elected.
10.2 The Board of Directors is appointed on the basis of slates presented by the shareholders pursuant to the following paragraphs hereof, in which the candidates are listed by consecutive number.
10.3 The slates presented by the shareholders, which must be undersigned by the parties submitting them, must be filed at the Company's registered office, and be available at least twenty five days before the date set for the shareholders' meeting that is required to decide upon the appointment of the members of the Board of Directors. They are made available to the public at the registered office, on the Company website and in the other ways specified by Consob regulations at least 21 days before the date of the general meeting.
10.4 Each shareholder may present or take part in the presentation of only one slate and each candidate may appear on only one slate on penalty of losing the right to be elected.
10.5 Only shareholders who, alone or together with other shareholders, hold a total number of shares representing at least 1 percent of the share capital entitled to vote at the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa, are entitled to submit slates, subject to their proving ownership of the number of

61 Consob Resolution no. 1/20 of 30 January 2020.
62 For more information, see the Shareholders' Meeting Notice of Call, which will be made available to the public on the Website according to law.
63 For more details, please see the Report on the Corporate Governance and Share Ownership under the Annual Report.

shares needed for the presentation of slates within the term specified for their publication by the Company.

10.6 Together with each slate, statements must be filed in which the individual candidates agree to their nomination and attest, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet any requisites prescribed for the positions. Together with such statements, a curriculum vitae must be filed for each candidate, including their relevant personal and professional data and mentioning the offices held in management and supervisory bodies of other companies and their satisfaction of the requisites of independence prescribed for directors of listed companies by the law or by the governance code endorsed by the Company. In order to ensure gender balance, slates that contain a number of candidates equal to or more than three must contain a number of candidates of the less represented gender at least matching the minimum laid down in statutory and/or regulatory provisions as in force at the time, in accordance with what will be stated in the notice of the Shareholders' Meeting. Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.

10.7 Any slates submitted without complying with the foregoing provisions shall be disregarded.

10.8 Each person entitled to vote may vote for only one slate.

10.9 (A) The Board of Directors is elected as specified below:

a) four-fifths of the directors to be elected are chosen from the slate which obtains the highest number of votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it is rounded-down to the nearest whole number;

b) the remaining directors are chosen from the other slates; to this end, the votes obtained by the various slates are divided by whole progressive numbers from one up to the number of directors to be elected. The quotients thus obtained are assigned to the candidates on each slate in the order they are respectively listed thereon. On the basis of the quotients assigned, the candidates on the various slates are ranked in a single list in decreasing order. Those who have obtained the highest quotient are elected.

   If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected a director or that has elected the lowest number of directors is elected. If none of such slates has as yet elected a director or they have all elected the same number of directors, the candidate from the slate which obtained the highest number of votes is elected. If the different slates obtain the same number of votes and their candidates are assigned the same quotients, a new vote is held by the entire shareholders' meeting and the candidate who obtains the simple majority of the votes is elected.

(B) If only one slate is presented, all directors shall be elected from the only slate that was presented..

10.10 The appointment of the Board of Directors must take place in compliance with the rules on gender balance in force at the time. If applying the slate voting procedure fails to secure the minimum number of directors of the less represented gender that is required by the statutory and/or regulatory rules in force at the time, the appointed candidate of the more represented gender indicated at the last place on the slate that attracts most votes shall be substituted by the non-appointed candidate of the less represented gender, drawn from the same slate on the basis of their progressive order of presentation, and so on, slate by slate (solely with regard to slates with a number of candidates equal to or more than three), until the minimum number of directors of the less represented gender is reached. If at the end, said procedure does not secure the result just indicated, the substitution will be made through a resolution of the Shareholders' Meeting voted by a relative majority, subject to the nomination of persons of the less represented gender.

10.11 If the application of the slate voting system does not ensure the appointment of the minimum number of independent Directors required by the law and/or regulation, the appointed non-independent candidate indicated with the higher progressive number in the slate which has obtained the higher number of votes is replaced by the non-appointed independent candidate included in the same slate on the basis of the progressive order of the presentation and so on, slate by slate, until the minimum number of independent Directors shall be appointed, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time.

10.12 When appointing directors who, for whatsoever reason were not appointed under the voting procedure established herein, the shareholders' meeting shall vote on the basis of the majorities required by law, without prejudice, whatever the circumstances, to the requirements of independence set forth by these By-Laws and to the compliance with the gender balance as provided by law and/or regulation in force at the time.

10.13 If one or more vacancies occur on the Board during the course of the financial year, the procedure established in article 2386 of the Italian Civil Code shall be followed, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time. Whenever the majority of the members of the Board of Directors elected by the Shareholders' Meeting leaves office for any cause or reason whatsoever, the remaining Directors will be deemed to have resigned and their resignation will become effective the moment a Shareholders' Meeting convened on an urgent basis elects a new Board of Directors.

10.14 In the event a Director cease to comply with the independence requirements, this does not cause his/her ceasing to be a Director provided that the Directors in office complying with legal independence requirements are a number at least equal to the minimum number requested by laws and/or regulations.

10.15 In the absence or impediment of the Chairman to perform his/her duties, the CEO shall act in his/her stead; should the latter be absent or could not attend the board, another director, elected by the majority of the attendees may act in his/her stead.

10.16 The Board of Directors shall appoint a Secretary, who needs not to be a director.

10.17 Until the shareholders' meeting resolves otherwise, the directors shall not be subject to the prohibition contemplated in article 2390 of the Italian Civil Code.

(item 3 on the agenda)

Prospectus drafted by the Directors in accordance with Art. 125-*ter* of Legislative Decree No. 58 of 24 February 1998 and subsequent amendments and additions, approved by the Board of Directors on 2 March 2020, and amended on 3 April 2020.

A. Approval of the 2020 remuneration policy

Dear Shareholders,

pursuant to art.123-*ter* of the Consolidated Law on Finance ("**TUF**"), as amended and supplemented by art. 3 of Italian Legislative Decree no. 49 of 10 May 2019 ("**Decree**")[64], we have also called you to submit to your vote the first section ("**Policy**") of the Report on the remuneration policy and on the compensation paid ("**Remuneration Report**") which outlines the remuneration policy for members of administrative and controlling bodies, General Managers and Key managers and to which Pirelli refers in order to define the remuneration of the Senior Managers and Executives of Pirelli.

The Policy submitted for your vote takes into account the regulatory provisions adopted by Consob, provided by art.123-*ter* TUF, as amended and supplemented by art. 3 of the Decree, and by art. 84-*quater* of the Issuers' Regulation, as well as on the basis of Scheme 7-*bis* of Annex 3A to the Issuers' Regulation, introduced by Consob with resolution no. 18049 of 23 December 2011[65].

Considering the launch of the Strategic Plan for the period 2020-2022, the Policy takes also into account the resolutions adopted by the Board of Directors regarding the early closure of the 2018-2020 Long-Term Incentive Plan, with effect from 31 December 2019, subject to approval of the Policy by the Shareholders' Meeting (without any payment, not even pro-quota, of the three-year incentive), as well as the adoption of the 2020-2022 Long-Term Incentive Plan linked to the objectives of the 2020-2022 Strategic Plan, subject to the approval of the Shareholders' Meeting, in the part where it is provided that the incentive shall be determined on the basis of a total shareholder return objective, and the resolutions adopted by the Board of Directors on 3 April 2020 disclosed to the market and better described in the Policy.

As provided by art.123-ter TUF, the first section of the Remuneration Report that we submit to you outlines:

a. the remuneration Policy for Directors, General Managers and Key managers and, without prejudice to the provisions of art. 2402 of the Italian Civil Code, for members of the controlling bodies, to which Pirelli refers to define the remuneration of the Senior Managers and Executives;
b. the procedures used for the adoption and implementation of this Policy.

In accordance with TUF, the Shareholders' Meeting is asked to express its vote on the first section of the Remuneration Report.

B. advisory vote on the remuneration paid in 2019

Dear Shareholders,

pursuant to art.123-*ter* of the Consolidated Law on Finance ("**TUF**"), as amended and supplemented by art. 3 of Italian Legislative Decree no. 49 of 10 May 2019 ("**Decree**")[66], we have also called you to submit to your consultative vote the second section ("**Compensation Report**") of the Report on the remuneration policy and the compensation paid ("**Remuneration Report**") which provides, by name, for the members of the administrative and control bodies, for the General Manager Operations, and, in aggregate form, for the Key managers, a summary of the remuneration paid in implementation of the remuneration policy adopted by the Group in 2019, highlighting its consistency with the same.

The Compensation Report submitted for your vote takes into account the regulatory provisions adopted by Consob, provided by art. 123-*ter* TUF, art. 84-*quater* of the Issuers' Regulations, as well as on the basis of Scheme 7-*bis* of Annex 3 A of the Issuers' Regulations, introduced by Consob resolution no. 18049 of 23 December 2011[67].

Pursuant to art. 123-*ter* TUF, the second section of the Remuneration Report that we submit to you illustrates, by name, for the members of the administrative and controlling bodies, the General Manager Operations, and, in aggregate form, for the Key managers:

a. the items of which the remuneration is composed, including payments provided in case of termination of the office or employment relationship;
b. the sums paid in the 2019 financial year for any reason and in any form by the Company and its subsidiaries or affiliates, indicating any components of said payments that are referable to activities undertaken in years preceding the year of reference and also highlighting the payments to be made in one or more subsequent years for activity undertaken in the reference year, providing, if applicable, estimates for the components that cannot be objectively quantified in the year of reference.

The external auditor verifies that the directors have prepared the Report on Compensation Paid.

In accordance with TUF, the Shareholders' Meeting is asked to express a consultative vote on the second section of the Remuneration Report.

64 The Decree incorporates into the Italian legal system, Directive (EU) 2017/828, the "Shareholders Right II Directive", which amends Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement.
65 As at the date of approval of this Policy, Consob has not adopted the amendments to the information to be included in the first section of the Report and to the characteristics of the Policy in implementation of Art. 123-*ter*, paragraph 7, TUF and in compliance with Article 9-bis of Directive 2007/36/EC, as well as in compliance with the provisions of paragraph 3 of recommendation 2004/913/EC and paragraph 5 of recommendation 2009/385/EC.
66 The Decree incorporates into the Italian legal system, Directive (EU) 2017/828, the "Shareholders Right II Directive", which amends Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement.
67 As at the date of approval of the Remuneration Report, Consob has not adopted the amendments to the information to be included in the second section of the Report, pursuant to art. 123-*ter*, paragraph 8, TUF in accordance with the provisions of art. 9-*ter* of Directive 2007/36/EC.

THREE-YEAR MONETARY INCENTIVE PLAN (2020-2022) FOR PIRELLI'S GROUP MANAGEMENT. RELATED AND SUBSEQUENT RESOLUTIONS.

(item 4 on the agenda)

Prospectus drafted by the Directors in accordance with Art. 125-*ter* of Legislative Decree No. 58 of 24 February 1998 and subsequent amendments and additions, approved by the Board of Directors on 2 March 2020.

Dear Shareholders,

at the meeting held on 19 February 2020, the Board of Directors approved (i) the closure, effective as of 31 December 2019, of the 2018-2020 Long-Term Incentive Plan, without any payment, even pro-quota, of the three-year incentive and (ii) the adoption of a new three-year monetary incentive Plan for the three-year period 2020-2022 for the Management of the Pirelli Group ("**LTI Plan**"), related to the objectives of the 2020/2022 Strategic Plan presented on the same date. The LTI Plan was also approved pursuant to Article 2389 of the Italian Civil Code, on the proposal of the Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, in relation to the persons for whom such opinion is required. Pursuant to Article 114-*bis* of the Consolidated Law on Finance ("**TUF**"), the LTI Plan is subject to the approval of the Shareholders' Meeting, in the part where it is provided that the incentive is determined on the basis of a relative Total Shareholder Return objectives, calculated with respect to an index made up of selected "Tier 1" peers in the Tyre sector.

Moreover, pursuant to Article 123-ter TUF, as amended and supplemented by Article 3 of Italian Legislative Decree No. 49 of 10 May 2019, the LTI Plan is included in the 2020 Remuneration Policy adopted by Pirelli ("**Policy**"), which will be submitted for approval to the Shareholders' Meeting.

The main information on the LTI Plan are set out below, while for a more analytical description you are invited to read the Information Document prepared pursuant to Article 84-*bis*, paragraph 1, of Consob Resolution No. 11971 of 14 May 1999 ("**Issuers' Regulations**"), which is also available to the public at the registered offices of Pirelli & C. S.p.A. (in Milan, Viale Piero e Alberto Pirelli 25) and on the website www.pirelli.com as well as at Borsa Italiana S.p.A. (Milan, Piazza degli Affari 6) together with this Report.

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REASONS FOR ADOPTING THE PLAN[68]

In line with national and international best practices, the Policy is tailored to Pirelli's objective of attracting, motivating and retaining resources with the professional attributes required to pursue the Group's objectives. Moreover, it aims to achieve the long-term interests through the multi-year variable components, encouraging the achievement of strategic objectives and the sustainable growth of the company and bringing Management's interests into line with those of the Shareholders.

In light of the above and considering the launch of the Strategic Plan for the period 2020-2022, the Board of Directors of Pirelli & C. has therefore resolved to adopt a Long-Term Incentive Plan related to the objectives contained in the 2020-2022 Strategic Plan.

At the same time, the Board of Directors resolved to close the 2018-2020 Long-Term Incentive Plan early, effective as of 31 December 2019, without any payment, even pro-rata, of the three-year incentive provided for therein.

BENEFICIARIES OF THE PLAN[69]

The LTI Plan is extended to all Top Management and, except for specific cases, to all Management, as well as to those who became part of it and/or were promoted to an Executive position, due to internal career growth, during the three year period. In this case, their inclusion is subject to participation in the LTI Plan for at least one full financial year and the incentive percentages are scaled to the number of months of actual participation in the LTI Plan.

In particular, among others, the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera, the General Manager of Operations Andrea Casaluci, and Key managers ("**KM**") are participants in the LTI Plan.

PERFORMANCE OBJECTIVES AND BONUS CALCULATION[70]

The structure of the remuneration of Management, as better described in the Policy to which reference is made for further details, has three main elements:

- gross annual base salary (GAS);
- STI annual variable component (MBO): designed to reward the beneficiary's performance in the short term; it is set as a percentage of the base salary, increasing in relation to the role held by the beneficiary. This percentage can range, if the target objectives are met, from a minimum of 20% for Executives (executives of Pirelli's Italian companies or employees of foreign Group companies with a position or role comparable to that of an Italian executive) up to a maximum of 125% for Directors holding special offices to whom specific duties are also delegated;
- medium-long term variable component (LTI): made up of the incentive of the LTI Plan, intended to reward the Group's performance over the period 2020-2022, and the above-mentioned deferral and mark-up component of the STI (MBO).

As for the STI (MBO) incentive, the LTI incentive is also set as a percentage of the base salary with increasing percentages in relation to the role held and taking into account the reference benchmarks of each figure. This percentage may range, if the target objectives are achieved, from a minimum of 45% for Executives to a maximum of 210% for Directors holding special offices to whom specific duties are also delegated. There is a limit to the maximum achievable LTI incentive.

68 Information required by Article 114-*bis*, paragraph 1, letter a), TUF.
69 Information required by Article 114-*bis*, paragraph 1, letters b) and b-*bis*), TUF.
70 Information required by Article 114-*bis*, paragraph 1, letter c), TUF.

The LTI plan, which is monetary and does not include the assignment of shares or options on shares, is subject to the achievement of three-year objectives and determined as a percentage of the gross annual base salary/GAS received by the beneficiary at the date on which his/her participation in the Plan was established.

The new LTI Plan is characterized by a "rolling" structure: every year a new LTI plan is launched based on the objectives for the following three years, ensuring management loyalty and the correct focus on performance targets. The date of the eventual first payment (if the 2020-2022 results are achieved) is April 2023 and, from then on, April of each subsequent year if the results of the three-year period are achieved.

The 2020-2022 LTI Plan provides for three types of objectives, all independent of each other, and their weights:

- objective represented by the cumulative Group Net Cash Flow (before dividends), with a weight at target level of 40% of the total LTI bonus;
- Total Shareholder Return ("**TSR**") objective related to a panel of selected Tier 1 peers, with a weight at target level of 40%. The document made available at the Shareholders' Meeting provides more detailed information on the application of the Total Shareholder Return objective;
- the remaining 20% is calculated on the basis of Sustainability indicators in relation to Pirelli's positioning in two indices of equal weight: (i) Dow Jones Sustainability World Index ATX Auto Component sector and (ii) CDP Ranking.

For all three objectives (cumulative Group Net Cash Flow, relative TSR and Sustainability) there is a minimum value (access threshold) to which is associated payment of a pro-quota bonus that is 75% of the pro-quota achievable on target.

In reference to each objective, if the minimum value (or access threshold) set is not achieved, the beneficiary accrues no right to the payment of the related pro-quota bonus.

For intermediate results between the minimum value (access threshold) and the target value or between the target value and the maximum value, performance will be calculated by linear interpolation, with the exception of the Sustainability objective, which will be calculated in just three steps: entry level, target and maximum, without considering the intermediate performances.

BONUS PERIOD

If the objectives are achieved, the medium-long term incentive (LTI Bonus) will be paid to the beneficiaries of the LTI Plan in the first half of 2023, provided that the participants have not terminated their office and/or employment relationship as at 31 December 2022. Subsequently, the LTI Bonus will be paid in the first half of the year following the end of each three-year cycle, under the same conditions.

If the office and/or employment relationship has been terminated for any reason (without prejudice to the following) before the end of the three-year period, the beneficiary's participation in the LTI Plan shall cease and, as a result, no LTI Bonus nor pro-quota bonus will be paid. For Directors holding special offices to whom specific duties are delegated who cease to hold office due to completion of their term of office and who are not subsequently appointed even as directors, the pro-rata payment of the LTI Bonus is envisaged.

PLAN DURATION AND AMENDMENTS

The LTI Plan, referring to the years 2020-2022, provides for a "rolling" mechanism structured on three-year performance periods (cycles) that start each year, with the definition of performance indicators and related objectives.

The "rolling" mechanism allows: (i) to align, for each new cycle, the performance indicators with market changes and the strategic objectives of the company which could be revised from year to year, (ii) on completion of the first three-year period (with the exception of the first three-year cycle 2020-2022 which provides for payment on a three-year basis) and on achievement of the performance objectives to which each cycle is related, to pay part of the incentive on an annual basis.

SPECIAL FUND TO ENCOURAGE WORKERS' PARTICIPATION IN ENTERPRISES[71]

The LTI Plan does not receive any support from the Special Fund to encourage workers' participation in enterprises, referred to in Article 4, paragraph 112 of Law No. 350 of 24 December 2003.

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The LTI Plan is to be considered "of particular importance" as it is addressed, inter alia, to the Executive Vice Chairman and Chief Executive Officer, the General Manager Operations and KM as they have regular access to inside information and have the power to make decisions that may affect the Group's development and future prospects.

Considering that the LTI Plan is monetary, as it does not provide for the assignment of shares or stock options on shares, but only a cash incentive partly linked to the performance of Pirelli & C.'s ordinary shares, the Information Document prepared in accordance with current regulations does not contain the information required for mechanisms that consider the assignment of shares or stock options.

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Dear Shareholders,

on the basis of the above, we hereby ask you to:

1. approve - pursuant to Article 114-*bis* of Legislative Decree No. 58 of 24 February 1998, as subsequently amended and supplemented - after the closure, effective as of 31 December 2019, of the 2018-2020 Long-Term Incentive Plan, without any payment, even pro-quota, of the three-year incentive provided for therein - the adoption of a three-year monetary incentive plan for 2020-2022 (LTI Plan) for the Management of the Pirelli Group, regarding the part where it is also based on the performance of Pirelli shares, in the terms set out in this Report and as better described in the Information Document (prepared pursuant to Article 84-*bis*, paragraph 1, of the Issuers' Regulations). The LTI Plan states, inter alia, that a quota of the LTI bonus will be determined on the basis of a relative Total Shareholder Return objective, calculated with respect to an index made up of selected Tier 1 peers in the Tyre sector;
2. grant the Board of Directors with all the powers necessary to define starting from the next financial year, for the three-year period 2021-2023, and subsequently from year to year, the performance indicators and related objectives, and submit to the Shareholders' Meeting the new performance indicators for the three-year period ending in 2023 and subsequent years only if the plan has the characteristics set out in Article 114-*bis* TUF (compensation plans based on financial instruments).

71 Information required by Article 114-*bis*, paragraph 1, letter d) of the TUF.

THE "DIRECTORS AND OFFICERS LIABILITY INSURANCE" POLICY. RELATED AND CONSEQUENT RESOLUTIONS.

(item 5 on the agenda)

Illustrative report drawn up by the Directors pursuant to Article 125-*ter* of Italian Legislative Decree no. 58 of 24 February 1998 as subsequently amended and supplemented, approved by the Board of Directors on 2 March 2020.

Dear Shareholders,

The use of insurance cover for the civil liability of members of the corporate bodies and managers is common international practice on the most developed financial markets, and provides a safeguard for members of management and control bodies, allowing them to perform the tasks allocated to them with peace of mind and in the interests of the Company, containing the risks linked to the performance of their functions.

In fact, said policies – commonly referred to as "Directors' and Officers' Liability Insurance" or more simply "D&O" – allow members of the corporate bodies (and managers of the group, as well as the Statutory Auditors) to be released from liability in terms of compensation for financial losses deriving from civil liability, as well as the legal expenses linked to any actions for liability brought by third parties harmed by the actions of members of the aforementioned corporate bodies in the performance of their duties (without prejudice – obviously – to cases of intentional violations by said members of the obligations inherent to the performance of their duties), and therefore protect members of corporate bodies and the companies operating in the interests of the Pirelli Group and its shareholders.

The Company, which has been using this practice for years, deems it appropriate, on the appointment of the new Board of Directors, to propose to its Shareholders the renewal of the D&O insurance cover.

The existing D&O policy, renewed in October 2019, has the following main features:

- Life: 12 months;
- Cover limit: 250 million euro.

with a limited number of exclusions.

In order to assess Pirelli's positioning compared to other major companies that are already using similar cover, a benchmarking project was undertaken in relation to companies with characteristics comparable to those of Pirelli.

Upon the next renewal, it will not only be taken account of the best market practices and Pirelli's positioning compared with other major companies that use similar cover, but will also be considered the characteristics and international vocation of the Group.

In summary

- life: 12 months;
- annual premium: 750 thousand euro;
- cover limit: 250 million euro.

The applicable excess will be determined according to the various associated risks and automatic cover mechanisms will be provided for new individuals taking on roles within the group or newly acquired companies.

There will be no cover in the event that the insured party's conduct is based, originates from or is the result of a) the obtaining of undue profit or benefit and b) any criminal, dishonest or fraudulent act.

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With regard to everything considered hitherto, we invite you to authorise the Board of Directors to renew the D&O insurance policy, in accordance with the terms and conditions illustrated above and, therefore, to approve the following

RESOLUTION

"The Ordinary Shareholders' Meeting, having acknowledged the proposal from the Directors;

RESOLVED

a) to authorise the Board of Directors to proceed with the renewal of the Directors & Officers Liability insurance policy, in accordance with the terms and conditions illustrated above;
b) to grant to the Board of Directors and, acting on its behalf, the Vice Chairman and Chief Executive Officer, the fullest powers necessary to renew the D&O policy and, in any case, to implement the above resolution, including through the use of representatives;
c) to assign to the Board of Directors – until the expiry of the relative mandate, that is, on the approval of the financial statements at 31 December 2022 – the task of proceeding with further renewals of the Directors & Officers Liability insurance policy, in accordance with the terms and conditions prevailing on the insurance market during the course of the mandate and always in line with the remuneration policy adopted by the Company."

AMENDMENT OF ARTICLES 6 (SHARE CAPITAL), 9 (SHAREHOLDERS' MEETING), 10, 11, 12 AND 13 (MANAGEMENT OF THE COMPANY), 16 (BOARD OF STATUTORY AUDITORS) OF THE COMPANY BYLAWS. RELATED AND CONSEQUENT RESOLUTIONS.

(Sole item on the agenda of the extraordinary session)

Explanatory report on the sole item on the agenda of the extraordinary session drawn up by Directors pursuant to article 72, first paragraph, of Consob Regulation no. 11971 of 14 May 1999, as subsequently amended.

Amendment of articles 6 (Share Capital), 9 (Shareholders' Meeting), 10, 11, 12 and 13 (Management of the Company), 16 (Board of Statutory Auditors) of the company Bylaws. Related and consequent resolutions.

1) THE REASONS FOR THE PROPOSED AMENDMENTS TO THE COMPANY BYLAWS

Dear Shareholders,

The extraordinary session of the Shareholders' Meeting has been called to submit to you the proposal to resolve on some amendments to the Bylaws of Pirelli & C. S.p.A. ("**Pirelli**" or the "**Company**"), mainly linked to the need to adapt the text of the Bylaws to the recent new regulations on gender balance in the administrative body and supervisory body of listed companies introduced by the 2019 draft budget law and subsequent Law no. 160 of 27 December 2019, published in the Official Journal of 30 December 2019 (the "**Budget Law**").

On this occasion, further updates and – according to the Board of Directors – improvements were also made to the text, aimed at providing greater clarity, a systematic approach and completeness to the document. In particular, it is proposed: (i) to attribute specific emphasis to the figure of Vice Chairman (in line with the governance structure the Company chose after its listing on the stock market in October 2017) and (ii) to clarify in the Bylaws the power of directors to resolve on the issuing of non-convertible bonds, as already permitted by legislation.

The following paragraphs set out in detail the scope of the aforementioned amendments to the individual articles of the Bylaws.

ARTICLE 6 (SHARE CAPITAL) The amendments proposed with the introduction of a new paragraph (sixth) seek to emphasise in the bylaw text, by means of reference to the law, the power already attributed by law to the directors to issue bonds of any type (provided that they cannot be converted into Company shares).

ARTICLE 9 (SHAREHOLDERS' MEETING) The provision under which, if the Chairman is absent or unable to perform his/her duty, he/she be substituted in order by the Vice Chairman or Chief Executive Officer has been incorporated into article 9.

ARTICLES 10, 11, 12 AND 13 (MANAGEMENT OF THE COMPANY)

ARTICLE 10: As is known, Law no. 120 of 12 July 2011 (i) introduced gender quotas for the composition of the corporate bodies of listed companies, establishing that said companies must ensure, for at least three consecutive terms of office, compliance with a division criteria relating to the composition of corporate bodies, on the basis of which the less represented gender "obtains" at least one third of the elected Directors and Statutory Auditors; and (ii) established that during the first term of office after the law came into effect (i.e. 12 August 2012) the less represented gender shall number at least one fifth of the elected Directors and Statutory Auditors.

Thereafter, the matter was the subject of two recent legislative initiatives, both essentially aimed at postponing the effects of Law 120/2011, and in particular:

- on the one hand, the law converting, with amendments, Decree Law 124/2019 (the "Conversion Law"), published in the Official Journal on 24 December 2019, on urgent tax measures and for requirements that cannot be postponed, which intends to establish an extension to the time limit of the current quota of one third, extending its validity for another three terms of office (therefore for a total of six overall terms of office); and
- on the other, the Budget Law, which introduces a new quota for the less represented gender of two fifths of the body (i.e. 40%) and that applies for six consecutive terms of office (i.e. for 18 years) starting from the first renewal of the corporate body after its entry into force (1 January 2020).

It is specified that the Conversion Law and the Budget Law – which, as mentioned, on this point contain different provisions – have equal rank and, therefore, the Budget Law, as it came later, rescinds the Conversion Law.

In particular, pursuant to the amended articles 147-*ter*, paragraph 1-*ter* and 148, paragraph 1-*bis*, of Legislative Decree no. 58 of 24 February 1998 ("**CLF**"), as amended by the referenced Budget Law, the Bylaws must (i) establish that, for six consecutive terms of office, the less represented gender shall make up at least two fifths of the directors and standing auditors; (ii) govern the procedures for compiling the slates and cases of substitution during the term of office in order to ensure compliance with the aforementioned criterion. Without prejudice to the division criterion of at least one fifth laid down in article 2 of Law 120/2011, for the first renewal after the first day of trading.
The aforementioned articles also define a structured and progressive system of penalties where the composition of the corporate body resulting from the election does not comply with the division criterion laid down.
In order to incorporate the preceding legislative changes, amendments are proposed for art. 10 (and article 16 for the Board of Statutory Auditors) merely to align with the amended art. 147-*ter* of the CLF. Specifically, on the basis of Consob Decision no. 1/20 of 30 January 2020, it has been clarified that slates that contain a number of candidates equal to three must include candidates of different genders (one of which will necessarily be higher in number than the other), while slates containing a number of candidates equal to or higher than four must contain candidates of different genders at least matching the minimum laid down in statutory and/or regulatory provisions as in force at the time, in accordance with what is stated in the Shareholders' Meeting call notice.
The Shareholders' Meeting call notice, as now, will therefore each time contain the necessary indications to shareholders for the submission of slates of candidates in compliance with the Bylaws and provisions of the law. It seems appropriate to maintain the reference to the call notice to avoid introducing overly complex clauses into the company Bylaws in order to ensure compliance with the division criteria and to avoid subsequent amendments to the text of the Bylaws if the provisions that govern the matter should change.

In addition (new fifteenth paragraph with subsequent renumbering of subsequent paragraphs), a provision was also included under which the Board of Directors (at its first meeting after renewal) shall appoint the Chairman if the Shareholders' Meeting has not made this appointment. In line with what is proposed in art 9. (shareholders' meeting) the same mechanism used to replace the Chairman if he/she is absent or unable to perform his/her duties is also proposed for the chairmanship of the meetings of the Board of Directors.

ARTICLE 11: Making use of the powers provided by law, it is proposed to extend the duties attributed to the Board of Directors for cases of incorporation into Pirelli or demergers in favour of Pirelli of companies in which Pirelli itself owns at least 90 per cent of the shares or quotas and to reduce the share capital in the case of the withdrawal of the shareholder in the cases permitted by law, in order to simplify the approval procedure for some transactions without however compromising the relative information systems established by law to protect shareholders.
The Board of Directors is also explicitly attributed the power to appoint or dismiss General Managers, Deputy General Managers, Directors and Deputy Directors, determining their powers and duties, with the Board itself having the right to refer the appointment and dismissal of Directors and Deputy Directors to the Chief Executive Officers and General Managers.

ARTICLE 12: Alongside a merely formal amendment ("*The Chairman (**or the person acting in his place**) shall give advance notice of the matters to be discussed...*"), it is proposed to extend the duty of issuing copies or extracts of board minutes not drafted by a notary also to the Secretary of the meeting (in addition to the Chairman).

ARTICLE 13: The proposed amendments to art. 13 (as mentioned above for articles 9 and 10 in particular) also establish that the Vice Chairman (if appointed), like the Chairman and Chief Executive Officer, may represent the Company to third parties.

ARTICLE 16 (BOARD OF STATUTORY AUDITORS)

Article 16: Referring to the considerations made in relation to the proposed amendment to art. 10 on gender quotas, the provision that establishes the minimum quota of the less represented gender for the Board of Statutory Auditors in compliance with the amended art. 148 of the CLF has been aligned with art. 16. Specifically, slates containing three or more candidates must include a number of candidates of different gender that at least satisfies the minimum required by law and/or any regulations in force at the time, as specified in the notice of call issued for the Meeting.

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Taking into account all of the above, it is proposed, in the terms set out below, to make the amendments to articles 6, 9, 10, 11, 12, 13 and 16 of the Company Bylaws of Pirelli.

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2) COMPARISON OF THE ARTICLES OF THE BYLAWS FOR WHICH AMENDMENT IS REQUESTED

The comparison of the current text of the articles of the Bylaws for which amendment is proposed with the text submitted for your approval is contained in the following resolution proposal.

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3) ASSESSMENTS OF THE BOARD OF DIRECTORS ON ANY RECURRENCE OF THE RIGHT TO WITHDRAW

The Board of Directors is of the view that the bylaw amendments described above do not result in the right to withdraw for Shareholders under art. 2437 of the Italian Civil Code.

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4) RESOLUTION PROPOSAL

On the basis of the foregoing, the Board of Directors submits for your approval the following resolution proposals:
“the extraordinary shareholders’ meeting of Pirelli & C. S.p.A.,

→ having examined the Directors’ Report outlining the proposed amendments of articles 6 (Share Capital), 9 (Shareholders’ Meeting), 10, 11, 12, 13 (Management of the Company) and 16 (Board of Statutory Auditors) of the company Bylaws

RESOLVED

1) to amend articles 6 (Share Capital), 9 (Shareholders’ Meeting), 10, 11, 12, 13 (Management of the Company) and 16 (Board of Statutory Auditors) of the Company Bylaws of Pirelli as follows:

CURRENT TEXT
SHARE CAPITAL
Article 6
6.1 All shares are nominal. The issue of share certificates is excluded, given that the Company is subject to the procedure of obligatory dematerialization of its financial instruments. 6.2 The statutory provisions on representation, capacity, circulation of the capital contribution relating to securities traded on regulated markets shall apply to the shares constituting the share capital. 6.3 Any introduction or removal of restrictions on the circulation of shares does not award the right of withdrawal to shareholders who do not take part in the approval of the relating resolution. 6.4 In case of joint ownership of shares, the rights of the joint owners shall be exercised by a common representative. The ownership of a share determines acceptance of the by-laws. 6.5 The Company may issue, pursuant to applicable law, special shares with different rights also with respect to sharing of losses, establishing their content in the resolution of issuance.
SHAREHOLDERS' MEETINGS
Article 9
9.1 Ordinary and Extraordinary Shareholders' Meetings are chaired by the Chairman of the Board of Directors or, if absent or unavailable, by the Chief Executive Officer. If the above persons are absent, the chair is taken by another person appointed by a majority of the share capital represented at the Meeting. 9.2 The Chairman shall be assisted by a Secretary who is to be appointed with the favourable vote of the majority of the capital represented at the meeting and need not be a shareholder; there is no need to appoint a Secretary when a notary public is designated to draw up the minutes of the meeting. 9.3 The Chairman of the shareholders' meeting shall chair the meeting and govern its proceedings in compliance with the law and these By-laws. To this end, the Chairman shall, amongst other things: verify that the meeting is duly constituted; ascertain the identity of those present and their right to attend, including by proxy; ascertain the legal quorum for passing resolutions; direct the business, including by establishing a different order for the discussion of the items listed on the agenda in the notice convening the meeting. The Chairman also adopts suitable measures to ensure orderly discussions and voting, determining the related procedures and checking the results. 9.4 The resolutions of shareholders' meetings shall be recorded in the minutes that must be signed by the Chairman of the meeting and by the Secretary or the notary public. 9.5 The minutes of extraordinary shareholders' meetings must be drawn up by a notary public appointed by the Chairman of the meeting. 9.6 Any copies of and extracts from minutes that have not been drawn up by a notary public shall be certified as true copies by the Chairman of the Board of Directors.

	PROPOSED TEXT
	SHARE CAPITAL
	Article 6
	6.1 All shares are nominal. The issue of share certificates is excluded, given that the Company is subject to the procedure of obligatory dematerialization of its financial instruments. 6.2 The statutory provisions on representation, capacity, circulation of the capital contribution relating to securities traded on regulated markets shall apply to the shares constituting the share capital. 6.3 Any introduction or removal of restrictions on the circulation of shares does not award the right of withdrawal to shareholders who do not take part in the approval of the relating resolution. 6.4 In case of joint ownership of shares, the rights of the joint owners shall be exercised by a common representative. The ownership of a share determines acceptance of the by-laws. 6.5 The Company may issue, pursuant to applicable law, special shares with different rights also with respect to sharing of losses, establishing their content in the resolution of issuance. **6.6 The issue of bonds is resolved by the directors in accordance with and pursuant to law.**
	SHAREHOLDERS' MEETINGS
	Article 9
	9.1 Ordinary and extraordinary shareholders' meetings shall be chaired by the Chairman of the Board of Directors, or, in case the Chairman is absent or unable to perform his/her duties, **in turn by the Vice Chairman or** by the CEO. In the absence **or inability** to perform their duty by all of the aforementioned individuals, the meeting shall be chaired by another person elected with the favourable vote of the majority of the capital represented at the meeting. 9.2 The Chairman shall be assisted by a Secretary who is to be appointed with the favourable vote of the majority of the capital represented at the meeting and need not be a shareholder; there is no need to appoint a Secretary when a notary public is designated to draw up the minutes of the meeting. 9.3 The Chairman of the shareholders' meeting shall chair the meeting and govern its proceedings in compliance with the law and these By-laws. To this end, the Chairman shall, amongst other things: verify that the meeting is duly constituted; ascertain the identity of those present and their right to attend, including by proxy; ascertain the legal quorum for passing resolutions; direct the business, including by establishing a different order for the discussion of the items listed on the agenda in the notice convening the meeting. The Chairman also adopts suitable measures to ensure orderly discussions and voting, determining the related procedures and checking the results. 9.4 The resolutions of shareholders' meetings shall be recorded in the minutes that must be signed by the Chairman of the meeting and by the Secretary or the notary public. 9.5 The minutes of extraordinary shareholders' meetings must be drawn up by a notary public appointed by the Chairman of the meeting. 9.6 Any copies of and extracts from minutes that have not been drawn up by a notary public shall be certified as true copies by the Chairman of the Board of Directors.

MANAGEMENT OF THE COMPANY

Article 10

10.1 The Company shall be managed by a Board of Directors composed of up to fifteen members who shall remain in office for three financial years and may be re-elected.

10.2 The Board of Directors is appointed on the basis of slates presented by the shareholders pursuant to the following paragraphs hereof, in which the candidates are listed by consecutive number.

The slates presented by shareholders, signed by those submitting them, must be filed at the registered offices of the Company at least twenty-five days prior to the date fixed for the Meeting called to resolve on the appointment of Board members. They are made available to the public at the registered office, on the Company website and in the other ways specified by Consob regulations at least 21 days before the date of the general meeting.

10.4 Each shareholder may present or contribute to the presentation of just one slate and each candidate may be included in just one slate, subject otherwise to becoming ineligible.

10.5 Only shareholders who, alone or together with other shareholders, hold a total number of shares representing at least 1 percent of the share capital entitled to vote at the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa, are entitled to submit slates, subject to their proving ownership of the number of shares needed for the presentation of slates within the term specified for their publication by the Company.

10.6 Each slate 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. Together with such statements, a curriculum vitae must be filed for each candidate, including their relevant personal and professional data and mentioning the offices held in management and supervisory bodies of other companies and their satisfaction of the requisites of independence prescribed for directors of listed companies by the law or by the governance code endorsed by the Company. In order to ensure gender balance, slates containing a number of candidates equal to or higher than three must contain a number of candidates of the less represented gender at least matching the minimum laid down in statutory and/or regulatory provisions as in force at the time, in accordance with what will be stated in the notice of the Shareholders' Meeting. Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.

10.7 Any slates submitted without complying with the foregoing provisions shall be disregarded.

10.8 Each person entitled to vote may vote for only one slate.

10.9 (A) The Board of Directors is elected as specified below:

a) four-fifths of the directors to be elected are chosen from the slate which obtains the highest number of votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it is rounded-down to the nearest whole number;

b) the remaining directors are chosen from the other slates; to this end, the votes obtained by the various slates are divided by whole progressive numbers from one up to the number of directors to be elected. The quotients thus obtained are assigned to the candidates on each slate in the order they are respectively listed thereon. On the basis of the quotients assigned, the candidates on the various slates are ranked in a single list in decreasing order. Those who have obtained the highest quotient are elected.

Should several candidates obtain the same quotient, the candidate elected will be drawn from the slate that has not yet elected a director or that has elected the smallest number of directors.

If none of such slates has as yet elected a director or they have all elected the same number of directors, the candidate from the slate which obtained the highest number of votes is elected. If the different slates obtain the same number of votes and their candidates are assigned the same quotients, a new vote is held by the entire shareholders' meeting and the candidate who obtains the simple majority of the votes is elected.

(B) If only one slate is presented, all directors shall be elected from the only slate that was presented.

10.10 The appointment of the Board of Directors must take place in compliance with the rules on gender balance in force at the time. Should application of the slate 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 twelfth place in the slate 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 slate pursuant to the sequential order of presentation and so on, for each slate (solely for slates 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.

10.11 Should application of the slate 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 slate that obtained the largest number of votes shall be replaced by the first independent candidate not already elected from that slate following the sequential order of presentation, and so on for each slate 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.

10.12 When appointing directors who, for whatsoever reason were not appointed under the voting procedure established herein, the shareholders' meeting shall vote on the basis of the majorities required by law, without prejudice, whatever the circumstances, to the requirements of independence set forth by these By-Laws and to the compliance with the gender balance as provided by law and/or regulation in force at the time.

10.13 If one or more vacancies occur on the Board during the course of the financial year, the procedure established in article 2386 of the Italian Civil Code shall be followed, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time. Whenever the majority of the members of the Board of Directors elected by the Shareholders' Meeting leaves office for any cause or reason whatsoever, the remaining Directors will be deemed to have resigned and their resignation will become effective the moment a shareholders' meeting convened on an urgent basis elects a new Board of Directors.

10.14 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.

10.15 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.

10.16 The Board of Directors shall appoint a Secretary, who needs not to be a director.

10.17 Until the shareholders' meeting resolves otherwise, the directors shall not be subject to the prohibition contemplated in article 2390 of the Italian Civil Code.

MANAGEMENT OF THE COMPANY

Article 10

10.1 The Company shall be managed by a Board of Directors composed of up to fifteen members who shall remain in office for three financial years and may be re-elected.

10.2 The Board of Directors is appointed on the basis of slates presented by the shareholders pursuant to the following paragraphs hereof, in which the candidates are listed by consecutive number.

The slates presented by shareholders, signed by those submitting them, must be filed at the registered offices of the Company at least twenty-five days prior to the date fixed for the Meeting called to resolve on the appointment of Board members. They are made available to the public at the registered office, on the Company website and in the other ways specified by Consob regulations at least 21 days before the date of the general meeting.

10.4 Each shareholder may present or contribute to the presentation of just one slate and each candidate may be included in just one slate, subject otherwise to becoming ineligible.

10.5 Only shareholders who, alone or together with other shareholders, hold a total number of shares representing at least 1 percent of the share capital entitled to vote at the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa, are entitled to submit slates, subject to their proving ownership of the number of shares needed for the presentation of slates within the term specified for their publication by the Company.

10.6 Each slate 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. Together with such statements, a curriculum vitae must be filed for each candidate, including their relevant personal and professional data and mentioning the offices held in management and supervisory bodies of other companies and their satisfaction of the requisites of independence prescribed for directors of listed companies by the law or by the governance code endorsed by the Company. In order to ensure gender balance, slates that contain a number of candidates equal to **~~or higher than~~** three must include candidates of different genders, **while the slates containing a number of candidates equal to or higher than four must contain a number of candidates of the less represented gender** at least matching the minimum laid down in statutory and/or regulatory provisions as in force at the time, in accordance with what will be stated in the notice of the Shareholders' Meeting. Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.

10.7 Any slates submitted without complying with the foregoing provisions shall be disregarded.

10.8 Each person entitled to vote may vote for only one slate.

10.9 (A) The Board of Directors is elected as specified below:

a) four-fifths of the directors to be elected are chosen from the slate which obtains the highest number of votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it is rounded-down to the nearest whole number;

b) the remaining directors are chosen from the other slates; to this end, the votes obtained by the various slates are divided by whole progressive numbers from one up to the number of directors to be elected. The quotients thus obtained are assigned to the candidates on each slate in the order they are respectively listed thereon. On the basis of the quotients assigned, the candidates on the various slates are ranked in a single list in decreasing order. Those who have obtained the highest quotient are elected.
Should several candidates obtain the same quotient, the candidate elected will be drawn from the slate that has not yet elected a director or that has elected the smallest number of directors.
If none of such slates has as yet elected a director or they have all elected the same number of directors, the candidate from the slate which obtained the highest number of votes is elected. If the different slates obtain the same number of votes and their candidates are assigned the same quotients, a new vote is held by the entire shareholders' meeting and the candidate who obtains the simple majority of the votes is elected.

(B) If only one slate is presented, all directors shall be elected from the only slate that was presented.

10.10 The appointment of the Board of Directors must take place in compliance with the rules on gender balance in force at the time. If applying the slate voting procedure fails to secure the minimum number of directors of the less represented gender that is required by the statutory and/or regulatory rules in force at the time, the last appointed candidate of the more represented gender indicated on the slate that attracts most votes shall be substituted by the non-appointed candidate of the less represented gender, drawn from the same slate on the basis of their progressive order of presentation, and so on, slate by slate (solely with regard to slates with a number of candidates equal to or more than three), until the minimum number of directors of the less represented gender is reached. If at the end, said procedure does not secure the result just indicated, the substitution will be made through a resolution of the shareholders' meeting voted by a relative majority, subject to the nomination of persons of the less represented gender.

10.11 Should application of the slate 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 slate that obtained the largest number of votes shall be replaced by the first independent candidate not already elected from that slate following the sequential order of presentation, and so on for each slate 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.

10.12 When appointing directors who, for whatsoever reason were not appointed under the voting procedure established herein, the shareholders' meeting shall vote on the basis of the majorities required by law, without prejudice, whatever the circumstances, to the requirements of independence set forth by these By-Laws and to the compliance with the gender balance as provided by law and/or regulation in force at the time.

10.13 If one or more vacancies occur on the Board during the course of the financial year, the procedure established in article 2386 of the Italian Civil Code shall be followed, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time. Whenever the majority of the members of the Board of Directors elected by the Shareholders' Meeting leaves office for any cause or reason whatsoever, the remaining Directors will be deemed to have resigned and their resignation will become effective the moment a shareholders' meeting convened on an urgent basis elects a new Board of Directors.

10.14 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.

10.15 At its first meeting, the Board of Directors shall appoint a Chairman, if the shareholders' meeting has not already done so, and if necessary, a Vice Chairman.

10.16 In case of absence or impediment of the Chairman to perform his/her duties, **in turn, the Vice Chairman or** the CEO shall act in his/her stead; should **~~he/she~~they** be absent or could not attend the board, another director, elected by the majority of the attendees may act in **~~his/her~~their** stead.

10.~~16~~17 The Board of Directors shall appoint a Secretary, who needs not to be a director.

10.~~17~~18 Until the shareholders' meeting resolves otherwise, the directors shall not be subject to the prohibition contemplated in article 2390 of the Italian Civil Code.

Article 11

11.1 The Board of Directors shall conduct the management of the company and is accordingly vested with the broadest powers of administration, except for those remitted by law or by these By-laws to the authority of the shareholders' meeting.

11.2 Within the limits established by law, the Board of Directors shall be authorized to decide on the amendment of the By-laws to conform with statutory provisions, the relocation of the Company's registered office within Italy, and the opening and closing of secondary headquarters, subsidiaries, technical and administrative, branches, management offices, agencies and satellite offices, in Italy and abroad.

11.3 In case of urgent matters, transactions with related parties of greater or lesser importance, as defined in the Procedure for related-party transactions adopted by the Board of Directors of the Company, which do not pertain to the shareholders' meeting and need not be approved thereby, may be entered into also by derogating from the respective authorization processes required in the Procedure, as long as this happens at the terms laid down therein.

11.4 The Board of Directors and the Board of Statutory Auditors shall be kept informed, also by corporate bodies with delegated powers, on the activities carried out, the general performance of operations and their foreseeable development, and the transactions of material economic, financial and equity-related significance concluded by the Company or its subsidiaries; in particular, said corporate bodies with delegated powers shall report on transactions in which they have an interest, directly or on behalf of third parties, or that are influenced by the party that performs management and coordination activities, if any. Such reports shall be made promptly, on a quarterly basis at the least, in a written memorandum.

11.5 For the ordinary management of the Company, the Board of Directors delegates management powers to a director who shall be the CEO, with legal representation of the Company for the powers delegated.

11.6 The Board of Directors may establish one or more committees with consulting and propositional functions, also for purposes of adjusting the corporate governance structure in line with the recommendations issued from time to time by the pertinent authorities.

11.7 The Board of Directors shall appoint - with the consent of the Board of Statutory Auditors - the manager responsible for preparing the Company's financial reports. His office shall expire at the same time as that of the Board of Directors that appointed him/her, unless annulment for good cause, with the consent of the Board of Statutory Auditors.

11.8 The manager responsible for preparing the Company's financial reports must be an expert on administration, finances and auditing of companies and satisfy the integrity qualifications required to be a directors. Failing of such qualifications shall determine the termination of the office to be resolved by the Board of Directors within thirty days since the acknowledgement of the defect.

Article 12

12.1 The Board shall meet, at the invitation of the Chairman or whoever acts in his/her stead, at the Company's registered office or at any other venue stated in the letter of convocation, whenever he/she deems it appropriate in the best interests of the Company or receives a written request to do so from the CEO or one-fifth of the directors in office.

12.2 The meeting of the Board of Directors can also be convened by the Board of Statutory Auditors, or by a single Statutory auditor, subject to prior notice given to the Chairman of the Board of Directors.

12.3 The Chairman shall give advance notice of the matters to be discussed at Board meetings and arrange for adequate information on the questions to be examined to be provided to all the directors, taking account of the circumstances of each case.

12.4 Board meetings shall be called by letter, telegram, fax or e-mail, to be sent to each director and standing member of the Board of Statutory Auditors at least five days prior (or in urgent cases, with at least six hours' notice) to the date scheduled for the meeting.

12.5 Even when a Board meeting is not formally called, resolutions of the Board of Directors shall nevertheless be valid if adopted in the presence of all the Board members in office and all the standing members of the Board of Statutory Auditors.

12.6 Board meetings may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

12.7 The meetings of the Board of Directors shall be considered held at the place in which the Chairman and the Secretary shall be simultaneously located.

12.8 Resolutions of the Board of Directors shall only be valid if adopted in the presence of the majority of Board members and by majority vote.

12.9 Resolutions of the Board of Directors, including those adopted at meetings held via telecommunications, must be recorded in a specific minutes book and signed by the Chairman and the Secretary of the meeting. Any copies of and extracts from minutes that have not been drawn up by a notary public shall be certified as true copies by the Chairman.

Article 13

13.1 The legal representation of the company vis-à-vis third parties and in court proceedings shall pertain severally to the Chairman of the Board of Directors and, within the limits of the powers granted by the Board of Directors, to the CEO, if appointed.

13.2 Each of the aforementioned shall in any event be vested with all powers to bring legal actions and file petitions before any judicial authority and at all levels of jurisdiction, including in appeal and Supreme Court proceedings, to file statements and charges in criminal cases, to sue on behalf of the Company in criminal proceedings, to bring legal proceedings and file petitions before all administrative jurisdictions, to intervene and protect the company's interests in any proceedings and claims concerning the company and to grant the mandates and powers of attorney required for such purpose.

13.3 The Board of Directors and, within the limits of the powers granted to them by said Board, the Chairman of the Board and, if appointed, and the CEO shall be authorized to grant the power to represent the Company vis-à-vis third parties and in court proceedings to managers and staff in general and, when necessary, to third parties.

Article 11

11.1 The Board of Directors shall conduct the management of the company and is accordingly vested with the broadest powers of administration, except for those remitted by law or by these By-laws to the authority of the shareholders' meeting.

11.2 Within the limits established by law, the Board of Directors shall resolve **on the incorporation into Pirelli & C. S.p.A. or demerger in favour of Pirelli & C. S.p.A. of the companies in which Pirelli & C. S.p.A. owns at least the 90 percent of the shares or quotas, on the reduction of the share capital in the event of withdrawal of the shareholder in the cases permitted by law**, on the amendment of the By-laws to conform with statutory provisions, the relocation of the Company's registered office within Italy, and the opening and closing of secondary headquarters, subsidiaries, technical and administrative, branches, management offices, agencies and satellite offices, in Italy and abroad.

11.3 In case of urgent matters, transactions with related parties of greater or lesser importance, as defined in the Procedure for related-party transactions adopted by the Board of Directors of the Company, which do not pertain to the shareholders' meeting and need not be approved thereby, may be entered into also by derogating from the respective authorization processes required in the Procedure, as long as this happens at the terms laid down therein.

11.4 The Board of Directors and the Board of Statutory Auditors shall be kept informed, also by corporate bodies with delegated powers, on the activities carried out, the general performance of operations and their foreseeable development, and the transactions of material economic, financial and equity-related significance concluded by the Company or its subsidiaries; in particular, said corporate bodies with delegated powers shall report on transactions in which they have an interest, directly or on behalf of third parties, or that are influenced by the party that performs management and coordination activities, if any. Such reports shall be made promptly, on a quarterly basis at the least, in a written memorandum.

11.5 For the ordinary management of the Company, the Board of Directors delegates management powers to a director who shall be the CEO, with legal representation of the Company for the powers delegated.

11.6 The Board of Directors may establish one or more committees with consulting and propositional functions, also for purposes of adjusting the corporate governance structure in line with the recommendations issued from time to time by the pertinent authorities.

11.7 The Board of Directors shall appoint - with the consent of the Board of Statutory Auditors - the manager responsible for preparing the Company's financial reports. His office shall expire at the same time as that of the Board of Directors that appointed him/her, unless annulment for good cause, with the consent of the Board of Statutory Auditors.

11.8 The manager responsible for preparing the Company's financial reports must be an expert on administration, finances and auditing of companies and satisfy the integrity qualifications required to be a directors. Failing of such qualifications shall determine the termination of the office to be resolved by the Board of Directors within thirty days since the acknowledgement of the defect.

11.9 The Board of Directors can appoint and revoke General Managers, Deputy General Managers, Directors and Deputy Directors, determining their powers and competences. The appointment and dismissal of Directors and Deputy Directors may be granted by the Board of Directors to Chief Executive Officers and General Managers.

Article 12

12.1 The Board shall meet, at the invitation of the Chairman or whoever acts in his/her stead, at the Company's registered office or at any other venue stated in the letter of convocation, whenever he/she deems it appropriate in the best interests of the Company or receives a written request to do so from the CEO or one-fifth of the directors in office.

12.2 The meeting of the Board of Directors can also be convened by the Board of Statutory Auditors, or by a single Statutory auditor, subject to prior notice given to the Chairman of the Board of Directors.

12.3 The Chairman **(or the person acting in his place)** shall give advance notice of the matters to be discussed at Board meetings and arrange for adequate information on the questions to be examined to be provided to all the directors, taking account of the circumstances of each case.

12.4 Board meetings shall be called by letter, telegram, fax or e-mail, to be sent to each director and standing member of the Board of Statutory Auditors at least five days prior (or in urgent cases, with at least six hours' notice) to the date scheduled for the meeting.

12.5 Even when a Board meeting is not formally called, resolutions of the Board of Directors shall nevertheless be valid if adopted in the presence of all the Board members in office and all the standing members of the Board of Statutory Auditors.

12.6 Board meetings may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

12.7 The meetings of the Board of Directors shall be considered held at the place in which the Chairman and the Secretary shall be simultaneously located.

12.8 Resolutions of the Board of Directors shall only be valid if adopted in the presence of the majority of Board members and by majority vote.

12.9 Resolutions of the Board of Directors, including those adopted at meetings held via telecommunications, must be recorded in a specific minutes book and signed by the Chairman and the Secretary of the meeting. Any copies of and extracts from minutes that have not been drawn up by a notary public shall be certified as true copies by the Chairman **or by the Secretary**.

Article 13

13.1 The legal representation of the company vis-à-vis third parties and in court proceedings shall pertain severally to the Chairman of the Board of Directors and, within the limits of the powers granted by the Board of Directors, **to the Vice Chairman and** to the CEO, **if appointed**.

13.2 Each of the aforementioned shall in any event be vested with all powers to bring legal actions and file petitions before any judicial authority and at all levels of jurisdiction, including in appeal and Supreme Court proceedings, to file statements and charges in criminal cases, to sue on behalf of the Company in criminal proceedings, to bring legal proceedings and file petitions before all administrative jurisdictions, to intervene and protect the company's interests in any proceedings and claims concerning the company and to grant the mandates and powers of attorney required for such purpose.

13.3 The Board of Directors and, within the limits of the powers granted to them by said Board, the Chairman of the Board and, **if appointed, the Vice Chairman and** the CEO shall be authorized to grant the power to represent the Company vis-à-vis third parties and in court proceedings to managers and staff in general and, when necessary, to third parties.

BOARD OF STATUTORY AUDITORS

Article 16

16.1 The Board of Statutory Auditors shall be composed of five effective and three alternate auditors, who must be in possession of the requisites established under applicable laws and regulations; to this end, it shall be borne in mind that the fields and sectors of business closely connected with those of the Company are those stated in the Company's purpose, with particular reference to companies or corporations operating in the financial, industrial, banking, insurance and real estate sectors and in the services field in general.
16.2 The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its remuneration. The minority shareholders shall be entitled to appoint one effective auditor and one alternate auditor.
16.3 The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of paragraph 17 of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.
16.4 Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.
16.5 Shareholders who, alone or together with other shareholders, represent at least 1 percent of the shares with voting rights in the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa for the submission of slates for the appointment of the Board of Directors shall be entitled to submit slates.
16.6 Each shareholder may present or take part in the presentation of only one slate.
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 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. They are made available to the public at the registered office, on the Company website and in the other ways specified by Commissione Nazionale per la Società e la Borsa regulations at least 21 days before the date of the general meeting.
Without limitation to any further documentation required by applicable rules, including any regulatory provisions, a personal and professional curriculum including also the offices held in management and supervisory bodies of other companies, of the individuals standing for election must accompany the slates together with the statements in which the individual candidates agree to:

- their nomination
- declare, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet the requisites prescribed by law, by these By-laws and by regulation for the position.

Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.
16.8 Any slates submitted without complying with the foregoing provisions shall be disregarded.
16.9 Each candidate may appear on only one slate, on penalty of losing the right to be elected.
16.10 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 - considering both sections - that 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.
16.11 Each person entitled to vote may vote for only one slate.
16.12 The Board of Statutory Auditors shall be elected as specified below:

a) four effective members and two alternate members shall be chosen from the slate which obtains the highest number of votes (known as the majority slate), in the consecutive order in which they are listed thereon;
b) the remaining standing member and the other alternate member shall be chosen from the slate which obtains the highest number of votes cast by the shareholders after the first slate (known as the minority slate), in the consecutive order in which they are listed thereon; if several slates obtain the same number of votes, a new vote between said slates will be cast by all those entitled to vote attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

16.13 The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the minority slate.
16.14 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.
16.15 The position of a standing auditor which falls vacant due to his/her death, forfeiture or resignation shall be filled by the first alternate auditor chosen from the same slate as the former. If this replacement does not allow the Board of Statutory Auditors to be reconstructed in compliance with current regulations, including those governing gender balance, recourse is made to the second alternate auditor drawn from the same 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.
16.16 When the shareholders' meeting is required, pursuant to the provisions of the foregoing paragraph or to the law, to appoint the standing and/or alternate members needed to complete the Board of Statutory Auditors, it shall proceed as follows: if auditors elected from the majority slate have to be replaced, the appointment shall be made by relative majority vote without slate constraints, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time; if, however, auditors elected from the minority slate have to be replaced, the shareholders' meeting shall replace them by relative majority vote, selecting them where possible from amongst the candidates listed on the slate on which the auditor to be replaced appeared and in any event in accordance with the principle of necessary representation of minorities to which this By-Laws ensure the right to take part to the appointment of the Board of Statutory Auditors, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time. The principle guaranteeing representation for 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.
16.17 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 named in the respective sections of the slate are elected as standing auditors and alternate auditors; the person named first on the above slate becomes the Chairman of the Board of Statutory Auditors.
16.18 When appointing auditors who, for whatsoever reason, were not appointed under the procedures established herein, the shareholders' meeting shall vote on the basis of the majorities required by law, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time.
16.19 Outgoing members of the Board of Statutory Auditors may be re-elected to office.
16.20 Meetings of the Board of Statutory Auditors may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

BOARD OF STATUTORY AUDITORS

Article 16

16.1 The Board of Statutory Auditors shall be composed of five effective and three alternate auditors, who must be in possession of the requisites established under applicable laws and regulations; to this end, it shall be borne in mind that the fields and sectors of business closely connected with those of the Company are those stated in the Company's purpose, with particular reference to companies or corporations operating in the financial, industrial, banking, insurance and real estate sectors and in the services field in general.

16.2 The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its remuneration. The minority shareholders shall be entitled to appoint one effective auditor and one alternate auditor.

16.3 The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of paragraph 17 of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.

16.4 Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

16.5 Shareholders who, alone or together with other shareholders, represent at least 1 percent of the shares with voting rights in the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa for the submission of slates for the appointment of the Board of Directors shall be entitled to submit slates.

16.6 Each shareholder may present or take part in the presentation of only one slate.

16.7 The slates of candidates, signed by those presenting them, must be filed at the registered offices of the Company at least twenty-five days prior to the date fixed for the Meeting called to appoint the members of the Board of Statutory Auditors, unless more time is allowed for the presentation of candidates in the cases envisaged by law and/or the regulations. They are made available to the public at the registered office, on the Company website and in the other ways specified by Commissione Nazionale per la Società e la Borsa regulations at least 21 days before the date of the general meeting.
Without limitation to any further documentation required by applicable rules, including any regulatory provisions, a personal and professional curriculum including also the offices held in management and supervisory bodies of other companies, of the individuals standing for election must accompany the slates together with the statements in which the individual candidates agree to:

- → their nomination
- → declare, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet the requisites prescribed by law, by these By-laws and by regulation for the position.

Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.

16.8 Any slates submitted without complying with the foregoing provisions shall be disregarded.

16.9 Each candidate may appear on only one slate, on penalty of losing the right to be elected.

16.10 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 current provisions relating to gender balance,~~ In order to ensure** gender balance, slates that - taking account of both sections - present a number of candidates equal to or exceeding three, must include candidates of each gender **at least to the minimum extent required by law and / or pro tempore regulations in force, as specified in the notice of call of the shareholders' meeting,** both in the section for standing statutory auditors and in the section for alternates.

16.11 Each person entitled to vote may vote for only one slate.

16.12 The Board of Statutory Auditors shall be elected as specified below:

a) four effective members and two alternate members shall be chosen from the slate which obtains the highest number of votes (known as the majority slate), in the consecutive order in which they are listed thereon;

b) the remaining standing member and the other alternate member shall be chosen from the slate which obtains the highest number of votes cast by the shareholders after the first slate (known as the minority slate), in the consecutive order in which they are listed thereon; if several slates obtain the same number of votes, a new vote between said slates will be cast by all those entitled to vote attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

16.13 The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the minority slate.

16.14 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.

16.15 The position of a standing auditor which falls vacant due to his/her death, forfeiture or resignation shall be filled by the first alternate auditor chosen from the same slate as the former. If this replacement does not allow the Board of Statutory Auditors to be reconstructed in compliance with current regulations, including those governing gender balance, recourse is made to the second alternate auditor drawn from the same 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. In the event of the replacement of the Chairman of the Board of Statutory Auditors, the chair shall pertain to the statutory auditor of the same slate as the outgoing Chairman, following the order contained in the slate, subject in all cases to observance of the requirements in law and/or in the Company By-laws for holding that office and to compliance with gender balance as provided by law and/or regulation currently in force; if it proves impossible to effect substitutions and replacements under the foregoing procedures, a shareholders' meeting shall be called to complete the Board of Statutory Auditors which shall adopt resolutions by relative majority vote.

16.16 When the shareholders' meeting is required, pursuant to the provisions of the foregoing paragraph or to the law, to appoint the standing and/or alternate members needed to complete the Board of Statutory Auditors, it shall proceed as follows: if auditors elected from the majority slate have to be replaced, the appointment shall be made by relative majority vote without slate constraints, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time; if, however, auditors elected from the minority slate have to be replaced, the shareholders' meeting shall replace them by relative majority vote, selecting them where possible from amongst the candidates listed on the slate on which the auditor to be replaced appeared and in any event in accordance with the principle of necessary representation of minorities to which this By-Laws ensure the right to take part to the appointment of the Board of Statutory Auditors, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time. The principle guaranteeing representation for 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.

16.17 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 named in the respective sections of the slate are elected as standing auditors and alternate auditors; the person named first on the above slate becomes the Chairman of the Board of Statutory Auditors.

16.18 When appointing auditors who, for whatsoever reason, were not appointed under the procedures established herein, the shareholders' meeting shall vote on the basis of the majorities required by law, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time.

16.19 Outgoing members of the Board of Statutory Auditors may be re-elected to office.

16.20 Meetings of the Board of Statutory Auditors may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

2) to grant the Board of Directors – and on its behalf the Executive Vice Chairman and Chief Executive Officer in office – all the broadest powers and all the necessary authority to implement the aforementioned resolutions and to fulfil every act and/or formality necessary for the same to be recorded in the Companies Register, accepting and introducing formal or non-substantial amendments, additions or deletions that may be required by the competent authorities."

The Board of Directors
Milan, 2 March 2020


CHANGES

Certifications

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, 2019 – December 31, 2019.

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, 2019 was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the “Internal Control – Integrated Framework” guidelines issued by the “Committee of Sponsoring Organizations of the Treadway Commission” (COSO), which is a reference framework generally accepted at the international level.

3. We also certify that:

   3.1. the consolidated financial statements:

   a. were prepared in accordance with the applicable international accounting standards recognised in the European Union under the terms of Regulation (EC) 1606/2002 of the European Parliament and Council, of July 19, 2002;

   b. correspond to the information in the account ledgers and books;

   c. give a true and fair view of the assets, liabilities, income, expenses and financial position of the reporting entity and of the Group of companies included in the scope of consolidation.

   3.2. The report on operations includes a reliable analysis of the performance and results of operations, and of the situation of the reporting entity and of the Group of companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

March 2, 2020

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 2019

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of Pirelli & C SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Pirelli & C SpA and its subsidiaries (Pirelli group), which comprise the statement of financial position as of 31 December 2019, 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 Pirelli group as of 31 December 2019, 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

Recoverability of brands with indefinite useful life and goodwill

Note 10 "Intangible assets"

As of 31 December 2019 the indefinite-lived intangible assets Pirelli brand and goodwill amount to € 2,270 million and € 1,887 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 less cost to sell, 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 the group of cash generating units ("CGU") "Consumer segment", which represents the sole sector of activity of Pirelli group, is measured using its value in use, calculated based on the expected future cash flows of the Consumer segment.

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 recoverable amounts, the impairment test of the carrying amounts of Pirelli brand and goodwill represented a key matter in the audit of the consolidated financial statements.

How our audit addressed the key audit matter

We have performed an understanding and evaluation of the internal controls in place over the impairment testing of brand and goodwill. We have tested the operating effectiveness of such controls.

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;
- assessment of the allocation of goodwill to the group of cash generating units – CGU;
- assessment of the key assumptions used when determining the value in use of the Consumer segment, to which the goodwill is allocated, with focus to expected cash flow projections 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 tested the accuracy and completeness of the disclosure presented in the notes to the consolidated financial statements.

Key Audit Matters	*How our audit addressed the key audit matter*
Revenue recognition *Note 3 " Adopted Accounting Standards"* Taking into account the 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 cut off of sales transactions. For the main revenue streams identified using the requirements of the 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 external confirmation procedures over accounts receivable balances with the objective of validating trade receivable 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.

Key Audit Matters	*How our audit addressed the key audit matter*
Adoption of the new accounting stantard IFRS16 - Leases *Note 3.3 Impacts deriving from the adoption of IFRS16 – Leases, Note 9.2 Rights of use and Note 23 Borrowings from banks and other financial institutions* The new international accounting standard IFRS16 – Leases – is effective from 1 January 2019. IFRS16 requires the lessee to recognise, with limited exceptions, a right-of-use asset within non-current assets against the recognition of a financial liability measured as the present value of future lease payments. The right-of-use asset is depreciated over the lease term, through the income statement. The financial liability is repaid through future lease payments, including interest expenses. As of 31 December 2019, the total amount of right-of-use assets and the associated financial liability recognized in accordance with IFRS16 is € 462 million and € 483 million, respectively. Annual depreciation and interest expenses amount to € 89 million and € 23 million, respectively. The accounting of lease agreements under IFRS16 represented a key audit matter considering the magnitude of the amounts involved, the complexity of the adoption process and the professional judgement required for the assessment of the accounting policies and assumptions used by management.	We have performed an understanding and evaluation of the internal controls in place over the management of lease contracts. We have performed an understanding and evaluation of the accounting policies and assumptions used by the group in the accounting for lease contracts as required by IFRS16. We have tested the controls implemented to manage the lease contract portfolio, for the purpose of verifying the information processed by the accounting systems and the key assumptions used by the group for the recognition and measurement of the financial statement line items impacted by the new accounting standard. We have tested, on a sample basis, the key elements of the lease agreements and assumptions, with particular reference to the lease term, the effect of renewal options and the incremental borrowing rate, used by the group for the recognition and measurement of the financial statements line items, 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 2019, 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 2019 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 2019 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, 20 March 2020

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

CERTIFICATION OF THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-*BIS* OF LEGISLATIVE DECREE 58 OF FEBRUARY 24, 1998, AND PURSUANT TO ARTICLE 81-*TER* OF CONSOB REGULATION NO. 11971 OF MAY 14, 1999, AS AMENDED

1. The undersigned Marco Tronchetti Provera, in his capacity as Executive Vice Chairman and Chief Executive Officer, and Francesco Tanzi, in his capacity as Corporate Financial Reporting Manager of Pirelli & C. S.p.A. hereby certify pursuant to, inter alia, Article 154-bis, clauses 3 and 4, of Legislative Decree 58 of February 24, 1998:
   - the adequacy in relation to the characteristics of the company and
   - the effective application

   of the administrative and accounting procedures for preparation of the separate financial statements, during the period January 1, 2019 – December 31, 2019.

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, 2019 was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the “Internal Control – Integrated Framework” guidelines issued by the “Committee of Sponsoring Organizations of the Treadway Commission” (COSO), which is a reference framework generally accepted at the international level.

3. We also certify that:

   3.1. the separate financial statements:

   a. were prepared in accordance with the applicable international accounting standards recognised in the European Union under the terms of Regulation (EC) 1606/2002 of the European Parliament and Council, of July 19, 2002;

   b. correspond to the information in the account ledgers and books;

   c. give a true and fair view of the assets, liabilities, income, expenses and financial position of the reporting entity and of the Group of companies included in the scope of consolidation.

3.2. The report on operations includes a reliable analysis of the performance and results of operations, and of the situation of the reporting entity, together with a description of the principal risks and uncertainties to which it is exposed.

March 2, 2020

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

SEPARATE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

pwc

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 2019, 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 2019, 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.

Key Audit Matter	***How our audit addressed the key audit matter***
Recoverability of brands with indefinite useful life	
Note 9 "Intangible assets". As of 31 December 2019 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 lest cost to sell, 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 less cost to sell, 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 tested the operating effectiveness of such controls. 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 on 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 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.

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 2019, 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 2019 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 2019 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, 20 March 2020

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

GRI STANDARD	DISCLOSURE	PAGE NUMBER, URL	OMISSION	MATERIAL TOPIC
		101: Foundation 2016		
GRI 102: GENERAL DISCLOSURES 2016	102-1 Name of the organization	144		
	102-2 Activities, brands, products, and services	145, corporate website (www.pirelli.com) section about		
	102-3 Location of headquarters	144		
	102-4 Location of operations	307-312, corporate website (www.pirelli.com) section about		
	102-5 Ownership and legal form	144, 147, 175		
	102-6 Markets served	70, corporate website (www.pirelli.com) section about		
	102-7 Scale of the organization	29, 91, 108, 147		
	102-8 Information on employees and other workers	108-110, 113		
	102-9 Supply chain	82-84		
	102-10 Significant changes to the organization and its supply chain	82-84, 108, 110-111		
	102-11 Precautionary Principle or approach	45-51		
	102-12 External initiatives	60-61, 85-86, 130		
	102-13 Membership of associations	130-133		
	102-14 Statement from senior decision-maker	Corporate website (www.pirelli.com) section sustainability/ Pirelli's model		
	102-15 Key impacts, risks, and opportunities	45-51		
	102-16 Values, principles, standards, and norms of behavior	64-66, 74-75, 85, 112, 119, 124, corporate website (www.pirelli.com) section sustainability/main sustainability policies		
	102-17 Mechanisms for advice and concerns about ethics	66-67		Business Ethics & Integrity
	102-18 Governance structure	146, 152-153, 157-167, 169		Corporate Governance
	102-19 Delegating authority	61, 166-167, 169		Corporate Governance
	102-20 Executive-level responsibility for economic, environmental, and social topics	61		Corporate Governance
	102-21 Consulting stakeholders on economic, environmental, and social topics	61-63, 77-79		Corporate Governance, Community Engagement
	102-22 Composition of the highest governance body and its committees	153-156, 161-167, 169, 176-177, 180-181		Corporate Governance
	102-23 Chair of the highest governance body	153-156		Corporate Governance
	102-24 Nominating and selecting the highest governance body	146, 152-153		Corporate Governance
	102-25 Conflicts of interest	170		Corporate Governance
	102-26 Role of highest governance body in setting purpose, values, and strategy	61, 166-167, 169		Corporate Governance
	102-27 Collective knowledge of highest governance body	157		Corporate Governance
	102-28 Evaluating the highest governance body's performance	158		Corporate Governance
	102-29 Identifying and managing economic, environmental, and social impacts	166-167		Corporate Governance
	102-30 Effectiveness of risk management processes	45-51, 166-167		Corporate Governance

GRI STANDARD	DISCLOSURE	PAGE NUMBER, URL	OMISSION	MATERIAL TOPIC
	101: Foundation 2016			
GRI 102: GENERAL DISCLOSURES 2016	102-31 Review of economic, environmental, and social topics	161, 166-167		Corporate Governance
	102-32 Highest governance body's role in sustainability reporting	61, 166-167		Corporate Governance
	102-33 Communicating critical concerns	166-167		Corporate Governance
	102-34 Nature and total number of critical concerns		Confidentiality Constraints	Corporate Governance
	102-35 Remuneration policies	191-209		Corporate Governance
	102-36 Process for determining remuneration	191-193		Corporate Governance
	102-37 Stakeholders' involvement in remuneration	191-193		Corporate Governance
	102-38 Annual total compensation ratio		Confidentiality Constraints	Corporate Governance
	102-39 Percentage increase in annual total compensation ratio		Confidentiality Constraints	Corporate Governance
	102-40 List of stakeholder groups	62-64		
	102-41 Collective bargaining agreements	122		
	102-42 Identifying and selecting stakeholders	62-63		
	102-43 Approach to stakeholder engagement	62-63		
	102-44 Key topics and concerns raised	62-64		
	102-45 Entities included in the consolidated financial statements	60, 91, 307-312		
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	102-48 Restatements of information	60		
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	102-50 Reporting period	60		
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	102-53 Contact point for questions regarding the report	61		
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	201-1 Direct economic value generated and distributed	68		Financial Health
	201-2 Financial implications and other risks and opportunities due to climate change	47, 85-86		Financial Health
	201-3 Defined benefit plan obligations and other retirement plans	123-124, 270-277, 290		Financial Health
	201-4 Financial assistance received from government	69		Financial Health
GRI 202: MARKET	GRI 103: Management Approach 2016	112-115		
	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	113		
	202-2 Proportion of senior management hired from the local community	112		

GRI STANDARD	DISCLOSURE	PAGE NUMBER, URL	OMISSION	MATERIAL TOPIC
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	203-1 Infrastructure investments and services supported	68-69, 133-140		Community Engagement
	203-2 Significant indirect economic impacts	68-69, 133-140		
GRI 204: PROCUREMENT PRACTICES 2016	GRI 103: Management Approach 2016	82		
	204-1 Proportion of spending on local suppliers	82		
GRI 205: ANTI-CORRUPTION 2016	GRI 103: Management Approach 2016	65-66, 75-76		
	205-1 Operations assessed for risks related to corruption	65-67		Business Ethics & Integrity
	205-2 Communication and training about anti-corruption policies and procedures	64-66, 75-76, 157	Information Unavailable: % of employees trained on anti-corruption currently not disclosed by category and region	Business Ethics & Integrity
	205-3 Confirmed incidents of corruption and actions taken	65-67		Business Ethics & Integrity
GRI 206: ANTI-COMPETITIVE BEHAVIOR 2016	GRI 103: Management Approach 2016	65-66		
	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	66		Business Ethics & Integrity
GRI 301: MATERIALS 2016	GRI 103: Management Approach 2016	64-65, 84, 98, 101		
	301-1 Materials used by weight or volume	84		Renewable Materials
	301-2 Recycled input materials used	84, 90		
	301-3 Reclaimed products and their packaging materials	98, 101, 105-106		End of Life Tyre Recovery and Recycling
GRI 302: ENERGY 2016	GRI 103: Management Approach 2016	91-93		
	302-1 Energy consumption within the organization	91-93		Responsible Use of Natural Resources
	302-2 Energy consumption outside of the organization	88-89		Responsible Use of Natural Resources
	302-3 Energy intensity	91-93		Responsible Use of Natural Resources
	302-4 Reduction of energy consumption	92-93		Responsible Use of Natural Resources
	302-5 Reductions in energy requirements of products and services	102-103		Responsible Use of Natural Resources
GRI 303: WATER 2016	GRI 103: Management Approach 2016	48-49, 85-89, 96-98		
	303-1 Water withdrawal by source	97-98		Responsible Use of Natural Resources
	303-2 Water sources significantly affected by withdrawal of water	98		Responsible Use of Natural Resources
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GRI STANDARD	DISCLOSURE	PAGE NUMBER, URL	OMISSION	MATERIAL TOPIC
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	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	100		
	304-2 Significant impacts of activities, products, and services on biodiversity	98, 100		
	304-3 Habitats protected or restored	96, 100		
	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	100		
GRI 305: EMISSIONS 2016	GRI 103: Management Approach 2016	47-49, 85-89, 93-96		
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	305-2 Energy indirect (Scope 2) GHG emissions	91, 93-95		Climate Change & GHG Emissions Management
	305-3 Other indirect (Scope 3) GHG emissions	81, 88-89, 94, 96		Climate Change & GHG Emissions Management
	305-4 GHG emissions intensity	93-96		Climate Change & GHG Emissions Management
	305-5 Reduction of GHG emissions	93-96		Climate Change & GHG Emissions Management
	305-6 Emissions of ozone-depleting substances (ODS)	101		
	305-7 Nitrogen oxides (NO_x), sulfur oxides (SO_x), and other significant air emissions	99-101		
GRI 306: EFFLUENTS AND WASTE 2016	GRI 103: Management Approach 2016	48-49, 85-89, 96-99		
	306-1 Water discharge by quality and destination	97-98		
	306-2 Waste by type and disposal method	98		
	306-3 Significant spills	101		
	306-4 Transport of hazardous waste	98		
	306-5 Water bodies affected by water discharges and/or runoff	98		
GRI 307: ENVIRONMENTAL COMPLIANCE 2016	GRI 103: Management Approach 2016	48-49, 85-86, 101		
	307-1 Non-compliance with environmental laws and regulations	92, 94, 101		Legal & Regulatory Compliance
GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT 2016	GRI 103: Management Approach 2016	51, 64-65, 75-76		
	308-1 New suppliers that were screened using environmental criteria	75-77		Responsible Procurement
	308-2 Negative environmental impacts in the supply chain and actions taken	77		Responsible Procurement
GRI 401: EMPLOYMENT 2016	GRI 103: Management Approach 2016	48, 110-111, 113, 123-124		
	401-1 New employee hires and employee turnover	110-111		
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	123-124		
	401-3 Parental leave	113		Employees Well-Being & Work-life Balance
GRI 402: LABOR/ MANAGEMENT RELATIONS 2016	GRI 103: Management Approach 2016	49, 64-65, 121-122		
	402-1 Minimum notice periods regarding operational changes	121-122		Labour Relations Management

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	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	125-128	Confidentiality Constraints: absentee rate not disclosed publicly	Occupational Health&Safety
	403-3 Workers with high incidence or high risk of diseases related to their occupation	127		Occupational Health&Safety
	403-4 Health and safety topics covered in formal agreements with trade unions	122, 124		Occupational Health&Safety
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GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016	GRI 103: Management Approach 2016	112-113, 146		
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GRI 407: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING 2016	GRI 103: Management Approach 2016	49, 51, 75-76, 107-108, 122-123		
	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	75-77, 107-108, 122-123		Labour Relations Management, Human Rights, Responsible Procurement
GRI 408: CHILD LABOR 2016	GRI 103: Management Approach 2016	51, 75-77, 107-108, 122-123		
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	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	75-77, 107-108, 122-123		Human Rights, Responsible Procurement
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GRI 411: RIGHTS OF INDIGENOUS PEOPLES 2016	GRI 103: Management Approach 2016	107-108		
	411-1 Incidents of violations involving rights of indigenous peoples	67		Human Rights

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	412-2 Employee training on human rights policies or procedures	107-108	Information Unavailable: number of hours of training on human rights and % of employees trained currently unavailable	
	412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	74-76		Human Rights
GRI 413: LOCAL COMMUNITIES 2016	GRI 103: Management Approach 2016	107-108		
	413-1 Operations with local community engagement, impact assessments, and development programs	62-63, 107-108	Information Unavailable: information currently unavailable	Community Engagement
	413-2 Operations with significant actual and potential negative impacts on local communities	107-108	Information Unavailable: information currently unavailable	Community Engagement
GRI 414: SUPPLIER SOCIAL ASSESSMENT 2016	GRI 103: Management Approach 2016	51, 64-65, 74-76		
	414-1 New suppliers that were screened using social criteria	75-77		Responsible Procurement
	414-2 Negative social impacts in the supply chain and actions taken	76-77		Responsible Procurement
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	416-1 Assessment of the health and safety impacts of product and service categories	75-76		Product Quality & Safety
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	74		Legal & Regulatory Compliance
GRI 417: MARKETING AND LABELING 2016	GRI 103: Management Approach 2016	102-103		
	417-1 Requirements for product and service information and labeling	102-103		
	417-2 Incidents of non-compliance concerning product and service information and labeling	74		Legal & Regulatory Compliance
	417-3 Incidents of non-compliance concerning marketing communications	74		Legal & Regulatory Compliance
GRI 418: CUSTOMER PRIVACY 2016	GRI 103: Management Approach 2016	64-65		
	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	74		Legal & Regulatory Compliance
GRI 419: SOCIOECONOMIC COMPLIANCE 2016	GRI 103: Management Approach 2016	64-65		
	419-1 Non-compliance with laws and regulations in the social and economic area	74		Business Ethics & Integrity, Legal & Regulatory Compliance

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Product Quality & Safety	74
Product Environmental Sustainability	102-106
Road Safety Initiatives	133-134

AREAS OF THE GLOBAL COMPACT	GLOBAL COMPACT PRINCIPLES	DIRECTLY RELEVANT GRI INDICATORS	INDIRECTLY RELEVANT GRI INDICATORS
HUMAN RIGHTS	Principle 1 - Business should promote and respect internationally proclaimed human rights in their respective spheres of influence.	Disclosure 407: Freedom of Association and Collective Bargaining Disclosure 408: Child Labor Disclosure 409: Forced or Compulsory Labor Disclosure 410: Security Practices Disclosure 411: Rights of Indigenous Peoples Disclosure 412: Human Rights Assessment Disclosure 414: Supplier Social Assessment Disclosure 103-2: Grievance Mechanism	Disclosure 413: Local Communities
	Principle 2 - Business should ensure that they are not, albeit indirectly, complicit in human rights abuses.	Disclosure 410: Security Practices Disclosure 412: Human Rights Assessment Disclosure 414: Supplier Social Assessment	
LABOUR STANDARDS	Principle 3 - Businesses should uphold the freedom of association of workers and recognise the right to collective bargaining.	Disclosure 402: Labour/Management Relations Disclosure 403: Occupational Health and Safety Disclosure 407: Freedom of Association and Collective Bargaining Disclosure 410: Security Practices Disclosure 102-11: Precautionary Principle or Approach Disclosure 102-41: Collective Bargaining Agreements	
	Principle 4 - Business should uphold the elimination of all forms of forced and compulsory labour.	Disclosure 409: Forced or Compulsory Labor Disclosure 410: Security Practices	Disclosure 412: Human Rights Assessment
	Principle 5 - Business should uphold the effective elimination of child labour.	Disclosure 408: Child Labor Disclosure 410: Security Practices	Disclosure 412: Human Rights Assessment
	Principle 6 - Business should uphold the elimination of discrimination in respect of employment and occupation.	Disclosure 401: Employment Disclosure 404: Training and Education Disclosure 405: Diversity and Equal Opportunity Disclosure 406: Non-Discrimination Disclosure 410: Security Practices Disclosure 102-8: Information on Employees and other Workers	Disclosure 202: Market Presence Disclosure 401: Employment Disclosure 412: Human Rights Assessment Disclosure 414: Supplier Social Assessment Disclosure 102-41: Collective Bargaining Agreements
ENVIRONMENT	Principle 7 - Businesses should support a precautionary approach to environmental challenges.	Disclosure 102-11: Precautionary Principle or Approach Disclosure 201: Economic Performance	Disclosure 301: Materials Disclosure 302: Energy Disclosure 303: Water Disclosure 304: Biodiversity Disclosure 305: Emissions Disclosure 306: Effluents and Waste Disclosure 307: Environmental Compliance
	Principle 8 - Business should undertake initiatives to promote greater environmental responsibility.	Disclosure 301: Materials Disclosure 302: Energy Disclosure 303: Water Disclosure 304: Biodiversity Disclosure 305: Emissions Disclosure 306: Effluents and Waste Disclosure 307: Environmental Compliance Disclosure 308: Supplier Environmental Assessment Disclosure 103-2: Grievance Mechanism	Disclosure 201: Economic Performance
	Principle 9 - 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

SUSTAINABLE DEVELOPMENT GOALS (SDGS)	PARAGRAPHS DESCRIBING THE GROUP'S ACTIVITIES IN SUPPORT OF THE SDGS AND RELEVANT TARGETS (FROM SUSTAINABILITY PLAN 2017-2020 WITH SELECTED TARGET TO 2025)
1 - NO POVERTY	Company Initiatives for the External Community (Solidarity pp. 136-137)
2 - ZERO HUNGER	Company Initiatives for the External Community (Solidarity pp. 136-137)
3 - GOOD HEALTH AND WELL-BEING	Welfare and Initiatives for the Internal Community (p. 121) Occupational Health, Safety and Hygiene (pp. 124-128) Company Initiatives for the External Community (Road Safety pp. 133-134, Sport and Social Responsibility pp. 135-136, Health p. 137) Target: → Accident Frequency Index: -87% by 2020 compared to 2009
4 - QUALITY EDUCATION	Training (pp. 118-120) Company Initiatives for the External Community (Training pp. 134-135, Culture and Social Value p. 138) Target: → Training: investment in employee training of at least an average of 7 man days
5 - GENDER EQUALITY	Diversity Management (pp. 112-115)
6 - CLEAN WATER AND SANITATION	Water Management (pp. 96-98) 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. 85-86) Energy Management (pp. 91-93) Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 93-96) Targets: → Specific Energy Consumption: -19% by 2020 compared to 2009
8 - DECENT WORK AND ECONOMIC GROWTH	Our Suppliers (pp. 74-84) Internal Community (pp. 108-128)
9 - INDUSTRY, INNOVATION AND INFRASTRUCTURE	Company Initiatives for the External Community (Training pp. 134-135) Target: → For specific product segments it is foreseen, by 2025 and compared with 2017, the doubling of the weight of renewable materials used and the reduction by 30% of raw materials derived from fossils
10 - REDUCED INEQUALITIES	Diversity Management (pp. 112-115)
11 - SUSTAINABLE CITIES AND COMMUNITIES	Main International Commitments for Sustainability (WBCSD pp. 131-132) Company Initiatives for the External Community (Road Safety pp. 133-134, Solidarity pp. 136-137) Target: → Improvement of product performances in 2020: → Car products: -20% average rolling resistance, +15% on wet surfaces, -15% noise (vs 2009) → Moto products: -10% average rolling resistance, +40% performance on wet surfaces, +30% for mileage (vs 2009) → Velo: +5% braking performance, +10% wet surfaces (vs 2017)
12 - RESPONSIBLE CONSUMPTION AND PRODUCTION	Joining the Task Force on Climate-Related Financial Disclosures (TCFD) (pp. 85-86) Energy Management (pp. 91-93) Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 93-96) Water Management (pp. 96-98) Waste Management (pp. 98-99) Company Initiatives for the External Community (Environmental Initiatives p. 137) Targets: → Specific Energy Consumption: -19% by 2020 compared to 2009 → Specific CO_2 Emissions: -17% in 2020 compared to 2009 → Water Specific Withdrawal: -66% by 2020 compared to 2009 → Waste Recovery: >95% by 2020

SUSTAINABLE DEVELOPMENT GOALS (SDGS)	PARAGRAPHS DESCRIBING THE GROUP'S ACTIVITIES IN SUPPORT OF THE SDGS AND RELEVANT TARGETS (FROM SUSTAINABILITY PLAN 2017-2020 WITH SELECTED TARGET TO 2025)
13 - CLIMATE ACTION	CDP Supply Chain (p. 81) Joining the Task Force on Climate-Related Financial Disclosures (TCFD) (pp. 85-86) Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 93-96) Main International Commitments for Sustainability (International Commitments against Climate Change pp. 132-133) Targets: → Specific Energy Consumption: -19% by 2020 compared to 2009 → Specific CO_2 Emissions: -17% in 2020 compared to 2009 → Green Performance Revenues: >50% of total revenues and >65% on High Value Product Revenues by 2020 compared to 2009 → Improvement of product performances in 2020: → Car products: -20% average rolling resistance, +15% performance on wet surfaces, -15% noise (vs 2009) → Moto products: -10% average rolling resistance, +40% performance on wet surfaces, +30% for mileage (vs 2009) → Velo: +5% braking performance, +10% wet surfaces (vs 2017)
14 - LIFE BELOW WATER	Water Management (pp. 96-98)
15 - LIFE ON LAND	Sustainability of the Natural Rubber Supply Chain (pp. 77-79) Company Initiatives for the External Community (Environmental Initiatives p. 137)
16 - PEACE, JUSTICE AND STRONG INSTITUTIONS	Programs of Compliance 231, Anti-corruption, Privacy and Antitrust (pp. 65-66)
17 - PARTNERSHIPS FOR THE GOALS	Sustainability of the Natural Rubber Supply Chain (pp. 77-79) Main International Commitments for Sustainability (WBCSD pp. 131-132) Company Initiatives for the External Community (Road Safety pp. 133-134)

Please note that in February 2020 the Company will be presenting the new Industrial Plan and the related long-term strategic sustainability targets. Contextually, the Plan will be published on the institutional website www.pirelli.com.

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	48-49, 91-93
	Use of Water Resources	• Risks Related To Environmental Issues • Water Management	48-49, 96-98
	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	47, 85-86, 93-96, 99-101
SOCIAL ASPECTS	**Health and Safety**	• Employee Health and Safety Risks • Occupational Health, Safety and Hygiene	49, 124-128
	Training and Development	• Risks associated with Human Resources • Development • Training	48, 117-120
	Welfare	• Welfare and Initiatives for the Internal Community	121
	Dialogue with Employees	• Litigation Risks • Listening: Group Opinion Survey • Industrial Relations	49, 120-124
	Actions for Gender Equality	• Diversity Management • Diversity Policies	112-115, 146
	Respect for Human Rights: Measures Taken and Prevention	• Risks relative to Corporate Social and Environmental Responsibility, Business Ethics, and Third-Party Audits • Human Rights Governance • Diversity Management	51, 107-108, 112-115
GOVERNANCE ASPECTS	**Fight against Active and Passive Corruption**	• Risks relative to Corporate Social and Environmental Responsibility, Business Ethics, and Third-Party Audits • Programs of Compliance 231, Anti-corruption, Privacy and Antitrust	51, 65-66

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PIRELLI & C SPA

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 2019

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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 non-financial disclosure of Pirelli & C SpA and its subsidiaries (Pirelli group) as of and for the year ended 31 December 2019, 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 2019 of Pirelli group, approved by the board of directors of Pirelli & C SpA on 2 March 2020 (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

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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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;

- 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 Industrie Pneumatici Srl and Pirelli UK Tyres Ltd 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 ISO 26000 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 for 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, to assess, on a sample basis, the proper consolidation of the information;

- for the industrial sites located in Bollate (Italy) and Carlisle (UK), 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.

Conclusion

Based on the work performed, nothing has come to our attention that caused us to believe that the NFD of Pirelli group as of 31 December 2019 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, 20 March 2020

Signed by	*Signed by*
Paolo Caccini (Partner)	Paolo Bersani (Authorized signatory)

This report has been translated into English from the Italian original solely for the convenience of international readers

PIRELLI IN IMAGES


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PIRELLI

Photo: Kristof Ramon (@kramon_velophoto)


letsgo
letsgo
SCOTT

Photo: LAT Images


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Pirelli is the co-titled sponsor with Prada of the team Luna Rossa which will participate in the next edition of the America's Cup in 2021
Photo: Carlo Borlenghi


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PANERAI
LUNA ROSSA

Photo: Marco Luzzani/Getty Images


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RELLI
YAMALUBE


YAMALUBE
SEMAKIN DI DEPAN
helvetic
YAMAHA

Photo: Pentaphoto


ÅRE
2019
FALCONERI
FIS ALPINE
SWEDEN
DAINESE
3
ÅRE
FIS ALPINE WORLD
PRESENTED BY

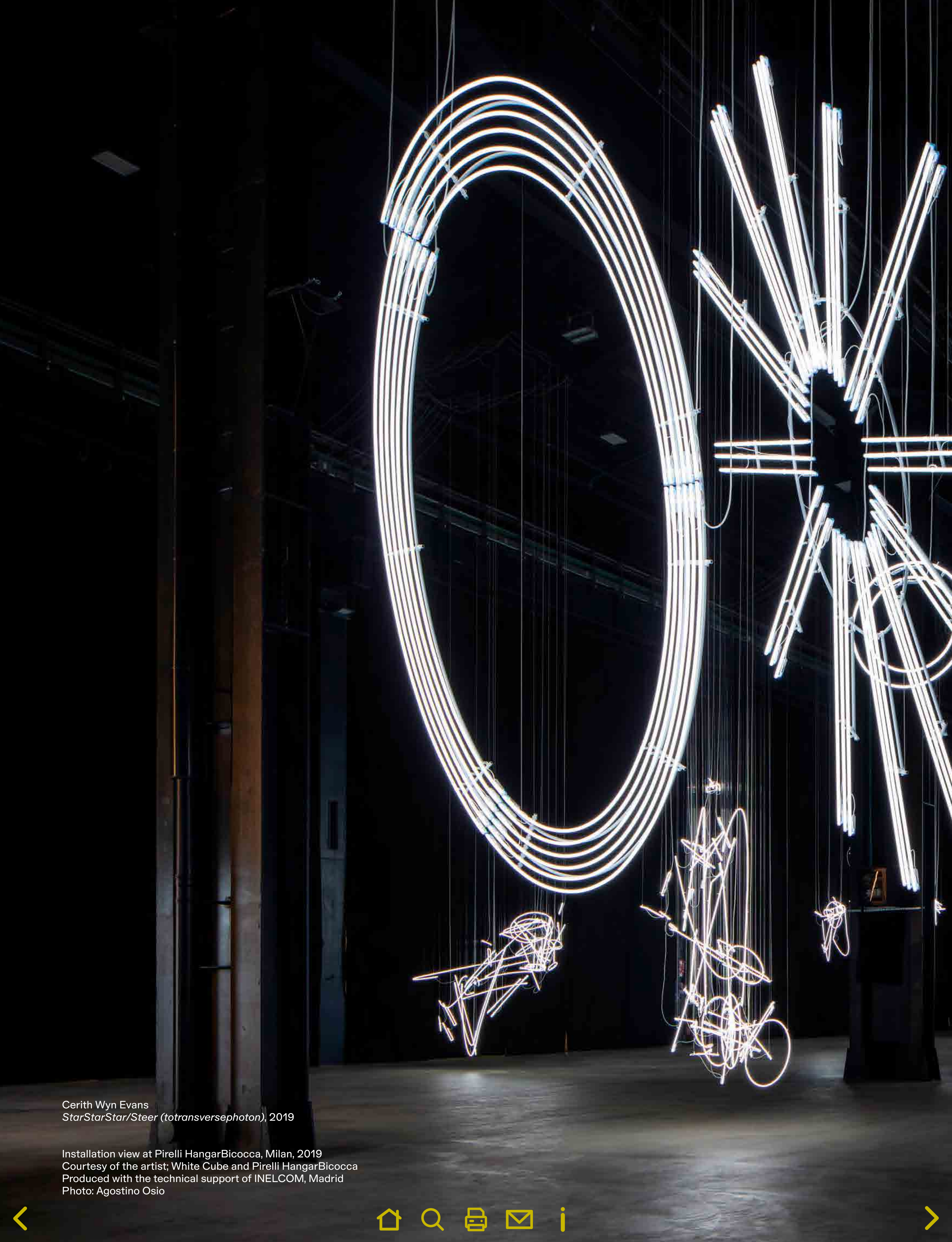
Photo: Infront


KRUŠOVICE
ŠKODA
SUOMI
DANO

Photo: Pentaphoto


ZENTIVA
Seiser Alm
Red Bull
Kappa
ominik
Paris
PIRELLI
Audi
FALCONERI
DAIKIN
LEKI

From the backstage of Paolo Roversi's Pirelli 2020 Calendar,
Backstage photo: Alessandro Scotti



Cerith Wyn Evans
StarStarStar/Steer (totransversephoton), 2019

Installation view at Pirelli HangarBicocca, Milan, 2019
Courtesy of the artist; White Cube and Pirelli HangarBicocca
Produced with the technical support of INELCOM, Madrid
Photo: Agostino Osio

Presentation of the book “Industrial Humanism: An Anthology of Thoughts, Words, Images and Innovations”, edited by the Pirelli Foundation, 19 June 2019, Teatro Franco Parenti (Milan)
Photo: Don’t Movie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Il progettista della Fiat,
Dante Giacosa,
presenta la nuova 500
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Montblanc X Pirelli Trolley Collection
Photo: @Montblanc


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LAYOUT
Servif/Lab

COLLAGES
Selman Hoşgör

PRINT
Faenza Group S.p.A.

PAPER (INSIDE)
Munken Polar 120 g
Magno Gloss 150 g

FABRIC (COVER)
Manifattura del Seveso

PAPER (FLYLEAFS)
Fedrigoni Sirio Ultra Black 200 g

TYPEFACE
Alpha Regular (Omnitype)

In line with Pirelli's Green Sourcing Policy, the planning phase or this report included an analysis of the environmental impact of the material used with the help of the supplier chosen, which has been certified by way of an environmental management system. Thanks to this approach, in order to carry out this project, we have used FSC® certified paper, vegetable-based inks, and water-based paints. The final package is made out of recyclable cardboard and polypropylene.

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