

## **REPORT ON THE CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF PIRELLI & C. S.P.A.**

**PURSUANT TO ART. 123-BIS OF THE CONSOLIDATED FINANCE LAW (TUF)**

**(TRADITIONAL MODEL OF ADMINISTRATION AND CONTROL)**

**(REPORT APPROVED BY THE BOARD OF DIRECTORS OF PIRELLI & C. S.P.A.  
ON 26 FEBRUARY 2018 IN RELATION TO THE YEAR ENDED ON 31 DECEMBER 2017.  
THE REPORT IS AVAILABLE ON THE WEBSITE [WWW.PIRELLI.COM](http://WWW.PIRELLI.COM))**

## GLOSSARY

**Annual General Meeting:** the shareholders' meeting called to approve the financial statements as of 31 December 2017.

**Camfin:** Camfin S.p.A., Italian company with registered offices at via Bicocca degli Arcimboldi 3, Milan, Tax Code, VAT and Milan Companies Register number 00795290154.

**ChemChina:** China National Chemical Corporation, Chinese company with registered offices at 62 West Beisihuan Road, Haidian, Beijing (People's Republic of China), registered with the State Administration of Industry and Commerce of the People's Republic of China, registration number 100000000038808.

**CNRC:** China National Tire & Rubber Corporation Ltd., Chinese company with registered offices at 62 West Beisihuan Road, Haidian, Beijing (People's Republic of China), registered with the State Administration of Industry and Commerce of the People's Republic of China, registration number 100000000008065.

**Corporate Governance Code:** the Corporate Governance Code for listed companies, last updated in July 2015 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

**Civil Code:** the Italian Civil Code.

**Board of Directors:** the Board of Directors of Pirelli & C. S.p.A.

**Consob:** the National Commission for Companies and the Stock Exchange.

**Report Date:** the meeting held on 26 February 2018 by the Board of Directors that approved this Report.

**First Trading Day:** 4 October 2017, being the date on which the shares of the Company were admitted to trading on the MTA market organised and managed by Borsa Italiana S.p.A..

**Year:** the financial year to which this Report relates.

**Group:** Collectively Pirelli and its subsidiaries, as defined in art. 2359 of the Civil Code and art. 93 TUF.

**IPO:** the procedure for the listing of Pirelli shares completed successfully in October 2017 with the start of trading on the MTA.

**LTI:** Long-Term Investments Luxembourg S.A., Luxembourg company with registered offices at 124 Boulevard de la Pétrusse, L-2330, Luxembourg (Grand Duchy of Luxembourg), Luxembourg Companies and Commerce Register number B-187332.

**MTA:** Screen-traded Stock Market organised and managed by Borsa Italiana S.p.A.

**Marco Polo:** Marco Polo International Italy S.p.A., Italian company with registered offices at via San Primo 4, Milan, Tax Code, VAT and Milan Companies Register number 09052130961.

**MTP&C:** Marco Tronchetti Provera & C. S.p.A., Italian company with registered offices at via Bicocca degli Arcimboldi 3, Milan, Tax Code, VAT and Milan Companies Register number 11963760159.

**New Shareholders' Agreement:** the shareholders' agreement signed on 28 July 2017 by ChemChina, CNRC, SRF, SPV HK 1, SPV HK 2, SPV Lux, Camfin, LTI and MTP&C, with effect from the First Trading Day. The essential content of the New Shareholders' Agreement, to which reference is made for further information, is available on the Website ([www.pirelli.com](http://www.pirelli.com)).

**Pirelli:** Pirelli & C. S.p.A., Italian company with registered offices at viale Piero e Alberto Pirelli 25, Milan, Tax Code, VAT and Milan Companies Register number 00860340157.

**Pirelli International:** Pirelli International plc, English company with registered offices in Derby Road, Burton on Trent (United Kingdom), registered with the Companies House of England and Wales, number 04108548.

**Pirelli Tyre:** Pirelli Tyre S.p.A., Italian company with registered offices at viale Piero e Alberto Pirelli 25, Milan, Tax Code, VAT and Milan Companies Register number 07211330159.

**Issuers' Regulation:** the Regulation approved by Consob resolution 11971/1999 (as amended) on the subject of issuers.

**Related Parties Regulation:** the Regulation approved by Consob resolution 17221 dated 12 March 2010 (as amended) on the subject of related-party transactions.

**Report:** this report on corporate governance and the ownership structure prepared pursuant to art. 123-bis TUF.

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

**Website:** the institutional website of Pirelli containing *inter alia* information about the Company, which can be found at the Internet domain [www.pirelli.com](http://www.pirelli.com).

**Company:** Pirelli & C.

**SPV HK1:** CNRC International Limited, limited company formed under the laws of Hong Kong (People's Republic of China), with registered offices at RMS 05-15, 13A/F South Tower World Finance CTR Harbour City, 17 Canton Rd TST KLN, Hong Kong (People's Republic of China), Hong Kong Companies Register number 2222516.

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

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

**SRF:** Silk Road Fund Co., Ltd., Chinese company with registered offices at F210-F211, Winland International Finance Center Tower B, 7 Financial Street, Xicheng, Beijing (People's Republic of China), registered with the State Administration of Industry and Commerce of the People's Republic of China, registration number 100000000045300(4-1).

**Articles:** the Articles of Association of Pirelli & C., available on the Website.

**TUF:** the Consolidated Finance Law, being Decree 58 dated 24 February 1998 (as amended subsequently).

## INTRODUCTION

This Report describes the system of corporate governance of the Company in force as of the First Trading Day. This system is consistent with the principles contained in the Corporate Governance Code adopted by the Company<sup>26</sup>.

### 1. COMPANY PROFILE

Pirelli, with its 30,000 employees and annual sales of about Euro 5.3 billion in 2017, ranks among the principal global manufacturers of tyres and supplier of ancillary services, being the only operator in the sector exclusively specialised in the consumer market (tyres for cars, motorcycles and bicycles), with a globally-recognised brand. The Company has a distinctive positioning with regard to High Value tyres, which are manufactured to achieve the highest levels of performance, safety, quietness and road grip, with significant input from technology and/or customisation (i.e. specifically, *New Premium*, *Specialties* and *Super Specialties* tyres and *Premium* motorcycle tyres). In addition, the Company is currently leader in the Prestige tyres segment, with more than one-third of the global market in volume terms, and in the radial segment of the after-market for motorcycle tyres. Pirelli is also the leader in Europe, China and Brazil, in the after-markets for New Premium car tyres and Premium motorcycle tyres.

The current positioning of Pirelli as a “Pure Consumer Tyre Company” results from the public takeover bid made in 2015 by Marco Polo Industrial Holding S.p.A. (the vehicle incorporated by ChemChina, Camfin and LTI, merged by absorption in Pirelli during 2016) on the entire share capital of the Company and the consequent process of transformation, which led to the separation of Industrial activities previously held from the Consumer activities. The transformation process culminated in October 2017 with the return of the Company to the stock exchange.

#### 1.1 MODEL OF CORPORATE GOVERNANCE

The model of corporate governance adopted by Pirelli implements the traditional system of administration and control, with a Board of Directors (14 members) responsible for managing the business and a Board of Statutory Auditors entrusted with monitoring the administration and compliance with the law and the Articles.

In compliance with the Corporate Governance Code, the Board has established five internal committees with the power of making recommendations to, advising and carrying out analytical work for the Board.

The Shareholders' Meeting is responsible for adopting resolutions on the matters reserved to it by law or by the Articles.

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<sup>26</sup> Adopted by resolution of the Board of Directors prior to the First Trading Day.

The legal audit of the accounts is entrusted to PricewaterhouseCoopers S.p.A., the registered auditing firm appointed by the Shareholders' Meeting, following a reasoned recommendation presented by the Board of Statutory Auditors.

In order to ensure the preservation and continuity of the Pirelli business culture, the shareholders' agreements (described in more detail later in the Report) expressly recognise the central role played by current top management, establishing *inter alia* that Marco Tronchetti Provera will hold the offices of Chief Executive Officer and Executive Vice Chairman of Pirelli and guide the activities of top management until the approval of the financial statements of the Company as of 31 December 2019.

## **1.2 SUSTAINABILITY AND DIVERSITY POLICIES**

Pirelli has adopted a sustainable management model. Responsible management by Pirelli addresses the entire value chain.

As of 2005, the sustainable performance of Pirelli is described in the annual report of the Company (to which reference is made), certified by a third party and prepared in accordance with both the international reference standards for reporting on sustainability and the Italian Decree 254/2016; the annual report can be found on the Website.

The Company complies with the requirements of current regulations and the principles and criteria set out in the Corporate Governance Code for the composition of its administrative and control bodies in terms of age, gender, education and professional experience. Their actual application, particularly with regard to self-assessment activities, is monitored by the Board of Directors.

Pirelli is characterized by a multinational context in which people express a huge heritage of diversity. Conscious management of this diversity generates competitive advantages, opportunities for the development and enrichment of the business, and shared corporate values. In line with the Company's mission, Pirelli business culture has been able to anticipate over the years several topics and issues (such as environment and gender diversity) well in advance, thereby being able to satisfy the need to respond to new and growing requests made by the stakeholders.

Even at Board level, the above values are deemed as success factors necessary for achieving the Company's strategic targets.

For this reason, although the Board has not yet adopted a formal diversity policy due to the short period between the First Trading Day (4 October 2017) and the end of the Year (31 December 2017), the respect of said values has already been guaranteed by the shareholders in the context of last renewal of the Board of Directors, in terms of age, gender, nationality and educational, professional and cultural experiences. This enables the Board to perform its duties in the most effective way, through the support of different points of view, with the ability to analyse individual situations from multiple perspective.

Lastly, during 2018 the Board of Directors will consider the adoption of a formal policy on diversity that complies with the principles described above,

## **2. INFORMATION ON THE OWNERSHIP STRUCTURE**

### **2.1 STRUCTURE OF SHARE CAPITAL**

On the Report Date, the issued share capital of Pirelli amounts to Euro 1,904,374,935.66 fully paid, and is represented by 1,000,000,000 ordinary shares without nominal value. Each share grants the right to one vote. There are no other categories of share and no financial instruments have been issued with the right to subscribe for new shares.

At present, the Company does not have any form of stock incentive plan for employees.

Additionally, the Articles do not provide for the possibility of increased voting rights or the issue of shares with multiple voting rights.

### **2.2 SIGNIFICANT SHAREHOLDINGS OF CAPITAL**

Based on the communications received by the Company until the Report Date pursuant to art. 120 TUF, the significant direct and indirect shareholdings of Pirelli capital are indicated in [Table 1](#) attached to this Report.

### **2.3 MANAGEMENT AND COORDINATION ACTIVITIES**

The Company is an indirectly controlled, pursuant to art. 93 TUF, by ChemChina via CNRC and certain of its subsidiaries, including Marco Polo.

At the meeting held on 31 August 2017, the Board of Directors acknowledged that the management and coordination activities of Marco Polo would cease with effect from the First Trading Day, while CNRC would retain the right to consolidate Pirelli. This situation has further strengthened the autonomy of Pirelli and its management in the definition and management of the industrial, economic and financial strategies of the Group.

In particular, the Board of Directors of Pirelli has determined that, from the First Trading Day, Pirelli is no longer subject to any management and coordination activities considered typical, neither by Marco Polo nor by other companies or entities (including CRNC and ChemChina), and therefore, by way of example:

1. Pirelli conducts relations with customers and suppliers in full autonomy without any external interference;

2. Pirelli prepares the strategic, industrial, financial and/or budget plans of the Company or the Group independently;
3. Pirelli is not subject to any group regulations;
4. no organisational-functional links exist between Pirelli on the one hand and Marco Polo, CNRC and/or ChemChina on the other;
5. Marco Polo, CNRC and/or ChemChina have not carried out any deeds, adopted any resolutions or made any communications that might cause reasonable belief that the decisions of Pirelli are in some way imposed or required by Marco Polo, CNRC and/or ChemChina;
6. Marco Polo, CNRC and/or ChemChina do not centralise treasury management activities or other financial support or coordination functions;
7. Marco Polo, CNRC and/or ChemChina do not issue directives or instructions – and in any case would not coordinate initiatives – concerning the financial and borrowing decisions of Pirelli;
8. Marco Polo, CNRC and/or ChemChina do not issue directives regarding any special transactions carried out by Pirelli including, for example, the listing of financial instruments, acquisitions, disposals, concentrations, contributions, mergers, spin-offs etc.;
9. Marco Polo, CNRC and/or ChemChina do not make any crucial decisions regarding the operating strategies of Pirelli or formulate group strategic guidelines.

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

## 2.4 RESTRICTIONS ON THE TRANSFER OF SECURITIES

The Articles do not impose any restrictions on the transferability of the shares issued by the Company.

However, the New Shareholders' Agreement does place restrictions on the transfer of shares in the Company until completion of the process of divestment and reorganisation carried out by Marco Polo, which will include *inter alia* the de-merger of said company into three companies wholly owned by, respectively, SPV Lux, Camfin and LTI (the "**Marco Polo Demerger**"). For further details see Section 2.8.2.

More specifically, the signatory shareholders have agreed not to sell, assign, transfer or in any case make use of in any other way, directly or indirectly (except for transfers to their parent companies, subsidiaries or fellow subsidiaries), *inter alia*, their respective direct or indirect equity interests in Pirelli until the first anniversary of the First Trading Day (except for LTI, which may transfer directly or indirectly, via Marco Polo, its equity interest in Pirelli after six months have elapsed from the First Trading Day).



## **2.5 SECURITIES THAT CARRY SPECIAL RIGHTS**

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

## **2.6 SHARE OWNERSHIP BY EMPLOYEES: MECHANISM FOR THE EXERCISE OF VOTING RIGHTS**

With regard to the shares owned by employees, there are no specific procedures or restrictions governing the exercise of their voting rights.

## **2.7 RESTRICTIONS ON VOTING RIGHTS**

There are no mechanisms that restrict the voting rights of shareholders, except for the terms and conditions governing the exercise of the right to attend and vote at Shareholders' Meetings, as discussed in Chapter 18 of the Report.

## **2.8 SHAREHOLDERS' AGREEMENTS**

### **2.8.1 SRF CONTRACT**

On 5 June 2015, SRF, CNRC and ChemChina signed an "Investment Contract" (the "**First SRF Contract**") regarding investment by and the participation of SRF, together with ChemChina and CNRC, in the acquisition of control over Pirelli.

The First SRF Contract granted SRF – holder of 25% of the share capital of SPV HK2 – with certain rights and prerogatives in relation to the corporate governance of SPV HK2, SPV Lux, Marco Polo and Pirelli; it also established certain restrictions on the transfer of the shares held in SPV HK2.

In particular, in order to achieve the objectives of SRF and CNRC for their joint (and indirect) investment in Pirelli, the parties to the First SRF Contract agreed that SRF would be entitled to designate a candidate for the Boards of Directors of Marco Polo and Pirelli.

Nothing in the First SRF Contract prejudices the right of ChemChina to exercise control over Pirelli via CNRC.

## 2.8.2 NEW SHAREHOLDERS' AGREEMENT

On 28 July 2017 ChemChina, CNRC, SRF, SPV HK 1, SPV HK 2, SPV Lux, Camfin, LTI and MTP&C (together, the “**Parties to the New Agreement**”) signed the New Shareholders' Agreement that governs, on the one hand, the governance of Pirelli with effect from the First Trading Day, as well as the commitment of CNRC, SRF, Camfin and LTI to arrange for the Marco Polo Demerger as soon as possible subsequent to the First Trading Day and, in any case, by 31 December 2018, subject to (i) the beginning of the trading (which took place on 4 October 2017) and (ii) the reimbursement of the loan of Euro 1,250 million obtained by Marco Polo (which took place on 5 October 2017).

The New Shareholders' Agreement requires the Board of Directors of Marco Polo to approve the demerger project relating to the Marco Polo Demerger in favour of three beneficiary companies each wholly owned by, respectively, SPV Lux, Camfin and LTI. The Marco Polo Demerger will be non-proportional pursuant to art. 2506-*bis*, para. 4, of the Civil Code and, accordingly, the net assets of Marco Polo will be divided among the beneficiary companies in proportion to the equity interests held by SPV Lux, Camfin and LTI in Marco Polo (being 65%/22.4%/12.6%). In the context of the Marco Polo Demerger, Pirelli shares will be measured at their placement price.

The Marco Polo Demerger must be completed as soon as possible after the First Trading Day and, in any case, within three months of the date of approval of the 2017 financial statements of Marco Polo, subject to the positive outcome of the opinion requested by Marco Polo from the Tax Authorities regarding the tax treatment of the Marco Polo Demerger.

If the Marco Polo Demerger cannot be completed by the above deadline, or should any of the Parties to the New Agreement believe, in good faith, that the demerger is not the most efficient solution, each of them will be entitled to request an assessment in good faith of possible alternative solutions to the Marco Polo Demerger for the assignment to the shareholders of Marco Polo of its net assets.

## 2.8.3 THE SHAREHOLDERS AGREEMENT RELATING TO CAMFIN

In relation to Camfin, a shareholders' agreement is also in force, originally signed on 11 August 2015 by Marco Tronchetti Provera & C. S.p.A., Nuove Partecipazioni S.p.A., UniCredit SpA, Manzoni S.r.l. and Intesa Sanpaolo S.p.A., subsequently updated by said companies on 4 May 2017 in the context of the completion of the merger of the company Coinv S.p.A. in Camfin, which had effects as of 12 June 2017 (the “**Coinv Merger**”) and in consideration of the Coinv Merger itself and of certain provisions of the agreement no longer applicable (the “**Camfin Shareholders' Agreement**”). The Camfin Shareholders' Agreement has not been updated by the parties following the IPO and it contains several provisions that must be considered outdated due to the beginning of the trading of the Pirelli shares on the MTA; however some limited provisions, relevant pursuant to art. 122, first and fifth paragraph, of the TUF, are still applicable in relation to the planned disinvestment from Camfin by the current shareholders.

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For further information about the clauses contained in the abovementioned Shareholders' Agreements, see the extracts from the agreements available on the Website, published pursuant to art. 130 of the Issuers' Regulation.

## 2.9 CHANGE OF CONTROL CLAUSES

The most significant contracts containing clauses of this type are summarised below.

### 2.9.1 2014 BOND

On 18 November 2014, Pirelli International issued a bond for a total nominal amount of Euro 600 million (the "**2014 Bond**").

The securities issued pursuant to the 2014 Bond, having a minimum nominal value of Euro 100,000 each (the "**Securities**"), are listed on the regulated market of the Luxembourg Stock Exchange.

The regulation for the 2014 Bond provides for, *inter alia*, the reimbursement of the capital in a lump sum on the expiration date set forth 18 November 2019.

Pursuant to the 2014 Bond Regulation, the bondholders are entitled to request early reimbursement of the Securities if there is a Change of Material Shareholding, which would arise *inter alia* if (i) Pirelli ceased to hold (directly or indirectly) more than 50% of the share capital with voting rights at the ordinary shareholders' meeting of Pirelli Tyre (except if Pirelli and Pirelli Tyre are merged) or (ii) a party (other than Camfin or another party working together with Camfin), or several parties working together (not being shareholders of Camfin or their subsidiaries working together) (a) acquire (directly or indirectly) more than 20% of the share capital with voting rights at the ordinary shareholders' meeting of Pirelli and that equity investment is greater than the investment held by Camfin from time to time; or (b) appoint or cause the removal of the majority of the members of the Board of Directors of Pirelli.

On 23 February 2018, Pirelli International Plc decided to exercise the right to early reimburse all the Securities and then to cancel them.

The above transaction is scheduled for completion by 31 March 2018.

### 2.9.2 LOAN

On 13 June 2017 Pirelli, on the one hand, and Banca IMI S.p.A., J.P. Morgan Limited and The Bank of Tokyo-Mitsubishi UFJ, Ltd., in their roles as mandated lead arrangers, bookrunners, underwriters and global coordinators signed a mandate letter regarding the grant of an unsecured loan to Pirelli and Pirelli International (the "**Beneficiaries**") for a maximum amount of Euro 4,200,000,000 (the "**New Loan**").

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

In particular, this change of control clause may be invoked solely in one of the following circumstances: (i) ChemChina ceases to hold, directly or indirectly, individually or together with Camfin or another company controlled by Marco Tronchetti Provera or his close family members, more than 25% of Pirelli post IPO; or (ii) ChemChina ceases to be, directly or indirectly, individually or together with Camfin or another company controlled by Marco Tronchetti Provera or his close family members, the relative majority holder of the voting rights in Pirelli (i.e. more than other parties that act individually or together); or (iii) any other party (or parties acting together) appoints or removes the majority of the Board of Directors.

Any takeover by Camfin (or another company directly or indirectly controlled by Marco Tronchetti Provera or his close family members) as the parent company of Pirelli would not represent a change of control on condition that certain requirements are met, including the requirement for Marco Tronchetti Provera or a person designated by him to be the CEO of both that company and Pirelli.

### 2.9.3 PT EVOLUZIONE TYRES JOINT VENTURE

On 24 April 2012, Pirelli Tyre and PT Astra Otoparts tbk, an Indonesian company, signed a Joint Venture Agreement in relation to PT Evoluzione Tyres, an Indonesian company incorporated on 6 June 2012 and operating in the production of motorcycle tyres in the plant of Subang, West Java.

Pursuant to this contract, in the event of a change in the ownership structure of one of the shareholder that is deemed to be a change of control event, a put&call procedure could be activated that, in the extreme case, might lead to the acquisition by Pirelli Tyre of the entire equity interest held by PT Astra Otoparts tbk in PT Evoluzione Tyres, with the consequent termination of the joint venture agreement.

### 2.9.4 SUPPLY CONTRACT WITH BEKAERT

The strategic suppliers of the Group include Bekaert, to which the Company sold the steelcord business unit in 2014. Having regard to the special nature of the contractual conditions associated with the sale of the above business unit, a contract for the supply of steelcord exists with that supplier, under which Pirelli purchased about 90% of its 2016 requirements.

The contract with Bekaert includes a change of control clause whereby Bekaert has the right, *inter alia*, to withdraw within 90 days after becoming aware of a situation in which a third party acquires control of Pirelli.

#### 2.9.5 EMTN PROGRAMME AND 2018 BOND

On 21 December 2017, in order to ensure the constant optimisation of the financial structure of the Company, the Board of Directors (i) approved an EMTN programme (Euro Medium Term Note Programme) for the issue of non-convertible, senior unsecured bonds for a maximum amount of Euro 2 billion and (ii) in the context of that programme, authorised the issue by 31 January 2019 of one or more bonds to be placed with institutional investors for a maximum total amount of Euro 1 billion. The new securities may be listed on one or more regulated markets. Pursuant to the EMTN Programme, bondholders that subscribe for bonds issued under the programme will be entitled to request the early reimbursement of their securities (put option) in the case of a Change of Control event.

In particular, this change of control clause may be invoked solely in one of the following circumstances: (i) ChemChina ceases to hold, directly or indirectly, individually or together with Camfin or another company controlled by Marco Tronchetti Provera or his close family members, more than 25% of Pirelli; or (ii) ChemChina ceases to be, directly or indirectly, individually or together with Camfin or another company controlled by Marco Tronchetti Provera or his close family members, the relative majority holder of the voting rights in Pirelli (i.e. more than other parties that act individually or together); or (iii) any other party (or parties acting together) appoints or removes the majority of the Board of Directors.

Any takeover by Camfin (or another company directly or indirectly controlled by Marco Tronchetti Provera or his close family members) as the parent company of Pirelli, in place of ChemChina, would not give rise to a change of control on condition that certain requirements are met, including the requirement for Marco Tronchetti Provera or a person designated by him to be the CEO of both that company and Pirelli.

Under the EMTN Programme, on 25 January 2018 Pirelli issued a new, unrated, fixed-rate bond for a total nominal amount of Euro 600 million, with a duration of 5 years and known as “*Pirelli & C. S.p.A. €600,000,000 1.375% Guaranteed Notes due 2023*”. The above-mentioned Change of Control clause applies to that new bond.

#### 2.10 CLAUSES IN THE ARTICLES ABOUT PUBLIC OFFERS

The Articles do not provide for exceptions to the provisions regarding the passivity rule, or application of the neutralisation rule set out in art. 104-*bis* TUF.

## 2.11 MANDATE TO INCREASE SHARE CAPITAL AND AUTHORISATIONS TO PURCHASE OWN SHARES

With regard to the year ended 31 December 2017, the Directors were not granted with mandates to increase share capital for payment on one or more occasions, or to issue bonds convertible into ordinary or savings shares or with warrants carrying the right to subscribe shares. Similarly, the Shareholders' Meeting of the Company did not authorise any purchases of own shares.

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Lastly, it is confirmed that:

- the information required by art. 123-bis, para. 1, letter i) TUF (regarding “*agreements between the company and its directors [...] that envisage indemnities in the event of resignation or termination without just cause or following a takeover bid*”) is contained in the Compensation Report, which is available at the registered offices and on the Website;

- the information required by art. 123-bis, para. 1, letter l) TUF (regarding “*the rules applicable to the appointment and replacement of directors [...] as well as to the amendment of the articles of association, if different to the legislation and regulations applicable in the absence of specific rules*”) is described in the section of this Report on the Board of Directors (Section 4.1 below).

## 3. COMPLIANCE

Pirelli has adopted the Corporate Governance Code approved by the Corporate Governance Committee established by the associations of businesses (ABI, ANIA, Assonime, Confindustria) and professional investors (Assogestioni), as well as by Borsa Italiana S.p.A.<sup>27</sup>.

The Corporate Governance Code is available to the public on the website of the Corporate Governance Committee, at the following link <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf>.

As Pirelli is among the companies included in the FTSE-MIB index, the recommendations of the Corporate Governance Code specifically envisaged for those companies are applied by the Company.

This Report has essentially been prepared using the Borsa Italiana format.

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<sup>27</sup> Resolution adopted by the Board of Directors as part of the IPO process. Note that Pirelli has adopted the Code since it was first issued (October 1999) and the Company was not listed on the Stock Exchange during the period from 26 February 2016 to 3 October 2017.

On the Report Date, Pirelli is not subject to any non-Italian laws that might influence the corporate governance structure of the Company.

#### **4. BOARD OF DIRECTORS**

##### **4.1 APPOINTMENT AND REPLACEMENT OF DIRECTORS**

The provisions contained in the Articles, to which reference is made, regarding the appointment and replacement of directors are summarised below.

###### **4.1.1 APPOINTMENT**

Pursuant to art. 10 of the Articles, the Company is managed by a Board of Directors made of a maximum of fifteen members, who remain in office for three years and who may be re-elected.

The Board of Directors is appointed on the basis of lists presented by the shareholders, in which the candidates must each be listed with a sequence number.

The lists presented by shareholders, signed by those submitting them, must be filed at the registered offices of the Company at least twenty-five days prior to the date fixed for the Meeting called to resolve on the appointment of Board members. These lists are made available to the public at the registered offices, on the Website and in any other ways envisaged in a relevant Consob regulation, at least twenty-one days prior to the date of the Meeting.

Each shareholder may present or contribute to the presentation of just one list and each candidate may be included in just one list, subject otherwise to becoming ineligible.

Shareholders are only entitled to present lists if, alone or together with other shareholders, they own shares in total representing at least 1% of the share capital entitled to vote at an Ordinary Meeting, or any lower amount specified in a regulation issued by Consob, with the obligation to evidence their ownership of the number of shares needed for the presentation of lists by the deadline envisaged for the publication of such lists by the Company.

Each list filed must be accompanied by acceptances of nomination and declarations from each candidate confirming, under their own responsibility, that there are no reasons making them ineligible for or incompatible with the role, and that they satisfy any requirements established for the role concerned. These declarations must be accompanied by the *curriculum vitae* of each candidate, describing their personal and professional characteristics, indicating the administration and control appointments held by them in other companies and confirming their satisfaction of the independence requirements envisaged for the directors of listed companies by law or by the code of conduct adopted by the Company. In order to ensure gender balance, lists containing three or more candidates must include a number of candidates of different gender that at least satisfies the

minimum required by law and/or any regulations in force at the time, as specified in the notice of call issued for the Meeting. Any changes arising prior to the actual date of the Meeting must be notified to the Company on a timely basis.

Any lists presented that do not comply with the above instructions will be treated as if not presented.

Each party entitled to vote may only vote for one list.

The Board of Directors is appointed as follows:

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

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

If none of those lists has elected a director yet or all of them have elected the same number of directors, the candidate elected will be drawn from the list that obtains the largest number of votes. In the event of a voting tie, again with more than one candidate obtaining the same quota, the Shareholders' Meeting will vote again and the candidate who receives the largest number of votes will be elected.

If only one list is presented, all the directors will be elected from that list.

The Board of Directors must be appointed in compliance with the regulations governing gender balance in force at the time. Should application of the list voting mechanism not ensure the minimum number of directors belonging to the less represented gender set out by laws and/or regulations in force at the time, the candidate belonging to the most represented gender and elected, indicated in the list that obtained the largest number of votes, shall be replaced by the first candidate belonging to the less represented gender not already elected, drawn from that list pursuant to the sequential order of presentation and so on, for each list (solely for lists that contain three or more candidates) until the minimum number of directors belonging to the less represented gender has been obtained. Lastly, if the above procedure does not ensure the result specified above, the replacement shall be made by resolution of the Shareholders' Meeting, adopted by the relative majority of the votes expressed, following presentation of the candidacies of persons belonging to the less represented gender.

Should application of the list voting mechanism not obtain the minimum number of independent directors envisaged by the laws and/or regulations in force, the non-independent candidate elected indicated with the highest progressive number in the list that obtained the largest number of votes shall be replaced by the first independent candidate not already elected from that list following the



sequential order of presentation, and so on for each list until the minimum number of independent directors has been obtained, in all cases in compliance with the laws and/or regulations governing gender balance in force at the time.

For the appointment of directors who, for any reason, were not appointed in accordance with the list voting mechanism, the Shareholders' Meeting shall adopt resolutions with the majorities required by law, without prejudice in all cases to compliance with the independence requirements specified in the Articles and the gender balance requirements envisaged by the laws and/or regulations in force at the time.

#### 4.1.2 REPLACEMENT

Should one or more directors cease from the office during the fiscal year, they shall be replaced pursuant to art. 2386 of the Civil Code, without prejudice for the compliance with the gender balance requirements envisaged by the laws and/or regulations in force at the time.

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

#### 4.1.3 SUCCESSION PLANS

Pursuant to the New Shareholders' Agreement, even in order to ensure the continuity of the Pirelli business culture, Marco Tronchetti Provera has been granted with a leading role in the procedure for identifying his successor as the CEO of Pirelli.

In fact, the following procedure will be implemented as of 1 November 2019: (i) the candidates to be considered for the succession will be indicated by the Chief Executive Officer and Executive Vice Chairman to the Appointments and Succession Committee (the "**Proposed Candidates**"), (ii) a leading, independent, international HR firm will be engaged to assess the Proposed Candidates, and (iii) the Appointments and Succession Committee will resolve, on proposal of the Chief Executive Officer and Executive Vice Chairman and, in the event of a voting tie, the latter shall have the casting vote.

The Proposed Candidate positively appraised by the HR firm must be included by CNRC on the voting list for the appointment of the new Board of Directors and CNRC must ensure that, during the first meeting of the Board of Directors appointed by the Shareholders' Meeting, the non-independent directors designated by CNRC vote for and appoint the Proposed Candidate as the new Chief Executive Officer.

Should Marco Tronchetti Provera no longer be able to take part in the above activities, for any reason, the above prerogatives shall be granted to one of the directors designated by the Appointments and Succession Committee on recommendation of MTP&C.

## 4.2 COMPOSITION

The Board of Directors in charge at the Report Date was appointed by the Shareholders' Meeting held on 1 August 2017 (effective date for the appointments: 31 August 2017) and is made of 14 members: Ren Jianxin (Chairman), Marco Tronchetti Provera (Executive Vice Chairman and CEO), Yang Xingqiang, Bai Xinping, Giorgio Luca Bruno, Laura Cioli, Domenico De Sole, Ze'ev Goldberg, Tao Haisu, Marisa Pappalardo, Cristina Scocchia, Giovanni Tronchetti Provera, Fan Xiaohua and Wei Yintao.

The above Shareholders' Meeting confirmed Ren Jianxin as Chairman of the Board of Directors and, at its first meeting held on 31 August 2017, the Board of Directors confirmed Marco Tronchetti Provera as Chief Executive Officer and Executive Vice Chairman.

The composition of the Board of Directors reflects the clauses contained in the New Shareholders' Agreement, pursuant to which:

- Directors Ren Jianxin, Yang Xingqiang, Bai Xinping, Ze'ev Goldberg, Tao Haisu, Marisa Pappalardo, Fan Xiaohua and Wei Yintao were designated by CNRC;
- Directors Marco Tronchetti Provera, Giovanni Tronchetti Provera, Giorgio Luca Bruno and Laura Cioli were designated by MTP&C;
- Directors Domenico De Sole and Cristina Scocchia were appointed by Marco Polo on joint designation by CNRC and MTP&C, taking into account the indications expressed by the Joint Global Coordinators, engaged as part of the IPO procedure, regarding the professional characteristics of the directors.

At the Report Date, about 29% of Board members belong to the female gender and about 71% belong to the male gender. In addition, about 64% of directors are over 50 years of age and about 36% are between 30 and 50. The average age of Board members is about 55. The average tenure in charge of the Directors is about 4 years<sup>28</sup>.

Pursuant to the New Shareholders' Agreement, the Board of Directors of Pirelli must be supplemented by an additional independent director, to be appointed by the minority shareholders, with the majorities established by law without application of the list voting mechanism, at the first

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<sup>28</sup> The calculation of the tenure of the Board: (i) considered all Directors in office, except for those appointed for the first time at the Shareholders' Meeting held on 1 August 2017; and (ii) considered for each Director the date of initial appointment indicated in Table 2.

Shareholders' Meeting of Pirelli held subsequent to the First Trading Day (which will coincide with the Annual General Meeting).

Table 2 attached provides for the relevant information about each member of the Board of Directors in charge at the Report Date. In addition, a summary of their professional profiles is available on the Website.

There were no changes to the composition of the Board of Directors between the end of the Year and the Report Date.

#### **4.3 LIMITATIONS ON THE NUMBER OF POSITIONS HELD**

Pursuant to the orientation of the Board of Directors adopted on 31 August 2017, it is not considered compatible with the duties of a director of the Company to be a director or statutory auditor of more than five other companies other than those subject to management and coordination by the Company, or its subsidiaries or affiliates, in case of (i) companies listed on the FTSE/MIB index (or equivalent foreign index) or (ii) Italian or foreign companies that carry out financial, banking or insurance activities; furthermore, it is not considered compatible for the same director to hold more than three executive positions in companies of the types indicated in points (i) and (ii) above.

Positions held in several companies belonging to the same group are considered to be a single position and an executive position prevails over a non-executive position.

The Board of Directors is entitled to make a different assessment, properly motivated, to be published in the Report and explained appropriately therein.

Following review by the Corporate Governance, Sustainability, Control and Risks Committee, each year the Board of Directors examines the positions held by each Director (based on the information provided by that person and/or on the other information available to the Company). At the Report Date, no Director holds a number of position higher than the number set out in the orientation adopted by the Company.

Attachment A indicates the principal appointments held by the Directors in companies that do not belong to the Group at the Report Date.

#### **4.4 INDUCTION PROGRAM**

The Directors perform their duties autonomously and with competence, pursuing the priority objective of creating sustainable value over the medium-long term. They are aware of the responsibilities pertaining to their role and, like the Statutory Auditors, they are kept periodically

informed by the competent business functions about the principal regulatory and self-regulatory changes affecting the Company and the performance of their duties.

In particular, in the context of the Board meetings, the Directors have been provided, also with support of the top management, with an explanation of the main characteristics of the activities of Pirelli and its Group, of the field in which it operates, of the sustainable management model and of the internal control and risk management system adopted by the Company. Additionally, with the listing, information about the relevant legal and regulatory framework and the specific procedures and disciplines adopted by the Company have been provided.

Further, specific induction-related activities will be structured and carried out during 2018, also in the context of the Board meetings and of the Board committee meetings.

#### **4.5 ROLE OF THE BOARD OF DIRECTORS**

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

##### **4.5.1 FUNCTIONING OF THE BOARD OF DIRECTORS**

Meetings of the Board of Directors are called by the Chairman or his deputy and held at the registered offices, or in any another location specified in the notice of convening, whenever deemed appropriate by the Chairman in the interests of the Company, or when requested in writing by the Chief Executive Officer or by one-fifth of the appointed Directors. Meetings of the Board of Directors may also be called by the Board of Statutory Auditors, or by each effective auditor, following notification sent to the Chairman of the Board of Directors.

The Board of Directors in office at the Report Date met twice between the First Trading Day and the end of the Year. The average duration of each meeting was 50 minutes, with attendance by more than 90% of the Directors and more than 90% of the Independent Directors.

Given the short time between the First Trading Day and the end of the Year, no meetings reserved solely for the independent Directors were held during that period.

With regard to the current year, Pirelli has made available to the market a calendar of corporate events (also available on the Website), according to which the Board is expected to meet at least 4 times.

The Directors and Statutory Auditors receive with prior notice the documentation and information deemed necessary in order to be properly informed for the discussion of the items subject to their

examination. The advance notice provided is generally deemed reasonable and appropriate. In fact, the documentation examined by the Board is usually circulated about ten days prior to the meeting. In the limited and exceptional cases in which it was not possible to transmit the documentation so far in advance, full information about the matter concerned was provided directly during the meeting, in order to ensure that informed decisions were made.

Considering the international composition of the Board of Directors, it is standard practice for the Company to translate into English and Chinese the documentation to be examined by the Board and the Committees, as well as to make a simultaneous translation service available to the participants.

If the Chairman is absent or unavailable, the chair is taken by the Chief Executive Officer; if the latter is also absent or unavailable, the chair is taken by another director appointed by the majority of those present. The Board of Directors appoints a Secretary who may also not be a Director.

For the validity of the resolutions of the Board of Directors, the meeting shall be attended by the majority of the members and the majority of the votes expressed is necessary. Resolutions, including those adopted at meetings held using telecommunications technology, are recorded in the relevant book; all minutes are signed by the Chairman and the Secretary of the meeting. All copies of and extracts from minutes not prepared by a Notary are certified true by the Chairman.

As recommended by the Corporate Governance Code, Director awareness of the business reality and dynamics of the Company and the Group is enhanced by the systematic attendance of top management at their meetings, which makes it possible to explore the matters on the agenda in appropriate detail.

Given the short period of time between the First Trading Day and the end of the Year, the Board of Directors will start as from 2018 the process of assessing its functioning and that of the Board committees.

The Articles establish that, until decided differently at a Shareholders' Meeting, the Directors are not bound by the restrictions specified in art. 2390 of the Civil Code.

#### 4.5.2 RESERVED MATTERS

In accordance with the Articles, the Shareholders' Meeting requires a qualified majority (i.e. favourable votes by shareholders representing at least 90% of the share capital of the Company), if any of the following resolution has to be passed, in order to authorise the Board of Directors to carry out such resolutions:

- transfer the operational and administrative headquarters outside of the municipality of Milan;
- any transfer and/or deed of disposal, in any form, of Pirelli know-how (including the granting of licences).

On 31 August 2017, the Board of Directors established that all resolutions regarding the following matters arranged by Pirelli and/or any company subject to management and coordination by Pirelli (excluding intercompany transactions) must be approved (as an internal restriction of the power granted to the Chief Executive Office on that date) by the Board of Directors of the Company:

- (i) obtaining or granting loans for a total value higher than Euro 200 million and with a duration of more than 12 months;
- (ii) issuing financial instruments to be listed on European or non-European regulated markets or multilateral trading systems that total more than Euro 100 million and/or their delisting;
- (iii) giving guarantees in favour of or in the interests of third parties for amounts higher than Euro 100 million;
- (iv) signing derivative contracts (a) with a notional value higher than Euro 250,000,000, and (b) except for those having the sole object and/or effect of hedging corporate risks (e.g. interest-rate risk, exchange-rate risk, commodity market risk);
- (v) purchasing or selling equity investments in subsidiaries and affiliates for amounts higher than Euro 150 million and that involve entering into (or exiting from) geographical and/or commodity markets;
- (vi) purchasing or selling equity investments other than those described in point (v) above for amounts higher than Euro 250 million;
- (vii) purchasing or selling businesses or lines of business that have strategic importance or, in any case, a value of more than Euro 150 million;
- (viii) purchasing or selling fixed and other assets that have strategic importance or, in any case, a total value of more than Euro 150 million;
- (ix) carrying out transactions of greater significance with related parties, being those satisfying the conditions envisaged in Attachment 1 to the “Procedure for Related-Party Transactions” approved by the Board of Directors of the Company on 31 August 2017, in confirmation of the resolutions adopted on 28 July 2017 by the out-going Board of Directors;
- (x) defining the Company’s remuneration policy;
- (xi) determining, in compliance with the Company’s internal policies and the applicable regulations, the remuneration of the executive directors and the directors with specific responsibilities and, where required, allocating the total remuneration authorised by the Shareholders’ Meeting among the members of the Board of Directors pursuant to art. 2389, para. 3, of the Civil Code;
- (xii) approving the strategic, industrial and financial plans of Pirelli and the Group;

- (xiii) adopting corporate governance rules for the Company and defining guidelines for the corporate governance of the Group;
- (xiv) defining guidelines for the system of internal control, including the appointment of a Director responsible for overseeing the system of internal control, determining the related duties and powers;
- (xv) any other matter deemed to be responsibility of the board of directors of a listed company by the Corporate Governance Code promoted by Borsa Italiana, as amended from time to time;
- (xvi) approving the budget and the business plan of the Company and the Group, as well as all significant changes to those documents; and
- (xvii) adopting any resolutions regarding industrial partnerships or strategic joint ventures to which Pirelli and/or any Group company are party,

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

As required by the Corporate Governance Code, the Board of Directors has assessed positively the adequacy of the organisational, administrative and accounting systems and structure of the Company, with particular reference to the system of internal control and risk management, making reference to the analytical work carried out by the Corporate Governance, Sustainability, Control and Risks Committee.

The Board has also evaluated the general results of operations, taking into particular account the information received from delegated bodies and comparing periodically, at least every quarter, the results obtained with those planned.

#### **4.6 DELEGATED BODIES: EXECUTIVE DIRECTORS**

With resolution dated 31 August 2017, the Board of Directors granted the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera with all the powers necessary to carry out deeds relating to all aspects of corporate activity, without any exceptions aside from those that the law or the Articles reserve to the Board of Directors; all with the power to grant special and general powers of attorney that give the representative the right to sign on behalf of the Company, either separately or together with others, and all other powers deemed appropriate by him in the best interests of the Company, including the right to sub-delegate.

In particular the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera was granted with:

- a) as sole signatory, powers for the ordinary management of Pirelli and the Pirelli Group, with reference to both Pirelli and any other company (including unlisted foreign companies) subject to management and coordination by Pirelli, with the following internal restrictions and therefore with the assignment of the related responsibility to the Board of Directors, if:
  - (i) the threshold amounts envisaged for each of the matters indicated above are exceeded; or
  - (ii) for the matters listed from (i) to (ix) in section 4.5.2 above, if the amounts indicated in the business plan and/or the annual budget are exceeded; or
  - (iii) for the matters listed from (i) to (viii) in section 4.5.2 above, if they were not included, listed or envisaged in the business plan or the annual budget; and
- b) the power to propose to the Board of Directors (the “**Power to Propose**”) adoption of the following resolutions (together, the “**Significant Matters**”):
  - (i) approval of the business plan and the budget of the Company and the Group, as well as all significant changes to those documents. The business plan and the annual budget must (a) address certain operational and financial aspects of Pirelli including, but not limited to, the identification of all sources of funding for such business plans and budgets, as well as the decisions about the operational activities underlying them; and (b) be accompanied and supported by adequate and suitable documentation describing the items contained therein;
  - (ii) any resolutions regarding industrial partnerships or strategic joint ventures to which Pirelli and/or any Group company are party, in all cases following examination by the Strategies Committee,

it being understood that: (a) the power to resolve on the Significant Matters is reserved solely for the Board of Directors and/or the Shareholders’ Meeting, as applicable; and (b) should the Board of Directors not approve the proposal of the Chief Executive Officer and Executive Vice Chairman, the related resolution must be motivated and, in all cases, take into account the best interests of the Company.

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

Considering the frequency of Board meetings, the Chief Executive Officer usually reports on his work during those meetings.



#### 4.7 INDEPENDENT DIRECTORS

At the Report Date, 50% of the Board of Directors consists of directors who satisfy the requirements for identification as independent: Laura Cioli, Domenico De Sole, Tao Haisu, Marisa Pappalardo, Cristina Scocchia, Fan Xiaohua and Wei Yintao. The existence of their independence requirements has been evaluated in the context of the Board meeting held on 31 August 2017, on the basis of the information provided by them at the time of their appointment, the information available to the Company and the requirements established in the TUF and recommended by the Corporate Governance Code.

At the same time of the assessment made by the Board of Directors, the Board of Statutory Auditors confirmed that it had verified, in line with the recommendations of the Corporate Governance Code, the proper application of the assessment criteria and procedures adopted by the Board of Directors to verify the independence of its Directors.

Following their appointment, the satisfaction of the independence requirements is assessed at least on an annual basis (for 2018, this activity was carried out during the Board meeting held on 26 February 2018).

As already stated, the New Shareholders' Agreement requires the Board of Directors of the Company to be integrated with an additional independent director designated by the minority shareholders at the first Ordinary Meeting held after the First Trading Day, which coincides with the Annual General Meeting.

Considering the above, the system of mandates and the ownership structure, the Board of Directors has not yet appointed a lead independent director.

### 5. PROCESSING OF CORPORATE INFORMATION

Pirelli has adopted and consolidated over time a compendium of rules and procedures for the proper management of corporate information, in compliance with the regulations applicable to the various types of data.

With particular reference to the prevention of market abuses, the Board of Directors of Pirelli has adopted, with effect from the date of submission to Borsa Italiana of the application for the admission of the shares of the Company to trading on the MTA, a procedure for defining the principles and rules for preventing such abuses by Pirelli, Group companies and their related parties (the "**Market Abuse Procedure**"). The objective of this procedure is to protect investors, in order to avoid the asymmetrical release of information and stop certain parties making use of information that is not in the public domain to carry out speculative transactions in the markets, as well as to protect the Company from potential liabilities arising from the conduct of parties under its control.

In particular, the Market Abuse Procedure - the full version of which is available on the Website - governs: (a) the management of “significant information”, being information that may become “inside information” pursuant to art. 7 of Regulation (EU) 596/2014 (“**Inside Information**”); (b) the management and communication to the public of Inside Information; (c) the creation, keeping and updating of the register of persons who, in view of their working or professional activities or the functions they perform, have access to Inside Information; (d) the obligations regarding transactions in the shares of the Company, credit instruments issued by the Company and the derivative or other financial instruments linked to them, by parties deemed to be senior decision-makers (“internal dealing”); (e) the operational procedures and scope of application of the prohibition imposed on the Company and the persons who perform administrative, control or management functions for the Company regarding the execution of transactions in Pirelli shares, credit instruments issued by Pirelli and the derivative or other financial instruments linked to them during predetermined periods (“black out periods”); (f) any market soundings carried out or received in compliance with art. 11 of Regulation (EU) 596/2014 and the related enabling regulations.

Also following the orientations expressed by the competent authorities, the Company is about to adopt an operational regulation intended to ensure appropriate implementation of the Market Abuse Procedure and proper information flows among the parties required to comply with the Procedure. Further, again in the light of the above orientations, the Board of Directors is currently considering an update to the Procedure.

The Market Abuse Procedure also defines rules for transactions carried out by “Significant Parties” or by “Persons Closely Related to Significant Parties” in financial instruments issued by the Company, with an annual amount of at least Euro 20,000, in compliance with the applicable current regulations. In this regard, a black-out period of 30 calendar days is imposed prior to the announcement by the Company of the data contained in annual, half-yearly and periodic financial reports, during which time internal dealers are forbidden to carry out transactions in those financial instruments.

## **6. BOARD COMMITTEES**

The role of the Board committees is to carry out analyses for, make recommendations to and/or give advice to the Board in relation to matters deemed worthy of further investigation, in order to ensure that there is an effective and informed exchange of opinions about them.

On 31 August 2017, the Board of Directors of the Company established the Strategies Committee, the Appointments and Succession Committee, the Corporate Governance, Sustainability, Control and Risks Committee, the Compensation Committee and the Related-Party Transactions Committee.

## 6.1 **FUNCTIONING OF COMMITTEES**

The Committees are appointed by the Board of Directors and remain in office for the entire mandate of the Board, meeting whenever deemed appropriate by the Committee Chairman, or when requested by at least one member, by the Chairman of the Board of Directors or, if appointed, by the Chief Executive Officer and, in any case, with the frequency necessary in order to properly carry out their functions.

The Strategies Committee meets at least 5 days prior to the Board meeting called to approve the annual budget and/or the business plan, receiving the related documentation at least 3 days prior to the meeting.

The Secretary of each Committee is the Secretary of the Board.

Committee meetings are called by a notice sent, by the Committee Secretary or otherwise, at the request of the Committee Chairman.

The documentation and information available (and, in all cases, the necessary information) are sent in good time to all members of the relevant Committee so that they can participate in the meeting in an informed manner.

Committee meetings are quorate when attended by the majority of appointed members and resolutions are adopted by the majority of those present. In the event of a voting tie at meetings of the Appointments and Succession Committee held to appoint a successor to the Chief Executive Officer, the outgoing Chief Executive Officer's vote will prevail. Committee meetings may be held by conference call; their minutes are taken by the Committee Secretary and recorded in the related minute book. The Chairman of each committee informs the Board of Directors about the outcome of the meetings held.

Committee awareness of the business reality and dynamics of the Company and the Group is enhanced by the attendance of top management at their meetings, which makes it possible to explore the matters on the agenda in appropriate detail. In particular, as a practice, the Executive Vice President & Chief Human Resources Officer attends the meetings of the Compensation Committee, while the Corporate Vice President Internal Audit and the Head of Sustainability & Risks Governance attend the meetings of the Corporate Governance, Sustainability and Control and Risks Committee.

Committees - which may make use of external advisers in carrying out their functions - are granted with adequate financial resources to perform their tasks with spending autonomy. The Related-Party Transactions Committee is entitled to obtain assistance, at the expense of the Company, from one or more independent experts selected by the Committee.

Committees are entitled to access relevant business information and functions in the performance of their tasks, with support from the Secretary to the Board of Directors for this purpose.

The entire Board of Statutory Auditors is entitled to participate in the activities of the Corporate Governance, Sustainability, Control and Risks Committee and the Compensation Committee.

One member of the Board of Statutory Auditors is invited to attend the meetings of the Appointments and Succession Committee and the Strategies Committee.

The members of the Board of Statutory Auditors are invited to attend the meetings of the Related-Party Transactions Committee.

Further information about the number of meetings held by each Committee during the Year and about the attendance of each member at those meetings can be found in Table 2 attached to this Report.

## **7. STRATEGIES COMMITTEE**

At the Report Date, the Strategies Committee is made of 7 directors (including 2 independent directors): Marco Tronchetti Provera (Chairman), Giorgio Bruno, Yang Xingqiang, Bai Xinping, Ze'ev Goldberg, Domenico de Sole and Wei Yintao.

The Strategies Committee advises and makes recommendations to the Board of Directors on the definition of strategic guidelines, as well as on the identification and definition of terms and conditions for individual transactions of strategic importance.

In particular, the Strategies Committee:

- examines the strategic, industrial and financial plans - both short and long term - of the Company and the Group before their submission to the Board of Directors;
- helps the Board to assess transactions, initiatives and activities of strategic importance including, in particular: entry into new geographical markets and businesses; (i) industrial alliances (e.g. joint ventures); (ii) special transactions (mergers, spin-offs, capital increases and capital reductions, except for those to cover losses); (iii) investment projects; (iv) industrial and/or financial restructuring projects and programmes;
- examines periodically the organisational structure of the Company and the Group, presenting any suggestions and opinions to the Board.

## **8. APPOINTMENTS AND SUCCESSION COMMITTEE**

At the Report Date, the Appointments and Succession Committee comprises 4 directors: Marco Tronchetti Provera (Chairman), Ren Jianxin, Giovanni Tronchetti Provera and Bai Xinping. As an exception to the Corporate Governance Code, the majority of the members of this committee are non-executive directors (albeit not independent). This is partly because the committee addresses

not only matters relating to appointments, but also those regarding top management succession; in addition, committee membership takes account of the fact that the New Shareholders' Agreement has established a structured procedure for identifying the successor to Marco Tronchetti Provera as the Chief Executive Officer of Pirelli (see section 4.1.3).

In particular, the Appointments and Succession Committee:

- prepares opinions for the Board of Directors on the size and composition of the Board and makes recommendations about the professional roles whose presence on the Board is deemed appropriate;
- prepares opinions for the Board of Directors on the adoption and/or amendment by the Board of its orientation towards the number of appointments considered compatible with effective performance as a director of the Company;
- makes recommendations to the Board of Directors about any issues regarding application of the prohibition of competition envisaged in art. 2390 of the Civil Code, should the Shareholders' Meeting - for organisational reasons - authorise in advance, on a general basis, exceptions to this prohibition;
- recommends candidates to the Board of Directors, should it be necessary to co-opt new Directors to replace Independent Directors;
- recommends "emergency" top management succession plans to the Board of Directors;
- prepares opinions for the Board of Directors on the designation of candidates (including persons to be coopted) for the position of Chief Executive Officer;
- over proposal of the Chief Executive Officer, identifies criteria for the succession plans covering top and senior management in general, in order to guarantee the continuity of business strategies.

## **9. RELATED-PARTY TRANSACTIONS COMMITTEE**

At the Report Date, the Related-Party Transactions Committee is made of 3 independent directors: Domenico De Sole (Chairman), Marisa Pappalardo e Cristina Scocchia.

The Related-Party Transactions Committee provides advice and makes recommendations to the Board of Directors about transactions with related parties, with the sole exception of matters concerning the remuneration of directors and executives with strategic responsibilities, which are addressed by the Compensation Committee.

In particular, the Related-Party Transactions Committee:

- prepares advance opinions on the procedures governing the identification and management of related-party transactions arranged by Pirelli and/or by its subsidiaries, as well as their amendment;
- prepares advance, reasoned opinions, if expressly requested, on the interest of Pirelli in carrying out a specific related-party transaction and on the reasonableness and substantial fairness of the relevant conditions;
- in the case of significant transactions with related parties, the committee is involved in the related negotiations and the analytical phase via the receipt of complete and timely information, with the right to request information and to make observations to the persons responsible for carrying out the negotiations or analyses.

## 10. COMPENSATION COMMITTEE

At the Report Date, the Compensation Committee is made of 3 directors (including 2 independent directors): Tao Haisu (Chairman); Laura Cioli (Director with suitable knowledge and experience of financial matters or remuneration policies) and Bai Xinping. The Committee will be integrated with the appointment of the independent Director to be elected at the Annual General Meeting (see section 4.2).

This Committee has advisory and supervisory functions and makes recommendations to ensure the definition and application within the Group of compensation policies that, on the one hand, attract, motivate and retain human resources with the professional qualities required to pursue profitably the objectives of the Group and, on the other, are capable of aligning the interests of management with those of the shareholders.

In particular, the Compensation Committee:

- helps the Board of Directors to define the General Policy for Group Remuneration, making recommendations in this regard;
- assesses periodically the adequacy, overall consistency and concrete application of the General Policy for Remuneration, making reference in this last regard to the information provided by the chief executive officers; makes recommendations to the Board of Directors on this matter;
- with regard to the executive directors and the other directors with specific responsibilities, makes recommendations or expresses opinions to the Board: (i) about their remuneration, consistent with the General Policy for Remuneration; (ii) about setting performance objectives linked to the variable element of that remuneration; (iii) about the definition of any no-competition agreements; (iv) about the definition of any agreements for the termination of

working relationships, having regard to the principles established in the General Policy for Remuneration;

- with regard to the executives with strategic responsibilities, checks the consistency of their remuneration with the General Policy for Remuneration and expresses an opinion on it pursuant to the Procedure for Related-Party Transactions;
- helps the Board of Directors to examine proposals to the Shareholders' Meeting for the adoption of compensation plans based on financial instruments;
- monitors application of the decisions adopted by the Board, checking in particular the effective achievement of the established performance objectives;
- examines and submits to the Board of Directors the Annual Compensation Report that, by name for the members of the management and control bodies and in aggregate for the executives with strategic responsibilities: (i) provides adequate information about each component of their remuneration; and (ii) explains in detail all the remuneration paid during the year, for whatever reason and in whatever form, by the Company and its subsidiaries.

The Compensation Committee is granted with the functions of the Related-Party Transactions Committee (discussed above), envisaged pursuant to the Consob regulations and the procedures for related-party transactions adopted by the Company, for matters concerning the remuneration of directors with specific responsibilities and executives with strategic responsibilities.

The directors part of the Compensation Committee do not attend the meetings held to make recommendations to the Board about their own remuneration.

## 11. REMUNERATION OF THE DIRECTORS

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

Even after the delisting in 2016, the Company maintained a remuneration structure consistent with the general criteria specified in art. 123-ter TUF. Subsequent to the First Trading Day, the Board of Directors has adopted a new 2018 remuneration policy for the Company that complies with the above regulations applicable to listed companies and with the Corporate Governance Code. The related report will be presented at the Annual General Meeting in order to obtain the opinion of shareholders.

Information about the remuneration policy can be found in the Compensation Report prepared pursuant to art. 123-ter TUF, which is made available to the public on the basis and by the deadlines envisaged by current laws and regulations, including by publication on the Website.

## **12. CORPORATE GOVERNANCE, SUSTAINABILITY, CONTROL AND RISKS COMMITTEE**

At the Report Date, the Corporate Governance, Sustainability, Control and Risks Committee is made of 3 independent directors: Fan Xiaohua (Chairman), Laura Cioli and Cristina Scocchia, all with suitable experience of financial and accounting matters or risk management. The Committee will be integrated with the appointment of the independent Director to be elected at the Annual General Meeting (see section 4.2).

The Corporate Governance, Sustainability, Control and Risks Committee, which incorporates the functions of the “control and risks committee”, helps the Board of Directors to assess and make decisions about the system of internal control and risk management, as well as the approval of periodic financial reports, as required by art. 7 of the Corporate Governance Code.

In particular, the Corporate Governance, Sustainability, Control and Risks Committee:

- assists the Board of Directors by expressing an opinion on the (i) definition of guidelines for the system of internal control and risk management, so that the principal risks faced by the Company and its subsidiaries are properly identified and appropriately measured, management and monitored; (ii) determination of the extent to which those risks are compatible with managing the Company in a manner consistent with the strategic objectives identified, having regard for the risks that might be significant in terms of the sustainability of the business over the medium-long term; (iii) identification of an executive director responsible for supervising the functioning of the system of internal control and risk management, considering the characteristics of the business and the desired risk profile; (iv) assessment, each year or more frequently, of the adequacy of the system of internal control and risk management, considering the characteristics of the business and the desired risk profile, as well as the effectiveness of its functioning in practice; (v) approval, each year or more frequently, of the work plan prepared by the internal audit manager and the compliance function manager; (vi) description, in the report on corporate governance, of the essential elements of the system of internal control and risk management and the methods of coordination adopted by the parties involved, expressing an opinion on their overall adequacy; (vii) assessment, having heard the Board of Statutory Auditors, of the results presented by the legal auditor in the letter of recommendations provided to management, if applicable, and the report on fundamental matters identified during the legal audit work, if applicable;
- expresses an opinion on proposals concerning the appointment, revocation, assignment of duties and determination of the remuneration, consistent with Company policies, of the Internal Audit Manager, as well as on the adequacy of the resources allocated to the latter in order to carry out the assigned functions;



- assesses, together with the administrative managers of the Company and the chief reporting officer, after having heard the Board of Statutory Auditors and the auditing firm, the proper and consistent application of the accounting policies adopted by the Group for the preparation of the consolidated financial statements;
- at the request of the director responsible, expresses opinions on specific aspects regarding the identification of the main business risks, as well as on the design, implementation and management of the system of internal control and risk management;
- examines the periodic reports prepared by the internal audit manager and the compliance function manager;
- monitors the autonomy, adequacy, effectiveness and efficiency of the internal audit function;
- requests, if deemed appropriate, the performance of checks in specific operational areas, informing the Chairman of the Board of Statutory Auditors at the same time;
- reports to the Board of Directors on the work performed and on the adequacy of the system of internal control and risk management at least every six months, at the time of approving the financial statements and the half-year report;
- at the request of the Board, supports with appropriate preparatory work the evaluations and decisions of the Board of Directors concerning the management of risks arising from any detrimental facts that may have come to its attention;
- monitors compliance with and the periodic update of the corporate governance rules, as well as compliance with any codes of conduct adopted by the Company and its subsidiaries. In particular, the committee proposes procedures and related timing for the annual self-assessment of the Board of Directors;
- monitors sustainability matters relating to the conduct of the business and the dynamics of its interactions with all stakeholders;
- defines and recommends “sustainability” guidelines to the Board of Directors and monitors compliance with any related codes of conduct adopted by the Company and its subsidiaries;
- helps the Board of Directors to prepare and subsequently examine and approve the sustainability report.

### **13. SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT**

The system of internal control and risk management is designed to contribute, by identifying, managing and monitoring the principal risks faced by the Company, to the conduct of a healthy and proper business, consistent with the objectives established by the Board of Directors. The system of internal control and risk management allows the identification, measurement,

management and monitoring of the principal risks, as well as the reliability, accuracy, trustworthiness and timeliness of financial information.

The Board of Directors is responsible for the adoption of an adequate system of internal control and risk management, carrying out the duties assigned to it by the Corporate Governance Code with support from the Corporate Governance, Sustainability, Control and Risks Committee.

A more complete description of the system of internal control adopted by Pirelli can be found in the Report on the responsible management of the value chain. Additionally, in this regard, the Board of Statutory Auditors has issued an attestation about the administration and accounting systems adopted by the significant subsidiaries of Pirelli to ensure that the economic, financial and cash flow data required for the preparation of the consolidated financial statements is received properly by the management of Pirelli and its auditors.

### 13.1 **RESPONSIBLE DIRECTOR**

The Board has designated Marco Tronchetti Provera as the director responsible for supervising the functioning of the internal control system (the “**Responsible Director**”).

The Responsible Director is tasked with supervising the functioning of the system of internal control and risk management and implementing the related guidelines formulated by the Board of Directors, with support from the Corporate Governance, Sustainability, Control and Risks Committee, ensuring that all actions necessary for the implementation of the system are taken.

In particular, the Responsible Director:

- ensures identification of the principal business risks, taking into account the characteristics of the activities carried out by the Company and its subsidiaries, and submits them periodically to the Board of Directors for examination;
- implements the guidelines formulated by the Board of Directors, supervising the design, implementation and management of the system of internal control and risk management and checking constantly its adequacy and effectiveness;
- ensures that this system adapts to any changes in operating conditions and the legislative and regulatory framework;
- may request the internal audit function to audit specific operating areas and compliance with the internal rules and procedures for the conduct of business operations; and

- reports in a timely manner to the Corporate Governance, Sustainability, Control and Risks Committee (or to the Board of Directors) on issues and critical situations identified during his work or that came to his attention, so that the Committee (or the Board) can take appropriate action.

### **13.2 INTERNAL AUDIT FUNCTION**

The Company has established an internal audit department, managed by Maurizio Bonzi, who has been granted with duties essentially consistent with those set out in the Corporate Governance Code.

In particular, this function is tasked with assessing the adequacy and functioning of the control, risk management and corporate governance processes, through an independent and objective assurance and advisory activities.

The internal audit function:

- verifies, both on a continuous basis and in relation to specific needs and in accordance with international standards, the effective operation and suitability of the System of Internal Control and Risk Management - suggesting any corrective actions - by implementing an audit plan, approved each year by the Board of Directors, based on a structured process of analysis and prioritisation of the principal risks;
- carries out verifications, also on request of the Corporate Governance, Sustainability, Control and Risks Committee, of the Board of Statutory Auditors and of the Responsible Director, on specific operating areas and on compliance with the internal rules and procedures for the conduct of business operations;
- prepares periodic reports on its assessment of the suitability of the System of Internal Control and Risk Management. These reports are sent, at least every quarter, to the Board of Statutory Auditors, the Corporate Governance, Sustainability, Control and Risks Committee, and the Responsible Director, and, at least every six months, to the Board of Directors;
- receives and analyses reports obtained in accordance with the whistle-blowing procedures established by the Group and regarding any cases of corruption/violation of the principles of internal control and/or the precepts of the Code of Ethics, Equal Opportunities, corporate rules and regulations, or any other actions or omissions that, directly or indirectly, might result in economic or financial losses for or damage to the reputation of the Group and/or its subsidiaries;
- provides adequate support to the Supervisory Bodies established pursuant to art. 6 of Decree 231/2001;

- provides advice and support to the relevant Company departments – without exercising any decision-making or authorisation responsibilities – regarding *inter alia*: (i) the reliability of their systems for safeguarding corporate assets; (ii) the adequacy of their procedures for recording, controlling and reporting administrative activities; (iii) the assignment of engagements to the firm of legal auditors and to other firms in its network.

### **13.3 COMPLIANCE FUNCTION**

Operating within the Corporate Affairs and Compliance Department, the Compliance Function works with the Legal departments and other business functions to ensure that internal regulations, processes and business activities are constantly aligned with the applicable regulatory framework, participating actively in the identification of any non-conformity risks that might give rise to court-imposed and administrative penalties, with a consequent loss of reputation.

### **13.4 SYSTEM OF RISK MANAGEMENT AND CONTROL OVER FINANCIAL INFORMATION**

Pirelli has implemented a specific and detailed system of internal control and risk management, supported by a dedicated IT application, covering the process of preparing its half-yearly and annual separate and consolidated financial information, in order to safeguard corporate assets and ensure compliance with the relevant laws and regulations, as well as the efficiency and effectiveness of business operations and the reliability, accuracy and timeliness of financial information.

In particular, the financial reporting process is carried out by applying appropriate administrative and accounting procedures created in accordance with the criteria established by the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The administrative/accounting procedures adopted for the preparation of financial statements and all other financial disclosures are created under the responsibility of the Chief Financial Officer, who periodically (and in any case, on preparation of the separate/consolidated financial statements) checks their adequacy and proper application.

In order to permit certification by the Chief Financial Officer, the companies and the significant processes that generate economic, financial or cash flow information have been mapped. Group companies and significant processes are identified each year on the basis of quantitative and qualitative criteria. Quantitative criteria include the identification of those Group companies whose aggregate value, in relation to the processes selected, exceeds a predetermined threshold of materiality.

Qualitative criteria include the review of those processes and of those companies that, as determined by the Chief Financial Officer, may be exposed to risk despite not falling within the quantitative parameters described above.

Risks/control objectives have been identified for each selected process involved in the preparation of the financial statements and related disclosures, as well as with regard to the effectiveness/efficiency of the system of internal control in general.

Detailed verification work and specific responsibilities have been defined for each control objective.

A system for supervising the verification work carried out has been implemented through a chain-of-certifications mechanism; any problems that emerge during the evaluation process are the subject of action plans whose implementation is monitored at subsequent reporting dates.

Lastly, the Chief Executive Officers and Chief Financial Officers of subsidiaries issue a quarterly confirmation of the reliability and accuracy of the data submitted for the preparation of consolidated financial statements.

Shortly before the Board meetings held to approve the consolidated data as of 30 June and 31 December, the Chief Financial Officer discusses the results of the verification work carried out with the Chief Financial Officers of each Group company.

The Internal Audit Department carries out periodic audits to verify the adequacy of the design and the effective operation of the controls over companies and processes. These audits are performed using samples selected applying materiality criteria.

### **13.5 DIRECTOR RESPONSIBLE FOR SUSTAINABILITY MATTERS**

The Board has assigned to Director Giorgio Luca Bruno the role of Director responsible for sustainability matters. In that role, he is entrusted with supervising the sustainability matters associated with the conduct of business activities and the related dynamics of interactions with all stakeholders, as well as with implementing the guidelines defined by the Board of Directors, with assistance from the Corporate Governance, Sustainability, Control and Risks Committee.

### **13.6 231 MODEL AND CODE OF ETHICS**

The Company has adopted the organisation and management model envisaged by Decree 231 dated 8 June 2001, as amended (the “**231 Model**”), in order to create a system of rules designed to prevent illegal conduct that might be significant for the purposes of applying the above regulations and, as a consequence, has established a Supervisory Body (the “**Supervisory Body**”).

The Company has not extended adoption of the 231 Model to its foreign subsidiaries as that model might not be compatible with their current national regulations and, therefore, would not eliminate in full the risk of incurring penalties as a consequence of their activities.

The 231 Model comprises: (a) a general part covering topics relating, *inter alia*, to the applicability and application of Decree 231/2001, the composition and functioning of the Supervisory Body, and the system of penalties applicable in the event of violations of the standards of conduct specified in the 231 Model, and (b) special parts containing the general principles of conduct and the control protocols for each type of identified offence deemed significant for the Company.

The Supervisory Body was appointed by the Board of Directors on 31 August 2017 and comprises Carlo Secchi (Chairman), Antonella Carù (Serving Auditor), Maurizio Bonzi and Alberto Bastanzio (the last mentioned in view of their respective roles as Corporate Vice President Internal Audit and Corporate Vice President Corporate Affairs, Compliance and Company Secretary). The Supervisory Body satisfies the autonomy, independence, professionalism and continuity of action requirements specified by law for that body.

Pirelli has adopted a Code of Ethics that sets out principles for the required conduct of directors, statutory auditors, executives and employees of the Group and, in general, all those that work in Italy and abroad on behalf of or for the benefit of the Group, or that engage in business relations with the Group, each in the context of their own functions and responsibilities.

### 13.7 AUDIT COMPANY

The company engaged to perform the legal audit of the accounts of the Company is PricewaterhouseCoopers S.p.A. (the “**Auditing Firm**”), with registered and administrative offices at via Monte Rosa 91, Milan, recorded on the Register of Legal Auditors established pursuant to art. 6 et seq of Decree 39/2010, as implemented by Decree 144 of the Ministry of the Economy and Finance dated 20 June 2012.

In particular, the Ordinary Shareholders’ Meeting held on 27 April 2017 engaged the Auditing Firm to perform the legal audit of the accounts of Pirelli, pursuant to art. 14 of Decree 39/2010, as amended by Decree 135/2016, and art. 2409-*bis* et seq of the Civil Code, for the three-year period 2017, 2018 and 2019.

The Ordinary Shareholders' Meeting held on 1 August 2017 confirmed the above appointment to perform the legal audit of the accounts, establishing that, with effect from the admission of Pirelli shares to trading on the MTA, such appointment would entail: (i) the legal audit of the accounts (including verification that the accounting records are properly kept and that the results of operations are properly reflected in the accounting entries) pursuant to arts. 13 and 17 of Decree 39/2010 for the financial years 2017-2025, in relation to the separate financial statements of the Company, the consolidated financial statements of the Group and the additional related activities; and (ii) the limited examination of the abridged consolidated half-year financial statements of Pirelli & C. S.p.A. for the six-month periods ending on 30 June 2018-2025.

### **13.8 CHIEF REPORTING OFFICER**

The Board of Directors has assigned to Francesco Tanzi, with effect from the First Trading Day and after receiving a favourable opinion from the Board of Statutory Auditors, the role of executive responsible for the preparation of corporate and accounting documentation pursuant to art. 154-*bis* TUF (the “**Chief Reporting Officer**”). The Board of Directors has also verified that the Chief Reporting Officer is an expert in administration, finance and control matters and satisfies the honourability requirements established for the directors.

The Chief Reporting Officer puts suitable administrative and accounting procedures in place for the preparation of the separate and consolidated financial statements, as well as of all other financial communications.

The Company deeds and communications made public to the market that contain accounting information, including interim data, must be accompanied by a written declaration from the Chief Reporting Officer confirming that it corresponds to the supporting documentation, records and accounting entries.

In particular, the Chief Reporting Officer, together with the Chief Executive Officer, certifies in specific reports accompanying the separate financial statements, the consolidated financial statements and the abridged half-year financial statements:

- the adequacy and effective application of the administrative and accounting procedures during the period to which the documents refer;
- that the documents have been prepared in accordance with the international accounting standards endorsed by the European Union pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- the conformity of the documents with the accounting records and entries;
- the suitability of the documents to present a true and fair view of the economic and financial position and cash flows of the Company and, taken as a whole, of all the companies included in the consolidation;

- for the separate and consolidated financial statements, that the report on operations includes a reliable analysis of performance and the results of operations, as well as of the situation of the Company and, taken as a whole, the companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed;
- for the abridged half-year financial statements, that the interim report on operations contains a reliable analysis of the information required by para. 4 of art. 154-ter TUF.

#### 14. INTERESTS OF THE DIRECTORS AND RELATED-PARTY TRANSACTIONS

As required by art. 2391-*bis* of the Civil Code and the Related Parties Regulation, on 6 November 2017 – in confirmation of the resolutions adopted on 31 August 2017 - the Board of Directors resolved to adopt the procedure for related-party transactions (the “**RPT Procedure**”), following the unanimous favourable opinion expressed by the Related-Party Transactions Committee. The RPT Procedure establishes rules for the approval and execution of the related-party transactions arranged directly by Pirelli or by its subsidiaries.

In particular, the RPT Procedure distinguishes:

- 1) transactions of insignificant amount (with a value not exceeding Euro 150,000);
- 2) transactions of greater significance, being those exceeding the thresholds envisaged in attachment 3 to the Related Parties Regulation or those that, although not exceeding such thresholds, given their nature, strategic importance, size or commitments, have a significant impact on the activities of the Company or the Group, or might affect the operational autonomy of the Company (“Transactions of Strategic Significance”); and
- 3) transactions of minor significance, different from transactions of greater significance and transactions of insignificant amount;

establishing stricter rules for the transactions of greater significance, with regard to both their authorisation process and the information provided to the market. The Related-Party Transactions Committee (composed of independent directors) is required to express an opinion on all transactions of greater or minor significance, in terms of the interest of the Company in carrying out the transaction, as well as the reasonableness and substantial correctness of the related conditions. This opinion is binding for all transactions of greater or minor significance.

The approval process envisaged by the RPT Procedure is not required, on the other hand, for transactions of insignificant amount. The RPT Procedure also envisages certain exemptions, as well as the possibility of adopting framework resolutions and, in urgent cases, of making exceptions to the obligations established in the RPT Procedure.



The full text of the RPT Procedure is available on the Website. Periodically and at least every three years, the Board of Directors - having received the opinion of the Related-Party Transactions Committee - considers the need to revise the Procedure.

## **15. BOARD OF STATUTORY AUDITORS**

### **15.1 APPOINTMENT, REPLACEMENT AND DURATION IN OFFICE**

At the Report Date, the Board of Statutory Auditors is made of five Effective Auditors and three Alternate Auditors who are required to satisfy current regulatory requirements; in this regard it shall be considered that the subjects and sectors of activity closely related to those of the company are those indicated in the corporate objects, with particular reference to companies or bodies operating in the financial, industrial, banking, insurance and real estate fields and of services in general.

The Ordinary Meeting appoints the Board of Statutory Auditors and determines its remuneration.

In order to enable the minority to elect an Effective Auditor (who will be the Chairman of the Board of Statutory Auditors) and an Alternate Auditor, the Board of Statutory Auditors is appointed on the basis of lists presented by the shareholders, in which each candidate is listed with a sequence number. Each list contains a number of candidates that does not exceed the number of members to be elected.

Shareholders are only entitled to present a list if, alone or together with other shareholders, they hold at least 1% of the shares entitled to vote at an Ordinary Meeting, or any lower amount required by a regulation issued by Consob for the presentation of lists of candidates for appointment to the Board of Directors. Each shareholder may present or contribute to the presentation of just one list.

The lists of candidates, signed by those presenting them, must be filed at the registered offices of the Company at least twenty-five days prior to the date fixed for the Meeting called to appoint the members of the Board of Statutory Auditors, unless more time is allowed for the presentation of candidates in the cases envisaged by law and/or the regulations. These lists are made available to the public at the registered offices, on the Website and in any other ways envisaged in a relevant Consob regulation, at least twenty-one days prior to the date of the Meeting.

Each candidate may be included on just one list, subject otherwise to becoming ineligible.

Each list comprises two sections: one for candidates Effective Auditors and the other for candidates Alternate Auditors. The first candidate in each section must be a registered Legal Auditor who has worked as a legal auditor for not less than three years. In compliance with the regulations in force from time to time concerning gender balance, lists - considering both sections - that contain three or more candidates must include candidates of different gender in both sections for Effective Auditors and Alternate Auditors.

Each party entitled to vote may only vote for one list. The members of the Board of Statutory Auditors are elected as follows:

- 1) four Effective Auditors and two Alternate Auditors are drawn, in the sequence listed, from the list that obtained the largest number of votes (the majority list);
- 2) the remaining Effective Auditor and Alternate Auditor are drawn, in the sequence listed, from the list that obtained the second largest number of votes (the minority list); should several lists obtain the same number of votes, a new vote limited to just those lists is held by all those entitled to vote that are present at the Meeting, with the elections of the candidates from the list that obtains the relative majority of the votes cast.

Should application of the list voting mechanism not obtain, considering the Effective and Alternate Auditors separately, the minimum number of statutory auditors belonging to the less represented gender envisaged by the laws and/or regulations in force at the time, the candidate belonging to the most represented gender and elected, indicated with the highest progressive number of each section from the list that obtained the largest number of votes, is replaced by the first candidate belonging to the less represented gender not already elected from the same section of that list, pursuant to the sequential order of presentation.

An Effective Auditor is replaced, in the event of death, resignation or forfeiture, by the first Alternate Auditor drawn from the same list. If this replacement does not allow the Board of Statutory Auditors to be reconstructed in compliance with current regulations, including those governing gender balance, recourse is made to the second Alternate Auditor drawn from the same list. If, subsequently, it becomes necessary to replace another Effective Auditor drawn from the list that obtained the largest number of votes, recourse is always made to the other Alternate Auditor on that list. Should it be necessary to replace the Chairman of the Board of Statutory Auditors, the chair is taken by the second auditor on the same list as the Chairman to be replaced, on condition in all cases that the replacement satisfies the requirements for the position established by law and/or the Articles and complies with the gender balance requirements envisaged by the laws and/or regulations in force at the time; if it is not possible to make replacements in accordance with the above criteria, a Shareholders' Meeting is called to reconstruct the Board of Statutory Auditors with resolutions adopted by a relative majority of the votes cast.

When the Shareholders' Meeting shall appoint the Effective and/or Alternate Auditors necessary to reconstruct the Board of Statutory Auditors, the procedure is the following: if it is necessary to replace auditors elected from the majority list, the appointment is made by a relative majority of the votes cast, without any list requirements and without prejudice, in all cases, to compliance with the gender balance requirements envisaged by the laws and/or regulations in force at the time; if, on the other hand, it is necessary to replace auditors elected from the minority list, the Meeting replaces them by a relative majority of the votes cast, choosing - where possible - among the candidates indicated on the list from which the auditor to be replaced was drawn and, in all cases, in compliance with the principle guaranteeing representation for the minorities that, pursuant to the Articles, are entitled to participate in the appointment of the Board of Statutory Auditors, without prejudice in all cases to compliance with the gender balance requirements envisaged by the laws

and/or regulations in force at the time. The principle guaranteeing representation for the minorities is respected if the auditors elected were previously candidates on the minority list or on lists other than that which, at the time of appointing the Board of Statutory Auditors, obtained the largest number of votes.

If only one list is presented, the Meeting votes on it; if the list obtains the relative majority of votes cast, the candidate Effective Auditors and Alternate Auditors named in the respective sections of the list are elected; the person named first on the list becomes the Chairman of the Board of Directors.

For the appointment of statutory auditors who, for any reason, were not appointed in accordance with the above procedure, the Shareholders' Meeting adopts resolutions with the majorities required by law, without prejudice in all cases to compliance with the gender balance requirements envisaged by the laws and/or regulations in force at the time. Outgoing Statutory Auditors may be re-elected.

## **15.2 COMPOSITION**

On 14 May 2015, the Ordinary Meeting appointed (using the list voting mechanism as, at the time, the Company was listed on the stock exchange) Francesco Fallacara (appointed by the minorities), Fabio Artoni and Antonella Carù, as Effective Auditors, and Andrea Lorenzatti, Fabio Facchini and Giovanna Oddo, as Alternate Auditors until the date of the Shareholders' Meeting called to approve the financial statements for the year ended on 31 December 2017.

On 15 March 2016, following the resignation at the time of the delisting of Antonella Carù and Andrea Lorenzatti, the Ordinary Meeting resolved to increase the number of Effective Auditors to five and consequently appointing Fabrizio Acerbis, Giovanni Bandera and David Reali as Effective Auditors until the date of the Shareholders' Meeting called to approve the financial statements for the year ended on 31 December 2017.

On 1 August 2017, following the resignation for professional reasons of Effective Auditor Fabrizio Acerbis, the Ordinary Meeting reconstructed the Board of Statutory Auditors by appointing Antonella Carù as a Effective Auditor. On 31 August 2017, the Board of Statutory Auditors verified that Effective Auditors Francesco Fallacara, Antonella Carù and Fabio Artoni satisfied the relevant independence requirements.

On 30 August 2017, Effective Auditors David Reali and Giovanni Bandera resigned for professional reasons with effect from the date of the Shareholders' Meeting called to resolve on their replacement. The Board of Statutory Auditors was therefore reconstructed by the appointment of two new Effective Auditors at the Shareholders' Meeting held on 5 September 2017.

The Board of Statutory Auditors in office at the Report Date is made of the following members: Francesco Fallacara, Fabio Artoni, Antonella Carù, Alberto Villani, Luca Nicodemi, Fabio Facchini and Giovanna Oddo.

Pursuant to the new Articles the number of alternate statutory auditors is three with one resulting vacancy. Since, according to the relevant agenda, the entire Board of Statutory Auditors will be renewed by the upcoming Shareholders' Meeting approving the financial statements 2017, it was not necessary to proceed with an immediate integration of the Board.

The professional profiles of the members of the Board of Statutory Auditors are summarised on the Website.

Except as indicated above with reference to the Meeting held on 14 May 2015, the Board of Statutory Auditors was elected without application of the above-mentioned list voting mechanism, which will be applied from the first renewal of that Board subsequent to the First Trading Day. In particular, that renewal will take place at the Annual General Meeting.

The remuneration of the statutory auditors is discussed in the Compensation Report.

During the period between the First Trading Day and the end of the Year, the Board of Statutory Auditors of Pirelli has met 3 times, with each meeting having an average duration of about 2 hours.

At the Report Date, about 29% of the members of the Board of Statutory Auditors belong to the female gender and about 71% belong to the male gender (respectively 20% and 80% considering just the Effective Auditors). In addition, 80% of the Effective Auditors are over 50 years of age and the remaining 20% are between 30 and 50. The average age of both the members of the Board of Statutory Auditors taken as a whole and just the Effective Auditors is about 54.

Table 3 attached provides for the relevant information about each member of the Board of Statutory Auditors in charge at the Report Date. In addition, a summary of their professional profiles is available on the Website.

## **16. INFORMATION FLOWS TO THE DIRECTORS AND STATUTORY AUDITORS**

On 28 July 2017, the Board of Directors of Pirelli adopted a procedure for information flows to the Directors and Statutory Auditors, in order to (i) guarantee the transparent management of the business, (ii) establish conditions for the effective and efficient management and control of the activities of the Company and the operations of the business by the Board of Directors, and (iii) provide the Board of Statutory Auditors with the sources of information needed for the efficient performance of its supervisory role. On 31 August 2017, the Board of Directors confirmed adoption of the above procedure.

The flow of information to the Directors and Statutory Auditors is assured, preferably, by the transmission of documents on a timely basis and, in any case, with sufficient frequency to ensure compliance with the disclosure requirements established by law and the Articles, and in accordance with deadlines consistent with the timetables set for each Board meeting.

These documents may be integrated by verbal explanations given by the Chairman, the Executive Directors or top managers of the Group in the context of the board meetings, or at specific informal meetings organised to examine topics of interest relating to the management of the Company.

In all cases, the Directors and Statutory Auditors receive the information published by Pirelli in accordance with the regulations governing corporate disclosures (such as press releases and reports) and investment proposals (prospectuses, howsoever described).

In addition to the matters reserved for examination and/or approval by the Board of Directors of the Company pursuant to the law and the Articles, the flow of information to the Directors and Statutory Auditors contains information about: (i) the general results of operations and the outlook for the future; (ii) the activities carried out, with particular reference to the transactions (a) of greater strategic, economic, financial and investment interest, (b) with related parties, and (c) that are atypical or unusual; (iii) the instructions given in the exercise of management and coordination activities pursuant to arts. 2497 et seq. of the Civil Code, and (iv) any other activities, transactions or events that it is deemed appropriate to bring to the attention of the Directors and Statutory Auditors. When the information flows relate to Inside Information and/or Significant Information, they must take place in accordance and compliance with the procedures indicated in the Market Abuse Procedure.

## **17. RELATIONS WITH SHAREHOLDERS**

Pirelli considers that financial communications have strategic importance for consolidating the relationship of trust existing with the financial community. Pirelli maintains constant dialogue with Shareholders, Bondholders, institutional and individual investors, Analysts and, more generally, with the Italian and international financial community through the Investor Relations function, in order to promote equal, transparent, timely and accurate communications.

Following the return to the stock exchange, the “Investors” section of the Website has been expanded with new content of interest to the financial market: the strategy (“Equity Story”), economic-financial data (including the carve-out financial statements for 2014, 2015 and 2016), and the opinions on Pirelli expressed by financial analysts (“Consensus”). The Investor Relations Department also promotes periodic meetings with Shareholders and Investors in Italy and abroad.

## 18. SHAREHOLDERS' MEETINGS

Pursuant to art. 7 of the Articles, ordinary and extraordinary Shareholders' Meetings of the Company are held in single call. Their resolutions are adopted with the majority required by law, with the sole exception of the authorisation of the Board of Directors to carry out the deeds listed below, which requires a qualified majority (votes in favour of shareholders representing at least 90% of the share capital of the Company):

- transfer the operational and administrative headquarters outside of the municipality of Milan;
- any transfer and/or deed of disposition, in any form, of Pirelli know-how (including the granting of licences).

Parties entitled to vote may be represented by proxy, given in accordance with the procedures envisaged by law and the regulations in force.

Proxies may be notified to the Company via electronic means by: (i) using the specific section of the Website indicated by the Company in the notice of call; (ii) sending a e-mail to the certified e-mail address indicated by the Company in the notice of call.

The notice of call may also limit to one of the above methods the specific procedure usable in relation to the Meeting called by that notice.

For each Meeting, the Company designates one or more persons to which those entitled to vote at the Meeting may grant a proxy, with voting instructions for all or just some of the motions on the agenda. The proxy does not apply to motions for which no voting instructions were given. The persons designated to receive proxies for the Meeting are specified in the related notice of call, together with relevant procedures and deadlines.

The Ordinary Meeting for the approval of the financial statements must be called, in accordance with the law, by no later than 180 days from the end of the financial year.

In the situations envisaged by law and in accordance with the related procedures, the directors must call a Meeting without delay when requested by shareholders representing at least one-twentieth of share capital.

The shareholders requesting the Meeting must prepare a report on their proposals regarding the matters to be discussed. At the time of publishing the notice of call for the Meeting and in accordance with the procedures envisaged by law, the Board of Directors must make the report prepared by the shareholders available to the public, together with its considerations, if any.

In the cases, in the manner and with the timing envisaged by law, shareholders that, individually or together, represent at least one-fortieth of share capital may request the integration of the items of the agenda, indicating in their request the additional topics proposed by them, or proposing resolutions on matters already on the agenda.

A notice is published about the addition of items to the agenda or the presentation of additional proposed resolutions on matters already on the agenda, by the legal deadlines, in the manner established for publication of the notice of call.

Shareholders requesting additions to the agenda must prepare and send to the Board of Directors, by the final deadline for the presentation of requests for additions, a report explaining their reasons for the proposed resolutions on the matters they wish to discuss, or their reasons for the additional proposed resolutions presented in relation to matters already on the agenda. At the time of publishing the notice about the additions to the agenda and in accordance with the procedures envisaged by law, the Board of Directors must make the report prepared by the shareholders available to the public, together with its considerations, if any.

The Meeting quorum and the validity of resolutions are governed by law.

The right to attend Meetings and vote is governed by the relevant current legislation and is certified by a communication sent to the Company, by an authorised intermediary with reference to its accounting records, on behalf of the party entitled to vote. This certification is based on the evidence existing at the end of the accounting day on the seventh trading day prior to the date fixed for the Meeting. The additions and deductions recorded on those accounts subsequent to that deadline are not relevant when determining the legitimacy of the right to vote at the Meeting. The communication must be received by the Company by the end of the third trading day prior to the date fixed for the Meeting, or by any different deadline established by the applicable regulations. Shareholders are still entitled to attend and vote if the communication is received by the Company after the above deadlines, on condition that it is received before business commences at the Meeting.

Ordinary and Extraordinary Shareholders' Meetings are chaired by the Chairman of the Board of Directors or, if absent or unavailable, by the Chief Executive Officer. If the above persons are absent, the chair is taken by another person appointed by a majority of the share capital represented at the Meeting.

The Chairman of the Meeting is assisted by a Secretary, appointed by a majority of the share capital represented at the Meeting, who does not need to be a shareholder; assistance from the Secretary is not necessary when the minutes of the Meeting are taken by a Notary.

The Chairman of the Meeting chairs the Meeting and, in accordance with the law and the Articles, moderates its course. For this purpose, the Chairman - *inter alia* - verifies that the Meeting has been properly convened, verifies the identity of those attending and their right to attend, directly or by proxy; verifies the legal quorum for voting; directs the proceedings, with the right to change the order of discussion of the items indicated in the notice of call. The Chairman also adopts suitable measures to ensure orderly discussions and voting, determining the related procedures and checking the results.

Meeting resolutions are evidenced by the minutes signed by the Chairman of the Meeting and by the Secretary of the Meeting or the Notary. The minutes of Extraordinary Meetings must be taken

by a Notary designated by the Chairman of the Meeting. All copies of and extracts from minutes not prepared by a Notary are certified true by the Chairman of the Board of Directors.

In addition to the law and the Articles, the course of the Shareholders' Meetings is governed by the Meeting Regulation approved at the Shareholders' Meeting held on 1 August 2017, which took effect from the first day of trading in the shares of the Company on the MTA organised and managed by Borsa Italiana S.p.A.

#### **19. CHANGES SINCE THE END OF THE YEAR**

There have not been any changes to the structure of corporate governance since the end of the Year, except as already indicated in the previous sections, if applicable.



**TABLE 1: SIGNIFICANT SHAREHOLDINGS**

Listed below are the parties who, according to Consob publications at the publication date of this Report, hold shares with voting rights at Ordinary Shareholders' Meetings of more than 3% of the ordinary capital.

<b>SIGNIFICANT SHAREHOLDINGS</b>			
<b>Declarant</b>	<b>Direct shareholder</b>	<b>% on ordinary capital</b>	<b>% on voting capital</b>
China National Chemical Corporation	Marco Polo International Italy S.p.A.	63.11 %	63.11 %

N.B.: Information on the shareholders who, directly or indirectly, hold ordinary shares of more than 3% of the share capital with voting rights at the Company's ordinary shareholders' meetings is taken from the Consob website. In that regard, note that information published by Consob on its website, in accordance with the notifications made by the parties subject to the obligations of Art. 120 TUF and the Issuer Regulations, may deviate significantly from the actual situation, as the obligation of notification of changes in the percentage of shareholdings held does not apply to a change in this percentage alone, but only when the holding "exceeds" or "falls below" pre-determined thresholds (3%, 5% and subsequent multiples of 5% up to the threshold of 30% and, above this threshold, 50%, 66.6% and 90%). Therefore, for example, a shareholder (*i.e.* the declarant) who declares they hold 5.1% of the capital with voting rights may increase their shareholding up to 9.9%, without being required to notify Consob and the Company, as per Art. 120 TUF.

It is furthermore specified that the Articles of Association of the Company do not allow a majority of voting rights or the issue of shares with multiple votes.

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

Board of Directors <sup>29</sup>													Control, Risks, Sustainability and Corporate Governance Committee <sup>30</sup>		Remuneration Committee <sup>31</sup>		Appointments Committee		Strategies Committee		RPT Committee	
Position	Members	Year of birth	Date of first appointment *	In office since <sup>32</sup>	In office until	List (**)	Exec.	Non-exec.	Indep. Code	Indep. TUF	No. of other positions ***	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
Chairman	Ren Jianxin	1958	20 October 2015	31 August 2017	Meeting of balance sheet as at 31 December 2019	-		x			See App. A	1/2					-	M				
Chief Executive Officer and Executive Vice Chairman •◇	Marco Tronchetti Provera	1948	07 May 2003 <sup>33</sup>	31 August 2017	Meeting of balance sheet as at 31 December 2019	-	x				See App. A	2/2					-	C	-	C		
Director	Yang Xingqiang	1967	20 October 2015	31 August 2017	Meeting of balance sheet as at 31 December 2019	-		x			See App. A	2/2							-	M		
Director	Bai Xiping	1968	02 September 2015	31 August 2017	Meeting of balance sheet as at 31 December 2019	-		x			See App. A	2/2			1/1	M	-	M	-	M		
Director	Giorgio Luca Bruno	1960	15 March 2016	31 August 2017	Meeting of balance sheet as at 31 December 2019	-		x			See App. A	2/2							-	M		

<sup>29</sup> The new Shareholders' Agreement provides for an additional independent Director be added to the Board of Directors, who shall be appointed by minorities at the first ordinary shareholders' meeting held after the First Trading Day.

<sup>30</sup> The Control, Risks, Sustainability and Corporate Governance Committee shall be integrated with the director appointed by the first shareholders' meeting of the Company.

<sup>31</sup> The Remuneration Committee shall be integrated with the director appointed by the first shareholders' meeting of the Company.

<sup>32</sup> The Board of Directors in office at the Report Date was appointed by the Ordinary Shareholders' Meeting held on 01 August 2017, effective as of 31 August 2017.

<sup>33</sup> Marco Tronchetti Provera took the position of general partner (socio accomandatario) at Pirelli & C. Limited Joint-Stock Company (società in accomandita per azioni) on 29 April 1986. On 07 May 2003, the Company was transformed into joint-stock company (società per azioni). Consequently, given the non-applicability of the figure of general partners (soci accomandatari), the Directors were appointed.

Board of Directors <sup>29</sup>													Control, Risks, Sustainability and Corporate Governance Committee <sup>30</sup>		Remuneration Committee <sup>31</sup>		Appointments Committee		Strategies Committee		RPT Committee	
Position	Members	Year of birth	Date of first appointment *	In office since <sup>32</sup>	In office until	List (**)	Exec.	Non-exec.	Indep. Code	Indep. TUF	No. of other positions ***	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)		
Director	Laura Cioli	1963	01 August 2017	31 August 2017	Meeting of balance sheet as at 31 December 2019	-		x	x	x	See App. A	2/2	1/1	M	1/1	M						
Director	Domenico De Sole	1944	01 August 2017	31 August 2017	Meeting of balance sheet as at 31 December 2019	-		x	x	x	See App. A	2/2						-	M	2/2	C	
Director	Ze'ev Goldberg	1960	02 September 2015	31 August 2017	Meeting of balance sheet as at 31 December 2019	-		x			See App. A	2/2						-	M			
Director	Tao Haisu	1949	01 August 2017 <sup>34</sup>	31 August 2017	Meeting of balance sheet as at 31 December 2019	-		x	x	x	See App. A	1/2			1/1	C						
Director	Marisa Pappalardo	1960	01 August 2017	31 August 2017	Meeting of balance sheet as at 31 December 2019	-		x	x	x	See App. A	2/2								2/2	M	
Director	Cristina Scocchia	1973	01 August 2017	31 August 2017	Meeting of balance sheet as at 31 December 2019	-		x	x	x	See App. A	2/2	1/1	M						2/2	M	
Director	Giovanni Tronchetti Provera	1983	01 August 2017	31 August 2017	Meeting of balance sheet as at 31 December 2019	-		x			See App. A	2/2					-	M				

<sup>34</sup> Tao Haisu was a Director of Pirelli from 20 October 2015 to 15 March 2016.

Board of Directors <sup>29</sup>													Control, Risks, Sustainability and Corporate Governance Committee <sup>30</sup>		Remuneration Committee <sup>31</sup>		Appointments Committee		Strategies Committee		RPT Committee		
Position	Members	Year of birth	Date of first appointment *	In office since <sup>32</sup>	In office until	List (**)	Exec.	Non-exec.	Indep. Code	Indep. TUF	No. of other positions ***	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	
Director	Fan Xiaohua	1974	01 August 2017	31 August 2017	Meeting of balance sheet as at 31 December 2019	-		x	x	x	See App. A	2/2	1/1	C									
Director	Wei Yintao	1971	01 August 2017	31 August 2017	Meeting of balance sheet as at 31 December 2019	-		x	x	x	See App. A	2/2							-	M			
<b>DIRECTORS CEASED DURING THE YEAR</b>																							
No Directors ceased to hold the office as of the First Trading Day.																							
<b>Number of Board of Directors meetings during the Year as of the First Trading Day: 2</b>																							
Audit & Risk Committee: 1 / Remuneration Committee: 1 / Appointments Committee: 0 / Strategies Committee: 0 / RPT Committee: 2																							
<b>Indicate the quorum required for the submission of lists by the minority for the election of one or more Members (as per Art. 147-ter TUF): 1% of the share capital with voting rights at ordinary shareholders' meetings.</b>																							

The following symbols should be entered in the "Position" column:

• This symbol indicates the Director in charge of the Internal Control and Risk Management System.

◊ This symbol indicates the main responsible of the management of the Company (Chief Executive Officer or CEO).

\* Date of first appointment means the date on which the Director was appointed to the issuer's BoD for the very first time.

\*\* This column indicates the list from which each Director was taken ("M": majority list; "m": minority list; "BoD": list submitted by the BoD).

\*\*\* This column indicates the number of Director or Statutory Auditor positions held by the interested party in other companies listed on regulated markets, including foreign markets, in financial companies, banks, insurance companies or very large companies. The posts are listed in full in the Corporate Governance Report.

(\*). This column indicates the Directors' attendance at meetings of the BoD and its committees respectively (indicate the number of meetings attended over total number of meetings held; e.g. 6/8; 8/8 etc.).

(\*\*). This column indicates the Director's position in the Committee: "C": Chairman; "M": member.

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors															
Position	Members	Year of birth	Date of first appointment *	In office since	In office until	List **	Indep. Code	Attendance at Board of Statutory Auditors meetings ***	Attendance at BoD meetings	Attendance at CRSCG Committee meetings	Attendance at Remuneration Committee meetings	Attendance at Appointments Committee meetings	Attendance at Strategies Committee meetings	Attendance at RPT Committee meetings	No. of other positions ****
Chairman	Francesco Fallacara	1964	14 May 2015	14 May 2015	Meeting of balance sheet as at 31 December 2017	m	x	3/3	2/2	0/1	1/1	-	-	2/2	See App. A
Effective Auditor	Fabio Artoni	1960	14 May 2015	14 May 2015	Meeting of balance sheet as at 31 December 2017	M	x	3/3	2/2	1/1	1/1	-	-	2/2	See App. A
Effective Auditor	Antonella Carù	1961	14 May 2015	01 August 2017	Meeting of balance sheet as at 31 December 2017	-	x	3/3	2/2	1/1	1/1	-	-	1/2	See App. A
Effective Auditor	Luca Nicodemi	1973	05 September 2017	05 September 2017	Meeting of balance sheet as at 31 December 2017	-	x	3/3	2/2	1/1	1/1	-	-	2/2	See App. A
Effective Auditor	Alberto Villani	1962	05 September 2017	05 September 2017	Meeting of balance sheet as at 31 December 2017	-	x	2/3	2/2	1/1	1/1	-	-	2/2	See App. A
Alternate Auditor	Fabio Facchini	1955	14 May 2015	14 May 2015	Meeting of balance sheet as at 31 December 2017	M	x	-							See App. A
Alternate Auditor	Giovanna Oddo	1967	14 May 2015	14 May 2015	Meeting of balance sheet as at 31 December 2017	M	x	-							See App. A
<b>AUDITORS CEASED DURING THE YEAR</b>															
No Statutory Auditors ceased to hold the office as of the First Trading Day.															
<b>Number of Board of Statutory Auditors meetings during the year as of the First Trading Day: 3</b>															
<b>Indicate the quorum required for the submission of lists by the minority for the election of one or more Members (as per Art. 148 TUF): 1% of the shares with voting rights at ordinary shareholders' meetings.</b>															

\* Date of first appointment means the date on which the Auditor was appointed to the issuer's Board of Statutory Auditors for the very first time.

\*\* This column indicates the list from which each Auditor was taken ("M": majority list; "m": minority list).

\*\*\* This column indicates the Auditors' attendance at Board of Statutory Auditors meetings (indicate the number of meetings attended over the total number of meetings held; e.g. 6/8; 8/8 etc.).

\*\*\*\* This column indicates the number of Director or Statutory Auditor posts held by the interested party pursuant to Art. 148-bis TUF and the relevant implementing provisions of the Consob Issuer Regulations. The full list of posts is published by Consob on its website pursuant to Art. 144-quinquiesdecies of the Consob Issuer Regulations.

\*\*\*\* This column indicates the number of Director or Statutory Auditor posts held by the interested party pursuant to Art. 148-bis TUF and the relevant implementing provisions of the Consob Issuer Regulations. The full list of posts is published by Consob on its website pursuant to Art. 144-quinquiesdecies of the Consob Issuer Regulations.

## ANNEX A

## SECTION I: LIST OF THE MAIN POSITIONS HELD BY THE DIRECTORS IN OTHER COMPANIES NOT BELONGING TO THE PIRELLI GROUP ON THE REPORT DATE

Name and surname	Company	Position in the Company
Ren Jianxin	China National Bluestar Co. Ltd.	Chairman of the Board of Directors
	China National Chemical Corporation	Chairman of the Board of Directors
	Syngenta AG	Chairman of the Board of Directors
	TP Industrial Holding S.p.A.	Chairman of the Board of Directors
Marco Tronchetti Provera	Camfin S.p.A.	Chairman of the Board of Directors and CEO
	Marco Tronchetti Provera & C. S.p.A.	Chairman of the Board of Directors
	Nuove Partecipazioni S.p.A.	Chairman of the Board of Directors
	RCS MediaGroup S.p.A.	Director
	TP Industrial Holding S.p.A.	Vice-Chairman of the Board of Directors
Yang Xingqiang	ADAMA Agricultural Solutions Ltd.	Chairman of the Board of Directors
	China National Chemical Corporation	President
	Marco Polo International Italy S.p.A.	Director
	TP Industrial Holding S.p.A.	Director
Bai Xinping	Aeolus Tyre Co. Ltd.	Chairman of the Board of Directors
	China National Chemical Corporation	Vice-President
	China National Chemical Equipment Co. Ltd.	Chairman of the Board of Directors
	China National Tire & Rubber Corporation	Chairman of the Board of Directors and President
	CNRC International Holding (HK) Ltd.	Director
	CNRC Capitale Ltd.	Director
	CNRC International Ltd.	Director
	Fourteen Sundew S.a.r.l.	Director
	Marco Polo International Italy S.p.A.	Chairman of the Board of Directors
	TP Industrial Holding S.p.A.	Director
Giorgio Luca Bruno	Camfin S.p.A.	Director
	Marco Polo International Italy S.p.A.	CEO
	Nuove Partecipazioni S.p.A.	CEO
	Prometeon Tyre Group S.r.l.	Chairman of the Board of Directors and CEO
	TP Industrial Holding S.p.A.	CEO

Laura Cioli	Ansaldo Energia S.p.A.	Director
	Brembo S.p.A.	Director
	Sprintitaly S.p.A.	Director
Domenico De Sole	Ermenegildo Zegna S.p.A.	Director
	Newell Brands	Director
	Sotheby's	Director
	Tom Ford International	Chairman of the Board of Directors
Ze'ev Goldberg	Marco Polo International Italy S.p.A	Director
Tao Haisu	China Global Natural Resources Investment Funds	Director
	Mercuria Energy Group	Asia Executive Director
Marisa Pappalardo	Finstar S.p.A.	Director
Cristina Scocchia	Elica S.p.A.	Director
	EssilorLuxottica S.A.	Director
	KIKO S.p.A.	CEO
	Luxottica S.p.A.	Director
Giovanni Tronchetti Provera	Camfin S.p.A.	Director
	Marco Polo International Italy S.p.A.	Director
	Marco Tronchetti Provera & C. S.p.A.	Director
	Nuove Partecipazioni S.p.A.	Director
	TP Industrial Holding S.p.A.	Director
Fan Xiaohua	Aeolus Tire Co. Ltd.	Director
Wei Yintao	-	-

## SECTION II: LIST OF THE MAIN POSITIONS HELD BY THE STATUTORY AUDITORS IN OTHER COMPANIES ON THE REPORT DATE

Name and surname	Company	Position in the company
<b>Francesco Fallacara</b>	Maire Tecnimont S.p.A.	Chairman of the Board of Statutory Auditors
	Ro. Co. Edil. S.r.l.	Effective Auditor
	Hira film S.r.l.	Effective Auditor
<b>Fabio Artoni</b>	Mag JLT S.r.l.	Effective Auditor
	Ecosesto S.p.A.	Effective Auditor
	Camfin S.p.A.	Effective Auditor
	Pastificio Castiglioni S.p.A.	Chairman of the Board of Statutory Auditors

	Elba S.p.A.	Chairman of the Board of Statutory Auditors
	Antrim S.p.A.	Chairman of the Board of Statutory Auditors
	Alucart S.r.l.	Effective Auditor
	Alhof di A. Hofmann S.p.A.	Effective Auditor
	Finser S.p.A.	Chairman of the Board of Statutory Auditors
	V.I.P. S.p.A.	Chairman of the Board of Statutory Auditors
	Barry Callebaut Italia S.p.A.	Chairman of the Board of Statutory Auditors
	Barry Callebaut Manufacturing Italia S.p.A.	Chairman of the Board of Statutory Auditors
	TP Industrial Holding S.p.A.	Chairman of the Board of Statutory Auditors
	Euro TLX SIM S.p.A.	Effective Auditor
	Driver Italia S.p.A.	Effective Auditor
	Dolphin S.r.l.	Chairman of the Board of Statutory Auditors
	Chromavis S.p.A.	Chairman of the Board of Statutory Auditors
	Falck Energy S.p.A.	Effective Auditor
	VIP Logistics S.p.A.	Chairman of the Board of Statutory Auditors
	Emma S.p.A.	Effective Auditor
	London Stock Exchange Group Holdings Italia S.p.A.	Effective Auditor
	Marco Polo International Italy S.p.A.	Effective Auditor
	Prometeon Tyre Group S.r.l.	Chairman of the Board of Statutory Auditors
	Elite S.p.A.	Effective Auditor
	Foodelicious S.r.l.	Effective Auditor
	Cassa di Compensazione e Garanzia S.p.A.	Effective Auditor
	Pirelli Industrie Pneumatici S.r.l.	Effective Auditor
	Gatelab S.r.l.	Alternate Auditor
	Tetis S.p.A.	Alternate Auditor
	AMFIN HOLDING S.P.A.	Effective Auditor
<b>Antonella Carù</b>	Autogrill S.p.A.	Effective Auditor
	Autogrill Advanced Business Service S.p.A.	Effective Auditor
<b>Luca Nicodemi</b>	F.C. Internazionale S.p.A.	Chairman of the Board of Statutory Auditors
	Inter Media S.p.A.	Chairman of the Board of Statutory Auditors
	Inter Brand S.r.l.	Chairman of the Board of Statutory Auditors
	Buccellati S.p.A.	Chairman of the Board of Statutory Auditors
	Mario Buccellati Italia S.r.l.	Chairman of the Board of Statutory Auditors
	Restiani S.p.A.	Chairman of the Board of Statutory Auditors



	Nordest SGR S.p.A.	Chairman of the Board of Statutory Auditors
	Augens SGR S.p.A.	Chairman of the Board of Statutory Auditors
	Italian Creation Group S.p.A.	Chairman of the Board of Statutory Auditors
	JMACC S.p.A.	Chairman of the Board of Statutory Auditors
	CPC S.r.l.	Effective Auditor
	Dainese S.p.A.	Effective Auditor
	Corneliani S.p.A.	Effective Auditor
	Savills SGR S.p.A.	Effective Auditor
	Corob S.p.A.	Effective Auditor
	Imprima S.p.A. (già Color Wind S.p.A.)	Effective Auditor
	Holding di Piergiorgio Coin S.r.l.	Effective Auditor
	One Audit S.p.A.	Effective Auditor
	Guazzotti S.r.l.	Effective Auditor
	Pillarstone Italy Holding S.p.A.	Alternate Auditor
	POC Holding S.p.A.	Effective Auditor
	Wise SGR S.p.A.	Alternate Auditor
	Pillarstone Italy S.p.A.	Alternate Auditor
	De Fonseca S.p.A.	Director
	DUEMMEI S.R.L.	Chairman of the Board of Statutory Auditors
	BORMIOLI PHARMA S.r.l.	Chairman of the Board of Statutory Auditors
	BORMIOLI PHARMA BIDCO S.P.A.	Chairman of the Board of Statutory Auditors
<b>Alberto Villani</b>	AGB Nielsen Media Research Holding S.p.A.	Chairman of the Board of Statutory Auditors
	BTSR International S.p.A.	Chairman of the Board of Statutory Auditors
	Fratelli Consolandi S.r.l.	Chairman of the Board of Statutory Auditors
	HDP S.p.A.	Chairman of the Board of Statutory Auditors
	12 Capital PartnerS SGR S.p.A.	Chairman of the Board of Statutory Auditors
	Selecta S.p.A.	Chairman of the Board of Statutory Auditors
	Selecta Taas S.p.A.	Chairman of the Board of Statutory Auditors
	Quattrodue S.p.A.	Chairman of the Board of Statutory Auditors
	Riva & Mariani Group S.p.A.	Chairman of the Board of Statutory Auditors
	Tenuta Montemagno Soc. Agricola S.p.A.	Chairman of the Board of Statutory Auditors
	Bennet S.p.A.	Effective Auditor
	Bennet Holding S.p.A.	Effective Auditor
	Carcano Antonio S.p.A.	Effective Auditor
	DE' Longhi Capital Services S.r.l.	Effective Auditor

	DE' Longhi Appliances S.r.l.	Effective Auditor
	EFFE 2005 Gruppo Feltrinelli S.p.A.	Effective Auditor
	FINMEG S.r.l.	Effective Auditor
	Gallerie Commerciali Bennet S.p.A.	Effective Auditor
	INTEK Group S.p.A.	Effective Auditor
	Kiepe Electric S.p.A.	Effective Auditor
	Lambda Stepstone S.r.l.	Effective Auditor
	Meg Property S.p.A.	Effective Auditor
	Nuova GS S.p.A.	Effective Auditor
	Over Light S.p.A.	Effective Auditor
	Vetus Mediolanum S.p.A.	Effective Auditor
	San Remo Games S.r.l.	Sole Auditor
	Viator S.p.A. in liq.ne	Alternate Auditor
	Immobiliare Andronica S.p.A.	Alternate Auditor
	Impresa Luigi Notari S.p.A.	Alternate Auditor
	Compagnia Padana per Investimenti S.p.A.	Alternate Auditor
	Borgogestion S.r.l.	Sole Director
	Royal Immobiliare S.r.l.	Sole Director
	Calvi S.p.A.	Director
	Pamal S.r.l.	Director and CEO
	SO.SE.A. S.r.l.	Director
	Vianord Engineering Société par action simplifiée	Director
<b>Fabio Facchini</b>	Ali Group S.r.l.	Effective Auditor
	Ali Holding S.r.l.	Effective Auditor
	Aliaslab S.r.l.	Effective Auditor
	Costa Edutainment S.p.A.	Effective Auditor
	Dea Capital S.p.A.	Effective Auditor
	Minetti S.p.A.	Effective Auditor
	Mundipharma Pharmaceuticals S.r.l.	Effective Auditor
	Massimo Zanetti Beverage Group S.p.A..	Chairman of the Board of Statutory Auditors
	Nova Foods S.r.l.	Sole Auditor
	Prysmian PowerLink S.r.l.	Effective Auditor
	RCF Group S.p.A.	Chairman of the Board of Statutory Auditors
	Royal Seeds S.r.l.	Director

	Fondazione Silvio Tronchetti Provera	Auditor
<b>Giovanna Oddo</b>	Tiglio II S.r.l. in liquidazione	Liquidator
	M.S.M.C. Immobiliare Due S.r.l. in liquidazione	Liquidator
	Centrale Immobiliare S.r.l.	Liquidator
	Trixia S.r.l.	Chairman of the Board of Statutory Auditors
	Gromis S.r.l. in liquidazione	Liquidator
	Aida S.r.l. in liquidazione	Liquidator
	Ganimede Due S.r.l. in liquidazione	Liquidator
	Lupicaia S.r.l. in liquidazione	Liquidator
	Iniziative Retail S.r.l. in liquidazione	Liquidator
	Pirelli Sistemi Informativi S.r.l.	Effective Auditor
	Iniziative Immobiliari S.r.l. in liquidazione	Liquidator
	Riva De Ronchi S.r.l. in liquidazione	Liquidator
	Nuove Partecipazioni S.p.A.	Effective Auditor
	Geolidro S.p.A.	Chairman of the Board of Statutory Auditors
	Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Effective Auditor
	Manifatture Milano S.p.A.	Effective Auditor
	Marco Tronchetti Provera & C. S.p.A.	Effective Auditor