PIRELLI

— 2020

ANNUAL REPORT

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NOTICE OF SHAREHOLDERS' MEETING

The persons entitled to vote at the general shareholders' meeting of Pirelli & C. Società per Azioni are called to an Ordinary Shareholders' Meeting in Milan, at the offices of Studio Notarile Marchetti in Via Agnello no. 18, at 10:00 a.m. on Tuesday, 15 June 2021, in a single call, to discuss and resolve on the following

AGENDA

1. Financial statements as at 31 December 2020:

   1.1 approval of the financial statements as at 31 December 2020. Presentation of the consolidated financial statements as at 31 December 2020. Presentation of the Report on responsible management of the value chain related to 2020 financial year;

   1.2 proposal on the allocation of the result of the financial year and distribution of dividends using also profits set aside in previous years;

   related and consequent resolutions.

2. Appointment of a member of the Board of Directors; related and consequent resolutions.

3. Appointment of the Board of Statutory Auditors for the financial years 2021, 2022 and 2023 and determination of its remuneration:

   3.1 appointment of standing and alternate auditors;

   3.2 appointment of the Chairman of the Board of Statutory Auditors;

   3.3 determination of the annual remuneration of the Board of Statutory Auditors' members;

   related and consequent resolutions.

4. Remuneration policy and compensation paid:

   4.1 approval of the remuneration policy for 2021 financial year pursuant to art. 123-*ter*, paragraph 3-*ter* of Legislative Decree 24 February 1998 n. 58;

   4.2 advisory vote on the report on compensation paid for 2020 financial year pursuant to art. 123-*ter*, paragraph 6 of Legislative Decree 24 February 1998 n. 58;

   related and consequent resolutions.

5. Three-year monetary incentive plans for Pirelli's Group management:

   5.1 approval of the monetary incentive plan for the three-year period 2021-2023 for Pirelli's Group management;

5.2 adjustment of the objective of cumulative Group Net Cash Flow (before dividends) and normalization of potential effects on the relative Total Shareholder Return objective included in the monetary incentive plan for the three-year period 2020-2022 for Pirelli's Group management;

related and consequent resolutions and conferment of powers.

CORPORATE BODIES

Board of Directors[1]

Chairman	Ning Gaoning
Executive Vice Chairman and Chief Executive Officer	Marco Tronchetti Provera
Director	Yang Xingqiang
Director	Bai Xinping
Independent Director	Paola Boromei
Independent Director	Domenico De Sole
Independent Director	Roberto Diacetti
Independent Director	Fan Xiaohua
Independent Director	Giovanni Lo Storto
Independent Director	Marisa Pappalardo
Independent Director	Tao Haisu
Director	Giovanni Tronchetti Provera
Independent Director	Wei Yintao
Director	Zhang Haitao
Secretary of the Board	Alberto Bastanzio

[1] Appointment: June 18, 2020. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2022. On August 5, 2020, Angelos Papadimitriou was co-opted by the Board of Directors following the resignation of Carlo Secchi tendered on July 31, 2020, his term of office expiring at the first Shareholders' Meeting. Director Angelos Papadimitriou, whose confirmation was expected to be on the Agenda of the Shareholders' Meeting convened for March 24, 2021, announced on the same aforesaid date that he was withdrawing his candidacy and, therefore, the Shareholders' Meeting was unable to pass any resolution on the matter; as a consequence, one seat is vacant.

Board of Statutory Auditors[2]

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

Audit, Risk, Sustainability and Corporate Governance Committee[3]

Chairman – Independent Director	Fan Xiaohua
Independent Director	Roberto Diacetti
Independent Director	Giovanni Lo Storto
Independent Director	Marisa Pappalardo
	Zhang Haitao

Committee for Related Party Transactions[3]

Chairman – Independent Director	Marisa Pappalardo
Independent Director	Domenico De Sole
Independent Director	Giovanni Lo Storto

Nominations and Successions Committee[3]

Chairman	Marco Tronchetti Provera
	Ning Gaoning
	Bai Xinping
	Giovanni Tronchetti Provera

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

[3] The composition of the Board Committees is in accordance with the resolutions passed by the Board of Directors on August 5, 2020 and March 31, 2021.

Remuneration Committee[3]

Chairman - Independent Director	Tao Haisu
	Bai Xinping
Independent Director	Paola Boromei
Independent Director	Fan Xiaohua
Independent Director	Marisa Pappalardo

Strategies Committee[3]

Chairman	Marco Tronchetti Provera
	Ning Gaoning
	Yang Xingqiang
	Bai Xinping
Independent Director	Domenico De Sole
Independent Director	Giovanni Lo Storto
Independent Director	Wei Yintao

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

Corporate Financial Reporting Manager[5] Francesco Tanzi

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

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

5 Appointment: Board of Directors Meeting held on June 22, 2020. Expiry: jointly with the current Board of Directors.

PRESENTATION OF 2020 INTEGRATED ANNUAL REPORT

The Pirelli 2020 integrated Report (Annual Report 2020) aims to provide a comprehensive overview of the process of creating value for the Company's Stakeholders, as resulting from the integrated management of the financial, productive, intellectual, human, natural, social and relational capitals. Reporting reflects the business model adopted by Pirelli, which is inspired by the United Nations Global Compact, the principles of Stakeholder Engagement set forth by the AA1000, and the Guidelines of ISO 26000.

The financial capital, which comprise the company's financial resources, supply the sustainable management of other capitals and is in turn influenced by the value created by the latter. Among the actions to optimise and strengthen the group's financial structure conducted in 2020, it is worth noting Pirelli's subscription of a new €800 million credit line with a 5-year maturity, qualified by an incentive mechanism linked to product and process environmental sustainability objectives. The 2020 financial year was impacted by the Covid-19 emergency, which was reflected in a sharp drop in market demand (-15% in the Car tyre market) and production. Pirelli responded promptly to the profound change in the global scenario, implementing an action plan aimed at ensuring the safety of its employees and protecting its profitability and cash generation by containing costs and reshaping its investment programmes.

In 2020, the management of the business produced an adjusted EBIT[6] of €501.2 million (€917.3 million in 2019) with a margin of 11.6% (17.2% in 2019). Internal levers (price/mix, efficiencies and the cost reduction programme) contributed to limiting the negative impacts arising from

- the external scenario (volumes, commodities, Forex and inflation),
- increased D&A and other costs.

The Company's productive capital, which includes a geographically diversified production structure with 19 plants in 12 countries on four continents, is managed with a view to environmental efficiency, with targets in terms of reducing water withdrawal, energy consumption, CO_2 emissions and increasing waste recovery. In this regard, in 2020 compared to 2019, Pirelli recorded a 6.8% decrease in absolute water withdrawal, a reduction in absolute energy consumption of 10.5%, and a reduction in absolute CO_2 emissions of around 23%, also due to a fall in production volumes due to the pandemic. The growth in the consumption of electricity from renewable sources was noteworthy, reaching 52%[7] of the total electricity used by the Group at the global level. Moreover, in June 2020 Pirelli's targets for reducing CO_2 emissions were validated by the Science Based Targets initiative (SBTi), which judged them consistent with the actions needed to keep climate warming well below 2°C. The Covid-19 scenario entailed a reduction in volumes produced, thus impacting factory efficiency with an increase in the specific energy and water consumption indices, weighted on

[6] EBIT reported excluding amortisation of intangible assets related to assets recognised as a result of Business Combination, operating costs attributable to non-recurring, restructuring and one-off charges, Covid 19 direct costs and charges related to the retention plan approved by the Board of Directors on 26 February 2018.

[7] Figure including both share from direct procurement and national electric grid mix based on IEA data (International Energy Agency).

volumes produced, without structurally affecting the improvement curve that the Group has set itself for the coming years. In addition, 97% of waste was sent to recovery, effectively pursuing the Group's "*zero waste to landfill*" target.

The research and development activities, which have always been at the heart of Pirelli's strategy, contribute substantially to the improvement of environmental efficiency along the entire product life-cycle, from the innovative raw materials to the process, distribution, use and up to the end of life of tyres. Research and development expenses in 2020 totalled €194.6 million (4.5% of sales), of which €182.5 million was for High Value activities (6.0% of High Value revenues). In turn, Pirelli's Eco & Safety Performance products, which combine performance and respect for the environment, at the end of 2020 represent 58%[8] of total car tyre turnover (55.8% in 2019 and 49.8% in 2018). By restricting the scope of the analysis to High Value products[9], the percentage of Eco & Safety Performance products rises to 63.8%.

The heavy investment in innovation also fuels Pirelli's intellectual capital, as it has a portfolio of active patents grouped into more than 790 families covering product, process and materials innovations, as well as a globally recognised brand.

These types of capital evolve thanks to the commitment, competence and dedication of human capital, the heart of the Company's growth. Merit, ethics and the sharing of strong values and clear policies, dialogue, attention to welfare and diversity are accompanied by advanced instruments to attract and retain the best talent. The investment in "health and safety" was a priority, with an accident frequency index down 15% compared to 2019 and new programmes introduced to support people's psycho-physical wellbeing and with a view to resilience against pandemic impacts.

Pirelli's social and relational capitals are based on the continuous and transparent dialogue that the Company maintains with its Stakeholders, as well as on the integration that Pirelli maintains within the Communities in which it operates. During 2020, the Company placed a significant focus on supporting Communities in connection with the pandemic emergency.

In methodological terms, in the preparation of the Annual Report 2020 the principles of Integrated Reporting contained in the Framework of the International Integrated Reporting Council (IIRC) have been considered, the sustainability performance complies with the GRI Standards, and with the provisions of Legislative Decree no. 254 of 30 December 2016, following the process dictated by the principles of the AA1000 APS (materiality, inclusivity and responsiveness), the Parent Company Financial Statements and the Consolidated Financial Statements have been prepared on the basis of the IAS/IFRS international accounting standards.

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[8] Figure obtained by weighing the value of sales of Eco & Safety Performance tyres on the total value of sales of Group car tyres. Eco & Safety Performance products identify the car tyres that Pirelli produces throughout the world and that fall under rolling resistance and wet grip classes A, B, C according to the labelling parameters set by European legislation.

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

DIRECTORS’ REPORT ON OPERATIONS

AT DECEMBER 31, 2020

MACROECONOMIC AND MARKET SCENARIO

Economic overview

Global economic performance for 2020 felt the impacts of the COVID-19 pandemic, with global GDP falling by -3.6%. Following the collapse in GDP for the second quarter, and the rebound recorded in the third, any recovery again lost its momentum during the last three months of 2020, due to the additional wave of contagion that hit Europe and the US in particular.

The European Union suffered one of the sharpest downturns in the international arena, with a -6.2% drop in gross domestic product for 2020. Amongst the various European economies, the impacts varied in magnitude depending on the severity of the health crisis, the different measures introduced to contain the virus, the exposure of the economy to the most affected sectors, the respective population structures and density, and the fiscal policy responses. GDP in Germany fell by -5.3%, and in the Netherlands by -3.8% for 2020, but was better than the European average, and in comparison to the contraction of -8.9% in Italy and -11% in Spain.

The contraction of GDP in the US for 2020 equalled -3.5%, which was more contained due to extensive income support measures, and fewer restrictions on mobility.

Economic growth, percentage change in GDP

	1Q 2020	2Q 2020	3Q 2020	4Q 2020	2019	2020
EU	-2.7	-13.8	-4.1	-4.6	1.6	-6.2
US	0.3	-9.0	-2.8	-2.4	2.2	-3.5
China	-6.4	3.6	5.1	6.8	6.0	2.3
Brazil	-0.3	-10.9	-3.9	-1.1	1.4	-4.1
Russia	1.7	-8.0	-3.4	-2.7	1.3	-3.1
World	-2.3	-7.6	-1.5	-0.6	2.6	-3.6

Note: Year-on-year percentage changes. Final data and estimates for Russia and the w orld.
Source: National statistics offices and IHS Markit, March 2021

Economic activity in China, the first country to be affected by the pandemic, returned to growth as early as of the second quarter, and recorded a gradual improvement for the following quarters, with an overall growth rate of +2.3% during the course of 2020.

Despite the recovery in industrial production since the middle of the year, Brazilian economic activity remained below normal levels. Lastly, Russia was penalised by the virus containment measures and by the drop in global oil demand, which led to lower crude oil prices and lower production levels.

Exchange rates

The euro/US dollar exchange rate averaged 1.14 for 2020, an appreciation of +2% year-on-year, +7.2% for the second half-year of 2020, compared to the first half-year, following the announcement of the NextGenerationEU fund (euro 750 billion over six years), in response to the economic and social damage caused by the pandemic.

Key exchange rates	1Q		2Q		3Q		4Q		Full year average	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
US$ per euro	1.10	1.14	1.10	1.12	1.17	1.11	1.19	1.11	1.14	1.12
Chinese yuan per US$	6.98	6.75	7.08	6.82	6.92	6.99	6.62	7.03	6.90	6.90
Brazilian real per US$	4.47	3.77	5.39	3.92	5.38	3.97	5.40	4.12	5.16	3.95
Russian rouble per US$	66.39	65.89	72.41	64.53	73.57	64.62	76.19	63.70	72.21	64.66

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

For 2020 the average price for the Chinese yuan depreciated by -2% against the euro, and stood at 6.90 against the US dollar, remaining unchanged from the previous year. The Chinese currency weakened against the US dollar during the first five months of the year, reaching a peak of 7.13 in early June, before recovering ground during the second half-year, thanks to the country's economic recovery. For the fourth quarter, the yuan averaged 6.62 against the US dollar, an appreciation of +6% compared to the same period in 2019.

The Brazilian real was weak, penalised by the outflow of capital, with a depreciation of -24% against the US dollar for 2020, and of -25% against the euro (-24% for the fourth quarter against the US dollar, -29% against the euro).

The rouble also fell: a depreciation of -10.5% against the US dollar for 2020, and -12% against the euro (-16% and -22% respectively for the fourth quarter of the year).

Raw materials prices

During 2020, the slowdown in global demand led to a general decline in the prices of the main raw materials. The average price of Brent crude stood at US$ 43.2 per barrel, down by -32.7% from the average prices of 2019, due to both the collapse in global demand caused by the pandemic, and the temporary lack of agreement within OPEC+. The average price of Brent reached US$ 45.2 per barrel for the fourth quarter of the year, -27.6% compared to the same period of 2019.

The trend for butadiene was similar to that of oil, with an average price of euro 511 per tonne for 2020, down by -38% compared to 2019, -26.6% for the fourth quarter.

The average price of natural rubber was US$ 1,317 per tonne for 2020, down by -6.3% compared to 2019, but with an acceleration during the fourth quarter (a quarterly average of US$ 1,545 per tonne, +12.7% year-on-year), due to the gradual recovery in demand.

Raw material prices	1Q			2Q			3Q			4Q			Full year average		
	2020	2019	% chg.	2020	2019	% chg.	2020	2019	% chg.	2020	2019	% chg.	2020	2019	% chg.
Brent (US$ / barrel)	50.9	63.9	-20.4%	33.3	68.3	-51.3%	43.4	62.0	-30.0%	45.2	62.5	-27.6%	43.2	64.2	-32.7%
Butadiene (€ / tonne)	727	865	-16.0%	392	900	-56.5%	382	790	-51.7%	543	740	-26.6%	511	824	-38.0%
Natural rubber TSR20 (US$ / tonne)	1,337	1,397	-4.3%	1,107	1,514	-26.9%	1,281	1,345	-4.8%	1,545	1,371	12.7%	1,317	1,406	-6.3%

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

Trends in Car Tyre Markets

For 2020, the car tyre market also felt the impact of the COVID-19 emergency, with a drop in global demand of -15.3%. The Original Equipment channel recorded a decline of -17.6%, consistent with the trend in car production (-15.7%). The decline for the Replacement channel was more limited (-14.5%), impacted by the measures adopted by various countries to restrict mobility.

The Car New Premium segment (tyres with a rim diameter ≥18") was the most resilient segment, with a decline of -9.5% compared to -16.5% for the Car Standard segment (tyres with a rim diameter ≤17").

The market trend over the course of the year was varied:

- a sharp decline for the first half-year due to the pandemic (an overall demand of -28.0%; -23.4% for Car New Premium);

- a gradual improvement which began in the third quarter (-5.5% for the car market, +2.0% for Car New Premium) thanks to the recovery in car production, and the easing of mobility restrictions.

For the fourth quarter of the year, in particular, the drop in volumes was more limited (-0.8%):

- Car Tyres ≥18" recorded a +5.3% growth, supported by a recovery in Prestige and Premium vehicle production (+13.7%, approximately double compared to +5.2% for the third quarter), in Europe, North America and APAC;

- the trend in demand for Car Tyres ≤17" also improved: a -2.0% drop for the fourth quarter compared to -7.0% for the third quarter, thanks to a recovery in both car production, and orders from the distribution chain.

Trends in Car Tyre Markets

% year-on-year	1Q 2020	2Q 2020	3Q 2020	4Q 2020	2020 Total
Total Car Tyre Market					
Total	**-20.7**	**-35.1**	**-5.5**	**-0.8**	**-15.3**
Original equipment	-22.4	-43.3	-4.3	-0.0	-17.6
Replacement	-20.0	-32.0	-5.9	-1.0	-14.5
New Premium Market ≥ 18"					
Total	**-11.7**	**-34.8**	**2.0**	**5.3**	**-9.5**
Original equipment	-16.0	-46.5	0.1	9.1	-13.2
Replacement	-8.5	-26.2	3.3	2.5	-6.9
Standard Market ≤ 17"					
Total	**-22.4**	**-35.2**	**-7.0**	**-2.0**	**-16.5**
Original equipment	-24.4	-42.2	-5.8	-3.1	-19.1
Replacement	-21.7	-32.9	-7.3	-1.6	-15.6

Source: Pirelli estimates

The trend varied at geographical level:

- APAC, which was heavily penalised during the first half-year (-26.6% for the car tyre market), recovered during the second half-year (-1.5% and +3.9% respectively for the third and fourth quarters), thanks to the recovery in New Premium demand (+6.0% for the third quarter, +12.5% for the fourth quarter). The overall market decline for 2020 equalled -12.3% (-5.4% for Car New Premium);

- in Europe, the effects of the pandemic were concentrated in the second quarter (-40.8% for the market), following the halt in production during April and May. During the second half-year, the car tyre market managed to contain its losses (-4.5% for the third quarter, -4.0% for the fourth quarter), sustained by the recovery of the New Premium market (+2.1% for the second half-year). For the year as a whole, Europe recorded a market contraction of -15.6% (-11.6% for Car New Premium);

- North America also bore the brunt of the pandemic from the second quarter onwards (the market down by -40.2%), but with a stronger recovery than Europe for the second half-year (-2.0%), for both channels (Original Equipment at +1.0%; Replacement at -2.7%). For the year as a whole, the market fell by -13.1% (-9.8% for Car New Premium);

- South America and Russia/Nordics/MEAI, which were the last Regions to be affected by the COVID-19 emergency, suffered the effects of restrictions during the first half-year, with the market declining by an average of -35%, closing the year at -24%, thanks to a recovered performance for the fourth quarter (-6.2% for South America, -4.0% for Russia/Nordics/MEAI).

SIGNIFICANT EVENTS OF 2020

In **January 2020**, Pirelli was recognised as a global leader in the fight against climate change by being placed on the Climate A-List drawn up by CDP (the former Carbon Disclosure Project). In other ESG news, Pirelli was also awarded one of the highest accolades in the SAM Sustainability Yearbook for 2020 published by S&P Global, and was acknowledged as an ESG Leader in the FTSE4Good Index Series, ranked at the top of the tyres and Consumer Goods sector.

On **February 19, 2020** Pirelli presented the 2020-2022 Industrial Plan with a vision to 2025, to the financial community. On the same date the Board of Directors (*"**BOD**"*) approved the adoption of a new monetary incentive scheme (LTI) intended for all the Group's management, which is correlated to the objectives of the plan, and resolved to close early and without any disbursements, - effective December 31, 2019 - the previous plan adopted in 2018, correlated to the objectives of the 2018-2020 period. The Board of Directors' Meeting of **April 3, 2020,** as part of the COVID-19 containment measures, reformulated the 2020 targets, and revised the 2020 remuneration policy, taking into particular account, the cancellation of the short-term incentive scheme for 2020.

Following the COVID-19 emergency, for the **first three months of 2020** Pirelli had activated a series of measures to protect the health of employees and the community, both at Headquarters and in the manufacturing plants, where production, firstly in China and then in the rest of the world, had gradually slowed down and subsequently stopped. During the course of the **second quarter**, following the restart of business, which had already taken place in China, the other manufacturing plants of the Group also gradually restarted production, initially at a reduced pace in view of the decline in demand.

In **March** Pirelli, thanks also to the support of some of its partners, including Camfin and the Silvio Tronchetti Provera Foundation, promoted a series of charitable initiatives in Italy and around the world, to support research and the fight against the Coronavirus.

On **March 2, 2020** Pirelli's Board of Directors approved the 2019 Financial Statements, which closed with a consolidated net income of euro 457.7 million, and resolved to propose to the Shareholders' Meeting, the distribution of a dividend of 0.183 euro per share, totalling euro 183 million. On **April 3, 2020** the Board of Directors, cancelled the distribution of dividends for the 2019 financial year as part of the COVID-19 containment measures, thereby amending the previous resolution.

On **March 31, 2020** Pirelli announced that it had signed a new euro 800 million credit facility, with an incentive mechanism linked to the environmental sustainability objectives for product and process set out in Pirelli's Industrial Plan, and with a 5-year maturity to be used mainly to repay existing debt. The Company also extended the maturity date of a euro 200 million credit facility by more than one year (to September 2021 from June 2020), through early repayment and the simultaneous opening of a new facility for the same amount, under the same terms and conditions. These transactions were part of the ongoing measures aimed at optimising and strengthening Pirelli's financial structure.

On **April 3, 2020** Pirelli's Board of Directors - in addition to the above mentioned resolutions, activated - in the face of a deteriorated scenario - a series of measures aimed at protecting profitability and cash generation. In particular, it initiated further cost containment measures, revised the investment plan so that it was in line with the new market outlook, activated measures for the optimised management of working capital, and reduced remuneration for Top Management.

On **April 29, 2020**, following the convocation of the Shareholders' Meeting held on **April 28, 2020**, Pirelli announced the entry into force of the agreements signed on August 1, 2019 - and already disclosed to the market - between ChemChina, CNRC, Silk Road Fund, Camfin and Marco Tronchetti Provera & C. S.p.A., concerning their long-term partnership with Pirelli. In addition, on this occasion, the *"Revised Acting-in-Concert Agreement"* was signed by the Silk Road Fund Co., Ltd. and the China National Tyre & Rubber Co., Ltd., which supersedes and replaces the previous *"Acting-in-Concert Agreement"* signed between the parties on July 28, 2017, as well as the *"Amendment"* to the supplemental Agreement to the contract to invest in Pirelli, signed between the parties on July 28, 2017. The *"Revised Acting-in-Concert Agreement"* became effective on **September 29, 2020** following the completion of the partial non-proportional and asymmetrical de-merger of Marco Polo International Italy Srl in favour of PFQY Srl - a company wholly owned by the Silk Road Fund - as a result of which, among other things, a stake equal to 9.02% of Pirelli's capital was assigned to the latter. Following the aforementioned de-merger, Marco Polo International Italy Srl, which is controlled by ChemChina/CNRC, holds 37.01% of Pirelli's capital.

On **April 30, 2020** Pirelli announced the restart of activities as of May 4, with a plan, in collaboration with the University of Milan - L. Sacco Department of Biomedical and Clinical Sciences - directed by Professor Massimo Galli, aimed at ensuring the maximum protection of employee health and safety in the workplace. During **May and June,** following the reopening of factories in March in China, all the Group's manufacturing plants were gradually restarted, at a rate proportionate to the trend in demand. In particular, at the Bollate site - a factory whose focus will be the Velo business - the process was initiated for the production of masks, exclusively for employees and their families, thus eliminating the potential risks of any discontinuity in supply by third parties.

On **June 18, 2020** the Pirelli Shareholders' Meeting approved the 2019 Financial Statements and the allocation of the results. They also appointed the Board of Directors until the approval of the Financial Statements at December 31, 2022, determining the number of members as 15, the majority of which are independent, and also confirmed Ning Gaoning as Chairman. On the basis of the two lists presented, the following were appointed as Pirelli Directors: *Ning Gaoning, Marco Tronchetti Provera, Yang Xingqiang, Bai Xinping, Wei Yintao, Domenico De Sole, Giovanni Tronchetti Provera, Zhang Haitao, Fan Xiaohua, Marisa Pappalardo, Tao Haisu, Carlo Secchi, Giovanni Lo Storto, Paola Boromei* and *Roberto Diacetti*. The Shareholders' Meeting also approved the remuneration policy for 2020, and expressed its favourable opinion on the Report on remuneration paid during the 2019 financial year.

The Shareholders' Meeting also approved the adoption of the 2020-2022 three-year monetary Long Term Incentive Plan (the LTI Plan) for the Management sector of the Pirelli Group, as well as the "*Directors and Officers Liability Insurance*". In the extraordinary session, the Shareholders' Meeting also approved some amendments to the Articles of Association, mainly concerning the new legislation on gender quotas.

On **June 22, 2020**, the new Board of Directors of Pirelli & C. S.p.A. appointed Marco Tronchetti Provera as Executive Vice Chairman and Chief Executive Officer (CEO), granting him powers for the operational management of Pirelli. The Board also proceeded to appoint the members of the Board Committees, confirming all the previous Committees with their respective instructive, consultative and propositional tasks. The Board of Directors also confirmed Francesco Tanzi, as Chief Financial Officer of the Group and Manager responsible for preparing the corporate accounting records. It also appointed the Supervisory Board, which had expired together with the Board.

On **June 22, 2020**, Pirelli announced that the Science Based Targets initiative (SBTi) - an organisation that aims to guide companies in defining their ambitious targets for controlling planet temperatures – had validated the Company's targets on reducing CO_2 emissions, judging them to be consistent with the actions needed to keep global warming well below 2°C.

On **July 23, 2020,** at the proposal of Executive Vice Chairman and CEO, Marco Tronchetti Provera, Pirelli's Board of Directors agreed to create the office of General Manager and co-CEO, which reports directly to him, and appointed Angelos Papadimitriou to this position, effective August 1, 2020. Angelos Papadimitriou was co-opted on **August 5, 2020** to replace Carlo Secchi who resigned from his position as Director, effective as of the same date. Professor Carlo Secchi will continue to hold the position of Chairman of the Company's Supervisory Board.

On **August 5, 2020**, the Board of Directors, in order to take the radical changes in the macroeconomic scenario into account, instructed the Remuneration Committee to revise the 2020-2022 Long Term Incentive Plan (***"LTI Plan"***), for the part concerning 'Net Cash Flow', and to align the relative target with the New Guidance disclosed to the market on the occasion of the release of the data as at June 30, 2020, and with the targets of the Business Plan for the years 2021 and 2022, which will be announced by the end of the first quarter of 2021. This revision will make it possible to maintain the full alignment of interests between Shareholders and Management in an LTI plan that upholds the objectives of relative Total Shareholder Return (compared to tier one peers), and Pirelli's positioning in selected sustainability indexes at global level.

In **September 2020** Pirelli was recognised as the only company in the tyre sector to be part of the United Nations Global Compact Lead. In the same month of September Pirelli, already a founding member of the UN Global Compact CFO Taskforce for Sustainable Development Goals (SDGs), was among the signatories of the *"CFO Principles on Integrated SDG Investments and Finance"* presented at the 75th UN General Assembly.

On **October 28, 2020**, the European Court of Justice upheld the previous decisions of the General Court of the European Union and the European Commission on the merits of the electric cables market cartel case, which had imposed a pecuniary sanction on Prysmian Cavi e Sistemi S.r.l., a portion of which (amounting to euro 67,310,000), Pirelli had been held jointly and severally liable with Prysmian based solely on the application of the principle of so-called parental liability. In this regard, Pirelli had already deposited a bank guarantee in favour of the EU Commission, to the amount of euro 33,655,000 (corresponding to 50% of the sanction imposed jointly and severally on Prysmian and Pirelli) plus interest. This payment by Pirelli, of its portion of the aforementioned sanction, whose amount had already been accrued to the provision for liabilities and charges, took place on **December 31, 2020**. It should be noted that since 2014, a case has been pending before the Court of Milan, brought by Pirelli seeking an assessment and declaratory judgement of Prysmian's obligation to hold Pirelli harmless from any claim related to the cartel, including the sanction imposed by the EU Commission.

On **November 14, 2020** Pirelli was confirmed as the world sustainability leader for the Automobiles & Components sector in the Dow Jones Sustainability World and Europe Indexes based on a review of the two indexes conducted annually by S&P Global through SAM. The Company recorded an overall score of 84 points, against the industry average of 35 points.

On **December 15, 2020**, Pirelli placed euro 500 million in senior unsecured guaranteed equity-linked non-interest-bearing bonds, maturing in 2025, which are convertible, subject to approval by the Shareholders' Meeting, into Pirelli shares. The bonds were issued at a price equal to 100% of the nominal value, with a conversion price of euro 6.235 per share (equivalent to a 45% premium on the transaction's reference price of euro 4.3). This financing operation allows the Group to optimise its debt profile by extending its maturities, and to preserve the cash generated by the business, thanks to the non-interest-bearing nature of the bonds. The proceeds from the bond issue can be used both for the Group's general business and for refinancing part of the existing debt. The bonds were admitted for trading on the Vienna MTF, a multilateral trading facility operated by the Vienna Stock Exchange. For further details, reference should be made to the section *"Significant events subsequent to the end of the year".*

GROUP PERFORMANCE AND RESULTS

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

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

* * *

During 2020, the tyre sector was heavily impacted by the COVID-19 emergency, and by the deterioration of the economic outlook, along with the general decline in consumption and production. Demand for car tyres recorded a -15.3% decline in volumes, and was particularly severe for the first half-year (-28.1%), but improved during the course of the second half-year (-3.2%), thanks to the recovery in demand for Car New Premium (+3.6% for the second half-year, and -9.5% for the year), which proved to be the most resilient segment.

Pirelli had promptly responded to the profound change in the global scenario by implementing, an action plan which was communicated to the financial market on April 3, 2020.

This plan made it possible to:

- guarantee the health and safety of its employees through the adoption of all necessary preventive measures;
- protect profitability and cash generation through cost containment and the renegotiation of investment programs;
- strengthen the capital structure. For this purpose Pirelli signed a new sustainable bank credit facility for euro 800 million (5-year maturity), issued an equity-linked bond for euro 500 million (5-year maturity) and, in general, optimised its financial structure through the extension of debt maturities;
- consolidate its collaboration with the main Premium and Prestige vehicle manufacturers, and with the sales network, in view of the recovery in demand, while counting on a resilient supply chain and strengthen Pirelli's leadership position in the high-end products range.

With regard to the medium-term outlook, as well as to the elements of risk and uncertainty, reference should be made to the relevant paragraphs in this Report.

Pirelli closed 2020 with results consistent with the year's targets:

- **revenues** of euro **4,302.1** million, (a target of between euro 4.18 billion and euro 4.23 billion), were down by -19.2% compared to 2019 (an organic change of -14.1%), with High Value revenues reaching a 70.4% share of the Group's revenues (66.5% for 2019), and the reinforcement of Pirelli's leadership position in the high-end products range;

- **EBIT adjusted** amounted to euro **501.2** million, with profitability at 11.6% (a target of ~11.5% - 12%). The contribution of efficiencies and cost containment measures (to the amount of euro 142 million, 3.3% of revenues, euro 270 million in gross benefits), limited the impact of the external scenario (weakness in market demand, exchange rate volatility, slowdown and increased cost of production factors);

- **net income** amounted to euro **42.7** million, and **net income adjusted** amounted to euro **245.5** million, net of one-off, non-recurring and restructuring expenses, COVID-19 direct costs, and the amortisation of intangible assets included in the PPA;

- **net cash flow before dividends and convertible bond impact** amounted to euro **207.6** million, which includes the payment of the European Court sanction for the electrical cables cartel for the amount of euro -33.7 million (a corresponding cash generation target of euro ~190 million); a net cash flow of euro 248.8 million including the benefit (euro 41.2 million) linked to the accounting effect of the above mentioned convertible bond issue. In 2020, the low level of investments (CapEx and financial equity investments), and improved net working capital management, mitigated the impact of lower operating performance. There was a significant reduction in inventories over the course of the year, equal to approximately euro 257 million (approximately euro 154 million excluding the exchange rate effect), mainly due to the decrease in finished products (approximately 2.6 million less units for Car inventories, and approximately 300 thousand less units for Motorbike inventories, which occurred during the second and third quarters of the year);

- **Net Financial Position** at December 31, 2020 amounted to a loss of euro **3,258.4** million (euro 3,507.2 million at December 31, 2019), consistent with targets (euro ~3.3 billion);

- a **liquidity margin** equal to euro **3,034.4** million, capable of meeting all financial debt maturities until the end of the first half-year of 2024, thanks also to the Company's exclusive right to extend the bank debt maturing in June 2022 (euro 1,617 million) for a further two years.

Results improved significantly for the last quarter, with:

- **revenues** of euro **1,208.3** million, with an organic change of +1.7%, supported by the trend in volumes (+1.1%, with High Value at +10.3%), and by the improvement in the price/mix (+0.6%);

- **EBIT adjusted** equalled euro **220.8** million, with a margin of 18.3% (18.1% for the fourth quarter of 2019), thanks to the contribution of efficiencies and cost containment measures;

- **net income** equalled euro **60.5** million;

- **net cash flow before dividends** amounted to (euro **994.1** million, an improvement compared to euro 973.0 million for the fourth quarter of 2019), and had benefited from the usual cash generation from working capital performance, consistent with the historical trend.

Cost Competitiveness Plan and COVID-19 Measures

The cost competitiveness plan (*"Cost Competitiveness Plan")* and the measures to counter the COVID-19 impact (*"COVID-19 Measures"*), were consistent with the forecasts announced on May 13, 2020: euro 142 million net of inflation and the slowdown (approximately 3% of the 2019 cost base, or approximately 3.3% of Group's turnover), and euro 270 million in gross benefits. In particular:

- the Cost Competitiveness Plan which is divided into 4 areas (product cost, manufacturing, organisation and SG&A), contributed euro 110 million in benefits net of inflation (euro 160 million in gross benefits, euro -50 million due to the impact of inflation);

- the COVID-19 Measures plan for cost containment, which comprises short-term measures for SG&A, marketing and communication, manufacturing and R&D, contributed euro 32 million net of the slowdown in production (euro 110 million in gross benefits; euro -78 million due to the impact of the slowdown).

For the **fourth quarter**, in particular, the benefits net of inflation and the slowdown amounted to euro 58 million (euro 71 million in gross benefits). In more detail:

- euro 37 million in net benefits deriving from the Cost Competitiveness Plan (euro 51 million in gross benefits, euro -14 million due to the impact of the inflation);

- euro 21 million in net benefits deriving from COVID-19 Measures (euro 20 million in gross benefits).

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

(in millions of euro)		**2020**	**2019**
Net sales		**4,302.1**	**5,323.1**
EBITDA adjusted (°)		**892.6**	**1,310.0**
% of net sales		20.7%	24.6%
EBITDA (°°)		**725.1**	**1,250.0**
% of net sales		16.9%	23.5%
EBIT adjusted		**501.2**	**917.3**
% of net sales		11.6%	17.2%
Adjustments:	- amortisation of intangible assets included in PPA	(114.6)	(114.6)
	- non-recurring, restructuring expenses and other	(107.7)	(131.0)
	- income from Brazilian tax credits	-	71.0
	- COVID-19 direct costs	(59.8)	-
EBIT		**219.1**	**742.7**
% of net sales		5.1%	14.0%
Net income/(loss) from equity investments		(5.3)	(11.0)
Financial income/(expenses) (°°)		(156.4)	(109.4)
- of which financial income from Brazilian tax credits		-	*107.3*
Net income/(loss) before tax		**57.4**	**622.3**
Tax income/(expenses)		(14.7)	(164.6)
Tax rate %		25.6%	26.5%
Net income/(loss)		**42.7**	**457.7**
Eanings/(loss) per share (in euro per share)		0.03	0.44
Net income/(loss) adjusted		245.5	514.3
Net income/(loss) attributable to owners of the Parent Company		29.8	438.1

(°) Adjustments refers to one-off, non recurring and restructuring expenses to the amount of euro 99.3 million (euro 124.1 million for 2019), expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 to the amount of euro 8.4 million (euro 6.9 million for 2019), and COVID-19 direct costs to the amount of euro 59.8 million. For 2019 it had also included income from Brazilian tax credits to the amount of euro 71.0 million.

(°°) The item includes the impacts deriving from the application of the accounting standard IFRS 16 - Leases, to the amount of euro +103.9 million on EBITDA (euro +104.3 million for 2019) and euro -22.3 million on financial expenses (euro -24.0 million for 2019).

(in millions of euro)	**12/31/2020**	**12/31/2019**
Fixed assets	**8,857.1**	**9,469.8**
Inventories	836.4	1,093.8
Trade receivables	597.7	649.4
Trade payables	(1,268.0)	(1,611.5)
Operating net working capital	**166.1**	**131.7**
% of net sales	3.9%	2.5%
Other receivables/other payables	(25.6)	81.0
Net working capital	**140.5**	**212.7**
% of net sales	3.3%	4.0%
Net invested capital	**8,997.6**	**9,682.5**
Equity	**4,551.9**	**4,826.6**
Provisions	1,187.3	1,348.7
Net financial (liquidity)/debt position	**3,258.4**	**3,507.2**
Equity attributable to owners of the Parent Company	4,447.4	4,724.4
Investments in intangible and owned tangible assets (CapEx)	140.0	390.5
Increases in right of use	68.5	51.2
Research and development expenses	194.6	232.5
% of net sales	4.5%	4.4%
Research and development expenses - High Value	182.5	215.7
% of sales High Value	6.0%	6.1%
Employees (headcount at end of period)	30,510	31,575
Industrial sites (number)	19	19

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

(in millions of euro)		**1 Q**		**2 Q**		**3 Q**		**4 Q**		**Total year**	
		2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Net sales		**1,051.6**	1,313.8	**764.8**	1,341.0	**1,277.4**	1,381.6	**1,208.3**	1,286.7	**4,302.1**	5,323.1
	yoy	-20.0%		-43.0%		-7.5%		-6.1%		-19.2%	
	*organic yoy **	-18.5%		-38.3%		-1.5%		1.7%		-14.1%	
EBITDA adjusted		**244.2**	315.6	**23.7**	320.5	**309.4**	342.4	**315.3**	331.5	**892.6**	1,310.0
	% of net sales	23.2%	24.0%	3.1%	23.9%	24.2%	24.8%	26.1%	25.8%	20.7%	24.6%
EBITDA		**220.2**	308.2	**(18.5)**	369.7	**276.8**	299.5	**246.6**	272.6	**725.1**	1,250.0
	% of net sales	20.9%	23.5%	-2.4%	27.6%	21.7%	21.7%	20.4%	21.2%	16.9%	23.5%
EBIT adjusted		**141.1**	219.2	**(74.4)**	221.3	**213.7**	244.5	**220.8**	232.3	**501.2**	917.3
	% of net sales	13.4%	16.7%	-9.7%	16.5%	16.7%	17.7%	18.3%	18.1%	11.6%	17.2%
Adjustments:	- amortisation of intangible assets included in PPA	(28.7)	(28.7)	(28.6)	(28.6)	(28.7)	(28.7)	(28.6)	(28.6)	(114.6)	(114.6)
	- non-recurring, restructuring expenses and other	(18.6)	(7.4)	(21.2)	(22.6)	(26.4)	(42.9)	(41.5)	(58.1)	(107.7)	(131.0)
	- income from Brazilian tax credits	-	-	-	71.8	-	-	-	(0.8)	-	71.0
	- COVID-19 direct costs	(5.4)	-	(21.0)	-	(6.2)	-	(27.2)	-	(59.8)	-
EBIT		**88.4**	183.1	**(145.2)**	241.9	**152.4**	172.9	**123.5**	144.8	**219.1**	742.7
	% of net sales	8.4%	13.9%	-19.0%	18.0%	11.9%	12.5%	10.2%	11.3%	5.1%	14.0%

*before exchange rate effect and hyperinflation in Argentina

Total net sales amounted to euro 4,302.1 million, and recorded a decline of -19.2%, -14.1% excluding the combined impact of the exchange rate effect, plus the adoption of hyperinflation accounting in Argentina (totalling -5.1%).

High Value net sales which amounted to euro 3,029.8 million, represented 70.4% of total revenues (66.5% for 2019).

(in millions of euro)	**2020**	% of total	**2019**	% of total	Change YoY	Organic change YoY
High Value	3,029.8	70.4%	3,539.9	66.5%	-14.4%	-12.3%
Standard	1,272.3	29.6%	1,783.2	33.5%	-28.6%	-17.9%
Total net sales	**4,302.1**	**100.0%**	**5,323.1**	**100.0%**	**-19.2%**	**-14.1%**

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

	2020				
	1Q	**2Q**	**3Q**	**4Q**	**Total year**
Volume	-17.2%	-41.6%	-3.8%	1.1%	-15.3%
of which:					
- High Value	*-14.2%*	*-35.2%*	*3.9%*	*10.3%*	*-9.0%*
- Standard	*-20.2%*	*-50.4%*	*-11.9%*	*-7.3%*	*-21.4%*
Price/mix	-1.3%	3.3%	2.3%	0.6%	1.2%
Change on a like-for-like basis	**-18.5%**	**-38.3%**	**-1.5%**	**1.7%**	**-14.1%**
Exchange rate effect /Hyperinflation accounting in Argentina	-1.5%	-4.7%	-6.0%	-7.8%	-5.1%
Total change	**-20.0%**	**-43.0%**	**-7.5%**	**-6.1%**	**-19.2%**

The trend in sales **volumes** for 2020 (-15.3%) was better than expected for both segments (the November target had been -17% / -18%). The High Value segment recorded a decrease of -9% (compared to a target of -11%) while the Standard segment suffered a decrease of -21.4%, which was lower than the -25% target.

During 2020, **Car ≥18" volumes** declined by -7.8% (the market by -9.5%):

- for **Original Equipment**, Pirelli recorded a decrease in volumes of -6.3%, which was more contained than that of the market (-13.2%), thanks to the exposure to the Premium and Prestige segment, and to the diversification of the customer portfolio (new contracts in North America and APAC as of the second half-year of 2019). There was a marked improvement in the trend for the fourth quarter which was up by +19.1% (+9.1% for the market), which benefited from the strong recovery in Premium and Prestige car production (+14%);

- for the **Replacement** channel (Pirelli volumes down by -8.9%, the market down by -6.9%), the Company gradually improved its performance, which had been particularly impacted during the first half-year, by the reduction of the main distribution partner inventory levels in Europe and North America. The performance for the fourth quarter was particularly strong: +6.5%, compared to +2.5% for the market, with the strengthening of its leadership position in APAC, the consolidation of its positioning in Europe, and the improvement of sales in North America.

For the **Car ≤17"** segment, the decline in **volumes** during 2020 (-22.6%), was more pronounced than that of the market (-16.5%), but consistent with the strategy of reducing exposure to less profitable segments. An exception to this was South America, where Pirelli gained market share for both channels during the second half-year, with the Replacement channel benefitting also from the reduction in import flows, and the Original Equipment channel from increased production by the main vehicle manufacturers that Pirelli serves in the region, in view of the launch of new models in early 2021.

For 2020 the **price/mix** improved by +1.2% and reflected the different trend between the quarters:

- a negative first quarter (-1.3%), with a channel mix that was impacted by the more marked decline for the Replacement channel, and the temporary drop in the Region mix due to the sharp drop in demand in China, the first country affected by the pandemic, and a channel mix that was affected by a more pronounced drop for the Replacement channel, as a result of inventory reduction measures for the distribution network in Europe and North America;

- positive second and third quarters (+3.3% and +2.3% respectively), thanks to the improvement of the product mix, the Region mix (with the recovery of sales in China starting from the second quarter), and the channel mix (positive for the second quarter, neutral for the third quarter in consideration of a more balanced trend between the Original Equipment and Replacement channels);

- for the fourth quarter, the price/mix trend (+0.6%) was impacted by the previously mentioned growth in volumes for the Original Equipment channel, compared to the Replacement channel.

A negative **exchange rate effect**, including hyperinflation in Argentina: -5.1% for 2020 (-7.8% for the fourth quarter), due to the strong volatility of emerging market currencies (mainly South America and Russia), and the appreciation of the euro against the main currencies as of the third quarter.

The performance for **sales according to Region** was as follows, and reflected the Pirelli organisational structure introduced as of 2020**.**

	2020				2019**
	euro\mln	*%*	*yoy*	*Organic Yoy**	*%*
Europe and Turkey	1,757.3	40.9%	*-17.0%*	*-16.2%*	39.8%
North America	870.5	20.2%	*-21.0%*	*-18.2%*	20.7%
APAC	866.0	20.1%	*-10.0%*	*-8.0%*	18.1%
South America	458.6	10.7%	*-32.8%*	*-6.9%*	12.8%
Russia, Nordics and MEAI	349.7	8.1%	*-24.0%*	*-18.9%*	8.6%
Total	**4,302.1**	**100.0%**	***-19.2%***	***-14.2%***	**100.0%**

* before exchange rate effect and hyperinflation in Argentina

** the comparative data for 2019 have been restated in accordance w ith the new repartitions by Regions

EBITDA adjusted for 2020 amounted to euro 892.6 million (-31.9%, compared to euro 1,310.0 million for 2019), and euro 315.3 million for the fourth quarter of 2020, with a margin of 26.1% (25.8%

for the fourth quarter of 2019). The EBITDA adjusted included net indirect industrial costs relative to the COVID-19 emergency totalling euro 79.3 million, of which euro 78 million were costs relative to the slowdown, due to the temporary closure of some manufacturing plants, and more generally to the reduced use of the plants. These indirect costs have been stated net of the benefits of the welfare safety nets, and net of the benefits deriving from the COVID-19 cost-cutting measures implemented on the Group's industrial costs.

EBITDA amounted to euro 725.1 million (compared to euro 1,250.0 million for 2019; euro 246.6 million for the fourth quarter of 2020, compared to euro 272.6 million for the fourth quarter of 2019) and also includes; direct operating costs linked to the COVID-19 emergency to the amount of euro 59.8 million, mainly consisting of costs incurred for the purchase of protective personnel equipment (euro 9.8 million), costs relative to semi-finished products which due to the sudden closure cannot be utilised, in that they are not suitable for production (euro 11.5 million), non-discretionary sponsorship costs due to cancelled events or the reduced visibility of events (euro 33.3 million) and donations (euro 2.7 million).

EBIT adjusted amounted to euro 501.2 million (euro 917.3 million for 2019), with an EBIT margin adjusted of 11.6%, consistent with targets (~11.5% - ~12%). The trend in profitability improved markedly during the fourth quarter with an EBIT adjusted of euro 220.8 million (euro 232.3 million for the fourth quarter of 2019) and a margin of 18.3% (18.1% for the fourth quarter of 2019).

Internal levers (price/mix, net efficiencies, and the programme for the reduction of costs linked to the COVID-19 emergency net of the slowdown), contributed to limit the negative impacts arising from:

- the external scenario (volumes, raw materials, Forex and inflation);
- increased depreciation and amortisation and other costs.

During the course of 2020, efficiencies measures and the programme for the reduction of costs linked to the COVID-19 emergency, contributed in containing the impacts of the external scenario (very weak market demand, slowdown, volatility in exchange rates, and inflation of the cost of production factors).

In more detail:

- the Cost Competitiveness Plan generated structural efficiencies of euro 159.6 million (3.7% of revenues), which offset inflation (euro -50.0 million), the impact of the exchange rate effect (euro -60.1 million), and the increase in the cost of raw materials (euro -20.0 million), where the latter was impacted by the depreciation of the main currencies of countries where the Group's production is located (e.g. South America, Romania and Russia). These efficiencies concerned the cost of the product (optimisation of specifications, and rationalisation of components), organisation (re-engineering of processes) and SG&A costs (strict control of overheads);
- COVID-19 Measures, generated euro 110.0 million, which offset the impact of the slowdown (euro -78.0 million). These measures concerned discretionary costs (SG&A), the revision of

marketing and communication activities, the renegotiation of contracts with suppliers, the prioritisation of R&D investments, and further production efficiencies;

- the impact of the price/mix amounted to euro 19.5 million;
- lastly, the negative impact of volumes (euro -350.6 million), of amortisation and depreciation (euro -30 million), and of other expenses (euro -116.5 million, of which euro 55 million was non-monetary), the latter relative to the transformation/digitisation process, the increase in the provisions for receivables and inventories and other costs of a non-monetary nature linked to the reduction in the value of inventories.

(in millions of euro)	**1 Q**	**2 Q**	**3 Q**	**4 Q**	**Total year**
2019 EBIT Adjusted	**219.2**	**221.3**	**244.5**	**232.3**	**917.3**
- Internal levers:					
Volumes	(95.0)	(237.2)	(22.4)	4.0	(350.6)
Price/mix	(14.9)	21.9	14.4	(1.9)	19.5
Amortisation, depreciation and other expenses	3.8	(53.2)	(51.3)	(45.8)	(146.5)
Slowdown	(16.4)	(54.2)	(8.2)	0.8	(78.0)
COVID-19 cost cutting	32.9	28.8	28.6	19.7	110.0
Efficiencies	31.2	32.6	45.0	50.8	159.6
- External levers:					
Cost of production factors (commodities)	(3.3)	(11.5)	(5.0)	(0.2)	(20.0)
Cost of production factors (labour/energy/others)	(15.2)	(7.6)	(13.5)	(13.7)	(50.0)
Exchange rate effect	(1.2)	(15.3)	(18.4)	(25.2)	(60.1)
Total change	**(78.1)**	**(295.7)**	**(30.8)**	**(11.5)**	**(416.1)**
2020 EBIT Adjusted	**141.1**	**(74.4)**	**213.7**	**220.8**	**501.2**

EBIT, which amounted to a positive euro 219.1 million (euro 742.7 million for 2019), included:

- the amortisation of intangible assets identified during the Purchase Price Allocation (PPA) to the amount of euro 114.6 million (consistent with 2019);
- one-off, non-recurring, restructuring and other expenses to the amount of euro 107.7 million (euro 131 million for 2019), mainly relative to structural rationalisation measures, in addition to value adjustment of some pension funds in the UK as part of the buy-out operation (euro 11.2 million), and the retention plan approved by the Board of Directors on February 26, 2018 to the amount of euro 8.4 million (euro 6.9 million for 2019);
- direct costs linked to the COVID-19 emergency to the amount of euro 59.8 million, mainly relative to costs incurred for the purchase of protective personnel equipment (euro 9.8 million), costs relative to semi-finished products which due to the sudden closure cannot be utilised in that they are not suitable for production (euro 11.5 million), non-discretionary sponsorship costs due to cancelled events or the reduced visibility of events (euro 33.3 million), and donations (euro 2.7 million).

Income/(loss) from equity investments amounted to a loss of euro 5.3 million compared to the loss of euro 11.0 million for 2019. The results for 2020 mainly included the pro-rata share of the loss attributable to the Chinese joint venture Xushen Tyre (Shanghai) Co., Ltd (euro 4.6 million for 2020, compared to a loss of euro 7.2 million for 2019).

Net financial expenses amounted to euro 156.4 million compared to euro 109.4 million for 2019. It is to be noted that financial expenses for 2019 had been positively impacted by a non-recurring effect linked to tax credits in Brazil (PIS/COFINS). Net of these effects, financial expenses for 2019 had amounted to euro 216.7 million. Therefore, in comparing financial expenses for 2020 with those of the same period of 2019, with the abovementioned adjustment, there emerges a saving of euro 60.3 million. This reduction mainly reflected:

- the lower impact to the amount of euro 13 million deriving from the application of hyperinflation accounting in Argentina;
- the general reduction in interest rates in the currencies in which the Group operates, which resulted in a benefit of less interest paid on debt;
- a lower incidence of debt denominated in high yield currencies mainly in Brazil and Mexico;
- the temporary reduction in the cost of the central credit facilities due to the improvement in the Group's financial leverage, and the consequent reduction in the interest margin, from which the Group benefited up until November 2020.

Consequently, the cost of debt year-on-year shows a reduction from 2.83% at December 31, 2019 to 1.94% at December 31, 2020.

Tax expenses amounted to euro 14.7 million against a pre-tax earnings of euro 57.4 million, with a tax rate which stood at 25.6%. For 2019, tax expenses had amounted to euro 164.6 million against pre-tax earnings of euro 622.3 million (tax rate of 26.5%).

Net income/(loss) amounted to a gain of euro 42.7 million, compared to a gain of euro 457.7 million for the corresponding period of 2019.

Net income/(loss) adjusted amounted to a gain of euro 245.5 million, compared to a gain of euro 514.3 million for 2019. The following table shows the calculations:

(in millions of euro)	**2020**	**2019**
Net income/(loss)	**42.7**	**457.7**
Amortisation of intangible assets included in PPA	114.6	114.6
One-off, non-recurring and restructuring expenses	99.3	124.1
Income from Brazilian tax credits	-	(71.0)
COVID-19 direct costs	59.8	-
Retention plan	8.4	6.9
Financial income from Brazilian tax credits	-	(107.3)
Tax	(79.3)	(10.7)
Net income/(loss) adjusted	**245.5**	**514.3**

Net income attributable to the owners of the Parent Company amounted to euro 29.8 million, compared to euro 438.1 million for 2019.

Equity went from euro 4,826.6 million at December 31, 2019, to euro 4,551.9 million at December 31, 2020.

Equity attributable to the owners of the Parent Company at December 31, 2020 equalled euro 4,447.4 million, compared to euro 4,724.4 million at December 31, 2019.

The change is shown in the table below:

(in millions of euro)	**Group**	**Non-controlling interests**	**Total**
Equity at 12/31/2019	**4,724.4**	**102.2**	**4,826.6**
Translation differences	(365.9)	(10.6)	(376.5)
Net income/(loss)	29.8	12.9	42.7
Convertible bond reserve	41.2	-	41.2
Effect of hyperinflation in Argentina	20.0	-	20.0
Other	(2.1)	-	(2.1)
Total changes	**(277.0)**	**2.3**	**(274.7)**
Equity at 12/31/2020	**4,447.4**	**104.5**	**4,551.9**

The impact from differences from foreign currency translation was mainly due to the depreciation of Brazilian and Mexican currencies.

The **reconciliation between equity attributable to the Parent Company and the consolidated equity** attributable to the Shareholders of the Parent Company is reported below:

(in millions of euro)	**Share Capital**	**Treasury reserves**	**Net income/ (loss)**	**Total**
Equity of Pirelli & C. S.p.A. at 12/31/2020	**1,904.4**	**2,702.7**	**44.0**	**4,651.1**
Net income (loss) of consolidated companies (before consolidation adjustments)	-	-	62.4	62.4
Share capital and reserves of consolidated companies (before consolidation adjustments)	-	4,375.4	-	4,375.4
Consolidation adjustments:				
- carrying amount of equity investments in consolidated companies	-	(4,647.8)	-	(4,647.8)
- intragroup dividends	-	53.7	(53.7)	-
- others	-	29.2	(22.9)	6.3
Consolidated equity of the Group at 12/31/2020	**1,904.4**	**2,513.2**	**29.8**	**4,447.4**

Net financial position amounted to a loss of euro 3,258.4 million, compared to euro 3,507.2 million at December 31, 2019. It was composed as follows:

(in millions of euro)	**12/31/2020**	**12/31/2019**
Current borrowings from banks and other financial institutions	883.6	1,419.4
- of which lease liabilities	*75.4*	*77.8*
Current derivative financial instruments	53.9	31.7
Non-current borrowings from banks and other financial institutions	4,971.0	3,949.8
- of which lease liabilities	*390.4*	*405.3*
Non-current derivative financial instruments	87.6	10.3
Total gross debt	**5,996.1**	**5,411.2**
Cash and cash equivalents	(2,275.5)	(1,609.8)
Other financial assets at fair value through Income Statement	(58.9)	(38.1)
Current financial receivables and other assets**	(102.6)	(35.5)
Current derivative financial instruments	(34.8)	(32.1)
Net financial debt *	**3,524.3**	**3,695.7**
Non-current derivative financial instruments	-	(52.5)
Non-current financial receivables and other assets**	(265.9)	(136.0)
Total net financial (liquidity) / debt position	**3,258.4**	**3,507.2**

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

** The item "financial receivables and other assets" is reported net of the relative provision for impairment which amounted to euro 8.5 million at December 31, 2020 (euro 8.7 million at December 31, 2019).

The **structure of gross debt** which amounted to euro 5,996.1 million, was as follows:

(in millions of euro)	**12/31/2020**	**Maturity date**					
		within 1 year	**between 1 and 2**	**between 2 and 3**	**between 3 and 4**	**between 4 and 5**	**more than 5 years**
Use of unsecured financing ("Facilities")	1,617.5	-	1,617.5	-	-	-	-
Convertible bond	451.9	-	-	-	-	451.9	-
EMTN program bond	549.3	-	-	549.3	-	-	-
Schuldschein	523.3	81.9	-	421.5	-	19.9	-
Pirelli & C. bank bilateral borrowings	921.5	200.0	-	124.7	596.8	-	-
Sustainable credit facility	794.6	-	-	-	-	794.6	-
Other loans	672.2	580.3	89.5	2.4	-	-	-
Lease liabilities IFRS 16	465.8	75.4	63.0	51.8	44.0	39.4	192.2
Total gross debt	**5,996.1**	**937.6**	**1,770.0**	**1,149.7**	**640.8**	**1,305.8**	**192.2**
		15.6%	*29.5%*	*19.2%*	*10.7%*	*21.8%*	*3.2%*

At December 31, 2020 the Group had a liquidity margin equal to euro 3,034.4 million, composed of euro 700 million in the form of non-utilised committed credit facilities and euro 2,275.5 million in cash and cash equivalents, in addition to financial assets at fair value through the Income Statement to the amount of euro 58.9 million. The liquidity margin of euro 3,034.4 million guarantees coverage for maturities for borrowings from banks and other financial institutions, until January 2023, thereby covering two years of maturities. Also, considering the Company's exclusive right to extend the maturity of the unsecured *"Facilities"* loan by a further two years, this coverage would extend until June 2024.

Net cash flow, in terms of change in the net financial position, was positive to the amount of euro 248.8 million (euro 167.2 million for 2019, euro 344.1 million net of dividends paid by the Parent Company), and includes the payment of the European Court sanction for the electric cable cartel of euro -33.7 million, and a benefit of euro 41.2 million due to the classification, of the value of the conversion option relative to the bond, directly to equity, in accordance with the relevant accounting standards (a net cash flow of euro 207.6 million for the financial year excluding this benefit). Net cash flow also reflected lower investments (CapEx and financial investments in equity) and the careful management of working capital which mitigated the impact of the lower operating performance.

(in millions of euro)	1Q		2Q		3Q		4Q		Total	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
EBIT adjusted	141,1	219,2	(74,4)	221,3	213,7	244,5	220,8	232,3	501,2	917,3
Amortisation and depreciation (excluding PPA amortisation)	103,1	96,5	98,1	99,1	95,7	98,0	94,5	99,1	391,4	392,7
Investments in owned tangible and intangible assets (CapEx)	(56,6)	(78,0)	(24,8)	(89,7)	(24,7)	(74,6)	(33,9)	(148,2)	(140,0)	(390,5)
Increases in right of use	(22,9)	(3,2)	(24,1)	(14,0)	(15,2)	(8,5)	(6,3)	(25,5)	(68,5)	(51,2)
Change in working capital / other	(861,2)	(836,0)	131,9	10,1	(173,0)	(136,8)	809,5	901,9	(92,8)	(60,8)
Operating net cash flow	**(696,5)**	**(601,5)**	**106,7**	**226,8**	**96,5**	**122,6**	**1.084,6**	**1.059,6**	**591,3**	**807,5**
Financial income / (expenses)	(32,5)	(48,1)	(40,6)	38,1	(40,2)	(65,2)	(43,1)	(34,2)	(156,4)	(109,4)
Reversal of financial income from tax credits in Brazil	-	-	-	(99,8)	-	(0,8)	-	(6,7)	-	(107,3)
Taxes paid	(31,4)	(30,1)	(22,4)	(45,9)	(16,2)	(37,4)	(20,7)	(28,6)	(90,7)	(142,0)
Cash Out for non-recurring, restructuring expenses and other	(20,7)	(16,0)	(28,2)	(17,9)	(42,4)	(7,4)	(27,5)	(10,9)	(118,8)	(52,2)
Dividends paid to minorities	-	-	-	(8,9)	-	-	-	-	-	(8,9)
Differences from foreign currency translation / other	27,6	-	(19,5)	(19,8)	14,5	(0,2)	(6,7)	(6,2)	15,9	(26,2)
Net cash flow before dividends, extraordinary transactions and investments	**(753,5)**	**(695,7)**	**(4,0)**	**72,6**	**12,2**	**11,6**	**986,6**	**973,0**	**241,3**	**361,5**
EU electric cables market cartel sanction	-	-	-	-	-	-	(33,7)	-	(33,7)	-
(Acquisition) / Disposals of investments	-	(17,2)	-	(0,2)	-	-	-	-	-	(17,4)
Net cash flow before dividends paid by the Parent Company and convertible bond impact	**(753,5)**	**(712,9)**	**(4,0)**	**72,4**	**12,2**	**11,6**	**952,9**	**973,0**	**207,6**	**344,1**
Convertible bond impact	-	-	-	-	-	-	41,2	-	41,2	-
Net cash flow before dividends paid by the Parent Company	**(753,5)**	**(712,9)**	**(4,0)**	**72,4**	**12,2**	**11,6**	**994,1**	**973,0**	**248,8**	**344,1**
Dividends paid by the Parent Company	-	-	-	(176,9)	-	-	-	-	-	(176,9)
Net cash flow	**(753,5)**	**(712,9)**	**(4,0)**	**(104,5)**	**12,2**	**11,6**	**994,1**	**973,0**	**248,8**	**167,2**

More specifically, **operating net cash flow** for the year 2020 amounted to euro 591.3 million (euro 807.5 million for 2019) and reflected:

- investments in intangible and owned tangible assets (CapEx) to the amount of euro 140 million (euro 390.5 million for 2019), that were mainly earmarked for High Value activities, and the constant improvement of the mix and quality in all factories;
- increases in the right of use, by euro 68.5 million, relative to new lease contracts signed during 2020;
- the change in working capital which resulted in a cash absorption of euro -92.8 million. In particular, the significant reduction in inventories implemented as of the second quarter of 2020, mitigated the negative impact mainly attributable to the reduction in payables compared to the previous financial year, In particular:
    - o inventories closed 2020 with an impact on sales of 19.4%, (20.5% at December 31, 2019), thanks to the strong reduction in inventories (a reduction of approximately 3

million units of finished Car and Motorbike products during the second and third quarters of 2020);

- o trade receivables closed 2020 with an impact on sales of 13.9% (12.2% at December 31, 2019). There was a significant collection over the course of the last quarter, consistent with the seasonality of the business, of receivables relative to revenues from winter products in the more seasonal markets such as Europe and Russia;

- o trade payables accounted for 29.5% of sales (30.3% at December 31, 2019). (30.3% at December 31, 2019). This figure highlights the significant increase compared to the close of the third quarter of 2020, and was linked to the recovery of business.

Net cash flow for the fourth quarter of 2020 amounted to euro 994.1 million. This figure highlighted:

- EBIT adjusted (euro 220.8 million), which had improved compared to the third quarter of 2020 (euro 213.7 million), confirming the recovery of business;

- investments (euro -33.9 million) which were lower compared to 2019 levels, (euro -148.2 million);

- a trend in working capital (euro 809.5 million) that indicated significant cash generation, in keeping with the historical trend;

- a decrease in taxes paid (euro -20.7 million, compared to euro -28.6 million for the fourth quarter of 2019), which partially offset the higher cash-out relative to restructuring and other expenses (euro -27.5 million, compared to euro -10.9 million for the fourth quarter of 2019).

RESEARCH AND DEVELOPMENT ACTIVITIES

The research and development activities carried out by Pirelli constitute a central phase for the development of new products. The Research and Development department - which dedicates strong attention to technological innovations - counts approximately 2,100 personnel (equal to approximately 7% of the Group's human resources), between the Milan headquarters and the 12 technology centres located all over the world, allowing a direct relationship with markets and end users, and with the main vehicle manufacturers whose R&D centres and factories are located in the same geographical areas. Pirelli's model for research and development, implemented in accordance with the Open Innovation model, is carried out through a number of collaborations with partners who are external to the Group - such as suppliers, universities and the same said vehicle manufacturers - for the purposes of pre-empting technological innovations for the sector, to direct research and development activities, and to respond to and also steer towards the needs of the end consumer.

Research and development expenses for the 2020 financial year totalled euro 194.6 million, (4.5% of sales), of which euro 182.5 million was destined for High Value activities (6% of High Value revenues).

Pirelli continued to develop its CYBER™ technologies which, thanks to the sensors inside the tyre, and the fact that the tyre is the only element of the car capable of 'sensing' the conditions of the surface on which it is being driven, will contribute in delivering essential information to improve vehicle performance and driving safety. Pirelli was the first company in the world in the tyre sector to share information on the 5G network about road surfaces detected by sensorised or 'smart' tyres, and to identify situations that potentially compromise driving safety such as aquaplanes.

PRODUCT INNOVATION

In order to develop new products specifically designed to meet the needs and technical specifications of its customers, Pirelli has established long-lasting relationships with major Prestige and Premium vehicle manufacturers. The development of products in partnership with these car manufacturers is geared towards producing tyres that match the dynamic characteristics and electronics of the vehicles. Pirelli is the absolute leader in the Prestige segment with a market share that exceeds 50% for the Original Equipment channel. Pirelli is also the leading supplier to brands such as Aston Martin, Bentley, Ferrari, Porsche, and Maserati, and the sole supplier for Lamborghini, McLaren and Pagani Automobili. In this regard, in 2020 Pirelli developed a new P Zero Trofeo R for the fastest McLaren supercar ever, the 765LT, which minimises lap times on the track and ensures maximum safety on the road. Instead for the Premium segment, the special relationship with companies such as Alfa Romeo, Audi, BMW, Mercedes, Jaguar, Land Rover and Ford continued. Specifically, in 2020, Pirelli completed the development of the custom-made Scorpion ATR tyre for the latest version of the Ford F-150, which is part of the F-Series, the best-selling vehicle in the United States. For over twenty years, Pirelli and Ford have been working together to develop tyres specifically designed for the American company's model range.

The new generation of Pirelli Cinturato P7, launched in 2020, further enhances the qualities that are most important to drivers today: safety and efficiency. Pirelli, through its intense Research & Development activities, has created a product of a high technological level, capable of overcoming the compromises that until now have been typical of tyres. Thanks to the technologies created for the new Cinturato P7, it has been possible to reconcile requirements that are usually divergent, such as performance on wet surfaces and rolling resistance, thereby reaching a new level of technology and performance that will satisfy both drivers and manufacturers. In addition, the new P7 can also carry the new *"Elect"* marking, which distinguishes Pirelli tyres designed specifically for electric or plug-in hybrid cars, which are distinguished by their immediate grip, needed to respond to the specific torque delivery of electric motors, lower rolling resistance to maximise battery autonomy, and noise reduction to ensure the comfort benefits of electric propulsion. Finally, the Cinturato P7 can be fitted with Run Flat and Seal Inside technologies, which make it possible to drive even after a puncture, the former supporting the weight of the car even when the tyre is flat, thanks to its reinforced sidewall, and the latter thanks to a mastic that self-seals punctures up to 4 mm in diameter. The new P7 debuted with already more than 70 homologations to its credit. Each of these homologations required a dedicated process and development, in synergy with the car makers. In particular, in the *"marked"* versions for vehicles with rim diameters greater than 17", the Cinturato P7 immediately added 23 new versions to the more than 100 versions of its predecessor, demonstrating that it is the most chosen tyre in its category by Premium car manufacturers. One point of note in the development work, concerned the tread's ability to 'dialogue' with electronic driver assistance systems, such as the latest ADAS - Advanced Driver Assistance Systems. In the case of ABS, for example, for the same car and tyre size, a tread optimised for operating in synergy with the car's electronics, can reduce braking distance. Tests carried out at a speed of 100 km/h showed that the new Cinturato P7, on average, requires up to 4 metres less braking distance, equal to a reduction of 7-10%. The development of the tyre, in collaboration with vehicle manufacturers, through tyre virtualisation models, makes it possible to calibrate the electronic driving assistance systems in the best possible way: as in the case of lane-keeping systems which, when combined with an 'unknown' tyre, might require continuous trajectory corrections, since they cannot predict the behaviour of the tyre itself. On the other hand, if the same car is fitted with the Cinturato P7, with the vehicle manufacturer's marking - which was developed to equip the specific vehicle - such corrections are not required, because the system can predict its reactions while driving.

In February 2020, Pirelli inaugurated the new static simulator at its Research & Development centre in Milan. The aim of the simulator is to optimise the development and testing phases of new tyres and reducing the time required, and reinforcing the collaboration with carmakers through a greater interaction between Pirelli's tyre modelling, and that of its partner vehicle manufacturers. With this technology, in fact, the average time for developing new tyres, both road and motorsport, is reduced by approximately 30%, thanks to the use of virtual prototypes for the various car models: thanks to these simulations, design parameters can be quickly modified during their development, and the exchange of digital information between Pirelli and the vehicle manufacturers becomes instantaneous. Compared to more traditional design methods, the virtual model of the car received from the vehicle manufacturer, can be installed on this simulator or reproduced in-house. In addition, joint design and development activities can also be carried out on the vehicle manufacturer's simulator, enabling the simulator to be perfectly in synch with the development times of vehicle manufacturers, who are producing new models with increasing frequency. The work performed on the static simulator is integrated with the design of the dynamic simulator, which also reproduces lateral and longitudinal acceleration. It is installed at the Milan Polytechnic, a university with which Pirelli has had a long-standing strategic partnership, and thanks to which additional tests will be performed in addition to those currently performed at the Pirelli research centre in Milan.

In August, Pirelli inaugurated the *"Circuito Panamericano"* in Brazil, the largest vehicle testing complex in all of Latin America. Located in the city of Elias Fausto, in the state of São Paulo, the new facility occupies an area of 1.65 million square metres. The various circuits and tracks - covering a total of more than 22 km - reflect the cutting-edge technological innovation that characterises Pirelli's support for the development of car, SUV and motorbike tyres, and the development of vehicles by manufacturers throughout the American continent.

In the motorbike sector, Pirelli remains the first and natural choice for many motorbike manufacturers who have selected Pirelli tyres as Original Equipment. Pirelli DIABLO™ Supercorsa SP has received yet another acknowledgement of its leadership position in the road racing tyre segment. It was chosen by Honda as Original Equipment for the new CBR1000RR-R Fireblade and CBR1000RR-R Fireblade SP, (the Tokyo-based company's most eagerly awaited new products for the year 2020), and also by Ducati as Original Equipment for the upgrade of the Panigale V4 model 2020, the most powerful and technologically advanced series-production Ducati ever, with tyres specifically developed to best manage the extremely high level of performance achieved, also due to the considerable aerodynamic load of the wing-like contours that profoundly distinguish the motorbike's aggressive design. The new Ducati Multistrada V4, on the other hand, which represents an important evolutionary step in the maxi-enduro motorbike sector, will be sold with SCORPION™ Trail II Original Equipment tyres, and is also homologated for SCORPION™ Rally STR and SCORPION™ Rally, which are more suitable for off-road use. The Pirelli DIABLO ROSSO™ III was chosen as Original Equipment for the new hypernaked Kawasaki Z H2, the only naked with a supercharged motor currently on the market.

In the Velo world, to further complete the Scorpion™ MTB range, Pirelli has added SCORPION™ XC RC, a very high performance, 100% race tyre, developed for and with the TREK PIRELLI team and dedicated to Cross-Country racers.

Pirelli has also launched the Scorpion E-MTB, a new family of products dedicated to electric mountain bikes. Robust, durable and aggressive, the new tyres guarantee maximum performance to withstand the hard workloads of the latest generation of e-motorbikes. The SmartGRIP+ compound, which is enhanced by lignin, offers high performance and is environmentally friendly.

Finally, Pirelli presented the P ZERO™ RACE TLR, the tubeless road tyre dedicated to maximum performance and professional competition. Developed in collaboration with two World Tour teams, the Mitchelton-SCOTT of reigning World Road Champion Annemiek van Vleuten, and the Trek-Segafredo of reigning World Champion Mads Pedersen, and Vincenzo Nibali, it represents the spearhead of the range of tyres dedicated to racing bikes. These new tubeless-ready Pirelli tyres are made with SmartEVO, an innovative compound evolved from the original SmartNET, which uses three different polymers, each of which delivers a specific performance, ensuring a perfect balance of opposing characteristics.

For further details on the elements of product sustainability, reference should be made to the section of the Annual Report entitled *"Report on Responsible Value Chain Management"*, which constitutes the Company's consolidated non-financial statement pursuant to Legislative Decree no. 254/2016.

NEW MATERIALS

The Group is active in the development of new polymers to improve the characteristics of tyres in terms of rolling resistance, performance at low temperatures, mileage and road grip. In addition, the Group's business focuses on the development of other non-polymeric materials, such as; high dispersion silica for improved grip on the wet, rolling resistance and mileage; bio-materials such as lignin and plasticisers/resins of vegetable origin; nano-fillers for more stable compounds, lighter structures and linings with elevated waterproof qualities; new silica surfactants to ensure performance stability and processability and; vulcanisers and stabilisers that allow for the development of tyres with low environmental impact and high performance. The Group has entered into cooperation agreements with various international and national institutions and universities. These agreements – which include numerous research projects, for example, with the University of Milano-Bicocca, as part of the Consortium for Advanced Materials Research (CORIMAV) - allow for the development of innovative materials and solutions, which are essential for the production of tyres with low environmental impact and high performance. The Joint Labs agreement between Pirelli, and the Politecnico di Milano, established in 2011 for research and training in the tyre sector, is aimed at the development of innovative materials and technologies for increasingly safe and sustainable mobility. The most recent phase of the agreement, with a three year duration (2017-2020), focuses on two macro-strands of research: the area of innovative materials design, and the area for product and Cyber development.

For further details on the new materials and related sustainability characteristics, reference should be made to the section of the Annual Report entitled *"Report on Responsible Value Chain Management"*, which constitutes the Company's consolidated non-financial statement pursuant to Legislative Decree no. 254/2016.

PROCESS AND PRODUCTIVITY INNOVATION

As part of an ambitious programme of investment in the digital transformation of all major business processes, in order to allow for the effective management of the diverse ranges of products in the factories, the Group has launched the Smart Manufacturing program based on Big Data analytics techniques which flank the consolidated Lean Manufacturing programs, in order to improve production and maintenance processes, machine productivity and product quality, also from a predictive perspective, despite a significant reduction in the size of production lots. *"Smart*

Manufacturing" stems from the fourth industrial revolution *("Industry 4.0")*, and involves the digital and integrated management of factory processes.

To achieve a secure and reliable level of connectivity from the *"Shopfloor"* to the *"Data Platform",* Pirelli has therefore decided to launch an Industrial Internet of Things (IIoT) platform. Through *"Edge Computing Capabilities"*, the IIoT platform will allow industrial efficiencies to be pursued in an agile manner. With the realisation of this project, the Pirelli factory will complete its transformation from a traditional factory to a fully integrated, connected and fully *"Smart Manufacturing"* oriented digital factory.

For further details on performance and sustainability targets in processes, reference should be made to the section of the Annual Report entitled *"Report on Responsible Value Chain Management"*, which constitutes the Company's consolidated non-financial statement pursuant to Legislative Decree no. 254/2016.

COMMITMENT TO MOTORSPORTS

In 2019 Pirelli was chosen by the FIA - International Automobile Federation - as the sole supplier of tyres for the Mondo Rally Championship for the 2021 to 2024 seasons. Of note is that Pirelli will supply all the 4x4 cars that will take part in the qualifying WRC (World Rally Car) championship races, that is, contenders from the WRC Plus which compete for the ultimate title, to the R5 which are the protagonists of the WRC2, but also cars competing in various regional and national championships around the world. The FIA's choice is a confirmation of Pirelli's leadership in competitive motorsports, thanks to the experience gained in over 110 years of racing. This new investment in the WRC, the speciality queen of road racing, flanks an identical role that Pirelli has played since 2011 as Global Tyre Partner in the most prestigious of Motorsports on the circuit, Formula 1®, where Pirelli has extended its involvement until 2023. The new agreement foresees for the introduction of new 18" rim tyres. Pirelli's involvement in the Formula 1® World Championship has allowed it to develop new simulation models, which allow for a further reduction in the time it takes to launch a product onto the market, and an improvement in the quality of road products, rendering them better performing and compliant with the highest of requirements. Pirelli is now engaged in approximately 350 championships across all five continents. In the European two-wheel championships, in which more than one tyre manufacturer participates, Pirelli equips an average of 70% of the motorcycles deployed on the paddock, which confirms the appreciation demonstrated by motorcycle riders around the world for the Pirelli brand. Pirelli has been chosen by the Dorna WorldSBK Organisation, in agreement with the FIM (the International Motorcycle Federation), for the role of Official Tyre Supplier for all classes of the MOTUL FIM Superbike World Championship, up to and including the 2023 season. Pirelli has attained the remarkable figure of 74 world titles in motocross, confirming its dominance even in the final championship classifications where it has occupied with its riders, the first three positions in the MXGP class, with three different manufacturers, and the first seven in MX2. In the field of cycling, Pirelli made its entrance in 2018, signing a partnership with one of the most important teams on the professional road circuit: the Mitchelton-SCOTT team which, in the same year, with Simon Yates, achieved top ranking in the

World Tour. Pirelli's partnership with the Australian team was confirmed for 2019 (with four stage wins at the Tour de France), and for 2020, for both the men's and women's teams. Pirelli has also accelerated its strategy of increasing its involvement in professional cycling, by announcing a partnership with the prestigious Trek-Segafredo World Tour team, owned by reigning UCI World Champion, Mads Pedersen. Lastly, after a season as technical partner, Pirelli has become co-title sponsor of the TREK PIRELLI mountain bike team. The team, directed by former professional cyclist Marco Trentin, is one of the most important and renowned on the international MTB Cross Country scene.

PARENT COMPANY HIGHLIGHTS

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

(in millions of euro)	**12/31/2020**	**12/31/2019**
Operating Income	9.1	15.8
Net Financial income/(expenses)	(36.4)	(23.7)
Income from equity investments	39.7	268.9
Taxes	31.6	12.2
Net income	**44.0**	**273.2**
Financial assets	4,681.1	4,711.2
Net Equity	**4,651.1**	**4,580.4**
Net financial position	1,891.0	1,897.4

Operating income of the Parent company amounted to euro 9.1 million, compared to the amount of euro 15.8 million for 2019.

The balance for **net financial income/expenses** was negative to the amount of euro 36.4 million compared to euro 23.7 million for the previous year. This worsening was mainly attributable to the decrease in interests receivables from loans to companies of the Group.

Net income from equity investments amounted to euro 39.7 million compared to euro 268.9 million for the previous financial year. The decrease was essentially attributable to less dividends being distributed by the subsidiary Pirelli Tyre S.p.A. (euro 50 million for 2020 compared to euro 250 million for 2019) which, in consideration of the pandemic, resolved to allocate a large part of the earnings for the financial year, towards strengthening its own capital. The results for 2020 also include the impairment of the investment in the subsidiary Pirelli UK Ltd. equal which equalled euro 14 million.

Taxes for 2020 were positive to the amount of euro 31.6 million compared to the positive amount of euro 12.2 million for 2019.

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

(in millions of euro)	**12/31/2020**	**12/31/2019**
Investments in subsidiaries		
- Pirelli Tyre S.p.A.	4,528.2	4,528.2
- Pirelli Ltda	9.7	9.7
- Pirelli Uk Ltd.	7.9	21.9
- Pirelli Group Reinsurance Company S.A.	6.3	6.3
- Pirelli Servizi Amministrazione e Tesoreria S.p.A.	3.2	3.2
- Pirelli International Treasury S.p.A.	75.0	75.0
- Other companies	3.4	3.3
Total equity investments in subsidiaries	**4,633.7**	**4,647.6**
Investments in associates and other financial assets at fair value through other comprehensive income		
- Eurostazioni S.p.A. - Roma	6.3	6.3
- RCS Mediagroup S.p.A. - Milano	14.0	24.9
- Fin. Priv S.r.l.	15.9	20.6
- Fondo Comune di Investimento Immobiliare Anastasia	2.8	3.9
- Istituto Europeo di Oncologia S.r.l.	7.9	7.5
- Other	0.5	0.4
Total investments in associates and other financial assets at fair value through other comprehensive income	**47.4**	**63.6**
Total financial assets	**4,681.1**	**4,711.2**

Equity went from euro 4,580.4 million at December 31, 2019 to euro 4,651.1 million at December 31, 2020, as detailed below:

(in millions of euro)

Equity at 12/31/2019	**4,580.4**
Net income/(loss) for the financial year	44.0
Dividends approved	-
Convertible bond reserve	41.2
Other components of comprehensive income	(14.5)
Equity at 12/31/2020	**4,651.1**

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

(in millions of euro)	**12/31/2020**	**12/31/2019**
Share capital	1,904.4	1,904.4
Legal reserve	380.9	380.9
Share premium reserve	630.4	630.4
Concentration reserve	12.5	12.5
Other reserve	133.7	92.5
IAS reserve	(17.7)	(3.2)
Retained earnings reserve	540.0	266.8
Merger reserve	1,022.9	1,022.9
Net income/(loss) for the financial year	44.0	273.2
Total Equity	**4,651.1**	**4,580.4**

RISK FACTORS AND UNCERTAINTY

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

1. **External risks**

   Risks whose occurrence is outside the Company's sphere of influence. This category includes risks related to macroeconomic trends, to the evolution of demand, to competitor strategies, to technological innovation, to the introduction of new regulations, and to country-specific risks (financial, security related, political and environmental risks), as well as the impacts linked to climate change.

2. **Strategic Risks**

   These are risks that are typical for the business, whose proper management is a source of competitive advantage, or alternatively can cause the failure to achieve economic and financial objectives.This category includes risks linked to markets, to product innovation and development, to human resources, to production processes, to financial risks, and risks connected to mergers and acquisitions.

3. **Operational Risks**

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

In cross reference to the aforesaid risks are **corporate social responsibility risks, environmental and business ethics risks.** These are risks associated with the non-compliance with local and international regulations, best practices and corporate policies regarding the respect for human and labour rights, and environmental and business ethics, and can be generated by the organisation either as part of the relative value chain, or as part of the supply chain.

EXTERNAL RISKS

Pirelli expects moderate growth in the global economy during 2021, concentrated mainly during the third and fourth quarters, thanks to the greater diffusion of effective medical solutions for the current COVID-19 pandemic. The current restrictions on personal mobility, as well as possible tensions associated with rising levels of both public and private debt, will continue to have a negative impact on consumer and business confidence, at least until the end of the first quarter of the year. The subsequent gradual return to normality will have a beneficial effect on the level of household savings, which will free-up purchasing power during the second half of the year. The timing of the recovery will differ considerably between regions. China is expected to experience sustained growth as early as the first-half year of 2021, while several European economies will require until 2023 or 2024 to return to stable pre-crisis levels.

However, these forecasts are not without risk. The change in the political environment in the US may not result in a significant easing of trade tensions between the US and China, while the Eurozone is likely to face a sharp rise in unemployment due to the end of subsidies and redundancy freezes. With regard to emerging markets, the risk of a delay in the mass supply of anti-COVID-19 vaccines remains significant, with negative repercussions on economic resilience.

Country risk

Where appropriate, Pirelli adopts a local-for-local strategy, creating a productive presence in rapidly developing countries in order to respond to the local demand with competitive industrial and logistical costs. This strategy is aimed at increasing the competitiveness of the Group, as well as allowing the Group to overcome potential protectionist measures (customs barriers or other measures such as technical prerequisites, product certification, and administrative costs relative to import procedures, etc.). In context of this strategy, Pirelli operates in countries (Argentina, Brazil, Mexico and Russia) where the general economic and political situation and tax regimes may prove unstable in future. Uncertainty also persists regarding the future relationship between China and the United States and, more generally, on the medium-long term equilibrium of current international trade agreements, which could lead to an alteration of the normal market dynamics and, more generally, of business operating conditions. The Group constantly monitors the evolution of risks (political, economic/financial and security related) relative to the countries in which it operates, in order to continue to adopt timely (and if possible advance) measures to mitigate the potential impacts of any changes arising at local level. Moreover, in situations of under-utilisation of the production capacity of some factories, production may be re-allocated amongst the Group's manufacturing plants.

Brexit risks

The Group constantly monitors potentially critical issues (and related mitigation plans) concerning the new trade agreement between the UK and the EU, which officially came into force on January 1, 2021. These risks are both of a mainly operational nature in the short-term (related to possible delays in the supply of raw materials and/or finished products), and of a structural nature in the medium to long-term. To date, in fact, defining what the impact might be is complicated (in terms of potential extra costs/regulatory barriers) for the automotive and auto-parts sector, both on the UK domestic market and in terms of exports to the European Union.

Coronavirus risk (COVID -19)

Pirelli sells its products on a world-wide basis in over 160 countries and owns manufacturing sites located in different countries, some of which are also significantly affected by the COVID-19 (SARS-CoV-2) outbreak. Although there is broad consensus on the gradual improvement of the global health outlook in the short to medium-term, this assumption contains elements of uncertainty, some of them significant, mainly related to the availability of vaccines on a large scale. If these risks were to persist during the year, they could lead to an alteration in normal market dynamics and, more generally, in business operating conditions.

In terms of operational risks, Pirelli monitors, amongst other things, potential risk events relative to both supply chain resilience, and the massive use of new technological devices linked to remote working.

Lastly, the Group is following developments in the spread of the Coronavirus with constant contact with national and international organisations. The Company has promptly adopted control and prevention measures for all employees worldwide.

Risks related to changes in demand in the long-term

Mobility is undergoing an unprecedented evolution due to technological changes (electrification of propulsion, driving automation and digital connectivity), cultural changes (increase in the average age for obtaining a driving licence, loss of importance of owning a car, etc.) and regulatory changes, often aimed at limiting the presence of polluting vehicles in and around metropolitan areas. In addition to all this, during the course of 2020, there was the health emergency linked to the spread of COVID-19, which led, among other things, to a forced and sudden reduction in mobility, and to the massive adoption of digital technologies aimed at remotely managing many activities that used to be carried out almost exclusively in person. To date, it has not been easy to predict the long-term trends of this phenomenon, and therefore the potential impact on the tyre sector. On the one hand, certain types of mobility - such as daily commuting over limited distances - will be strongly impacted, while on the other, a possible reduction in the use of public transport, together with a move to peripheral areas - even distant from the workplace - could lead to an increase in *"miles driven"*. Pirelli constantly monitors these trends, both by analysing studies and data available at global and local level, and by participating in webinars and national and international conferences on the subject. The Group is also active on specific projects together with other major players in global mobility, such as the Transforming Urban Mobility project, promoted by the World Business Council for Sustainable Development (WBCSD), active since 2019.

Risks related to climate change

Having joined the Task Force on Climate-related Financial Disclosures (TCFD) in September 2018, Pirelli applies all the recommendations made in June 2017 by the TCFD and is committed, on a voluntary basis, to the dissemination of transparent reporting on climate change-related risks and opportunities. To this end, Pirelli monitors these elements of uncertainty through sensitivity analyses and risk assessments to assess and quantify the financial impacts (risks and opportunities) related to climate change, compared to the IPCC (Intergovernmental Panel on Climate Change) climate and IEA (International Energy Agency) energy transition scenarios. In accordance with the findings of the most recent Climate Change Risk Assessment of the Group, in the short to medium-term there are no significant risks relative to production processes or to the markets in which Pirelli operates. On the other hand, as regards a medium to long-term scenario, the tyre sector could be subject to a number of risks both of a physical nature (extreme weather events with potential impacts on the continuity of production at the plants), as well as of a regulatory nature (possible effects on operating costs). On the other hand, there were opportunities for growth in the sales of Pirelli Eco & Safety Performance products, which are tyres with a lower environmental impact during their relative life cycle. For a full discussion of the eleven TCFD recommendations, reference should be made to the section *"Joining the Task Force on Climate-related Financial Disclosures (TCFD)"* in this Report.

Risks related to price trends and the availability of raw materials

Natural rubber, synthetic rubber and oil-related raw materials (particularly chemicals and carbon black) will continue to represent a factor of uncertainty within the Group's cost structure, given the strong volatility recorded in recent years, and their impact on the cost of the finished product. For the main raw materials purchased by the Group, possible price scenarios are constantly simulated in relation to historical volatility and/or the best information available on the market (e.g. forward prices). On the basis of the different scenarios, the sales price increases and/or the different internal cost efficiency recovery measures (use of alternative raw materials, reduction of product weight, improvement of the process quality and reduction in waste levels), necessary to guarantee the expected profitability levels are identified.

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

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

STRATEGIC RISKS

Exchange rate risk

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

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

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

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

Furthermore, as part of the one-year and three-year planning process, the Group formulates exchange rate forecasts on the basis of the best available information on the market. Any fluctuation in an exchange rate between the time of planning and the time when a commercial or financial transaction originates, results in a transactional exchange rate risk on future transactions. From time to time the Group assesses the opportunity to carry out hedging transactions on future transactions, for which it typically uses both forward buy or sell transactions, and optional risk-reversal structures (e.g., zero cost collars).

Pirelli owns controlling interests in companies that prepare their Financial Statements in currencies other than the euro, which is the currency used to prepare the consolidated Financial Statements. This exposes the Group to translational exchange rate risk, due to the conversion into euro of the assets and liabilities of subsidiaries operating in currencies other than the euro. The main exposures to translational exchange rate risk are constantly monitored, and at present it has been decided not to adopt specific hedging policies for these exposures.

Liquidity risk

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

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

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

In addition to the available portion of the committed credit facility (*Revolving Credit Facility*) for a total of euro 700 million, which at December 31, 2020 resulted as being completely unused, the Pirelli Group has resorted to the capital market to diversify both products and maturities, in order to seize the best opportunities available from time to time.

Interest rate risk

Interest rate risk is represented by the exposure to variability in the fair value or future cash flows, of financial assets or liabilities, due to changes in market interest rates. The Group assesses, based on market conditions, whether to enter into derivative contracts, typically interest rate swaps and cross currency interest rate swaps, for hedging purposes for which hedge accounting is activated, when the conditions provided by IFRS 9 are met.

Price risk associated with financial assets

The Group is exposed to price risk only regarding the volatility of financial assets such as listed and unlisted stock securities and bonds, which represent 0.7% of the total assets of the Group. Derivatives are not normally set-up to limit the volatility of these assets.

Credit risk

Credit risk represents the Group's exposure to potential losses resulting from the non-fulfilment of the commercial and financial obligations undertaken by counterparties. As regards these commercial counterparties, in order to limit this risk, Pirelli has implemented procedures to evaluate customer potential and financial creditworthiness, and to monitor expected collection flows, and to take credit recovery action if and when necessary. The aim of these procedures is to define customer credit limits, whereby in the event that those limits are exceeded, the rule to withhold further supplies is activated. In some cases customers are asked to provide guarantees, mainly bank guarantees issued by parties of the highest credit or personal standing. Less frequently, mortgage guarantees may be requested. Other instruments used for commercial credit risk management is the taking out of insurance policies. A master agreement has been in place, which was recently renewed for the 2021-2022 two-year period, with a leading insurance company for worldwide coverage for credit risk, mainly relative to sales on the Replacement channel (the coverage ratio at December 31, 2020 was equal to 72% (Pirelli Group)). However, as regard the financial counterparties for the management of its temporary cash surpluses or for trading in derivative instruments, the Group deals only with entities with a high credit standing. Pirelli does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system, and does not have any significant concentrations of credit risk.

Risks associated with human resources

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

OPERATIONAL RISKS

Risks related to environmental issues

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

Employee health and safety risks

The Pirelli Group, in carrying out its activities, incurs expenses and costs for the actions necessary to ensure full compliance with the obligations provided for by the regulations regarding health and safety in the workplace. Particularly in Italy the law relating to health and safety at work (Legislative Decree No. 81/08) and subsequent amendments (Legislative Decree no. 106/09), have introduced new obligations that have impacted on the management of activities at Pirelli sites, and on the models for allocating liabilities. Failure to comply with the health and safety regulations in force entails criminal and/or civil penalties at the expense of those responsible, and in some cases, the penalties for the violation of regulations are borne by the Companies in accordance with a European model of the absolute liability of the Company, which has also been implemented in Italy (Legislative Decree 231/01).

Defective product risk

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

Litigation risks

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

Personal data processing risks

In the normal course of Pirelli's business activities, personal data relating to employees, customers and suppliers are processed. The processing of the personal data collected by Group's companies is subject to the laws and regulations applicable in the countries in which these companies are present. The Group has therefore implemented measures to achieve full compliance with all data protection regulations in force (while still maintaining the legislative framework of reference which was introduced by Regulation (EU) 2016/679, the so-called *"General Data Protection Regulation"* or *"GDPR"*, which came into force in May 2018), in this way mitigating the risk of proceedings before regulatory authorities and/or privacy litigation. Nevertheless, changes to applicable legislation, the launch of new products onto the market and, in general, any new initiatives involving the processing of personal data (or changes to the processing of personal data already carried out), could involve the need to incur significant costs or oblige the Group to change its *modus operandi*.

Risks related to information systems and network infrastructure

The supporting role of ICT (Information and Communication Technology) systems for business processes, their evolution and development, and for the Group's operating activities was also confirmed during the course of 2020, as being fundamental to the achievement of results. Pirelli has mainly worked towards the prevention and mitigation of risks connected to possible system malfunctions, through high reliability solutions for the protection of the Company's information assets, through the enhancement of security systems against unauthorised access,

and of the Company's data management solutions. This work continued in order to bring the Server and Client environments into compliance, through the constant and progressive updating of the operating systems, in order to reduce their vulnerabilities. Particular attention has been paid to the renewal of the infrastructural components subject to technological obsolescence, which could entail a greater risk for breakdowns and incidents, and which could impact on the Group's activities. In particular, the 2020 initiatives that directly or indirectly led to the mitigation of security risks were the following:

- The *"Move Datacenter Bicocca"* project was completed.

  With this project the old Bicocca Data Centre was closed and a Tier 4 Gold Data Centre was opened, with best in class availability, service and security levels;

- The *"Cloud Governance"* project

  This project made it possible to consolidate a governance model that could be adopted in public and private cloud environments, the aim of ensuring that they are properly managed in terms of security, compliance and costs. Especially as regards the safety aspects, the project has allowed Pirelli to define:

  - the new account structure, with the segregation of production and development accounts in order to improve access control, user authorisations and data security;
  - the implementation of a single sign-on solution in order to prevent unwanted access;
  - the implementation of automated procedures to be used during the creation of new environments, reducing the probability of human errors that may also result in security problems.

On the cost side, Pirelli has implemented reservation solutions and optimised server start-up times, thereby minimising expenditure.

- Software-Defined data centre Project

  The *"Software Defined Datacenter"* project continued, with the objective of transforming traditional factory datacentres into modern datacentres based on hyperconverged and software defined architectures, increasing the flexibility and speed required in the development and deployment of business-critical services and applications. This transformation, which during the year affected the Silao, Voronezh, Slatina and Feira plants, will affect all Pirelli plants over the next two years.

- Software-Defined WAN Project

  The SD WAN project is almost complete, with 52 out of 55 sites implemented. With it Pirelli has achieved:

  - greater total WAN bandwidth than before and the elimination of the concept of backup;
  - the optimised use of links, through the selection of the most appropriate link at that moment, enabling direct internet access;
  - the enabled shifting of workloads to cloud to minimise overloads;

- improved network agility through automation and Zero Touch Provisioning;
- a changed operations model from reactive to proactive, improving traffic visibility;
- improved user experience with more consistent connectivity.

- Pirelli/Prometeon Split API Infrastructure Project

  The project for the physical segregation of the API (Application Programming Interfaces) infrastructure (basic infrastructure and end-user services such as e-mail, identity management, software distribution, etc.) between Pirelli and Prometeon, has been completed, with the aim of making the two environments completely separate also from a physical point of view, as a result of the migration of all users which already began at the beginning of 2021. The segregation project, in its entirety (applications, security, etc.) will be definitively completed during 2022.

- Operational support activities and Cyber Security for Prometeon according to contractual provisions.

- A Cyber Security Assessment, was carried out based on the NIST standard, through which the technological, organisational and process level of Cyber Security was evaluated. Following the Assessment, a new three-year Strategic Roadmap was drawn up, containing initiatives such as the enhancement of the internal central team in Milan, the relocation of the SOC to Europe, the modernisation of the SOC & CERT services, the improvement of processes such as Security Risk Management, the introduction of structured Training worldwide to the entire population, and many technological projects ranging from internal Intrusion Detection systems, especially in factory OT environments, to the renewal of the Data Classifier, to name but a few.

- Cyber Security training campaigns focused on Ransomware and a triptych of White Phishing tests were carried out to test the average level of corporate awareness in recognising malicious emails.

- CERT-P (CERT Pirelli)

  The Computer Emergency Response Team (CERT) is in the process of evolving to cope with the ever-growing and changing cyber security risk scenario. The objective is to improve the Company's cyber-readiness, or the ability to prevent cyber threats in a proactive manner, and avoiding, as far as is possible, any attacks having any significant impact on employees, assets, services and, in general, on the competitiveness and reputation of the Company.

Business Interruption risks

The territorial fragmentation of the operating activities of the Group and their interconnection, expose it to risk scenarios that could cause the interruption of business operations for periods which could be more or less prolonged, with the consequent impact on the operational capabilities and results of the Group itself. Risk scenarios related to natural or accidental events (fires, floods, earthquakes, etc.), to wilful misconduct (vandalism, sabotage, etc.), to breakdowns of the auxiliary plants or to interruptions in the supply of utilities, can in fact, cause significant property damage, and the reduction and/or interruption of production, particularly if the event concerns high volume or specific product (high-end) production sites. Pirelli monitors their vulnerability to catastrophic natural events (in particular flood, hurricane and earthquake) and estimates any potential damage (based on the given probability of occurrence) for all the Group's production sites. The analyses confirm the adequate monitoring of business interruption risks, thanks to a complex series of security measures, systems for the prevention of harmful events and for the mitigation of potential impacts on the business, also in light of the current business-continuity plans, as well as the insurance policies in place to cover property damage and any business interruptions which the Group's production facilities might suffer (the Group's insurance coverage may however not be sufficient in compensating all potential losses and liabilities in case of catastrophic events). Pirelli's supply chain is also regularly evaluated for potential risks.

Risks relative to the financial reporting process

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

In particular, the financial reporting process is carried out through the appropriate administrative and accounting procedures, drawn up in accordance with criteria established by the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organisations of the Tradeway Commission.

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

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

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

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

For each control objective, regular verification measures have been scheduled, and have been assigned specific functions. A supervisory system has been implemented on the controls carried out by way of a mechanism of chain attestations. Any problems that emerge within the evaluation process are subject to action plans whose implementation is then verified in subsequent closings.

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

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

CORPORATE SOCIAL-ENVIRONMENTAL RESPONSIBILITY RISK

Risks relative to corporate social and environmental responsibility, and business ethics

Risk management in Pirelli is enterprise-wide and includes the identification, analysis and monitoring of environmental, social, economic/financial and business ethics risks that are directly or indirectly related to the Company, at Pirelli affiliates or in dealings with them, such as those related to the sustainability of the supply chain. Before entering a specific market, ad-hoc assessments are carried out in order to assess any political, financial, environmental and social risks, including those connected with human and labour rights. Together with the ongoing monitoring of the application of Pirelli's internal regulations regarding financial, social (particularly regarding human and labour rights), environmental and business ethics on Group sites, which occurs through periodic audits performed by the Internal Audit Function, Pirelli has adopted an ESG (Environmental and Social Governance) risk mitigation strategy also with regard to its own supply chain, which is periodically audited by specialised third party companies. In both cases, if instances of non-compliance are found, a remediation plan is provided for, whose implementation is regularly monitored by the auditing body.

OUTLOOK FOR THE FIVE-YEAR PERIOD

Target 2021-2022|2025 (euro billions)	**2020**	**2021E**	**2022E**	**2025E**
Revenues	4.3	~4.7 ÷ ~4.8	~5.1 ÷ ~5.3	~5.7 ÷ ~6.2
Ebit margin adjusted	11.6%	>14% ÷ ~15%	>16% ÷ ~17%	>19% ÷ ~20%
Investments (CapEx) *(% of net sales)*	0.14 *(3.3%)*	~0.33 *(~7%)*	~0.38 ÷ ~0.4 *(~7.5%)*	~1.2 ÷ ~1.3 cum 23-25 *(~7.5% avg)*
Net cash flow before dividends and convertible bond impact	0.21	~0.30 ÷ ~0.34	~0.42 ÷ ~0.46	~1.7 ÷ ~1.9 cum 23-25
Net financial position* *NFP/Ebitda Adj.*	3.3 *3.65x*	~3.0 *~2.7x*	~2.75 ÷ ~2.65 *~2x*	~1.6 ÷ ~1.4 *~1x*
ROIC *post taxes*	10.4%	~16%	~19%	~25%

**assuming a dividend policy with a payout equal to about 50% of consolidated net earnings of 2021-2022 and equal to about 40% of 2023-2024*

For the **2-year period 2021-2022**, the company foresees growth in sales of between ~800 million euro and **~**1 billion euro, with group revenues at the end of 2022 of between **~**5.1 and **~**5.3 billion euro. The commercial program will enable the capture of opportunities linked to the market's recovery and the focus on the segments with the highest growth (Car ≥19'') and greatest technological content (Specialty and EV).

Profitability is expected to see progressive improvement, with an **adjusted Ebit margin of between** >16% and **~**17% at the end of 2022, thanks to the effectiveness of internal levers: volumes, price/mix and net efficiencies. The benefits deriving from "Phase 2" of the Competitiveness plan presented in February of 2020 are confirmed, with net efficiencies in the 2-year period 2021-2022 expected to total **~**170 million euro.

The **accumulated net cash flow** before dividends for the 2-year period 2021-2022 is expected at between **~**700 and **~**800 million euro, supported mainly by the improved operating performance.

At the end of 2022 the **Net Financial Position** will be between **~**2.75 and **~**2.65 billion euro, equal to **~**2 times Adjusted Ebitda (~3.3 billion euro at end 2020, equal to 3.7 times Adjusted Ebitda).

For the **3-year period 2023-2025** (second phase of the plan), Pirelli expects revenue growth of between **~**600 million and **~**900 million euro, with group sales at the end of 2025 of between **~**5.7 and **~**6.2 billion euro, with a more balanced contribution between growth in volumes and price/mix.

Profitability (**adjusted Ebit margin**) is expected at between **~**19% and **~**20% in 2025, supported by the above mentioned growth in volumes, improvement in the price/mix and the contribution of "Phase 3" of the Competitiveness program, the net benefits of which in the 3-year period are estimated at between **~**70 and **~**100 million euro.

The **accumulated net cash flow** in the period 2023-2025 is seen at between **~**1.7 and **~**1.9 billion euro, supported by:

- the improvement of operational management, deriving from the above mentioned programs
- lower outlays for restructurings and organizational rationalizations, compared with the 2-year period 2021-2022, whose programs will end by 2022.

At the end of 2025 the **Net Financial Position** will be between **~**1.6 and **~**1.4 billion euro, equal to about 1 times Adjusted Ebitda.

Based on the outlook for cash generation for the period 2020-2025, the **dividend policy** approved by the Board of Directors foresees a payout of about 50% of the consolidated net result for 2021 and 2022, and a payout of about 40% of consolidated net profit in 2023 and 2024.

The solid cash profile will enable the guarantee of a Return on Invested Capital (ROIC), net of the fiscal impact, improving along the Plan's entire horizon: **~**16% in 2021 (10.4% in 2020), **~**19% in 2022, **~**25% in 2025.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

During **January and February 2021**, Pirelli repaid some of its maturing debt in advance, which had been scheduled for 2021 and 2022 to the total amount of euro 838 million. In particular, a tranche of the *"Schuldschein"* loan, to the amount of euro 82 million with original maturity on July 31, 2021 was repaid, plus a portion of the unsecured *("Facilities")* loan to the amount of euro 756 million with original maturity in 2022, was repaid. These repayments, for which part of the liquidity raised in 2020 was used, made it possible to reduce financial expenses, thereby optimising the financial structure of the debt.

On **February 25, 2021** Pirelli communicated the terms of the termination of the employment relationship, effective February 28, 2021, with the General Manager, co-CEO Angelos Papadimitriou, already announced to the market on **January 20, 2021**.

In accordance with the current Remuneration Policy of the Pirelli Group, the Board of Directors granted to Mr. Papadimitriou, in addition to the amounts due by way of compensation and other legal benefits accrued up to the date of his termination: (i) 10 months' gross annual remuneration as a redundancy incentive, equal to the value of what would have been the compensation in lieu of notice, based on conventional seniority recognised at the time of recruitment as an executive, to be paid by April 20, 2021; (ii) euro 100,000 gross by way of a general novative settlement, to be paid once the termination has been defined in accordance with the existing labour law procedures, by April 20, 2021, as well as the maintenance until December 31, 2021 of certain non-monetary benefits granted at the time of recruitment as an executive. As provided for at the time of his recruitment, subordinate to the suspensory condition of the approval of the 2021 Remuneration Policy by the Shareholders' Meeting, Mr. Papadimitriou will be bound, for the two years following his termination of office as Director, to a non-compete agreement, valid for the main countries in which Pirelli operates, in exchange for a consideration, for each year, equal to 100% of his gross annual remuneration, to be paid in 8 deferred quarterly instalments starting from July 1, 2021. The non-compete agreement includes a *non-solicit* clause as well as penalties in the event of any breach of the obligations pursuant to the non-compete agreement.

On **March 24, 2021**, in order to provide support for the execution of the Industrial Plan, the Executive Vice Chairman and CEO, Marco Tronchetti Provera, decided to propose the appointment of Giorgio Luca Bruno to the office of Deputy-CEO, which reports directly to him.

This proposal - shared with the Chairman of the Board of Directors, Ning Gaoning, and the Nominations and Successions Committee, whose Directors were informed - aims also at strengthening the management team in view of the future succession path in-line with the Procedure already adopted by the Company, and provides that the Deputy-CEO may also contribute to the development of internal management. The Executive Vice Chairman and CEO will therefore propose on March 31, to the Board of Directors, to invite the Shareholders' Meeting scheduled for June 15, 2021, to appoint Giorgio Luca Bruno as a Director, and will also propose that once appointed as a Director, he assumes the role of Deputy-CEO.

Following the proposal, Angelos Papadimitriou renounced his candidacy for Director. Therefore, the Shareholders' Meeting, which **met on the same date** with, amongst other things, his reappointment on the Agenda, decided to postpone the appointment of a new Director until June 15, which the Board of Directors will nominate in the person of Giorgio Luca Bruno. Angelos Papadimitriou, who had previously been co-opted, has therefore ceased to be a Director. The Shareholders' Meeting, also approved, during an extraordinary session, the convertibility of the "*euro 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025*", issued on December 22, 2020, as well as approved a divisible share capital increase, with the exclusion of option rights, to service the conversion of the aforementioned bond, for a total counter-value, including any share premium, of euro 500 million. On the basis of the initial conversion ratio of the Bond Loan of euro 6.235 this increase will correspond to the issue of a maximum of 80,192,461 Pirelli & C. ordinary shares (notwithstanding that the maximum number of Pirelli & C. ordinary shares could increase on the basis of the effective conversion ratio applicable from time to time).

On **March 31, 2021**, the Board of Directors approved the 2021-2022|2025 Industrial Plan, which was presented to the financial community on the same date. For further information, reference should be made to the section "Outlook for the five-year period" in this document.

ALTERNATIVE PERFORMANCE INDICATORS

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

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

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

- **EBITDA adjusted:** is an alternative measure to the EBITDA which excludes non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;

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

- **EBIT margin adjusted:** is calculated by dividing the EBITDA adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency excluding, the impacts deriving from investments, operating costs attributable to non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;

- **EBIT:** is an intermediate measure which is derived from the net income/(loss) but which excludes taxes, financial income, financial expenses and net income/(loss) from equity investments. The EBIT is used to measure the ability to generate earnings, including the impacts deriving from investments;

- **EBIT adjusted:** is an alternative measure to the EBIT which excludes, the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;

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

- **EBIT margin adjusted:** is calculated by dividing the EBIT adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency excluding, the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring, restructuring and one-off expenses, COVID-19 direct costs, and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;

- **Net income/(loss) adjusted:** is calculated by excluding the following items from the net income/(loss):
  - o the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
  - o non-recurring expenses/income recognised under financial income and expenses;
  - o non-recurring expenses/income recognised under taxes, as well as the tax impact relative to the adjustments referred to in the previous points.
- **Fixed assets:** this measure is constituted of the sum of the Financial Statement items, *"Property, plant and equipment", "Intangible assets", "Investments in Associates and Joint Ventures", "Other financial assets at fair value through other Comprehensive Income"* and *"Other non-current financial assets at fair value through the Income Statement".* Fixed assets represent the non-current assets included in the net invested capital;
- **Operating net working capital:** this measure is constituted by the sum of *"Inventory", "Trade receivables"* and *"Trade payables";*
- **Net working capital:** this measure is constituted by the operating net working capital, by other receivables and payables, and by the derivative financial instruments not included in the net financial position. This measure represents short-term assets and liabilities included in the net invested capital, and is used to measure short-term financial stability;
- **Net invested capital:** this measure is constituted by the sum of (i) fixed assets, and (ii) net working capital. Net invested capital is used to represent the investment of financial resources;
- **Provisions:** this measure is constituted by the sum of *"Provisions for liabilities and charges (current and non-current)",* "*Other non current assets*", *"Provisions for employee benefit obligations (current and non-current)"*, *"deferred tax liabilities"* and *"deferred tax assets".* The item provisions represents the total amount of net liabilities due to obligations of a probable but uncertain nature;
- **Net financial debt:** is calculated pursuant to the CONSOB Communication dated July 28, 2006, and in compliance with ESMA/2013/319 Recommendations. Net financial debt represents borrowings from banks and other financial institutions net of cash and cash equivalents, other current financial assets at fair value through the Income Statement, current financial receivables (included in the Financial Statements under the item *"Other receivables"*), and current derivative financial instruments included in the net financial position (included in the Financial Statements under current assets, current liabilities and non-current liabilities, as *"Derivative financial instruments"*);

- **Net financial position:** this measure represents the net financial debt less the *"non-current financial receivables"* (included in the Financial Statements under *"Other receivables"*) and non-current derivative financial instruments included in the net financial position (included in the Financial Statements under non-current assets as *"Derivative financial instruments"*). Total net financial position is an alternative measure to net financial debt which includes non-current financial assets;

- **Operating net cash flow:** is calculated as the change in the net financial position relative to operations;

- **Net cash flow before dividends and extraordinary transactions/investments:** is calculated by adding the change in the net financial position due to financial and tax management, to the operating net cash flow;

- **Net cash flow before dividends paid by the Parent company and convertible bond impact:** is calculated by adding the change in the net financial position due to extraordinary transactions and the management of investments, to the net cash flow before dividends and extraordinary transactions/investments;

- **Net cash flow before dividends paid by the Parent company:** is calculated by adding the impact on the net financial position due to the recognition of the convertible bond, to the net cash flow before dividends paid by the Parent company and convertible bond impact;

- **Net cash flow:** is calculated by adding the change in the net financial position due to the payment of dividends by the Parent company, to the net cash flow before dividends paid by the Parent company;

- **Investments in intangible and owned tangible assets (CapEx):** this is calculated as the sum of investments (increases) in intangible assets, and investments (increases) in property, plant and equipment excluding any increases relative to the right of use;

- **Increases in the right of use:** is calculated as the increases in the right of use relative to lease contracts;

- **Ratio of investments to depreciation:** this is calculated by dividing the investments (increases) in owned tangible assets with the depreciation for the period. The ratio of investments to depreciation is used to measure the ability to maintain or restore amounts for property, plant and equipment;

- **ROIC:** calculated as the ratio between adjusted EBIT net of tax effect and average net invested capital, which does not include investments in associates and joint ventures, "other financial assets at fair value through other comprehensive income" and "other non-current financial assets at fair value through profit or loss", intangible fixed assets relating to assets acquired as a result of a business combination and deferred tax liabilities relating to the latter. The ROIC is used as an indicator of the return on invested capital.

OTHER INFORMATION

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the strategic guidance and supervision of the overall business activities, with the power to address the administration in its entirety, and the competence to undertake the most important financial/strategic decisions, or decisions which have a structural impact on operations, or are functional decisions, as well as to exercise the control and direction of Pirelli.

The Chairman is endowed with the legal representation of the Company, including in the Company's legal proceedings, as well as all other powers attributed to the Chairman pursuant to the Articles of Association.

The Executive Vice Chairman and Chief Executive Officer are exclusively delegated powers for the ordinary management of the Company and the Group, as well as the power to make proposals regarding the Industrial Plan and Budgets to the Board of Directors, as well as any resolutions concerning any strategic industrial partnerships and joint ventures of which Pirelli is a part.

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

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

INFORMATION ON THE SHARE CAPITAL AND OWNERSHIP STRUCTURE

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

On December 14, 2020, the Board of Directors passed a resolution for the placement of the "*euro 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025*" maturing on December 22, 2025, which is reserved for qualified investors. The relevant placement was launched on December 14, 2020 and closed the following day, with pricing defined on December 15, 2020.

Subsequently, on March 24, 2021, the Company's Shareholders' Meeting approved:

- the convertibility of the aforementioned bond issue;

- the proposal for an increase in the share capital in cash, by payment and on a divisable basis, with the exclusion of option rights, for a maximum nominal amount, including any share premium, of euro 500,000,000 to be released in one or more tranches through the issue of up to 80,192,461 ordinary shares, (notwithstanding that the maximum number of Pirelli & C. ordinary shares may increase on the basis of the effective conversion ratio applicable from time to time), of the Company, having the same characteristics as the outstanding ordinary shares reserved exclusively and irrevocably to service the conversion of the bond loan.

The shareholder Marco Polo International Italy S.r.l. - pursuant to Article 93 of Legislative Decree 58/1998 - controls the Company with a 37% share of the capital, but does not exercise management and coordination activities.

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

For further details on the governance and ownership structure of the Company, reference should be made to the *Report on Corporate Governance and Ownership Structure* contained in the *2020 Annual Report*, as well as other additional information published in the *Governance and Investor Relations* section of the Company's website. (www.pirelli.com).

WAIVER OF THE PUBLICATION OF INFORMATION DOCUMENTS

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

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

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

With reference to data at December 31, 2020, the Extra-EU Companies controlled, directly or indirectly, by Pirelli & C. S.p.A. which are of relevance pursuant to Article 15 of the Market Regulations are:

Limited Liability Company Pirelli Tyre Russia (Russia); Pirelli Pneus Ltda (Brazil); Pirelli Comercial de Pneus Brasil Ltda (Brazil); Comercial e Importadora de Pneus Ltda. (Brazil); Pirelli Tire LLC (USA); Pirelli Tyre Co., Ltd. (China); Pirelli Otomobil Lastikleri A.S. (Turkey); Pirelli Neumaticos S.A.I.C. (Argentina); Pirelli Neumaticos S.A. de C.V. (Mexico); Pirelli Neumaticos de Mexico S.A. de C.V. (Mexico); Pirelli Tyre (Suisse) SA (Switzerland).

Also pursuant to the same aforesaid provisions, the Company has specific and appropriate *"Group Operating Regulations"* in place which ensures immediate, constant and full compliance with the provisions of the aforementioned CONSOB Regulation. In particular, the competent corporate departments ensure the timely and punctual identification and publication of the more significant Extra-EU Companies, pursuant to the provisions of the Market Regulations, and - with the necessary and timely cooperation of the companies concerned - ensure the collection of data and information, and the assessment of the circumstances referred to in the aforementioned Article 15, ensuring the availability of the information and data provided by the subsidiaries in the event of a CONSOB request. The periodic flow of information is also provided to guarantee to the Board of Statutory Auditors, that the Company is carrying out the required and appropriate checks. Finally, the aforesaid Operating Regulations, consistent with regulatory provisions, govern the making of the Financial Statements available to the public, (that is the Statement of Financial Position and Income Statement), of the relevant non-EU companies, which are subject to the preparation of the consolidated Financial Statements of Pirelli & C. S.p.A.

It is hereby declared that the Company has fully complied with the provisions of Article 15 of the aforementioned CONSOB Regulation No. 20249 of December 28, 2017, and the subsistence of the conditions required by the same.

RELATED-PARTY TRANSACTIONS

The Company's Board of Directors again approved the Procedure for Related Party Transactions *("RPT Procedure"),* as part of the new listing process initiated and completed during the 2017 financial year. Subsequently, following the renewal of the administrative body and the constitution of the Committee for Related Party Transactions (*"RPT Committee"),* the RPT Procedure was approved, without any modification, following the unanimous favourable opinion expressed by the members of the RPT Committee, and also by the Board of Directors currently in office. On the occasion of the periodic review of the internal procedure on related party transactions, the Board of Directors - subject to the unanimous opinion of the Committee for Related Party Transactions - confirmed the Procedure for Related Party Transactions without amendments, which had last been approved on November 6, 2017, reserving the right to carry out a subsequent review of the same in the light of the amendments to the CONSOB Regulation that will be adopted by the supervisory body in the implementation of the amendments to the European Shareholders' Rights Directive II. The

RPT Procedure can be consulted, together with other corporate governance procedures, in the section of the website www.pirelli.com dedicated to Corporate Governance. For more details on the RPT Procedure, reference should be made to the section *"Directors' Interests and Related Party Transactions"* included in the Annual Report on the Corporate Governance and Ownership Structure contained in the Financial Statements group of documents.

Pursuant to Article 5, paragraph 8 of CONSOB Regulation No. 17221 of March 12, 2010 on Related Party Transactions, and the subsequent CONSOB Resolution No. 17389 of June 23, 2010, it should be noted that during the 2020 financial year, that no transaction of significant importance, as defined by Article 3 paragraph 1, letter a) of the aforementioned Regulation, was submitted to the Board of Directors of Pirelli & C. S.p.A. for approval.

The information on Related Party Transactions as required, pursuant to CONSOB Communication No. DEM/6064293 of July 28, 2006, is presented in the Financial Statements, and in the Note entitled *"Related Party Transactions"* in the 2020 Annual Report. Transactions with related parties are neither unusual nor exceptional, but are part of the ordinary course of business for the companies of the Group, and carried out in the interests of the individual companies. Such transactions, when not carried out under standard conditions, or dictated to by specific regulatory conditions, are in any case governed by conditions consistent with those of the market. Furthermore, they are carried out in accordance with the RPT Procedure.

Also, there were no Related Party Transactions - or amendments or developments to the transactions described in the preceding Report - that have had a significant impact on the financial position, or on the results of the Group, for the first-half of the 2020 financial year.

EXCEPTIONAL AND/OR UNUSUAL OPERATIONS

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it is hereby specified that during the course of the 2020 financial year, that no exceptional and/or unusual transactions as defined in the aforesaid Notice were carried out by the Company.

COMPLIANCE WITH THE REGULATIONS ON THE PROTECTION OF PERSONAL DATA

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

"Annual Report of the DPO" available at the registered office of the Company, to which reference should be made for further details.

The Board of Directors

Milan, March 31, 2021

REPORT ON RESPONSIBLE MANAGEMENT OF THE VALUE CHAIN

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

METHODOLOGICAL NOTE

This section of the Annual Report 2020, entitled "Report on Responsible Management of the Value Chain" (hereinafter "the Report"), constitutes the "Consolidated Non-Financial Statement" of the Company pursuant to Legislative Decree no. 254/2016 and explores the Sustainable Management Model adopted by Pirelli, the governance tools to support maintenance and creation of values, relationships with Stakeholders and related connection with the development of financial, productive, intellectual, human, natural, social and relational capital, which was mentioned in the "Presentation of 2020 Pirelli Integrated Annual Report".

The Report reflects the integrated Business model adopted by the Group, inspired by the United Nations Global Compact, the principles of Stakeholder Engagement set forth by the AA1000, and the Guidelines of ISO 26000. Reported information is prepared in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Standards, *Comprehensive* option, following the process suggested by the APS1000 APS principles (*materiality*, *inclusivity* and *responsiveness*), and considering the *integrated reporting* principles contained in the International Integrated Reporting Council (IIRC).

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

The report shows the sustainability performance of the Group in 2020 compared to 2019 and 2018, with respect to the targets set in the 2020-2022 Industrial Plan, 2025 Vision. In this regard, please note that in March 2021 the Company will be presenting the new Industrial Plan and the related long-term strategic sustainability targets. The Plan will be published at the same time on the institutional website www.pirelli.com.

The Report, published annually, (the previous Pirelli Annual Report was published in March 2020 with reference to the year 2019), is approved by the Group's Board of Directors and covers the same scope of consolidation of the Group.

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

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

- a dedicated Operating Procedure, in which the roles, responsibilities and procedures to be followed by the Group companies in order to ensure adequate management and reporting of non-financial information are defined;
- an internal control system aimed at providing an assurance about the correct collection and reporting of non-financial information, to which an additional assurance is added for that

information considered to be of particular relevance since, for example, it falls within the Group Sustainability Plan targets;

- a verification, following a circling activity, of all the non-financial data reported in the Report;
- the signing of a letter of certification by the Top Management concerning the data that are collected through the CSR-DM information system and the paragraphs of the financial statements of competence.

As regards external audits, the sustainability performance accounted in the Report is subject to limited audit by an independent firm (PricewaterhouseCoopers S.p.A.) in accordance with the criteria indicated in the *International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000)*, issued by the *International Auditing and Assurance Standards Board*. For further information, reference is made to the related Auditor's Report provided at the end of the Annual Report. As part of this limited audit activity, the data relating to GHG (Greenhouse Gas) emissions were also specifically analysed, including for the purposes of the disclosure process to the CDP (formerly the Carbon Disclosure Project).

The Report is structured into four main areas:

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

At the end of the Annual Report 2020, before the Independent Auditor's Report mentioned above, the following summary Tables are available:

- the GRI Content Index, which shows the full list of indicators accounted based on the GRI Standards, indicating the relative page in the Annual Report 2020;
- a table of correlation between indicators accounted based on the GRI Standards and the United Nations Global Compact Principles;
- a table of correlation between the performance/targets of the Group and the Sustainable Development Goals of the United Nations on which the aforementioned performance and targets have an impact;

- a correlation table between the information contained in the Annual Report and the topics indicated by Legislative Decree no. 254/2016.

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

Management Model

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

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

The main management systems adopted by Pirelli include ISO 9001, IATF 16949, ISO/IEC 17025 in the area of Quality Management, SA8000® for the management of Social Responsibility at its subsidiaries and along the supply chain, ISO 45001/OHSAS 18001 for the management of Health and Safety in the workplace, ISO 14001 for environmental management and ISO 37001 on anti-corruption measures. The Company is also inspired by the ISO 14064 for the quantification and reporting of greenhouse gas emissions (GHG), the ISO 14040 family rules for the methodology for calculating the environmental footprint of the product and the Organisation and, specifically, ISO-TS 14067 and ISO 14046 for the determination of the Carbon Footprint and Water Footprint. In February 2018, the Company also obtained independent certification (from SGS Italia S.p.A.) regarding the compliance of its Sustainable Purchasing Management model based on the ISO 20400 Standard.

Details on the coverage of these certifications and methodological reference tools have been given in the paragraphs "231 Compliance, Anti-Corruption, Privacy and Antitrust Programmes", "Our Customers", "Our Suppliers", "Environmental Dimension", "Industrial Relations" and "Occupational Health, Safety and Hygiene" of this Report.

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

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

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

Sustainability Planning and the United Nations Sustainable Development Goals (SDGs)

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

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

In March 2021, the Company will be presenting the new Industrial Plan and the related long-term strategic sustainability targets. The Plan will be published at the same time on the institutional website www.pirelli.com.

During 2020 Pirelli continued to implement the Sustainability Plan 2020-2022 with 2025 and 2030 Vision, published in February 2020, fully complementary with the Company's Industrial Plan. The Plan's targets have been defined in alignment with the materiality of the Company's socio-environmental impacts and in support of the United Nations 2030 Sustainable Development Goals, as further discussed below.

The targets and related performance of the Plan (for details see the related sections in this Report) foresee in summary the following:

At raw material level, for new product lines:

- by 2025: renewable materials > 40%, recycled materials > 3%, fossil-based materials < 40%;
- by 2030: renewable materials > 60%, recycled materials > 7%, fossil-based materials < 30%;

With reference to the evolution of performance on the total product range:

- in 2022:
    - car products (compared to 2015): average reduction in rolling resistance by 10%, improvement of 7% in wet grip, reduction in tread wear rate by 12% and noise reduction by 4%;
    - motorcycle products (compared to 2015): 15% average reduction in rolling resistance, improvement of 21% in wet grip and 4% improvement in mileage;
    - velo products (compared to 2017 - the year Pirelli Velo was launched): average reduction of 25% in rolling resistance, improvement of 10% in wet grip and 5% improvement in braking performance;
- in 2025:
    - car products (compared to 2015): average reduction in rolling resistance of 14%, improvement of 9% in wet grip, reduction in tread wear rate by 18% and noise reduction by 4%;
    - Motorcycle products (compared to 2015): average reduction in rolling resistance of 20%, improvement of 25% in wet grip and 13% improvement in mileage;
    - Velo products (compared to 2017 - the year Pirelli Velo was launched): average reduction of 25% in rolling resistance, improvement of 15% in wet grip and 10% improvement in braking performance;
- growth in *Eco & Safety Performance* tyres revenues with a 2022 target of > 71% of total car turnover and > 78% of High Value products only[10];

In terms of environmental efficiency of production processes:

- with reference to CO_2 emissions, by 2025 it is planned to achieve 100% renewable electrical energy at Group level, as well as a 25% reduction in absolute CO_2 emissions compared to 2015 (Science Based Target approved by SBTi); by 2030 it is planned to achieve Carbon Neutrality (emissions from electrical and thermal energy);
- with regard to resource efficiency, the following are also planned by 2025: reductions of 10% in specific energy consumption (compared to 2019) and 43% in specific water withdrawal (compared to 2015), as well as achieving 98% of waste sent for recovery (zero waste to landfill);

[10] High Value products are determined by rim sizes equal to or greater than 18 inches and, in addition, include all “Specialties” products (RUN FLAT™, SEAL INSIDE™, PNCS™).

Regarding the sustainability of the supply chain:

- reduction of CO_2 emissions from raw material suppliers by 8.6% by 2025 compared to 2018 (Science Based Target approved by SBTi);
- adoption of increasingly advanced models of management of the economic, social and environmental responsibility of the supply chain with particular attention to the upstream supply chain;
- implementation of the Pirelli Roadmap 2019-2021 relating to the sustainable management of the natural rubber supply chain.

In the Plan, a central role is dedicated to human capital, the heart of the Company and of its ability to achieve the set objectives. The culture of safety in the workplace will continue to support the Zero Accidents objective, with an expected accident frequency index of ≤ 0.15 by 2022 and ≤ 0.1 by 2025. The plan focuses on increasingly innovative human capital management. New marketing recruitment solutions for STEM (Science, Technology, Engineering, Mathematics) talents will be accompanied by experimentation with increasingly smart working methods and training in new digital skills, in an inclusive working environment capable of meeting the challenges of the future in an agile manner. ESG objectives, which are an integral part of the short- and long-term incentive plans (with a weight of 20% of the LTI bonus), will be an enabler of positive tension towards achieving the Group's objectives.

To support achievement of Group targets, all Pirelli commercial and industrial subsidiaries around the world have a Country Sustainability Plan.

As noted above, the Plan targets defined in alignment with the materiality of the Company's socio-environmental impacts affect the following SDGs in particular:

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

Please be aware that:

- the Pirelli Sustainability Plan 2020-2022 with 2025 and 2030 vision is published in the “Sustainability” section of the Company’s website (www.pirelli.com), where the new Industrial Plan and related long-term sustainability strategic targets that the Company will present in March 2021 will also be published;
- at the end of the 2020 Annual Report, prior to the Independent Auditors’ Report, there are the Summary Tables including a correlation table between the Group’s performance/targets and the United Nations Sustainable Development Goals, on which the aforementioned performance and targets have an impact.

Stakeholder Engagement

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

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

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

The interactions that take place between Stakeholders are analysed in detail in order to manage relations with them effectively in accordance with the AA1000 Model adopted by the Company and with a view to creating lasting, shared value.

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

During 2020, due to the Covid-19 state of health emergency, engagement and dialogue activities with stakeholders that could be carried out through digital channels continued, while engagement activities that, in order to express maximum effectiveness, should have been held on site and in person were postponed. In particular, with reference to the engagement and training activities planned for the Group's natural rubber suppliers, it was decided to redirect available resources to activities in support of local communities impacted by the pandemic, through projects selected by Pirelli and discussed with its suppliers. The commitment with respect to natural rubber suppliers is part of the 2019-2021 roadmap of activities, defined by the Company following consultations with local and global stakeholders that took place during 2018 and 2019 (for more details on the sustainable management of natural rubber, please refer to the dedicated paragraph within this Report).

In the preceding years, on the other hand, several consultation meetings were held for the relevant national and regional stakeholders, this in order to share the results and targets of the sustainability plans of the subsidiaries and to listen to the expectations of the Stakeholders on the management of issues deemed relevant for the development of the subsidiary in the medium to long term. Meetings were held in the United States and the United Kingdom, in Russia and Argentina, in Romania, Mexico, Germany and Turkey. Among the issues discussed in the various countries are energy management, technical training and the availability of adequate skills in the population, road safety, the circular economy, human capital engagement, the environmental sustainability of cities, and water and waste management.

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

Materiality Analysis and Mapping

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

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

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

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

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

- the biggest original equipment customers;
- more than 700 end customers belonging to the most representative markets;
- the most important dealers;
- numerous employees in the various countries where the Group is present:
- several Group suppliers;
- the leading financial analysts;
- national and supranational institutions and public administrations;
- international and local NGOs present in the various Countries in which Pirelli has production activities;
- universities that have collaborations with the Group.

The topics submitted for evaluation by Stakeholders are the following:

- Occupational Health and Safety;
- Employees Well-being & Work-life Balance;
- Training and Development;
- Diversity and Equal Opportunities;
- Labour Relations Management;
- Community Engagement;
- Responsible Procurement;
- Human Rights;
- Customer Satisfaction;

- Product Quality and Safety;
- Product Environmental Sustainability (*impacts of the product on the environment: energy efficiency, mileage, weight reduction etc.);*
- Renewable Materials[11];
- Responsible Use of Natural Resources (energy and water efficiency, waste for recovery);
- Climate Change and Greenhouse Gas Emissions Management;
- End of Life Tyre Recovery and Recycling;
- Legal & Regulatory Compliance;
- Business Ethics and Integrity;
- Corporate Governance;
- Financial Health;
- Road Safety Initiatives.

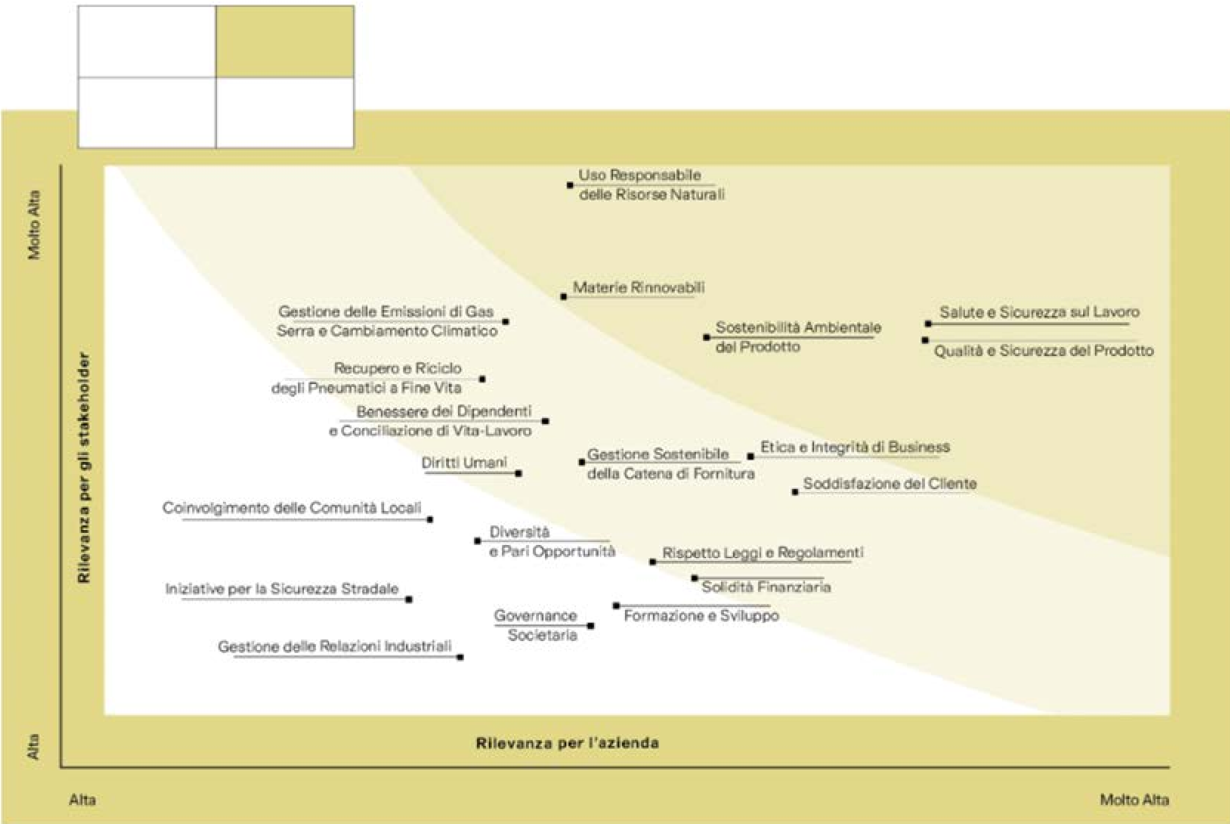
The priorities expressed by Pirelli and its stakeholders on the above issues have been represented in a materiality matrix showing, on the vertical axis, the expectations of several external and internal stakeholders, while on the horizontal one, the importance that the Management attributes to individual business success factors. The result of such consolidation was presented and approved at the Sustainability Steering Committee held in February 2019 and is outlined below.

It should be noted that the consolidation of the materiality matrix at Group level tends, by its very nature, to deviate significantly from the materiality matrix consolidated by the Group's Subsidiaries at country level. Elements of sustainability located in an area of minor materiality in the matrix at a Group level may be found to have major materiality for a number of Countries and specific stakeholders who are more directly involved.

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

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

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



Main Policies

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

In particular, the following Policies are recalled:

- the "Code of Ethics";
- the "Code of Conduct";
- the "Anti-Corruption" Programme;
- the "Global Antitrust and Fair Competition" Policy;
- the Group "Equal Opportunities Statement";
- the "Health, Safety and Environment" Policy;
- the "Global Human Rights" Policy;

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

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

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

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

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

During 2020, the Board of Directors of the Company approved the new version of the Model, updated in light of the offences provided for in the new Article 25-sexiesdecies, introduced by Law no. 157/2019 and Legislative Decree 75/2020, implementing the Financial Interest Protection Directive (PIF).

Furthermore, in view of the declaration of a public health emergency, the direct and indirect risks deriving from the spread of the contagion and the related impact on the internal control schemes of the Organisational Model were assessed. Also in this context, specific periodical monitoring information flows were introduced to the Supervisory Board concerning the Company's management of the Coronavirus emergency.

During the year, training and communication activities on the current Organisational Model were completed for the entire population of the Group's Italian companies.

In addition, the process of communicating and implementing the Group Anti-Corruption Programme continued in the main Countries in which Pirelli operates. The Programme, available in twenty-two different languages on Pirelli website, is the corporate benchmark for the prevention of corruptive practices and represents a collection of principles and rules aimed at preventing or reducing the risk of corruption. In the document, Pirelli principles already set out in the Ethical Code and the Code of Conduct, including zero tolerance of "*corruption of public officials, or any other party, in any guise or form, or in any jurisdiction even in places where such activity is admissible in practice, tolerated, or not challenged in the courts*" are restated. Among the provisions of the Group Anti-Corruption programme are a prohibition in respect of recipients of the Code of Ethics from offering gifts and other utilities that might meet conditions of a breach of rules, or which are in conflict with the Code of Ethics, or may, if made public, constitute detriment even only to the image of Pirelli. Additionally, "*Pirelli defends and protects its corporate assets, and shall procure the means for preventing acts of embezzlement, theft, and fraud against the Group*" and "*condemns the pursuit of personal interest and/or that of third parties to the detriment of social interests*".

As part of the anti-corruption programme implementation process, mandatory country-specific training courses have been made available through an e-learning platform. In addition, a Group-wide anti-corruption training course was prepared for the Purchasing Department to raise awareness of the issue so as to make it easier for employees to identify potential critical situations and activate the procedures set out in the internal rules.

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

Finally, specific procedures have been formalised on the third party due diligence process through the analysis of the activities, conducted in the main Countries, of gathering and verifying information of an ethical, legal and reputational nature relating to counterparties and aimed at identifying potential compliance risks in advance.

During the year, the certification body performed periodic audits on the ISO 37001 Anti-Corruption Management System of Pirelli & C., Pirelli Tyre S.p.A and the Russian and Brazilian entities, reconfirming the validity of the previously obtained certifications. In 2020, the Spanish subsidiary also obtained ISO 37001 certification.

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

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

In terms of prevention and control, the audits carried out by Internal Audit Department at Group subsidiaries include monitoring of crime risks, among which corruption and fraud figure. In this regard, it should be noted that, with reference to 2020, on the basis of the reports received through the whistleblowing reporting channel, 2 cases of fraud were ascertained to the detriment of the company. There were no cases of public legal action against the company regarding corruption practices.

Additionally, during the course of 2020 the implementation of the Functional Segregation model continued (so-called *Segregation of Duties*), aimed at strengthening the system of internal controls and preventing the committing of fraud.

Also in 2020, Pirelli supported the activities of Transparency International, to which it subscribes as supporter in educational area projects aimed at promoting an active role of civic and moral education in strengthening civil society against crime and corruption, believing that it is only through proactive and firm actions of value promotion that a general improvement in the quality of life can be achieved.

With reference to personal data protection, during 2020 the processing activities carried out by the Group companies based within the European Union, the Russian Federation and Turkey were monitored in order to verify their compliance with the EU Regulation 2016/679, the Russian Data Protection Act and the Turkish Data Protection Act, taking appropriate corrective actions where necessary. At the same time, a project was launched to implement a personal data protection management model for all countries in the APAC region, due to the different legislative changes. In addition, activities continued to adapt the new Brazilian legislation on personal data protection in anticipation of its entry into force on 18 September 2020. Finally, during 2020, Pirelli was not involved in any proceedings, investigations or inspections by data protection authorities, either within the European Union or within elsewhere.

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

Throughout 2020 Pirelli continued to implement the Antitrust Programme in the various Countries in which it operates: online training activities were carried out, as well as continuous business assistance to facilitate the management of antitrust issues in the daily conduct of business activities or relationships with other operators.

In 2020 Pirelli was not involved in any antitrust proceedings or investigations as participant in anti-competitive conduct.

For the sake of completeness, it should be noted that the proceeding before the EU Court of Justice was concluded in 2020. The previous decisions of the EU General Court and the EU Commission were confirmed, which, with regard to the investigation into the cartel in the electric cables market, had in 2014 ordered Prysmian Cavi e Sistemi S.r.l, jointly and severally with Pirelli (in its capacity as parent company of Prysmian Cavi e Sistemi S.r.l., although it was not directly involved in the cartel activities), to pay a fine of €67,310,000 plus interest. On 31 December 2020, Pirelli paid its share (equal to 50% of the fine) to the European Commission.

Focus: Reporting Procedure - Whistleblowing Policy

The Group Reporting Procedure, or Whistleblowing Policy supports the Group' internal compliance and control systems. It is aimed at both employees and external stakeholders; it is internally accessible through intranet and company bulletin boards in the local language and externally through Pirelli website.

The Policy governs the manner of reporting breaches, suspected breaches and inducement to breaches in the matter of law and regulations, principles ratified by the Ethical Code, including, obviously, equal opportunities and all that is dealt with in the above-mentioned Group Policies, internal auditing principles, corporate policies, rules and procedures, and any other behaviour involving commission or omission of acts that might directly or indirectly lead to economic-equity detriment, or even one of image, for the Group and/or its companies.

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

Reports may be made also in an anonymous form and protection of utmost confidentiality is at all times restated, as too is zero tolerance in respect of acts of reprisal of any kind against whoever makes a report or is the subject of the report.

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

The e-mail box ethics@pirelli.com is made available to anyone wishing to proceed with an alert, which is valid for all Group subsidiaries, as well as for the External Community, and is centrally managed by the Group Internal Audit function which, in the Pirelli organisation, has a functional reporting to the Audit, Risks, Sustainability and Corporate Governance Committee, made up of only independent directors, and to the Board of Statutory Auditors of Pirelli & C. S.p.A.

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

In respect of reports received in the years 2020, 2019 and 2018, below is a summary table, followed by an in-depth analysis of those pertaining to 2020[12].

[12] The data reported are related only to the consolidated scope of the Consumer business. Furthermore, with regard to the 6 reports that were still in progress at the reporting date of the 2019 Annual Report, following the conclusion of the verification activities in 5 cases no objective evidence was found to consider the facts alleged to be true, while in 1 case the partial veracity of the reports was confirmed and the company intervened with specific plans aimed at removing the causes and/or improving the internal control system.

	2020	2019	2018
Total reports	50	77	70
Of which anonymous	17	29	22
Of which filed closed for being absolutely generic	2	7	2
Of which founded	17	25	25
Countries of origin of the reports ascertained	Brazil, and UK	Brazil, Bulgaria, Dubai, Greece, Italy, Romania, and Russia	Brazil, China, Italy, Romania, Russia, United States and UK
Matter alleged in the reports ascertained	Violation of the Code of Ethics and/or company procedures, fraud against the Company or third parties, employee claims, discrimination.	Violation of the Code of Ethics and/or company procedures, fraud against the Company or third parties, product quality anomalies, discrimination.	Violation of the Code of Ethics and/or company procedures, fraud against the Company or third parties, claims by employees, discrimination.
Outcome of cases investigated	Review and integration of processes where deemed fitting, decisions by the functions concerned and the Human Resources Department.	Review and integration of processes where deemed fitting, decisions by the functions concerned and the Human Resources Department.	Review and integration of processes where deemed fitting, decisions by the functions concerned and the Human Resources Department.

During the course of 2020 the Whistleblowing procedure was activated 50 times. In particular:

- the 50 reports were received from 12 different Countries (Argentina, Brazil, South Korea, Egypt, India, Italy, Mexico, Russia, the United States, Turkey, the UK and Hungary);
- 76% of the reports (38 cases) were forwarded using the email address ethics@pirelli.com provided, while 24% (12 cases) by sending a letter to management which dealt with informing Internal Audit Department as per corporate rules;
- 66% of the reports (33 cases) were signed whereas the remaining 34% (17 cases) were received in anonymous form;
- among the signed notifications, 8 were activated by external Stakeholders, of which 6 were related to breaches of the Code of Ethics and/or company procedures, 1 case attributable to a report on product quality and 1 case relating to discrimination. It is objectively impossible to confirm that there were, in absolute terms, no further reports from external Stakeholders received as a number of reports were, as specified, anonymous.

Of the 50 reports received during the 2020 year, at the beginning of 2021, 11 were found to be at the verification and in-depth investigation stage, whereas 39 were found to have been concluded.

In respect of these latter, specific activities of verification involving, where necessary, the corporate functions concerned were conducted, and based on the analyses carried out and the documentation made available during the assessment, it emerged that:

- in 22 cases objective corroborating evidence was detected such as to hold the facts contended in the reports received to be true;

- in the remaining 17 cases the substantial truthfulness of the facts attributed was found, in particular, 2 cases concerned fraud against the Company or third parties, 1 case connected to discriminatory attitudes, 1 case relating to an employee claim and 13 cases concerning violations of the Code of Ethics and/or company procedures. The Company has activated for all cases, intervening with disciplinary sanctions (calls and/or dismissals) and with actions aimed at removing the causes of complaints and/or aimed at improving the internal control system.

In terms of trends over the last three years, in 2020 there was on the one hand a slight fall in reports compared to 2019, likely to be linked to the period of the Covid-19 health emergency, and a slight increase in the number of signed reports, further confirming the substantial trust placed in the Company in the management of reports.

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

ECONOMIC DIMENSION

Sharing of Value Added

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

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

DISTRIBUTION OF ADDED VALUE (in thousands €)						
	2020		**2019**		**2018**	
Gross Global Added Value	**1,674,788**		**2,315,148**		**2,177,745**	
Remuneration of personnel	(949,678)	56.7%	(1,072,167)	46.3%	(1,067,579)	49.0%
Remuneration of Public Administration	(14,693)	0.9%	(164,562)	7.2%	(52,964)	2.4%
Remuneration of borrowed capital	(156,502)	9.3%	(109,480)	4.7%	(196,311)	9.0%
Remuneration of risk capital		0.0%	(177,000)	7.6%	-	0.0%
Remuneration of the company	(548,726)	32.8%	(788,044)	34.0%	(857,079)	39.4%
Contributions to the external community	(5,189)	0.3%	(3,895)	0.2%	(3,811)	0.2%

The added value created in 2020 is 28% lower than in 2019. This change is mainly due to the impact of the Covid-19 emergency and the resulting deterioration in the economic outlook. Trends in the items determining gross global added value, as shown above, are set out in the Directors’ Report and Consolidated Financial Statements and related explanatory notes section of this report, to which reference is made for further in-depth study.

Contributions to the external community

The impact of expenses for corporate initiatives in 2020 for the external community on the net result of the Group amounted to 12.2% (0.9% in 2019). The increase in this ratio compared to the previous year is due to the increase in the absolute value of the contributions made during the year to the external community in response to the Covid-19 emergency, which in turn were weighed on a reduced Group net result compared to the previous year.

The table below shows the expenses incurred in the last three years:

CONTRIBUTIONS TO THE EXTERNAL COMMUNITY (in thousands €)			
	2020	**2019**	**2018**
Training and research	738	691	823
Social-cultural initiatives	1,441	2,136	2,181
Sports and solidarity	3,010	1,068	807
Of which Covid-19 donations	2,745		
Total contributions to the external community	**5,189**	**3,895**	**3,811**

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

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

Loans and contributions received from the public administration

The main contributions received by the public administration in 2020 are shown below.

Romania

The Company S.C. Pirelli Tyres Romania S.r.l. received a non-repayable grant of €28.5 million from the Romanian state as an incentive for local investments, of which €6.9 million in 2020 (the incentives were paid from 2018 onwards).

Italy

The Company Pirelli Tyre S.p.A. obtained incentives from the Lombardy Region in the form of non-repayable grants of €1.7 million and €2.4 million for the implementation of two Research and Development projects on Safety and Smart Manufacturing, of which €1.7 million and nearly €1 million were collected respectively. With reference to the agreement signed with the MiSE (Ministry of Economic Development) in the previous year for the facilitation of three Research and Development projects up to a maximum of €6.3 million in the aggregate, in the current year the Company completed the approval process with the presentation of the final facilitation applications and for the subsequent preliminary assessments by the competent body.

Mexico

As from the 2012 financial year, Pirelli Neumaticos S.A. de C.V. (Mexico) has received grant contributions from the Mexican Federal Government for investments and generation of employment for the ProMéxico project, for a total of €10 million. The final balance of €0.4 million was received in 2020.

RELATIONS WITH INVESTORS

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

During 2020, Pirelli intensified its dialogue with the financial market. On 19 February, in Milan, it presented the 2020-22 Industrial Plan, which was attended by leading Italian and foreign analysts and investors. Following the Covid-19 emergency, communication activities continued through digital channels using the website, videos and conference calls. From the outset, the company provided full visibility on the impacts of the pandemic, and on the actions taken to protect employees. Pirelli was the first company in the Auto & Parts sector to update its market outlook and targets for the current year, despite the uncertain and volatile scenario.

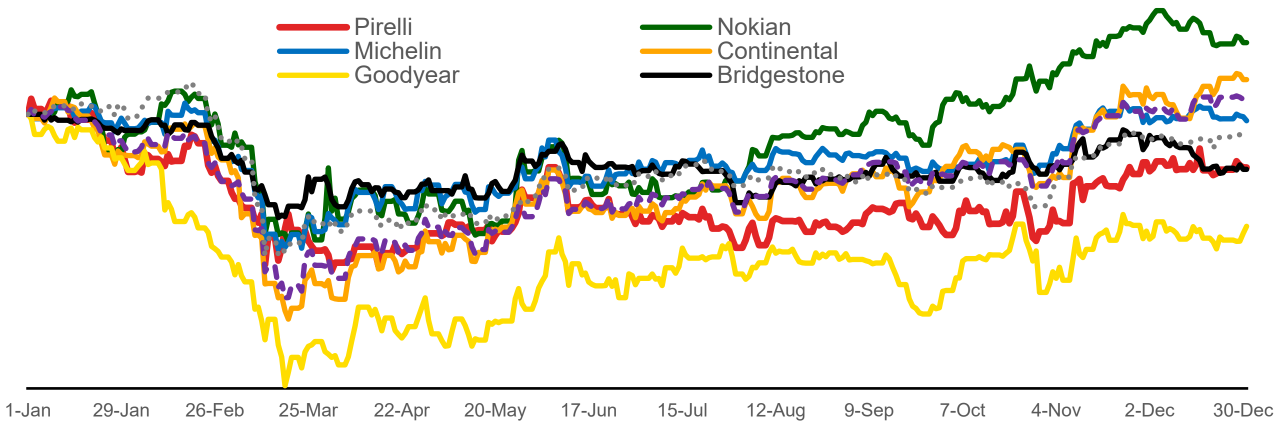
In line with international Best Practices, the "Investors" section of the Pirelli website is constantly updated with information on strategy, business model, market performance and positioning with respect to competitors.

The interest of the financial community towards Pirelli is proved by the broad coverage of the stock by 20 of the main national and international business banks and brokers and by the inclusion of the company in the main indices, including FTSE ALL World, FTSE MIB, MSCI Italia and FTSE Italian Brands.

The evaluation (Target Price) and the analysts' estimates (Consensus) are published in the "Investors" section on the company's website and periodically updated, based on publications and model updates by analysts covering the stock.

As a result of the health crisis, equity markets were characterised by unusual volatility in 2020, with the stock market trend being driven by news flow related to the Covid-19 emergency and monetary/fiscal policy interventions to counteract the real economy effects of the ongoing pandemic. The main cyclical sectors, including Auto & Parts, were among the worst hit on the stock market. Pirelli ended 2020 with a market capitalisation of €4.45 billion (average December capitalisation), down -14%[13]. This compares with -29%[13] for Goodyear, -14%[13] for Bridgestone, -2%[13] for Michelin, +9%[13] for Continental, +19%[13] for Nokian, and +4%[13] for the EU Stoxx 600 A&P index.

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



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

With particular reference to the Dow Jones Sustainability indices, in November 2020 Pirelli was recognised, as in 2019, as world leader in the Auto & Components sector in the Dow Jones Sustainability Indexes World and Europe, with a score of 84 compared to a sector average of 35. In addition, in February 2021, Pirelli was the only company in the Auto Components sector worldwide to be awarded "Gold Class Distinction" in the Sustainability Yearbook 2021 published by S&P Global; both the Dow Jones Sustainability Index and the Sustainability Yearbook are based on S&P Global's Annual Corporate Sustainability Assessment, which analyses the ESG performance of over 7,000 listed companies in 61 different sectors.

It should also be noted that, in December 2020, Pirelli was reconfirmed on the *Climate A List* of the CDP (formerly Carbon Disclosure Project) and became one of the global leaders in the fight against climate change. In 2020, more than 9,600 companies reported their greenhouse gas emissions through the CDP, a non-profit organisation supported by more than 515 institutional investors, managing assets worth more than US$106 trillion.

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

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

OUR CUSTOMERS

Pirelli is the only global tyre manufacturer entirely dedicated to the Consumer market, which includes tyres for cars, motorcycles and bicycles.

The company is focused on the High Value market and is committed to developing innovative tyres and Specialties and Superspecialties for a broad product portfolio. Sales channels include:

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

In the Original Equipment Vehicles, Sport Utility Vehicles (SUVs) and light commercial vehicles segment, Pirelli can count on a Premium customer market share of around 20% globally and more than 20% in Europe; in the Prestige segment, which ranks at the top of the range, Pirelli exceeds 50%.

In the Replacement segment, there are two broad types of customers: Specialised Resellers and Distributors. Specialised Resellers are tyre specialists operating on the market in the role of independent businesses, specialised dealers constitute a fundamental point of contact between the Group and the end consumer. Particular attention is devoted to specialised dealers in terms of shared development to enhance the product offering integrated with a high-quality level of service, in compliance with Pirelli values and consumer expectations. In 2020, Pirelli can count on around 17,000 Loyal Resellers globally, with a particular concentration in Europe, Asia-Pacific and South America (about 75% of the total points of sale). The degree of affiliation varies according to the market and the very presence of Pirelli, ranging from a softer loyalty (Fidelity Club), whose main objective for Pirelli is territorial coverage and for the dealer sales support; to franchise programmes, in which through the exclusivity of the partnership there is strong focus on business development point of sale overall; up to the maximum degree of affiliation, represented by the presence of points of sale owned by Pirelli (304 points of sale worldwide).

Starting in 2016, and in line with Pirelli's "Prestige" strategy, a new retail concept called P ZERO WORLD™ was born, with the aim of offering the best services to satisfy the most demanding consumers. P ZERO WORLD™ offers its customers the entire range of Pirelli products (Car, P ZERO™ Trofeo®, Pirelli Collection, Moto and Velo) and a series of customer-oriented services such as car valets and courtesy cars, all immersed in an environment that allows you to fully experience the Pirelli World, being able to touch the most important assets such as F1®, the Calendar and the partnerships of Pirelli Design. By 2021, the P ZERO WORLD™ Network will identify approximately 135 stores among Pirelli's best customers, located in the main countries of the world. Among these, 5 are already active Flagship Stores (Los Angeles, Munich, Monte Carlo, Dubai and Melbourne), while the remaining are authorised dealers, with about 50 new openings planned for 2021.

"Distributors" are partners who are fundamental to guaranteeing continuity in the supply of tyres to other specialised and non-specialised resellers. They do so by offering local delivery and distribution services throughout the entire territory. With this in mind, Pirelli is activating several programmes of close cooperation with the most important market distributors worldwide.

Customer focus

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

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

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

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

Transparency, information and customer training

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

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

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

Pirelli provides information to customer-distributors and end customers on a continual basis. This information concerns both the product and related initiatives, and is disseminated in a variety of ways, including digital channels, and this is complemented by information distributed in hard copy format, as well as the range of offline and online training activities.

With 55 Car websites (in 29 languages) and 20 Motorcycle websites (in 14 languages), online represents for Pirelli a fundamental point of contact with the customer in the tyre purchase process. These product websites, located not only by language, but also for content, offer and promotional activities, have the objective of informing and guiding the consumer, in all countries where Pirelli markets its products, to the points of sale where to buy the tyres. In 2020, these websites attracted 7.9 million unique users, for a total of 10.3 million sessions and 33 million page views.

A further digital touchpoint that brings the consumer to the point of sale is represented by the Retail sites: present in 10 countries, it has intercepted 1.8 million users in 2020 (for a total of almost 9 million page views) and generated about 120,700 appointment bookings, 72,000 calls to the dealer, more than 5,000 contact requests via e-mail.

In 2020 Pirelli continued to inform its customers through a Direct Email Marketing (DEM) programme whose main objective is to provide an additional tool for communication, training and ongoing contact with the trade. The DEMs aim to inform trade customers of the main new products, the Company and the courses available to become Pirelli Product Experts.

During 2020, due to the health emergency, almost all the major events that usually populate the automotive world, and which have always been the main focus of Pirelli’s activities (Autoshows, Concours d’Elegance, rallies, etc.), were cancelled. It was possible, however, to participate as a partner in the 2020 edition of the Salon Privè, held under the aegis of a very strict anti-Covid protocol, and to give life to two events of the P Zero™ Experience, one in Abu Dhabi and one at the Red Bull Ring, which hosted a total of 256 owners of supercars.

Pirelli continues its commitment alongside the sports more in line with the prestige and high performance positioning that characterise the company and its products: this is the case of the partnership started with Luna Rossa, *challenger of record* in the upcoming America’s Cup 2021, in addition to the close sponsorship relations with FC Internazionale Milano, the Italian Winter Sports Federation and the Alpine Ski World Championships and IIHF World Ice Hockey Championship.

Customer training on the product was also intense in 2020 in all markets, despite the shift to virtual delivery due to the spread of the Covid-19 pandemic. During the year, almost 15,000 participations of dealers, belonging to the 28 main markets, in online training courses on the Pirelli product, technology and tyre sales were recorded.

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

During 2020 there was an increase in the use of the online training site TYRE CAMPUS™, which now covers 28 markets in 17 different languages. To date, more than 14,000 points of sale are registered on the new site, with a total of over 15,200 active users. Training on the product is provided in an engaging and customisable way on the various types of distribution channel, with more paths linked to the individual product families. In addition to being involved in a modern and intuitive environment, users are also involved in the “Product Expert” certification which can be obtained and downloaded from the site once all the training courses assigned during the year have been completed.

Pirelli also continues to certify all its dealers who complete the product training successfully. The certificate is indicated by a “Product Expert” plaque to be displayed at the point of sale. This way, consumers can recognise which dealers are the most specialised and qualified on the technical features and benefits of all the products of the Pirelli range.

Listening and exchanging ideas with Customers as sources of continuous improvement

Customer relationships are managed by Pirelli principally through two channels:

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

- the Pirelli Contact Centres, nearly 30 worldwide with more than 160 employees, performing business operations in IT support and order management (inbound), telemarketing and teleselling (outbound).

In 2020, the major social media channels of Pirelli have seen an increase in the fan base. Pirelli’s presence on Facebook has stabilised at over 2.6 million followers. On Twitter, the Pirelli accounts have seen an increase in followers, reaching more than 344,000 people, over 14% more than in 2019. An important step forward was on Instagram, where the Pirelli channels reach 864,000 followers, an increase, year-on-year, of more than 9%. Finally, there are about 24,000 followers of Pirelli on the main online video platform, YouTube, and over 510,000 followers on LinkedIn.

As for www.pirelli.com, Pirelli's *digital magazine*, 369 articles were published in 2020 - 70% of which related to product and motorsport issues and 30% to the dimensions of the brand and company - attracting over 4 million visits (55% of which were attracted through social networks) and more than 3 million unique users.

As for the Motorcycle world, Pirelli and Metzeler brands boast a structured and widespread presence on the main social networks: Pirelli brand, as well as on the Facebook channel (with more than 988,000 fans connected to the Global Page which includes 18 local pages) is on Instagram with over 154,000 followers and has dedicated profiles on Twitter and YouTube. Significant for the business is the mobile application DIABLO™ Super Biker, which has been downloaded by more than 690,000 people around the world and which was completely renewed and improved in 2020 from the point of view of the usability and functionality offered to the motorcyclist. The Metzeler brand, in addition to its international website and geo-localised in 24 countries worldwide, is present on Facebook with a Global Page that has more than 437,000 fans and includes 16 local pages in as many Countries. As with Pirelli brand, Metzeler has had active Instagram, Twitter and YouTube profiles for years. The CRM (Customer Relationship Management) project, in turn, has a priority position given the passion for Pirelli products by the registered community of motorcyclists: nearly 450,000 for PIRELLI Moto and over 65,000 for Metzeler.

Pirelli Velo, in turn, speaks with its consumers also through a website dedicated to the world of cycling. Immediately active in Instagram, Pirelli Velo bases its communication on digital activation in line with the propensities of its target consumer.

Also in 2020 direct customer listening activities were carried out both through the Brand Tracking survey in Pirelli's Top Market (Italy, Germany, United Kingdom, China and United States) and through surveys to consumers with whom Pirelli has a direct and constant dialogue thanks to structured CRM activities. The ongoing changes made to this study over the years have made it possible to refine and improve the precision of business insights into the brand role, image profile and characteristics of the different touchpoints that influence the end customer's purchase decision.

In terms of performance indicators, Pirelli considers *Top of Mind*, *Brand Awareness* and *Brand Consideration*. With reference to the *Target Premium 18" Up* represented by Premium car owners which can mount tyres with rims equal or higher than 18 inches, the analysis carried out in 2020 saw Pirelli positioned among the main tyre brands: in second place for *Top of Mind*, *Brand Awareness* and *Brand Consideration* in the United Kingdom, in first place for *Top of Mind* and *Brand Awareness* and second place for *Brand Consideration* in Italy, third place for *Top of Mind* and *Brand Awareness,* and fourth place for *Brand Consideration* in Germany. Outside Europe, Pirelli is in fifth place for all KPIs in the USA; and in fourth place for *Brand Consideration,* but seventh place for *Top of Mind* and fifth place for *Brand Awareness* in China.

Product safety, performance and eco-sustainability

Safety and technological solutions in support of the environment are essential values of Pirelli's product offering and commitment. In 2020 the Company confirmed its continued focus on the development and marketing of tyres and technologies that aim to increase safety and enhance the potential of cars in tandem with attention to the environment.

For Pirelli, 2020 marked the launch of the new generation of the CINTURATO P7™, one of the Company's flagship products that has always been synonymous with reliability and safety, which has won awards from consumers and top carmakers. The CINTURATO P7™ was presented with about 50 Premium homologations to its credit on the main reference manufacturers (BMW, Mercedes, Volvo, Jaguar, Alfa) as a result of a clear message regarding safety (reduction in braking distance of up to 4 metres) and attention to the environment (reduction in fuel consumption of up to 4% and a 1 dB reduction in noise emissions).

The pursuit of all-round safety in terms of total mobility (the cohesion between 3PMSF and SEAL INSIDE™) is also confirmed by the growth in 2020 sales with SEAL INSIDE™ technology, thanks to investments in original equipment and the product USP of CINTURATO™ All Season Plus, whose range in 2020 benefited from an 18" Up size package that supported the increase in sales (+186% vs 2019 of Cinturato AllSeason+ with ≥18" siping).

Finally, the safety and performance of Pirelli products are certified by tests carried out by leading automotive magazines. Pirelli achieved 7 podiums in Europe/Nordics in 2020, including three for Nordics tyres (two with the latest-generation Icezero 2 studded tread and one with ICEZERO FR tread). The P ZERO™ finished on the podium in the EVO test with best in class in Wet Grip (*outstanding in wet*). The new CINTURATO P7™ took second place in Quattroruote. Tire Rack also tested the CINTURATO P7™ ALL SEASON PLUS II and declared it the winner in "Category-leading comfort and responsive feel on the road".

Attention to the evolution of mobility and the environment is also expressed in the ELECT™ tyre range, which distinguishes all tyres developed specifically, together with car manufacturers, for electric vehicles. The marking represents the clear identification of a tyre built through technological solutions and material packages capable of enhancing the technical features of electric cars, in particular in terms of:

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

Pirelli's growing role in the electric segment and strategic development partner is also made even clearer by the achievement of about 70 homologations from 13 different carmakers.

Particularly suitable for electric vehicles, but not only, is the PNCS™ technology, a crucial innovation for reducing noise inside the passenger compartment generated by tyre rolling as a result of stress between the road surface and the tread pattern. The benefits have been recognised by car manufacturers such as Jaguar-Land Rover, Audi, Volvo, Mercedes, Ford, Tesla, Porsche, Bentley, McLaren, Aston Martin and BMW, with over 250 homologations. PNCS™ technology not only increased its impact on overall sales but also demonstrated its potential and interest on the part of OEMs and end users during 2020, even during a year strongly characterised by the global macroeconomic context, maintaining sales to the original equipment channel unchanged compared to 2019 and showing growth in the replacement channel (+48%).

High Value approach to future mobility

Pirelli carefully monitors the evolution of mobility and its main trends such as digitalisation, electrification, shared mobility and driving automation, elements that were already present before the health emergency and that are expected to evolve strongly in the coming years. The health emergency has indeed highlighted the importance of personal health and safety, and a recovery is expected to be oriented towards greater sustainability for people and the planet, in which technologies can play a fundamental role in making the mobility of the future safer, more accessible, more efficient and with less environmental impact.

The mobility of the future cannot ignore digitalisation, and in this area Pirelli is present with the Cyber™ project and tyre sensor-fitting, an integral part of the Group's strategy that makes technological innovation a distinctive and key element in responding to the major issues that will transform the concept of mobility, which sees a future of self-driving cars, electric cars, shared cars and cars connected via 5G to the entire road infrastructure.

In fact, experimentation activities related to 5G connectivity and the enabling of V2V and V2X communication continue, where the tyre plays a fundamental role in recognising and communicating potentially dangerous situations related to road surface conditions. This trial, promoted by the Italian Ministry of Economic Development and led by Vodafone, sees Pirelli as the project's industrial partner with its Cyber Tyre technology, a key player in important use cases of future 5G connected mobility, with significant spin-offs in terms of transport safety, efficiency and sustainability.

In 2021, the development of Cyber Tyre technology will see the market launch of the first car with tyres natively integrated with the vehicle's electronic systems. This integration project, which has taken several years and involved the R&D teams of Pirelli and McLaren, opens the way to new developments and innovations. The new McLaren Artura with Cyber Tyre technology as standard, is equipped with an advanced tyre monitoring system that can check tyre conditions in real time and provide timely indications to increase safety and performance, both on the road and on the track.

The mobility of the future, in fact, will be characterised by an increasingly marked polarisation: on the one hand its service dimension, on the other the passion of those who, on the road or on the track, will continue to drive a car for the sheer pleasure of being behind the wheel. With these people in mind, Pirelli Track Adrenaline™ was created, an advanced telemetry and sensor-fitted tyre monitoring system for amateur drivers. Introduced in Italy in the summer of 2019, in 2020 Pirelli Track Adrenaline™ was introduced in Belgium, Germany, the UK, Austria and the United Arab Emirates. In Belgium, a partnership has also been launched with an international organiser of track events, with the aim of shifting the focus from pure speed, to the acquisition of increasingly refined driving skills.

In terms of fleets and reducing their management costs, Pirelli is pursuing the Cyber Fleet project, a system based on tyre sensors and constant monitoring of pressure and temperature parameters. Through a tyre management portal, Cyber Fleet makes it possible to predict and schedule maintenance operations, reducing the risk of breakdowns, as well as providing important KPIs on fuel consumption and CO_2 emissions. In 2020, Cyber Fleet technology was integrated into the platforms of a number of important fleet suppliers who wanted to enrich their offerings with the tyre management system developed by Pirelli.

The mobility of the future also partly consists of a return to the past, where bicycles, now electrified, play an important role, especially in urban mobility. This is why, since 2017, Pirelli has returned to the world of bicycle tyres (consider that the first Pirelli tyre at the end of the 1800s was a bicycle tyre) where it is present with several product lines: P ZERO™ for high-performance racing bikes and a user devoted to maximum performance, CINTURATO™ for Endurance and Gravel bikes, where the more playful component of exploration and sporting activity understood as wellness and lifestyle becomes preponderant over pure performance, the line dedicated to the off-road world of Mountain Bike SCORPION™ with all its variants, from Cross Country to E-MTB, and finally the Urban CYCL-e™ tyre line, ideal for all city and non-pedal commuting situations.

Pirelli has also dedicated itself to micro-mobility projects such as CYCL-e around™ which, through pedal-assisted bicycles, promotes a comfortable and sustainable mobility style on holiday and in daily life. It is a turnkey e-bike rental service for private communities, mainly hotels and companies. In 2020, activities in hotels were consolidated and experimentation in the corporate sector began with two tests involving the Fatebenefratelli Sacco hospital (pro bono) and Pirelli's headquarters. Last but not least, collaboration with a school with a strong technological vocation, I.I.S. Volta in Pescara, as part of the Future Class project.

Quality and product certification

ISO 9001: since 1970, the Group has had its own Quality Management System introduced gradually at all its plants and, since 1993, Pirelli has obtained certification of its quality system under the ISO 9001 standard. The transition process of its plants and the Headquarters to certification according to the new ISO 9001: 2015 ended in September 2018. In 2019, all the certifications obtained were verified by third-party bodies and kept active. In 2020, following the pandemic situation related to

Covid-19, the IAF (International Association Forum) admitted the possibility of implementing remote audits and extending the validity of expiring certificates. Pirelli has guaranteed the implementation of remote and field recertification and surveillance audits, where possible, in accordance with IAF rules and in compliance with the rules for the preservation of personnel health, established by the country and the company itself. The audits required for the subsidiaries in Argentina, Turkey and Germany have been postponed until January 2021.

IATF 16949:2016: since 1999 the Group has obtained the certification of its Quality Management System according to the automotive scheme and subsequent evolutions. Following the evolution of ISO 9001: 2015 and the new IATF 16949:2016 (Automotive Scheme became private), Pirelli achieved the Quality Management System certification in 100% of its eligible plants as at 31 December 2018. In 2019, all the certifications obtained were verified by third-party bodies and kept active. In 2020, due to the pandemic situation, the International Automotive Task Force allowed remote audits starting on October 30, 2020. In this case as well, Pirelli guaranteed the implementation of surveillance and recertification audits in the field, and then remotely, in accordance with IATF rules and in compliance with the rules for the preservation of personnel health, established by the country of origin and by the Company itself. At the end of the annual audit cycle of the plants and Headquarters, the surveillance or recertification audits postponed to January 2021 relate to the subsidiaries in Argentina, Turkey and Germany.

ISO/IEC 17025: since 1993 the Materials and Experimentation Laboratory of Pirelli Tyre S.p.A. and since 1996 the Experimentation Laboratory of Pirelli Pneus (Latin America) hold the Quality Management System and have been accredited under the ISO/IEC 17025 standard. This system is maintained in accordance with the standard in force and the ability of the laboratories to perform accredited tests is evaluated annually. In accordance with the rules for transition to ISO/IEC 17025:2017, in 2019 Pirelli Tyre S.p.A. Laboratory successfully obtained accreditation for the new version. In 2020, the laboratory carried out its annual remote surveillance audit as required by the Accreditation Body Accredia.

The labs participate in proficiency tests organised by the International Standard Organisation, by ETRTO or by international circuits organised by auto manufacturers. Specifically with regard to car tyres, the focus on quality is confirmed by Pirelli's supremacy in numerous product tests. It is also guaranteed by its collaboration on product development and experimentation with the most prestigious partners (auto manufacturers, specialised magazines, driving schools, etc.).

The Product Certifications, which allow the marketing of the same in the various markets in accordance with the regulations laid down by the different Countries and, for some markets, are managed directly by the Quality Function. The prevailing certifications, obtained in Pirelli Group, concern the markets of Europe, NAFTA, South America, China, Gulf Countries, India, Taiwan, Indonesia, South Korea, Japan and Australia, and involve all Pirelli factories. These Certifications periodically require factory audits by ministerial bodies of the countries concerned or bodies delegated by them, with the aim of verifying product compliance at Pirelli production sites.

In 2020, some Type Approval Authorities (e.g. for the China, Uruguay, and Nigeria markets) carried out remote audits to verify production compliance.

Compliance

Also in 2020:

- no cases emerged of non-compliance with regulations or voluntary codes concerning marketing activities, including advertising, promotion and sponsorship;
- no significant final penalties were levied and/or paid relating to infringement of laws or regulations, including those relating to the supply and use of the Group's products and/or services, with the exception of the sanction upheld by the EU Court of Justice, already mentioned in the Compliance-Antitrust section;
- no cases emerged of non-compliance with regulations or voluntary codes concerning information and labelling of products/services which have led to the imposition of sanctions and/or injunctions by the applicable authorities;
- no cases of non-compliance with regulations or voluntary codes concerning health and safety impacts of products/services during their life cycle;
- there were no documented complaints concerning both violation of privacy and/or the loss of consumers' data;
- there were no bans or disputes on the sales of any Pirelli product.

OUR SUPPLIERS

Supply Chain Sustainable Management System

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

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

The sustainable management of the supply chain is handled in the "Green Sourcing Policy", the "Social Responsibility Policy on Occupational Health, Safety and Labour Rights, Environment", the "Global Health, Safety and Environment Policy", the "Global Human Rights Policy", the "Global Quality Policy", the "Product Stewardship Policy", and in the Group's "Sustainable Natural Rubber Policy". In all the documents cited, with reference to the specific social and environmental issues discussed from the individual Policies, Pirelli undertakes to establish and maintain the procedures necessary to evaluate and select its suppliers on the basis of their level of social and environmental responsibility, as well as to request their suppliers implement a similar management model, in order to extend its responsible management in the supply chain as far as possible back to the origin of the chain.

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

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

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

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

The aforementioned Management Model and the related documentation are available on the institutional Pirelli website, in the "Suppliers Area" (Pirelli.com/suppliers), section devoted to the world of supply and accessible to current and potential Pirelli suppliers, as well as anyone with an interest in knowing the approach and procedures adopted by the Company in the areas of purchases of good and service around the world.

ESG elements in the purchasing process

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

During a first phase of **scouting**, and thus assessment of potential suppliers of goods or services, a buyer who has been adequately trained is able to gain a first impression of the abidance by the ESG and product or service requirements by the potential supplier. This makes it possible to eliminate potential future suppliers that are clearly in possible violation of Pirelli expectations.

Pirelli asks suppliers who gain access to the **on-boarding** (pre-qualification and qualification) phase to fill in the questionnaire through which the supplier can view and simultaneously accept Pirelli's requests in terms of economic, social, environment and business ethics responsibilities. Among the questions asked to the potential supplier, for example, the request to certify that its company checks workers' ages before hiring them, and it ascertains that all of its employees satisfy the minimum legal working age; uses workers provided with a written labour contract and who work on a voluntary basis exclusively; abides by workers' rights of freedom of association and participation in trade-union activities; pays wages that meet the minimum legal standards; manages disciplinary practices, if any, abiding by the law; abides by and applies legislative/contract provisions in the matter of work schedules, overtime and rest periods.

The process then continues with further questions aimed at identifying potential integrity and corruption risks in advance. For specific product categories (raw materials), information on loss prevention is also requested, key elements not only to prevent future cases of "business interruption", but also closely related to the safety of workers employed at the supplier's site.

For all potential new suppliers and/or facilities of raw material and high value added parts, which by their nature can become development/long-term partners for the Company, and which are also granted much of the spending of purchases, Pirelli conducts a third-party preliminary on-site audit during the qualification phase to verify the level of compliance of the potential supplier with respect to the principal national and international regulations on Work, Environment and Business Ethics. The non-acceptance of the audit and/or not signing the corrective action plan shall block the qualification of the supplier.

This is also the context of more than ten years of preventive assessment of new raw materials and new auxiliary products from the perspective of workers' health and the environment is carried out before the materials in question are used extensively by the Group's operating units. The assessments are carried out taking into account not only the requirements of the more restrictive European regulations on the management of hazardous substances (for example, the so-called "REACH" and "CLP" Regulations), but also by virtue of the standards and knowledge available at international level (specific databases, etc.).

Also worthy of mention are the activities of monitoring the producers and suppliers of the raw materials with regard to compliance with the requirements of Regulation (EU) 2017/821 (as modified by Regulation (EU) 2020/1588) on so-called "conflict minerals" (to which a paragraph is dedicated below).

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

In particular, the clauses;

- require suppliers to be aware of the principles, commitments and values contained in Pirelli's sustainability documents, namely "The Values and Code of Ethics", the "Code of Conduct", the "Global Human Rights Policy", the "Health, Safety and Environment Policy", the "Anti-Corruption Programme" and the "Product Stewardship Policy", published and accessible on the web, which set out Pirelli's principles for managing its activities and its relations with third parties, contractual and otherwise;

- require that Suppliers confirm their commitment to:

    - not using or supporting the use of child labour and forced labour or any other form of exploitation;

    - ensuring equal opportunity, freedom of association and promotion of the development of each individual;

    - opposing the use of corporal punishment, mental or physical coercion, or verbal abuse;

    - complying with the laws and industry standards concerning working hours and ensuring that waves are sufficient to cover the basic needs of personnel;

    - not tolerating any type or bribery in any form or manner and in any legal jurisdiction, even where such practices are effectively permitted, tolerated, or not subject to prosecution;

    - assess and reduce the environmental impact of its own products and services throughout their entire life cycle;

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

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

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

For some categories of suppliers, the clauses are also supplemented by additional requirements aimed at regulating specific areas such as the existence of an adequate management model for conflict minerals and cobalt, and compliance with Pirelli's Policy on the sustainable management of natural rubber.

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

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

In 2020, among the signed reports, three were sent by Suppliers. It remains objectively impossible to confirm that the total number of reports from suppliers corresponds only to three because some complaints were anonymous, as specified in the paragraph "Focus: Group Reporting Procedure - Whistleblowing", to which reference should be made for further information.

Focus: ESG on-site audit

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

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

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

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

- the supplier is bound to Pirelli by multi-year contracts;
- the replacement of the supplier and/or related product may be complex;

- the economic burden of the purchase is significant and for this reason it is considered necessary to verify in loco, via third party audit commissioned by Pirelli, the compliance of the supplier with Pirelli ESG expectations, signed by the supplier in the contract stage;
- the supplier operates in a Country at ESG risk;
- the supplier has not yet undergone an ESG audit by Pirelli or special criticalities have been detected in previous audits;
- there is information, a perception or doubt concerning possible violations by the supplier in the matter of social, environmental and/or business ethics responsibilities.

Each audit has an average duration of two days in the field and includes a factory visit, interviews with workers, management and trade union representatives. The external auditors carry out verification on the basis of a checklist of parameters of sustainability deriving from Pirelli Ethical Code, the SA8000® standard (a benchmark tool officially adopted by the Group for managing social responsibility since 2004) and the "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment" of the Pirelli Group (in its turn consistently with the areas of social, environmental and governance sustainability dictated by Global Compact of the United Nations), the "Social Responsibility for Health, Safety and Rights at Work, Environment" Policy, the Global Health, Safety and Environment Policy and the Global Human Rights Policy to which KPIs relating to loss prevention have been added since 2019. For natural rubber suppliers, the checklist of verified parameters is derived from Pirelli's Policy for the sustainable management of natural rubber, on which a paragraph is dedicated below.

In 2020, following the evolution of the Covid-19 scenario, the third-party auditors used by Pirelli developed and introduced a new methodology, in accordance with ISO/IEC 17021-1: 2015 (and related guidance), IAF MD4: 2018, IAF MD 5: 2019 and IAF ID 12: 2015 standards, which made it possible to guarantee the continuity of auditing activities through a remote and, where possible, hybrid approach (combination of remote and on-site audits).

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

Year	Audit Number
2018	85[14]
2019	90[15]
2020	71[16]

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

[15] of which 26 on potential new suppliers of raw materials.

[16] of which 6 on potential new suppliers of raw materials.

In most cases the 2020 audits involved suppliers of Pirelli operating in Countries where the company is present at an industrial level, i.e. Argentina, Brazil, China, France, Germany, Indonesia, Italy, Mexico, United Kingdom, Romania, Russia, United States, Turkey and Taiwan. Or suppliers in Countries from which Pirelli buys raw materials, such as China, South Korea, Mexico, Netherlands, Malaysia, Indonesia, Russia, Thailand and Brazil.

The results of the audits carried out during the 2020 annual campaign show:

- 46% of suppliers without non-compliance;
- a total number of non-conformities found decreased by 41% compared to 2019.

The non-conformities registered in 2020 are substantially linked to the processes of health and safety management, the use of overtime and the correct implementation of environmental management systems.

On the basis of audit findings, and where non-conformities are found, the supplier signs off a corrective action plan suggested by the independent auditor, to be implemented within specific deadlines. The implementation of the recovery plan is verified by a follow-up activity directly followed by the Auditor, who report to Pirelli.

The Group Internal Audit Department verifies the adequacy of the management and oversight of the ESG Audit on suppliers by the local responsible Functions (Sustainability and Purchasing).

Materiality of ESG impacts on the supply chain

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

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

Pirelli mitigates the risks mentioned through the Management Model adopted above described, which is completed with the engagement activities of the suppliers referred to below.

Sustainability of the natural rubber supply chain

With global demand for natural rubber expected to increase, sustainable management of the related supply chain is essential to preserve forests, biodiversity and to enable sustainable development for local communities and economies. The economic, social and environmental sustainability of the natural rubber supply chain is among the priorities of Pirelli, with the full awareness that the origins of its rubber supply chain impact in forestry terms.

The natural rubber supply chain - from upstream to downstream - includes producers/farmers, traders, processors, distribution companies and manufacturing facilities. Pirelli is at the end of the chain, as a tyre manufacturer that does not own its own plantations or natural rubber processing plants. Pirelli intends to play an active role in the aforementioned context, contributing to the efforts that are globally dedicated to the sustainable management of natural rubber.

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

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

- defence of Human Rights and promotion of decent working conditions;
- promotion of the development of local communities and prevention of conflicts related to land ownership;
- protection of ecosystems, flora and fauna;
- no to deforestation, no to the exploitation of the peat land, no to the use of the fire, and adoption of the “High Conservation Value (HCV)” and “High Carbon Stock (HCS)” methodologies;
- efficient use of resources;
- ethics and anti-corruption;
- traceability and mapping of socio-environmental risks along the supply chain (so-called *risk-based* approach);
- clear indication of the governance model envisaged by the policy, and consideration of the risks identified in the definition of the purchasing strategies;

- encouragement of its suppliers and sub-suppliers to the adoption of solid certification systems, internationally recognised and verified by third parties, at all levels of the supply chain;

- promotion, support for the Company's active participation in cooperation initiatives at sector level and among Stakeholders that play a significant role in the value chain, in the belief that, in addition to the individual commitment of companies, a shared effort can accelerate and strengthen the path towards a sustainable development of the global natural rubber supply chain;

- activities aimed at the implementation of the policy;

- commitment to reporting on the results achieved;

- making available the Reporting Procedure for any violations of the Policy.

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

At the same time, Pirelli defined its Action Plan for the three-year period 2019-2021.

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

During the course of 2019, Pirelli implemented the activities planned for the Action Plan 2019, with the support of central and local specialists from Earthworm Foundation; in particular, the activities covered the following: the organisation of meetings with the management of supplier companies, including some in-factory dialogue sessions; the identification of the geographical areas from which rubber is purchased, a fundamental activity for mapping potential risks within the supply chain; an analysis of potential socio-environmental risks for the mapped geographical areas, which was shared with suppliers; training of suppliers on the contents of the Policy and related Implementation Manual through six seminars organised in the five countries from which Pirelli obtains its supplies; definition of a roadmap by suppliers detailing the activities to be implemented to fill the gaps identified.

In 2020 the international health emergency situation led to the suspension of those activities planned for the period that, in order to achieve the expected level of effectiveness, would have had to be held on site with the actors in the supply chain (processors, traders, farmers). The resources allocated for these activities were then redirected and used to purchase almost 3,000 food packages donated to farmers affected by the pandemic.

Although the health situation significantly affected the activities in which an on-site presence was planned, through remote activities Pirelli was able to continue with the engagement of the supply chain aimed at improving traceability and risk mapping. Cooperation also continued with the aim of perfecting the plan of activities defined with them between 2019 and 2020; in fact, it should be noted that, at the beginning of 2020, 100% of natural rubber suppliers shared with Pirelli the activities aimed at implementing Pirelli Policy. The roadmap was defined after training sessions in which all suppliers participated in 3 days of training organised in local languages in 5 different areas of the globe. The suppliers' implementation plans were drawn up on the basis of the mapping of Pirelli supply chain risks, an analysis completed by specialised consultants during 2019.

In early 2020, Pirelli also published a study[17] on natural rubber tree diseases, diseases that have begun to have a major impact on the livelihoods of farmers (an estimated loss of productivity of around 15% in Indonesia[18]). The study, the result of an in-depth dialogue between farmers and specialists in the sector sponsored by Pirelli and held in late 2019, identifies the causes of the phenomenon and gathers possible solutions, with the intention of putting this wealth of information on the table.

Although it was not possible to organise the historic "tapping competition" in 2020, a major training event that the Group has been organising in Indonesia since 2014, the Group and its supplier Kirana Megatara confirmed the awarding of scholarships to the children of local producers, in the belief that the future sustainability of the natural rubber business absolutely cannot ignore the adequate training and development of the new generations, and their right to study. A total of 65 scholarships were awarded.

In 2021 Pirelli will continue on the path of engagement and partnership activities with its suppliers, focusing training on specific topics that meet the needs of the supply chain and dedicating it to players increasingly close to the origin of the chain. Pirelli will also continue to support suppliers in the implementation of their roadmap of activities and will continue to map the socio-environmental risks of the entire chain, strengthened by increasingly precise traceability and an increasingly close relationship with the various players involved.

Together for the Sustainability of Natural Rubber - the GPSNR platform

Pirelli Policy on the sustainable management of natural rubber, in point VIII, states: "*Pirelli believes that the global challenge of natural rubber sustainability requires engagement, cooperation, dialogue and partnership among all involved actors. In addition to engaging with its suppliers, Pirelli fosters*

[17] https://psi-dotcom-prd.s3-eu-west-1.amazonaws.com/corporate/Drill_Down_Study_Report_08.04.2020_final.pdf

[18] Jakarta Post, « Plant disease threatens thousands of hectares of rubber plantations », July 2019, https://www.thejakartapost.com/news/2019/07/25/plant-disease-threatens-thousands-of-hectares-ofrubber-plantations.html.

and supports active cooperation at industry level and among stakeholders playing a material role in the natural rubber value chain, with the conviction that in addition to corporations' individual engagement, a shared effort can result in stronger and faster progress towards sustainable development of the global natural rubber supply chain. Pirelli cooperates with national and international governmental, non-governmental, industry-wide and academic initiatives to develop global sustainable natural rubber policies and principles."

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

The Platform, launched in Singapore in October 2018 with the participation of the first "founding members", including Pirelli, is independent, based on multi-stakeholder dialogue and aims to support the sustainable development of the natural rubber business globally, for the benefit of the entire value chain through shared tools and initiatives based on respect for human and labour rights, prevention of land grabbing, respect for biodiversity and increased plant productivity, especially those of small owners. The first General Assembly of GPSNR was held in March 2019.

During 2020 Pirelli actively participated in three working groups launched by the platform, specifically:

- The "Smallholder Representation Working Group", which Pirelli co-chairs, has identified a geographically diverse group of farmers capable of effectively representing the interests of smallholders within the platform and identified three representatives to sit on the Executive Committee. Work continues to support the smallholder community on the platform, with the aim of extending the geographical presence covered and achieving the new targets set;

- The "Capacity Building Working Group", which Pirelli co-chairs, in 2020 has continued its activities aimed at developing a capacity building strategy in favour of smallholders and industrial plantations, identifying potential sources of financing;

- Pirelli also participates in the "Traceability and Transparency Working Group" which aims to identify an appropriate tool to improve the large-scale traceability, and therefore transparency, of the complex natural rubber supply chain. During 2020, the group focused on mapping the traceability systems offered by the market, with a specific focus on those already used in the world of natural rubber. The work will continue in 2021, with the aim of defining the general characteristics that the traceability tool must have in order to meet the level of transparency required by the GPSNR platform.

The “Green Sourcing” Policy

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

- Pirelli Green Sourcing Manual, an internal document containing operating guidelines, intended to guide the activities of the Pirelli functions involved in the Green Sourcing process;

- Pirelli Green Purchasing Guidelines, a document intended for Pirelli suppliers as part of the Contract for supply and based on the Green Sourcing Manual containing the KPIs (Key Performance Indicators) for assessing the Green Performance of these suppliers.

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

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

The Green Sourcing Manual is a unique document that contains:

- a general part on Green Sourcing topics;

- the Green Engineering Guidelines (Materials, Capex);

- the Green Operating Guidelines (Opex, Logistics).

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

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

Policy on Conflict Minerals

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

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

In turn, the European Institutions in May 2017 approved the 2017/821 Regulation (subsequently amended by Regulation (EU) 2020/1588) which "establishes duties in terms of due diligence in the supply chain for EU importers of tin, tantalum and tungsten, their minerals, and gold, originating in conflict zones or at high risk". The new provisions will apply from January 2021.

Pirelli expresses its position on the management of the issue in a paragraph dedicated to it in its Global Human Rights Policy, where it is stated that the Company "*requires that its suppliers conduct proper due diligence within their supply chain in order to certify that the products and materials supplied to Pirelli are "conflict free" throughout the whole supply chain. Pirelli reserves the right to terminate relations with suppliers in cases where there is clear evidence of supplying conflict minerals and however in case of any violation of Human Rights.*"

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

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

- Conflict Minerals Reporting Template (CMRT);
- Conflict Minerals policy if present;
- description of the "Due Diligence" system to identify and trace the presence of 3TG minerals (Tantalum, Tungsten, Tin, Gold).

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

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

With a view to procurement covering only minerals that are “conflict free”, Pirelli has conducted a comprehensive investigation on its supply chain, in order to have full visibility up to the mines or foundries in order to identify the existence of any “conflict minerals”. The company asked its suppliers to fill in the CMRT (Conflict Minerals Reporting Template) form developed by the Responsible Minerals Initiative (RMI) as developed in the past by the Electronic Industry Citizenship Coalition (EICC) and the GeSI (Global e-Sustainability Initiative).

The suppliers polled cover 100% of the “conflict minerals” risk tied to Group products. 100% of suppliers polled have already given precise indications concerning the source of the materials in question and listing foundries as required by the procedure and there was no evidence of the presence of conflict minerals.

Due diligence on new metals: Cobalt

As is known, the Democratic Republic of the Congo (DRC) is the world’s largest producer of cobalt and holds more than 50% of the world’s reserves of this metal. Among the various uses of Cobalt is its use in Lithium batteries that are an integral part of electric vehicles, mobile phones and laptops. The demand for Cobalt is growing very rapidly and its extraction occurs both in a highly mechanised way and in a traditional way. Concerning this latter type of extraction, concerns have recently been raised about unsafe working conditions and child labour. In 2017, RMI (Responsible Minerals Initiative) launched a working group on the sustainable supply of cobalt, with particular regard to the risk of child labour in the DRC, with a supply chain monitoring approach similar to the one already in place for 3TG metals. The update of the Cobalt Reporting Template (CRT) was recently published (30 October 2019) by RMI. Pirelli uses some Cobalt salts, a type of raw material commonly used in the production of tyres. In 2019, Pirelli therefore decided to join the “Cobalt Initiative” launched by RMI and to ask its suppliers to fill in the CRT. The suppliers surveyed cover 100% of the “conflict minerals” risk associated with the use of raw materials using cobalt in tyres. 100% of suppliers surveyed responded: 80% of these suppliers excluded that foundries in their supply chain source their cobalt from conflict areas; the remaining 20% gave precise indications of the source of cobalt, listing foundries as required by the procedure defined in the “Cobalt Initiative”, and no evidence of conflict minerals emerged.

Engagement of suppliers

Pirelli believes that activities involving suppliers are essential from the viewpoint of creating environmental and social value and that are inseparably tied to the creation of shared economic value. There are many activities operated by the Company to that effect.

R&D Partnerships

Pirelli has established several partnerships with strategic suppliers and universities for the development of innovative materials with low environmental impact (materials described in the paragraphs dedicated to environmental management of products of this Report). As part of the development of new nanofillers, for example, pursued since the early 2000s through research contracts with universities and collaborations with suppliers, Pirelli has begun to industrially introduce materials of mineral origin in partial replacement of precipitated silica and carbon black. Compared to the production processes of the replaced raw materials, the innovations mentioned have guaranteed a water saving, as well as a reduction of CO_2 emissions by more than 75%, saving respectively about 23,000 m^3 of water and about 370 tonnes of CO_2.

These innovations provide economic benefits related directly to the material for about €165,000 a year, although the real sustainable business driver is the performance that the product acquires, thus becoming more competitive.

CDP Supply Chain

For years, Pirelli has participated in Climate Change and Water programmes promoted by CDP (ex Carbon Disclosure Project). Implementing its Green Sourcing Policy since 2014 Pirelli has in its turn decided to extend the request for CDP assessment to its own key suppliers at a Group level, identified in accordance with criteria of environmental and economic materiality. In 2020, the selection concerned the suppliers with the most impact on the Carbon Footprint of the Group in the Raw Materials, Logistics and Energy categories.

The CDP Supply Chain supports Pirelli in monitoring Scope 3 emissions from its supply chain and ensures adequate awareness of suppliers in matters relating to climate change so as to identify and activate all possible opportunities for reducing emissions of climate-altering gases. In 2020, the set of emission reduction actions implemented by Pirelli suppliers made it possible to avoid overall the emission of more than 58 million tonnes of CO_2 equivalent into the atmosphere, combined with estimated economic savings of US$1.74 billion.

First company among tyre manufacturers to have globally introduced the CDP Supply Chain in its own supply chain, Pirelli aims to achieve a response rate for suppliers of Raw Materials of 90% in

2021. The response rate recorded in 2020 was 84%, an upward trend compared to previous years (81% in 2019, 74% in 2018).

Training of suppliers on sustainability matters

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

In 2020, given the evolution of the Covid-19 scenario, the Group had to put on standby the activities planned in the 2019-2021 Roadmap on the implementation of the Policy on Sustainable Natural Rubber Management; the resources that had been planned to support this activity were redirected to projects supporting vulnerable local communities affected by the crisis.

Supplier Award

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

A specific award is dedicated to sustainable performance, recognizing the importance of "responsibility" strategies that make a real difference by bringing benefits to the entire value chain.

Due to the evolution of the Covid-19 scenario, the Supplier Award 2020 has been put on hold and postponed to 2021.

Trend of purchases

The following tables show the value of purchases made by Pirelli Tyre and the percentage of the relative suppliers divided by geographical area. These figures show that the value of purchases, as well as the number of suppliers, is slightly higher in OECD area[19] with respect to non-OECD areas.

79% of suppliers (slightly up from 76% in 2019) operate locally with respect to the Pirelli Tyre subsidiaries supplied, according to a local for local supply logic and excluding raw material suppliers as they generally operate where Pirelli does not have its own facilities.

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

VALUE OF PURCHASES BY GEOGRAPHIC AREA				
		2020	**2019**	**2018**
OECD COUNTRIES	**Europe**	49.1%	54.9%	49.9%
	North America	8.0%	6.7%	5.9%
	Others	4.6%	5.0%	4.1%
NON-OECD COUNTRIES	**Latin America**	12.1%	12.1%	14.8%
	Asia	17.3%	11.9%	14.9%
	Africa	0.5%	0.4%	0.4%
	Others	8.4%	9.0%	10.0%

NUMBER OF SUPPLIERS BY GEOGRAPHIC AREA				
		2020	**2019**	**2018**
OECD COUNTRIES	**Europe**	55.2%	47.2%	54.2%
	North America	4.8%	5.5%	4.8%
	Others	4.5%	5.4%	5.2%
NON-OECD COUNTRIES	**Latin America**	19.7%	22.8%	21.7%
	Asia	6.9%	8.4%	6.3%
	Africa	0.2%	0.4%	0.2%
	Others	8.7%	10.3%	7.6%

The following table shows the breakdown in percentage of the value of Pirelli Tyre’s purchases by type. With a weight equal to 49% of the total, the purchasing category which is decidedly more relevant and significant, as in previous years, is that of raw materials.

VALUE OF PURCHASES BY CATEGORY			
	2020	**2019**	**2018**
Raw Materials	49%	47%	46%
Consumable Materials[20]	8%	7%	5%
Services[21]	40%	37%	36%
Capital goods[22]	3%	9%	13%

[20] Indirect materials, auxiliary materials.

[21] Energy, logistics services, shared services, ICT, R&D, marketing, trademarks and patents.

[22] Machinery, civil works, moulds.

With reference to the percentage of Pirelli Tyre's suppliers by type presented in the table below, it is noted that suppliers of consumables and services weigh about 95% of total number of suppliers, despite the weight on the total value of purchases is lower compared, for example, to that of raw material purchases which, on the other hand, show a substantial concentration on a few operators.

NUMBER OF SUPPLIERS BY CATEGORY

	2020	2019	2018
Raw Materials	2%	2%	2%
Consumable Materials	36%	35%	29%
Services	59%	58%	61%
Capital goods	3%	5%	8%

The following table represents the percentage composition in the value of the mix of raw materials purchased by Pirelli Tyre in the three-year period 2018-2020. The volume of raw materials utilised for the production of tyres in 2020 amounted to approximately 704,000 tonnes, of which approximately 4% derives from recycled materials (in line with the previous year) and 19% of renewable materials[23].

MIX OF RAW MATERIALS PURCHASED (VALUE)

	2020	2019	2018
Natural Rubber	13%	13%	13%
Synthetic Rubber	26%	26%	27%
Carbon black	10%	12%	10%
Chemicals	23%	22%	23%
Textile	18%	17%	17%
Steel	10%	10%	10%

Targets

- CDP Supply Chain: increase in raw material suppliers' response rate from 84% in 2020 to 90% in 2021;
- Natural Rubber supply chain sustainability: implementation of the 2019-2021 roadmap published in the Sustainability section of the website www.pirelli.com. In 2021, Pirelli will continue on the path of engagement and partnership with its suppliers, focusing training on specific issues that meet the needs of the supply chain and dedicating it to players

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

increasingly close to the origin of the chain. Pirelli will support suppliers in the implementation of their roadmap of activities to implement Pirelli Policy and will continue to map the socio-environmental risks of the supply chain, with increasingly precise traceability and an increasingly close relationship with the various players involved;

- Reduction of CO_2 emissions from raw material suppliers by 8.6% by 2025 compared to 2018 (Science Based Target approved by SBTi).

In March 2021, the Company will present the new Industrial Plan and related long-term strategic sustainability targets, including those impacting the supply chain. The Plan will be published at the same time on the institutional website www.pirelli.com, to which reference should be made for details of future targets.

ENVIRONMENTAL DIMENSION

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

Pirelli approach to environmental management is set forth in accordance with the United Nations Global Compact, of which Pirelli has been an active member since 2004, and pursuant to the "Rio Declaration on Environment and Development".

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

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

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

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

Joining the Taskforce on Climate-Related Financial Disclosure (TCFD)

In September 2018, Pirelli formally joined the Task Force on Climate-Related Financial Disclosures (TCFD) set up by the Financial Stability Board[24].

In supporting the initiative, Pirelli is committed to the voluntary disclosure of transparent reporting on risks and opportunities related to Climate Change as indicated in the TCFD recommendations. To this end, Pirelli publishes this information publicly both in this report and through the CDP Climate Change programme, where, once again in 2020, it has been confirmed as one of the leaders included in the A-List.

Since Pirelli publishes an integrated annual report, the four topics and the eleven recommendations identified by the TCFD are reported as follows.

GOVERNANCE: (concerning climate-related risks and opportunities).

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

a) Board of Directors' oversight

Pirelli Board of Directors, supported in its activities by the Control, Risk, Sustainability and Corporate Governance Committee, approves both the sustainable management objectives and targets integrated into the Industrial Plan and Pirelli Annual Report, including the Consolidated Non-Financial Statement. A Director in charge of Sustainability is also appointed with the task of overseeing sustainability topics related to the Company's operations and its interaction with all Stakeholders, and implementing the guidelines defined by the Board of Directors.

b) Management's role

The strategic development of Group Sustainability is entrusted to the Sustainability Steering Committee, a body chaired by the CEO and composed of the Company's Top Management

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

representing all organisational and functional responsibilities, which meets on an ordinary basis at least once a year. The organisational structure thus consists of a Sustainability Department, reporting directly to the CEO, which oversees management at Group level and proposes sustainable development plans to the Sustainability Steering Committee. The Sustainability Department is supported by Country Sustainability Managers (a role covered by the Country CEOs) to oversee activities covering all Group affiliates.

STRATEGY (actual and potential impacts of climate-related risks and opportunities on business, strategy and financial planning).

With a view towards long-term management, Pirelli monitors the Carbon Footprint and Water Footprint of its entire organisation and is committed to the progressive reduction of the related impacts on resources, climate and ecosystems. As described in the paragraph "Pirelli Group Environmental Strategy and Footprint" of this report, the Group has adopted a control and monitoring system that allows the identification of the materiality of environmental impacts along the life cycle of the product on the basis of which the company defines the response strategy.

In addition, Pirelli periodically performs sensitivity analyses and risk assessments with respect to transition scenarios towards a low-carbon economy and climate scenarios[25], in order to have a constantly updated picture of potential risks and opportunities linked to Climate Change which are of interest to the business and the related quantification of any potential financial impacts. For further details, see the section "Risks related to Climate Change" in the "Directors' Report on Operations" of this report, and Pirelli's public responses to the CDP Climate Change questionnaire[26].

a) Climate-related risks and opportunities (over the short, medium and long term)

In line with the results of the last Group Climate Change Risk Assessment, in the short-medium term (up to 5 years) there are no significant risks relating to production processes or to the markets in which Pirelli operates. On the other hand, regarding a medium-long term scenario (up to 30 years), the tyre sector could be subject to a series of risks, both physical (extreme weather events with potential impacts on plant production continuity) and regulatory (possible effects on operational costs). On the other hand, there are opportunities for growth in sales of Pirelli Eco & Safety Performance products, which identify tyres characterised by a lower environmental impact throughout their life cycle.

b) Impacts of climate-related risks and opportunities

As discussed in the section "Risks related to Climate Change" in the "Directors' Report on Operations" of this report, to which reference should be made, in relation to internal metrics of potential financial impact, no risks with a significant impact in the short to medium term were identified in relation to production processes or the markets in which Pirelli operates.

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[25] The latest Group Climate Change Risk Assessment considered the analysis of IPCC climate scenarios (RCP 4.5 and RCP 8.5) and IEA energy transition scenario (IEA 450).

[26] https://www.cdp.net/en/responses

c) Resilience of the strategy

The results of the scenario analyses carried out as part of the Climate Change Risk Assessment, described above, were assessed for the definition of ambitious climate-related targets within the High Value sustainable development strategy to 2022, 2025 and 2030, published in the current Industrial Plan. At process level, the targets for reducing energy consumption and absolute CO_2 emissions, the use of 100% electricity from renewable sources by 2025 and Group carbon neutrality by 2030 are highlighted. In particular, the targets for reducing absolute CO_2 emissions were developed in accordance with the guidelines of the Science Based Targets initiative (SBTi), which validated them in June 2020, judging them to be consistent with the actions needed to keep global warming "well below 2°C", as recommended by the Paris Agreement. At product level, among the several Eco & Safety performance targets, in terms of impact on the climate, it has to be mentioned the 2025 objective of reducing the average rolling resistance of car products by 14% compared to the 2015 value. The business strategy based on development of the Eco & Safety Performance product line[27] is designed to give Pirelli a competitive advantage over its competitors in the face of growing market demand for low-emission goods and services. Following the positive trend that has seen revenues from Eco & Safety Performance tyres grow from 5% in 2009 to 58% in 2020, Pirelli has set the goal of achieving a 71% share by 2022.

RISK MANAGEMENT: (identification, assessment and management of the climate-related risks).

a) Identification and assessment processes

The process adopted by Pirelli to identify and assess the possible financial impacts, in terms of risks and opportunities, related to Climate Change is based on the Group Climate Change Risk Assessment, which is periodically updated by the Sustainability Department in collaboration with Enterprise Risk Management and other corporate functions. The analysis assesses the evolution of any physical, regulatory, technological, reputational and market risks that may affect the company, with respect to transition scenarios towards a low-carbon economy and climate scenarios with short, medium and long-term time horizons. For the conclusions of the analysis, see the section "Risks related to Climate Change" in the "Directors' Report on Operations" of this report, and Pirelli's public responses to the CDP Climate Change 2020 questionnaire[28].

b) Management processes

The most relevant risks identified through the Climate Change Risk Assessment are assessed and classified against internal metrics of potential financial impact: for each risk or opportunity that has been recognised as material, a risk mitigation plan is prepared or an internal discussion is opened to capture the maximum benefit from the opportunity.

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[27] Eco & Safety Performance products identify the car tyres that Pirelli produces throughout the world that fall exclusively into classes A, B, C of rolling resistance and wet grip according to the labelling parameters set by European regulations.

[28] https://www.cdp.net/en/responses.

c) Integration into overall risk management

The process for identifying, assessing and managing risks related to Climate Change is fully integrated into Pirelli's risk management model, as described in detail in the "Risk Factors and Uncertainty" section included in the "Directors' Report on Operations" of this report.

METRICS AND TARGETS: (metrics and targets used to assess and manage risks and opportunities related to Climate Change, where the information is material).

a) Metrics

Pirelli reports the impacts and performance linked to Climate Change according to the metrics defined by the GRI Sustainability Reporting Standards (in particular, see the "GRI Content Index" table at the end of this Annual Report for the requests of the GRI Standard 305 Disclosures: Emissions).

b) GHG emissions

Pirelli monitors and reports its direct (Scope 1) and indirect (Scope 2 and Scope 3) greenhouse gas emissions as described in the paragraph "Management of Greenhouse Gas emissions and carbon action plan" in this report.

c) Targets

Pirelli reports its environmental and product targets that are most closely linked to Climate Change, in the present chapter "Environmental Dimension" and in the "Sustainability Planning and the United Nations Sustainable Development Goals (SDGs)" and "Our Suppliers" ("Target" section) paragraphs of this report.

Pirelli Group Environmental strategy and footprint

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

The Group has adopted a control and monitoring system that allows the identification of the materiality of environmental impacts throughout the product life cycle. The infographic on the following pages shows Pirelli approach to environmental management and the specific long-term targets defined by the Sustainability Plan, whose performance is reported in the present report. Pirelli Group's Carbon and Water Footprint are updated to 2020 and for both there is a decrease in absolute terms of about 19% compared to the previous year.

As is readily apparent, the materiality of environmental impacts is concentrated in the use phase of the tyre. In terms of the Carbon Footprint, the use phase has a weight of about 91.3% of total impacts throughout the entire life cycle of the product, compared to a production phase that has a weight of only 2.6% of total impacts. As regards the impact of the Water Footprint, the use phase of the product is the most significant (51% of the total impacts), followed by the production phase of raw materials (35.7% of impacts).

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

At the methodological level, the phases of the life cycle have been analysed following the Life Cycle Assessment methodology as defined by the ISO 14040 family of standards. This approach is capable of validating the results and the strategic decisions related to it, as objectively as possible, integrated with the indications of the "Product Category Rule[29]" for tyres developed by the Tyre Industry Project Group of the World Business Council for Sustainable Development. The reporting of the emission impacts also complies with the provisions of the GHG Protocol (Corporate Accounting and Reporting Standard) and the GRI Sustainability Reporting Standards. To determine the Carbon Footprint and the Water Footprint, Pirelli's calculation model is respectively inspired by the ISO 14067 and ISO 14046 standards. The values are shown as a percentage, as the objective of this infographic is to show the difference in materiality between the various life stages.

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

The central part of the infographic shows the actual quantification, in percentage terms, of the Carbon Footprint and Water Footprint. These two aspects are summarised by four principal indicators: Primary Energy Demand (PED), Global Warming Potential (GWP), Water Depletion (WD) and Eutrophication Potential (EP). The values are calculated in GJ of energy, tonnes of CO_2 equivalent, cubic metres of water and kilograms of phosphate equivalents.

Primary Energy Demand refers to the quantity of renewable or non-renewable energy that is taken directly from the hydrosphere, the atmosphere or the geosphere.

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

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

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

Eutrophication Potential is the enrichment of nutrients in a given ecosystem, whether aquatic or terrestrial: air pollution, emissions into water and agricultural fertilisers all contribute to eutrophication. The result in aquatic systems is accelerated growth of algae, which does not allow sunlight to penetrate the surface of the water basins. This reduces photosynthesis and thus reduces the production of oxygen. Low concentrations of oxygen may cause the alteration of the aquatic ecosystem with potential effects in terms of biodiversity.

In terms of environmental materiality, the use phase of the tyre is overall the most prevalent. In terms of economic materiality, instead, the amount of company spending in the process phase is the most relevant, which results in the opportunity to reduce impacts through investments in energy efficiency.

In the lower part of the infographic, the actions and targets adopted by Pirelli are indicated in order to reduce the environmental impacts in the various phases of the life cycle according to the current Industrial Plan. In this regard, it should be noted that in March 2021 the Company will present the new Industrial Plan and the related strategic long-term sustainability targets that will be published at the same time on the institutional website www.pirelli.com.

STAGES OF LIFE CYCLE

DRIVERS

IMPACT: CARBON & WATER FOOTPRINTs*

MATERIALITY

RESPONSE STRATEGY

IT SHOULD BE NOTED THAT IN MARCH 2021 THE COMPANY WILL PRESENT THE NEW INDUSTRIAL PLAN AND RELATED LONG-TERM STRATEGIC SUSTAINABILITY TARGETS, WHICH WILL BE PUBLISHED AT THE SAME TIME ON THE CORPORATE WEBSITE WWW.PIRELLI.COM.

RAW MATERIALS

Suppliers

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

Scope 3

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

RAW MATERIAL INNOVATION

- Research and development of raw materials with low environmental impact
- Gradual introduction of new materials from renewable sources
- Biomaterials such as high-performance silica from renewable sources, biofillers such as lignin and plant-based plasticisers/resins
- Natural rubber: search for sustainable alternative sources
- Functionalised polymers: research into innovative polymers that guarantee reduced environmental impact, better driving safety and improved production efficiency

Targets for new product lines:

- by 2025: > 40% renewable materials, > 3% recycled materials and < 40% fossil-derived materials
- by 2030: > 60% renewable materials, > 7% recycled materials and < 30% fossil-derived materials
- Reduction of CO_2 emissions from raw material suppliers by 8.6% by 2025 compared to 2018 (target validated by SBTi**)

GREEN PURCHASING GUIDELINES/GREEN SOURCING POLICY

CDP SUPPLY CHAIN

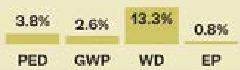
THIRD PARTY AUDITS ON CRITICAL SUPPLIERS

MANUFACTURING

Pirelli

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

Scope 1+2+3



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

PROCESS EFFICIENCY
Targets 2025

- **100%** Renewable electricity
- **-25%** Absolute CO_2 emissions vs 2015 (target validated by SBTi**)
- **-43%** Specific water withdrawal vs 2015
- **-10%** Specific energy consumption vs 2019
- **98%** Waste sent for recovery

Targets 2030

Group Carbon Neutrality (emissions from electric and thermal energy)

ISO 14001 AT ALL PRODUCTION PLANTS

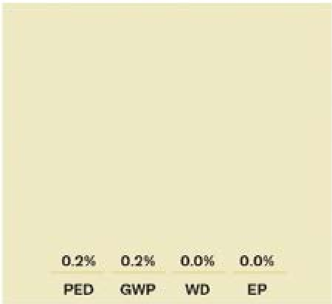
SCRAP REDUCTION PROGRAMME

DISTRIBUTION

Suppliers

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

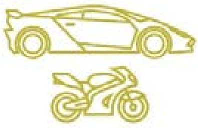
Scope 3



Economic Medium | Environmental Low

GREEN SOURCING POLICY

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



USE

Customers

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

Scope 3

Economic High | Environmental High

PRODUCT INNOVATION

	Target	2022	2025
CAR	- Rolling resistance	-10%	-14%
	- Wet performance	+7%	+9%
	- Wear rate	-12%	-18%
	- Noise	-4%	-4%
MOTO	- Rolling resistance	-15%	-20%
	- Wet performance	+21%	+25%
	- Mileage	+4%	+13%
VELO	- Rolling resistance	-25%	-25%
	- Wet performance	+10%	+15%
	- Braking	+5%	+10%

ECO & SAFETY PERFORMANCE REVENUES

Target 2022: > 71% of total car sales and > 78% of High Value products***

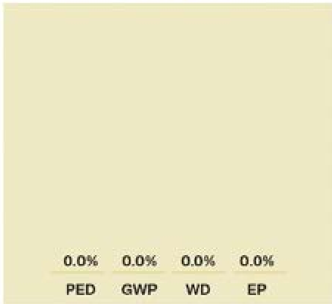
CYBER™ TECHNOLOGIES DEVELOPMENT

END-OF-LIFE

Waste Recovery Players

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

Scope 3



Economic Low | Environmental Low

PRESENCE ON THE MAIN INTERNATIONAL WORKING TABLES

(WBCSD, ETRMA) to spread the culture of recovery

REGENERATED RAW MATERIALS

Research projects in order to improve the quality of regenerated materials, with the aim of increasing their percentage portion of the new compounds

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

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

*** Science Based Targets initiative*

**** High Value products are determined by rims equal to or greater than 18 inches and, in addition, include all "Specialties" products (RUN FLAT™, SEAL INSIDE™, PNCS™).*

Research and development of raw materials

The Research and development of innovative materials is essential in order to design and manufacture “Eco & Safety” tyres which are increasingly sustainable and which guarantee lower environmental impacts throughout their life cycle while ensuring greater driving safety.

In terms of raw materials, for the new product lines, the current Sustainability Plan envisages an increasing use of materials from renewable and recycled sources, with the aim of using more than 40% renewable materials by 2025 (more than 60% by 2030), more than 3% recycled materials (more than 7% by 2030) and reducing the use of fossil-derived raw materials to less than 40% (less than 30% by 2030).

It should be noted that in March 2021 the Company will present the new Industrial Plan and the related long-term strategic sustainability targets, which will be published at the same time on the institutional website www.pirelli.com for the benefit of all Stakeholders.

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

- high-dispersion silica for wet grip, rolling resistance and mileage;
- new technologies applied to the development of polymers, fillers and plasticisers to improve the wear rate of tyres;
- biomaterials, such as silica from renewable sources, biofillers such as lignin and sepiolite, and plasticisers/resins of plant origin;
- textile reinforcements with fibres from renewable sources;
- nanofillers for more stable compounds, lighter structures and highly impermeable liners;
- new silica surfactants to guarantee performance stability and processability.

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

The Joint Labs agreement (2017-2020) between Pirelli and the Politecnico of Milan, aimed at research and training in the tyre industry, covers nanotechnology, the development of new synthetic polymers, new biopolymers and new bifunctional chemicals (e.g. serinol-pyrrole for improving polymer-charge interaction with reduced emission of volatile organic compounds - VOCs).

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

During 2020, silica from rice husks was approved and use in normal production began, with the aim of a volume scale-up to 15% of total silica consumption in 2022. Specific projects for the development of new materials from renewable sources, mainly focused on the use of waste feedstocks (for example new oils from waste biomass), are the subject of the framework agreement between Pirelli, CORIMAV (Consortium for Materials Research Advanced) and Bicocca University. In the context of the new nano-fillers, Pirelli has started to introduce in production process materials of mineral origin in a partial substitution of precipitated silica and carbon black, such as sepiolite. Still with a view to the circular economy, it should be noted that, in collaboration with the Bicocca University, Pirelli has filed a patent application for the use of lignin in tyres. Lignin, a low environmental impact additive of natural origin derived from the waste from the cellulose production process, is already used in a compound for Velo products. The innovations mentioned provide a water saving and more than 75% of CO_2 emissions reduction compared to the production processes of raw materials replaced.

Pirelli Research and Development constantly monitors the growing opportunities for the use (in increasing proportions) of materials from recycling. The development of innovative technologies for the production of materials from recycled end-of-life tyres (ELTs), such as powder obtained by fine grinding the tyre or carbon black obtained from tyre pyrolysis, allows them to be used in increasing quantities without compromising performance or safety, unlike the technologies of the past.

Some materials used in compound formulations (such as synthetic polymers, carbon-black and synthetic oils) can in turn be produced by feeding the synthesis process with certain quotas of feedstock from recycling (recycled polystyrene, oil from pyrolysis of ELTs): Pirelli works with partners aimed at developing, validating and applying these technologies in new materials.

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

Research is also continuing aimed at diversifying the potential supply sources of natural rubber, to reduce pressure on biodiversity in producer Countries and allow the Company to manage the potential scarcity of raw materials with greater flexibility. The sustainable management of the natural rubber supply chain, the so-called conflict minerals and the cobalt chain are specifically discussed in the “Our Suppliers” section of this report.

Further information on Pirelli’s Research & Development activities can be found in the paragraph “Our Suppliers” (R&D Partnership section) of this Annual Report.

ENVIRONMENTAL IMPACT OF PIRELLI'S PRODUCTION SYSTEM

Environmental management system and factory's performance monitoring

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

The certification of the environmental management system according to the ISO 14001 Standard is part of Pirelli's Environmental Policy and, as such, is extended to new settlements that become part of the Group. The certification activity, together with control and maintenance of previously implemented and certified systems, is coordinated on a centralised basis by the Health, Safety and Environment Department.

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

Scope of reporting

The performances reported in the following paragraphs concern the three-year period 2018-2019-2020 and cover the same scope of the Group's consolidation, including the impacts of all the units under operational control: from industrial realities to commercial and administrative sites.

The amount of finished product used in the calculation of the specific indices indicated below, in 2020 was over 615,000 tonnes.

Environmental performances indices trend

In terms of materiality of environmental impacts (Carbon and Water Footprint) of the tyre along the entire life cycle, the production phase accounts for 2.6% of total greenhouse gas emissions impacts and for 13.3% of total water-related impacts.

The year 2020 saw a significant decrease in production volumes: the number of tonnes of finished product fell by 18% compared to the previous year (value calculated on a like-for-like basis), mainly due to exogenous factors connected with the Covid-19 pandemic emergency, which affected production continuity and caused a sharp slowdown in the automotive market. This change in volumes, together with the geographical redistribution of production, had a particular impact on the specific indices (calculated on tonnes of finished product) relating to energy consumption, water withdrawal and waste production. On the other hand, the increase in the share of electricity from renewable sources used by Pirelli favoured an improvement in the index relating to specific greenhouse gas emissions, while the percentage of waste recovery remained stable.

All the equivalent specific indicators weighted on the operating result (compared to the Adjusted EBIT value) were impacted, while all the indices calculated in absolute terms of energy consumption, water consumption, waste production and greenhouse gas emissions decreased compared to the previous year.

It should be noted that the trend of all the above indicators is substantially influenced by the production focus adopted. Pirelli production is focused on *Premium* and *Prestige* tyres and its production processes are characterised by higher energy intensity, more stringent quality specifications, more complex processing and smaller production batches compared to the production processes of medium-low end tyres.

Energy Management

Pirelli monitors, manages and reports its energy consumption through three main indicators:

- absolute consumption, measured in GJ, which includes the total consumption of electrical energy, thermal energy, natural gas and petroleum derivatives (fuel oil, gasoline, diesel, and LPG);
- specific consumption, as measured in GJ per tonne of finished product;
- specific consumption, as measured in GJ per euro of Operating Income.

The current Sustainability Plan provides for a 10% reduction in specific energy consumption by 2025 compared to 2019 values. It should be noted that, in March 2021, the Company will present the new Industrial Plan and the related strategic long-term sustainability targets, which will be published at the same time on the institutional website www.pirelli.com for the benefit of all Stakeholders.

In the course of 2020, the energy efficiency plan continued at all Group plants, already initiated in recent years and characterised by actions aimed at:

- improving energy management systems, through measurement consumption, smart grid and a daily focus on technical indicators;
- optimising the procurement of energy resources, direct or indirect;
- improving the quality of energy transformation;

- improving the efficiency of distribution plants;
- improving the efficiency of production plants;
- recovering energy for secondary uses;
- applying targeted maintenance plans in order to reduce energy waste.

With regard to Life Cycle Assessment, the specific consumption of each plants is also mapped, whether dedicated to production or dedicated to the generation of energy carriers in order to: increase the standard reference indicators, compare similar families of machinery, evaluate in detail the energy content of the plants' different families of products and sub-products and implement actions to improve their energy performance.

In terms of compliance, every industrial facility completely fulfils the indications of law regarding energy consumption and management. The legislative situation affecting the Company includes the introduction of periodic audit mechanisms on energy management and use, as well as possible tariff incentives. In this regard, there were no critical elements or non-conformities.

The Energy Management System*,* certified according to the ISO 50001 standard has been adopted at the Breuberg plant (Germany).

Actions and investments for energy efficiency are alongside the assessment of environmental impacts to economic sustainability criteria normally applied to all Pirelli projects. The areas for technical action both concern the traditional themes applied to each industrial area, such as modernisation of thermal insulation, maintenance of distribution plants, use of technologies using inverters, and special projects assessed according to the needs of each manufacturing site.

During the course of 2020, the installation of LED lighting systems continued at production sites to replace less efficient traditional systems. To speed up the replacement plan, Pirelli also uses "Light Service" contracts, which define guaranteed levels of both energy savings and the quality of light achieved. Great attention was paid to the efficiency in the transformation of thermal energy and the recovery of thermal waste for heating of premises. There were also activities to improve the efficiency of both compressed air generation, using high-efficiency compressors, and energy flows, with a particular focus on cold management, starting with pilot initiatives in individual plants that will then be extended to all production units.

The activities to reduce compressed air and steam losses continued with excellent results, whether on machinery, generators and users, or on distribution lines. In spite of the suspension of the energy audit activities already started due to Covid-19, using company tools that allowed greater remote coordination, it was still possible to optimise the benchmarking activities between the different plants and accurately map the efficiency improvement actions of the various operating units. Moreover, the electrical absorption measurements performed on individual plants are continuing, in order to correlate specific consumption to production in greater detail, so as to optimise their operating conditions.

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

Energy efficiency in 2020 was significantly affected by the effects of the Covid-19 pandemic on production continuity and by the sharp slowdown in the automotive market: the impact on production volumes was about 18% lower than in the previous year.

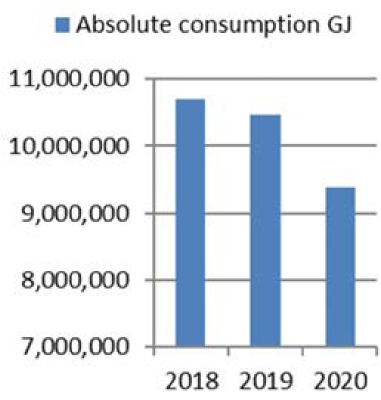
These exogenous factors are joined by the optimisation of the production mix towards *Premium* and *Prestige* products, characterised by very high technological and performance content and smaller production batches compared to medium-low-range tyre production processes. It follows that such tyres, during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

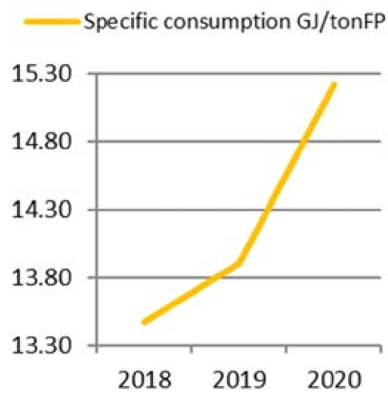
The application of energy management with a view to maximising industrial efficiency, implementing improvement and plant freezing logics (particularly during periods of lockdown of production plants due to Covid-19 restrictions), has resulted in savings of approximately 841,702 GJ in absolute terms. This value was estimated for each factory on the basis of production volumes in the reporting year and the change in efficiencies achieved in 2020 compared to the previous year.

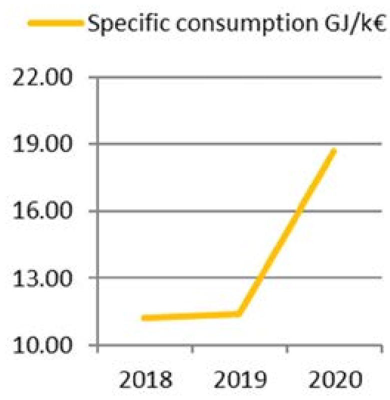
The Group's specific energy index in 2020 showed an increase of 9.5% compared to 2019 (the year in which the reduction target to 2025 is also based) against, as mentioned, a much more significant percentage decrease in terms of production volumes. In terms of absolute consumption, on the other hand, there was an overall reduction of 10.5% compared to 2019.

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

		2018	2019	2020
Absolute consumption	GJ	10,688,588	10,467,443	9,373,179
Specific consumption	GJ/tonFP	13.48	13.90	15.22
	GJ/k€	11.19	11.41	18.70

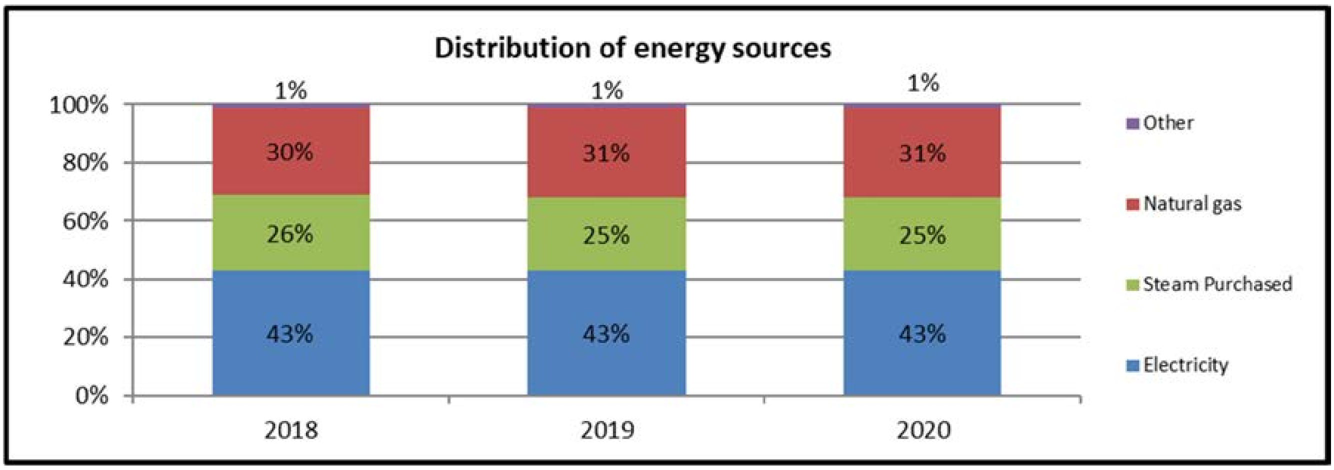






The graph below highlights the "Distribution of energy sources" used in Pirelli production process: among the direct sources, all non-renewable, which account for 32% of the total, are natural gas and, to a lesser extent, other liquid fuels such as oil, LPG and diesel (classified as "other"); the remaining 68% is formed from indirect sources such as electrical energy and steam purchased.

Of the total electricity used by the Group, more than 52%[30] derives from renewable sources while for steam, the share generated by renewable sources corresponds to around 14% of the total.



The current Sustainability Plan envisages achieving 100% of electricity from renewable sources used on a group-wide basis by 2025.

Management of Greenhouse Gas Emissions and Carbon Action Plan

Pirelli monitors and reports its[31] emissions of greenhouse gases through the calculation of CO_2-equivalent (CO_2e) – unit of measurement used for the emissions reported here below –, which takes into account the contribution of carbon dioxide, methane (CH_4) and nitrous oxide (N_2O). To quantify

[30] Figure including both share from direct procurement and national electric grid mix based on IEA data (International Energy Agency).

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

emissions, the energy consumption of all local units under operational control included in the scope of reporting are collected annually through the CSR-DM IT system.

Greenhouse gases are generated by the combustion of hydrocarbons at production sites, mainly used to operate heat generators that power Group plants, and particularly those that produce steam for vulcanisers, or by the consumption of electrical or thermal energy. The former are defined as “direct emissions”, or Scope 1 emissions, as produced within the Company’s production sites, while the latter compose the so-called “indirect emissions”, or Scope 2 emissions, as they are generated in the plants that produce the energy and steam purchased and consumed by Pirelli. The Scope 2 emissions are reported in two separate ways: *location-based* and *market-based* (methodology introduced in 2015 with the guideline “GHG Protocol Scope 2 Guidance” and current reference for Pirelli’s targets).

With regard to “other indirect emissions” attributable to Pirelli *Value Chain* activities, or Scope 3 emissions, in addition to the information reported in this section, please refer to the paragraph “Our Suppliers” (“CDP Supply Chain” section) for further information about the specific activities of Pirelli Suppliers. Instead, reference is made to the Group Footprint infographics in the paragraph “Pirelli Group Environmental Strategy and Footprint” for the representation of the impacts of Scope 3 of the various phases of the life cycle.

Performance as measured by energy and greenhouse gas emissions is calculated on the basis of emission factors obtained from the following sources:

- IPCC: Guidelines for National Greenhouse Gas Inventories (2006)[32];
- Within Scope 2 *location-based*:
  - National emission factors[33] taken from IEA: CO_2 Emissions from Fuel Combustion[34];
- Within Scope 2 *market-based*:
  - Specific emission factors of suppliers where available;
  - Residual-mix emission factors[35] taken from RE-DISS AIB (EU)[36] and Green-e (US)[37];
  - Emission factors used in the context of location-based if other sources of data are not available;

[32] Emission factors expressed in CO_2 equivalent, obtained by considering the GWP (Global Warming Potential) coefficients based on 100 years of the IPCC Fifth Assessment Report, 2014 (AR5).

[33] Emission factors expressed in CO_2/kWh.

[34] 2020 Publication with update to the 2018 figure.

[35] Emission factors expressed in CO_2/kWh.

[36] 2020 Publication with update to the 2019 figure.

[37] 2020 Publication with update to the 2018 figure.

and are reported according to the models proposed by:

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

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

As in the case of energy, Pirelli monitors and accounts for its direct CO_2e (Scope 1) and indirect (Scope 2) by using three principal indicators:

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

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

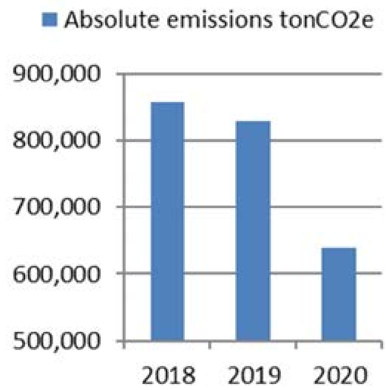
According to the Guidelines of the GHG Protocol Guide, the level of inventory uncertainty was evaluated as "Good".

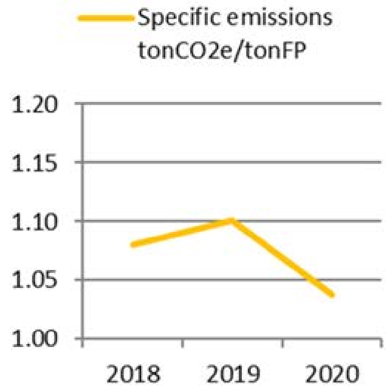
The current Sustainability Plan envisages a 25% reduction in the group's absolute CO_2 emissions (scope 1 and scope 2 market based) by 2025 compared to 2015 values and an 8.6% reduction in absolute CO_2 emissions related to the purchase of raw materials (scope 3) by 2025 compared to 2018 values. Both targets were validated in June 2020 by the Science Based Targets initiative (SBTi), which judged them to be consistent with the actions needed to keep global warming "well below 2°C", as recommended by the Paris Agreement.

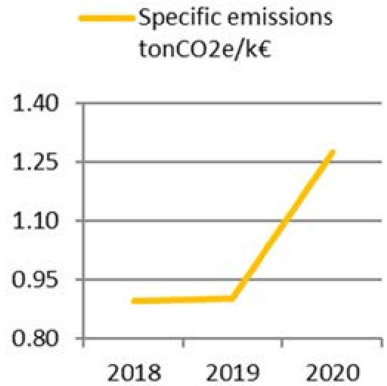
In addition, Pirelli has set the goal of using 100% electricity from renewable sources by 2025 and achieving group carbon neutrality by 2030.

Please note that in March 2021 the Company will present the new Industrial Plan and related long-term strategic sustainability targets, which will be published at the same time on the institutional website www.pirelli.com for the benefit of all Stakeholders.

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







In 2020, the Group's absolute emissions were almost 23% lower than in 2019 and 31% lower than in 2015, the year in which the target (approved by the Science Based Targets initiative) to reduce absolute emissions to 2025 is based. Performance was positively affected by the reduction in production volumes due to the Covid-19 pandemic emergency.

Specific CO_2 emissions (weighted on tonnes of finished product) also decreased by 5.7% in 2020 compared to the 2019 figure, supported by the implementation of new initiatives in the field of renewables which, as already mentioned, allowed the share of electricity from renewable sources used by the group to increase to over 52%[38] of the total compared to 41% in 2019.

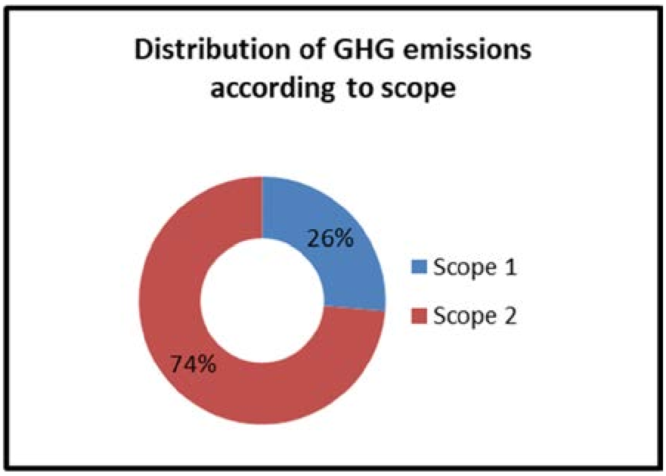
The portion of indirect emissions generated by the low-carbon projects implemented in Silao (Mexico), Carlisle and Burton (UK), Slatina (Romania), Settimo Torinese (Italy), Campinas and Gravataì (Brazil) - described below - was reported as prescribed by the Guidelines of the GHG Protocol, respectively for the procurement of electrical energy from renewable sources and steam from biomass.

[38] Figure including both share from direct procurement and national electric grid mix based on IEA data (International Energy Agency).

The following table reports absolute and specific emissions distinguishing between market-based (target reference) and location-based methodology for Scope 2.

GHG EMISSIONS ACCORDING TO SCOPE		2018	2019	2020
Absolute emissions (Scope 1 and Scope 2 *market-based*)	tonCO_2e	856,923	828,388	638,730
Scope 1	tonCO_2e	190,037	192,149	168,158
Scope 2 (*market-based*)	tonCO_2e	666,886	636,239	470,572
Scope 2 (*location-based*)	tonCO_2e	590,961	574,349	508,390
Specific emissions (Scope 1 and Scope 2 *market-based*)	tonCO_2e/tonFP	1.080	1.100	1.037
	tonCO_2e/k€	0.90	0.90	1.27

The following infographic highlights the weight of direct emissions (Scope 1) and indirect emissions (Scope 2 *location-based*) of the total absolute emissions of Pirelli.



To support the aim of reducing climate-altering gas emissions, Pirelli has defined a “Carbon Action Plan” with the aim of making increasing use of renewable energy sources through specific projects. These include:

- the cogeneration plant for the production of electricity, steam and hot water, present at the plant in Settimo Torinese (Italy). There are two cogeneration modules, for a total of nearly 6 MW of electricity: a 4.8 MW turbine unit powered by natural gas and a 1 MW internal combustion engine powered by vegetable oil, which ensures supply of thermal energy from renewable sources;
- the supply of steam generated by biomass plant, fuelled with waste wood from local supply chains, activated in Brazil for the Campinas and Gravataì plants. Thanks to this initiative, in the year 2020, the savings in terms of avoided CO_2e emissions exceeded 18,000 tonnes (Scope 2);
- the procurement of electrical energy from renewable sources at the plant in Silao (Mexico). In 2020 the agreement continued for the dedicated supply of electricity generated from wind

sources, which in the year allowed the replacement of 8.4 GWh of energy from fossil fuels, for a saving in terms of CO_2e emissions of around 3,800 tonnes (Scope 2);

- the supply of electricity from renewable sources at the Slatina plant (Romania). In 2020, the share of electricity certified from renewable sources exceeded 200 GWh, resulting in annual savings in terms of CO_2e emissions of more than 60,000 tonnes (Scope 2)

- the procurement of electrical energy from renewable sources at the plants in Burton and Carlisle (UK). In 2020 the share of electricity certified from renewable sources exceeded 50 GWh, for an annual savings in terms of CO_2e emissions of more than 17,500 tonnes (Scope 2).

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

GHG EMISSIONS GROUP FOOTPRINT		2018	2019[39]	2020
Raw Materials (Scope 3)	10^3 $tonCO_2e$	2,659.6	2,563.9	2,077.1
Manufacturing (Scope 1 + 2 + 3)	10^3 $tonCO_2e$	1,231.1	1,198.8	940.0
Distribution (Scope 3)	10^3 $tonCO_2e$	90.0	84.4	71.5
Customers (Scope 3)	10^3 $tonCO_2e$	40,187.2	40,220.9	32,576.8
End-of-Life (Scope 3)	10^3 $tonCO_2e$	2.5	2.2	1.9
Total	10^3 $tonCO_2e$	44,170.4	44,070.2	35,667.3

With regard to absolute CO_2 emissions related to the purchase of raw materials, for which, as already mentioned, the Scope 3 target approved by the Science Based Targets initiative is set, there was a reduction of 19% in 2020 compared to 2019 and almost 22% compared to 2018, the year in which the 2025 reduction target is based.

In 2020, Pirelli continued in the compensation project of CO_2 emissions produced the previous year by its fleet of company cars, through the purchase and retiring of carbon credits belonging to the VCS standard (Verified Carbon Standard). Direct issuance of Pirelli auto policy, which introduces an *Internal Carbon Price model* for the economic quantification of the impacts associated with car emissions, this initiative aims to promote the choice of vehicles with less impact on the environment and support environmental protection projects. The cars in the Italian corporate fleet emitted 784 tonnes of CO_2 in 2019. In order to offset this impact on the climate, Pirelli supported two sustainable forest management projects: an international one, carried out in Brazil, for the financing of activities under the REDD programme (Reducing emissions from deforestation and forest degradation) and an Italian one, carried out in the forest areas of Ziano di Fiemme (TN), as part of the initiative "Restoring Forests Destroyed by Storm VAIA". The activities financed with Pirelli's contribution were carried out in 2020. The combination of the two projects made it possible to reduce about 160% of

[39] As from 2019, the value includes emissions generated by the Group's business air travel and commuting by employees at the Milan headquarters. The value also includes some primary data collected directly from suppliers.

the emissions generated by company cars in 2019, thus going well beyond what is required by the policy in view of increasing environmental responsibility.

Water Management

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

In the aforementioned environmental strategy of Pirelli, the efficient and responsible use of water in production processes and at workplaces is addressed comprehensively, with actions to improve water efficiency in production processes, from design of the machinery to Facility Management activities. Particular attention is paid to the local context of the use of this precious resource, with the use of specific analysis tools (such as the Global Water Tool of the World Business Council for Sustainable Development and the Aqueduct Water Risks Atlas of the World Resources Institute) and dedicated action plans.

In addition, the management of water resources, of relations with relevant stakeholders (local communities, authorities, etc.) and the related potential impacts of the local context in which the production plants are located, is ensured by the environmental management systems implemented and certified in each production unit. Environmental management and its continuous improvement are also driven by the mapping of the main stakeholders, their interests and expectations.

The current Sustainability Plan envisages a target to reduce specific water withdrawal by 43% by 2025 compared to the 2015 value. It should be noted that in March 2021 the Company will present the new Industrial Plan and the related long-term strategic sustainability targets, which will be published at the same time on the institutional website www.pirelli.com for the benefit of all Stakeholders.

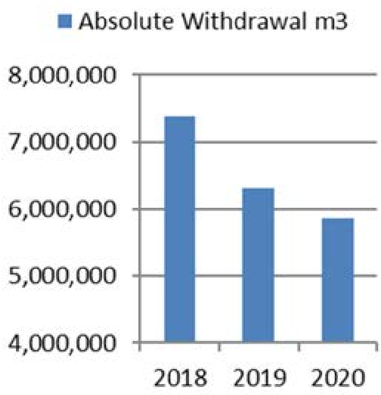
In 2020, the absolute withdrawal amounted to approximately 5.9 million cubic metres, a reduction of 6.8% compared to 2019. This reduction was mainly due to the reduction in production volumes following the Covid-19 pandemic, to which specific actions were added to limit the consequences of the reduction in production activity at industrial sites as much as possible. The specific levy, as weighed on the tons of finished product, was particularly impacted by the reduction in production volumes, standing at 9.5 cubic metres, an increase of about 14% compared to the previous year's value. Even considering the exceptionality of 2020, the index still shows a reduction of more than 25% compared to 2015, the base year for the 2025 reduction target.

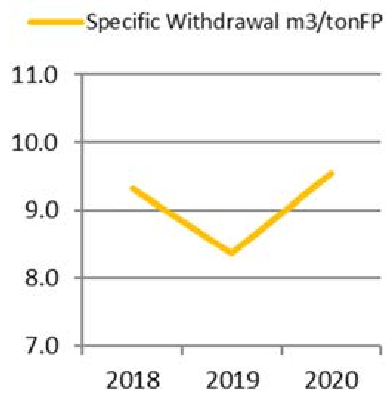
In absolute terms and thanks to the actions implemented, since 2015 Pirelli has saved a total of more than 11 million cubic metres of water: an amount equivalent to the absolute withdrawal of about two years by the entire Group.

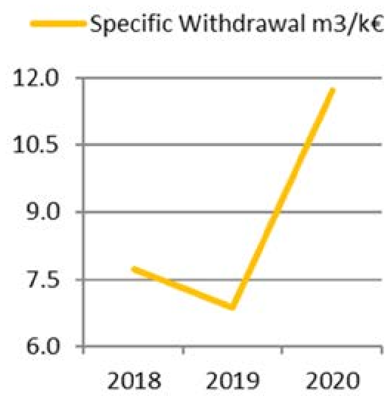
To give an overall view of performance in terms of water withdrawal over the last three years, the following tables report the indicators:

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

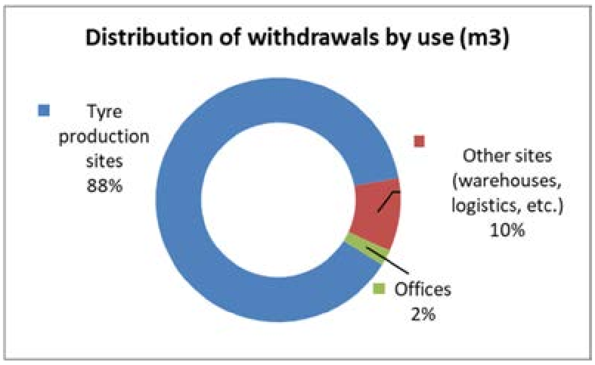
		2018	2019	2020
Absolute Withdrawal	m^3	7,382,453	6,299,468	5,871,790
Specific Withdrawal	m^3/tonFP	9.3	8.4	9.5
	m^3/k€	7.7	6.9	11.7

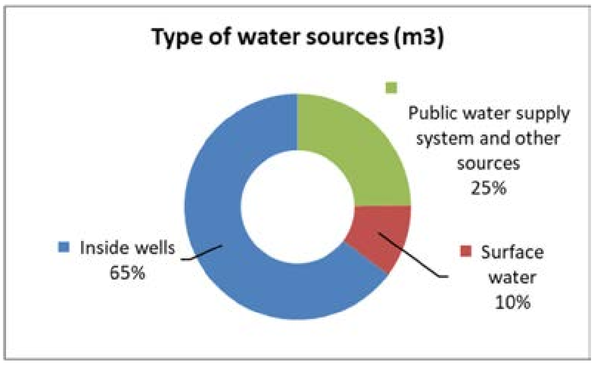






All the figures reported in this paragraph have been collected by taking direct or indirect measurements and are communicated by the local units. The following two graphs show the distribution of absolute withdrawals by type of use and the weight of water supply by type of source.





65% of the water withdrawn is pumped from wells inside the plants and authorised by the competent authorities. In addition, Pirelli obtains 10% of its needs from surface water, taking care to ensure that this withdrawal is marginal in relation to the volume of the affected water bodies (always less than 5%). As for water from aqueducts or third-party sources, 55% is drawn from groundwater, while the remainder comes from surface water. The volume of water withdrawn from water stress areas[40] is about 50% of the total, while the volume of water pumped from water bodies located in protected areas is marginal at 120 cubic metres. In addition, about 176,000 cubic metres of water used, equivalent to about 3% of the total withdrawal, are obtained from the treatment of waste water from its production processes.

A total of about 4.4 million cubic metres of domestic and industrial waste water were discharged, with 58% of this into surface water bodies, but always in quantities that are marginal in relation to the volume of the receiving bodies (always less than 5%) and without significantly impacting biodiversity. The remaining amount was discharged into sewer networks.

Before being discharged into the final recipient, industrial waste water – adequately treated as necessary – is periodically subjected to analytical tests that certify substantial compliance with locally applicable statutory limits.

In particular, as regards the quality of industrial effluents of the production facilities, indicative average values are: 11 mg/l of BOD_5 (Biochemical Oxygen Demand), 30 mg/l of COD (Chemical Oxygen Demand) and 12 mg/l of Total Suspended Solids. It should also be noted that Pirelli does not use substances classified as “Substances of Very High Concern” as defined by EU Regulation no. 1907/2006, the so-called “REACh Regulation”.

SUMMARY	Water Type	Total		Water stress areas	
		Overall volume (m3)	Freshwater volume (m3)	Overall volume (m3)	Freshwater volume (m3)
WITHDRAWAL from	Surface water	614,497	614,497	559,057	559,067
	Wells	3,803,375	3,738,894	1,409,597	1,409,597
	Third parties	1,453,918	1,261,867	882,987	882,987
	Total	5,871,790	5,615,258	2,851,651	2,851,651
DISCHARGE to	Surface water	2,575,423	2,563,037	0	0
	Third parties	1,869,131	921,756	1,412,708	512,163
	Total	4,444,554	3,484,793	1,412,708	512,163
CONSUMPTION	Total	1,427,236	2,130,465	1,438,943	2,339,488

[40] Water stress areas: this includes all areas with a water stress level equal to or greater than high according to the WRI Aqueduct classification (Aqueduct Water Risk Atlas wri.org), as of 25 January 2021.

Waste Management

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

- innovation of production processes, with the aim of preventing the production of waste at the source, progressively reducing the processing of rejects and replacing current raw materials with new materials that have a lower environmental impact;

- operating management of generated waste, aimed at identifying and ensuring the selection of waste treatment channels that can maximise recovery and recycling, gradually eliminating the amount sent to the landfill with the *Zero Waste to Landfill* vision;

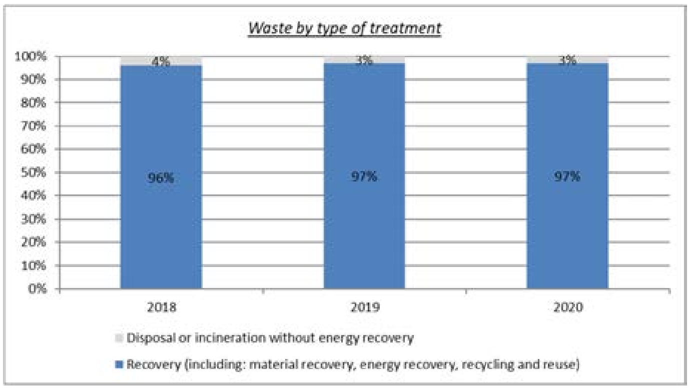
- streamlining packaging management, both for the packaging of purchased products and the packaging for products made by the Group.

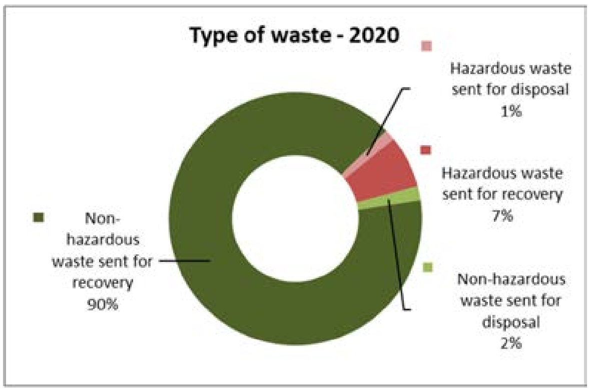
Also in the case of waste, the effect of the pandemic crisis on the specific production index weighted on tonnes of finished product is evident, with a 10% increase in 2020 compared to the previous year. At the same time, there is a significant improvement in the absolute index, with an overall reduction in waste produced of 10% compared to the 2019 figure.

Despite this unfavourable context, the countermeasures taken have made it possible to confirm a percentage of waste sent for recovery of 97%, in line with the current Sustainability Plan, which envisages sending 98% of the waste produced for recovery by 2025, with a “Zero Waste to Landfill” vision.

And in line with the “Zero Waste to Landfill” Vision, the Turkish Izmit plant deserves a mention. At the end of 2020, it obtained “Zero Waste” government certification as 100% of its waste is sent for recovery and its management meets the criteria set out in the “Zero Waste Regulation” defined by the Turkish Ministry of the Environment and Town Planning.

Hazardous waste accounts for 8% (compared to 10% in both 2019 and 2018) of total production and is totally sent for treatment in facilities located in the same country where it is generated.

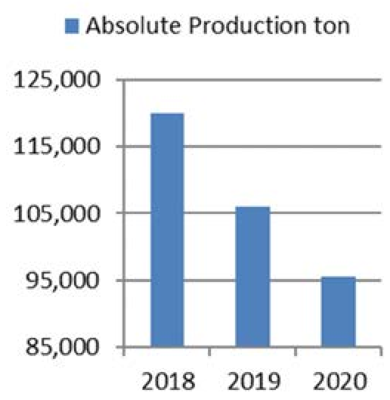


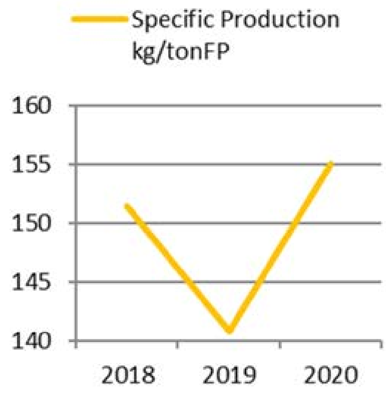


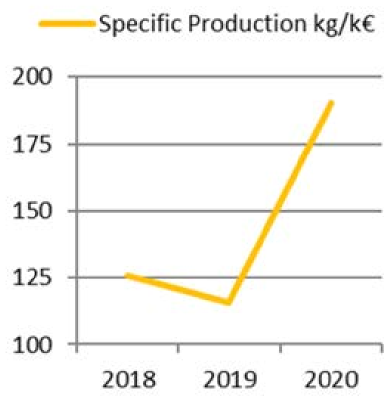
The graphs below detail waste production through three main indicators:

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

		2018	2019	2020
Absolute production	ton	120,096	105,977	95,470
Specific production	kg/tonFP	151	141	155
	kg/k€	126	116	190





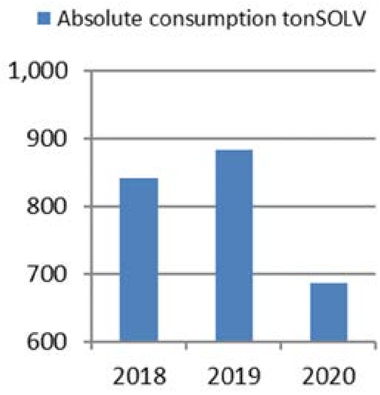


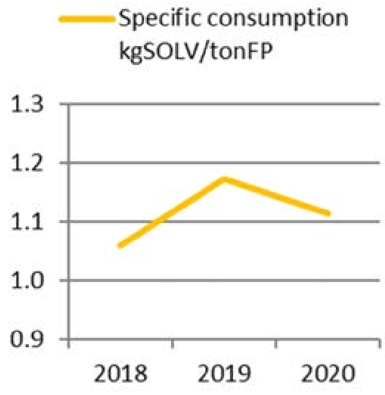
Other Environmental Aspects

<u>Solvents</u>

Solvents are used as ingredients in processing, mainly to reactivate vulcanised rubber, during the fabrication and finishing of tyres. Pirelli is committed to the progressive reduction of these substances, both by optimising their use, and by spreading solvent-free technologies for operations that may be performed even without their use. In 2020, the value of specific solvent consumption stabilised at 1.1 kg per tonne of tyres produced, a reduction of 5% compared to 2019, and in line with the 2018 figure, with emission of related VOCs slightly lower than total consumption.

		2018	2019	2020
Absolute consumption	tonSOLV	841	883	686
Specific consumption	kgSOLV/tonFP	1.1	1.2	1.1





<u>Biodiversity</u>

Pirelli pays the utmost attention to ensuring that corporate activities do not interfere with the biodiversity characteristic of the contexts in which the Company operates. Currently, there are two Pirelli sites located within protected areas of high biological diversity: the site of Vizzola Ticino (Italy) and that of Elias Fausto (Brazil). both sites are the locations of tyre test tracks. Both are not production sites but test fields for testing tyres.

The Vizzola site hosting the tyre test track has an area of 0.37 square kilometres and is part of the Lombard area of the Parco del Ticino, MAB area[41] of UNESCO, characterised by the presence of 23 species included in the IUCN Red List (International Union for the Conservation of Nature) of which: 17 are classified as "of least concern (LC)", 1 as "near threatened (NT)", 3 as "vulnerable (V)", 1 as "endangered (EN)" and one as "Critically Endangered (CR)".

To ensure the utmost protection of the natural environment in which the Vizzola test track is located, Pirelli has implemented an ISO 14001 certified Environmental Management System in accordance with the "Parco del Ticino". Environmental impact on biodiversity in the area are not significant; however, several interventions were carried out, both directly by the Company and by the Park Authority, to mitigate and improve the interactions of Pirelli's activities with the natural environment, as stipulated in the agreement signed in 2001. In 2016, a campaign to monitor air quality was also carried out, which highlighted the substantial negligence of the impacts of the activity compared to the context in which the test field is inserted.

The site of Elias Fausto (Brazil) is the new Brazilian test track, with an area of 1,588 square kilometres, and is located in an area with a prevalent cultivation of sugar cane where there are two streams (Itapocu and Tietê rivers) that provide permanent protection areas. There are 162 species on the IUCN Red List, of which 1 is classified as 'vulnerable' (V), 2 as 'near-threatened' (NT), 158 as 'of minor concern' (LC) and 1 as 'missing data' (DD). In order to maximise environmental

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

protection in the area, Pirelli manages environmental issues, monitors and implements measures to conserve fauna and water resources, including the planting of native species and the control of noise levels in accordance with the environmental impact study carried out prior to the project, according to which the environmental impact of the activities on the region's biodiversity is not significant.

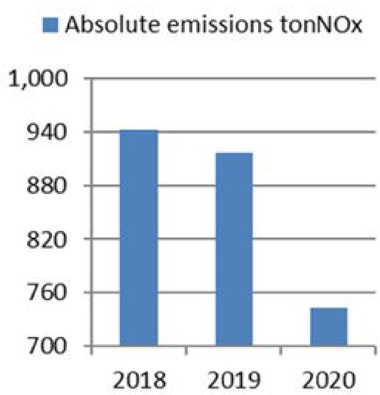
Pirelli's focus on biodiversity is also very high with regard to the supply chain, as in the case of sustainable management of the natural rubber supply chain based on a no deforestation policy. For an extensive description of the sustainable management of the natural rubber supply chain, please refer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

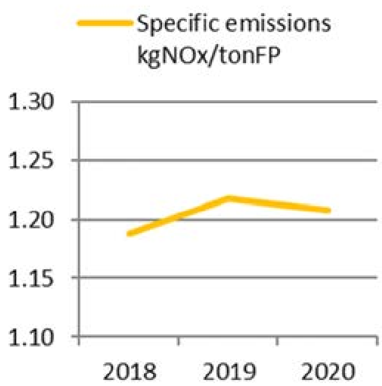
NOx Emissions

NO_x emissions derive directly from the energy-generating processes used. In 2020, the index based on the tons of finished product fell by 0.8% compared to the 2019 figure, mainly due to a change of the mix of the energy consumed, which in particular saw an increase in the share of renewables, as described above. The emissions were calculated by applying the emission factors indicated by the EEA (European Environment Agency) to the energy consumption data.

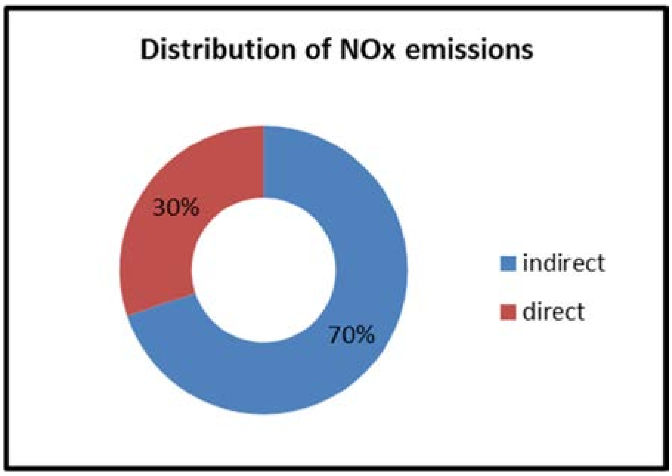
In absolute terms, NO_X emissions in 2020 fell by nearly 19% compared to the previous year and by 21% compared to 2018.

		2018	2019	2020
Absolute emissions	$tonNO_X$	943	917	743
Specific emissions	$kgNO_X/tonFP$	1.29	1.22	1.21





The following graph shows the 2020 weight of direct and indirect NO_X emissions out of total NO_X emissions.



<u>Other emissions and environmental aspects</u>

The production process does not directly use substances that are harmful to the ozone layer. These are instead contained in certain closed circuits of the cooling and air conditioning plants. Therefore, except for accidental and unforeseeable losses, there are no free emissions into the atmosphere that can be correlated with Pirelli manufacturing activities.

In 2020, direct emissions of SO_X, caused by the combustion of diesel and fuel oil, came to 10.7 tonnes (respectively 13.7 tonnes in 2019 and 10.8 tonnes in 2018); the value is estimated based on EEA - European Environment Agency - emissions standards.

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

The environmental management systems implemented at the production units assured constant and prompt monitoring and intervention regarding potential emergency situations that may arise, as well as the reports received from Stakeholders. During 2020, no incidents, complaints or significant sanctions related to environmental issues were recorded.

It is worth mentioning that in 2020 the Chinese production site in Yanzhou obtained the ‘class A’ certification (the most efficient) in terms of atmospheric emissions, awarded by the local government. Thanks to this classification, which confirms the high level of commitment to the management and containment of atmospheric emissions, the site will no longer be subject to production restrictions that are required by local regulations during periods of high atmospheric pollution.

Expenses and Investments

In the three-year period 2018-2020, environmental expenditure related to the production process exceeded €63 million, of which about 33% was allocated in 2020. About 73% of this amount concerned normal management and administration of factories, while the remaining 27% was dedicated to preventive measures and improvement in environmental management.

Lastly, it should be noted that, consistent with the materiality analysis at the beginning of this section of the report, the most significant expenses that Pirelli dedicates to the environment are those relating to Product Research & Development: in 2020, the Company invested € 194.6 million in research and innovation of its products, with a constant focus on safety performance and reduction of environmental impacts and, simultaneously, production efficiency.

In the operations area, for the assessment of some new investments, the potential impacts associated with GHG emissions are highlighted, evaluating internally a Carbon Price.

Product and use phase: eco & safety performance targets

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

- less rolling resistance – lower CO_2 emissions;
- less noise – reduced noise pollution;
- increased mileage – lengthening of tyre life and reduced exploitation of resources;

The targets to improve the environmental performances adopted by Pirelli for its products are objective, measurable and they consider the level of materiality of the impacts along the life cycle of the product with a perspective of the maximum effectiveness of the action. In particular, it was seen that the rolling resistance related to the use phase of the tyre constitutes the factor with most impact by far in environmental terms. In this regard, Pirelli has committed to reducing the average weighted rolling resistance of its passenger car tyres of 14% by 2025, compared to the 2015 average: at the end of 2020, the reduction is 9% compared to the 2015 average.

For an overview of product performance targets, please refer to the section “Sustainability planning and the UN Sustainable Development Goals” in this report.

Eco & Safety Performance[42] products include the CINTURATO™ P7™ Blue, with which solution Pirelli was the first manufacturer in the world present on the market with a tyre that, in some measurements, boasts the double A in the Eurolabel scale. This product is available, depending on the measurements, both in double A class and in B class of rolling resistance while always maintaining A class for wet grip. On average, the CINTURATO™ P7™ Blue guarantees 23% less rolling resistance than the Pirelli reference (rolling resistance class C), combined with lower fuel consumption and a reduction in the atmospheric emissions associated with it. A vehicle with CINTURATO™ P7™ Blue tyres that runs 15,000 km a year consumes 5.1% less fuel (equivalent to 52 litres), and reduces greenhouse gas emissions by 123.5 kilograms of CO_2 and has a braking distance on wet 9% lower than the Pirelli benchmark (class B of wet grip) in the same segment. Comparative TÜV SÜD tests showed that, at a speed of 80 km/h on a wet surface, the CINTURATO™ P7™ Blue reduces braking by 2.6 metres compared to a tyre classified B.

In 2020, Pirelli launched the new CINTURATO™ P7™. Starting with the previous generation, presented in 2009, and since then the type approval leader, the CINTURATO™ P7™ has undergone continuous updates thanks to the work in close contact between Pirelli and the major premium car manufacturers, which have led to further enhancement of the qualities that are most important to drivers today: safety and efficiency. Intense work on Research & Development has resulted in a high-tech product that overcomes some of the typical tyre compromises such as performance in the wet and rolling resistance. Compared to its predecessor, the new CINTURATO™ P7™ improves performance in both dry and wet driving, in aquaplaning and, in particular, in braking where at 100 km/h it reduces the vehicle stop by 4 metres. Innovation has also involved increasing the level of acoustic comfort (with less noise produced when rolling) and plastic comfort (thanks to its improved capacity to absorb asphalt bumps). Mileage is also increased by 6%, reducing the frequency of tyre replacement. Also in the area of efficiency, rolling resistance on average has improved by one class in European labelling (-12%), reducing the car's fuel consumption by 4% (measured in the WLTP cycle) and CO_2 emissions.

In terms of the materials used, the new CINTURATO™ P7™ is also full of innovations. The specially developed tread compound is enriched with silica and specific resins to increase grip, and with functionalised polymers that are capable of varying their behaviour according to the operating temperature of the tyre, offering an optimal experience in all driving conditions. In addition, thanks to greater mechanical resistance, the new compound has a reduced abrasion rate, with benefits in terms of durability for the benefit of efficiency and savings for motorists, and less use of materials, with a reduction in tyre weight and benefits in terms of rolling resistance and a more conscientious use of resources.

In 2020 Pirelli achieved excellent results in the development of products with low rolling resistance, even on products suitable for off-road use, with the creation, at the request of Land Rover for its new Defender, of a new version of Scorpion Zero All Season tyres in rolling resistance class A, tested for off-road and wet grass applications.

[42] Eco & Safety Performance products identify the car tyres that Pirelli produces throughout the world that fall exclusively into classes A, B, C of rolling resistance and wet grip according to the labelling parameters set by European regulations.

Even in the area of high-performance cars, attention to the environment has become a discriminating element with the challenge of reducing rolling resistance while maintaining the level of performance expected for this segment. At the 2019 Geneva Motor Show, Pirelli presented the Elect marking that distinguishes tyres specifically created for the needs of electric and plug-in hybrid cars. Low rolling resistance to increase autonomy, low tyre rolling noise to ensure optimum comfort, immediate grip for transmission stresses at the start and a structure suitable for supporting the weight of the battery-powered vehicle. These are the main features of Pirelli Elect tyres, developed by Pirelli in collaboration with leading carmakers to meet the specific technological requirements of electric and plug-in hybrid vehicles. For the Porsche Taycan, Pirelli has developed a dedicated P Zero tyre marked Elect, which guarantees maximum performance for the vehicle and, for the winter season, tyres with Elect technology on the Winter Sottozero 3, Scorpion Winter and P Zero Winter lines. Rivian, a US start-up specialising in electric vehicles, has also chosen the Pirelli Scorpion range marked Elect to tyre its R1T pick-up and R1S electric SUV. To this end, Pirelli has produced new versions of the Scorpion Verde All Season, Scorpion Zero All Season and Scorpion All Terrain tyres (the Pirelli range dedicated to SUVs and pick-ups).

As far as motorcycle tyres are concerned, for the *Enduro On* segment, development of the METZELER TOURANCE NEXT 2 was completed in 2020 and it will be available on the market from 2021. Compared to its predecessor TOURANCE NEXT, the main features of the new product are a wider tread pattern, specially designed to increase wet braking and to lower rolling resistance. For the *Supersport* segment, in 2020 Pirelli developed the new Diablo Rosso IV, also available on the market from 2021, which improves on the behaviour of its predecessor Diablo Rosso III on both wet and dry surfaces and guarantees performance retention even when worn, thus extending the life of the tyre for even the most performance-conscious users.

As far as bicycle tyres are concerned, Pirelli recently expanded its product lines, adding the CINTURATO™ Velo and the Cycl-e™ range to the P ZERO™ Velo, along with the Cinturato™ GRAVEL range, the SCORPION™ MTB range and the PZero™ Race TLR range.

The compound of the SCORPION™ MTB range, which also includes a line dedicated to E-MTBs, contains lignin (Pirelli Patent Pending), a low environmental impact additive of natural origin derived from the waste products of the cellulose production process. The addition of lignin further improves the mechanical properties of the rubber, promoting better resistance to tearing, as required for use on powerful modern E-MTBs. This improved performance is achieved without compromising the unique characteristics of the original SmartGRIP Compound, starting with the chemical grip and its durability. The result is superior grip in all terrain conditions, from dry to wet, and consistent and predictable tyre performance throughout its life cycle, despite the increased stresses to which E-MTB tyres are subjected.

In 2020, thanks to the experience gained in the car sector, Pirelli has developed the winter tyre CYCL-e WT, suitable for urban bikes and e-bikes, thus favouring the safe use and driving pleasure of the bicycle in all the seasons. The tyres of the Cycl-e™ line have been developed and manufactured using a compound that contains the powder recovered from end-of-life car tyres: the powders are selected, re-generated and re-used in the polymer matrix. In addition, special attention has been paid to maximising the use of natural rubber, a raw material from a renewable source, in the compounds.

Pirelli products of the highest technology do not stop at tyres. Pirelli continues, in fact, the development of CYBER™ technologies, based on the introduction of sensors inside the tyre, in order to obtain from the single point of contact with the road, useful information to increase the safety, sustainability and performance of vehicles.

CYBER™ technologies are divided into products dedicated to original equipment (Cyber™ Tyre), end consumer (Track Adrenaline) and fleet (Cyber™ Fleet). The common denominator of the three projects (which differ in technology, purpose and market segment) is the constant monitoring of tyre usage conditions (including pressure and temperature) and the dynamic forces acting on them. All this in order to improve safety and optimise fuel consumption, thereby reducing CO_2 emissions attributable to road transport.

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

The new Cinturato P7 will also be the subject of experimentation by Pirelli's CYBER™ department, the company that was the first to connect the tyre to the 5G network, a technology that is currently being tested and will be used in smart cities in the near future. Pirelli is the first company in the world in the tyre sector to share information on the road surface detected by smart tyres on the 5G network, the tyre being the only element of the car capable of "feeling" the ground on which it is travelling and detecting potentially dangerous situations such as aquaplanes. Soon, communications infrastructure with 5G technology will be able to collect information from tyres, relaying it to other vehicles to increase the level of road safety. In this way, the tyre enters a broader communication paradigm involving the entire road transport ecosystem, actively contributing to the development of solutions and services for future mobility and autonomous driving systems.

In addition, Pirelli CYBER™ technology, based on sensors and remote monitoring of tyre pressure and temperature, has been integrated into Infogestweb's Golia (Gestionale Organizzazione Lavoro Imprese e Autotrasporto) portal and is available for all commercial transport vehicles. Thanks to this integration with Golia, the only fleet management platform in Europe dedicated to the complete management of tachograph data, fleet managers can remotely monitor the driving, working and rest times of professional drivers, fleet operating data and tyre use and maintenance conditions.

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

Throughout the years of partnership, the agreement has made it possible to achieve important results in terms of tyre performance, the relative level of safety and sustainability, thanks to the use of advanced materials. Research has focused mainly on the production and functionalisation of carbonaceous fillers (from graphene, to nanotubes to carbon black); on the preparation of modified silicate fibres; on the study of alternative natural rubber sources up to the synthesis of innovative polymers and self-repairing materials. Attention has also been paid to the regulatory area of the mechanics, where, since 2011, 12 research contracts have been activated in the Cyber™ Tyre and in the F1®, with the study of tyre-asphalt interaction. One area of particular interest was the study of low-noise tyres (Silent Tyre project). In fact, innovative test methodologies have been applied for the indoor measurement of the acoustic field generated by the rolling tyre. Recently, experimental tyre aerodynamic modelling studies have also been launched in the bicycle and automotive sectors.

Tyre and Road Wear Particles

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

The multiple causal factors extrinsic to the tyre and belonging to the sphere of influence of multiple Stakeholders require a combined action by all actors in order to define and implement the most effective mitigation actions. The need for a multi-stakeholder commitment led to the creation of the “European TRWP Platform” launched by ETRMA (see details in the “ETRMA” section of this report), which saw the participation, in addition to the Tyre Industry, of Road Authorities, Automobile Manufacturers Association, Automobile Clubs, Waste Water Treatment Sector, Universities and Research Centres, NGOs, European Institutions and national authorities. The platform will continue its work in 2021 and, as in 2019 and 2020, will be supported by CSR Europe.

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

Management of end-of-life tyres

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

In the world, it is estimated that one billion tyres reach the end-of-life each year. On a global scale, 60% of end-of-life tyres (ELTs) are recovered (Source: WBCSD 2018 - Global ELT Management – A global state of knowledge on regulation, management systems, impacts of recovery and technologies), while in Europe and the United States the recovery stands at 91% (Source: ETRMA 2020, data from 2018) and 76% (source: USTMA - 2019 US Scrap Tyre Management Summary).

For years, Pirelli has been engaged in the management of ELTs. The Company actively collaborates with the main reference entities at national and international level, promoting the identification and development of solutions to enhance and promote the sustainable recovery of ELTs, shared with the various Stakeholders and based on the Circular Economy model. In particular, Pirelli is active in the Tyre Industry Project (TIPG) of the World Business Council for Sustainable Development (WBCSD), in the ELT working groups of ETRMA (European Tyres and Rubber Manufacturers' Association) and, at national and local level, it interacts directly with leading organisations active in the recovery and recycling of ELTs. As a member of TIPG, Pirelli Tyre has collaborated on the publication of guidelines on the management of ELTs (WBCSD "A framework for effective management systems" in 2008 and "Managing End-of-Life Tires" in 2010), taking a proactive approach to raising the awareness both within Emerging Countries and those that do not yet have a system for ELTs recovery, in order to promote their recovery according to "best practices", i.e. defined management models which have already been launched successfully.

The tyre is a mixture of many valuable materials that at end-of-life allow two paths of recovery: recovery of material (such as "secondary raw materials") or energy. In the recovery of material, the reclaimed rubber is already reused by Pirelli in the compounds for new tyres, thus contributing to the reduction of the related environmental impact. In order to increase this recovery rate, research activities following our Open Innovation model are continuing, aimed at improving the quality of recovered secondary raw materials in terms of affinity with the other raw materials and the other ingredients present in our ultra-high performance compounds, as well as in the search for innovative recovery solutions.

SOCIAL DIMENSION

Human Rights Governance

Pirelli bases its activities on compliance with the universally established Human Rights, as fundamental and indispensable values of its culture and business strategy, working to manage and reduce potential risks of violations and in order to avoid causing – or contributing to causing – adverse impacts to these rights in the international, multicultural, socially and economically diverse context in which it operates.

The Company promotes respect for Human Rights and adherence to international standards applicable at its Partners and Stakeholders and aligns its governance to the Global Compact of the United Nations, to the ISO 26000 Guidelines, to the dictates of the SA8000® Standard and underlying international standards, and the recommendations contained in the Guiding Principles Business and Human Rights of the United Nations, implementing the Protect, Respect and Remedy Framework.

The human rights management processes are handled by Pirelli Sustainability Department, which acts in concert with the affected and responsible functions, at central level and in the various Countries, with reference to both the Internal and External Community.

Pirelli's commitment on human rights is dealt with extensively in the Group "Global Human Rights" Policy, which describes the management model adopted by the Company in respect of core Rights and Values such as occupational health and safety, non-discrimination, freedom of association, refusal of forced labour, guarantee of decent work conditions in economic and sustainable terms and in terms of working hours, protection of rights and values of local communities, refusal of any form of corruption and protection of privacy. Further references to respect for human rights are also found in other company documents: "*Values and the Code of Ethics*", the "*Social Responsibility Policy on Occupational Health, Safety and Rights and Environment*", the "*Global Health, Safety and Environment*" Policy, the "*Privacy*" Policy, the "Equal *Opportunities Statement*" and the "*Policy on the Sustainable Management of Natural Rubber*". All the documents were communicated to employees in the local language and published on Pirelli website in multiple languages.

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

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

- manages its supply chain responsibly and specifically includes respect for human rights in the selection parameters of its suppliers, the contractual clauses and verifications carried out by third-party audits. Pirelli also requires its suppliers to implement a similar business model on their supply chain, including adequate due diligence aimed at certifying that the products and materials provided to Pirelli are "conflict free" throughout the supply chain. From 2019, Pirelli has also subscribed to the "Cobalt Initiative" launched by RMI. With specific reference to the natural rubber context, Pirelli promotes decent working conditions, development of local communities and prevention of conflicts related to land ownership (for an in-depth study on the sustainable management of Natural Rubber, and other materials, please refer to the paragraph “Our Suppliers” in this Report);

- is open to cooperation with government and non-government, sectoral and academic entities in relation to the development of global policies and principles aimed at protecting human rights; This is the context in which the Group CEO will sign the “*CEO Guide on Human Rights*” promoted by the WBCSD in 2019 (see the “WBCSD” section of this Report);

- before investing in a specific market, conducts ad hoc assessments of any political, financial, environmental and social risks, including those related to the respect of human and labour rights. The internal and external context is monitored in those Countries where the Company does operate, in view of preventing negative impacts on human rights in the ambit of the sphere of corporate influence, and if so, remedying them;

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

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

Between late 2019 and early 2020, Pirelli updated its analysis of the risk of violation of human rights on its own premises, in the related value chain (suppliers and customers) and in the local context external to Pirelli, asking the main Stakeholders to fill out a dedicated survey. With regard to the perception of internal risk at Pirelli’s sites and in the relative value chain, the survey was submitted to the function managers and to the Sustainability Managers of the Group’s sites, while regarding the perception of risk in the external context the survey was submitted to both the aforementioned Pirelli functions and to local Non-Governmental Organisations of reference.

The survey asked for an indication of the current and potential (referring to the next 5-10 years) perceived risk value on a scale from 1 to 4 (1 = low risk, 2 = medium-low risk, 3 = medium-high risk and 4 = high risk) for each of the 20 indicated human rights, deriving from the Universal Convention of the Human Rights of the United Nations and the ILO Declaration on the Fundamental Principles and Rights of Labour.

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

The consolidation of the feedback received from Non-Governmental Organisations, with reference to the risk perceived in the local context external to Pirelli, showed, on average, low or medium-low risks; the average values recorded are, in fact, less than 1.74 for current risks, while they reach 1.98

for medium-long-term risks. The value of 1.98 corresponds to the risk of violation of the right to fair justice, which coincides, moreover, with the risk perceived as increasing the most in the coming years.

INTERNAL COMMUNITY

Pirelli Employees around the world

The total Pirelli workforce as at 31 December 2020 - expressed in *Full Time Equivalent* and including agency workers - stood at 30,510 employees (vs. 31,575 in 2019 and 31,489 in 2018), recording a net decrease of 1,065 employees compared to the previous year.

The following tables[43], with reference to the last three years, detail the composition of the workforce by category, geographical area, gender, type of contract, and the flow of employees by geographical area[44], gender and age bracket.

To complete the information on the trend of the workforce during the year, please refer to the paragraph "Industrial Relations" in this Report.

Additional quantitative information with specific reference to the issue of diversity is provided in the "Diversity Management" section of this Report.

BREAKDOWN OF WORKFORCE[45] BY CATEGORY

	EXECUTIVES	CADRE	WHITE COLLARS	BLUE COLLARS	TOTAL
2020	257	1,752	4,060	24,441	**30,510**
2019	271	1,893	4,617	24,794	**31,575**
2018	288	1,945	4,643	24,612	**31,489**

[43] Staff numbers are expressed in Full Time Equivalent; while respecting the totals, partial values entered in the table may be subject to rounding.

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

[45] These data include agency workers, corresponding to 0.1% of total workforce in 2018, 0.2% in 2019 and 0.6% in 2020.

BREAKDOWN OF WORKFORCE[46] BY GEOGRAPHICAL AREA[47] AND GENDER									
	2020			**2019**			**2018**		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
EUROPE	10,951	1,774	**12,725**	11,295	1,803	**13,098**	11,178	1,773	**12,951**
NORTH AMERICA	2,752	480	**3,232**	2,758	507	**3,265**	2,497	503	**3,000**
SOUTH AMERICA	7,293	647	**7,940**	7,288	677	**7,964**	7,577	693	**8,270**
APAC	3,093	834	**3,927**	3,280	854	**4,134**	3,247	868	**4,115**
RUSSIA, NORDICS & MEAI	2,110	576	**2,686**	2,431	684	**3,115**	2,438	715	**3,154**
TOTAL	**26,199**	**4,311**	**30,510**	**27,051**	**4,524**	**31,575**	**26,937**	**4,552**	**31,489**

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46 These data include agency workers, corresponding to 0.1% of total workforce in 2018, 0.2% in 2019 and 0.6% in 2020.

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

BREAKDOWN OF WORKFORCE[48] BY GEOGRAPHICAL AREA[49] AND CONTRACT

2020				
	Permanent	**Temporary**	**Agency**	**Total**
EUROPE	11,923	795	7	**12,725**
NORTH AMERICA	3,024	1	27	**3,232**
SOUTH AMERICA	7,750	54	136	**7,940**
APAC	3,923	4	0	**3,927**
RUSSIA, NORDICS & MEAI	2,562	124	0	**2,686**
TOTAL	**29,362**	**978**	**170**	**30,510**
2019				
	Permanent	**Temporary**	**Agency**	**Total**
EUROPE	12,513	565	20	**13,098**
NORTH AMERICA	3,237	0	28	**3,265**
SOUTH AMERICA	7,779	185	0	**7,964**
APAC	4,131	3	0	**4,134**
RUSSIA, NORDICS & MEAI	3,014	98	2	**3,115**
TOTAL	**30,674**	**851**	**50**	**31,575**
2018				
	Permanent	**Temporary**	**Agency**	**Total**
EUROPE	12,365	561	26	**12,951**
NORTH AMERICA	2,987	0	13	**3,000**
SOUTH AMERICA	8,099	171	0	**8,270**
APAC	4,109	6	0	**4,115**
RUSSIA, NORDICS & MEAI	3,028	68	3	**3,154**
TOTAL	**30,642**	**805**	**42**	**31,489**

[48] These data include agency workers, corresponding to 0.1% of total workforce in 2018, 0.2% in 2019 and 0.6% in 2020.

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

PERCENTAGE OF EMPLOYEES BY CATEGORY, GENDER AND AGE

	Executives			Cadre			White collars			Blue collars			Total		
2020															
	M	**F**	**tot**	**M**	**F**	**tot**	**M**	**F**	**tot**	**M**	**F**	**tot**	**M**	**F**	**tot**
<30	0%	0%	**0%**	2%	2%	**2%**	20%	29%	**23%**	23%	19%	**23%**	21%	20%	**21%**
30 - 50	50%	59%	**51%**	63%	73%	**66%**	63%	56%	**61%**	63%	73%	**64%**	63%	68%	**63%**
>50	50%	41%	**49%**	35%	25%	**32%**	17%	15%	**16%**	14%	8%	**13%**	16%	12%	**15%**
2019															
	Executives			**Cadre**			**White collars**			**Blue collars**			**Total**		
	M	**F**	**tot**	**M**	**F**	**tot**	**M**	**F**	**tot**	**M**	**F**	**tot**	**M**	**F**	**tot**
<30	0%	0%	**0%**	3%	4%	**3%**	22%	30%	**25%**	26%	24%	**26%**	24%	24%	**24%**
30 - 50	55%	69%	**57%**	66%	75%	**68%**	64%	56%	**61%**	62%	70%	**63%**	63%	66%	**63%**
>50	45%	31%	**43%**	31%	21%	**29%**	14%	14%	**14%**	12%	6%	**11%**	13%	11%	**13%**
2018															
	Executives			**Cadre**			**White collars**			**Blue collars**			**Total**		
	M	**F**	**tot**	**M**	**F**	**tot**	**M**	**F**	**tot**	**M**	**F**	**tot**	**M**	**F**	**tot**
<30	0%	0%	**0%**	3%	3%	**3%**	24%	33%	**27%**	29%	27%	**28%**	26%	27%	**26%**
30 - 50	48%	66%	**50%**	64%	74%	**67%**	60%	53%	**58%**	59%	66%	**60%**	60%	62%	**60%**
>50	52%	34%	**50%**	33%	23%	**30%**	16%	14%	**15%**	12%	7%	**12%**	14%	11%	**14%**

EMPLOYEES WITH PART TIME CONTRACT BY GENDER

2020			2019			2018		
Male	**Female**	**TOTAL**	**Male**	**Female**	**TOTAL**	**Male**	**Female**	**TOTAL**
120	154	**274**	157	205	**362**	137	183	**320**

Employee flows by geographic area[50], gender and age

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

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

2020 FLOWS: ABSOLUTE VALUES AND RATES

	INCOMING						OUTGOING					
	<30	**30 - 50**	**>50**	**M**	**F**	**Total**	**<30**	**30 - 50**	**>50**	**M**	**F**	**Total**
EUROPE	678	437	42	1,018	139	**1,157**	471	430	289	1,067	123	**1,190**
	29%	6%	1%	9%	8%	**9%**	20%	6%	10%	10%	7%	**9%**
NORTH AMERICA	548	324	36	838	70	**908**	542	360	20	824	98	**922**
	36%	22%	21%	31%	15%	**28%**	35%	24%	12%	30%	21%	**29%**
SOUTH AMERICA	392	291	7	603	87	**690**	348	427	109	759	125	**884**
	30%	5%	1%	8%	13%	**9%**	27%	8%	12%	11%	19%	**11%**
APAC	45	43	2	59	31	**90**	109	142	11	221	41	**262**
	6%	1%	2%	2%	4%	**2%**	15%	5%	13%	7%	5%	**7%**
RUSSIA, NORDICS & MEAI	79	87	6	122	50	**172**	141	290	168	446	153	**599**
	15%	5%	1%	6%	9%	**7%**	26%	18%	38%	22%	27%	**23%**
TOTAL	**1,742**	**1,182**	**93**	**2,640**	**376**	**3,017**	**1,611**	**1,649**	**597**	**3,317**	**540**	**3,858**
	27%	**6%**	**2%**	**10%**	**9%**	**10%**	**25%**	**9%**	**13%**	**13%**	**13%**	**13%**

2019 FLOWS: ABSOLUTE VALUES AND RATES

	INCOMING						OUTGOING					
	<30	**30 - 50**	**>50**	**M**	**F**	**Total**	**<30**	**30 - 50**	**>50**	**M**	**F**	**Total**
EUROPE	904	656	78	1,460	178	**1,638**	698	553	254	1,328	177	**1,505**
	35%	8%	3%	13%	10%	**13%**	27%	7%	10%	12%	10%	**12%**
NORTH AMERICA	982	406	26	1,252	162	**1,414**	750	377	27	1,001	153	**1,154**
	57%	29%	25%	46%	32%	**44%**	44%	27%	26%	37%	30%	**36%**
SOUTH AMERICA	199	212	12	349	74	**423**	271	425	91	715	72	**787**
	14%	4%	2%	5%	11%	**5%**	19%	7%	12%	10%	11%	**10%**
APAC	294	303	4	522	79	**601**	235	268	12	433	82	**515**
	26%	10%	5%	16%	9%	**15%**	21%	9%	16%	13%	10%	**12%**
RUSSIA, NORDICS & MEAI	159	117	7	221	62	**283**	150	161	70	288	93	**381**
	22%	6%	1%	9%	9%	**9%**	21%	9%	14%	12%	14%	**13%**
TOTAL	**2,538**	**1,694**	**127**	**3,804**	**555**	**4,359**	**2,104**	**1,784**	**454**	**3,765**	**577**	**4,342**
	33%	**9%**	**3%**	**14%**	**12%**	**14%**	**28%**	**9%**	**11%**	**14%**	**13%**	**14%**

2018 FLOWS: ABSOLUTE VALUES AND RATES

	INCOMING						OUTGOING					
	<30	30 - 50	>50	M	F	Total	<30	30 - 50	>50	M	F	Total
EUROPE	1,362	968	111	2,083	358	**2,441**	700	659	263	1,452	170	**1,622**
	51%	13%	4%	19%	20%	**19%**	26%	9%	9%	13%	10%	**13%**
NORTH AMERICA	1.221	598	29	1,648	200	**1,848**	969	473	20	1,255	207	**1,462**
	76%	47%	27%	66%	40%	**62%**	60%	37%	19%	50%	42%	**49%**
SOUTH AMERICA	565	1,249	196	1,810	200	**2,010**	414	900	231	1,360	185	**1,545**
	32%	22%	24%	24%	29%	**24%**	24%	16%	28%	18%	27%	**19%**
APAC	339	296	8	477	166	**643**	328	318	6	550	102	**652**
	24%	11%	9%	15%	19%	**16%**	23%	12%	7%	17%	12%	**16%**
RUSSIA, NORDICS & MEAI	223	137	28	327	62	**389**	234	258	194	554	133	**687**
	27%	8%	5%	13%	9%	**12%**	29%	15%	35%	23%	19%	**22%**
TOTAL	**3,710**	**3,248**	**372**	**6,345**	**986**	**7,331**	**2,645**	**2,608**	**714**	**5,171**	**797**	**5,968**
	45%	**17%**	**9%**	**24%**	**22%**	**23%**	**32%**	**14%**	**16%**	**19%**	**18%**	**19%**

At Pirelli there are 42 young people older than 15 and under 18 - before birthday - years old (15 in Germany, 9 in Switzerland, 3 in the UK,12 in Brazil, 1 in China and 2 in Sweden), each for training and integration plans, in harmony with local laws.

Diversity management

Pirelli is characterised by a multinational context where individuals manifest a great diversity, whose conscious management simultaneously creates a competitive advantage for the Company and a shared social value. Pirelli's commitment to compliance with equal opportunities and the enhancement of diversity in the workplace is expressed in the main Group Sustainability documents: the "Ethical Code" approved by the Board of Directors, the "Social Responsibility Policy for Occupational Health, Safety and Rights, Environment", the "Equal Opportunities Statement" and the "Global Human Rights" Policy.

The Policies are the subject of training on Pirelli Sustainable Management Model through the "Plunga" onboarding course.

Internationality and multiculturalism are the distinguishing features of the Group: Pirelli operates in 160 countries on five continents and 89.5% of its employees (as of 31 December 2020) work outside of Italy.

Awareness of the cultural differences that create the identity of the Company entails displaying the utmost confidence in management of local origin: 80% of Senior Managers work in their country of origin, where Senior Managers are those reporting directly to the Executive Vice Chairman and CEO, and Region CEOs and Executives with strategic responsibilities as at 31 December 2020. In order to develop the innovative and managerial potential inherent in multiculturalism and in dealings with different professional environments, the Company promotes the growth of its managers through international mobility: 53% of active Senior Managers in 2020 have in fact experienced at least one inter-company assignment during their professional experience within Pirelli Group.

Compared to the total number of employees, there were 15 new intragroup expatriates in 2020, compared to 57 new postings in 2019 and 66 departures in 2018; this decrease is mainly attributable to the health emergency faced by all global economies. Approximately a third of new postings were to major industrial countries such as Germany and China. The total expatriate population at year-end 2020 came to 114 (vs 170 in 2019 and 190 in 2018), belonging to 13 nationalities and moving to 22 different countries on five continents, of which 11% are women. 43% of the total expatriate population is made up of employees of foreign nationality.

Pirelli monitors the level of acceptance and appreciation of diversity perceived by employees within their own reality. The latest survey was conducted in 2018 throughout the Group and recorded particularly positive results regarding the perception of respect for and management of Diversity, which has been confirmed as a distinctive feature of Pirelli's corporate culture.

A functional tool for the management of equal opportunities and the prevention of risk of breach thereof is the Group Whistleblowing Procedure, through which employees and the external stakeholders can anonymously report any suspected violation. In 2020, 1 report was ascertained relating to a case that could be linked to discriminatory attitudes, on which the Company took action with the adoption of appropriate actions by the functions in question and the Human Resources Department. For further information on the reports received, please refer to the paragraph "Focus: Reporting procedure – Whistleblowing Policy".

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

With regard to the subdivision of the workforce by gender, with reference to the three-year period 2018-2020, the data show a substantial stability, with a percentage of women in the total population, which stands at 14.1%. The percentage of women grew in relation to managerial positions (executives + cadres), going from 22.4% in 2019 to 24% in 2020.

WOMEN'S INCIDENCE ON THE TOTAL WORKFORCE[51] BY CATEGORY						
YEAR	**EXECUTIVES**	**CADRES**	**EXEC + CADRES (= Tot Manager)**	**WHITE COLLARS**	**BLUE COLLARS**	**TOTAL**
2020	10.5%	26.0%	24.0%	33.0%	10.2%	**14.1%**
2019	10.7%	24.1%	22.4%	33.8%	10.0%	**14.3%**
2018	10.1%	23.8%	22.0%	34.2%	10.0%	**14.5%**

Analysing the breakdown by gender in terms of employment contract, the table below shows that also in 2020, a substantial balance was maintained between men and women.

WORKFORCE[52] BY GENDER AND BY TYPE OF CONTRACT									
	2020			**2019**			**2018**		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
PERMANENT	96.1%	97.0%	**96.2%**	97.3%	96.6%	**97.1%**	97.5%	96.4%	**97.3%**
TEMPORARY	3.3%	2.8%	**3.2%**	2.6%	3.1%	**2.7%**	2.4%	3.5%	**2.6%**
AGENCY	0.6%	0.2%	**0.6%**	0.1%	0.3%	**0.2%**	0.1%	0.1%	**0.1%**

In 2020 the number of parental leaves used by Pirelli employees corresponds to 169 for women and 741 for men.

With reference to the post-maternity/paternity return rate, Pirelli figure for the total workforce in all the countries where the company is present shows that, in 2020, out of the total number of workers who have ended parental leave, 85% of women and 90% of men have returned to the Company. Also, during 2020, one year after the maternity and paternity event (which occurred in 2019), 80% of women and 87% of men are still employed at the Company. It should be noted that the difference in the data between genders should be considered natural in light of the different socio-cultural contexts in which female workers are inserted.

In the context of gender diversity, Pirelli pays special attention to remuneration equality, constantly monitoring this issue. The countries considered in the analysis at the end of 2020 were Brazil, China, Germany, Italy, Romania, Mexico, Argentina, USA, Russia, France, Spain, UK and Turkey, representing over 3/4 of the total workforce subject to the remuneration policy (executives, cadres and employees). At a methodological level, it should be noted that the pay gaps between men and women were calculated for each Country and at the same weight of positions held, on the base of the "grade" (i.e. the weight attributed to each position on the basis of various factors) and the significance of each cluster. This valuation method allows objectivity and accuracy of the survey and evaluation: in fact, it should be noted that data calculated and/or reported only at Group level would

[51] These data include agency workers, corresponding to 0.1% of total workforce in 2018, 0.2% in 2019 and 0.6% in 2020.

be unable to pay due attention to the structural differences of the local markets and the logic of remuneration markets with special features not comparable with each other.

The average of pay gaps between men and women white collars recorded in these countries is equivalent to 3% in favour of women, in line with 2019, compared with 8% in 2018 also in favour of women; for the cadre category there is a substantial pay gap, which is compared with 2% in favour of men recorded in 2019 and with 3% in 2018, also in favour of men. A few examples:

- Italy, which has a difference between average remuneration for men and average remuneration for women of around 3% in favour of women for the category of employees (consistent with 2019 and compared to 2% in 2018 in favour of women); and 1% in favour of men for the category of cadres (compared to 4% in 2019 and 2% in 2018 in favour of men);

- Romania, where for the category of employees there is 4% in favour of men (consistent with 2019 and 2018) and for the category of cadre it is 8% in favour of men (as against 9% in favour of men in 2019 and 4% in favour of women in 2018);

- Brazil, where there is substantial pay parity between men and women in the category of white-collar employees (compared to 3% in favour of men in 2019 and 1% in favour of women in 2018) and 3% in favour of men in the cadre category (compared to 4% in favour of men in 2019 and substantial pay parity in 2018);

- Germany, which shows a difference between average male and average female remuneration of 2% in favour of men for the category of white-collar employees (compared to 1% in 2019 and 2% in 2018 also in favour of men) and 2% in favour of men for the category of managers (compared to 9% in 2019 and 7% in 2018 also in favour of men).

With reference to the population of managers, of which women represent 10.7%, there is an average pay gap of 6% in favour of women (in 2019 it was 5% and in 2018 it was around 3% again in favour of women).

With regard to the workers' population, all industrial countries with a significant number of observations were analysed: Brazil, China, Germany, Italy, Mexico, Romania, Russia, Spain, Switzerland, Sweden, Turkey, Argentina and UK. For each country the pay gap between men and women has been calculated. The average, weighted by the number of employees, showed a 2% difference in favour of men. Some examples:

- China presents a difference between average men's salary and average women's salary of 10% in favour of men, compared to 7% in 2019 and 9% in 2018, always in favour of men, due to the organisational roles currently filled by men;

- Brazil has a pay gap of 4% in favour of men compared to 2% in favour of men in 2019 and 6% in favour of women in 2018;

- in Italy there is a gap of 2% in favour of men, consistent with 2019, compared to 4% in 2018, in favour of men;

- in Romania there is a gap of 2% in favour of women, consistent with 2019, compared to substantial pay equity in 2018.

With regard to the standard salary of new hires during their first year of work, this is shown to be greater than the minimum levels prescribed by different local legislation and there are no differences between men and women or related to other diversity factors.

Pirelli's inclusive culture towards different skills, as explained in the Pirelli policy on equal opportunities, is implemented by all the Group's affiliates. Under applicable local laws, approximately 1.9% of total employees in 2020 (an increase of 0.2 pp from the figure for 2019 and 0.5 pp from the figure for 2018) have some form of disability, net of the following considerations: the percentage measurement of disabled employees in the multinational context of the company clashes with the objective difficulty of measuring their number, both because in many countries where the Group is present, there are no specific laws or regulations promoting their employment and therefore disabilities are not automatically detected, and because in many countries this information is deemed confidential and protected by privacy laws; it is therefore likely that the actual percentage of disabled persons working at Pirelli could be higher than the above figure.

With reference to the "age" factor of the company population, subdivided by professional category, it is homogeneous between genders, as can be seen from the table below.

AVERAGE EMPLOYEE AGE BY CATEGORY AND GENDER

			2020		
	Executives	**Cadres**	**White collars**	**Blue collars**	**Group Average**
Female	50	44	38	37	38
Male	51	46	39	38	39
Total	50	45	39	38	39
			2019		
	Executives	**Cadres**	**White collars**	**Blue collars**	**Group Average**
Female	48	43	37	36	37
Male	50	45	38	37	38
Total	49	45	38	37	38
			2018		
	Executives	**Cadres**	**White collars**	**Blue collars**	**Group Average**
Female	49	44	37	36	37
Male	50	45	38	37	38
Total	50	45	38	37	38

The following table represents the average seniority of service per professional category and gender: also in 2020, there were no significant differences between men and women.

AVERAGE EMPLOYEE SENIORITY OF SERVICE BY CATEGORY AND GENDER

	Executives	Cadres	White collars	Blue collars	Group Average
2020					
Female	16	14	9	7	9
Male	17	15	10	10	10
Total	17	15	10	10	10
2019					
	Executives	**Cadres**	**White collars**	**Blue collars**	**Group Average**
Female	14	14	9	7	8
Male	16	15	9	9	10
Total	16	15	9	9	9
2018					
	Executives	**Cadres**	**White collars**	**Blue collars**	**Group Average**
Female	13	13	8	6	8
Male	16	15	9	9	9
Total	15	15	9	9	9

The following procedures and activities to promote equal opportunities have been well-established for years:

- the use, as far as possible, of candidate lists with a significant presence of women in recruitment processes;
- introduction of initiatives aimed at respecting cultural and religious diversity (e.g. different and clearly marked diets in canteens, typical cuisine from cultures other than that of the host country etc.);
- “multilingual” book stores at the factories;
- welfare and work-life balance initiatives (in regard, refer to the paragraph “Welfare and initiatives in favour of the Internal Community” in this report).

Remuneration and sustainability

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

Specifically, the Guidelines of the remuneration for the abovementioned management figures will also cover:

- fixed and variable remuneration, both short and medium-long term (it is noted in this regard that Pirelli currently has no existing forms of remuneration through equity);
- compensation in case of termination of employment;
- clawback clauses for Top Management.

The remuneration policies adopted by Pirelli aim to ensure fair remuneration in line with the individual's contribution to the success of the Company, recognising the performance and quality of the individual's professional input.

The purpose is twofold: on the one hand to attract, retain and motivate employees, while on the other to reward and promote conduct that is as far as possible consistent with the corporate culture and values. Compensation policies and processes for Group management (intended as the overall executives) are managed by the central Human Resources and Organisation department, while for non-executive personnel they are handled on an individual Country basis, although supervised from central level.

Management in general is covered by the Annual Incentive Plan (STI), linked to the achievement of annual economic-financial objectives for the Group and/or Business Unit and/or Region and/or function, to which a sustainability objective is added, which from 2019 is linked to the value of the Group's "Green Performance Revenues[52]" (from 2021 renamed "Eco & Safety Performance Revenues") with a weight of 10% of the total. In line with market best practices, the incidence of the variable component (short- and medium-term) on the total remuneration of each Group Manager is very high, signifying a close correlation between remuneration and performance.

The Annual Incentive Plan (STI) provides for a deferred payment to the following year of a part (25%) of the annual incentive accrued, subject to the achievement of the following year's STI targets. The portion to be repaid is equal to the amount set aside, if the following year's objectives are achieved between entry level and target, or double the amount set aside, if these objectives are achieved at target level or above.

[52] Eco & Safety Performance products identify the car tyres that Pirelli produces throughout the world and that fall under rolling resistance and wet grip classes A, B, C according to the labelling parameters set by European legislation.

During 2020, in response to the Covid-19 pandemic, the Company approved the cancellation of the short-term incentive (STI) for the year, expecting in any event to pay out 25% of the 2019 STI set aside in the first quarter of 2021.

Since 2018, following the return to the stock exchange in October 2017, all Group Executives, in line with the variable compensation mechanisms adopted at international level, have been eligible for a multi-year Incentive Plan (LTI), which is totally self-financed as the related charges are included in the Industrial Plan economic data. In 2020, a Long-Term Cash Incentive Plan was launched in line with market best practices, based on a rolling mechanism (a new three-year Incentive Plan will therefore be proposed each year), without an ON/OFF access condition and with some targets, of which, in general, at least one is market-based, one is business-based and one is sustainability-based. The 2020-2022 Plan provides for two sustainability targets: positioning in the Dow Jones Sustainability Index World and in the CDP Climate Change index, both with a weight of 10% of the total. The launch of a new three-year 2021-2023 Incentive Plan, with the same characteristics as listed above, has been confirmed.

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

Employer Branding

In addition to disseminating the company principles, Employer Branding is also a valuable tool to give visibility to job opportunities aimed at recent graduates and profiles with experience, not only in the Italian market but globally. Considering the countries where Pirelli has a presence with one or more production plants, numerous events, projects and meetings were organised in 2020, where the Company promoted its own Employer Branding initiatives. These activities are carried out also thanks to the network of contacts and partnerships with important universities in the various countries.

In Italy, Pirelli actively collaborates with Polytechnic University of Milan, Polytechnic University of Turin, Bocconi University, UCSC Catholic University, University of Turin and the University of Milan-Bicocca. The latter Universities are located close to Pirelli offices and the Company has always considered them to be a benchmark for economic and engineering education of young people. With these institutions, Pirelli organises Careers Days, round tables, Job Fairs and company presentations, which in 2020 were held virtually.

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

Development

Performance Management

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

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

The model currently in use was redesigned in 2018 to ensure the process was aligned with the business strategy. These are the main features:

- the process and the platform are open all year, so as to better support the continuity of dialogue between boss and employee and alignment on priorities and focus of the performance;

- the assessment model is based on two dimensions: the “what” (results) and the “how” (key behaviours);

- *key behaviours* are the same for the entire company population and are considered essential to the achievement of the company’s strategic objectives, namely*: Accountability, Teamwork and collaboration, Forward thinking, Agility, Cross-functional approach, Initiative and drive.*

- *the entire process is managed within a platform accessible from all company devices.*

As usual, in 2020, the process was accompanied by digital training resources focused on the evaluation and feedback process.

The Performance Management process involves all staff worldwide (executives, cadres and white collar employees) and in 2020 saw a redemption rate (i.e., completed 2019 assessments compared to the total eligible people) of 100% (with the redemption rate of 100% both for women and men).

The percentages of completion by level are shown below:

Executives	Cadres	White collars
100%	100%	100%

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

Talent Development

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

Completing the first mapping exercise started in 2019, the population identification activity described above continued in 2020. The current population of talent and *critical know-how* is around 600 people. As far as talent is concerned, the average seniority of the company is 7 years. The strong international character, represented by 22 nationalities, is also confirmed.

Training

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

Pirelli training offering is based on one hand on the strategic priorities of the organisation and the different functions, and on the other on the needs that arise each year from the Performance Management process as well as the training needs arising from the socio-economic context.

In 2020, in the face of the global pandemic, a large part of the training activities focused on Health & Safety issues, in order to ensure that employees are properly informed about prevention and to guarantee a safe return to the workplace. For more information see “Health, Safety and Hygiene at Work”.

Despite the major digital transformation that in 2020 also involved the world of training, Pirelli training model confirmed the solidity of its structure, divided into four main pillars: the *Professional Academy,* the *School of Management*, *Global Activities* and *Local Education.* The first three are designed centrally and provided centrally and/or locally, while *Local Education* is fully managed and implemented in the individual Countries to meet the specific local needs.

Professional Academies

Pirelli Professional Academies cater to the entire corporate population with the aim of providing continuous technical-professional training, encourage cross-functional collaboration, ensure the exchange of expertise and know-how among countries and support the implementation of tools and procedures within the organisation.

There are ten Pirelli Academies: Product Academy, Manufacturing Academy, Commercial Academy, Quality Academy, Supply Chain Academy, Purchasing Academy, Finance and Administration Academy, Planning & Control Academy, Human Resources Academy and Digital Academy.

Sustainable Management elements are throughout the Academies, with focus for example on environmental efficiency of the process, health and safety, sustainable management of the supply chain, risk management and diversity management. The new digitalisation processes are also recurring and transversal to the Academy training model.

The faculty of the Academy is mainly composed of internal trainers, experts from the specific functions who, based on the training needs and logistical needs, provide training at central, regional and local level. The Academy model involves a significant figure from the function guiding each Academy, supported by one or more professionals from the same function and from the Group Training function, which ensures consistency in the methods of approach, delivery and evaluation of learning in addition to ensuring collaboration with the local training teams. Pirelli Professional Academy trainers are also certified through a standard process in all countries and are periodically updated on their ability to transmit know-how and skills effectively.

Each year the Professional Academies meet with both top management and local training contacts, with the objectives of strategic alignment, sharing of results achieved and definition of training priorities to be focused on in the following months.

Among the shared priorities for 2020 (already in the pre-Covid era) was the digitalisation of training, which saw a natural and inevitable acceleration during the year due to the pandemic context, leading all the Professional Academies to expand their training offerings, supplementing the traditional training delivered in 2020 in virtual mode with a portfolio of online courses to be used in “asynchronous” mode and at the times chosen by the end user.

The expansion of the digital training offering was possible thanks to what had already been defined and launched in 2019, the year in which the central Learning team defined a strategy for the gradual digitalisation of training by following two main paths. The first involves the acquisition of already available digital content, typically on cross-cutting and generalist topics, from specialist providers; the second consists of the in-house creation of e-learning courses on highly specialised Pirelli content, which is often less well covered at peripheral level. This two-pronged strategy has made it possible to create a digital library in a short period of time, the content of which can be accessed at any time by all colleagues with access to the Learning Lab platform, which has been redesigned and updated to accommodate the new online content. Among the online courses created internally, we can mention, as examples, “ABC Tyre”, “Understanding Manufacturing Control” and “Industrial Engineering”.

At the same time as they expanded their digital training offerings, in 2020 the Professional Academies continued to organise “live” courses in virtual mode, thus ensuring the possibility of interacting with participants, guiding their understanding and learning, and managing to reach a higher number of colleagues globally more quickly. In this regard, mention should be made of the important effort made by the Manufacturing and Quality Academies which, immediately after the start of the health emergency and the contextual slowdown in production, managed to involve over 600 colleagues for about 10 hours of training per person over a period of two months, through a series of webinars on topics considered fundamental for the professional updating of the target figures.

To support the Professional Academy internal trainers, the HR Academy also renewed its training offer in 2020, providing various opportunities to update on how to conduct effective and engaging online training sessions. Globally, 245 internal trainers were involved.

Pirelli School of Management

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

The focus of management training is calibrated and outlined every year based on the business challenges that the Company is required to face. The training model provides for a training offering consistent with the six *Key Behaviours* identified in the global performance management system, to which a paragraph is dedicated in this report.

In addition to the classroom training activities, the School of Management also offers constantly updated online tools through the section “Insights & Updates”, a collection of articles and videos published in the bi-monthly newsletter of the same name aimed at all managers on the LearningLab international platform and the “Warming Up learning platform” dedicated to all recent graduates.

The School of Management’s training offering was also significantly expanded in 2020 with carefully selected online digital content for each of the six *Key Behaviours*, with the aim of providing Pirelli colleagues with opportunities to increase their awareness of how they can apply the key behaviours in the work context. In parallel with the expanded online training offer, as with the Professional Academies, we continued to organize virtual classes on managerial and employee management topics.

As part of the School of Management’s offer, the traditional “Plunga” onboarding course was converted to digital format for all new hires in the Pirelli Group in 2020, thus reaching a high number of participants and redesigning the course from scratch, which now includes - among the new features - a substantial section of online content to be used before the classroom.

Pirelli School of Management courses accounted for 14% of total employee training.

During 2020, the entire WarmingUp@Pirelli training course, dedicated to new graduates from across the entire Group and lasting two years, was fully digitalised to ensure those involved could safely follow the Covid-19 pandemic. The first digital delivery targeted a population of around 120 employees. It is planned to extend the training programme in its fully digital format to all countries in 2021.

Global Activities

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

In the early months of 2020 Pirelli concluded the activities of the *Digital Workplace* project in all the Group's Italian companies. The project then saw, starting in March 2020, a strong acceleration towards the other countries where the Group is present: by making the tools of the Office 365 suite available to all employees globally, a roll-out originally planned for 2021 was completed in a few weeks. This initiative enabled many colleagues around the world to continue their activities by working remotely during the Covid-19 pandemic. The virtual basic training sessions dedicated to countries (excluding Italy), with participation on a voluntary basis, reached around 900 people. The specialised training sessions, dedicated to the population of change "accelerators" (employees selected to promote the new digital tools within their departments), reached around 250 people. Over 3,400 unique users visited the training resources page dedicated to the initiative.

In the last months of 2020, a major awareness-raising campaign on Information Security issues was launched. The first focus was on phishing, one of the main cyber threats to businesses in terms of prevalence and danger. The supporting training activity included virtual sessions aimed at helping people understand the phenomenon of phishing and sharing behavioural guidelines and processes for mitigating the related risks. The initiative reached over 1000 employees in Italy. An extension of the initiative to other Group countries is planned for the first part of 2021.

In view of the new prevailing work styles and methods, in the digital space of the Learning Lab dedicated to Global Activities since March 2020, particular attention has been paid to supporting colleagues in working remotely, making available various training resources in the section entitled "*Tips For Effective Remote Working*".

Local Education

The training provided at the local level responds to the specific training needs of the Pirelli affiliates operating in the different Countries and is addressed to the entire company population. The seminars cover areas of expertise ranging from the improvement of interpersonal skills to stress management, from the development of IT, language and regulatory skills at seminars on issues of welfare and diversity at the Company.

Local training is also an important tool for covering content related to the implementation of new regulations or agreements.

With regard to the Local Education Italia offer, in 2020 it was decided to include a new training course entitled "*Smart Living: training to deal with change and uncertainty*" with the aim of supporting colleagues in the delicate transition phase that characterised 2020, providing valuable moments of self-awareness, reflection and training on how to deal with change. Final objective: learning to face life's moments of uncertainty with a positive mind-set capable of transforming critical situations into opportunities.

Focus: Training on Sustainability and Corporate Governance

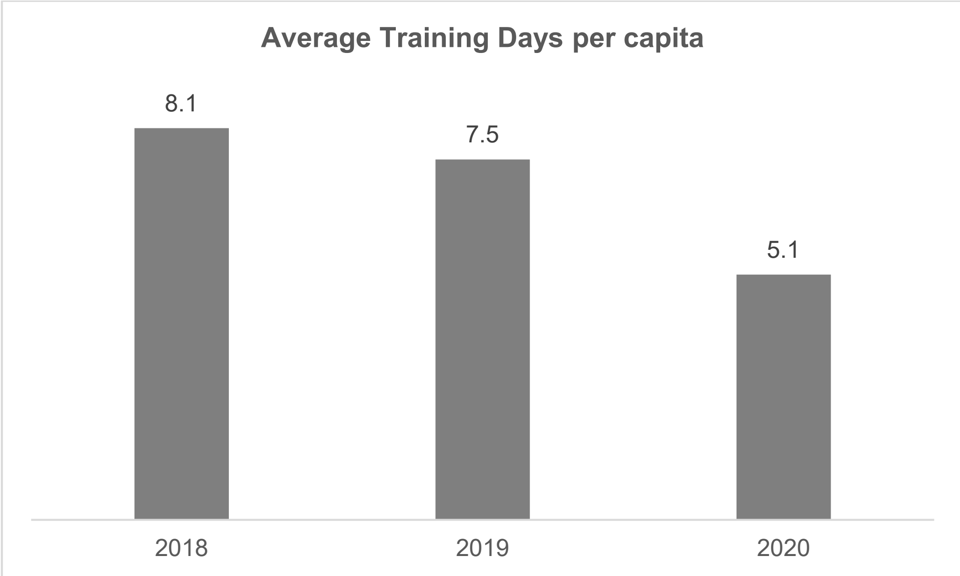
Also in 2020, training continued on Pirelli Sustainable Management Model, with update on the state of the Company's Sustainability Plan. In addition, there is institutional training in the International Course "PLunga", which presents the Group's Sustainable Management strategy (including in the new virtual version) to all new employees, starting from the multi-stakeholder approach contextualized in the integrated economic, environmental and social management. Training on the Pirelli Model also draws the attention of new recruits to Group Sustainability Policies and related commitments, expressed through the "Code of Ethics", the "Code of Conduct", the "Equal Opportunities Statement", the "Social Responsibility Policy for Occupational Health, Safety and Rights and Environment", the "Health, Safety and Environment" Policy, "Global Human Rights" Policy, in addition to the requirements of the SA8000® Standard.

In line with previous years, training activities dedicated to the Sustainability Managers of Group affiliates continued; the sessions, held in digital mode, were valuable opportunities for discussion on numerous emerging sustainability topics.

Moreover, in 2020 all colleagues in the Purchasing department were involved in a training campaign on the principles of anti-corruption to be adopted in the workplace, thanks to the online course created ad hoc for Pirelli entitled "*Procurement Anticorruption: Principles & Behaviours*".

Pirelli training performance

Total training provided in 2020 was 5.1 average training days per capita. This figure reflects the centrality of training in Pirelli's culture, as well as its commitment to continuous investment even in emergency and difficult situations, as was the case in 2020. The production slow down has justifiably caused a partial reduction of plants in presence training activities, although safety and professional upgrades training were fully maintained. Additionally, the reduction of the average training days per capita could be linked to the new digital training methods, which by their very nature are designed with content organized in micro-modular units and with shorter duration. The countries with the highest training investment include Mexico, China and Romania, which are particularly driven by production needs and the introduction of new employees.



Following is the subdivision of average training days by gender and by professional category[53]:

<table>
<tr><th>GROUP</th><th colspan="3">WOMEN</th><th colspan="3">MEN</th></tr>
<tr><td rowspan="3">5.1</td><td colspan="3">3.75</td><td colspan="3">5.37</td></tr>
<tr><td colspan="2">EXECUTIVES</td><td colspan="2">CADRES & WHITE COLLARS</td><td colspan="2">BLUE COLLARS</td></tr>
<tr><td colspan="2">0.9</td><td colspan="2">2.54</td><td colspan="2">5.75</td></tr>
</table>

The high level of training is confirmed for both genders, with around 1.5 days more for men to be correlated with the clear prevalence of the male gender in the working population, an aspect which has thus affected the gender distribution. 81% of employees (taking into account the average workforce for the year) participated in at least one training activity during the year.

The investments made for the various categories of the company population (blue-collar workers, middle management and white-collar workers, and executives) are in line with those of previous years and balanced in proportion to the overall training strategies: the strong focus on manufacturing improvement processes (Manufacturing and Quality) in addition to the usual attention to health and safety issues, which are particularly relevant in 2020, determine the largest investments on the blue-collar worker population.

On a global level, net of the specific training needs of each country, the *Professional Academies* cover the most significant portion (25%) of the training activities on the total non-worker population, and this relates to, among other things, training and the continuous updating of technical skills linked to innovation processes, which are strategic for the company. In particular, with regard to employee

[53] Data at Group level and by category calculated with average headcount for 2020; data by gender calculated with actual headcount as at 31/12/2020.

training, in 2020 reskilling campaigns in the areas of Quality, Manufacturing and Sales were particularly important.

Health, Safety and Environment topics understandably gained in importance, constituting 15% of the total training provided at Group level (6 percentage points more than in 2019).

In line with the major digital transformation processes underway in the company, training processes have also been progressively involved in digitalising content relating to both basic skills and innovation, so as to allow it to be used more widely, quickly and in a more engaging way. In 2020, 49% of employee training activities were carried out in virtual mode, both synchronously and asynchronously.

Listening: Group opinion survey

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

The management of the global “My Voice” questionnaire is entrusted to a third party and the results are provided to Pirelli in aggregate form, in order to fully guarantee the anonymity of the respondents. The 2018 edition of My Voice used the Sustainable Engagement Model, showing how engaging the work environment is for workers, and whether people’s engagement is sustainable over time. More specifically, the Sustainable Engagement model is based on three dimensions such as energy, engagement and enablement, and is based on the thesis that employee engagement is sustainable over time when the work environment enables individual performance by providing the resources necessary to do their job well, when it promotes individual well-being and the ability to “go beyond” their work, and when it strengthens people’s alignment with the Company’s goals. The higher the Sustainable Engagement score, the more likely it is that people’s engagement will be sustained.

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

The survey also confirmed Pirelli as a company attentive to the inclusion of diversity, with a result that is well above the market benchmarks. In addition, the sense of belonging and the pride of working for Pirelli are confirmed among the highest indices, together with the sense of responsibility (accountability) of their results. Pirelli is above the benchmark average (manufacturing companies) as well as the relative satisfaction in the area of professional development.

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

During 2019-2020, Pirelli worked on defining and implementing the action plans resulting from the global survey conducted in 2018.

In addition, during 2020, characterised by the Covid-19 health emergency at the global level, the company's main effort was to keep its employees engaged through the use of customised corporate welfare proposals, to respond to the specific needs that emerged during this difficult period with new services to support the individual. First and foremost, remote work was extended to the various countries in which Pirelli operates (for positions compatible with this work method) and new rules were implemented to safeguard workers' health in the workplace. New welfare services were also introduced, delivered virtually, such as online edutainment programmes for employees' children, support for remote care givers, and virtual sessions on both traditional and digital wellbeing.

The trend already started in recent years of offering a broad and customisable corporate welfare, suitable for finding the best solutions to cover all people's new needs, has therefore been further consolidated in 2020, characterising this area as a predominant lever of engagement with workers and a tool to help them adapt constructively and effectively to a constantly changing scenario.

Structured listening activities will be activated again as soon as the emergency situation linked to Covid-19 is overcome and a "new normal" scenario is consolidated, in respect of which the new survey will be able to provide interesting insights and ideas for improvement with respect to the new way of working and living in the company.

Welfare and initiatives for the internal community

For years, Pirelli has had the organisational figure of the "Group Welfare Manager", who is entrusted with the supervision of welfare activities, jointly with the many central and local functions concerned, including Health and Safety at Work, Industrial Relations and Sustainability.

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

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

- health and wellbeing (e.g. health care, information and awareness-raising campaigns, specific initiatives to improve the wellbeing of employees);
- family support (e.g. scholarships, summer camps for employees' children, inter-company crèche);

- free time (e.g. open days, sporting and cultural activities, online portals of products and services with significant employee deals and discounts);
- working life and working environments (e.g. flexible working hours, facility, individual development training, cultural growth and group celebrations).

All Group affiliates have the opportunity to share local best practices through a special section dedicated to welfare on the corporate Intranet.

As an example, some of the welfare activities activated at the various local affiliates will be presented below.

Historically, Pirelli provides infirmaries at all the production units, where health workers and specialist doctors are available to all employees during working hours. These facilities provide advice on extra-work health problems, as well as first aid and periodic health surveillance activities. Outpatient clinics at Group sites were closed for long periods of time due to the global pandemic. In some countries, including Italy, the Outpatient Clinic remained active for first aid activities and for serological screening and administration of Covid-19 tests.

In addition to what has just been described, in 2020 the company put in place specific strategies to support people, ensuring both the continuity of individual and company performance and personal motivation and engagement. The lines of action to support work and reconciliation can be summarised in three main levers:

- "Safety first": in line with our ongoing focus on health protection and safety, specific actions have been implemented, such as making all workplaces safe, delivering masks to people's homes - where they are constrained by the generalised lockdown - when hard to find, providing periodic screening through serological tests and rapid swabs free of charge, and supporting the rapid performance of molecular swabs in critical or urgent situations;
- Remote working: remote working was extended to all employees, who were quickly provided with the appropriate digital equipment to enable them to work effectively from a remote location. Not only: the immediate introduction of remote working was accompanied by support and training actions, in digital mode, to facilitate the adoption of new digital skills and work abilities necessary in the face of the almost total virtualisation of professional relations and work performance (see the reference in the Training - Global Activities section);
- Wellbeing: the Company has launched actions to support the psychological and physical wellbeing of employees, whose lives and work activities have been revolutionised by the global health emergency.

In particular, on this last front, the following are worth mentioning, among others:

- the programmes launched in Italy, where digital courses were offered to support mental wellbeing (e.g. on positive thinking or with guided mindfulness courses) as well as to support physical wellbeing (e.g. yoga, stretching, Pilates courses). In addition, during the lockdown months when schools are closed, edutainment weeks were organised for employees' children, with educational programmes that complemented those at school and aimed at alleviating parents' worries about care (the "*Pirelli Smart Kids*" project);

- the large-scale information and prevention education campaigns launched in Brazil, together with employee listening sessions on wellness issues, which resulted in targeted action plans;
- the pandemic period further confirmed the value of wellbeing as a qualifying constituent element of the relationship between people and the company, and as a generator, like other factors, of motivation and engagement, in addition to being a strategic lever for attracting and retaining people.

Industrial relations

The Industrial Relations policy adopted by the Group is based on respect for constructive dialogue, fairness and roles. Relations and negotiations with trade unions are managed locally by each affiliate in accordance with the laws, national and/or company-level collective bargaining agreements, and the prevailing customs and practices in each country.

At this local level, these activities are supported by the central departments, which coordinate the activities and ensure that the aforementioned principles are observed throughout the Group.

Industrial Relations also have an active role in the Group's commitment in terms of health and safety, with an equally active participation on the part of the unions and workers. In fact, 79% of the Group's employees are covered by representative bodies that periodically, with the Company, monitor and address current topics as well as and awareness and intervention plans/programmes aimed the improvement of the activities carried out to safeguard the health and safety of employees.

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

During 2020, the Company continued with the process of organisational rationalisation at the Bollate production site and the transfer of production from Gravatai to the Campinas plant, as per the Plan communicated in 2019.

In addition, during the year, the Company worked at an international level to rebalance the level of employment, aligning it to the volume requirements resulting from the drop in the market relating to the Covid-19 pandemic. This organisational rationalisation action was managed in agreement with the trade unions, using natural turnover and the use of tools to minimise social impact, in full compliance with local legislation, collective contracts in force and trade union agreements.

Even at a time of criticality generated by market conditions in the various countries, the Company proceeded to renew the collective agreements expiring in Italy, Romania, Brazil, Argentina and Mexico, without any conflict.

European Works Council (EWC)

Pirelli European Works Council (EWC), formed in 1998, holds its ordinary meeting once a year after presentation of the Group Annual Financial Report, where it is informed about the operating performance, operating and financial forecasts, investments made and planned, research progress and other matters concerning the Group.

The agreement establishing the EWC provides for the possibility of holding other extraordinary meetings to fulfil the information requirements of delegates, in light of transnational events concerning significant changes to the corporate structure: opening, restructuring or closing of premises, important and widespread changes in work organisation. EWC delegates are provided with the IT tools they need to perform their duties and a connection to the corporate Intranet system, for the real-time communication of official Company press releases.

Compliance with statutory and contractual obligations governing overtime, leave, association and negotiation, equal opportunities and non-discrimination, bans on child and forced labour

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

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

Pirelli approach has always promoted compliance with all legal and/or contractual requirements concerning working hours, the use of overtime and the right to regular days of rest. These requirements are often the subject of agreements with trade unions, in line with the regulatory situation in each country. The use of all holiday days, as a right of every worker, does not have any restrictions and the period is generally agreed between employee and company.

In addition to the trade union dialogue and coordination between the Headquarters and local functions, Pirelli verifies the application of the provisions on the respect of human and labour rights to its affiliates through periodic audits performed by the Internal Audit Department, in compliance with a three-year auditing plan to cover all the Company's sites. Normally every audit is carried out by two auditors and takes around three weeks on-site. The Internal Audit Team received training on the environmental, social, labour and business ethics elements of an audit from central function directors to enable them to carry out an effective, clear and structured audit, granting Pirelli effective control over all aspects of sustainability. Based on the results of these audits, an action plan is agreed between the local managers and central management, with precise implementation dates and responsibilities and follow-up verification. The auditors carry out verifications on the basis of a checklist of sustainability parameters deriving from the SA8000® Standard and the Pirelli Policies mentioned above. All managers from the affiliates involved in the audits are adequately trained and informed on the audit purpose and procedures by the applicable central functions, in particular Sustainability; Purchasing; Health, Safety and Environment; Industrial Relations, and Compliance.

Focus: Internal audits

Year	Countries
2014	Italy, United Kingdom and China
2015	Mexico, Russia (Voronezh plant) and United Kingdom
2016	Germany, Russia (Kirov plant) and United Kingdom (follow-up)
2017	Argentina, Brazil (Campinas and Feira de Santana plants), Mexico, Romania and USA
2018	France, China (Yanzhou plant)
2019	China (Jiaozuo plant), Russia (Voronezh plant) and Singapore
2020	Remote monitoring of action plans agreed in the preceding audits

During 2020, no specific on-site audits were carried out due to the ongoing pandemic emergency, hence the impossibility of travelling for on-site verification activities. However, the level of implementation of the action plans shared in the previous audits was monitored remotely by requesting specific self-declarations from the relevant managers. It should be noted that in none of the audits carried out in previous years were violations of the ILO Core Labour Standards found, with specific reference to forced labour, child labour, freedom of association and bargaining, and non-discrimination.

Labour and social security lawsuits

In 2020, as in previous years, the level of work and social security litigation at Group level remained low. The level of litigation remains high in Brazil, as in previous years, to the point of representing more than 80% of all the labour lawsuits currently pending against the entire Group. Labour lawsuits are extremely common in this country and depend on the peculiarities of the local culture. As such, they affect not only Pirelli but also other multinational companies operating there. Labour lawsuits are generally initiated when an employment contract is terminated, and they usually involve the interpretation of regulatory and contractual issues that have long been controversial. The Company has made a major commitment to prevent and resolve these conflicts – to the extent possible – including through settlement procedures.

Unionisation levels and industrial action

It is impossible to measure the precise percentage of union membership at Group companies, since this information is not legitimately available in all countries where Pirelli has a presence.

However, it is estimated that more than 50% of Pirelli employees are members of a trade union. As to the percentage of workers covered by collective agreement, in 2020 it stood at 79% (vs. 78% in 2019 and 77% in 2018). This figure is associated with the historical, regulatory and cultural differences between each country. Collective agreements to be renewed in 2020 were renewed without any conflict and strikes.

Supplementary pension plans, supplementary health plans and other social benefits

The Group has defined contribution and defined benefit funds, with a substantial prevalence of the former kind over the latter. To date, the only defined benefit plans are:

- in the United Kingdom, where the fund relating to the tyre business has been closed to new employees since 2001 for the introduction of a defined contribution scheme (and closed to future accumulations for all active employees as at 1 April 2010), while the funds related to the cable business sold in 2005 were closed to future accumulations in the same year;
- in the United States, where the fund was closed in 2001 (since 2003, it has not been tied to salary increases) for the introduction of a contribution scheme (and only applies to retired employees);
- in Germany, where the fund was closed to new hires from 1982.

Other defined benefit plans exist in Holland and Sweden, but they represent a relatively insignificant liability for the Group.

The Group also maintains various supplemental Company medical benefit plans at its affiliates according to local requirements. These healthcare schemes vary from country to country in terms of allocation levels and the types of coverage provided. The plans are managed by insurance companies or funds created ad hoc, in which the Company participates by paying a fixed amount as is done in Italy, or an insurance premium as is done in Brazil and the United States. For the economic-equity measurement of the above benefits, reference is made to the Consolidated Financial Statements, notes “Employee funds” and “Personnel Costs” within this Annual Report.

The social benefits recognised by Pirelli in favour of employees (including life insurance, invalidity/disability insurance and additional parental leave) are generally granted to all employees, regardless of the type of permanent, fixed-time or part-time contract, in compliance with company policies and local union agreements.

Occupational Health, Safety and Hygiene

Management model and system

Pirelli’s approach to responsible management of occupational health, safety and hygiene is based on the principles and commitments expressed in “The Values and Ethical Code” of the Group, in the “Health, Safety and Environment Policy” in the “Global Human Rights Policy” and in the “Quality Policy”, in accordance with the Sustainability Model envisaged by the Global Compact of the United Nations, with the “Declaration of the International Labour Organization on fundamental Principles and rights at Work” and with the “Universal Declaration of Human Rights” of the United Nations. The reference tool since 2004 is also the SA8000 ® standard. In particular, the “Health, Safety and Environment Policy” makes Pirelli’s commitment to:

- manage its activities regarding health and safety protection at work in compliance with the laws and all the commitments entered into, as well as according to the most qualified management international standards;
- pursue objectives of “no harm to people”, by implementing actions for early identification, assessment and prevention of risks for health and safety at work aimed at a continuous reduction in the number and severity of injuries and occupational illnesses, activating health surveillance plans in order to protect workers from specific risks associated with their business duties;
- develop and implement emergency management programmes to prevent and avoid harm to persons;
- define, monitor and communicate to its Stakeholders specific objectives of continuous improvement of health and safety at work;
- empower, train and motivate its employees to work safely involving all levels of the organisation in an ongoing programme of training and information, aimed at promoting a culture of safety at work;
- promote information and awareness-raising on health and safety issues;

- provide its employees with ongoing and concrete support aimed at facilitating the work-life balance;

- manage its supply chain responsibly by including issues of health and safety at work in the supplier selection criteria, the contractual clauses and the audit criteria, also requiring suppliers to implement a similar management model in their supply chain (for an outline on responsible management of the supply chain, reference is made to the paragraph "Our Suppliers");

- make available to all its Stakeholders a channel (the "Whistleblowing Policy" published on Pirelli's website) dedicated to reporting, even anonymously, of any situations that constitute or may constitute a risk for the protection of the health, safety and well-being of people (reference is made to the Paragraph "Focus: Reporting Procedure - Whistleblowing Policy" of this Report for an outline of reports received in the last three years, none of which regarding health and safety).

All the Documents mentioned above are communicated to Group employees in their local languages and are published in the Sustainability section of Pirelli website, which should be consulted for full display of the content.

At all of its production sites, Pirelli voluntarily adopts an occupational health and safety management system structured and certified according to Standard ISO 45001/OHSAS 18001:2007. All certificates are issued with ANAB international accreditation (ANSI-ASQ National Accreditation Board - US accrediting body). The occupational safety management system, applied without exclusion to all processes and activities at each production site, was developed in compliance with procedures and guidelines elaborated centrally in order to consolidate a "common language" that guarantees sharing, alignment and effective management in the Group. The development and continuous improvement of the management system is carried out both centrally and locally by the internal Health & Safety functions with the involvement of all relevant functions. Improvement is based on the continuous application of cycles of action planning, programme implementation, verification of results and, based on these, implementation of improvement.

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

In 2020, eight production sites made the transition from OHSAS 18001:2007 certification to ISO 45001; for the remaining sites, due to the pandemic context, the transition was planned for 2021.

In 2020, the coverage of the safety management system (certified according to ISO 45001/OHSAS 18001:2007) and subject to internal and third-party audits is as follows:

COVERAGE OF THE MANAGEMENT SYSTEM	Employees	Agency workers	Contractors
Number of workers covered by the management system	24,127	167	n.d.[54]
Percentage of workers covered by the management system our of total number of workers	80%	98%	100%[55]

Safety culture

The "*Zero Accidents Objective*" represents a precise and firm corporate position. From an industrial point of view, this objective is pursued through investments aimed at technical improvement of work conditions, while constantly insisting on the cultural and behavioural aspect of all Company players. This approach, together with the involvement and continuous internal dialogue between management and workers, has led over time to a sharp decline in injury rates.

To support the management model outlined above, in 2013 the Company signed an agreement with DuPont Sustainable Solutions for the global implementation of the "Excellence in Safety" Programme. The Programme began in 2014 and has gradually been extended to all the Group's production sites. Each site sets up a Central Safety Committee made up of the heads of the functions and of which the Plant Manager is the coordinator. This Committee, which meets at least quarterly, directs the actions of the local Excellence in Safety programme and governs its progress. In a co-ordinated manner, various thematic sub-committees are also set up, which carry out continuous work in relation to the characteristic themes of the site.

In addition, internal tools were implemented to support the Excellence in Safety programme, aimed at supporting the effectiveness of the processes applied and the results obtained.

With regard to the most important areas of intervention of the "Excellence in Safety" Programme, these related to the improvement of the governance of safety, the clarity of the tasks and roles, empowering of all workers, improving communication within the organisation, the sharing of objectives, motivation with respect to a common strategy: all substantial issues for a work environment that is appropriate and stimulating, in which workers feel involved and valued in safety management. Thanks to information, communication and training actions, everyone is encouraged to report any anomaly and/or unsafe condition in order to promote participation in continuous improvement and the removal of any potential cause of an accident. All reports, as well as real or

[54] Figure not available.

[55] This value is possible because the hours worked by employees of contractors at Pirelli sites refer exclusively to sites with a certified safety management system. Contractors working in offices are excluded from the calculation because their number is negligible compared to contractors working at production sites.

potential accidents, are managed according to specific procedures aimed at analysing the causes and defining corrective and risk mitigation actions, involving all functions.

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

Risk prevention, protection and management

Specific procedures for managing all risk issues are developed in accordance with international standards and reference norms that are applied and translated at each site, integrating compliance with local regulations. The procedures, also developed with the collaboration of the relevant functions, systematically define the requirements for risk analysis, risk management methods and design requirements to ensure that hazards are reduced at source. The risk analysis activity leads to the definition of risk reduction programmes and actions pursued at each site and kept under control by specific site committees. In addition, processes of preventive analysis and release on new projects are applied in order to ensure risk management in all phases of development and implementation of new machines and plants. These approaches make it possible to implement risk elimination and reduction logics in priority to the mitigation and containment strategies implemented. The procedures are reviewed and updated in the event of regulatory changes, technological or process changes and following the analysis of incidents.

Risk management related to commercial supplies of raw materials, services and equipment is governed by safety and acceptability requirements included in the general conditions of supply. All chemical substances and products used are subject to prior HSE assessment (see section "ESG elements in the purchasing process" of this Report) and all equipment is subject to conformity analysis and risk assessment before being put into production. Safety management in supplier activities on sites is regulated by procedures specifying coordination requirements, prior risk analysis and work authorisation.

The year 2020, characterised by the Covid-19 pandemic, saw a particular focus of Health & Safety activities on managing prevention measures, protecting the health of personnel and ensuring safety conditions at all Pirelli sites. To manage the risk of Covid-19 infection, risk analysis procedures and action plans were developed to ensure the health of workers and safe and secure work environments.

All Pirelli production sites are served by occupational medicine facilities that employees can access freely and which are managed by specialised medical and/or paramedical personnel with independent management (guaranteeing privacy) of the doctor-patient relationship. These services operate in coordination with the safety management functions and with company management to provide the necessary support for general risk prevention actions and guarantee the necessary health surveillance to protect workers. These services do not only focus on occupational medicine but also offer health care to all staff in compliance with local regulations. As for 2020, they focused on supporting employees in the particular pandemic context due to Covid-19, providing medical support and assistance (also outside the workplace) in health cases that occurred and with particular attention to employees with particular physical frailties.

Safety training

Around 15% of the total training provided by Pirelli in 2020 concerned occupational health and safety issues. Each site designs, plans and delivers safety training on the specific risks present, the particular need to update and comply with regulatory obligations, trends in accident indicators and the evolution of site activities and processes. The characteristic themes of this training concern general safety concepts including obligations, responsibilities and protection concepts, the treatment of all work-related risks present at the site, safety operating procedures, golden rules, emergency procedures, the Excellence in Safety programme mentioned above and the application of its operating tools, accident notification and management procedures, and safety procedures and standards for managing emergencies from Covid-19.

In addition to safety training offered locally at every Pirelli location (illustrated previously in the paragraph dedicated to Training), there are Group activities and projects, which simultaneously target several countries and which allow an alignment of culture and vision, fully benefiting pursuit of the Company's own improvement targets. The Manufacturing Academy merits a special mention. This is Pirelli Professional Academy dedicated to the sphere of factories, where health, safety and environment issues are discussed in detail.

Monitoring of health and safety performance and main indicators

Alongside establishing specific guidelines and procedures for implementing management systems, Pirelli uses the web-based Health, Safety and Environment Data Management (HSE-DM) system, prepared and managed centrally by the Health, Safety and Environment Department. This system makes it possible to monitor HSE performance and prepare numerous types of reports as necessary for management or operating purposes.

The HSE-DM system collects all information on accidents and special situations that occurred in factories, fitting units, sales centres, and warehouses managed directly by Pirelli, including the various categories of workers (agency workers and contractors operating at Pirelli sites). All sites have access to information on the most significant accidents or near misses through the receipt of Safety Alerts by the HSE-DM system, so that an internal analysis can be conducted to verify whether similar conditions exist and, if necessary, to implement appropriate corrective action.

The performances reported below are for the three-year period 2018-2020 and cover the same scope of the Group's consolidation.

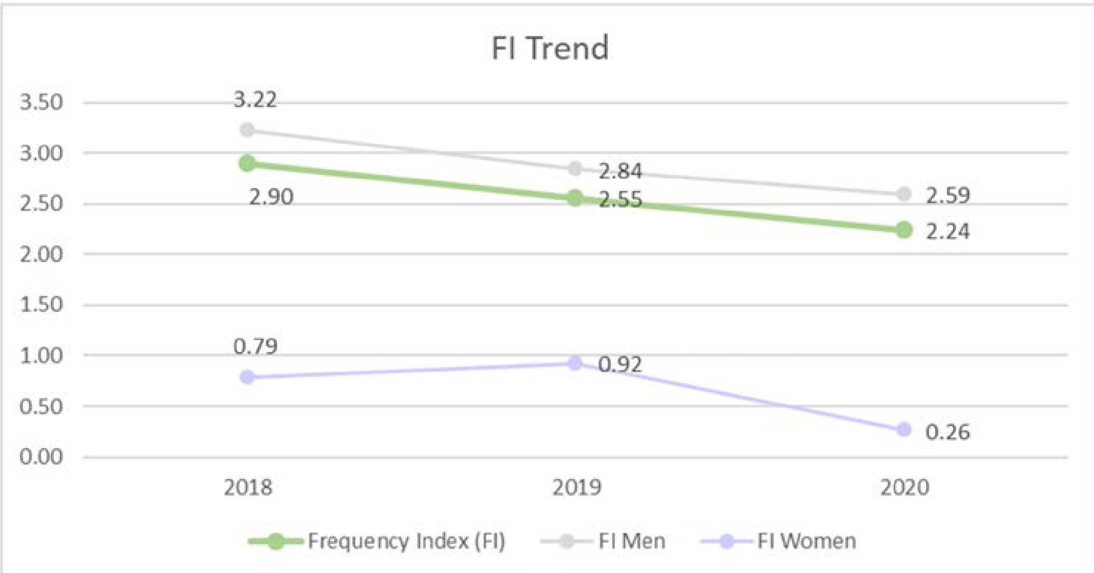
In February 2020 Pirelli presented its 2020-2022 Industrial Plan with Vision 2025 indicating, for 2022, an accident frequency index ≤ 0.15 for 100,000 worked hours (or IF ≤ 1.50 for 1,000,000 worked hours [56]) and for 2025 an accident frequency index ≤ 0.10 for 100,000 hours worked (or IF ≤ 1.00 for 1,000,000 worked hours).

In 2020, Pirelli registered an accident **Frequency Index (FI)** of 0.22, when referring to 100,000 worked hours, or 2.24 if referred to 1,000,000 worked hours. The most representative accidents are those involving contusions, cuts, fractures and sprains.

The accident frequency index for accidents involving an absence from work of more than 6 months in 2020 is 0.10 for Pirelli employees (based on 1,000,000 worked hours) and zero for temporary workers.

In the mapping of all hazards and on the basis of the accident trend, the main hazard identified as potentially at risk of accidents with serious consequences relates to the mechanical risk, which was the main contributor to the accidents that occurred in 2020. Actions are constantly underway to reduce the mechanical risk at source, through investment in machinery safety, and to manage residual risks by defining safety operating procedures and continuous staff training.

For 2020, in line with the previous financial years, the injury rate index for women was decidedly lower than the value relating to men, also in relation to the fact that the female population is generally engaged in activities with a lower risk than those of the male population. The graph below shows the trend of FI values by gender over the last three years:



FI = number of injuries/number of hours effectively worked x 1,000,000

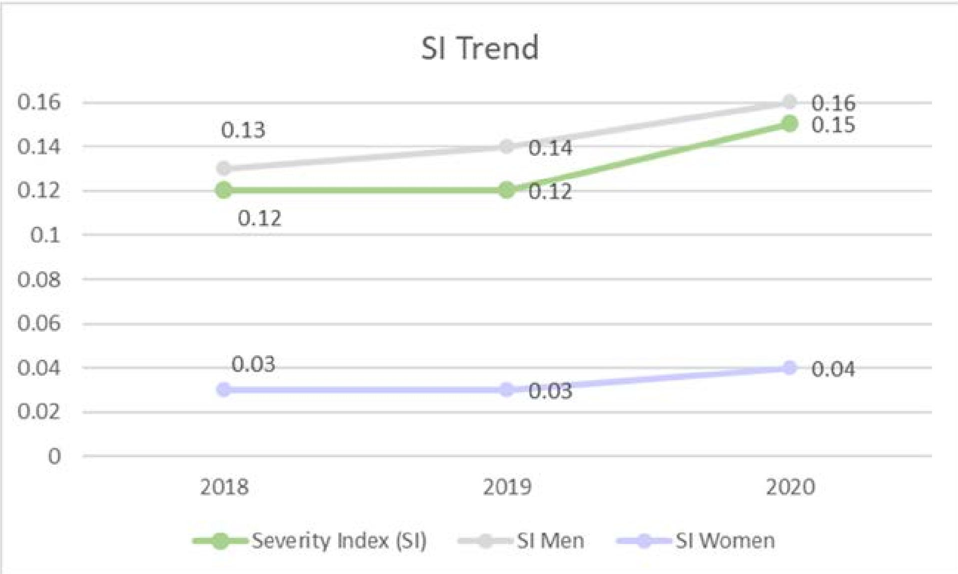
[56] In accordance with the new GRI reporting standards, the frequency index and the resulting target value is reported with reference to 1,000,000 hours worked.

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

FREQUENCY INDEX	Europe	North America	South America	Russia, Nordics & MEAI	Asia Pacific
2018	4.71	2.04	3.10	0.34	0.21
2019	3.34	1.65	3.46	1.47	0.22
2020	3.18	2.04	2.69	1.31	0.11

FI = number of injuries/number of hours effectively worked x 1,000,000

The injury **Severity Index (SI)** in the Group in 2020 was 0.15, with a slight increase over the previous year and affected by a reduction in hours worked due to the global situation resulting from the Covid-19 pandemic.



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

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

SEVERITY INDEX	Europe	North America	South America	Russia, Nordics & MEAI	Asia Pacific
2018	0.18	0.16	0.11	0.03	0.01
2019	0.13	0.07	0.19	0.11	0.01
2020	0.20	0.11	0.20	0.09	0.00

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

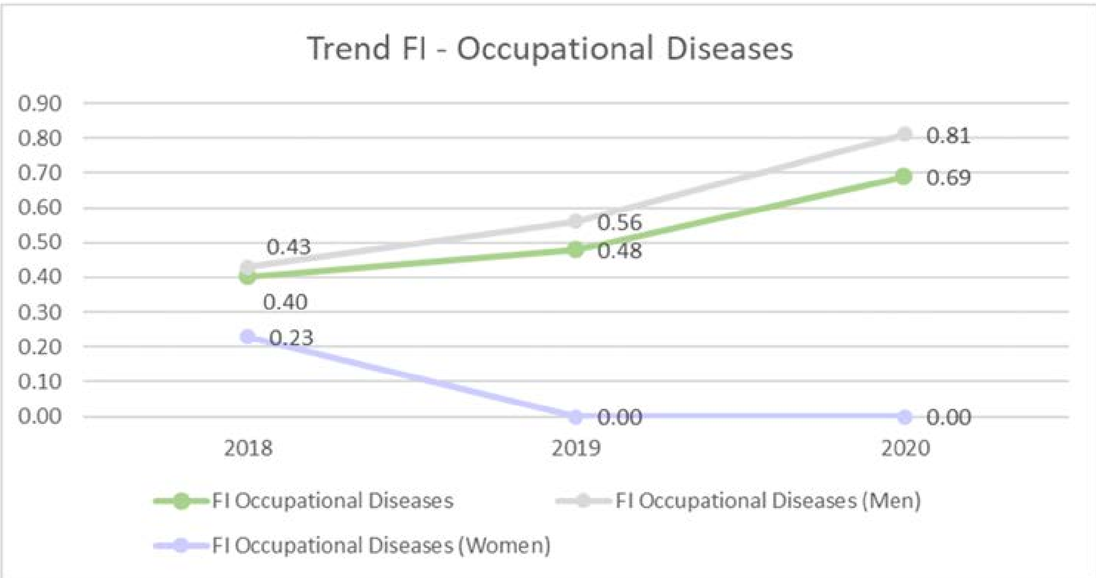
With reference to commuting accidents (not included in the calculation of the FI and SI indices mentioned above), the following tables show the total number registered by the Group in the last three years and the distribution by geographical area of the cases.

COMMUTING ACCIDENTS	2018	2019	2020
	119	117	52

COMMUTING ACCIDENTS	Europe	North America	South America	Russia, Nordics & MEAI	Asia Pacific
2018	28	42	49	0	0
2019	35	43	39	0	0
2020	15	3	34	0	0

There are no activities with a high incidence of occupational diseases. The hazards identified as a potential source of occupational disease determined on the basis of risk assessments conducted concern the manual handling of loads, exposure to noise and the handling of chemicals. The main types of occupational diseases recorded in Pirelli employees relate to musculoskeletal disorders and hearing loss. There are no known cases of death due to occupational diseases in the last three years, nor are there any cases of occupational diseases recorded in contractors.

The Frequency Index for occupational diseases in 2020 stands at 0.69.



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

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

FI OCCUPATIONAL DISEASES	Europe	North America	South America	Russia, Nordics & MEAI	Asia Pacific
2018	0.31	0	1.01	0	0
2019	0.22	0	1.45	0	0
2020	0.26	0	2.23	0	0.11

Continuous improvement programmes are aimed, with reference to the sources of occupational disease, at increasing the ability to identify ergonomic risk and consequent technological improvement, favouring where possible automation and design integrated with the ergonomic requirements of machines. These actions aimed at reducing the risk at source are in any case complemented by training and organisational measures to encourage safety and prevention behaviour.

With regard to accidents of agency workers, the following tables show the number of accidents recorded in the last three years and the distribution of the accident frequency index of 2020[57] by gender and, subsequently, by geographical area:

ACCIDENTS OF AGENCY WORKERS	2018	2019	2020
Number	8	5	3
FI agency workers - Men	10.16	5.46	2.96
FI agency workers - Women	0.00	4.38	0.00

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

ACCIDENTS OF AGENCY WORKERS	Europe	North America	South America	Russia, Nordics & MEAI	Asia Pacific
2018	8	0	0	0	0
2019	3	2	0	0	0
2020	0	2	1	0	0
FI agency workers 2018	163.76	0.00	0.00	0.00	0.00
FI agency workers 2019	59.98	48.00	0.00	0.00	0.00
FI agency workers 2020	0	46.70	1.11	0.00	0.00

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

57 Calculated per 1,000,000 hours worked.

The Accident Frequency Index for employees of suppliers operating at the Group's production sites[58] stands at 1.30 in 2020. Below are the data for the last three years and the distribution by geographical area of the cases.

FI CONTRACTORS	2018	2019	2020
	1.77	1.28	1.30

FI = number of injuries/number of hours effectively worked x 1,000,000

FI CONTRACTORS	Europe	North America	South America	Russia, Nordics & MEAI	Asia Pacific
2018	0.91	1.11	2.75	3.50	0.00
2019	1.95	0.93	0.82	1.04	0.00
2020	1.77	1.58	1.67	0.00	0.00

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

FATAL ACCIDENTS	2018	2019	2020
Pirelli employees	0	1	0
Agency workers	0	0	0
Contractors	0	0	0

In the last three years, no fatalities have been recorded among the contractors working at Pirelli's production sites. A far as Pirelli's employees are concerned, one event was recorded in 2019, involving an employee working in the Russian plant of Kirov.

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

Focus: towards the "Zero Accident Objective"

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

Unit	Industrial sites
Plants	Jiaozuo, Bollate, Burton MIRS, Slatina Motorsport
Fitting unit	Camacari, Sorocaba, Hurlingham, Goiana, Didcot, Ibirite, Sao Jose dos Pinhais
Logistics - TLM	TLM Barueri, TLM Santo Andre, TLM Cabreuva, TLM Feira de Santana, TLM Gravatai
Other	St. Andrè HQ, Elias Fausto HQ

Health and safety investments

In the three-year period 2018-2020, investments in health and safety by the Group exceeded €37 million, of which over €4.7 million was invested in 2020.

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

EXTERNAL COMMUNITY

Insitutional relations for Pirelli Group

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

The goal of the Institutional Affairs Department is to create corporate value through the management of structured relations with reference stakeholders in all countries where Pirelli operates.

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

At an international level, Pirelli interacts with the main interlocutors present in the countries in which it operates with its own production sites. When necessary, the Group promotes initiatives directed towards mutual understanding and with the purpose of promoting representation of its own values and interests through a strategy based on a clear perception of the industrial targets and the development of the business. Among the various instruments of "economic diplomacy", in addition to the promotion of bilateral initiatives, Pirelli is active in certain Business Forums, including the Italo-Russian Committee for Economic Cooperation (CIIR), of which it has held the Co-Chairmanship since 2020, the China Business Forum (BFIC), the Council for Relations between Italy and the United States, the Italy Mexico Business Forum and the Italy Thailand Business Forum.

As proof of the Group's continued commitment to strengthening relations with the countries in which it operates, Pirelli took part in official visits in 2020 with institutional representatives in Italy and abroad. In a context marked by the Covid-19 health emergency, a series of bilateral meetings were held, both virtual and in-person where possible, aimed at deepening the Group's industrial and commercial issues with significant institutional impacts. These included meetings with several representatives of the EU, USMCA, APAC and CSI blocs.

In China, the Group is committed to enhancing relations with local institutional interlocutors, particularly in areas where it is present with industrial sites, such as the Shandong Province and the Henan Province. During 2020 Pirelli maintained a dialogue with the main local institutions on multiple areas of interest, especially with a view to improving the quality and efficiency of the tyre industry in Shandong, with particular regard to safety and environmental dynamics. In the wake of the Covid-

19 health emergency, the Group committed itself immediately and in liaison with local institutions, with the primary objective of protecting the health of its employees and the community in which it operates. During 2020, Pirelli also strengthened its dialogue with major local institutions on multiple areas of interest, particularly on sustainability issues, thus contributing to the recognition of the Pirelli plant in Yanzhou as a “National Green Factory” by China’s Ministry of Industry and Information Technology. Also in 2020, the Yanzhou factory was certified as a Level A enterprise, which relieves the factory from having to suspend and limit production in the event of highly polluting weather conditions, ensuring that the factory can take measures to reduce polluting emissions independently.

In the United States, Pirelli is present with industrial and commercial activities, and carries out institutional relations by monitoring legislative and regulatory developments with impacts on the production, import and distribution of tyres in the territory. Pirelli is a member of the following trade associations: United States Tire Manufacturers Association (USTMA), Original Equipment Suppliers Association (OESA), American Sustainable Business Council (ASBC), Public Affairs Council, and Automotive Industry Action Group (AIAG). Within these associations Pirelli is active in promoting strategies consistent with Group sustainability policies, particularly commitments against climate change and in favour of social responsibility in the supply chain. In particular, Pirelli sits on the USTMA Sustainability Task Force, the AIAG Corporate Responsibility Steering Committee, the CSR Network of the Public Affairs Council and the SASB Standards Advisory Group. Consistent with Group policies, it does not participate in any political action committees in the United States and more generally does not contribute to election campaigns. Pirelli undertakes to check from time to time that the sustainability positions of the associations of which it is a member are consistent with Group positions.

Also in Brazil, Pirelli continued to celebrate the country’s strong links with Italy, promoting, among others, meetings with institutional representatives at federal and central level. Pirelli also maintains relations with local institutions and associations to protect its industrial sites, distributed among the states of Sao Paulo, Bahia and Rio Grande do Sul. In these states, a series of initiatives are also developed to raise awareness on issues such as urban mobility, road safety, the protection of the territory and social and cultural promotion. In the wake of the Covid-19 health emergency, Pirelli made an immediate commitment, in conjunction with local institutions, to the primary objective of protecting the health of its employees and the communities in which it operates. In Brazil, Pirelli is associated with and holds the chairmanship of the Board of ANIP (National Association of the Tyre Industry) with the objective of developing its identity and promoting the interests of the sector in institutional dealings with local governments. The Group is also associated with Reciclanip, which is active in the management of end-of-life tyres. Pirelli has recently taken up the vice-presidency of the Italian-Brazilian Chamber of Commerce, Industry and Agriculture (ITALCAM).

In the European context, one significant activity concerns Romania, in which Pirelli maintains a constant dialogue with the main institutional interlocutors in order to accompany the phases of industrial development at the Slatina plant. Relations with the United Kingdom were particularly important, also in view of the Trade and Cooperation Agreement between the United Kingdom and the European Union signed in December 2020.

As part of its relations with Turkey, the Group promotes a constant dialogue with the country's institutional representatives to accompany industrial activities and keep the monitoring of the country's economic and political environment alive.

In Russia, Pirelli promotes dialogue with institutional interlocutors in order to support the Group's industrial and commercial activities in the country. In 2020, Pirelli was appointed Co-Chairman of the Italian-Russian Business Committee (CIIR) for Economic Cooperation. Pirelli then participated in the restricted version of the CIRCEIF held in Moscow.

Relations with European institutions are focused on consolidating relations with institutional counterparts and stakeholders of reference, monitoring legislation and constantly representing the Group in associations. The ongoing dialogue and discussion with representatives of the European Commission, the Council and the European Parliament covers a wide range of topics of interest to the company. In 2020, the activity focused on regulatory and policy developments relating to industrial policy, research and innovation, energy and environmental policies, the circular economy, transport and mobility, technical regulations, the internal market and consumers, international trade and bilateral agreements. Of particular interest was the implementation of policies related to the Green Deal, the European plan on the new strategy for sustainable growth launched by the European Commission at the end of 2019, and, in the legislative sphere, the finalisation of the revision of the Regulation on tyre labelling. The monitoring activity also covered the initiatives taken at European and country level to combat the pandemic crisis and for European recovery, as well as the negotiations on the new long-term budget of the European Union. In the various stages of drafting and defining European legislation, Pirelli represents the Group's interests among its European Stakeholders. Pirelli is listed on the European Transparency Register, established by an inter-institutional agreement between the European Parliament and the European Commission.

In **Italy**, the Group continues to interact with a system of relations that involve the main institutional bodies, both at central and local level. The relations with the Ministry of Foreign Affairs and International Cooperation are particularly important in both central and peripheral areas, with which the information activity is constant with respect to Pirelli's global presence to support the enhancement of the interests of the Country system abroad. The Group's relations with the Italian Presidency, the Presidency of the Council, the Ministry of Economic Development, the Ministry of Economics and Finance and the Regions of Lombardy and Piedmont.

In 2020, at the beginning of the pandemic, in the moment of emergency caused by the shortage of medical equipment and devices, Pirelli intervened to support the Lombardy regional health system with a donation of 65 devices for assisted ventilation in intensive care, 5,000 suits for medical use and 20,000 masks. Italian employees also made a direct contribution by donating the equivalent of more than 7,000 working hours to the Sacco hospital in Milan through the project "*Insieme per l'Italia, insieme per la ricerca*". This donation, doubled by the Company, led to a total donation of €440,000.

During the year, as part of the State Visit of the President of the Federal Republic of Germany to Italy, Pirelli hosted the President of the Italian Republic and the German President, as well as other high-level officials from the State and the diplomatic network of Italy and Germany, at Pirelli

HangarBicocca™, where they took part in the Study Panel "La Rinascita al tempo del Covid" ("Resurgence in the Time of Covid").

In Italy, the Group is also always engaged in customary in-depth analysis of institutional importance concerning, in particular, issues relating to the Group's industrial presence; the promotion and strengthening of international relations in the countries where the Group operates with industrial sites; the analysis and in-depth study of the impacts related to the regulatory discipline of tyres and their entire life cycle; and other issues of road safety and environmental sustainability related to both production processes and the product. During the year, Pirelli also supported various initiatives to raise awareness of road safety issues and to promote culture.

Main international commitments for sustainability

The attention of Pirelli to sustainability is also expressed through participation in numerous projects and programmes promoted by international organisations and institutions in the area of social responsibility. A number of the principal commitments made by Pirelli worldwide are illustrated as follows.

UN Global Compact

Pirelli has been an active member of the Global Compact since 2004 and since 2011 has been part of the Global Compact Lead Companies. The Group endorses the "*Blueprint for Corporate Sustainability Leadership*", which offers leadership guidelines envisaged in the Global Compact to inspire advanced and innovative sustainability performance in terms of management capacity for the creation of sustainable value.

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

In 2020, the Global Compact proposed a series of initiatives to provide support in the definition of strategies and partnerships for the pursuit of Sustainable Development Goals (SDGs) launched in September 2015 in New York with the aim of accompanying the activities of sustainable companies until 2030.

In this context, Pirelli participates to two action platforms:

- "*Decent Work in Global Supply Chain*"": in December 2018 Pirelli and the other participating companies signed the "*Commitment to Action*", publicly committing themselves to the sustainable management of their supply chains; as a result of the activities carried out by the working group in 2019, in February 2020 the digital platform "*Decent Work Toolkit for Sustainable Procurement*" was published, a tool aimed at supporting companies in integrating sustainability into the procurement process; during 2020 the group worked on several publications including the "*Leadership Brief Navigating Multi-tiered Supply Chains*" and "*Family-Friendly Workplaces*".

- "*Sustainable Finance*": in September 2018 the working group presented its first publication "*SDGs Bonds & Corporate Finance - A Roadmap to Mainstream Investments*"; to this, several other publications on the subject were added during 2019. In December 2019 the platform launched the "*CFO Taskforce for the SDGs*", which Pirelli joined as a Founding Member. The Taskforce is a collaborative platform that brings together leaders from different sectors and aims to develop innovative strategies for mobilizing finance towards sustainable development. In September 2020, the taskforce published the "*CFO Principles on Integrated SDG investments and finance*", which aim to support the alignment of finance and investment practices with the SDGs through the implementation of best practices.

Since 2014, Pirelli has been a Founding Participant of the SSE Corporate Working Group, the group of companies that provide their own evaluations and indications as part of the Sustainable Stock Exchanges (SSE) initiative promoted by UNPRI, United Nations Conference on Trade and Development, United Nations Environment Programme Finance initiative and the UN Global Compact. The initiative aims to increase the attention of world stock markets, investors, regulators and companies to the sustainable performance of companies.

Once again in 2020 Pirelli was recognised - the only one in the tyre sector worldwide - as part of the United Nations Global Compact Lead, which brings together the companies which have been identified as most committed at the global level to implementing the Ten Principles of the United Nations Global Compact as well as advancing global sustainability goals.

ETRMA – European Tyre and Rubber Manufacturers Association

ETRMA is the main partner of the EU institutions for the sustainable development of new European policies for the sector and for their proper implementation. With the institutional support of the Pirelli Group, in 2020, the association continued to raise awareness of the European Commission and European Union Member Countries on the implementation of market surveillance for monitoring compliance with regulations on the general safety of vehicles and tyres and on energy efficiency, as well as the labelling of tyres in European Countries, and through the strengthening of the partnership with the national associations of the sector of which Pirelli is an active member.

During 2020 and in the face of the Covid-19 emergency, ETRMA developed a position paper calling for a "policy response" to the European institutions *"that both ensures a successful post-Covid-19 recovery and drives the European Green Deal targets"*. This action plan consisting of 25 key actions for a forward-looking restart of the sector and the economy at large, listing tangible policy recommendations for a successful emergence from the Covid-19 crisis, was proposed and issued jointly by the four associations representing the automotive sector, equipment and tyre suppliers, vehicle manufacturers, dealers and garages (ACEA, CECRA, CLEPA and ETRMA). The aim of this plan is to contribute to a policy response to Covid-19 that ensures public health, minimises the impact on the economy and keeps the focus on the overarching goals of our time: a digital, inclusive and carbon neutral society.

In 2020, with the support of Pirelli, the *Connected & Autonomous Driving* (CAD) group continued its intense work to respond to the new technological challenges affecting the mobility sector (connectivity, autonomous driving, cyber security, etc.) and their impact on tyres, with a particular focus on the methods for managing and exchanging data between the various players in the system.

The association ETRMA continues to work alongside the European Commission in defining policies on the Circular Economy with an impact on the sector and continues successfully to promote sustainable practices of producer responsibility for the management of tyres at the end of their life, thanks to which Europe maintains a recovery rate of over 90%, through strong collaboration with the various management consortia present in European countries. ETRMA's (and European) best practices in fact continue to be an international benchmark.

ETRMA maintains a proactive role in the development of cognitive studies regarding environmental issues, e.g. Tyre Road Wear Particles (TRWPs), micrometric particles produced by combined road and tyre wear during vehicle circulation, and health issues, e.g. granulated filler material obtained from end-of-life tyres for sports fields. With regard to TRWPs, ETRMA launched in 2018, with the support of CSR Europe, the *"European TRWP Platform"*, a multi-stakeholder initiative aimed at sharing scientific knowledge and engaging relevant Sectors and Organisations to define possible actions to mitigate the impacts of TRWPs. In 2019, the *"European TRWP Platform"* published the State of Knowledge (*"Scientific Report on Tyre and Road Wear Particles, TRWP, in the aquatic environment"*) and possible mitigation actions that can be taken by the various stakeholders about TRWPs (*"The Way Forward Report"*). A micro-site was also created[59] to provide information on TRWPs to the general public from root causes to the definition/implementation of mitigation actions, highlighting the multi-stakeholder nature of the phenomenon. The platform's activities continued in 2020 both in terms of dialogue between the various stakeholders and to support the implementation of pilot mitigation projects. During the year, a database of scientific studies related to TRWP generation and mitigation was also created and continuously fed with data by Platform members. Finally, the activities and results of the European TRWP Platform were presented in May 2020 at the OECD Workshop on *"Microplastics from Tyre Wear: Knowledge, Mitigation Measures, and Policy Options"*, where the need for joint action by all stakeholders impacting the phenomenon was recalled.

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

WBCSD – World Business Council for Sustainable Development

Pirelli for years has been a member of the WBCSD (World Business Council for Sustainable Development). This is a Geneva-based association of about 200 multinational companies based in

[59] https://www.tyreandroadwear.com/.

over 30 countries that have made a voluntary commitment to link economic growth to sustainable development. In particular, Pirelli endorses three projects: Tire Industry Project, Transforming Urban Mobility and Future of Work.

The Tire Industry Project (TIP), whose members account for approximately 65% of global production capacity of tyres, was founded in 2005 with the aim of meeting and anticipating the challenges related to the potential impacts on health and the environment of tyres throughout their life cycle. The project extends its evaluation activities to raw materials, TRWP (with research activities that have seen the completion of monitoring the impact of TRWP on air quality in the city of New Delhi, India) and nanomaterials. On the latter issue, in collaboration with the OECD (Organisation for Economic Cooperation and Development), TIP has developed a sector-specific guide[60] containing best practices of reference for the research, development and industrialisation of new nano-materials so as to ensure that the use of any nano-material is safe for people and the environment.

TIP's collaboration with the OECD on the topic of nanomaterials has therefore continued through active support of the preparation of the guide "*Moving Towards a Safe(r) Innovation Approach (SIA) for More Sustainable Nanomaterials and Nano-enabled Products*"[61] (published on 22 December 2020). The new guide has, among other aims, that of helping the industry - not only the tyre industry - to implement a "*Safe(r) Innovation Approach for nanomaterials and nano-enabled products"*, as well as including issues related to regulatory and "governance" strategies. TIP contributed with a specific annex (Annex 1) describing the case-study of the Tyre Industry, approaching the topic in line with the previous OECD sector specification on tyres and nanotechnologies, and sharing the experience of TIP research according to a whole life cycle approach.

During 2020, TIP has also finalised the development of "*product category rules*" (PCR), published in 2018, necessary to carry out the *life cycle assessments (LCAs*) of the product, as well as to develop the "*environmental product declarations (EPDs)"* for tyres, so that the results are comparable between the various manufacturers. With reference to the aggregated sector environmental reports, TIP has published the "*Environmental Key Performance Indicators for Tire Manufacturing 2009-2019*" which presents the environmental performance related to CO_2 emissions, energy consumption, water withdrawal and ISO 14001 certification of the environmental management systems of the factories where the members of TIP produce the tyres.

Also in 2020, TIP has continued its activities aimed at the international promotion of best practices on end-of-life tyre management, in terms of valorisation of recovery and reuse as a second raw material. These activities represent the natural consequence of the analysis presented in the report *"Global ELT Management - A global state of knowledge on regulation, management systems, impacts of recovery and technologies"* was published, a document that presents the current state of end-of-life tyre management in 45 countries, together with an analysis of regulations, management systems and recovery methods.

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60 http://www.oecd.org/chemicalsafety/nanosafety/nanotechnology-and-tyres-9789264209152-en.htm.

61 www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=env/jm/mono(2020)36/REV1&doclanguage=en.

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

The Transforming Urban Mobility project, which brings together international companies from the automotive, auto parts, transportation, oil&gas, information and communication technology sectors, aims to promote and accelerate the transition to safe, universally accessible and environmentally friendly urban mobility. The project is divided into workstreams to analyse in detail the new trends of future mobility such as electrification, data sharing and mobility sharing, and proposes guidelines for the transition to a more sustainable mobility through the use of new technologies. Worthy of mention are the publications "*EV adoption guide*", aimed at companies, and the "*Emerging Principles for Datasharing*", aimed at all players in the new mobility. Project members also interface with cities to discuss the most suitable and concrete solutions for each context. Finally, during 2020, TUM has initiated a valuable collaboration with the ITF (International Transport Forum), with the aim of publishing a guideline document on sustainable mobility to be shared with the European institutions during 2021.

The Future of Work Project brings together leading companies from different sectors to combine their respective insights, innovations and influences to create strategies, business models and develop scalable business solutions to address the challenges that characterise the future of work, i.e. rapid technological change, socio-economic polarisation, changing workforce expectations. The aim is to pursue an equitable, diverse, inclusive and empowering future of work, with the interests of people at its core. For more information on the project and to access the documentation developed to date, please visit the "Future of Work" section of the WBCSD website.

Among the WBCSD initiatives supported in recent years is the signing by the Group CEO of the *"CEO Guide on Human Rights"*, published in 2019 with the aim of promoting respect for human rights by companies and their suppliers and business partners.

IRSG – International Rubber Study Group

Pirelli, in representation of the European Commission, is a member of the Industry Advisory Panel of the International Rubber Study Group (IRSG) based in Singapore, an intergovernmental organisation that brings together producers and consumers of rubber (both natural and synthetic), acting as a valuable platform for discussion on issues regarding the supply and demand for natural and synthetic rubber. It is the principal source of information and analysis on all aspects related to the rubber industry. Within IRSG, Pirelli participated in the Sustainable Natural Rubber Project, which resulted in the management guidelines for the Sustainable Natural Rubber Initiative (SNRi) launched in 2014, during the World Rubber Summit.

During 2019 IRSG signed a Memorandum of Understanding with the Global Platform for Sustainable Natural Rubber (GPSNR), whose aim is to develop and consolidate cooperation between the two organisations. The MoU is fundamental in ensuring effectiveness in achieving the common objectives of the two organisations with regard to the sustainable production and consumption of natural rubber. In 2020, in cooperation with leading research institutes, IRSG organised the three-day workshop *"Climate Change and Rubber Economy"*, which discussed the impacts of climate change on the world of natural rubber. The workshop highlighted a number of climate change mitigation and adaptation initiatives to protect the communities operating in the sector, as well as the importance of dialogue between countries to achieve them.

EU-OSHA – European Occupational Safety and Health Agency

In 2020, for the twelfth consecutive year, Pirelli continued its activity as an official partner of the European Agency for Safety and Health at Work (EU-OSHA), which tackles a different issue every two years. In particular, in 2020 Pirelli adhered to the 2020-2022 campaign *"Healthy Workplaces Lighten the Load"* dedicated to raising awareness of ergonomic risks in the workplace and the prevention of related musculoskeletal disorders.

The campaigns in which the Company has participated in recent years include the 2018-2019 *"Healthy Workplaces Manage Dangerous Substances"* campaign aimed at raising awareness of the risks posed by hazardous substances in the workplace, the 2016-2017 *"Healthy Workplaces for all Ages"* campaign dedicated to the importance of a sustainable working environment that ensures the health and safety of employees throughout their lives, and the 2014-2015 *"Healthy Workplaces Manage Stress"* campaign, focused on the issue of stress and psycho-social risks in the workplace, the main aim of which was to encourage employers, managers and workers and their representatives to work together to manage these risks.

CSR Europe

Since 2010, Pirelli has been a member of the Board of CSR Europe, a network of companies in Europe that are leaders in the area of corporate social responsibility. Its members include more than 31 multinational companies and 45 national partner organisations from 31 European countries.

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

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

International commitments against climate change

For years Pirelli has shown its commitment to the fight against climate change, promoting the adoption of adequate energy policies aimed at the reduction of CO_2 emissions.

This commitment was also confirmed by joining the Task Force on Climate-related Financial Disclosures (TCFD), set up by the Financial Stability Board (FSB), with which Pirelli undertook to disclose information voluntarily on risks and opportunities related to climate change as indicated in the TCFD recommendations.

Moreover, in early 2020, Pirelli expressed its commitment to the Science Based Target initiative (SBTi) for the definition of targets on the reduction of absolute CO_2 emissions that are in line with the level that science is demanding to keep climate warming well below 2°C, as recommended by the Paris Agreement. In June 2020, the new targets for reducing absolute CO_2 emissions set by Pirelli for its production processes and supply chain were validated by SBTi, which judged them to be consistent with the actions needed to keep the increase in the planet's temperature well below 2 degrees.

Over the years, Pirelli has also participated in numerous events and projects such as the Climate Conferences "COP24" in Katowice (2018), "COP23" in Bonn (2017) and "COP22" in Marrakech (2016), the "Business for COP 21 Initiative" (2015) and participated in several side events organised during the "COP21" Climate Conference in Paris (2015).

Throughout 2014, the Group joined the "Road to Paris 2015" project and signed three initiatives consistent with its sustainable development strategy: Responsible Corporate Engagement in Climate Policy, Put a Price on Carbon, Climate Change Information in Mainstream Filings of Companies Communication.

Also in 2014, the Company signed the *"Trillion Tonne Communiqué"*, the document that requires global emissions over the next 30 years to remain below the trillion tonnes of greenhouse gases in order to avoid a rise in average global temperature higher than 2°C.

Pirelli has also signed numerous international agreements such as *"The Carbon Pricing Communiqué"* (2012), the *"2° Challenge Communiqué"* (2011), the *"Cancún Communiqué"* (2010), the *"Copenhagen Communiqué"* as well as the *"Bali Communiqué"* (2007), the first document for the development of concrete strategies for a global climate agreement to be implemented through a joint government intervention.

Company initiatives for the external community

As specified in the Group “Ethical Code”, Pirelli provides support to educational, cultural, and social initiatives for promoting personal development and improving living standards. The Company does not provide contributions or other benefits to political parties or trade union organisations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation. Since the founding in 1872, Pirelli has been aware that an important role in the promotion of civil progress in all the communities where it operates and, capitalising on the Company’s natural strengths, it has identified three focus areas: road safety, technical training and solidarity through sporting activities for young people. Pirelli for some years has adopted an internal procedure to regulate the distribution of gifts and contributions to the External Community by Group companies, in relation to the roles and responsibilities of the functions involved, the operational process of planning, realising and monitoring the initiatives and the disclosures regarding the same. Essential support in the identifying of the actions that best satisfy local requirements comes from the dialogue with locally operating NGOs. Priority is given to those initiatives whose positive effects on the External Community are tangible and measurable according to objective criteria. The internal procedure also specifies that no initiatives may be taken in favour of beneficiaries for whom there is direct or indirect evidence of violation of human rights, worker rights, environmental protection or business ethics.

The contributions to the External Community by Group companies are part of a broader strategy to support the achievement of the Sustainable Development Goals of the United Nations (SDGs), in the paragraphs “Sustainability Planning and the United Nations Sustainable Development Goals” and “UN Global Compact”.

Road safety

Pirelli is synonymous worldwide not only with high performance, but also safety. Together with environmental protection, road safety is the key element of the Eco & Safety Performance strategy that inspires the Group’s industrial and commercial choices. Pirelli’s commitment to road safety takes the form of numerous training and awareness-raising activities, but above all it translates into research and the ongoing application of innovative technological solutions for sustainable transport.

Pirelli’s commitment to road safety passes first and foremost through the product: the tyre is in fact the only part of the vehicle that interfaces directly with the road and as such is a fundamental element of road safety. Road safety has always been a cornerstone of the Pirelli brand. “*POWER IS NOTHING WITHOUT CONTROL™*” is Pirelli vision of mobility, which combines performance and safety. Structural and material improvements to improve traditional safety performance such as road grip, wet and dry braking, are combined with the most advanced technologies such as RUN FLAT™

and SEAL INSIDE™, which bring road safety to a higher level, allowing you to maintain control even in the most critical moments, such as a puncture.

Pirelli's commitment to road safety does not stop with product innovations, but also extends to the promotion of the principles of road safety and safe driving through participation in dedicated projects and campaigns.

Bearing witness to this commitment, Pirelli in 2018 joined the United Nations "*Road Safety Fund*" which aims to support States to reduce the number of deaths and injuries caused by road accidents. The Fund supports the implementation of national plans, as well as concrete actions and projects aimed at improving the safety of infrastructure and vehicles, promoting the correct behaviour of road users and managing the post-accident period efficiently.

In 2020 Pirelli also continued to support FIA in the "*Action for Road Safety*" campaign, created to support the ten actions for road safety organised by the United Nations at the end of 2011. The FIA campaign promotes initiatives and training and information campaigns aimed at encouraging more responsible automotive behaviour and the dissemination of the culture of road safety. As the Global Partner of this campaign, Pirelli has signed *"*The *Golden Rules*" of road safety, committing itself to disseminate them during events on the topic and through its distribution network.

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

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

In Italy, in 2020, the partnership with the University of Milan Bicocca and some neighbouring companies was strengthened on the subject of smart mobility in general and safety in particular. Also in this area, a project was proposed during the summer to the municipality of Milan and neighbouring municipalities in the Bicocca area which, through a series of interventions on the local road system with cycle lanes and 30 km/h zones, would promote road safety for the most at-risk road users, such as cyclists and pedestrians, and thus road safety for all. With a view to promoting road safety culture, cooperation with the Italian Traffic Police was also maintained; however, due to the ongoing health emergency, the planned initiatives were postponed and rescheduled for 2021.

In the United States and Canada, *"Tire Safety Week"* was organised, a series of initiatives on safe driving that also involved other tyre manufacturers. In the United Kingdom Pirelli made a donation to TyreSafe, an organisation dedicated to spreading education about proper tyre maintenance and the danger posed by defective or illegal tyres.

Also in 2020, despite the numerous limitations on events caused by the health situation, Pirelli continued with various initiatives to promote road safety education on two wheels. In particular, the commitment focused on collaboration with driving schools to develop practical and safe experience on and off the road. The various initiatives include partnerships with the Enduro Republic, Motorace

People, Ducati Riding Experience, Honda True Adventure Off-Road Academy and Ride Out Experience, organised in collaboration with KTM.

Lastly, as in previous years, a section of the website was dedicated to driving tips, for summer and winter, highlighting the important role played by the tyres in the active safety of vehicles and its occupants.

Training

The promotion of technical education at all levels and training are very old values that are well-established in the history of Pirelli. The Group continues to benefit from technical and research cooperation with various Universities in the world including the Polytechnic University of Milan, the Polytechnic University of Turin and the Bicocca University of Milan in Italy, the University of Craiova, the University of Pitesti and the Polytechnic University of Bucharest in Romania, the University of Qingdao in China, and the Technical University of Darmstadt, the University of Applied Sciences of Würzburg, Aschaffenburg and Darmstadt, the DHBW of Mannheim and the Vocational School of Michelstadt, Germany, to name a few.

The company supports educational and didactic initiatives that can give disadvantaged young people the tools to improve their condition; it contributes to scholarships and research projects, firmly believing in education as the key to individual growth and to the economic growth of a country.

In China, Pirelli sponsored 42 scholarships for science and technology students at the University of Qingdao. In Turkey, Pirelli donated laptop computers to students as a prize for completing the curriculum, and technical material for a robotics competition. In several countries the company has opened its doors to groups of students to introduce them to manufacturing for educational purposes. In particular, in Kirov, Russia, Pirelli invited 28 students to the factory to view production processes and teach them the importance of safety in the workplace and the use of personal protective equipment.

In Romania the partnerships with the Universities of Craiova and Pitesti and the Polytechnic University of Bucharest concern the recognition of scholarships and they also continued during the pandemic period. During 2020, Pirelli also hosted 42 mechanics and 42 electronics students from a dual school and supported the online classes of 100 children at the Coteana primary school in the Olt region, providing them with tablets and tools they needed to participate in online classes during the period of the health emergency.

In Argentina, Pirelli also helped high school students with tools and suggestions for their entry into the world of work, focusing on preparing CVs and job interviews.

In Spain Pirelli donated space to host a student workshop, where students designed to build a single-seater racing car, and a motorcycle, to compete in the international race “Formula Student” against almost 500 teams from all over the world.

In Italy, during 2020, there was continuation of the *Alternanza Scuola Lavoro* project (now called PCTO), launched in 2017 and governed by the 2015 "Good School" law. The project, designed on a three-year basis, involves three classes from chemical and technological high schools in the area and aims to accompany the children belonging to the classes involved throughout the three-year period, in order to guide them to discover what a company is, to support them in understanding the main dynamics of company management and to help them in the delicate phase of professional choice and orientation. Adhering to the project, Pirelli therefore facilitates schools in the regulatory compliance of the provisions of the Decree, supports the territory in the promotion of school excellence and internally promotes the management of generational diversity thanks to the involvement, within the project, of senior Pirelli colleagues in the role of mentors and guides for the young students involved.

In 2020, Pirelli continued its collaboration with natural rubber supplier Kirana Megatara in Indonesia, donating scholarships to the children of natural rubber farmers to enable them to go to school and buy school books. The scholarships covered 65 children.

In 2020, due to the health emergency, Pirelli had to suspend its rubber tapping competition, which it had been organising for several years in Indonesia with the aim of teaching natural rubber farmers how to extract rubber correctly in order to protect natural resources. Instead, Pirelli and Kirana Megatara distributed essential foodstuffs to about 2740 farmers, part of the Group's supply chain, and their families.

Sport and social responsibility

There is a close link between solidarity and sport, in a virtuous circle where commitment to sports becomes synonymous with the commitment to promoting solidarity and ethics, especially amongst young people. Getting young people involved in sport is a way to teach the notion of integration to children from different social groups and helps prevent negative situations like isolation and solitude. Pirelli signed a global agreement not only for the sponsorship of the professional football club FC Internazionale Milano ("Inter"), but also as a partner of the global social project Inter Campus.

Since 1997, Inter Campus has developed social, flexible cooperation and long-term actions, in 30 countries around the world with the support of 300 local operators, using football as an educational tool to offer needy boys and girls aged between 6 and 13 the right to play.

Since 2008, Inter and Pirelli, along with a local partner, have been running the Inter Campus social project in Slatina, Romania. The sports and recreational activities are organised for the entire year, involving over 100 children from different social contexts who have been learning team spirit, social integration and the values of friendship through football for years.

Since 2012, Pirelli and Inter have replicated the experience of Inter Campus in Mexico: Inter Campus Silao, near the Pirelli factory, inaugurated by President Felipe Calderon, involves about 130 children from the area. In 2020, the coaches ran the programme remotely because of the pandemic. In 2014, Pirelli and Inter launched an Inter Campus project together in Voronezh, Russia, involving three local orphanages with about 100 children.

In Brazil, Pirelli supported football, judo and karting programmes. In particular, the karting world championship held in 2020 saw around 3,000 participants, while judo lessons were held online due to the pandemic, involving around 500 children.

Solidarity

Pirelli's responsible approach of involvement and inclusion is reflected in social solidarity activities around the world. The pandemic has severely affected not only the health of millions of people around the world, but also the economy. Pirelli, like many other companies, has tried to help, not only by providing personal protective equipment and fans, but also by distributing food and other basic necessities.

In Spain, the Company supports the Santa Clara Convent Foundation, which manages programmes that provide food to needy families. Pirelli has made a warehouse available for the storage of food for the poor.

In Moscow, Pirelli contributed to the *"Chance"* project, which provides private lessons to some 600 orphans from various orphanages. In Kirov, Pirelli donated desks for children at the Nadezhda orphanage, and participated in an initiative to help children from families in difficulty with school supplies.

In China Pirelli supported 32 orphaned and poor children in Yanzhou. In Turkey Pirelli supported a foundation for the protection of children and one for maternal education. In Sweden Pirelli contributed to Children's Day, raising funds for disadvantaged children. In France Pirelli made a donation to the UN refugee agency, UNHCR. In Romania, employees participated in a craft fair, donating proceeds to 50 local families.

In the UK, Pirelli supported a number of social solidarity initiatives, including a donation of 50 pots and pans for needy families. In Germany, Pirelli sponsored the youth work of the local fire brigade.

In Brazil Pirelli supported several social solidarity activities: Associacao Imaculada Coracao de Maria Educandario, an educational activity for 486 children run by Italian nuns; Aprender Brincando, an after-school project with activities for 120 children; Servico de Convivencia Meninos e Meninas, another important after-school activity for 33 children; and Projeto Guri, an important musical activity for 165 children. In Argentina, Pirelli employees maintained a square, *"Plaza Pirelli"*, providing games and benches.

Health

During 2020, the global emergency due to Covid-19 caused Pirelli to devote a significant portion of its contributions to the external community to initiatives supporting health, both aimed at the families of Group employees and at the local communities where the Company operates.

Many initiatives have been launched in the countries where Pirelli operates.

In Italy, in collaboration with the Region of Lombardy, Pirelli has donated 65 ventilators for assisted breathing, 5,000 suits for medical use, and 20,000 protective masks to hospitals in the region. Italian employees also made a direct contribution by donating the equivalent of more than 7,000 working hours through the "*Together for Italy, Together for Research*" project, amounting to about €220,000. The Company donated directly an amount of the same value and, thanks also to donations received from other companies close to Pirelli Group, donations reached €750,000. In addition, the Group decided to cancel production of Pirelli Calendar for 2020 and donate €100,000 to medical research.

In China, through the Yanzhou Charity Federation, Pirelli donated RMB 5,000,000 to support the local community.

Also in Romania, Pirelli donated five ventilators to the intensive care unit of Slatina Hospital, and personal protective equipment to about 500 doctors, nurses and hospital staff. In addition, Pirelli donated more than 10,000 masks and disinfectant to doctors and policemen in the area, as well as to the transport company used by Pirelli workers.

In Russia, Pirelli made a donation to support the medical staff of regional health institutes and donated 1,000 tyres to ambulances in the Voronezh, Kirov and Tatarstan regions. In Brazil Pirelli also donated 8,000 tyres for ambulances and other emergency vehicles in the states of São Paulo, Bahia and Rio Grande do Sul. In Turkey, five medical monitors were donated to local hospitals, as well as 160 ambulance tyres.

In Germany and Sweden, a free tyre change service was offered to all health workers.

In Argentina, Pirelli managers organised information chats with students from local technical schools on the factory's adaptation to Covid-19 protocols. In addition, Pirelli donated oximeters and sanitisation materials to two local hospitals.

Over the years Pirelli has always aimed to make a contribution to improving health services in the communities in which it operates, supporting medical research and helping sick people.

In Romania a new centrifuge was purchased for the Slatina Transfusion Centre; in Turkey Pirelli made donations to the Down Syndrome Association and the Dernegi Multiple Sclerosis Foundation. In the Nordic countries Pirelli contributed to research and treatment of paediatric cancer. In Belgium Pirelli made a donation to Sunchild for seriously ill children, and another for cancer research. In Argentina, Pirelli supported a breast cancer awareness campaign with the Macma Foundation, and a marathon to raise funds for the rights of children cured of cancer. In the Netherlands Pirelli chose a hospital centre for mothers with children for its donation. And in the UK Pirelli raised funds for a heart centre, cancer, post-accident rehabilitation, kidney care and leukaemia.

Environmental initiatives

In keeping with the company's vision of sustainability, Pirelli supports various environmental projects around the world.

In Mexico, even in times of pandemic Pirelli has coordinated a *"llantaton"* (or "tyreathon"), i.e. the collection of at least 10,000 end-of-life tyres in the municipality of Leon, to promote local hygiene. The collected tyres were valorised as fuel for cement factories.

In Argentina, the company also dedicated itself to an end-of-life tyre recycling project, as well as supporting waste recycling at the local children's hospital.

In Voronezh, Russia, employees made a collection of batteries to promote their recycling.

In Germany Pirelli sponsored an innovative student project. Students built a dispensing machine for "Miltenbecher," reusable cups created by a 3D printer. The cups can be used in local cafés and shops, e.g. for take-away cups of coffee.

Culture and social value

The internationality of Pirelli also emerges from the love for culture, with initiatives in certain countries around the world also in 2020. The attention to culture, and even more the commitment to preserve it, spread it and enhance it, are part of the DNA of the creation of social value.

In Italy, Pirelli's commitment to culture is demonstrated by its numerous collaborations with prestigious institutions: in the world of theatre and art, with Teatro Franco Parenti and Piccolo Teatro in Milan, FAI (Fondo Ambiente Italiano), in the world of promoting reading, with the Campiello Prize, in the world of music, with the Fondazione del Teatro alla Scala and the Giuseppe Verdi Symphony Orchestra in Milan, and events such as the MITO SettembreMusica Festival in the cities of Milan and Turin.

In the field of music, Pirelli sponsors the Mozarteum project in Brazil, in which major international classical music orchestras participate. In 2020, the concerts were performed online. In São Paulo, Pirelli also sponsored in 2020 the Museum of Modern Art, one of the most important museums in Latin America, and an immersive exhibition on the life and works of Leonardo Da Vinci.

In Voronezh, Russia, Pirelli sponsored the Governor's Ball, a fundraising ball to promote young musical and artistic talent. Also in 2020, an exhibition of Pirelli Calendar was presented at the Multimedia Art Museum in Moscow, partly in person and partly online. In Spain, Pirelli hosted about

300 people in small groups for a historical guided tour of the old Manresa factory and the nearby museum.

Fondazione Pirelli (Pirelli Foundation)

The Pirelli Foundation, established in 2008, counts among its objectives the safeguarding of the Group's historical and cultural heritage and the promotion of its corporate culture, through projects with a strong social and cultural impact, aimed at enhancing the company's heritage and consequently its brand, also in collaboration with other institutions. During 2020, the health emergency situation, with the consequent economic recession, made it necessary to transform activities, also in a digital key, and short periods of closure of spaces normally accessible to the public. The main initiatives include:

Digital communication projects to enhance the value of historical heritage and corporate culture: digital tools and the schedule of communication activities were implemented and strengthened in order to reach an increasing number of users in Italy and abroad, even virtually. The fondazionepirelli.org website, with the virtual tour *fondazionepirelliexperience*, was visited a total of 96,300 times (+44.8% vs 2019). Among the new digital projects launched: the podcast programme on the history of Pirelli (racing, architecture, literature) with 18 launches in a dedicated online section; the activation of the newsletter Fondazione Pirelli e-news, with 18 issues that reached an average of 3,000 contacts; the digital programme for education to support distance learning, distributed to over 2,500 schools throughout Italy; 5 digital exhibitions with 33 in-depth studies on the themes of product, design, visual communication; the website section *"La Fondazione consiglia"* (The Foundation recommends), with the publication of 80 book reviews. Fondazione Pirelli's social accounts (Facebook, Instagram and Twitter) reached 13,080 followers (+22% vs 2019) with a total post coverage of 2,404,415 (+141.6 vs 2019). More than 1,650 pieces of content were produced, including 75 videos. Posts on the Pinterest channel, which reached 107,000 users, were visited 156,000 times. The Vimeo channel for audiovisual content had 5,600 views. In 2020 two new projects dedicated to the world of reading were also created in the digital version: *"Parole insieme"* with the launch in streaming of 5 interviews with guests related to publishing and writing (post coverage on social channels: about 98,000); *"Premio Campiello 2020"*, sponsored by Pirelli and communicated through reviews and video interviews on social channels and Vimeo (post coverage: over 12,500). Also in 2020, the Pirelli Foundation contributed to the implementation of editorial plans for Pirelli channels dedicated to heritage (BU Motorcycles, Pirelli USA, etc.).

Project on the celebrations of 60 years of the Pirelli Skyscraper: the exhibition *"Stories of the Skyscraper. 60 years of the Pirelli Skyscraper. 60 years of the Pirelli Skyscraper between industrial culture and the institutional activities of the Lombardy Region"*, promoted by the Pirelli Foundation and the Lombardy Region and set up at the Pirelli Skyscraper, will be opened to the public during 2021, after the presentation on 16 December 2020, with a digital preview of the dedicated website 60grattacielopirelli.org and the launch of the catalogue. The book, published by Marsilio in Italian and English language editions, traces the history of the building inaugurated in 1960 as the Pirelli Group headquarters and later becoming the headquarters of the Lombardy Region through original historical materials, photographs and illustrations from the Pirelli Historical Archive and testimonies by personalities such as Piero Bassetti, Eva Cantarella, Giuseppe Guzzetti, Uliano Lucas, Carlo Ratti, Gianfelice Rocca and Andrée Ruth Shammah. The project is a celebration of the modernity of Lombardy's technology and industry and of the avant-garde urban planning of Milan, the "rising city" of which the Pirellone remains an undisputed landmark in the present day. The digital event, attended by the presidents of the institutions involved, totalled over 48,000 live streaming views on the "Corriere della Sera" channels, followed by over 3,110,000 followers. In 2020, the communication of the project reached over 168,400 users on social channels; 25 issues were published in the press and on the websites of online newspapers. In 2021, also following the opening of the exhibition, activities to promote the project will continue with guided tours and virtual tours, including for schools and universities, presentations of the book and conferences with in-depth studies on various topics (architecture, design, economic history, sustainability).

<u>Educational and training projects for students and teachers</u>:

- Pirelli Educational Foundation - educational workshops aimed at primary and secondary schools: after a start in presence, the conclusion of the 2019/2020 school year and the opening of 2020/2021 continued with activities carried out entirely in digital mode, with live online training courses that involved a total of more than 1,550 students and their teachers. In addition, more than 300 teachers took part in the eighth edition of the training and refresher course for Cinema & History teachers, organised in collaboration with Fondazione Isec and Fondazione Cineteca Italiana;

- projects aimed at universities: around 90 students took part in in-person and online guided tours via virtual tour. Particularly noteworthy are the following universities: Politecnico di Milano; Monash Business School - Victoria, Australia; Eindhoven University of Technology - The Netherlands);

- other educational projects: - participation in Time4child 2.0 during the XIX Settimana delle Cultura d'Impresa (9-13 November), a digital event sponsored by the Ministry of Education with 5 live appointments on the subject of Pirelli sustainability (natural rubber, research and development, production process), in collaboration with colleagues from the Sustainability Department; 116 secondary school students took part in the events; - participation in Job & Orienta, a digital orientation and training event organised by Veronafiere; - participation in the #ioleggoperché project with reading suggestions by primary school students on the social channels of Fondazione Pirelli.

<u>Loans of materials, historical and iconographic research, drafting of texts to support the brand and the external community:</u> about 150 requests were made for the preparation of plants, trade fairs, events, Pirelli offices in Italy and abroad, product brochures, loans of materials for exhibitions and publications edited by other institutions, historical documentaries, interviews, and theses by scholars and researchers. Among the main ones: Pirelli Collezione and launch of new Pirelli tyres for Fiat 500, Pirelli China dealer convention, Automässan fair, Gamma Rally 2021 product launch, Silverstone F1 GP. Also: *"Autos Art and Architecture"* exhibition by the Lord Norman Foster Foundation and the Compasso d'Oro permanent museum by ADI - Association for Industrial Design

in Milan; documentaries on the history of Campari for Sky Arte and *“La costituzione in fabbrica”* by Istituto Luce; volume *“Nuove architetture a Milano”*, Hoepli edition.

Virtual tours, webinars and events to promote corporate culture: more than 500 participants took part in Fondazione Pirelli’s initiatives to promote corporate culture, including: Museocity, with a focus on the iconography of women in the last century; Digital Campus with educational activities; Movieweek with a focus on the testimonials of Pirelli’s advertising campaigns; XVII Settimana della Cultura d’Impresa, with the team virtual game *“Giallo in archivio: sulle tracce del Cinturato Pirelli”*. Among the guests was the visit of the Consul of Mexico to Milan.

Processing and relocation of materials from the Historical Archive, digital heritage management:

- implementation of the Digital Asset Management platform on OpentText software for the document management of images, videos and documents and for the long-term preservation of digital materials, with the upload of more than 30,000 digital assets;

- Historical Archive: about 670 documents catalogued and published online, about 2,240 digitised, 190 restored (photographic, iconographic and audiovisual fund, Corporate section and Research and Development section, with focus on product launches, factory interiors, welfare). During 2020, part of the Historical Archive documents was relocated to the new dedicated room in the recently built Cinturato building. The new archive spaces, designed for long-term preservation, also include an area for consultation.

Cultural initiatives for Pirelli employees:

- Management of Pirelli’s corporate libraries in Milan Bicocca and Bollate: the library holdings reached about 8,250 catalogue titles; more than 1,000 loans, over 1,400 movements (loans and extensions) and around 600 users were registered. The Biblionews newsletter with periodical updates on books and libraries reaches about 400 subscribers;

- participation in Pirelli Smart Kids, a digital campus organised by the HR Department in May and September for the children of employees, with courses in the areas of innovation and creativity.

Pirelli HangarBicocca™

Pirelli HangarBicocca™, which with its 15,000 square metres is one of the largest exhibition venues in Europe, is a space dedicated to the production, exhibition and promotion of contemporary art. Created in 2004 from the conversion of a vast industrial plant into an art centre, in 2020 it received official recognition and designation as a “Museum” by the Region of Lombardy.

The aim of Pirelli HangarBicocca™ is to be a place open to the city and the territory, an institution that combines its exhibition activities with a series of initiatives aimed at bringing contemporary art closer to an Italian and international public made up of art experts, representatives of the most important museum institutions, journalists from the sector and the general press, as well as an equally vast audience of enthusiasts, students, families and non-specialist users.

The exhibition and cultural activities of Pirelli HangarBicocca™ underwent substantial changes in 2020 due to the emergency situation caused by Covid-19, which required closure at various times during the year.

In line with its mission, Pirelli HangarBicocca™ nevertheless guaranteed the realisation of solo exhibitions by leading international artists and a programme that stood out for its research and experimentation character and for the particular attention paid to site-specific projects capable of dialoguing with the unique characteristics of the space. The artistic programme for 2020, curated by Artistic Director Vicente Todolí, presented artists with a high international profile, alternating solo exhibitions by established names with exhibitions by emerging artists.

A total of about 75,500 visitors (in attendance) visited 4 large temporary exhibition projects, in addition to the permanent installations I Sette Palazzi Celesti 2004-2015 by Anselm Kiefer, La Sequenza by Fausto Melotti and the Efêmero mural by OSGEMEOS:

- Daniel Steegmann Mangrané, *"A Leaf-Shaped Animal Draws The Hand"* (closed on 19 January 2020);
- Cerith Wyn Evans, *"...the Illuminating Gas"* (from 31 October 2019, closing date extended to 26 JUuly 2020);
- Trisha Baga, *"the eye, the eye and the ear"* (from 20 February 2020, closure extended to 10 January 2021);
- Chen Zhen, *"Short-circuits"* (from 15 October 2020, closing date 21 February 2021).

For the first time, in 2020 Pirelli HangarBicocca™ produced an institutional publication, the Annual Journal, which developed, through 219 pages of texts and images, an overall account of all the activities dedicated to the public, with particular attention to production, communication, engagement and development strategies.

During 2020 the Public Program, before the closures caused by the Covid emergency, hosted two important events dedicated to the Cerith Wyn Evans exhibition (an evening of conversation and film screening with the artist on 11th of January and a concert by Keiji Haino and Russell Haswell on 9th of February), while starting in September 2020, calendars of in-person and later digitally streamed encounters were devised, including a Book Club dedicated to Trisha Baga's exhibition involving writers including Jeannette Winterson, in collaboration with BookCity, which was attended by over 400 people online, as well as a digital conversation dedicated to Chen Zhen's exhibition with Guggenheim Senior Curator Alexandra Munroe.

After a few months of regular teaching and school activities, interrupted by the health lockdown, the Education Department acted as a reference point to support families and schools in dealing with the sudden isolation of the children and the impossibility of offering them meaningful creative and relational activities. The Education Department thus quickly set up a full programme of free live digital workshops for children aged 6 to 10 in collaboration with the artist Marcella Vanzo and a calendar of events involving the Arts Tutors of Pirelli HangarBicocca™; an engagement project was also conceived for children through social media and the website in collaboration with the artist Alice Ronchi.

Since it was impossible to work with school students, a teacher training programme was also set up consisting of two different workshops a course of 5 lessons for primary school teachers entitled *"Fare insieme #squola pubblica"* in collaboration with the Department of Education Sciences of Milano Bicocca and the artist Marcella Vanzo, focusing on creativity and the use of artistic expressiveness for digital teaching; a course on contemporary art, heritage and interculturalism, dedicated to high school teachers, with the collaboration of the Ismu Foundation, inspired by Chen Zhen's exhibition to explore the narrative potential and enhancement of cultural differences.

With a view to enhancing the installation of *"I Sette Palazzi Celesti 2004-2015"* by Anselm Kiefer, a guided tour was organised on 29th of January 2020 in the presence of the artist, attended by 620 people on the occasion of the Honorary Degree awarded to the artist by the Brera Academy. The collaboration with the Milano Musica Festival also continued, hosting the inaugural concert of the Festival on October 17, 2020.

During the course of 2020, Pirelli HangarBicocca™ intensified its usual digital storytelling of exhibitions and events, reinforcing the online activity of user involvement: there are many items of content and themes proposed in the various programmes distributed on institutional communication channels such as Instagram, Instagram Stories, Facebook, Twitter and on the home page of the website. In particular, a new Pirelli HangarBicocca™ profile was activated on Spotify where artists and personalities linked to the institution share playlists of their music with the public. The Hangar Voices project was also launched on social media, a selection of thoughts, ideas and opinions proposed through the contributions of artists, philosophers, thinkers, protagonists of the institution's cultural projects. The Video Channel section of the website has also been enriched with video interviews with artists and curators, making of exhibition projects, documentation of concerts, sound performances, visits and conferences. The Google Arts & Culture platform has been further strengthened, where the 360° Street View of Anselm Kiefer's permanent work was already present, taking advantage of the one dedicated to Cerith Wyn Evans' light installations and emphasising the reference to the Pirelli HangarBicocca™ iconographic archive.

In 2020 Pirelli HangarBicocca™ maintained its Membership programme with the aim of keeping alive the community that shares a passion for contemporary art. In 2020 the Membership reached about 300 active Members.

In 2020 there were 4 activities dedicated to Members: a preview visit to Trisha Baga's exhibition, two curatorial visits to the exhibitions (Cerith Wyn Evans and Trisha Baga) and an out-of-town family activity at the Brera Botanical Garden, on the occasion of Daniel Steegmann Mangrané's exhibition.

There were 17 dedicated newsletters. Among the benefits, the possibility to book in advance the activities of the Public Program, to reserve the visiting hours on the occasion of the opening of the exhibition of Chen Zhen, to stay always updated on the digital contents, to receive exclusive advances of the new catalogues, to take advantage of special discounts on the purchase of the catalogues of the exhibitions and of the institutional line at the Bookshop and at IUTA Bistrot.

During the year Pirelli HangarBicocca™ also hosted a number of major events including the meeting between the President of the Italian Republic Sergio Mattarella and the President of the Federal Republic of Germany Frank-Walter Steinmeier for the conference *"La rinascita ai tempi del Covid"* ("Resurgence in the time of Covid", the presentation of the new Armani Beauté skincare, the presentation of the 2020-2021 ski season and the celebrations for the centenary of FISI (Italian Winter Sports Federation).

REPORT ON THE CORPORATE GOVERNANCE

AND SHARE OWNERSHIP OF PIRELLI & C. S.P.A.

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

(TRADITIONAL MODEL OF ADMINISTRATION AND CONTROL)

(REPORT APPROVED BY THE BOARD OF DIRECTORS OF PIRELLI & C. S.P.A. ON 31 MARCH 2021 IN RELATION TO THE YEAR ENDED 31 DECEMBER 2020. THE REPORT IS ALSO AVAILABLE ON THE WEBSITE WWW.PIRELLI.COM)

GLOSSARY

Annual General Meeting: the meeting called to approve the financial statements as at 31 December 2020.

Camfin: Camfin S.p.A., a company established under Italian law controlled by Marco Tronchetti Provera through MTP&C, with registered office at Via Larga n. 2, Milan, VAT number, Tax Code and registration number with the Milan-Monza Brianza-Lodi Register of Companies 00795290154.

ChemChina: China National Chemical Corporation Limited, a company established under Chinese law (state owned enterprise or SOE) with registered offices at 62 West Beisihuan Road, Haidian district, Beijing (People's Republic of China), registered with the State Administration of Industry and Commerce of the People's Republic of China, registration number 100000000038808. ChemChina, also through CNRC, SPV HK1, SPV HK2, SPV Lux and MPI Italy indirectly controls the Company pursuant to art. 93 of the TUF.

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

Corporate Governance Code: the Corporate Governance Code for listed companies approved in July 2018 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

Civil Code: The Italian Civil Code.

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

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

Report date: indicates 31 March 2021, the date on which the Board of Directors approved this Report.

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

Year: the financial year to which this Report relates.

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

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

Longmarch: Longmarch Holding S.à.r.l., a limited liability company established under Luxembourg law, with registered office at 14 Rue Edward Steichen, 2540, Luxembourg (Grand Duchy of Luxembourg).

LTI: Tacticum Investments S.A., a company established under Luxembourg law with its registered office at 51, Boulevard Grand Duchesse Charlotte, L-2330, Luxembourg (Grand Duchy of Luxembourg), registered in the Luxembourg Trade and Companies Register under No. B-187332.

MTA: Electronic share market organised and managed by Borsa Italiana S.p.A.

Marco Polo: Marco Polo International Italy S.p.A., a company established under Italian law with registered offices at via San Primo 4, Milan, Tax Code, VAT and Milan-Monza Brianza-Lodi Companies Register number 09052130961; the company was terminated when the Marco Polo demerger took place.

MPI Italy: Marco Polo International Italy S.r.l., a company established under Italian law indirectly controlled by ChemChina with registered offices at via San Primo 4, Milan, Tax Code, VAT and Milan Companies Register number 10449990968.

MTP&C: Marco Tronchetti Provera & C. S.p.A., a company established under Italian law with registered offices at via Bicocca degli Arcimboldi 3, Milan, Tax Code, VAT and Milan-Monza Brianza-Lodi Companies Register number 11963760159.

New Corporate Governance Code: the new edition of the Corporate Governance Code for listed companies approved in January 2020 by the Corporate Governance Committee and to be applied from 1 January 2021 with information to be reported in the Corporate Governance Reports to be published during 2022.

Renewal of the Shareholders' Agreement: the agreement entered into force on 1 August 2019 between ChemChina, CNRC, SRF, SPV HK 1, SPV HK 2, SPV Lux, MPI Italy, MTP&C. with effect from 28 April 2020. The essential content of the Renewal of the Shareholders' Agreement, to which reference is made for further information, is available on the Website (www.pirelli.com).

PFQY: PFQY S.r.l., a company established under Italian law, with registered office at via San Primo 4, Milan, Tax Code, VAT and Milan-Monza Brianza-Lodi Companies Register number 11324920963.

Pirelli: Pirelli & C. S.p.A., a company established under Italian law with registered offices at viale Piero e Alberto Pirelli 25, Milan, Tax Code, VAT and Milan-Monza Brianza-Lodi Companies Register number 00860340157.

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

Pirelli Tyre: Pirelli Tyre S.p.A., a company established under Italian law with registered offices at viale Piero e Alberto Pirelli 25, Milan, Milan-Monza Brianza-Lodi Companies Register number 07211330159.

Board Regulation: the Regulation, adopted by the Board of Directors of Pirelli & C. S.p.A. on 22 June 2020, which governs the methods of organisation and internal functioning of the Board itself, in line with the recommendations of the New Corporate Governance Code.

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 with resolution 17221 dated 12 March 2010 on Related-parties transactions, as last amended by resolution 21624 dated 10 December 2020.

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

NFD Report: the Report on Responsible Management of the Value Chain (which constitutes the consolidated Non-Financial disclosure pursuant to legislative decree No. 254, of 30 December 2016) drawn up by the Company in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) - Comprehensive option - and the principles of inclusiveness, materiality and compliance with the AA1000 APS.

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

Website: Pirelli's institutional website containing, among other things, information about the Company and can be reached at the domain *www.pirelli.com*.

Company: Pirelli & C.

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

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

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

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

Bylaws: the Bylaws of Pirelli & C., available on the Website.

TUF: Legislative decree 58 of 24 February 1998, as subsequently amended (the Consolidated Law on Finance).

INTRODUCTION

The Report presents the corporate governance system adopted by the Company. This system is consistent with the principles contained in the Corporate Governance Code as well as the New Corporate Governance Code, to which the Company has adhered[62].

Pirelli is aware that an efficient corporate governance system is one of the essential elements for achieving the objective of sustainable value creation.[63]

1. COMPANY PROFILE

Pirelli, with about 30,500 employees and annual sales of over €4.3 billion in 2020, is one of the world's leading tyre manufacturers and accessory service providers, the only operator in the sector exclusively specialised in the consumer segment (car, motorbike and bicycle tyres), 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 and are characterised by a high technological component and/or customisation *(i.e.* the so called *≥18"*, *Specialties*, *Super Specialties* and Moto *Premium* tyres). In addition, the Company currently occupies a leadership position in the *Car Prestige* tyres segment, with more than one-third of the global market in volume terms, and in the radial segment of the replacement market for motorcycle tyres. Pirelli is also the leader in Europe, China and Brazil, in the tyres market for Car ≥18" and replacement market.

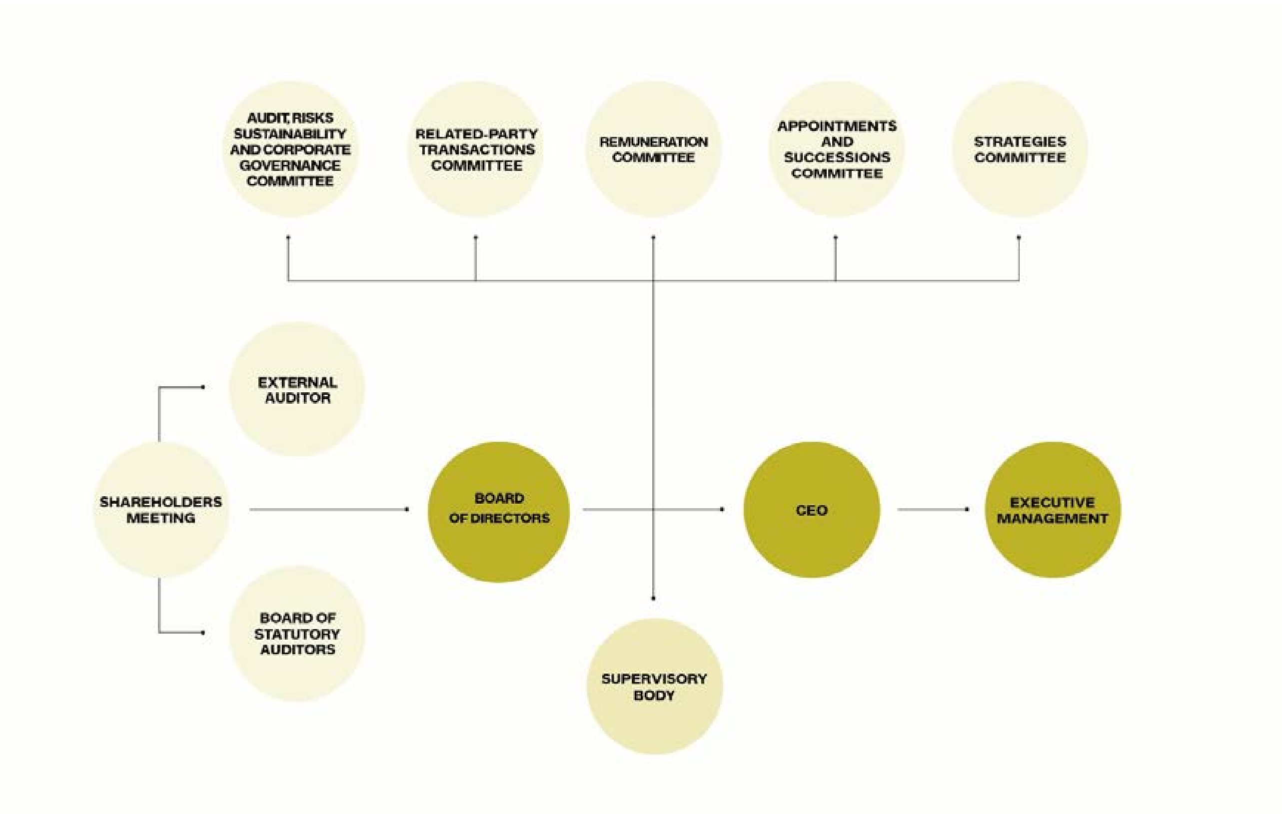
For a profile of the issuer see also the Company's website.

1.1 *MODEL OF CORPORATE GOVERNANCE*

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

62 Resolution of adhesion adopted by the Board of Directors with effect from 31 August 2017 with reference to the Corporate Governance Code; resolution of adhesion also to the New Corporate Governance Code adopted by the Board of Directors on 2 March 2020.

63 To that end, the Bylaws state (Art. 3.3): "*Pirelli's corporate governance will be guided by international best practices*.



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

1.2 *DIVERSITY POLICIES*

Pirelli is characterised by a multinational context in which people express a huge heritage of diversity. Conscious management of this diversity generates competitive advantages, opportunities for the development and enrichment of the business, and shared corporate values.

The respect of these values has always been guaranteed by the shareholders during the renewal of the Board of Directors - including the last renewal - in terms of age, gender, nationality, education and professional background and experience. This enables the Board to perform its duties in the most effective way, making use of the contributions made from different points of view, and to analyse individual situations from multiple perspectives.

On 14 February 2019, following the approval from the Audit, Risk, Sustainability and Corporate Governance Committee and the Appointments and Successions Committee, the Board of Directors, adopted a statement on diversity and independence (the so-called Diversity and Independence Statement) in relation to the composition of the Board of Directors and the Board of Statutory Auditors. The Company recommends to respect these values when its own corporate bodies are being renewed or integrated, in line with the stated diversity and independence criteria. On 22 June 2020, on the occasion of the renewal of the Board of Directors, the newly elected Board of Directors adopted the "Diversity and Independence Statement", updated to take into account the recent regulatory changes on gender balance[64].

The Board of Directors - which avails itself of the opinions expressed by the Audit, Risks, Sustainability and Corporate Governance Committee and the Appointments and Successions Committee - is responsible for the quali-quantitative assessment of the composition of the Board itself and the possible updating and amendment of the Diversity and Independence Statement.

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

2. INFORMATION ON THE OWNERSHIP STRUCTURE

2.1 *STRUCTURE OF SHARE CAPITAL*

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

On 14 December 2020, the Board of Directors resolved to place the bond Equity linked, named *"*EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025*"*, maturing on 22 December 2025 and reserved to institutional investors. The placement was made on 14 December 2020 and closed the following day, with pricing finalised on 15 December 2020. Subsequently, on 24 March 2021, the Company's Shareholders' Meeting resolved on:

- the convertibility of the aforementioned bond;
- the proposal to increase the share capital in cash, paid and in one or more tranches with the exclusion of pre-emptive rights for a maximum nominal amount, including any share premium, of €500,000,000 to be paid in one or more tranches through the issue of up to 80,192,461 ordinary shares (it being understood that the maximum number of Pirelli & C. ordinary shares may increase on the basis of the effective conversion ratio applicable from time to time) of the

[64] Law No. 160 of 27 December 2019, effective as of 1 January 2020, amended art. 147-*ter*, paragraph 1-*ter* and Art. 148, paragraph 1-*bis* of the Consolidated Law on Financial Intermediation, introducing new rules on gender quotas for the composition of the corporate bodies of listed companies, establishing that such companies must ensure in their Bylaws that, for at least six consecutive terms, two-fifths of the elected Directors and Statutory Auditors are the expression of the least represented gender, without prejudice to the criterion of allocation of at least one-fifth provided for in Art. 2 of Law 120/2011 for the first renewal following the date of commencement of trading.

Company, having the same characteristics as the outstanding ordinary shares and reserved exclusively and irrevocably to the conversion of the bond.

The conversion price of the bonds is EUR 6.235[65]

On 18 December 2020, the bond in question was admitted to trading on the 'Third Market' (MTF) of the Vienna Stock Exchange.

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

2.2 *SIGNIFICANT SHAREHOLDINGS OF CAPITAL*

The Company is indirectly controlled, pursuant to art. 93 of the TUF, by ChemChina through CNRC and other subsidiaries of the latter, including MPI Italy, which directly holds the shareholding in Pirelli.

Based on the communications received by the Company as at the Report Date pursuant to art. 120 TUF, or from other information available to the Company, the major direct and indirect shareholdings of Pirelli capital are indicated in Table 1, attached to this Report.

2.3 *MANAGEMENT AND COORDINATION ACTIVITIES*

At the meeting of 31 August 2017, the Board of Directors acknowledged the termination of direction and coordination activities under art. 2497 et seq. of the Civil Code by Marco Polo, effective as of the First Trading Day, without prejudice to CNRC's right to include Pirelli within its own consolidation perimeter for accounting purposes. In particular the Board of Directors of Pirelli noted that, from the First Trading Day, Pirelli was no longer subject to any of the activities that typically constitute direction and coordination activities and, therefore, by way of example:

- Pirelli conducts relations with customers and suppliers in full autonomy without any external interference;
- Pirelli independently prepares the strategic, industrial, financial and/or budget plans of the Company or the Group;
- Pirelli is not subject to any group regulations;
- no organisational-functional link exists between Pirelli on the one hand and Marco Polo and the companies that control it on the other;

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[65] The conversion price is fixed subject to adjustment, and without prejudice to cases where the relevant conversion price will be calculated in the different manner indicated in the Bond Rules.

- Marco Polo, CNRC and/or ChemChina have not carried out any deeds, adopted any resolutions or made any communications that might cause reasonable belief that the decisions of Pirelli are in some way imposed or required by Marco Polo, CNRC and/or ChemChina;

- Marco Polo, CNRC and/or ChemChina do not centralise treasury management activities or other financial support or coordination functions;

- Marco Polo, CNRC and/or ChemChina do not issue directives or instructions – and in any case do not coordinate initiatives – concerning the financial and borrowing decisions of Pirelli;

- Marco Polo, CNRC and/or ChemChina do not issue directives regarding any special transactions carried out by Pirelli including, for example, the listing of financial instruments, acquisitions, disposals, concentrations, contributions, mergers, spin-offs etc.;

- Marco Polo, CNRC and/or ChemChina do not make any crucial decisions regarding the operating strategies of Pirelli or formulate group strategic guidelines.

The Board of Directors periodically retained the aforementioned assessments (also in relation to MPI Italy) and, most recently, in the meeting of 31 March 2021.

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

2.4 *RESTRICTIONS ON THE TRANSFER OF SECURITIES: SECURITIES THAT CARRY SPECIAL RIGHTS; EMPLOYEE SHARE OWNERSHIP: THE MECHANISM FOR EXERCISING VOTING RIGHTS; RESTRICTIONS ON VOTING RIGHTS*

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

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

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

There are no mechanisms that restrict shareholders' voting rights, except for the terms and conditions governing the exercise of the right to attend and vote at the Shareholders' Meeting, as discussed in the following section 19 of the Report.

2.5 *SHAREHOLDERS' AGREEMENTS*

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

The following is a brief summary of these agreements.

2.5.1. RENEWAL OF THE SHAREHOLDERS' AGREEMENT

On 28 April 2020, entered into force the agreement, expiring on 28 April 2023, signed on 1 August 2019 between ChemChina, CNRC, SPV HK1, SPV HK2, SPV LUX, MPI Italy, SRF, MTP&C and Camfin (the "**Shareholders' Agreement Renewal**") to renew the shareholders' agreement concluded by ChemChina, CNRC, SRF, SPV HK1, SPV HK2, SPV Lux, Camfin, LTI and MTP&C on 28 July 2017 and intended to regulate the governance of Pirelli from the First Trading Date (the "**Shareholders' Agreement**").

By signing the Shareholders' Agreement Renewal, the parties (i) reaffirmed the stability of the partnership between ChemChina/CNRC, SRF and Camfin/ MTP&C, in continuity and coherence with the governance principles already expressed in the Shareholders' Agreement aimed at preserving Pirelli's entrepreneurial culture by leveraging the long-term retention of management and inspired by the best international practice of listed companies (ii) confirmed the role of ChemChina and Camfin/ MTP&C as stable shareholders of Pirelli, with the latter retaining its current shareholding in Pirelli of more than 10% of the share capital for the entire duration of the Shareholders' Agreement Renewal; (iii) confirmed the central role played by Marco Tronchetti Provera, as Company's Executive Vice Chairman and Chief Executive Officer, *(a)* in guiding Pirelli's top management, ensuring the continuity of Pirelli's managerial culture, and *(b)* in appointing his successor, with the implementation of the succession procedure to be completed by October 2022 and, therefore, a few months before the renewal of the Board of Directors of Pirelli, scheduled for spring of 2023.

The Renewal of the Shareholders' Agreement contains some provisions regarding the composition of the Board of Directors and the Committees, which are described in the following section 4.2.

At the Report Date, MPI Italy, Camfin and PFQY (the latter as a result of the SPV Lux assignation that will be described in the following section) conferred to the agreement more than 56% of Pirelli's shares.

2.5.2. ACTING IN CONCERT

On 29 September 2020, as part of a broader reorganisation of the chain of control of MPI Italy, provided for by the previous shareholders' agreements signed by the parties[66] - which entailed, *inter alia*, the exclusion of SPV HK2 from the aforesaid chain of control (the "**Reorganisation**") – was finalised the partial non-proportional and asymmetrical demerger of MPI Italy in favour of PFQY. As a result, PFQY was assigned, *inter alia*, with no. 90,212,508 Pirelli shares, representing 9.02% of the share capital (the "**SPV Lux Assignment**"). Following the aforementioned demerger:

- the Equity Investment Agreement for Co-Involvement and Investment in Acquisition of Pirelli (the "**Investment Agreement**"), the Supplemental Agreement of the Investment Agreement, as subsequently amended on 28 April 2020, and the Second Supplemental Agreement of the Investment Agreement stipulated, respectively, on 5 June 2015, 28 July 2017 and 7 August 2018 between CNRC, CC and SRF have ceased all their effects ceasing the co-participation of CC and CNRC, on the one hand, and SRF, on the other hand, in Marco Polo and, consequently, having become SRF direct shareholder of Pirelli & C. S.p.A. through PFQY;

- the essential information pursuant to art. 130 of the Issuers' Regulation relating to the "Revised Acting-in-Concert Agreement", signed on 28 April 2020 between CNRC and SRF, which superseded and replaced the "Acting-in-Concert Agreement" signed on 28 July 2017 between the same parties, containing shareholders' agreements relating to Pirelli & C. S.p.A. pursuant to which SRF has assumed a lock-up commitment and a commitment to vote in Pirelli's shareholders' meetings according to the voting instructions of CNRC, in relation to a number of Pirelli shares deriving from the Assignment of SPV Lux, equal to 5% of Pirelli's share capital.

On 29 March 2021, Silk Road Fund Co., Ltd. and China National Tire & Rubber Corporation, Ltd signed the "Amended and Restated Acting-in-concert agreement", which supersedes and replaces the previous "Revised Acting-in-concert agreement" signed between the parties on 28 April 2020, in order to take into account in the shareholders' agreements the resolutions adopted by the Shareholders' Meeting of Pirelli & C. S.p.A on 24 March 2021 on the convertibility of the bond denominated "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025".

2.5.3. THE LONGMARCH AGREEMENT

On 13 May 2020, Camfin and Longmarch entered into an agreement (the "**Longmarch Agreement**") containing, *inter alia,* certain shareholders' agreement provisions with regard to a potential participation, pursuant to art. 119 of the Issuers' Regulation, consisting of a repurchase agreement concluded between Longmarch and ICBC Standard Bank Plc (the "**Repurchase Agreement**") and concerning Longmarch's right to repurchase a total number of 76,788,672 shares of Pirelli, equal to

[66] See the previous Report on Corporate Governance and Share ownership Report 2019

approximately 7.68% of Pirelli's share capital (the "**Pirelli Shares Subject to the Repurchase Right**").

The Longmarch Agreement contains provisions concerning (i) the prior consultation and exercise of voting rights in the shareholders' meeting of Pirelli and, in particular, Longmarch assumed the following commitments: (a) to provide, as long as the Repurchase Agreement is in force (pursuant to which ICBC Standard Bank Plc ("**ICBC**"), during the term of the Agreement itself, is entrusted to exercise its voting rights in relation to the Pirelli Shares Subject to the Repurchase Right), ICBC with voting opinions and recommendations in accordance with the outcome of the discussions concluded between the Parties and, in case of disagreement, in accordance with the voting recommendations provided by Camfin and (b), following the purchase of the Pirelli Shares subject to the Repurchase Right by Longmarch, if occurred before 9 March 2023, to exercise the voting rights relating to such Pirelli Shares subject to the Repurchase Right in accordance with the outcome of the discussions concluded between the Parties and, in case of disagreement, in accordance with the voting recommendations provided by Camfin and (ii) the transfer of the Repurchase Agreement and the Pirelli Shares subject to the Repurchase Right.

Furthermore, except with Camfin's prior written consent, Longmarch agreed not to transfer or assign the Repurchase Agreement (including the related rights) or any of the Pirelli Shares subject to the Repurchase Right for a period of three years from the date of signing of the Longmarch Agreement.

As expressly provided for in the Longmarch Agreement, the provisions included therein (i) do not regulate, nor influence, nor have any impact whatsoever on the governance of Pirelli, and (ii) cannot in any way be considered connected or related to, nor have any effect and/or influence whatsoever on the shareholders' agreement on the Renewal of the Shareholders Agreement provided for in the prior section 2.5.1.

2.6 *CHANGE OF CONTROL CLAUSES*

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

2.6.1 SYNDICATED LONG TERM LOAN

On 13 June 2017, Pirelli, on the one hand, and Banca IMI S.p.A., J.P. Morgan Limited and The Bank of Tokyo-Mitsubishi UFJ, Ltd., on the other hand, in their role 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 total amount of EUR 4,200,000,000 (the "**New Loan**").

The loan agreement, entered into force on 27 June 2017 and concerning the New Loan (as subsequently amended), provides, *inter alia*, that the Beneficiaries shall repay early that part of the

New Loan made available by each lender upon the occurrence of certain events, including a changes in Pirelli's control structure.

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

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

2.6.2 PT EVOLUZIONE TYRES JOINT VENTURE

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

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

2.6.3 SUPPLY CONTRACT WITH BEKAERT

The Company has a contract for the supply of steelcord with Bekaert, to which the Company sold the steelcord business unit in 2014, also in consideration of the contractual peculiarities connected with the sale transaction.

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

2.6.4 EMTN PROGRAMME AND NOTES ISSUED IN 2018

On 21 December 2017, in order to ensure the constant optimisation of the financial structure of the Company, the Board of Directors (i) approved an EMTN programme (Euro Medium Term Note Programme) for the issue of non-convertible, senior unsecured bonds for a maximum amount of Euro 2 billion and (ii) in the context of that programme, authorised the issue by 31 January 2019 of one or more bonds to be placed with institutional investors for a maximum total amount of Euro 1 billion. This resolution was subsequently supplemented on 22 June 2018, increasing the existing authorisation by a further Euro 800 million - bringing the total amount to a maximum of Euro 1.8 billion - and extending its time horizon to 31 December 2019 (included).

It should be noted that pursuant to EMTN Programme, bondholders subscribing to bonds issued under this programme will be entitled to request early reimbursement of their securities (so-called "Put option") in case of a change of control event.

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

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

Under the EMTN Programme, on 25 January 2018, Pirelli issued a new and unrated fixed-rate, bond for an original total nominal amount of €600 million (amount now reduced to €553 million following repurchases made by the Company on the market), with a 5-year maturity and named "*Pirelli & C. S.p.A. €600,000,000 1.375% Guaranteed Notes due 2023*". This bond is listed on the Luxembourg Stock Exchange.

The above-mentioned Change of Control clause is applicable to this new bond.

For the sake of completeness, please note that, on 26 March 2018, Pirelli issued a floating-rate, unrated, bond for a total nominal amount of €200 million maturing in September 2020 and named *"Pirelli & C. S.p.A. €200,000,000 Floating Rate Notes due 2020"*. This loan has been fully repaid at maturity.

2.6.5 SCHULDSCHEIN: MULTITRANCHE LOAN FOR A TOTAL OF EURO 525,000,000

On 26 July 2018, Pirelli concluded a "*schuldschein*" loan - guaranteed by Pirelli Tyre – for a total of €525 million (as subsequently amended, the "**Schuldschein**"), divided as follows: (i) Euro 82 million due in 2021 (fully repaid in advance in January 2021); (ii) Euro 423 million due in 2023; and (iii) Euro 20 million due in 2025.

The Schuldschein prescribes, *inter alia*, that Pirelli must repay the loan in advance, if certain events occur, including the case of a change in the control structures of Pirelli, according to terms and conditions that are the same as those of the EMTN Programme.

2.6.6 BILATERAL LOAN WITH INTESA SANPAOLO

On 22 January 2019, the Board of Directors approved the stipulation by Pirelli of a medium-long term, variable rate loan of €600 million with Intesa Sanpaolo S.p.A., as lending bank, and Banca IMI S.p.A., as agent bank and organising bank (the "**Transaction**").

The loan agreement, signed on 24 January 2019 in relation to the Transaction (as subsequently amended), provides, *inter alia,* that Pirelli is required to repay the Transaction early should certain events occur, including a change in Pirelli's control structure.

In particular, the change of control clause may only be activated (and unless specific cases are allowed under the terms of the loan agreement) if any subject or subjects acting in concert, other than ChemChina, Camfin, MTP&C. (or any other company controlled by Marco Tronchetti Provera or by his close family members) and/or their subsidiaries and/or any person or persons acting/acting in concert with one of them should (a) hold the relative majority of votes in Pirelli; and (b) appoint or removes the majority of the members of the Board of Directors of Pirelli.

For clarification, the loan contract states that there will be no change of control if Camfin, MTP&C (or any other company controlled by Marco Tronchetti Provera or one or more of his close family members) participates, directly or indirectly, in the control of Pirelli entitled, by virtue of contractual agreement, directly or indirectly, individually or in concert with one or more subjects, to designate the CEO of Pirelli.

2.6.7 LICENCE AGREEMENT WITH AEOLUS

On 28 June 2016, Pirelli Tyre concluded an agreement (subsequently amended on 31 January 2019) with Aeolus Tyre Co. Ltd, to licence patents and know-how for the production and sale of industrial tyres that expires on 31 December 2030, with automatic renewal unless terminated by the parties. Pursuant to the agreement, either party has the right to terminate the agreement in advance, by notice to the other party, if CNRC should cease to be, directly or indirectly, the single largest shareholder of Pirelli.

2.6.8 BILATERAL LOAN WITH MEDIOBANCA

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

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

In particular, the change of control may only be activated (and unless specific cases are allowed under the terms of the loan agreement) in case that any subject or subjects acting in concert, other than ChemChina, Camfin, MTP&C (or any other company controlled by Marco Tronchetti Provera or his close family members) and/or their subsidiaries and/or any person or persons acting/acting in concert with one of them should (a) hold a relative majority of the votes in the share capital of the Company; and (b) appoint or remove the majority of the members of the Board of Directors of Pirelli.

For clarification, the loan contract states that there will be no change of control if Camfin, MTP&C (or any other company controlled by Marco Tronchetti Provera or by one or more of his close family members) participates, directly or indirectly, in the control of Pirelli, or is entitled, directly or indirectly, individually or in concert with one or more subjects, to designate the CEO of Pirelli.

2.6.9 EUR 800 MILLION 'SUSTAINABLE' CREDIT LINE

On 31 March 2020, Pirelli signed with a pool of leading Italian and international banks a new Euro 800 million credit line, guaranteed by Pirelli Tyre due in five years. The new credit line is entirely 'sustainable', and it is geared towards economic and environmental sustainability objectives.

The loan agreement relating to this new loan provides, *inter alia*, that Pirelli must repay early the part made available by each lender should certain events occur, including a change in Pirelli's control structure.

In particular, the change of control may only be activated (and unless specific cases are allowed under the terms of the loan agreement) in case that any subject or subjects acting in concert, other than ChemChina, Camfin, MTP&C. (or any other company controlled by Marco Tronchetti Provera or his family members) and/or their subsidiaries and/or any person or persons acting/acting in concert with any of them, should (a) hold the relative majority of votes in Pirelli; and (b) appoint or remove the majority of the members of the Board of Directors of Pirelli.

For the sake of clarity, the loan agreement provides that there will be no change of control if Camfin, Marco Tronchetti Provera & C. (or any other company controlled by Marco Tronchetti Provera or one or more of his family members) participates, directly or indirectly, in the control of Pirelli or has the right, directly or indirectly, individually or in concert with one or more persons, to designate the CEO of Pirelli.

2.6.10 "*EUR 500 MILLION SENIOR UNSECURED GUARANTEED EQUITY-LINKED BONDS DUE 2025*" *EQUITY-LINKED* BOND LOAN

On 22 December 2020, Pirelli & C. S.p.A. completed the placement of an equity-linked bond, reserved to institutional investors, with a nominal amount of Euro 500,000,000, maturing on 22 December 2025, called "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025" and guaranteed by Pirelli Tyre S.p.A.. The bonds were admitted to trading on the Vienna MTF, a multilateral trading system operated by the Vienna Stock Exchange.

The bonds, interest-free, as resolved by the shareholders' meeting of 24 March 2021, will be convertible into ordinary shares of Pirelli & C. S.p.A., subject to the approval by the latter's extraordinary shareholders' meeting of a capital increase, with the exclusion of pre-emptive rights pursuant to art. 2441, paragraph 5 of the Italian Civil Code, to be reserved exclusively to the conversion of the aforementioned bonds.

The rules governing the loan, contained in the Trust Deed, that includes the Terms & Conditions (the "**Regulation**"), provide, *inter alia*, that, during the period of time set out in the Regulation, each bondholder will be granted, at his discretion, in case of a change of control of the Company (so-called *"change of control"*) or if the free-float of the Company's ordinary shares (calculated in accordance with the Regulation) drops below a certain threshold and remains at that level for a certain number of trading days from the first day on which it fell below that threshold (so-called *"free float event"*), either (i) the right to request early redemption at par value of the bonds, by exercising a put option or (ii) the recognition of a new conversion price (if necessary also in the form of settlement according to the mechanism of the so-called *cash settlement amount*), lower than the original and based on the time elapsing between the event and the maturity of the bonds; all according to the terms and procedures identified in the Regulation.

In particular, the change of control may only be activated (and unless specific cases are allowed under the terms of the loan agreement) in case that any subject, other than ChemChina, Sinochem Group, Silk Road Fund, Camfin, MTP&C. (or any other company controlled by Marco Tronchetti Provera or any of his family members) and/or their subsidiaries and/or any person or persons acting in concert with any of them, acquires the absolute majority of the voting shares following a public offering to the shareholders and, as a result, has or controls the absolute majority of the voting rights in Pirelli, or if any person or persons acting in concert, other than ChemChina, Sinochem Group, Silk Road Fund or Camfin, MTP&C., or any other company controlled by Marco Tronchetti Provera or his family members, and/or by their subsidiaries and/or by any subject or subjects acting/acting in concert with the latter, holds/hold or controls/control the absolute majority of the voting rights in Pirelli.

For the sake of clarity, the loan agreement provides that there will be no change of control if that Camfin, MTP&C. (or any other company controlled by Marco Tronchetti Provera or one or more of his family members) participates, directly or indirectly, in the control of Pirelli or has the right, directly or indirectly, individually or in concert with one or more persons, to designate the CEO of Pirelli.

* * *

For the sake of completeness, please note that, in addition to the foregoing, as is customary in the commercial sector, certain companies belonging to the Pirelli Group have entered into contracts containing a change of control clause concerning only the participation held, directly or indirectly, by Pirelli in them. In particular, it should be noted that, under the terms of certain local loans, any change of control of Pirelli could potentially trigger, in the absence of appropriate liability management initiatives, the early repayment of the related amount disbursed locally and - in certain remote circumstances - have a “cascading” effect on the central loan agreements, thus entailing the early repayment of the related amounts disbursed at Group level due to the usual cross default/acceleration clauses provided therein.

2.7 *CLAUSES IN THE BYLAWS ABOUT PUBLIC OFFERS*

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

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

With regard to the financial year ended on 31 December 2020, the Directors were not granted to increase share capital for payment in one or more tranches, or to issue bonds convertible into ordinary or savings shares, or with warrants carrying the right to subscribe shares.

For completeness, please refer to section 2.1 for details on the capital increase approved by the Shareholders’ Meeting on 24 March 2021; in this context, the shareholders’ meeting gave a mandate to the Board of Directors - and, on its behalf, to the *pro tempore* legal representatives, also disjointly - to implement the resolved capital increase by determining, *inter alia*, from time to time, in compliance with the provisions of the Regulation (i) the exact issue price of the shares, as well as, as a result of the determination of the issue price, (ii) the exact number of shares to be issued, and thus the exact exchange ratio, as necessary for the purpose of the exact application of the provisions and criteria set forth in the Regulation; all of the above on the understanding that, if by the deadline of 31 December 2025 this capital increase is not fully subscribed, the share capital shall be deemed to be increased by an amount equal to the subscriptions received.

The Shareholders' Meeting of the Company did not authorise any purchase of own shares.

3. COMPLIANCE

During the meeting held on 22 June 2020, the Board of Directors of Pirelli resolved to adhere to the Corporate Governance Code, as well as to the new edition of the New Corporate Governance Code, published on 31 January 2020 and effective from 1 January 2021, with information to be reported in the Corporate Governance Reports to be published during 2022, both of which are available to the public on the Corporate Governance Committee's website at https://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm.

During the year and on the occasion of the entry into force of the New Corporate Governance Code, the Company examined, with the support of the Audit, Risk, Sustainability and Corporate Governance Committee, the contents of the new edition, assessing the potential impact on Pirelli's corporate governance system and identifying the areas of specific interest and possible interventions to adapt its corporate practices. The outcome of this analysis showed that the Company is already substantially in line with the principles and recommendations of the New Corporate Governance Code. The Board of Directors, during its meeting of 31 March 2021, took note of the changes introduced and reserved the right to evaluate, if necessary, adjustments to certain corporate practices of Pirelli. The Report has essentially been prepared using the Borsa Italiana format.

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

4. BOARD OF DIRECTORS

4.1 *APPOINTMENT AND REPLACEMENT OF DIRECTORS*

Appointment: 22 June 2020 Expiration date: 2022 Financial Statement approval **Directors**: 14 **Executive director**: 1 **Independent directors**: 8	**Board committees**: 5 Strategies Committee - Appointments and Successions Committee - Related-Parties Transactions Committee - Remuneration Committee - Audit, Risks, Sustainability and Corporate Governance Committee

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

4.1.1 APPOINTMENT AND REPLACEMENT[67]

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

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

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

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

Shareholders are only entitled to present slates if, alone or together with other shareholders, they own shares in total representing at least 1% of the share capital entitled to vote at an ordinary Shareholders' Meeting, or any lower amount specified in the applicable regulations, with the

[67] This paragraph contains the information required by Article 123-bis, paragraph 1, letter l) of the TUF (concerning "*the rules applicable to the appointment and replacement of directors [...] as well as to the amendment of the articles of association, if different from the laws and regulations applicable in addition*").

obligation to evidence their ownership of the number of shares needed for the presentation of slates by the deadline envisaged for the publication of such slates by the Company.

Each slate filed must be accompanied by acceptances of nomination and declarations from each candidate confirming, under their own responsibility, that there are no reasons making them ineligible for or incompatible with the role, and that they satisfy any requirements established for the role concerned. These declarations must be accompanied by the *curriculum vitae* of each candidate, describing their personal and professional characteristics, indicating the administration and control appointments held by them in other companies and confirming their satisfaction of the independence requirements envisaged for the directors of listed companies by law or by the code of conduct adopted by the Company. In order to ensure gender balance, slates containing three candidates must include candidates of different genders, while lists containing four or more candidates must include a number of candidates of different genders that at least satisfies the minimum required by law, as specified in the notice of call of the Shareholders' Meeting[68]. Any changes arising prior to the actual date of the Meeting must be promptly notified to the Company.

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

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

The Board of Directors is appointed as follows:

a) four-fifths of the directors to be elected are drawn from the slate that obtains the majority of the votes expressed by the shareholders, rounded down to the nearest whole number in the case of a fractional number;

b) the remaining directors are drawn from the other slates, using the quotient method described in the Bylaws.

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

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

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

[68] The article was brought into line with the new legislation on gender quotas in the composition of corporate bodies (Law No. 160 of 27 December 2019, in force as of 1 January 2020) at the Shareholders' Meeting that approved the Financial Statements as at 31 December 2019.

Should application of the slate voting mechanism not ensure the minimum number of directors belonging to the less represented gender set out by applicable law, the candidate belonging to the most represented gender and elected, indicated in the slate that obtained the largest number of votes, shall be replaced by the first candidate belonging to the less represented gender not already elected, drawn from that slate pursuant to the sequential order of presentation and so on, for each slate (solely for slates that contain three or more candidates) until the minimum number of directors belonging to the less represented gender has been obtained. If the above procedure does not ensure the result specified above, the replacement shall be made by resolution of the Shareholders' Meeting, adopted by the relative majority of the votes expressed, following presentation of the candidacies of persons belonging to the less represented gender.

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

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

For the appointment of directors who, for any reason, were not appointed in accordance with the slate voting mechanism, the Shareholders' Meeting shall adopt resolutions with the majorities required by law, without prejudice in all cases to compliance with the independence and gender balance requirements.

Should one or more directors cease to hold office during the financial year, they shall be replaced pursuant to art. 2386 of the Civil Code, without prejudice in any event to respect for the legislation on gender balance and the independence of the directors.

4.1.2 SUCCESSION PLANS

As provided in the Renewal of the Shareholders' Agreement and even earlier in the Shareholders' Agreement, in order to ensure continuity in Pirelli's corporate culture, Marco Tronchetti Provera has been granted with a leading role in the procedure to identify his successor as the CEO of Pirelli.

On 26 July 2019, the Board of Directors of Pirelli detailed the procedure for the succession of Marco Tronchetti Provera in relation to the position that he currently holds (the "**Succession Procedure**"). In particular, the Pirelli's Executive Vice Chairman and Chief Executive Officer will continue and complete the procedures for identify his successor by 31 October 2022 in order to allow for a smooth transition. If: (i) Marco Tronchetti Provera does not specify a candidate for the Appointments and Successions Committee or (ii) Marco Tronchetti Provera is for any reason unable to complete the aforementioned activities and the member designated by MTP&C in the Appointments and

Successions Committee, as specified by MTP&C, does not specify a candidate to the Appointments and Successions Committee, the foregoing provisions will cease to be effective and, as a result, CNRC may freely choose and propose its own successor candidate and include that candidate in the list for the appointment of Pirelli's new Board of Directors.

Following the completion of the succession procedure referred to above and the identification of the candidate, CNRC (and MTP&C to the extent possible) must (i) ensure that Pirelli's shareholders' meeting for the approval of the financial statements at 31 December 2022 and for the appointment of the new Board of Directors takes place before the end of the third year following publication of the notice of call issued for the Pirelli shareholders' meeting for the approval of the Company's financial statements at 31 December 2019, (ii) include the proposed candidate on the list for appointment of Pirelli's new Board of Directors and (iii) ensure, to the extent possible, that the non-independent directors vote at the first board meeting – to be held by the aforementioned deadline – for the proposed candidate as Pirelli's new Chief Executive Officer. The procedure for the succession of Marco Tronchetti Provera was finally confirmed and adopted by the newly elected Board of Directors on 22 June 2020.

4.2 *COMPOSITION*

The Board of Directors in charge at the Report Date was appointed by the Shareholders' Meeting held on 22 June 2020 and reflects the terms of the Renewal of the Shareholders' Agreement.

In addition, following the resignation of Carlo Secchi from the position of Director of the Company on 31 July 2020 with effect from the approval of the half-yearly financial report on 30 June 2020, the Board of Directors, on 5 August 2020, co-opted, pursuant to art. 2386 of the Italian Civil Code, a new director, Angelos Papadimitriou, also appointing him as a member of the Strategies Committee. Following the consensual termination of the employment relationship with Angelos Papadimitriou, with effect from 28 February 2021, he retained the positions of Director and member of the Strategies Committee. Subsequently, taking into account the proposal of the Executive Vice Chairman and CEO, Marco Tronchetti Provera, shared with the Appointments and Successions Committee, about appointing, reporting directly to him, Giorgio Luca Bruno as Deputy-CEO of Pirelli, in occasion of the Shareholders' Meeting on financial statements of 15 June 2021, Angelos Papadimitriou gave up the charge (withdrawing his candidacy) for the confirmation as a director that was supposed to be on the agenda of the Shareholders' Meeting scheduled on 24 March 2021. For this reason, the Shareholders' Meeting did not resolve on this matter; consequently a seat is now vacant.

In light of the above, the Board of Directors, as of the Report Date, consists of 14 members (a seat is vacant). In particular:

- Chairman Ning Gaoning, Marco Tronchetti Provera, Yang Xingqiang, Bai Xinping, Tao Haisu, Zhang Haitao, Domenico De Sole, Marisa Pappalardo, Giovanni Tronchetti Provera, Fan Xiaohua and Wei Yintao were appointed on the basis of the slate submitted by MPI Italy S.r.l.

together with Camfin, which obtained approximately 87% of the votes of the share capital represented at the Shareholders' Meeting;

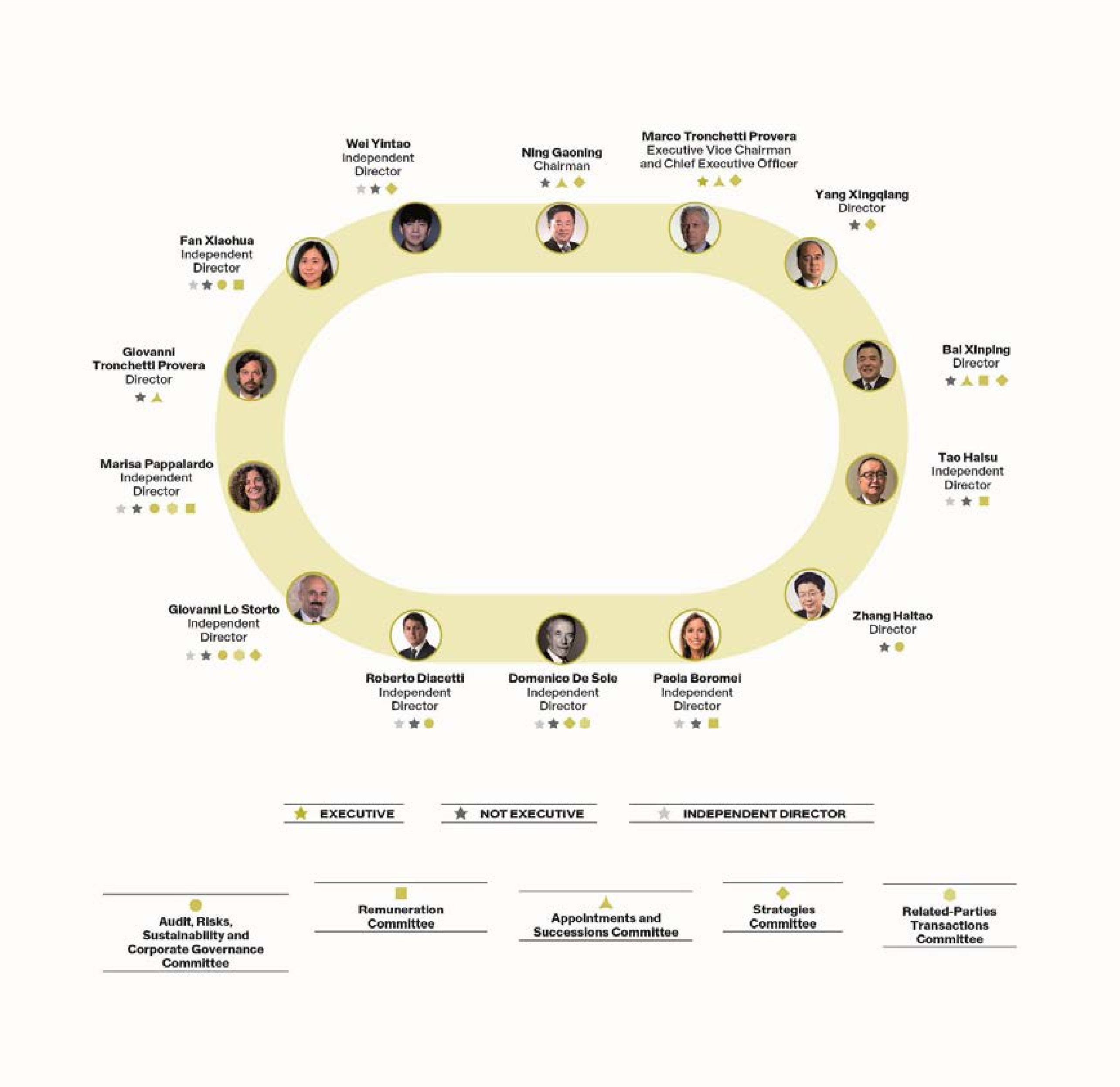
- the Directors Giovanni Lo Storto, Roberto Diacetti and Paola Boromei were appointed on the basis of a slate submitted by a group of asset management companies and institutional investors that obtained approximately 13% of the votes of the share capital represented at the Shareholders' Meeting.

At the Report Date, 21.4% of the Board members are female and the remaining 78.6% are male. In addition, about 64.3% of the directors are over 50 years old and the remaining, about 35.7%, are between 30 and 49 years of age. The average age of the members of the Board is approximately 55 years of age with an average age of the female gender of about 50 years of age. The average Directors' time in office is about 3 years and a half[69].

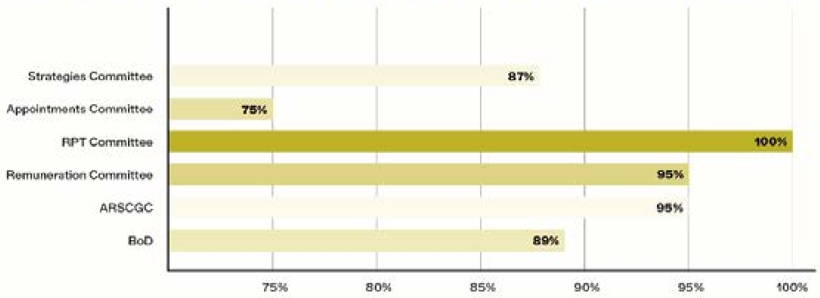
The attached Table 2 provides the relevant information on each member of the Board of Directors in office at the Report Date. In addition, a summary of their professional profiles is available on the Website.

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

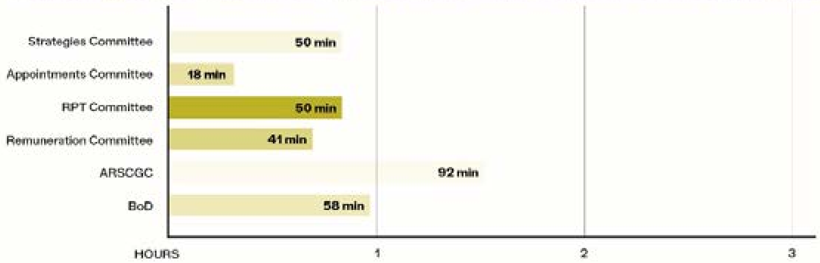
[69] It should be noted that for the purposes of calculating the *tenure of* the Board, the date of first appointment shown in Table 2 has been taken into account for each Director.


Wei Yintao
Independent Director
Ning Gaoning
Chairman
Marco Tronchetti Provera
Executive Vice Chairman and Chief Executive Officer
Yang Xingqiang
Director
Fan Xiaohua
Independent Director
Bai Xinping
Director
Giovanni Tronchetti Provera
Director
Marisa Pappalardo
Independent Director
Tao Haisu
Independent Director
Giovanni Lo Storto
Independent Director
Zhang Haitao
Director
Roberto Diacetti
Independent Director
Domenico De Sole
Independent Director
Paola Boromei
Independent Director
EXECUTIVE
NOT EXECUTIVE
INDEPENDENT DIRECTOR
Audit, Risks, Sustainability and Corporate Governance Committee
Remuneration Committee
Appointments and Successions Committee
Strategies Committee
Related-Parties Transactions Committee

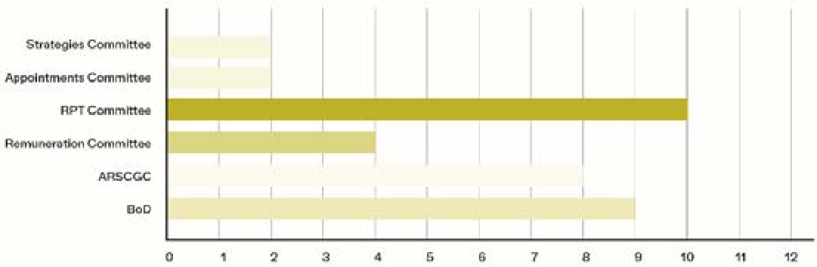
AVERAGE PERCENTAGE OF ATTENDANCE TO THE MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES



AVERAGE LENGTH OF MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES



NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES



4.3 *LIMITATIONS ON THE NUMBER OF OFFICES HELD*

The Board of Directors considers vital that the role of Director is held by subjects able to dedicate the necessary time to the diligent execution of the duties inherent to this office. In line with the above, on 14 February 2019, the Board of Directors, having obtained the favourable opinion of the Audit, Risk, Sustainability and Corporate Governance Committee and the Appointments and Successions Committee, resolved to reduce the maximum number of offices considered compatible with the office of director of the Company from five to four, thereby revising in an even more restrictive sense its previous orientation on the matter.

In particular, pursuant to the policy recently adopted by the Board of Directors, it is therefore not considered compatible with the duties of a director of the Company to be a director or statutory auditor of more than four other companies other than those subject to the direction and coordination of the Company, or its subsidiaries or affiliates, in case of (i) companies listed on the FTSE/MIB index (or equivalent foreign index) or (ii) Italian or foreign companies, subject to the supervision of the competent authorities, that carry out financial, banking or insurance activities; furthermore, it is not considered compatible for the same director to hold more than three executive positions in companies of the types indicated in points (i) and (ii) above.

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

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

The policy on the maximum number of offices considered compatible with effective performance as a director of the Company was last confirmed by the Board of Directors on 22 June 2020.

Following review by the Audit, Risks, Sustainability and Corporate Governance Committee, each year the Board of Directors examines the positions held by each Director (based on the information provided by that person and/or on the other information available to the Company). At the Report Date, no Director holds a number of offices higher than the number set out in the policy adopted by the Company on 14 February 2019.

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

4.4 *INDUCTION PROGRAM*

The Directors perform their duties autonomously and with competence, pursuing the priority objective of creating sustainable value over the medium to 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.

During the Financial Year, induction initiatives were arranged, also with the support of top management and taking into account the recent renewal of the Board of Directors during the Financial Year, an illustration of the main characteristics of the business of Pirelli and its Group and (also through the work of the committees) of the applicable legislative and regulatory framework and the specific procedures and disciplines adopted by the Company.

Specific initiatives undertaken during the year included induction activities concerning (i) internal organisation, on the one hand, and (ii) compensation and benefits and communication and brand image matters, on the other. In addition, a third induction session was held in January 2021, concerning sustainability and cyber security matters. In this context, Directors had the opportunity to have direct debate with the Company's key managers (who as a rule normally attend the meetings of the Board of Directors and the committees).

4.5 *ROLE OF THE BOARD OF DIRECTORS*

The Board of Directors plays a central role in the guidance and management of the Company. Pursuant to art. 11 of the Bylaws, 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 Bylaws to the Shareholders' Meeting.

4.5.1 OPERATION OF THE BOARD OF DIRECTORS

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

During the Year, the Board of Directors in office at the Report Date met nine times. The average duration of each meeting was about 60 minutes, with attendance by around 89% of the Directors and 97% of the Independent Directors. The Independent Directors had the opportunity to hold informal meetings as described in the preceding section.

For the 2020 financial year, and for the current year, Pirelli released a calendar of the main corporate events to the market[70] (also available on the Website). For the 2021 financial year, the Board scheduled to meet at least 7 times (at the Report Date, 3 meetings have already been held, one of which is not included in the Calendar).

The organisation of the Board of Directors and the internal operation is governed by the Regulations on the functioning of the Board of Directors which were adopted on 22 June 2020 in line with the recommendations of the New Corporate Governance Code ("**Board Regulations**")[71]. The Board Regulations identify the deadlines for the prior sending of the information and the protection ways of the confidentiality of data and information provided in order not to prejudice the timeliness and completeness of the information flows.

The Directors and Statutory Auditors, in line with the provisions of the Board Regulations, received at a notice deemed to be congruous and adequate the documentation and information necessary to

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[70] As a rule, dissemination takes place in November/December.

[71] The full text of the Rules on the Functioning of the Board of Directors is available on the Website.

express an informed opinion on the matters submitted to their examination. As a general rule, the documents to be examined by the Board and the Committees are sent within ten days before the meeting, unless specific situations do not allow this, in which case the documents are sent as soon as they are available. In the limited and exceptional cases in which documentation could not be transmitted so far in advance (or was transmitted closer to the meeting), full information on the issue to be considered was provided directly during the meeting, thus ensuring that the Directors could make informed decisions. Particular attention is paid to ensuring that information remains confidential, by sending the documentation relating to the activities of the board and its committees using specific software that guarantees that access is reserved to the directors and statutory auditors only. This is in line with best practice and with the recommendations of the Italian Corporate Governance Committee.

Taking account of the international composition of the Board of Directors, with the presence of different nationalities, it is also the Company's practice to proceed to send the documents to be considered by the Board and its Committees in the three languages (Italian, English and Chinese) commonly used by the Directors. Furthermore, for each meeting of the Board of Directors and Committees, participants are able to use a simultaneous translation of interventions made in the three aforementioned languages.

In order to facilitate the taking of minutes, a recording of the Board meetings is provided for, with subsequent destruction of the recording once the minutes have been transcribed into the relevant corporate book.

If the Chairman is absent, unable to attend or at the request of the Chairman, the meeting is chaired, by the Vice Chairman, the Chief Executive Officer, if appointed; if the latter is absent or unable to attend, the meeting is chaired by another Director appointed by the majority of those present.

For the resolutions of the Board of Directors to be valid, a majority of its members must be present, and resolutions must obtain a majority of the votes expressed.

Also in compliance with the recommendations of the Corporate Governance Code, the increase in directors' knowledge of the Company and Group's situation and dynamics is also favoured through the systematic participation of the Company's top management to the meetings of the Board, which contributes to providing the appropriate in-depth analysis of the topics on the agenda.

The Bylaws provide that, until a contrary resolution of the Shareholders' Meeting, the directors are not subject to the prohibition of art. 2390 of the Civil Code. Furthermore, with the approval of the Board Regulations and in line with the recommendations of the New Corporate Governance Code, the Secretary is appointed by the Board of Directors, which also assesses the existence of adequate professional requirements. The Secretary supports the activities of the Chairman and/or Vice Chairman and provides, with impartial judgement, assistance and advice to the Board of Directors on any aspect relevant to the proper functioning of the corporate governance system. In particular, the Secretary supports the Chairman and/or Vice Chairman of the Board of Directors, so as to ensure that:

a) the pre-meeting information is accurate, complete and clear and the additional information provided at meetings is adequate to enable directors to act in an informed manner;

b) the activities of the Board committees are coordinated with the activities of the Board of Directors;

c) the top management of the Company and of the companies of the same Group, as well as the heads of company departments, may attend Board meetings in order to provide appropriate information on the items on the agenda;

d) all Directors may participate, after their appointment and during their term of office, in specific induction activities;

e) the self-assessment process is adequate and transparent.

During the financial year, the Board of Directors started the process of evaluation of its operation and the operation of its Committees *(*board performance evaluation) for the 2020 financial year. For the purposes of the assessment process, the Board – in line with what was done on the previous financial year – was also supported by the assistance of a primary independent consulting firm specialised in this area (SpencerStuart). The self-assessment process was carried out through individual interviews with questions about the size, composition and operation of the Board of Directors. All members of the Board of Directors participated in the self-assessment process.

The analysis of the results of the aforementioned board performance evaluation provided by SpencerStuart highlights a broadly positive situation. In fact, a very high overall level of appreciation was recorded, in line with the previous year. In particular, the Directors expressed their full satisfaction and appreciation with the size, composition and operation of the Board of Directors and its Committees. It was also highlighted that the Board operates in compliance with the Corporate Governance Code and Italian and international best practices. With regard to the operation of the Board and the Committees during 2020, the Board particularly appreciated the timely handling of the Covid-19 emergency and the efficiency in the management of Board meetings thanks to the well-established audio/video conferencing systems and the use of the document access portal. In addition, the areas of excellence already identified in the self-assessment activities carried out in the previous year were on the whole confirmed. The areas for which the greatest appreciation was recorded are outlined below:

- participation of management in the meetings of the Audit, Risk, Sustainability and Corporate Governance Committee;

- high quality of the documentation supporting the meetings of the Board of Directors and the Committees, sent in a timeframe deemed adequate;

- high quality of the minutes of the Board of Directors' and Committees' work, which are accurate and complete with respect to the course of the meetings;
- sharing of activities related to the materiality matrix;
- ability of the Related-Parties Transactions Committee to refer issues, when necessary, to the full Board for discussion;
- effectiveness of the support provided by the Council Secretary;
- appropriate frequency and duration of meetings.

Particular appreciation was expressed by the Directors regarding (i) the mix of competences, considered to be of an excellent level, since the Board is very rich in high-level managerial competences, business experience and strongly international profiles and (ii) the relationship with the management, characterised by openness, transparency and positivity.

The survey also revealed a number of indications for further improving the operation of the Board, including, in particular, the provision of informal meetings of directors and an appropriate balance of time devoted to presentation and debate during committee and board meetings, and the development of opportunities for informal meetings between directors, in order to foster real mutual understanding and further strengthen personal relations and team spirit.

Lastly, it should be noted that, in line with what happened in the previous year, the Audit, Risk, Sustainability and Corporate Governance Committee also played a leading role in the context of the board performance evaluation and shared the results, which were subsequently submitted to the Board of Directors, in the meeting of 22 March 2021.

4.5.2 MATTERS FOR THE BOD

In accordance with the Bylaws, the Shareholders' Meeting requires a qualified majority (*e.g.* favourable votes by shareholders representing at least 90% of the share capital of the Company) for the Board to be authorised to resolve on the following issues:

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

On 22 June 2020, the Board of Directors resolved that all resolution regarding the following matters, proposed by Pirelli and/or any company subject to Pirelli's direction and coordination (excluding intergroup transactions), must be approved (as an internal restriction of the powers conferred the Chief Executive Officer on that date) by the Company's Board of Directors:

(i) obtaining or granting loans for a value higher than EUR 200,000,000 and with duration of more than 12 months;

(ii) issue of financial instruments to be listed on European or non-European regulated markets for a value higher than EUR 100,000,000 and/or their delisting;

(iii) giving guarantees in favour or in interest of third parties for amounts higher than EUR 100,000,000. For the sake of completeness, it should be noted that giving guarantees in the interest of third parties other than the Company, its subsidiaries and joint ventures must in all cases be subject to the approval of Pirelli's Board of Directors;

(iv) signing derivative contracts (a) with a notional value exceeding EUR 250,000,000, and (b) other than those having as their exclusive object and/or effect the hedging of corporate risks (e.g. hedging of interest rate risk, hedging of exchange rate risk, hedging of commodity market risk). For the sake of completeness, it should be noted that the stipulation of derivative contracts of a speculative nature is subject, in any case, to the approval of Pirelli's Board of Directors;

(v) the acquisition or disposal of controlling or associated shares in other companies for a value higher than EUR 40,000,000 involving entry into (or exit from) geographical and/or commodity markets;

(vi) purchase or sale of shares other than those described in point (v) above for a value in excess of EUR 40,000,000;

(vii) purchase or sale of companies or business units of strategic importance or, in any case, of a value higher than EUR 40,000,000;

(viii) purchase or sale of assets or other assets of strategic importance or, in any case, of a value higher than EUR 40,000,000;

(ix) execution of significant transactions with related-parties, meaning transactions with related-parties that satisfy the conditions set forth in Appendix 1 of the "Procedure for Transactions with Related-Parties" approved by Pirelli's Board of Directors on November 3, 2010, as amended from time to time;

(x) definition of Pirelli's remuneration policy;

(xi) determination, in compliance with Pirelli's internal policies and applicable regulations, of the remuneration of the executive and directors holding special offices and, if required, allocation among the members of the board of directors of the total remuneration set by the shareholders' meeting;

(xii) approval of the strategic, industrial and financial plans of Pirelli and its group;

(xiii) adoption of Pirelli's corporate governance rules and definition of the group's corporate governance guidelines;

(xiv) definition of guidelines on the internal control system, including the appointment of a director responsible for supervising the internal control system, defining his powers and duties;

(xv) any other matter that should be referred to the competence of the Board of Directors of a listed company by the Corporate Governance Code of Borsa Italiana, as amended from time to time.

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

As required by the Corporate Governance Code and the New Corporate Governance Code[72], the Board of Directors has positively assessed the adequacy of the Company's organisational, administrative and accounting structure, with particular reference to the internal control and risk management system, referring to the analytical work carried out by the Audit, Risk, Sustainability and Corporate Governance Committee.

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

4.6 *DELEGATED BODIES: EXECUTIVE DIRECTORS*

With resolution dated 22 June 2020of the Board of Directors, the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera was granted with all the powers necessary to perform all the acts pertaining to the Company's business in its various applications, without any exceptions aside from those reserved by law or by the Bylaws to the Board of Directors; all with the power to grant special and general mandates, vesting the agent with the corporate signature, individually or collectively, and with those powers that he deems appropriate for the best performance of the Company, including the power to sub-delegate.

a) In particular, the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera is granted with: as sole signatory, powers for ordinary management of Pirelli and the Group with regard to both Pirelli and any other company (including unlisted foreign companies) subject to

[72] See recommendation 33(a).

the direction and coordination of Pirelli, with the following internal limitations, and therefore with the assignment of the related responsibility to the Board of Directors:

(i) the thresholds amount envisaged for each of the matters indicated in section 4.5.2 are exceeded; or

(ii) for the matters listed from (i) to (viii) in section 4.5.2 above, the amounts indicated in the business plan and/or the annual budget are exceeded; or

(iii) solely for the matters listed from (i) to (viii) in section 4.5.2 above, they were not included, listed or envisaged in the business plan or the annual budget; and

b) powers for the supervision and implementation by the General Manager and by the management of the business plan, as well as the power to propose to the Board of Directors the adoption of the following resolutions (together, the "**Significant Matters**"):

(i) approval of the business plan and the annual budget of the Company and the Group, as well as all significant changes to those documents. The business plan and the annual budget must (a) address certain operational and financial aspects of Pirelli, including but not limited to the identification of all sources of funding for such business plans and budgets as well as the decisions relating to the industrial initiatives underlying the business plan and the annual budget; and (b) be accompanied and supported by adequate and appropriate documentation illustrating 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 Significant Matters must be reserved solely to the Board of Directors and/or to the Shareholders' Meeting, as applicable; and (b) should the Board of Directors does not approve the proposal of the Executive Vice Chairman and Chief Executive Officer, the related resolution must be motivated and, in all cases, take into account the best interests of the Company.

The Executive Vice Chairman and Chief Executive Officer has the power to propose to the Board the appointment and removal from office of Pirelli's Managers with strategic responsibility as identified pursuant to the relevant internal procedure, and therefore the following Pirelli employees: (i) the General Manager; (ii) the Manager responsible for the corporate financial documentation; (iii) all positions currently defined as Executive Vice Presidents and (iv) the Secretary of the Board of Directors of the Company.

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

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

At the Report Date, Pirelli qualifies as executive directors, in addition to the Executive Vice Chairman and Chief Executive Officer, the directors who at the same time are qualified as Manager with Strategic Responsibility of the Company, where existing, or who also hold the position of Chief Executive Officer or Executive Chairman in the main companies controlled by Pirelli[73].

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

4.7 *INDEPENDENT DIRECTORS*

At the Report Date, eight of the fourteen members[74] of the Board of Directors - and hence over 50% - have the requirements to be qualified as independent pursuant to the Corporate Governance Code and the TUF and, specifically: Paola Boromei, Domenico De Sole, Roberto Diacetti, Tao Haisu, Giovanni Lo Storto, Marisa Pappalardo, Fan Xiaohua and Wei Yintao. Upon appointment and thereafter, at least once a year, the Board evaluates whether or not the members meet and/or retain the requirements of independence specified in the Corporate Governance Code, in the New Corporate Governance Code and in the TUF for non-executive directors qualified as independent. This check - which takes into account not only the information provided by the directors themselves but also any additional information available to the Company and with reference to the requirements of the TUF, as well as those recommended by the Corporate Governance Code - was most recently carried out during the Board meeting of 31 March 2021.

In making its assessments, the Board did not derogate from any of the criteria prescribed by the Corporate Governance Code and the New Corporate Governance Code. [75]

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

On 25 February 2021, the Board of Directors – on the proposal of the Audit, Risk, Sustainability and Corporate Governance Committee – approved the “Statement on independence” in order to define

[73] For the sake of completeness, it should be noted that (i) the director Giovanni Tronchetti Provera is a senior manager of the Company; (ii) during the Year, in addition to the Executive Vice Chairman and Chief Executive Officer, the director Angelos Papadimitriou - co-opted on 5 August 2020 - was qualified by the Board as an “executive director” of the Company by virtue of his office as co-CEO General Manager. As result of the consensual termination of the managerial employment relationship, Director Papadimitriou was identified as a non-executive director. Following the proposal on appointing Giorgio Luca Bruno as Deputy-CEO, Papadimitriou withdrew his candidacy for the confirmation as director, expiring from the office on 24 March 2021. Therefore, at the Report Date, no director, other than the Executive Vice President and Chief Executive Officer, qualifies as an executive director.

[74] For sake of completeness, a seat is vacant.

[75] In particular, none of the Independent Directors can be qualified as “Key Personnel”.

ex ante the qualitative and quantitative criteria to be used to assess the independence of directors and statutory auditors.

This Statement defines (i) the qualitative and quantitative criteria to be used for assessing the independence of directors pursuant to the New Corporate Governance Code and, in particular, the parameters of relevance of any economic, professional or financial relationships of directors whose independence is being examined, (ii) and explains in detail certain interpretative criteria concerning also the other cases of independence mentioned by the New Corporate Governance Code, including the notion of "significant additional remuneration".

In particular, the Board of Directors of the Company has identified the following thresholds of relevance of the relationships under assessment:

- with regard to the notion of "significant commercial, financial or professional relationship" referred to in letter c) of Recommendation no. 7 of the New Corporate Governance Code, it is understood to include consultancy or any other assignment - with the exception of non-executive corporate offices held within the group, which are relevant in relation to the significant additional remuneration according to the criteria indicated below - which have led, for the director or auditor whose independence is being assessed, or their close family members, an economic award in the calendar year exceeding (i) EUR 300,000 in the event of relations maintained with companies or entities, of which the director, statutory auditor or close family member has control or is a significant representative, or of the professional firm or association or consulting firm of which such persons are partners, associates or associates, in the event of relations maintained with such companies, entities, consulting firms or professional firms and associations (ii) to EUR 100,000 for relations maintained directly with natural persons. In the case of a partnership in a professional firm or consulting company, an assessment of possible impacts on the position and role of the auditee is considered appropriate.

- with regard to the notion of "significant additional remuneration", referred to in letter d) of recommendation no. 7 of the New Corporate Governance Code, it is understood all remuneration paid for any reason during the calendar year by the Company, one of its subsidiaries or parent company (direct or indirect), which cumulatively exceeds the total amount of the remuneration for the office or of the remuneration for the attendance to the Board committees paid to the director and of the remuneration for the office of member of the Board of Statutory Auditors whose independence is subject to assessment.

None of the Directors qualified as independent at the date of their appointment had lost this status during their term of office.

In light of the above, the structure of delegated powers, the shareholding structure and the provisions of the New Corporate Governance Code, the majority of independent directors have not yet deemed it necessary to propose the appointment of a lead independent director to the Board of Directors.

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

The Independent Directors meet at least once a year in the absence of the other directors, with the aim of analysing matters of particular importance such as the functioning of the Board of Directors or company management.

During the Financial Year, the independent directors have met twice in the absence of the other directors, at the meetings on 16 October 2020 and on 10 December 2020, on the occasion of the first two induction sessions organised by the Company's offices. In addition, at the Report Date, the independent directors have met once in the absence of the other directors at the meeting on 27 January 2021, during the third induction session. During these meetings, matters relating to internal organisation were illustrated and discussed in depth, specifically with regard to (i) a description of the organisational structure and a focus on the main changes it has undergone during the Year; (ii) a description and contextualisation of the size of the Pirelli Group and (iii) the policies for developing corporate talent, including performance evaluation criteria and training activities for Group employees. In addition, the compensation schemes adopted by the Company and the communication and cyber security strategies and the integration of sustainability matters into the corporate strategy were analysed in depth.

5. PROCESSING OF CORPORATE INFORMATION

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

With reference to the prevention of market abuses, the Board of Directors of Pirelli has adopted a procedure for defining the principles and rules for preventing such abuses by Pirelli, Group companies and their related-parties (the "**Market Abuse Procedure**").

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

The Market Abuse Procedure also defines rules for transactions carried out by "Significant Parties" or by "Persons Closely Related to Significant Parties" in financial instruments issued by the Company, with an annual amount of at least EUR 20,000, in compliance with the applicable current regulations. In this regard*,* a black-out period of 30 calendar days imposed prior to the announcement by the Company of the data contained in the annual, half-yearly and periodic financial reports required by the laws and regulation in force at the time,[76] during which 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.

Also taking into account the recommendations and the principles contained in the New Corporate Governance Code, the Company's Board of Directors, in its meeting of 22 June 2020, established the Strategies Committee, the Appointments and Successions Committee, the Audit, Risk, Sustainability and Corporate Governance Committee, the Remuneration Committee and the Related-Parties Transactions Committee.

The composition of the Related-Parties Transactions Committee was amended with a subsequent resolution approved on 5 August 2020, following the resignation of Director Secchi with effect from the same date. Moreover, the composition of the Strategies Committee was modified following the end in charge of Angelos Papadimitriou with effect from 24 March 2021*.*

6.1 *OPERATION OF COMMITTEES*

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

[76] The Company publishes annually - normally before the end of the financial year - a calendar of the main corporate events relating to the following financial year and updates it promptly in the event of subsequent changes.

The Strategies Committee meets at least quarterly and in any case before the Board of Directors' meeting called to approve the annual budget and/or the business plan, receiving the relevant documentation at least 3 days before the meeting.

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

Meetings of the Committees shall be convened by notice sent to the participants by its Chairman or by the Secretary of the Committee at the request of the Chairman.

The documentation is sent in good time to all members of the relevant Committee so that they can participate in the meeting in an informed way (normally 10 days before the meeting).

Committee meetings are quorate when attended by the majority of appointed members and resolutions are adopted by the majority of those present. In the event of a voting tie at meetings of the Appointments and Successions Committee held to appoint a successor to the Chief Executive Officer, the outgoing Chief Executive Officer's vote will prevail.

Committee meetings may be held by conference call; their minutes are taken by the Committee Secretary and recorded in the related corporate book.

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

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

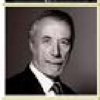
The entire Board of Statutory Auditors is entitled to participate in the activities of the Audit, Risk, Sustainability and Corporate Governance Committee, the Remuneration Committee and the Related-Parties Transactions Committee.

A member of the Board of Statutory Auditors (normally the Chairman) is invited to attend the meetings of the Appointments and Successions Committee and the Strategies Committee.

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

7. STRATEGIES COMMITTEE

STRATEGIES COMMITTEE

	Name and Surname	Office
	Ning Gaoning	Chairman of the Board of Director
	Marco Tronchetti Provera	Executive Vice Chairman and Chief Executive Officer
	Yang Xingqiang	Director
	Bai Xinping	Director
	Domenico De Sole	Independent Director
	Giovanni Lo Storto	Independent Director
	Wei Yintao	Independent Director

At the date of the Report, the Strategies Committee is composed of 7 Directors (3 of whom are independent): Marco Tronchetti Provera (Chairman of the Committee), Ning Gaoning, Yang Xingqiang, Bai Xinping, Domenico De Sole, Giovanni Lo Storto and Wei Yintao.

The Strategies Committee has consultative and advisory functions in the definition of strategic guidelines and for the identification and definition of the terms and conditions of the individual operations of strategic importance. In particular, the Strategies Committee:

- supports the Board of Directors in reviewing the Company's and the Group's business plans, also based on the analysis of matters relevant to the generation of long-term value;
- assists the Board in assessing transactions, initiatives and activities of strategic importance, including, in particular:
  - entry into new markets, both geographical and business;

- o industrial alliances (e.g. joint ventures);
- o special transactions (mergers, demergers, capital increases or capital reductions, other than reductions for losses);
- o investment projects;
- o industrial and/or financial restructuring programs and projects.

- periodically examines the organisational structure of the Company and the Group, formulating any suggestions and opinions to the Board;
- monitors and evaluates over time the achievement by management of the Group's economic and financial objectives, according to the procedure on information flows set out below, thereby proposing to the Board of Directors any actions and/or the adoption of corrections for the implementation of the economic and financial objectives approved by the Board of Directors.

The Strategies Committee is required to receive a specific information flow from the Chief Executive Officer assisted by the Secretary of the Company's Board of Directors for such purposes.

8. APPOINTMENTS AND SUCCESSIONS COMMITTEE

APPOINTMENTS COMMITTEE

	Nome e Cognome	Office
	Ning Gaoning	Chairman of the Board of Director
	Marco Tronchetti Provera	Executive Vice Chairman and Chief Executive Officer
	Bai Xinping	Director
	Giovanni Tronchetti Provera	Director

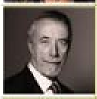
At the Report Date, the Appointments and Successions Committee is composed of 4 members: Marco Tronchetti Provera (Chairman of the Committee), Ning Gaoning, Giovanni Tronchetti Provera and Bai Xinping. Considering the fact that the Committee in question deals not only with aspects relating to appointments, but also with matters concerning top management succession, and having regard to the provisions of the Renewal of the Shareholders' Agreement that outline a structured procedure for identifying the successor to Marco Tronchetti Provera as Chief Executive Officer of Pirelli (see the section 4.1.2 below), it was decided, as an exception to the Corporate Governance Code and the New Corporate Governance Code, to appoint the majority of non-executive (albeit not independent) directors as members of this Committee.

In particular, the Appointments and Successions Committee:

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

9. RELATED-PARTIES TRANSACTIONS COMMITTEE

RPT COMMITTEE

	Name and Surname	Office
	Marisa Pappalardo	Independent Director
	Domenico De Sole	Independent Director
	Giovanni Lo Storto	Independent Director

At the Report Date, the Related-Parties Transactions Committee is composed of 3 independent directors: Marisa Pappalardo (Chairwoman of the Committee), Domenico De Sole, and Giovanni Lo Storto.

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

10. REMUNERATION COMMITTEE

REMUNERATION COMMITTEE

	Name and Surname	Office
	Bai Xinping	Director
	Paola Boromei	Independent Director
	Fan Xiaohua	Independent Director
	Marisa Pappalardo	Independent Director
	Tao Haisu	Independent Director

At the date of the Report, the Remuneration Committee is composed of 5 directors (4 of whom are independent): Tao Haisu (Chairman of the Committee); Paola Boromei (Director with appropriate financial and remuneration policy knowledge and experience), Bai Xinping, Fan Xiaohua and Marisa Pappalardo.

The Committee has investigative, propositional, advisory and supervisory functions to ensure the definition and application within the Group of remuneration policies aimed, on the one hand, at pursuing the sustainable success of the Company/Group and aligning the interests of the management with those of the shareholders and, on the other hand, at having, retaining and motivating resources with the skills and professional qualities required by the role held in the Company.

In particular, the Remuneration Committee:

- assists the Board of Directors to define the Group's Remuneration Policy;
- periodically assesses the adequacy and overall consistency of the Remuneration Policy for the Company's directors and, in particular, for directors holding special offices, General Managers and managers with strategic responsibility;
- with regard to the executive directors and other directors holding special offices and to the General Managers, makes proposals or expresses opinions to the Board in relation to:
    - o their remuneration, in accordance with the Remuneration Policy;

- o the setting of performance objectives related to the variable component of such remuneration;
- o the definition of possible non-competition agreements;
- o the definition of possible termination agreements also on the basis of the principles set out in the Remuneration Policy;

- monitors the actual application of the Remuneration Policy and verifies the effective achievement of performance objectives; verifies the compliance of the remuneration of executive directors, other directors holding special offices, general managers and executives with strategic responsibility with the Remuneration Policy and expresses an opinion on them, if required by the relevant procedure adopted within the Company, also pursuant to the Procedure for Related-Parties Transactions;
- assists the Board of Directors in the examination of proposals to the Shareholders' Meeting for the adoption of remuneration plans based on financial instruments;
- monitors the implementation of the decisions adopted by the Board of Directors, in particular verifying the actual achievement of the set performance objectives;
- examines and submits to the Board of Directors the Remuneration Report that, by name for the members of the management and controlling bodies, for General Managers and, in aggregate form, for managers with strategic responsibility:
  - a) provides an adequate representation of each component of their remuneration;
  - b) illustrates analytically the remuneration paid during the reference financial year for any reason and in any form by the Company and its subsidiaries.
- expresses, in any case, opinions to the Related-Parties Transactions Committee, if the competences in the field of Transactions with Related-Parties, for matters concerning the remuneration of executive directors, including directors holding special offices, General Managers and executives with strategic responsibility, are not attributed to the Committee itself;
- assesses the existence of exceptional circumstances allowing derogations from the Remuneration Policy.

In the cases envisaged by the Procedure for related-parties transactions adopted by the Company ("**RPT Procedure**"), the Remuneration Committee may be assigned the powers of the Related-Parties Transactions Committee envisaged by Consob regulations and by the RPT Procedure for matters concerning (i) the remuneration of executive directors, directors holding special offices, General Managers and executives with strategic responsibilities and (ii) the approval of exceptions to the Remuneration Policy, if exceptional circumstances to allow them exist.

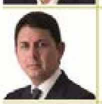
11. REMUNERATION OF THE DIRECTORS

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

For information on the remuneration policy for 2021 and on the remuneration paid in 2020, please refer to the Remuneration Report prepared pursuant to art. 123-*ter* of the TUF, which is made available to the public in accordance with the terms and procedures provided for by applicable laws and regulations, including by publication on the Website. It should be noted that said document also includes the information required by art. 123-*bis*, section 1, letter i) of the TUF.

12. AUDIT, RISK, SUSTAINABILITY AND CORPORATE GOVERNANCE COMMITTEE

ARSCGC

	Name and Surname	Office
	Fan Xiaohua	Independent Director
	Zhang Haitao	Director
	Roberto Diacetti	Independent Director
	Giovanni Lo Storto	Independent Director
	Marisa Pappalardo	Independent Director

At Report Date, the Audit, Risk, Sustainability and Corporate Governance Committee is composed of 5 directors (4 of whom were independent): Fan Xiaohua (Chairwoman of the Committee), Zhang Haitao, Roberto Diacetti, Giovanni Lo Storto and Marisa Pappalardo. Directors Fan, Diacetti and Lo Storto have appropriate experience in accounting, finance or risk management.

The Audit, Risk, Sustainability and Corporate Governance Committee, which incorporates the functions of the "control and risks committee", supports the Board of Directors in the assessment and decision-making about the internal control and risk management system, as well as in the approval of periodic financial reports. In particular, the Audit, Risk, Sustainability and Corporate Governance Committee:

- supports the Board of Directors in:

  a) defining the guidelines for the internal control and risk management system, in line with the Company's strategies;

  b) evaluating, at least once a year, the adequacy of the internal control and risk management system to the characteristics of the company and the risk profile assumed, as well as its effectiveness;

  c) appointing and dismissing the Head of internal audit, also defining his remuneration in line with corporate policies, thus ensuring that he has adequate resources to carry out his duties;

  d) approving, at least once a year, the work plan prepared by the Head of the Internal Audit function, after consulting the controlling body and the CEO, and by the Head of the Compliance function;

  e) evaluating the possible adoption of measures aimed at ensuring the effectiveness and impartiality of judgement of the other corporate functions involved in the controls, verifying that they are endowed with adequate professionalism and resources;

  f) assessing, after consultation with the Board of Statutory Auditors, the results presented by the external auditor in any letter of recommendation and, if any, in the additional report addressed to the Board of Statutory Auditors;

  g) describing, in the report on corporate governance, the main features of the internal control and risk management system and of the methods of coordination between the different subjects involved in it, indicating the models and national and international best practices of reference, expressing its assessment on the overall adequacy of the same;

- assesses, having consulted the Manager responsible for the corporate financial documentation, the company responsible for external audit and the Board of Statutory Auditors, the correct use of accounting standards and their uniform application within the Group in view of preparing the consolidated financial statements;

- assesses the suitability of periodic financial and non-financial information to correctly represent the Company's business model, strategies, the impact of its activities and the performance achieved, in coordination with the Strategies Committee;

- examines the content of periodic non-financial information relevant to the internal control and risk management system;

- expresses opinions on specific aspects relating to the identification of the main corporate risks and supports the Board of Directors' assessments and decisions relating to the management of risks arising from prejudicial events of which the Committee has become aware;
- examines the periodic reports prepared by the head of internal audit and the compliance function;
- monitors the independence, adequacy, effectiveness and efficiency of the internal audit function;
- requests the internal audit function, if deemed appropriate, to carry out checks on specific operational areas, simultaneously notifying the Chairman of the Board of Statutory Auditors;
- reports to the Board of Directors, at least on the occasion of the approval of the financial statements and the half-yearly report, on the activities carried out and the adequacy of the internal control and risk management system;
- supervises the observance and periodic updating of the rules of corporate governance and compliance with the principles of conduct that may be adopted by the Company and its subsidiaries; in particular, it is responsible for proposing the procedures and terms for the Board of Directors' annual self-assessment;
- oversees sustainability matters related to the company's operations and the dynamics of its interaction with all stakeholders;
- defines "sustainability" guidelines and proposes them to the Board of Directors, and monitors compliance with the rules of conduct that might have been adopted by the Company and its subsidiaries.

13. SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT

The Company's internal control and risk management system is designed to contribute to the operation of a healthy and proper business, consistent with the objectives established by the Board of Directors, by identifying, managing and monitoring the principal risks faced by the Company. The internal control and risk management system allows the principal risks, and the reliability, accuracy, trustworthiness and timeliness of financial reporting to be identified, measured, managed and monitored.

Responsibility for the adoption of an adequate internal control and risk management system lies with the Board of Directors which, with the support of the Audit, Risk, Sustainability and Corporate Governance Committee, carries out the tasks assigned to it in the Corporate Governance Code.

A more complete description of Pirelli's internal control system can be found in the management report. In this regard, it should also be noted that the Board of Statutory Auditors issued a statement on the administration and accounting system of Pirelli's relevant subsidiaries to ensure that the economic, equity and financial data for the preparation of the consolidated financial statements are regularly received by Pirelli's management and external auditor.

13.1 *DUTIES OF THE CHIEF EXECUTIVE OFFICER IN RELATION TO THE ESTABLISHMENT AND MAINTENANCE OF THE INTERNAL CONTROL SYSTEM*

The Board of Directors, in its meeting of 22 June 2020, has designated Marco Tronchetti Provera as the responsible of setting up and maintaining the internal control and risk management system.

The Executive Vice Chairman and Chief Executive Officer is entrusted with supervising the functioning of the internal control and risk management system and implementing the guidelines defined by the Board of Directors, with the support from the Audit, Risk, Sustainability and Corporate Governance Committee, ensuring that all necessary actions are taken to implement the system. In particular, in line with the recommendations of the New Corporate Governance Code:

- ensures that the principal business risks are identified, taking account of the characteristics of the activities carried out by the Company and its subsidiaries, and submits them periodically to the Board of Directors for review;
- authorises execution of the guidelines formulated by the Board of Directors, supervising the design, implementation and management of the internal control and risk management system and constantly monitoring its adequacy and effectiveness;
- ensures that this system is compliant with any changes in operating conditions and the legislative and regulatory framework;
- may ask the internal audit function to carry out checks on specific operational areas and on compliance with internal rules and procedures in the execution of corporate transactions, simultaneously notifying the Chairman of the Board of Directors, the Chairman of the Audit, Risk, Sustainability and Corporate Governance Committee and the Chairman of the Board of Statutory Auditors;
- promptly reports to the Audit, Risk, Sustainability and Corporate Governance Committee on problems and critical issues that have emerged during the performance of its activities or of which it has become aware, so that the Committee can take the appropriate initiatives.

13.2 *INTERNAL AUDIT FUNCTION*

The Company has established an internal audit function, whose functions are substantially in line with those set out in the Corporate Governance Code and in the New Corporate Governance Code.

In particular, the function is tasked with assessing the adequacy and functioning of the audit, risk management and Corporate Governance processes, by providing independent and objective assurance and advice.

The Internal Audit Function:

- audits, both on a continuous basis and in relation to specific needs and in accordance with international standards, the effective operation and suitability of the internal control and risk management system - suggesting any corrective actions required - by implementing an audit plan approved each year by the Board of Directors, based on a structured process of analysis and prioritisation of the principal risks;

- carries out audits, also at the request of the Audit, Risk, Sustainability and Corporate Governance Committee, the Board of Statutory Auditors and the director responsible for the internal control system, of specific operating areas and compliance with the internal procedures and rules in the execution of business operations;

- prepares periodic reports on its assessment of the suitability of the internal control and risk management system. These reports are sent, at least once every quarter, to the Board of Statutory Auditors, the Audit, Risk, Sustainability and Corporate Governance Committee, and the Director responsible for the internal control system, and, at least every six months, to the Board of Directors;

- receives and analyses reports obtained in accordance with the whistle-blowing procedures established by the Group and regarding any cases of corruption/violation of the principles of internal control and/or the provisions of the Ethical Code, equal opportunities, corporate rules and regulations, or any other actions or omissions that, directly or indirectly, might result in economic or financial losses for or damage to the reputation of the Group and/or its subsidiaries;

- provides for adequate support to the Supervisory Bodies established pursuant to art. 6 of Legislative Decree no. 231/2001;

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

As mentioned in section 12, it should be noted that the Audit, Risk, Sustainability and Corporate Governance Committee expresses an opinion on proposals relating to the appointment, revocation, assignment of duties and determination of the remuneration, in accordance with corporate policies, of the head of the internal audit function, as well as on the adequacy of the resources assigned to the function to carry out his functions.

13.3 *COMPLIANCE FUNCTION*

Operating within the Corporate Affairs, Compliance, Audit and Company Secretary department, the Compliance function works with the Legal departments and other competent company departments to ensure that the company's internal regulations, processes and activities are constantly aligned with the applicable regulatory framework, participating actively in the identification of any non-compliance risks that might give rise to judicial or administrative penalties, with consequent reputational damage.

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

Pirelli has implemented a specific and structured internal control and risk management system supported by a dedicated IT software, in relation to control over the process to prepare the separate and consolidated half-yearly and annual financial reports. In particular, the financial reporting process is carried out by applying appropriate administrative and accounting procedures created in accordance with the criteria established by the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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

In order to permit certification by the Chief Financial Officer, the companies and the significant processes that generate information of an economic-nature, or about corporate assets, have been mapped. The companies that are members of the Group and the significant processes are identified each year on the basis of quantitative and qualitative criteria. Quantitative criteria include the identification of those Group companies that represent an aggregate value, in relation to the selected processes, that exceeds a predetermined threshold of materiality.

Qualitative criteria include the review of those processes and of those companies that, as determined after much discussion by the Chief Financial Officer, may present potential areas of risk despite not falling within the quantitative parameters described above.

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

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

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

Finally, the Chief Executive Officers and Chief Financial Officers of subsidiaries issue half-yearly statements attesting the reliability and accuracy of the data submitted for the preparation of the Group's consolidated financial statements.

Shortly before the Board meetings held to approve the consolidated data as of 30 June and 31 December, the results of the verification work are shared with the Group's Chief Financial Officer.

The Internal Audit Function periodically verifies the adequacy of the design and the effective operation of the controls carried out on samples of companies and processes, selected applying materiality criteria.

13.5 *DIRECTOR RESPONSIBLE FOR SUSTAINABILITY TOPICS*

On 22 June 2020, the newly appointed Board of Directors confirmed the Executive Vice Chairman and CEO Marco Tronchetti Provera as Director responsible for sustainability.

In that role, he is entrusted with the task of supervising sustainability topics associated with the conduct of the activities of the company and with its dynamics of interaction with all the stakeholders, and of implementing the guidelines defined by the Board of Directors, with assistance from the Audit, Risk, Sustainability and Corporate Governance Committee.

13.6 *MODEL 231 AND CODE OF ETHICS*

The Company has adopted the organisation and management model envisaged by Legislative Decree No. 231 of 8 June 2001, as subsequently amended (the "**Model 231**"), in order to create a system of rules designed to prevent unlawful conduct that might be significant for the purposes of applying the above regulations and, as a consequence, has established a supervisory body (the "**Supervisory Body**").

Model 231 – periodically updated by the Company in light of legislative developments – includes: (a) a general part covering topics relating, *inter alia*, to the applicability and application of Legislative Decree No. 231/2001, the composition and functioning of the Supervisory Body, and the system of penalties applicable in the event of breaches of the standards of conduct specified in Model 231, and (b) special parts containing the general principles of conduct and the control protocols for each type of identified offence deemed significant for the Company.

The Supervisory Body was appointed by the Board of Directors on 22 June 2020, and remodulated by the Board of Directors on 11 November 2020, and it is composed of Carlo Secchi (Chairman), Antonella Carù (standing auditor), and Alberto Bastanzio (in light of his position as Executive Vice President Corporate Affairs, Compliance, Audit and Company Secretary). The Supervisory Body satisfies the autonomy, independence, professionalism and continuity of action requirements specified by law for that body.

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

An extract from Model 231 is available on the Website.

13.7 *EXTERNAL AUDITOR*

The firm appointed to undertake the external audit of the accounts of the Company is PricewaterhouseCoopers S.p.A. (the "**External Auditing Firm**"), with registered and administrative office in Milan, Piazza Tre Torri 2, recorded in the Register of Auditors pursuant to art. 6 et seq. of Italian Legislative Decree no. 39/2010.

On 1 August 2017, the Ordinary Shareholders' Meeting of Pirelli confirmed the appointment for the external audit of the accounts (originally made for three financial years on 27 April 2017), establishing that, with effect from the admission of Pirelli shares to trading on the MTA and, therefore, from 4 October 2017, this appointment shall concerns: (i) the external audit of the accounts (including verification that the accounting records are properly kept and that the results of operations are properly reflected in the accounting entries) pursuant to art. 13 and 17 of Decree 39/2010 for the financial years 2017-2025, in relation to the separate financial statements of the Company, the consolidated financial statements of the Group and the additional related activities; and (ii) the limited examination of the condensed half-year consolidated financial statements of Pirelli for the six-month periods ending on 30 June 2018-2025.

The details of the fees paid to the External Auditing Firm are reported in the Explanatory Note on the financial statements.

13.8 *CHIEF REPORTING OFFICER*

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

Preparation of Financial Reports and the verifications inherent to his position were lastly carried out and confirmed by the Board of Directors in the meeting of 22 June 2020.

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

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

The office of the manager responsible for the preparation of the corporate financial documents expires together with the Board of Directors that appointed him.

14. INTERESTS OF THE DIRECTORS AND RELATED-PARTIES TRANSACTIONS

In accordance with the provisions of art. 2391-*bis* of the Italian Civil Code and the Related-Parties Regulation, on 6 November 2017 - confirming the resolutions taken on 31 August 2017 - the Board of Directors resolved to adopt the procedure for related-parties transactions (the "**RPT Procedure**"), following the unanimous favourable opinion expressed by the Related-Parties Transactions Committee**.** Lastly, the Board of Directors, following the unanimous opinion of the Related-Parties Transactions Committee, in the meeting of 11 November 2020, resolved to confirm, without amendments, the Procedure for Related-Parties Transactions, reserving the right to carry out a subsequent review of it in order to adopt all the updates and amendments necessary or appropriate in the light of the amendments of the Consob regulation that were subsequently adopted by the Supervisory Authority in accordance with the amendments to the European directive on shareholders. In particular, on 10 December 2020, Consob with Resolution no. 21624 amended Regulation no. 17221 of 12 March 2010 setting out provisions on related-parties transactions (the "RPT Regulation"). These amendments will enter into force on 1 July 2021. Therefore, there is a transitional period until 30 June 2021 during which companies will have to adapt their procedures to the new provisions.

The RPT Procedure establishes rules for the approval and execution of the related-parties transactions conducted directly by Pirelli or by its subsidiaries.

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

At Report Date, in light of the aforementioned changes, given the introduction of further procedural and disclosure obligations and once the necessary in-depth analyses in relation to the newly issued regulations have been completed, the Company will proceed to transpose the aforementioned regulations into the RPT Procedure.

A special section of the financial statements shows the principal transactions with related-parties undertaken by the Company.

Every six months, a report on the application of the RPT Procedure, drawn up by the Compliance Function, is submitted to the Related-Parties Transactions Committee and subsequently to the Board of Directors. The analyses carried out up to the Report Date have shown due compliance with and the correct application of the aforementioned procedure in all cases falling within its scope of application.

15. BOARD OF STATUTORY AUDITORS

15.1 *APPOINTMENT, REPLACEMENT AND DURATION IN OFFICE*

At the Report Date, the Board of Statutory Auditors is composed of five standing auditors and three alternate auditors who satisfy current legislative and regulatory requirements; in this regard the activities indicated in the corporate purpose, with particular reference to companies or entities operating in the financial, industrial, banking, insurance and real estate fields and services in general, are qualified as subjects and sectors of activity closely related to those of the company.

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

The statutory auditors act with autonomy and independence, also with regard to the shareholders that elected them.

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

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

The slates of candidates, signed by those presenting them, must be filed at the registered offices of the Company at least twenty-five days prior to the date fixed for the Meeting called to appoint the members of the Board of Statutory Auditors, without prejudice to any extension in the cases envisaged by the applicable legislation. These slates are made available to the public at the registered offices, on the Website and in other ways prescribed by Consob regulation, at least twenty-one days prior to the date of the Meeting.

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

Each slate comprises two sections: one for candidates for the office of standing auditor and the other for candidates to the position of alternate auditor. The first candidate in each section shall be selected from among those registered in the Register of Chartered Accountants who has worked on external audits for a period of not less than three years. In order to ensure gender balance, the slates that, considering both sections, present a number of candidates equal to or greater than three, must include candidates of different gender at least to the minimum extent required by the law and/or regulations in force at the time, as specified in the notice of call of the meeting, both in the section of the slate for standing auditors and in the section for alternate auditors[77].

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

1) four standing auditors and two alternate auditors are drawn, in the sequence listed, from the slate that obtained the largest number of votes (the majority slate);

2) the remaining standing auditor and alternate auditor are drawn, in the sequence listed, from the slate that obtained the second largest number of votes (the minority slate); should several slates obtain the same number of votes, a new vote limited to just those slates is held by all those entitled to vote that are present at the Shareholders' Meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

Should application of the slate voting mechanism not obtain, considering the standing and alternate auditors separately, the minimum number of statutory auditors belonging to the less represented gender envisaged by the regulations in force at the time, the candidate belonging to the most represented gender and elected, indicated with the highest sequential number of each section from the slate that obtained the largest number of votes, will be replaced by the candidate belonging to the less represented gender not already elected from the same section of that slate, according to the sequential order of presentation.

An auditor is replaced, in the event of death, resignation or forfeiture, by the first alternate auditor drawn from the same slate. If this replacement does not allow the Board of Statutory Auditors to be reconstructed in compliance with current regulations, including those governing gender balance, recourse is made to the second alternate auditor drawn from the same slate. If, subsequently, it becomes necessary to replace another Auditor drawn from the slate that obtained the largest number of votes, recourse is made to the other alternate auditor drawn from the same slate. Should it be necessary to replace the Chairman of the Board of Statutory Auditors, the chair is taken by the second auditor on the same slate as the Chairman to be replaced, following the order of that slate, always provided that the replacement satisfies the requirements for the position established by law and/or the Bylaws and complies with the gender balance requirements envisaged by the regulations

[77] This clause was amended at the Shareholders' Meeting that approved the financial statements for the year ended 31 December 2019 in order to bring it into line with the new legislation on gender quotas in the composition of corporate bodies (Law No. 160 of 27 December 2019, effective as of 1 January 2020).

in force; if it is not possible to make replacements in accordance with the above criteria, a Shareholders' Meeting will be called to supplement the Board of Statutory Auditors with resolutions adopted by a relative majority of the votes cast.

When the Shareholders' Meeting must appoint the standing and/or alternate auditors necessary to supplement the Board of Statutory Auditors, it shall proceed as follows: if it is necessary to replace auditors elected from the majority slate, the appointment is made by relative majority vote without slate constraints and without prejudice, in any case, to compliance with the gender balance provided for by current legislation; if, on the other hand, it is necessary to replace auditors elected from the minority slate, the Shareholders' Meeting shall replace them by a relative majority vote, selecting them, where possible, among the candidates on the slate to which the auditor to be replaced belonged and, in any case, in accordance with the principle of the necessary representation of minorities to which the Bylaws guarantee the right to participate in the appointment of the Board of Statutory Auditors, without prejudice, in any case, to compliance with the gender balance provided for by current legislation. The principle guaranteeing representation for the minorities is respected if the auditors elected were previously candidates on the minority slate or on slates other than that which, at the time of appointing the Board of Statutory Auditors, obtained the largest number of votes.

If only one slate is presented, the Shareholders' Meeting votes on it; if the slate obtains a relative majority of the votes cast, the candidates named in the respective sections of the slate are elected as standing auditors and alternate auditors; the person named first on the above slate becomes the Chairman of the Board of Statutory Auditors.

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

15.2 *COMPOSITION*

The Board of Statutory Auditors in office at the Report Date was appointed by the ordinary Shareholders' Meeting held on 15 May 2018 and is composed of the following members: Francesco Fallacara (Chairman of the Board of Statutory Auditors, appointed by minority shareholders), Fabio Artoni, Antonella Carù, Luca Nicodemi and Alberto Villani, as standing auditors, and Franca Brusco (appointed by minority shareholders), Elenio Bidoggia and Giovanna Oddo, as alternate auditors, until the date of the Shareholders' Meeting called to approve the financial statements for the year ending 31 December 2020.

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

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

All the Statutory Auditors can be qualified as independent on the basis of the criteria specified for Directors in the Corporate Governance Code, in line with the provisions contained in said Code and as expressly ascertained by the Board of Statutory Auditors, based on the information provided by the Statutory Auditors and the information available to the Board of Statutory Auditors. This ascertainment is annually carried out.

During the year, Pirelli's Board of Statutory Auditors met 12 times, with each meeting lasting an average of about 60 minutes.

At the Report Date, out of the eight members of the Board of Statutory Auditors (five standing auditors and three alternate auditors) approximately 38% were women (20% for standing auditors only). In addition, the average age of the members of the Board of Statutory Auditors is approximately 54 years of age (55 is the average age of the standing auditors only). The 80% of the statutory auditors are between 55 and 60 years old, while the remaining statutory auditors are 47 years old.

During the course of the Financial Year, the Board of Statutory Auditors, like the Board of Directors, once again carried out - in line with what was done in the previous financial year and in compliance with the rules of conduct for listed companies issued by the National Council of Chartered Accountants and Accounting Experts ("**Rules of Conduct**") - the evaluation process on its performance with the assistance from the independent consultancy firm SpencerStuart. This self-assessment process, like the process set out for the Board of Directors, is carried out through individual interviews, with questions about the suitability, size, composition and operation of the Board of Statutory Auditors itself, in order to verify suitability, fairness and effectiveness in its operating. The positive results of the self-assessment process of the Board of Statutory Auditors are highlighted in the Statutory Auditors' report on the financial statements as at 31 December 2020 and were taken into account by the Board of Statutory Auditors itself - which, as is known, is due to complete its term of office - for the purpose of drafting the document of the Expiring Board of Statutory Auditors (as defined below).

The attached Table 3 provides the significant information about each member of the Board of Statutory Auditors in office at the Report Date.

For the sake of completeness, it should be noted that the Shareholders' Meeting called to approve the 2020 Financial Statements will renew the Board of Statutory Auditors. Therefore, the latter, having reached the end of its mandate, has made available to shareholders, in compliance with the provisions of the Rules of Conduct, taking into account its experience and the results of the self-assessment process, an end-of-mandate document containing an orientation with a summary of the skills and professionalism that have contributed to the efficient and effective functioning of the Board ("**Expiring Board of Statutory Auditors Document**").

The Expiring Board of Statutory Auditors Document of the, illustrated below, is available on the Website.

The Board of Statutory Auditors has indicated the main supervisory functions actually carried out within Pirelli's corporate governance system, issuing a summary of the individual characteristics that each candidate Statutory Auditor is deemed to possess (in addition to the requirements provided for by law), and then its considerations on the optimal overall composition of the Board of Statutory Auditors. In particular, in addition to the requirements of professionalism and honourableness provided for by law and the Bylaws, and of independence provided for by law and by the New Corporate Governance Code which Pirelli adheres to, the Statutory Auditors are also subject to the limits on the accumulation of offices established by current legislation. In addition, the members of the Board of Statutory Auditors, as members of the internal control and audit Committee, are altogether competent in the sector in which the audited company operates (cf. art. 13, section 3, Legislative Decree no. 39/2010).

Therefore, the expiring Board of Statutory Auditors recommends that each slate should also be characterised by the presence of candidates possessing such specific expertise (also in terms of previous experience). The availability of adequate time to devote to the task is also considered essential for each candidate. In this regard, it should be noted that the Statutory Auditors attend the meetings of the Board of Directors and are invited (in whole or in part) to participate in the Committees set up within the Board. In addition, with regard to the commitment required to the Statutory Auditors, it should be included the drafting of reports and opinions falling within the competence of the Board of Statutory Auditors and of the minutes of the periodic meetings required by current legislation, and the participation in training activities and induction sessions periodically organised by the Company.

During the three-year period 2018-2020, the Board of Statutory Auditors attended a total of 124 meetings, including the meetings with the Board of Directors and the relevant Board Committees[78].

The expiring Board of Statutory Auditors deems it desirable that the slates submitted by shareholders would guarantee the enhancement of the personal and aptitude characteristics of the candidates and an adequate diversity - as a success factor - in relation to aspects such as age, gender and educational-professional background, in compliance with the priority objective of ensuring adequate competence and professionalism. In particular, at least two-fifths of the members must belong to the least represented gender (pursuant to Law No. 160 of 27 December 2019).

The continuity of certain members of the expiring Board is also recommended, in order to pass on to the new members, the knowledge of the Group’s business and dynamics acquired during their term of office.

The expiring Board of Statutory Auditors specified that, in order to ensure the effective exercise of control activities, a climate of cooperation and trust between all members and a constant comparison with constructive interactions (including informal) between members have been essential. In this context, the role of the Chairman of the Board of Statutory Auditors has been considered central,

[78] The entire Board of Statutory Auditors participates in the activities of the Audit, Risk, Sustainability and Corporate Governance Committee, the Remuneration Committee and the Related-Parties Transactions Committee, while a representative of the Board of Statutory Auditors (usually the Chairman) is invited to attend meetings of the Appointments and Successions Committee and the Strategies Committee.

and he has been called upon to guide the aforementioned discussion and to foster the creation of a spirit of cohesion among the members.

Finally, pursuant to the Rules of Conduct and best practices and in light of the results of a comparative analysis concerning the remuneration paid to the members of the Board of Statutory Auditors of other comparable issuers, the Expiring Board of Statutory Auditors has invited the shareholders to take into account the aforementioned comparative elements and the relevant reference parameters in order to assess the adequacy of the remuneration to be proposed to the Shareholders' Meeting, also inviting the candidates to assess the aforementioned comparative elements and the relevant reference parameters in order to assess the adequacy of the remuneration envisaged for the office.

16. OPERATIONS GENERAL MANAGER

It should be noted that the Operations General Manager role was established in May 2018 and is entrusted to Andrea Casaluci.

As of 1 August 2020, a co-CEO General Manager role was established and it was entrusted to Angelos Papadimitriou, until 28 February 2021 - the effective date of the consensual termination of the managerial employment relationship. Following the appointment of the Deputy-CEO, after the Shareholders' Meeting that will appoint Giorgio Luca Bruno as a Director, the Co-CEO General Manager role will be exceeded.

17. INFORMATION FLOWS TO THE DIRECTORS AND STATUTORY AUDITORS

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

The flow of information to the directors and statutory auditors is 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, and in accordance with deadlines consistent with the timetables set for each board meeting. These documents may be supplemented by explanations provided in the context of the board meetings, or at specific informal meetings organised to examine topics of interest relating to the management of the company.

If the information flows concern inside information and/or relevant information, they must be carried out in accordance with the procedures indicated in the Market Abuse Procedure.

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

18. RELATIONS WITH SHAREHOLDERS

Pirelli attributes strategic importance to Financial Reporting. In accordance with the Group's Values and Code of Ethics, Pirelli maintains constant dialogue with Shareholders, Bondholders, Institutional and Individual Investors and Analysts from major investment banks through the Investor Relations department and the Group's Top Management in order to promote fair, transparent, timely and accurate reporting.

In line with international best practice, the "Investors" section of the Website is constantly updated with content of interest to the financial market, including: strategy ("Equity Story"), economic-financial data on previous years, analysts' opinions of Pirelli, and their estimates for the principal economic-financial indicators ("Consensus"), monthly developments in the principal automotive tyre market ("Tyre Market Watch"). The Investor Relations Department also promotes periodic meetings with Shareholders and Investors in Italy and abroad.

In the course of the 2021 financial year, a policy on dialogue with the general public is scheduled to be published, as required by the New Corporate Governance Code.

19. SHAREHOLDERS' MEETINGS

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

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

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

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

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

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

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

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

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

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

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

The right to attend Shareholders’ Meetings and vote is governed by the relevant current legislation and is certified by a communication sent to the Company, by an authorised intermediary with reference to its accounting records, on behalf of the party entitled to vote. This certification is based on the evidence existing at the end of the accounting day on the seventh trading day prior to the date fixed for the Meeting. The additions and deductions recorded on those counts 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 Shareholders' Meeting.

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

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

Shareholders' Meeting resolutions are evidenced by the minutes signed by the Chairman of the Meeting and by the Secretary of the Meeting or the Notary. The minutes of Extraordinary Shareholders' Meetings must be taken by a Notary designated by the Chairman of the Shareholders' Meeting. All copies of and extracts from minutes not prepared by a Notary are certified true by the Chairman of the Board of Directors.

The conduct of such meetings is governed by the general meeting regulations approved by the Shareholders' Meeting held on 1 August 2017 (available on the Website), as well as by the law and the Bylaws.

20. CHANGES SINCE THE END OF THE YEAR

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

21. THE PIRELLI WEBSITE

For Pirelli, the Website - in English and in Italian - represents a fundamental tool to ensure the prompt and total dissemination of information about the Company and the Group to all Stakeholders.

Pirelli ensures that it is promptly and thoroughly updated, to guarantee the transparency of information and compliance with the current laws and regulations applicable to companies listed on the Italian Stock Exchange.

The Company's objective is to provide simple and clear information for investors and, in general, all its Stakeholders, through the Site, in line with common practice. For this reason, also taking account of the results of assessments by independent agencies - most recently in August 2019 - and in line with the expectations of the Stakeholders, the Company uses its best endeavours to constantly implement the Website.

22. CONSIDERATIONS ON THE LETTER OF 22 DECEMBER 2020 FROM THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE

With a letter dated 22 December 2020 (the "**Chairman's Letter**"), in the context of its usual monitoring of the state of application of the provisions of the Corporate Governance Code, the Chairman of the Corporate Governance Committee of Borsa Italiana, has formulated to listed companies the further six recommendations indicated below (the "**Recommendations of the Committee for 2021**"):

1. include the sustainability of the business activities in the definition of the strategies, the internal control and risk management system and the remuneration policy, also on the basis of an analysis of the relevance of the factors that may affect the production of value in the long term;

2. on pre-consultation disclosures: (i) explicitly determine the deadlines deemed appropriate for the submission of documents, (ii) provide in the corporate governance report a clear indication of the identified deadlines and their actual compliance, (iii) do not provide that such deadlines may be waived for mere confidentiality reasons;

3. on the application of the independence criteria: (i) always justify on an individual basis the possible non-application of one or more independence criteria, (ii) define *ex ante* the quantitative and/or qualitative criteria to be used for the assessment of the significance of the relationships under examination;

4. on the subject of self-evaluation of the board of directors: (i) evaluate the board's contribution to the definition of strategic plans, (ii) oversee the board review process;

5. on the appointment and succession of directors: (i) report promptly on the activities carried out by the nomination committee in case it is merged with the remuneration committee or its functions are attributed to the full board, (ii) ensure the completeness and timeliness of the proposals of resolutions functional to the process of appointment of corporate bodies and express, at least in companies with non-concentrated ownership, an orientation on its optimal composition, (iii) provide, at least in large companies, a succession plan for executive directors identifying at least the procedures to be followed in case of early termination of office;

6. on remuneration policies: (i) provide clear indications on the identification of the weight of the variable component, distinguishing between components linked to annual and multi-year time horizons, (ii) strengthen the link of the variable remuneration to long-term performance objectives, including, where relevant, also non-financial parameters, (iii) limit to exceptional

cases, after adequate explanation, the possibility to pay amounts not linked to predetermined parameters (i.e. *ad hoc bonus*), (iv) define criteria and procedures for the allocation of severance pay, (v) verify that the amount of remuneration paid to non-executive directors and members of the controlling body is appropriate to the competence, professionalism and commitment required by their office.

The Committee's Recommendations for 2021 were brought to the attention of (i) the Audit, Risk, Sustainability and Corporate Governance Committee and the Board of Statutory Auditors on 22 February 2021, and (ii) the Board of Directors on 25 February 2021.

The Board of Directors of the Company - having also obtained the favourable opinions expressed by the members of the competent Committees and the Board of Statutory Auditors - believes that, as promptly highlighted in this Report, no specific interventions to its own corporate governance system are needed in relation to the issues highlighted in the Committee's Recommendations for 2021, as they were already adequately implemented by the Company some time ago.

The following is a summary of the considerations made by the Board of Directors with regard to the Committee's 2021 Recommendations.

It is deemed that the systems of corporate governance rules adopted by Pirelli is already in line with the foregoing recommendations, for the reasons outlined below*:*

- the sustainability of business activities is a pillar of Pirelli's strategy, which aims to create long-term value for the benefit of shareholders, taking into account the other stakeholders relevant to the Company. In order to contribute to the sustainable success of the Company, the internal control and risk management system adopted by the Company, whose guidelines are defined by the Board of Directors in accordance with the Company's strategy, enables the identification, measurement, management and monitoring of the main risks. In addition, the Company's remuneration policy provides for multi-year variable components of remuneration, aimed at incentivising the achievement of the Company's strategic objectives and sustainable growth;

- also in 2020, pre-meeting information (of a continuous nature or relating to specific topics) was provided in advance, which was deemed to be congruous and adequate to allow Directors to express their opinions in an informed manner on the matters submitted to the Board, with quality standards in line with international best practices and with ample guarantees of confidentiality and traceability of the information and documents sent; as stated in the Regulation on the functioning of the Board of Directors (approved in the meeting of 22 June 2020), the documentation to be examined by the Board and by the Committees is sent within ten days prior to the meeting, unless specific requirements do not allow it: in such cases, the documentation is sent as soon as it is available and full information on the subject under consideration is provided during the meeting;

- during the year, there were no exceptions to the application of the independence criteria provided for in the Corporate Governance Code or in the regulations, from the checks carried out by the controlling body on the criteria adopted by the Board to assess the independence requirements of the directors. The Board of Directors meeting held on 25 February 2021, subject to prior approval by the Audit, Risk, Sustainability and Corporate Governance Committee, has approved the " Statement on independence", in order to define *ex ante* the quantitative and/or qualitative criteria to be used to assess the significance of the relationships pertaining to directors whose independence is being examined;

- the definition of strategic plans is a matter reserved for the exclusive competence of the Board of Directors. In 2020, board performance evaluation activities were also carried out with the help of a leading independent company specialised in this field (SpencerStuart) in the role of facilitator of the process and with the support of the Audit, Risk, Sustainability and Corporate Governance Committee;

- an Appointments and Successions Committee is set up within the Board of Directors, with the task, among others, of assisting the Board of Directors in defining the optimal composition of the Board of Directors and its Committees, formulating opinions regarding the size and composition of the Board of Directors and expressing recommendations regarding the professional figures whose presence on the Board is deemed appropriate; on 26 July 2019, the Board of Directors detailed the procedure for the succession of the Executive Vice Chairman and Chief Executive Officer, which was ultimately confirmed and endorsed by the newly elected Board of Directors on 22 June 2020;

- the remuneration policy of the practice company: (i) shows the structure of the remuneration of Group Management, highlighting the incidence of the various components of their compensation package (i.e. fixed remuneration, annual variable remuneration, multi-year variable remuneration); (ii) provides for a medium/long-term incentive plan, of the "rolling" type, which ensures the linking of variable remuneration to parameters linked to long-term objectives, including non-financial objectives, (iii) describes Pirelli's policy on compensation in the event of resignation, dismissal or termination of employment. The Remuneration Policy for the financial year 2021 will also describe the cases in which, exceptionally, one-off bonuses may be paid and the procedure for doing so. The remuneration of non-executive directors and members of the controlling body is deemed adequate, also taking into account the specific skills, professionalism and commitment required by the office. This assessment is also confirmed by the analyses carried out by Pirelli on a national and international basis with comparable companies.

TABLE 1: SIGNIFICANT HOLDINGS OF CAPITAL

The subjects which, according to the information published by Consob at the date of publication of this Report and/or according to further information available to the Company, possess shares with voting rights in Ordinary Shareholders' Meetings that represent more than 3% of the ordinary share capital are listed below.

MAJOR HOLDINGS IN THE CAPITAL [1]			
Declaring party	**Direct Shareholder**	**% of ordinary capital**	**% of voting capital**
CHINA NATIONAL CHEMICAL CORPORATION	MARCO POLO INTERNATIONAL ITALY S.R.L.	37,015	37,015
TRONCHETTI PROVERA MARCO	CAMFIN S.P.A.[2]	10,10	10,10
SILK ROAD FUND CO LTD	PFQY SRL	9.021	9.021
INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED	ICBC STANDARD BANK PLC [1]	7,68	7,68
BOMBASSEI ALBERTO	NEXT INVESTMENT SRL	0.210	0.210
	BREMBO SPA - FRENI BREMBO	4.777	4.777
		4,987	4,987

Note: Information on shareholders who, directly or indirectly, hold more than 3% of the share capital with voting rights in the Company's ordinary meetings is taken from Consob's *website*. In this regard, it is useful to note that the information published by Consob on its website by virtue of the communications made by the parties bound by the obligations of Art. 120 of the TUF and the Issuers Regulation, could differ appreciably from the real situation, because the obligations to communicate changes in the percentages of holdings arise not when there is a simple change in this percentage but only when the holdings exceed or fall below predetermined thresholds (3%, 5%, and subsequent multiples of 5% up to a 30% threshold and, beyond this threshold, 50%, 66.6% and 90%). It follows, for example, that a shareholder (i.e. a declaring subject) that has declared ownership of 5.1% of the share capital with voting rights may increase their stake up to 9.9% without thereby having any obligation to notify Consob under Art. 120 of the TUF.

It should also be noted that Consob Resolution No. 21326 of 9 April 2020 (the provisions of which were subsequently updated and extended) provided, as a transitional measure, the additional threshold of 1% at the exceeding of which arise the communication obligations provided for by art. 120, paragraph 2, of the TUF for the companies referred to in Section A of the attached list (including Pirelli); in this regard, please refer to the website of Consob www.consob.it where such further communications can be found. Finally, the Company Bylaws do not provide for the possibility of increased voting rights or the issue of shares with multiple voting rights.

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[1] From the reports reported on the Consob website, section "Pirelli & C. S.p.A. - Equity investments in financial instruments and aggregate equity investments", it also appears that:

- Tacticum Capital S.A. (formerly Long-Term Investments Luxembourg SA (LTI)) transferred its shareholding in Pirelli (6.239% of the capital) to a third-party financial counterparty, pursuant to a re-purchase agreement entered into between the parties, as guarantee of a loan granted by the latter. This counterparty is obliged to re-transfer the same shareholding in favor of Tacticum and to do everything in its power to exercise the right to vote in accordance with the instructions given by Tacticum from time to time.
- Avdeev Roman, through Sova Capital Limited, has declared to Consob and the Company that it holds a stake in shares and other financial instruments (shares subject to several "repurchase agreements" for an indefinite period, with the right for each party to request in any at the time of the repurchase of the shares by Sova Capital Limited) equal to a total of 6.239% of the share capital of Pirelli.
- The shares held by ICBC Standard Bank Plc are the subject of a "Repurchase Agreement" with maturity date March 9, 2023 with the counterparty company controlled by Mr. Niu Yishun.

[2] For the sake of completeness, it should be noted that in September 2019 Camfin S.p.A. communicated to the market that it had subscribed with primary financial institutions instruments called "Call Spreads" with maturity in September 2022 having approximately 4.7% of the Pirelli share capital as underlying (see section 2.5).

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors													Audit, Risks, Sustainability and Corporate Governance Committee		Remuneration Committee		Appointments Committee		Strategies Committee		RPT Committee	
Office	Members	Year of birth	Date first appointed*	In office since	In office until	Slate **	Exec.	Non-exec.	Indep. Code	Indep. CLF	No. other offices ***	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
Chairman	Ning Gaoning	1958	7 August 2018	18 June 2020	AGM to 31 December 2022	**M**		**x**			Cf. Annex A	**0/9**					**0/2**	**M**	**1/2**	**M**		
Executive Vice Chairman and Chief Executive Officer	Marco Tronchetti Provera	1948	7 May 2003[79]	18 June 2020	Balance sheet as at 31 December 2022	**M**	**x**				Cf. Annex A	**9/9**					**2/2**	**P**	**2/2**	**P**		
Director	Yang Xingqiang	1967	20 October 2015	18 June 2020	Balance sheet as at 31 December 2020	**M**		**x**			Cf. Annex A	**5/9**							**1/2**	**M**		
Director	Bai Xinping	1968	2 September 2015	18 June 2020	Balance sheet as at 31 December 2022	**M**		**x**			Cf. Annex A	**9/9**			**4/4**	**M**	**2/2**	**M**	**2/2**	**M**		
Director	Zhang Haitao	1971	18 June 2020[80]	18 June 2020	Balance sheet as at 31 December 2020	**M**		**x**			Cf. Annex A	**5/5**	**4/4**	**M**								
Director	Tao Haisu	1949	1 August 2017[81]	18 June 2020	Balance sheet as at 31 December 2022	**M**		**x**	**x**	**x**	Cf. Annex A	**9/9**			**4/4**	**C**						
Director	Paola Boromei	1976	18 June 2020	18 June 2020	Balance sheet as at 31 December 2022	**m**		**x**	**x**	**x**	Cf. Annex A	**5/5**			**1/1**	**M**						
Director	Domenico De Sole	1944	1 August 2017	18 June 2020	Balance sheet as at 31 December 2022	**M**		**x**	**x**	**x**	Cf. Annex A	**7/9**							**2/2**	**M**	**10/10**	**M**
Director	Roberto Diacetti	1973	18 June 2020	18 June 2020	Balance sheet as at 31 December 2022	**m**		**x**	**x**	**x**	Cf. Annex A	**5/5**	**3/4**	**M**								
Director	Giovanni Lo Storto	1970	15 May 2018	18 June 2020	Balance sheet as at 31 December 2022	**m**		**x**	**x**	**x**	Cf. Annex A	**9/9**	**8/8**	**M**					**2/2**	**M**	**10/10**	**M**
Director	Marisa Pappalardo	1960	1 August 2017	18 June 2020	Balance sheet as at 31 December 20202	**M**		**x**	**x**	**x**	Cf. Annex A	**9/9**	**4/4**	**M**	**4/4**	**M**					**10/10**	**P**
Director	Giovanni Tronchetti Provera	1983	1 August 2017	18 June 2020	Balance sheet as at 31 December 2022	**M**		**x**			Cf. Annex A	**9/9**					**2/2**	**M**				

79 Marco Tronchetti Provera took office as general partner of Pirelli & C. Accomandita per Azioni on 29 April 1986. On 7 May 2003 it was resolved to transform the Company from a "joint stock partnership" to a "limited liability company", and in consequence, there no longer being the role of general partner, directors were appointed.

80 Zhang Haitao was a Director of Pirelli from 15 March 2016 to 31 August 2017. He was re-appointed by the Board of Directors on 18 June 2020.

81 Tao Haisu was a Director of Pirelli from 20 October 2015 to 15 March 2016. He was reappointed as a Director on 1 August 2017.

Board of Directors													Audit, Risks, Sustainability and Corporate Governance Committee		Remuneration Committee		Appointments Committee		Strategies Committee		RPT Committee	
Office	Members	Year of birth	Date first appointed*	In office since	In office until	Slate **	Exec.	Non-exec.	Indep. Code	Indep. CLF	No. other offices ***	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
Director	Fan Xiaohua	1974	1 August 2017	18 June 2020	Balance sheet as at 31 December 2022	**M**		**x**	**x**	**x**	Cf. Annex A	**9/9**	**8/8**	**P**								
Director	Wei Yintao	1971	1 August 2017	18 June 2020	Balance sheet as at 31 December 2022	**M**		**x**	**x**	**x**	Cf. Annex A	**9/9**							**2/2**	**M**		
DIRECTORS WHO CEASED TO HOLD OFFICE DURING THE YEAR																						
On 31 July 2020 Carlo Secchi resigned as a Director of the Company																						
Director	Carlo Secchi	1944	18 June 2020	18 June 2020	5 August 2020	**M**		**x**	**x**	**X**	-											
On 24 March 2021 Angelos Papadimitriou expired from the office of Director of the Company																						
Director	Angelos Papadimitriou	1966	5 August 2020	5 August 2020	Balance sheet as at 31 December 2020	**-**					**-**	**3/3**							**1/1**	**M**		
Number of meetings of the Board of Directors held during the year: 9																						
Audit and Risks Committee: 8 / Remuneration Committee 4 / Appointments Committee: 2 / Strategy Committee: 2 / Committee opc: 10																						
Indicate the *quorum* required for the submission of lists by minorities for the election of one or more members (pursuant to Art. 147-ter TUF): 1% of the share capital with the right to vote in ordinary shareholders' meetings.																						

The symbols below in the "Charge" column have the following meaning:

• This symbol indicates the director responsible for the internal control and risk management system.

◊ This symbol indicates the person principally responsible for the operations of the issuer (Chief Executive Officer or CEO).

* The date of first appointment of each director means the date on which the director was appointed for the first time (in absolute terms) to the BoD of the issuer.

** List from which each director was drawn ("**M**": majority list; "**m**": minority list; "**BoD**": list submitted by the BoD).

*** Number of directorships or statutory auditor appointments held by the person concerned in other companies listed on regulated markets, including foreign ones, in financial, banking, insurance or large companies. In Annex A of the Report, assignments are listed in full.

(*). Attendance of directors at Board and committee meetings respectively (the number of meetings attended compared to the total number of meetings that could have been attended; e.g. 6/8; 8/8 etc.).

(**). Qualification of the director within the Committee: "**C**": chairman; "**M**": member.

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors															
Office	**Members**	**Year of birth**	**Date first appointed***	**In office since**	**In office until**	**Slate ****	**Indep. Code**	**Attendance at meetings of the Board of Statutory Auditors *****	**Attendance at meetings of the BoD**	**Attendance at meetings of the ARSCGC**	**Attendance at meetings of the Remuneration Committee**	**Attendance at meetings of the Appointments Committee**	**Attendance at meetings of the Strategies Committee**	**Attendance at meetings of the RPT Committee**	**No. other offices ******
Chairman	Francesco Fallacara	1964	10 May 2012	15 May 2018	Balance sheet as at 31 December 2020	**m**	x	12/12	9/9	8/8	4/4	2/2	2/2	10/10	See All. A
Standing auditor	Fabio Artoni	1960	14 May 2015	15 May 2018	Balance sheet as at 31 December 2020	**M**	x	12/12	9/9	7/8	4/4	-	-	10/10	See All. A
Standing auditor	Antonella Carù	1961	10 May 2012	15 May 2018	Balance sheet as at 31 December 2020	**M**	x	12/12	9/9	8/8	4/4	-	-	9/10	See All. A
Standing auditor	Luca Nicodemi	1973	5 September 2017	15 May 2018	Balance sheet as at 31 December 2020	**M**	x	12/12	9/9	8/8	3/4	-	-	9/10	See All. A
Standing auditor	Alberto Villani	1962	5 September 2017	15 May 2018	Balance sheet as at 31 December 2020	**M**	x	12/12	9/9	7/8	4/4	-	-	9/10	See All. A
Alternate auditor	Franca Brusco	1971	15 May 2018	15 May 2018	Balance sheet as at 31 December 2020	**m**	x	-	-	-	-	-	-	-	Cf. Annex A
Alternate Auditor	Elenio Bidoggia	1963	15 May 2018	15 May 2018	Balance sheet as at 31 December 2020	**M**	x	-	-	-	-	-	-	-	Cf. Annex A
Alternate auditor	Giovanna Oddo	1967	14 May 2015	15 May 2018	Balance sheet as at 31 December 2020	**M**	x	-	-	-	-	-	-	-	Cf. Annex A

AUDITORS WHO CEASED TO HOLD OFFICE DURING THE YEAR
No Statutory Auditor ceased to hold office during the relevant financial year.
Number of meetings of the Board of Statutory Auditors held during the year in question*:* 12
Indicate the quorum required for minority shareholders to submit a slate for the election of one or more directors (pursuant to art. 148 CLF): 1% of the shares with the right to vote in ordinary shareholders' meetings.

* The date of first appointment of each auditor means the date on which the auditor was appointed for the first time (in absolute terms) to the Board of Statutory Auditors of the issuer.

** List from which each auditor was drawn ("**M**": majority list; "**m**": minority list).

*** Attendance of auditors at meetings of the board of auditors (the number of meetings attended compared to the total number of meetings attended; e.g. 6/8; 8/8 etc.).

**** Number of positions as director or auditor held by the person concerned pursuant to Art. 148-bis of the Consolidated Law on Finance and the relative implementing provisions contained in the Consob Issuers' Regulations. The complete list of offices is published by Consob on its website, pursuant to art. 144-*quinquiesdecies* of the Consob Issuers' Regulation.

ANNEX A

SECTION I: LIST OF PRINCIPAL OFFICES HELD BY DIRECTORS, AT THE REPORT DATE, IN OTHER COMPANIES THAT ARE NOT PART OF THE PIRELLI GROUP

First and last name	Company	Office held in the company
Ning Gaoning	Sinochem Corporation Ltd:	Chairman of the Board of Directors
	• China Jinmao Holdings Group Ltd.	Chairman of the Board of Directors
	• Far East Horizon Ltd.	Chairman of the Board of Directors
	China National Chemical Corporation:	Chairman of the Board of Directors
	• Syngenta AG	Chairman of the Board of Directors
	• Syngenta Group Co. Ltd.	Chairman of the Board of Directors
	• Adama Agricultural Solutions Ltd.	Director
Marco Tronchetti Provera	Marco Tronchetti Provera & C. S.p.A.:	Chairman of the Board of Directors
	• Camfin S.p.A.	Chairman of the Board of Directors
	• Camfin Industrial S.p.A. in liquidation	Chairman of the Board of Directors and Chief Executive Officer
	• Camfin Alternative Assets S.p.A.	Chairman of the Board of Directors
	• MGPM s.s.	Sole Administrator
	• Bhohb Russia S.r.l.	Chairman of the Board of Directors
	RCS MediaGroup S.p.A.	Director
Yang Xingqiang	China National Chemical Corporation:	Chairman of the Board of Directors
	• China National Bluestar Group Co. Ltd.	Director
	• ADAMA Agricultural Solutions Ltd.	Chairman of the Board of Directors
	• Marco Polo International Italy S.r.l.	Director
	• TP Industrial Holding S.p.A.	Chairman of the Board of Directors
	• Syngenta Group Co. Ltd.	Member of the Supervisory Board

First and last name	Company	Office held in the company
Bai Xinping	China National Chemical Corporation:	
	• China National Tire & Rubber Company Ltd.	Chairman of the Board of Directors
	• CNRC International Holding (HK) Ltd.	Director
	• CNRC Capital Ltd.	Director
	• CNRC Capital Limited	Director
	• CNRC International Ltd.	Director
	• Fourteen Sundew S.à.r.l.	Director
	• Marco Polo International Italy S.r.l.	Chairman of the Board of Directors
	• TP Industrial Holding S.p.A.	Director
	• Prometeon Tyre Group S.r.l.	Chairman of the Board of Directors
Paola Boromei	Snam Rete Gas S.p.A.	Director
	Grifal S.p.A.	Director
Domenico De Sole	Tom Ford International Inc.	Chairman of the Board of Directors
	Advance Publication Inc.	Director
	Ermenegildo Zegna S.p.A.	Director
	Thom Browne International	Director
	Sandbridge Capital LLC.	Director
Roberto Diacetti	Banca IFIS:	Director
	• IFIS NPL Servicing	Vice-Chairman of the Board of Directors
	• FarBanca	Director
Giovanni Lo Storto	DoValue S.p.A.	Director
	Internazionale S.p.A.	Director
	Base per Altezza S.r.l.	Director
	National Observatory on Agile Work	Director

First and last name	Company	Office held in the company
	Luiss Guido Carli • L. Campus S.r.l. • L. Lab S.r.l. • LUISS (LUIS SSD) sporting association • LUISS ALUMNI 4 Growth S.r.l. • Luiss X S.p.A	 CEO CEO Director Vice Chairman of the Board of Directors Director
Tao Haisu	Mercuria Energy Group Asia	Director
Zhang Haitao	China National Chemical Corporation: • China National Tire & Rubber Company Ltd. • CNRC International Holding (HK) Ltd. • Marco Polo International Italy S.r.l. • TP Industrial Holding S.p.A. • Prometeon Tyre Group S.r.l.	 General Counsel Director Director Director Director
Marisa Pappalardo	BPER Banca S.p.A.	Director
Giovanni Tronchetti Provera	Marco Tronchetti Provera & C. S.p.A.: • Camfin S.p.A. • Camfin Industrial S.p.A. in liquidation • Camfin Alternative Assets S.p.A.	Director Director Director Director
Fan Xiaohua	-	-
Wei Yintao	-	-

SECTION II: LIST OF THE MAIN OFFICES HELD BY AUDITORS IN OTHER COMPANIES AT THE DATE OF THE REPORT

First and last name	Company	Office held in the company
Francesco Fallacara	Maire Tecnimont S.p.A.	Chairman of the Board of Statutory Auditors
	Ro. Co. Edil. Romana Costruzioni Edilizie	Standing Auditor
	HIRAFILM S.r.l.	Sole Auditor
	Banca Consulia S.p.A.	Alternate Auditor
	Capital Shuttle S.p.A.	Alternate Auditor
	Fondazione Link Campus University	Chairman of the Board of Statutory Auditors
	Eni Progetti S.p.A.	Standing Auditor
	ArgoGlobal Assicurazioni S.p.A.	Independent Director
	Creval S.p.A. – Gruppo bancario Credito Valtellinese	Alternate Auditor
	GB Trucks Socio Unico S.r.l.	Sole External Auditor
	Nextchem S.r.l.	Standing Auditor
	SIBI S.r.l.	Sole External Auditor
	I Casali del Pino S.r.l.	Sole External Auditor
	Collegio Provinciale dei Geometri di Roma	Current Member of the Association of Auditors
	Asfor – Associazione Italiana per la formazione Manageriale	Chairman of the Supervisory Body
	Apaform – Associazione Professionale ASFOR di formatori di management	Chairman of the Supervisory Body
	Fondazione Maire Tecnimont	Sole External Auditor
	Gasoltermica Laurentina S.p.A.	Alternate Auditor
	Linda S.r.l.	Alternate Auditor
	Bona dea S.r.l.	Alternate Auditor
	Società Nazionale Appalti manutenzioni Lazio Sud	Alternate Auditor
	Patty s.s.	Managing Partner
Fabio Artoni	Mag JLT S.r.l.	Standing Auditor
	Ecosesto S.p.A.	Standing Auditor
	Pirelli Tyre S.p.A.	Chairman of the Board of Statutory Auditors
	Pirelli Industrie Pneumatici S.r.l.	Standing Auditor
	Trans Ferry S.p.A.	Alternate Auditor
	Pastificio Castiglioni S.p.A.	Chairman of the Board of Statutory Auditors
	Elba S.p.A.	Chairman of the Board of Statutory Auditors

	Antrim S.p.A.	Chairman of the Board of Statutory Auditors
	Alucart S.r.l.	Standing Auditor
	Alhof di A. Hofmann S.p.A.	Chairman of the Board of Statutory Auditors
	Alpha Test S.r.l.	Chairman of the Board of StatutoryAuditors
	Coster Tecnologie Speciali S.p.A.	Chairman of the Board of Statutory Auditors
	Finser S.p.A.	Chairman of the Board of Statutory Auditors
	V.I.P. S.p.A.	Chairman of the Board of Statutory Auditors
	Barry Callebaut Italia S.p.A.	Chairman of the Board of Statutory Auditors
	Barry Callebaut Manufactoring Italia S.p.A.	Chairman of the Board of Statutory Auditors
	Xenia RE S.p.A.	Chairman of the Board of Statutory Auditors
	360 Payment Solutions S.p.A.	Standing Auditor
	Dolphin S.r.l.	Chairman of the Board of Statutory Auditors
	Chromavis S.p.A.	Chairman of the Board of Statutory Auditors
	Falck Energy S.p.A.	Standing Auditor
	VIP Logistics S.p.A.	Chairman of the Board of Statutory Auditors
	Emma S.p.A.	Standing Auditor
	London Stock Exchange Group Holdings Italia S.p.A.	Standing Auditor
	Monte Titoli S.p.A.	Alternate Auditor
	FTSE Italy S.p.A.	Alternate Auditor
	Elite S.p.A.	Standing Auditor
	Foodelicious S.r.l.	Standing Auditor
	Innogest SGR S.r.l.	Statutory Auditor
	Sighup S.r.l.	Statutory Auditor
	Cassa di Compensazione e Garanzia S.p.A.	Standing Auditor
	Elite SIM S.p.A.	Standing Auditor
	Gatelab S.r.l.	Alternate Auditor
	Borsa Italiana S.p.A.	Alternate Auditor
	Falck - S.p.A.	Alternate Auditor
	Tetis S.r.l.	Standing Auditor
	AMFIN HOLDING S.P.A.	Standing Auditor
Antonella Carù	Autogrill S.p.A.	Standing Auditor
	Autogrill Advanced Business Service S.r.l.	Standing Auditor

	Pirelli Tyre S.p.A.	Standing Auditor
	Accademia Teatro alla Scala Fondazione	Director
Luca Nicodemi	Prometeon Tyre Group S.r.l.	Chairman of the Board of Statutory Auditors
	TP Industrial Holding S.p.A.	Chairman of the Board of Statutory Auditors
	Pirelli Tyre S.p.A.	Standing Auditor
	F.C. Internazionale S.p.A.	Chairman of the Board of Statutory Auditors
	Inter Media and Communication S.p.A.	Chairman of the Board of Statutory Auditors
	Inter Brand S.r.l.	Chairman of the Board of Statutory Auditors
	Istituti Ospedalieri Bergamaschi S.r.l.	Chairman of the Board of Statutory Auditors
	Fattorie Osella S.p.A.	Standing Auditor
	Istituto Clinico Villa Aprica S.p.A.	Chairman of the Board of Statutory Auditors
	De Wave S.p.A.	Standing Auditor
	Italian Creation Group S.p.A.	Chairman of the Board of Statutory Auditors
	C.P.C. S.r.l.	Standing Auditor
	Dainese S.p.A.	Standing Auditor
	Prima TV S.p.A.	Standing Auditor
	Savills I.M. SGR S.p.A.	Statutory Auditor
	Koinos Capital SGR S.p.A.	Chairman of the Board of Statutory Auditors
	Argos Wityu Italia S.p.A.	Chairman of the Board of Statutory Auditors
	Imprima S.p.A. (priorly Color Wind S.p.A.)	Standing Auditor
	Fontanaarte S.p.A.	Alternate Auditor
	Pillarstone Italy Holding S.p.A.	Alternate Auditor
	Wise SGR S.p.A.	Alternate Auditor
	Pillarstone Italy S.p.A.	Alternate Auditor
	Fossadello Real Estate S.p.A. in liquidation	Alternate Auditor
	Roche S.p.A.	Standing Auditor
	Roche Diagnostic S.p.A.	Standing Auditor
	Roche Diabetes Care Italy S.p.A.	Standing Auditor
	Rothschild & Co Wealth Management Italy Società di Intermediazione Mobiliare S.	Chairman of the Board of Statutory Auditors
	Alkemia SGR S.p.A.	Chairman of the Board of Statutory Auditors
	OCM S.p.A.	Chairman of the Board of Statutory Auditors
	BORMIOLI PHARMA S.P.A.	Chairman of the Board of Statutory Auditors

	Fantini Group Vini S.r.l.	Standing Auditor
	M-I Stradio S.r.l.	Standing Auditor
	IGLI S.p.A.	Standing Auditor
	KYMA Investment Partners S.p.A.	Standing Auditor
	MD ECO Partners S.C.P.A.	Standing Auditor
	Pedini S.p.A.	Chairman of the Board of Statutory Auditors
	INDABOX S.r.l.	Chairman of the Board of Statutory Auditors
	Angel Capital Management S.p.A.	Alternate Auditor
Alberto Villani	AGB Nielsen Media Research Holding S.p.A.	Chairman of the Board of Statutory Auditors
	AREEF 2 PALIO SICAF	Standing Auditor
	EDRA S.p.A.	Chairman of the Board of Statutory Auditors
	Nuova GS S.p.A.	Standing Auditor
	BBC Italia S.r.l.	Director
	BTSR International S.p.A.	Chairman of the Board of Statutory Auditors
	Fratelli Consolandi S.r.l.	Chairman of the Board of Statutory Auditors
	HDP S.p.A.	Chairman of the Board of Statutory Auditors
	Selecta S.p.A.	Chairman of the Board of Statutory Auditors
	Selecta Taas S.p.A.	Chairman of the Board of Statutory Auditors
	Selecta Digital Services S.p.A.	Chairman of the Board of Statutory Auditors
	Quattroduedue S.p.A.	Chairman of the Board of Statutory Auditors
	Tenuta Montemagno Soc. Agricola S.p.A.	Chairman of the Board of Statutory Auditors
	Bennet S.p.A.	Standing Auditor
	Bennet Holding S.p.A.	Standing Auditor
	Carcano Antonio S.p.A.	Standing Auditor
	DE' Longhi S.p.A.	Standing Auditor
	DE' Longhi Capital Services S.r.l.	Chairman of the Board of Statutory Auditors
	DE' Longhi Appliances S.r.l.	Chairman of the Board of Statutory Auditors
	EFFE 2005 Gruppo Feltrinelli S.p.A.	Standing Auditor
	FINMEG S.r.l.	Standing Auditor
	Gallerie Commerciali Bennet S.p.A.	Standing Auditor
	INTEK Group S.p.A.	Standing Auditor
	Meg Property S.p.A.	Standing Auditor

	Over Light S.p.A.	Standing Auditor
	Vetus Mediolanum S.p.A.	Chairman of the Board of Statutory Auditors
	San Remo Games S.r.l.	Sole Auditor
	Impresa Costruzioni Grassi&Crespi S.r.l.	Alternate Auditor
	Impresa Luigi Notari S.p.A.	Alternate Auditor
	Compagnia Padana per Investimenti S.p.A.	Alternate Auditor
	Royal Immobiliare S.r.l.	Sole Director
	SO.SE.A. S.r.l.	Director
	Vianord Engineering Société par action simplifiée	Director
	TP Industrial Holding S.p.A.	Standing Auditor
Elenio Bidoggia	Camfin Industrial S.p.A. in liquidation	Alternate Auditor
	SO. DI. P. S.p.A.	Standing Auditor
	3 B Holding S.r.l.	Standing Auditor
	Hydrogest Campania S.p.A. in liquidation	Standing Auditor
	Pirelli International Treasury S.p.A.	Alternate Auditor
	Pirelli Tyre S.p.A.	Alternate Auditor
	Casa Editrice Universo S.p.A.	Standing Auditor
	Finpol S.p.A.	Standing Auditor
	Prelios S.p.A.	Alternate Auditor
	Prelios Credit Servicing S.p.A.	Standing Auditor
	Prelios Integra S.p.A.	Standing Auditor
	Prelios Valuations & e- services S.p.A.	Chairman of the Board of Statutory Auditors
	Prelios Credit Solutions S.p.A.	Standing Auditor
	Prelios SGR S.p.A.	Chairman of the Board of Statutory Auditors
	Fratelli Puri Negri S.a.p.A.	Standing Auditor
	Trixia S.r.l.	Standing Auditor
	Riva dei Ronchi S.r.l. in liquidation	Standing Auditor
	M&C Saatchi S.p.A.	Standing Auditor
	Geolidro S.r.l.	Statutory Auditor
	Banca UBAE S.p.A.	Standing Auditor
	Armonia SGR S.p.A.	Standing Auditor
	Golfo Aranci S.p.A. in liquidation	Chairman of the Board of Statutory Auditors

	Elesa S.p.A.	Chairman of the Board of Statutory Auditors
	Prelios Agency S.p.A.	Standing Auditor
	C.F.M. CO. FARMACEUTICA MILANESE S.p.A.	Alternate Auditor
	Esselte S.r.l.	Alternate Auditor
	Milanosesto S.p.A.	Alternate Auditor
Giovanna Oddo	Tiglio II S.r.l. in liquidation	Liquidator
	M.S.M.C. Immobiliare Due S.r.l. in liquidation	Liquidator
	Centrale Immobiliare S.r.l. in liquidation	Liquidator
	Trixia S.r.l.	Chairman of the Board of Directors
	Lupicaia S.r.l. in liquidation	Liquidator
	Iniziative Retail S.r.l. in liquidation	Liquidator
	Iniziative Immobiliari S.r.l. in liquidation	Liquidator
	Riva De Ronchi S.r.l. in liquidation	Liquidator
	Geolidro S.r.l.	Chairman of the Board of Directors
	TP Industrial Holding S.p.A.	Alternate Auditor
	Prometeon Tyre Group S.r.l.	Alternate Auditor
	Koinè Società tra Avvocati S.r.l.	Sole Director
	Pirelli International Treasury S.p.A.	Standing Auditor
	Pirelli Sistemi Informativi S.r.l.	Statutory Auditor
	Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Statutory Auditor
	Pirelli Tyre S.p.A.	Alternate Auditor
Franca Brusco	ENAV S.p.A.	Chairman of the Board of Statutory Auditors
	Biancamano S.p.A.	Standing Auditor
	Lazio Ambiente S.p.A.	Chairman of the Board of Statutory Auditors
	D-Flight S.p.A.	Chairman of the Board of Statutory Auditors
	CDP Industria S.p.A.	Standing Auditor
	Cassa Depositi e Prestiti S.p.A.	Standing Auditor
	Autorità di Sistema portuale del Mare Mediterraneo meridionale	Member of the Association of Auditors
	Galleria Borghese National Museum	Member of the Association of Auditors
	Gruppo Garofalo Health Care S.p.A.	Independent Director

REPORT ON THE REMUNERATION POLICY AND COMPENSATION PAID

PREAMBLE

This Report on the remuneration policy and on the compensation paid (the "**Report**" or the "**Remuneration Report**"), approved by the Board of Directors on 31 March 2021, on the proposal of the Remuneration Committee, after obtaining the favourable opinion of the Board of Statutory, is structured into two sections:

- Section I: "Remuneration Policy" for FY 2021 (the "**2021 Policy**" or the "**Policy**") and
- Section II: "Report on Compensation Paid" in FY 2020 (the "**2020 Compensation Report**" or the "**Compensation Report**").

The Report is prepared in accordance with art. 123-*ter* of the Italian Legislative Decree no. 58 of 24 February 1998 ("**TUF**"), as amended and supplemented by art. 3 of Italian Legislative Decree no. 49 of 10 May 2019 (the "**Decree**"), as well as with art. 84-*quater* and Scheme 7-*bis* of Annex 3A of Consob regulation (Consob Resolution no. 11971 of 14 May 1999 on issuers), as also amended by Consob Resolution no. 21623 of 10 December 2020 (the "**Issuers' Regulation**").

For the purposes of the Report, due consideration was given to the European Commission recommendations on the remuneration of directors of listed companies, as well as to the recommendations on remuneration adopted by the New Corporate Governance Code for listed companies, approved by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria, to which Pirelli has adhered, as well as the more recent recommendations of the Corporate Governance Committee.

The Policy has also been drafted in accordance with and for the effects of Pirelli's Related-Parties Transactions Procedure.

The Report is made available to the public at the Company's registered office, at the authorised storage mechanism (www.emarketstorage.com) and on the website of Pirelli & C. S.p.A. ("**Pirelli & C.**" or the "**Company**") at the address www.pirelli.com.

The 2021 Policy submitted for the binding vote to the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2020 pursuant to art. 123-*ter*, paragraph 3-*ter*, TUF defines the principles and guidelines for the 2021 financial year:

- for determining the remuneration of the Company Directors, in particular Directors holding specific offices, General Managers and KM, as well as, without prejudice to the provisions of art. 2402 of the Italian Civil Code, for determining the remuneration of members of the controlling body;
- to which Pirelli & C. refers in defining the remuneration of Senior Managers and, more generally, Group Executives.

The 2021 Policy: (i) sets out its contribution to the company strategy, the pursuit of long-term interests and the sustainable success of Pirelli & C., understood as the creation of long-term value to the benefit of shareholders, taking into account the other relevant stakeholders of the Company; (ii) also takes account of the need to have, retain and motivate people with the expertise and professional standing required by the role held in the Company; and (iii) indicates the purposes, methods of operation and the beneficiaries of the remuneration, as well as the bodies involved and the procedures used for its adoption and implementation.

The 2020 Compensation Report, submitted for the advisory and non-binding vote of the Shareholders' Meeting in accordance with art. 123-*ter*, paragraph 6, TUF, provides, by name, for the Directors, Statutory Auditors and General Managers and, in aggregate form, for the KM:

- adequate information about each component of their remuneration, including payments prescribed in the event of resignation from office or termination of employment, pointing out their compliance with the remuneration policy adopted by the Company for the 2020 financial year;

- an analytical indication of the sums paid in the 2020 financial year for any reason and in any form by the Company and its subsidiaries or affiliates, indicating any components of payments that are referable to activities undertaken in years preceding 2020 (and also highlighting the payments to be made in one or more subsequent years for activity undertaken in the 2020 financial year, providing, if applicable, estimates for the components that cannot be objectively quantified in the 2020 financial year);

- an explanation of how the Company has taken into account the vote expressed by the Shareholders' Meeting in 2020.

EXECUTIVE SUMMARY

Purposes and principles of the Policy	The Policy aims to achieve long-term interests, thereby contributing to the achievement of strategic objectives and sustainable growth of the company as well as bringing the interests of the Management into line with those of the shareholders.		
	Aims	**How it operates**	**Beneficiaries in office on the date of the Report**[82]
Fixed Remuneration	To reward managerial and professional competence and experience, and the contribution made to the role.	It is defined in relation to the characteristics, responsibilities and powers, if any, assigned to the role, taking account of the market references, in order to assure that it is competitive.	**Chairman:** €400,000 **Executive Vice Chairman and CEO:** €2,400,000 **Deputy-CEO:** € 1,100,000 **General Manager**[83]**:** €750,000 **KM**: no more than 50% of Annual Total Direct Compensation on-Target **Senior Manager and Executive:** no more than 60% (Senior Manager) and 75% (Executive) of the Annual Total Direct Compensation on-Target
Annual variable remuneration STI	Intended to motivate managers to achieve the Company's annual objectives, maintaining strong alignment with the business strategy and the Company's interests and medium-long term sustainability, including through a sustainability target and a partial deferral mechanism.	Directly linked to the achievement of performance objectives, assigned to each beneficiary in coherence with the role they cover: • EBIT (Group/Region/BU) • Net Cash Flow (Group/Region) • Group Net Income • A sustainability objective • Unit/department objectives (for Senior Managers and Executives) In addition to an on-off condition (which determines access to the Plan), represented by a cash indicator (typically Net Cash Flow). There will be a minimum level for each objective, below which the related pro-quota of the incentive is not accrued. There is also a maximum cap to the incentive that can be achieved (if all maximum performance objectives are achieved), equal to twice the incentive that can be achieved at target performance. Finally, for General Managers, KM and selected Senior Managers, with a view to retention, a portion of the incentive accrued ranging from a minimum of 25% to a maximum of 50% is subject to three-year deferral. The relative payment, together with a corporate matching component, is subject to the continuation of employment at the company at the end of this period. For the rest of the Management, on the other hand, 25% of the incentive accrued is deferred and its payment, together with any	**Chairman:** not one of the beneficiaries of the plan. **Executive Vice Chairman and CEO:** • *Minimum*: 80% of fixed remuneration • *Target*: 125% of fixed remuneration • *Cap*: 250% of fixed remuneration **Deputy-CEO:** • *Minimum*: 65% of fixed remuneration • *Target*: 100% of fixed remuneration • *Cap*: 250% of fixed remuneration **General Manager:** • *Minimum*: 50% of the GABS • *Target*: 75% of the GABS • *Cap*: 150% of the GABS **KM:** • *Minimum*: 35% of the GABS • *Target*: 50% of the GABS • *Cap*: 100% of the GABS **Senior Managers and Executives:** • *Minimum*: from 10% to 25% of the GABS • *Target*: from 15% to 40% of the GABS • *Cap*: from 30% to 80% of the GABS

[82] The following table provides for the structure of the remuneration approved by the Board of Directors on 31 March 2021, also in light of the resolution concerning the proposal to submit to the Shareholders' Meeting to be held in order to resolve upon the approval of the Financial Statements at 31 December 2020 the appointment of Giorgio Luca Bruno as Director and the proposal of the Executive Vice Chairman and CEO to appoint Giorgio Luca Bruno as Deputy-CEO, directly reporting to the Executive Vice Chairman and CEO.

[83] On the date of the Report, Andrea Casaluci held the role of General Manager, as General Manager Operations. Note that Angelos Papadimitriou ceased to hold the office of General Manager co-CEO as of 28 February 2021.

		increase, is subject to the achievement of the following year's STI objectives.	
Medium-long term variable remuneration (LTI)	The intention is to promote the creation of success that is sustainable in the long-term and achievement of the objectives in the Company's strategic plans, while also promoting management engagement and retention.	**2020-2022 LTI Plan and 2021-2023 LTI Plan**: monetary incentives dependent on achievement of the following, independent long term objectives: • Cumulative Group Net Cash Flow (before dividends) • Relative TSR versus a panel of peers (TIER1: Continental, Michelin, Nokian, Goodyear and Bridgestone) • a third objective linked to two Sustainability indicators: Dow Jones Sustainability World Index ATX Auto Component sector and CDP Ranking. There will be an "access threshold" level for each objective, equal to 75% of the target premium, below which the related pro-quota of the incentive is not accrued. There is also a maximum cap to the incentive that can be achieved, if all maximum performance objectives are achieved. *Vesting*: 3 years Rolling plan	**Chairman:** not one of the beneficiaries of the Plans. **Executive Vice Chairman and CEO (annual opportunities)** • *"Access threshold"*: 52.5% of fixed remuneration • *Target*: 70% of fixed remuneration • *Cap*: 200% of fixed remuneration **Deputy-CEO (annual opportunities)** • *"Access threshold"*: 45% of fixed remuneration • *Target*: 60% of fixed remuneration • *Cap*: 160% of fixed remuneration **General Manager (annual opportunities):** • *"Access threshold"*: 45% of the GABS • *Target*: 60% of the GABS • *Cap*: 160% of the GABS **KM (annual opportunities):** • *"Access threshold"*: 37.5% of the GABS • *Target*: 50% of the GABS • *Cap*: 130% of the GABS **Senior Managers and Executives (annual opportunities):** • *"Access threshold"*: from 11.25% to 37.5% of the GABS • *Target*: from 15% to 50% of the GABS • *Cap*: from 40% to 130% of the GABS
Other tools[84]	To assure organisational stability and the contribution made to the implementation of the Company's strategic plans, also for the purpose of promoting sustainable success over the long-term. Preserve company know-how and protect it from competitors. Promote attractiveness of the Company and loyalty of managerial staff.	• **Non-competition agreements**: constraint regarding the market sector in which the Group operates and the territorial coverage. The extent varies according to the role covered; the Chairman and the Executive Vice Chairman and CEO are not among the beneficiaries of the non-competition agreements. • **Welcome bonus:** one-off bonuses that can be assigned with a view to attracting managerial resources exclusively during the hiring phase. • **Benefit:** non-monetary benefits currently assigned on the basis of market practices.	

84 The four-year Retention Plan launched in 2017 for the General Manager Operations, the KM and selected Senior Managers/Executives ends with payment of the last instalment scheduled for June 2021. The Retention Plan envisages the recognition of an amount equal to at most 2.3 times the Total Direct Compensation at Target of each beneficiary at the time of inclusion in the plan (2017). The Executive Vice Chairman and Chief Executive Officer is not beneficiaries of the Retention Plan.

REMUNERATION POLICY FOR THE 2021 FINANCIAL YEAR

1. PARTIES INVOLVED IN THE PROCESS OF POLICY PREPARATION, ADOPTION AND IMPLEMENTATION

Parties in the process

The definition of the remuneration policy and any amendments made thereto are the result of a clear and transparent process in which the Remuneration Committee and the Board of Directors play a central role. It is, in fact, adopted and approved by the Board of Directors annually – based on a proposal by the Remuneration Committee – and the Board then submits it to the Shareholders' Meeting for approval.

The Board of Statutory Auditors issued its opinion on the policy, including the part regarding the remuneration of Directors holding specific offices.

The Remuneration Committee, the Board of Statutory Auditors and the Board of Directors supervise the application thereof. To such purpose, at least once per year, when the report on compensation paid is submitted, the Head of the Human Resources & Organisation Department reports on the application of the remuneration policy to the Remuneration Committee, the chairman of which reports it to the Board of Directors.

For the sake of completeness, it should be noted that, in accordance with current legislation, it is the role of the Board of Directors to propose to the Shareholders' Meeting the adoption of incentive mechanisms for members of the board of directors, employees or collaborators via the attribution of financial instruments or options on financial instruments, which, if approved, are later made public by the legal deadline (without prejudice to any further transparency requirements laid down in the applicable regulations). As at the date of this Report, the Company has no incentive plans based on financial instruments in place[85].

In preparing the 2021 Policy, the Company was assisted by Willis Towers Watson and Korn Ferry for the preparation of national and international benchmarks used to define the structure of the remuneration of the Directors holding specific offices, General Managers and KM, in addition to Senior Managers and Executives.

Amongst the measures aimed at avoiding or managing conflicts of interest, it is noted that, in compliance with the recommendations of the New Corporate Governance Code, no member of the

[85] It should be noted that the Board of Directors' meeting of 31 March 2021, in application of the "rolling" mechanism introduced with the 2020-2022 LTI Plan, established the objectives of the 2021-2023 LTI Plan, related to the objectives contained in the 2021-2022/2025 Strategic Plan. Such LTI plan will be submitted for approval of the Shareholders' Meeting as regards the part where it establishes that the incentive shall also be determined on the basis of a target relative total shareholder return, calculated as the performance of the Pirelli share, compared to a panel of selected peers from the Tyre sector. For a more extensive description, reference is made to § 2, 4, 5 and 6 below.

Board of Directors shall attend meetings of the Remuneration Committee during which proposals are made to the Board of Directors regarding their remuneration.

Shareholders' Meeting

The Shareholders' Meeting:

- determines at the time of appointment the gross annual remuneration to be paid to members of the Board of Directors, except for the remuneration to be attributed, by the Board, to Directors holding specific offices;
- determines at the time of appointment the gross annual remuneration to be paid to the members of the Board of Statutory Auditors;
- approves the first section of the remuneration report;
- issues an advisory vote on section 2 of the remuneration report;
- decides, upon the proposal of the Board of Directors, on any incentive mechanisms based on the attribution of financial instruments or options on financial instruments.

Board of Directors

The Board of Directors defines:

- the breakdown of the total remuneration defined for Directors by the Shareholders' Meeting;
- the policy on remuneration of members of the Board of Directors, General Managers, KM and, without prejudice to the provisions of art. 2402 of the Italian Civil Code, members of the Board of Statutory Auditors;
- the remuneration of Directors holding specific offices in accordance with art. 2389, paragraph 3 of the Italian Civil Code, and that of General Managers;
- the performance objectives related to the variable part of the remuneration of executive directors, General Managers and KM;
- the remuneration of the Head of the Internal Audit department upon a proposal by the Audit, Risk, Sustainability and Corporate Governance Committee.

Remuneration Committee

The Remuneration Committee is appointed by the Board of Directors (which also appoints the chairman thereof) and remains in office for the entire duration of the mandate granted by the Board of Directors.

As at the date of this Report, the Committee, consistently with the recommendations of the New Corporate Governance Code, is composed of five members, all of whom are non-executive and the majority of whom are independent. The Chairman of the Committee is an independent director.

As at the date of this Report, the Committee members are as follows:

REMUNERATION COMMITTEE

	Name and Surname	Office
	Bai Xinping	Director
	Paola Boromei	Independent Director
	Fan Xiaohua	Independent Director
	Marisa Pappalardo	Independent Director
	Tao Haisu	Independent Director

Director Paola Boromei was considered by the Board of Directors as having sufficient experience in matters of accounting, finance and remuneration policies.

The entire Board of Statutory Auditors is entitled to participate in the work of the Remuneration Committee.

The Secretary to the Board of Directors acts as the Secretary to the Remuneration Committee.

The Committee has investigatory, advisory, propositional and supervisory functions and ensures the definition and application, within the Group, of remuneration policies that, on the one hand, aim at pursuing the sustainable success of the Company/Group and aligning the interests of management with those of the shareholders and, on the other, at attracting, retaining and motivating human resources with the expertise and professional standing required of the role held in the Company.

In particular, the Remuneration Committee:

- assists the Board of Directors with defining the remuneration policy;
- assesses periodically the adequacy and overall consistency of the remuneration policy for Directors of the Company and in particular Directors holding specific offices, General Managers and KM;
- with regard to the executive directors, other Directors holding specific offices and General Managers, it makes recommendations or expresses opinions to the Board:
  - about their remuneration, in compliance with the remuneration policy;
  - about setting performance objectives linked to the variable part of that remuneration;
  - about the definition of any no-competition agreements;
  - about the definition of any agreements for the termination of working relationships, on the basis of the principles established in the remuneration policy;
- monitors the correct application of the remuneration policy and checks the actual achievement of performance objectives;
- verifies compliance of the remuneration of executive directors, other Directors holding specific offices, General Managers and KM with the remuneration policy and expresses an opinion on this, also in accordance with the related parties transaction procedure adopted by the Company in application of the Consob regulation in force at the time;
- assists the Board of Directors in the examination of proposals to the Shareholders' Meeting for the adoption of remuneration plans based on financial instruments;
- monitors application of the decisions adopted by the Board of Directors, checking in particular the effective achievement of the established performance objectives;
- examines and submits to the Board of Directors the report on compensation paid, on which, for the members of the management and controlling bodies, the General Managers and in aggregate form the KM:
  - provides adequate information about each component of their remuneration;
  - explains in detail the remuneration paid during the financial year in question, for whatever reason and in whatever form, by the Company and its subsidiaries or affiliates;
- in any case, provides the Related-Parties Transactions Committee with opinions if the responsibilities of said Committee regarding related-parties transactions do not cover issues pertaining to the remuneration of executive directors, including Directors holding specific offices, General Managers and KM;

- assesses whether there are exceptional circumstances that allow for a derogation from the remuneration policy. Where derogations to the Policy on the matters indicated in paragraph 10 below exist, they are approved by the Remuneration Committee, as Related-Parties Transactions Committee, or by the Related-Parties Transactions Committee, on the basis of the procedures adopted by the Company for related-parties transactions, in implementation of the Consob regulation in force pro-tempore.

In relation to the operating methods of the Remuneration Committee, see the Report on the Corporate Governance and Share Ownership.

Related-Parties Transactions Committee

In the cases envisaged by law and the procedures for related-parties transactions adopted by the Company in implementation of the Consob regulation in force pro-tempore, the Related-Parties Transactions Committee expresses the relevant opinions.

Moreover, in compliance with these procedures, the Company may adopt any decisions that derogate from or implement the Policy within the limits required or in any case permitted by applicable provisions of law or regulations in force pro-tempore. The Related-Parties Transactions Committee is involved in assessments performed within the limits of the compliance criteria established by the remuneration policy approved by the Shareholders' Meeting. In case of derogation to the Policy applied in exceptional circumstances, as better explained under paragraph 10 below, the Company provides information on any those derogations, in accordance with the terms and conditions set out by provisions of law and regulation in force pro-tempore.

In relation to the operating methods of the Related-Parties Transactions Committee, see the Report on the Corporate Governance and Share Ownership.

2. PURPOSES AND PRINCIPLES OF THE 2021 REMUNERATION POLICY

Purposes of the 2021 Policy and guiding principles

The aims of the Policy is to attract, motivate and retain resources in possession of the professional qualities required to pursue business objectives.

In addition, through the multi-year variable components assigned, in particular, to the Executive Vice Chairman and Chief Executive Officer, Deputy-CEO, General Managers, KM, Senior Managers and Executives, it aims to achieve long-term interests, contributing to the achievement of strategic objectives and the sustainable success of the Company, as well as aligning the interests of Management with those of shareholders.

The Policy, in fact, is inspired by the principle of "pay for performance" taking into account, as better explained below, that the objectives underlying the incentive plans in place are set consistently with those disclosed to the market, without any "discount".

The Policy is valid for one year and in any case until the Shareholders' Meeting approves a new remuneration policy.

It is defined taking into account various factors such as remuneration - defined on the basis of market benchmarks, aiming at a level of attractiveness differentiated according to the company role and skills - the compensation mix and the working conditions of Company employees. In this regard, the 2021 Policy also refers to the remuneration of the Senior Managers and Executives of the Group. Moreover, Pirelli:

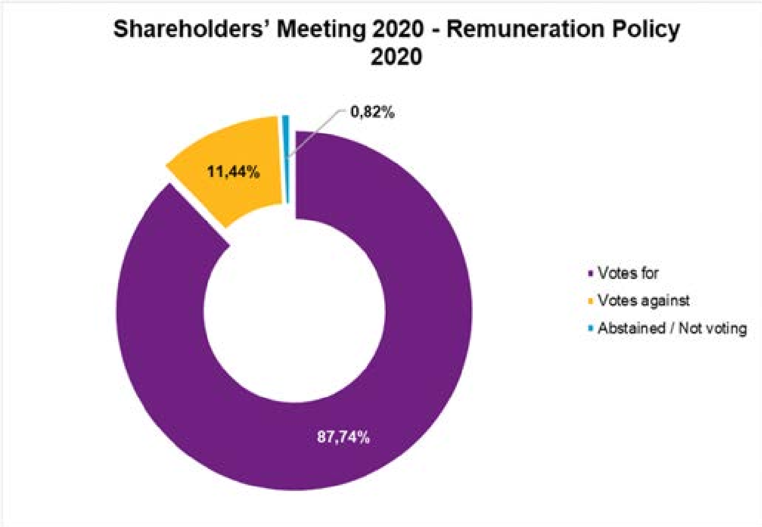
- applies and complies with, where existing, the national collective bargaining agreements applicable from time to time to which it adheres;
- for the entire managerial population and the remaining population of employees of the Group[86], adopts meritocratic policies, variable incentive systems, welfare initiatives and services to benefit the person/family of the employee, as well as, in order to protect the company assets, non-competition agreements for specific figures with technical know-how.

Results of the voting and feedback from investors

The Policy is established taking into account the analysis of the results of the Shareholders' Meeting vote and the feedback received from shareholders and key proxy advisors on the 2020 Policy and

[86] Except for blue collar workers.

the Report on Compensation paid in FY 2019. The diagram below presents the result of the binding vote expressed by the Shareholders' Meeting on 18 June 2020.



Pirelli places great importance on the analysis of the voting result and the feedback received and, during 2020 and in the early months of 2021, it put in place activities necessary to ensure an improvement of the Report.

Description of the changes with respect to the 2020 Policy

With re respect to the 2020 Policy, 2021 Policy reviewed the following aspects:

- composition of the reference panel for the purpose of comparing the Annual Total Direct Compensation on-Target of the Executive Vice Chairman and Chief Executive Officer, limiting it to on companies in the industry in which Pirelli operates;

- adjustment of the 2020-2022 LTI Plan cumulative Group Net Cash Flow (before dividends) objective, aligning it with the guidance disclosed to the market on 5 August 2020 and with the targets of the 2021-2022/2025 Strategic Plan for the years 2021 and 2022, in accordance with the mandate conferred on the Remuneration Committee by the Board of Directors on 5 August 2020 as a result of the Covid-19 health emergency and the consequent review of the 2020-2022 Strategic Plan, as well as the announced launch of the Strategic Plan for the period 2021-2022/2025 in the first quarter of 2021. The Policy provides also the normalisation of the potential effects on the final result of the acquisition of Cooper by Goodyear (a company included in the reference panel for the TSR objective) at the start of 2021, in order to calculate its impact on the TSR (for both the 2020-2022 LTI Plan and the 2021-2023 LTI Plan);

- the compliance criteria to be applied in the case of hiring of a new General Manager and new KM in relation to the setting of fixed remuneration: (i) for the new General Manager, which determines an Annual Total Direct Compensation on-Target not exceeding 80% of the Annual Total Direct

Compensation on-Target of the Executive Vice Chairman and Chief Executive Officer, with the limit of 85% of the fixed remuneration of the Executive Vice Chairman and Chief Executive Officer, (ii) for the new KM, which determines an Annual Total Direct Compensation on-Target of a maximum of +20% of the reference benchmark, with the limit of the fixed remuneration of the General Manager Operations;

- in the case of hiring of a new General Manager, the possible assignment of (i) higher incentive percentages than those currently attributed to the General Manager Operations (for both the STI Plan and the LTI Plan), with the maximum limit represented by the incentive percentages set for the Executive Vice Chairman and Chief Executive Officer, (ii) non-competition agreements with a fee set as a percentage above 60% of the GABS and in any case not exceeding 100% and annual payment during employment of a maximum of 20% of the GABS, (iii) “welcome bonuses” usually aimed at compensating monetary rights deriving from the previous employment relationship;

- in the case of hiring of KM, the possibility of assigning “welcome bonuses”;

- downward revision of the STI Plan incentive percentages upon achievement of the minimum performance objectives;

- review, for General Managers, KM and selected Senior Managers, of the deferral mechanism of part of the accrued STI Plan, which provides for the disbursement, together with a company matching component, at the end of a three-year period subject to the permanence of the employment relationship;

- review of the non-competition agreement fee, providing for a range from a minimum of 30% to a maximum of 60% of the GABS on the basis of the role held and the reason for leaving;

- adjustment of the last instalment of the Retention Plan for the General Manager of Operations, given the need to adjust it to his current salary level (the previous value was the GABS received in the position held before that of General Manager).

The 2021 Policy takes into account the definition of the objectives of the LTI Plan for the three-year period 2021-2023, in application of the rolling mechanism already provided for in the 2020 Policy, and in support of the Strategic Plan 2021-2022/2025 objectives, with consequent re-proportioning on an annual basis, consistent with the 2020 Policy, of the three-year incentive percentages. Furthermore, it provides also for 2021-2023 LTI Plan the option to normalise the potential effects on the final result of the acquisition of Cooper by Goodyear (a company included in the reference panel for the TSR objective) at the beginning of 2021, in order to calculate its impact on the TSR (for both the 2020-2022 LTI Plan and the 2021-2023 LTI Plan).

The 2021 Policy also takes into account the inclusion of the Deputy-CEO and the relevant remuneration.

The 2021 Policy, with the exception of the General Manager, KM and selected Senior Managers, confirms the mechanism of deferral of 25% of the STI incentive previously provided for and which, limited to the 2020 Policy, had been modified to take into account the resolution adopted by the

Board of Directors on 3 April 2020 and cancellation of the STI plan for 2020 as a result of the health emergency.

Moreover, with respect to the 2020 Policy, some institutes that were already taken into account in the past were described in more detail (for example, non-competition agreements and non-monetary benefits).

Market references and peer group

Pirelli defines and applies a policy:

- for the Chairman, referring to the Korn Ferry "Non-Executive Directors in Italy" market median for the year;
- for the rest of Top Management and Senior Managers, with reference to the third quartile of the comparison market (compared to the benchmarks used);
- for Executives, targeting the median of the various comparative markets.

The Annual Total Direct Compensation on-Target constitutes the benchmark for market comparison.

The analysis of the positioning, the composition and more generally the competitiveness of the remuneration of Directors holding specific offices is conducted by the Remuneration Committee and the Board of Directors with the assistance of companies specialised in executive compensation, on the basis of methodological approaches that allow the full assessment, although the typical limits of benchmark analyses, of the complexity of their positions from an organisational point of view, any specific duties assigned thereto and the individual's impact on the final business results.

In regard to the comparative market, in the definition of the panel of reference companies updated annually by the Remuneration Committee, it takes account of various components such as business sector, geography, specific features and size of the company.

The reference sample of companies used to analyse the competitiveness and possible review of the remuneration of the Chairman of Pirelli & C. has been established with the assistance of Korn Ferry and consists of MIB40 companies.

The sample of reference companies used for the competitiveness analysis and possible review of the remuneration of the Executive Vice Chairman and Chief Executive Officer of Pirelli & C. has been updated with the assistance of Willis Towers Watson, also taking into account the main recommendations on pay for performance, and is composed of the 15 companies shown in the table below all belonging to the Vehicles, Auto Component & Tyre industry. The panel revision was carried out to limit the comparison to companies operating in the same sector as Pirelli.

Peer Group			
Aston Martin	BMW	Continental	Cooper
FCA	Ferrari	Goodyear	Harley-Davidson
Magna International	Michelin	Navistar	Renault
Stellantis	VolksWagen	Volvo	

The sample of reference companies used for the analysis of the competitiveness and for the possible revision of the remuneration of the Deputy-CEO was established with the support of Korn Ferry and in particular it should be noted that the source used for the market comparison is the European Top Executive Compensation Survey, which was attended by 385 listed European companies, included in the FTE500 list which includes the 500 largest European companies by capitalization.

Finally, the remuneration structure for General Managers, KM, Senior Managers and Executives is defined on the basis of national and international benchmarks which, in view of the complexity and specific nature of the role, were prepared by Willis Towers Watson and/or Korn Ferry and agreed with the Remuneration Committee.

Elements of the 2021 Policy

Management remuneration has several elements:

- gross annual base salary (GABS);
- annual variable component (STI);
- medium-long term variable component (LTI);
- non-monetary benefits.

Fixed Remuneration

The base salary is established on the basis of the complexity of the position, professional seniority, the skills required to perform in the role, performance over time, and the trend in the comparison remuneration market related to the position held by the individual.

The STI and LTI variable components are established - taking account of the benchmarks for each - as a percentage of base salary which increases according to the position held by the beneficiary.

Annual variable component (STI)

The STI, except for specific cases, covers all the Management - except for the Chairman -, and is intended to reward the beneficiaries' short term performance; moreover, it can be extended to managers who joined the Group during the year.

The STI objectives for Directors holding specific offices to whom specific duties may be attributed, for General Managers and for KM are established by the Board of Directors upon a proposal by the Remuneration Committee (see §4 and §5).

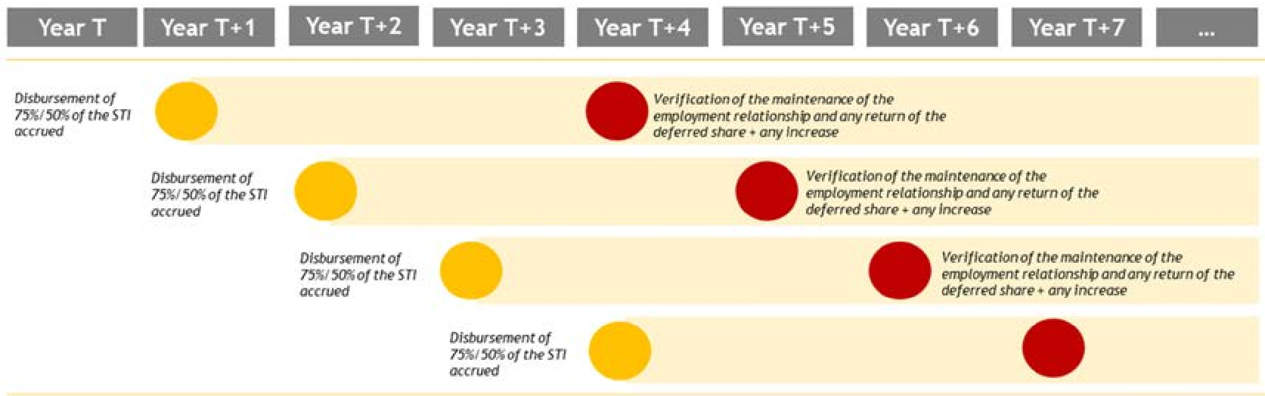
The STI objectives of the Senior Managers and Executives are, instead, defined by the hierarchical manager in accordance with the Human Resources & Organisation and Planning and Controlling departments and envisage, amongst others, also objectives connected with the economic performance of the relevant business unit/geography/department (cf. §6).

At the end of the year and based on the finalised performance figures (included in the draft financial statements approved by the Board of Directors), the Department of Human Resources & Organization, with the assistance of the Planning and Controlling Department, checks the level to which the objectives have been achieved, on which basis the Board of Directors then resolves, after examination by the Remuneration Committee, having obtained the opinion of the Board of Statutory Auditors, on the amount of the variable compensation to be disbursed.

In the event of extraordinary transactions affecting the scope of the Group and/or major changes in the macroeconomic and business scenario, the Remuneration Committee may adjust the targets in the STI plan, in order to protect the Plan's value and aims, thus ensuring that the objectives of the Company and the objectives that underpin the Management incentive systems are constantly aligned.

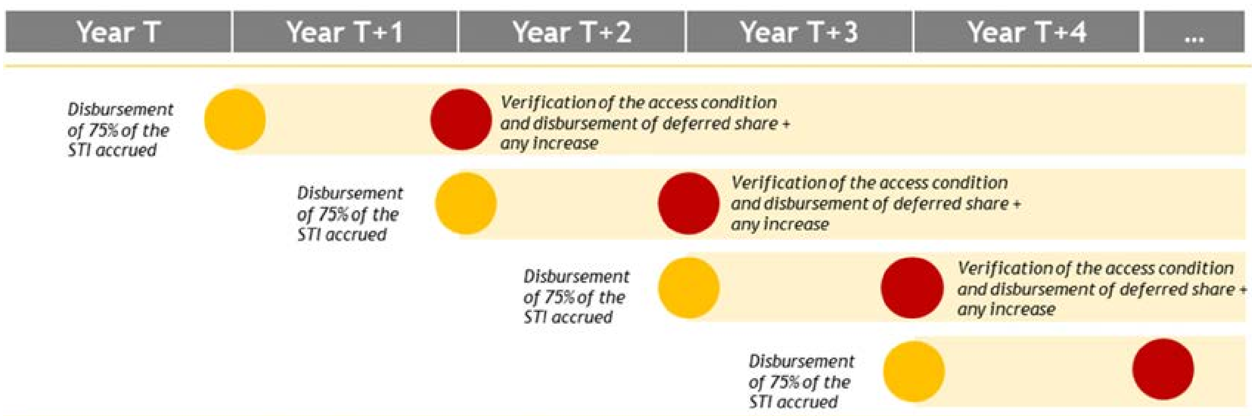
Achievement of the individual objectives will be assessed by the Remuneration Committee, neutralising the effects of any extraordinary decisions that could have impacted the results (either positively or negatively). The Board of Directors resolves on the proposed review potentially submitted for its examination after obtaining the opinion of the Remuneration Committee.

For General Managers, KM and selected Senior Managers, part of the remuneration accrued as a STI, from a minimum of 25% to a maximum of 50%, is deferred, with a view to retention, and disbursed at the end of a three-year period subject to the permanence of employment relationship and together with a company matching component which can vary from a minimum of 1 time to a maximum of 1.5 times the amount of the deferred STI (see the diagram below).



For the rest of the Management, on the other hand, part of the variable remuneration accrued as STI is deferred to the benefit of continued results over time and thereby the creation of sustainable value for shareholders in the medium-long term. Indeed, 75% of any STI accrued is paid, since the remaining 25% is deferred by 12 months and subject to achievement of the STI objectives for the following year. More specifically (see graph below):

- in the event that no STI is accrued in the next year, the deferred STI quota of the previous year is definitively “lost”;
- in the event that the STI accrued in the next year is below target level, the STI quota deferred from the previous year is paid;
- in the event that the STI accrued in the next year is equal to or higher than target level, the STI quota deferred from the previous year is paid, together with an additional amount equal to the quota deferred (increase).



At the meeting held on 3 April 2020, in order to respond to the Covid-19 health emergency, the Board of Directors of Pirelli & C. resolved - subject to approval by the Shareholders’ Meeting of the 2020 Policy and the favourable advisory vote on the 2019 Compensation Report - to early close the 2020 STI Plan without payment and, as a result (i) to pay, in the first quarter of 2021, the participants of the 2019 STI Plan 25% of the bonus accrued and initially subject to the achievement of the 2020 STI objectives, conditioning the payment to the maintenance of employment relationship/position as director of the Company until that date (except for "good leavers" who will receive this component in any case), and (ii) to cancel the opportunity of increasing the 2019 STI.

Medium-long term variable component (LTI)

As for the medium-long term variable remuneration (LTI), it is assigned to Top Management – except for the Chairman – and extended, except in specific cases, to all Executives whose grade, determined with the Korn Ferry method, is equal to or above 20. It is also assigned to those who, during the three-year period, join the Group and/or take over, due to internal career progression, the position of Executive. In this case, their inclusion is subject to participation in each three-year cycle for at least one full financial year and the incentive percentages are scaled to the number of months of actual participation in the plan.

On 5 August 2020, as a result of the health emergency linked to the spread of Covid-19, the consequent revision of the 2020-2022 Strategic Plan and the announced launch in the first quarter of 2021 of the Strategic Plan for the period 2021-2022/2025, the Board of Directors instructed the Remuneration Committee to adjust the cumulative Group Net Cash Flow (before dividends) objective of the 2020-2022 LTI Plan, aligning it with the guidance communicated to the market on 5 August 2020 and with the targets of the 2021-2022/2025 Strategic Plan for the years 2021 and 2022.

The Board of Directors of Pirelli & C., at the meeting held on 31 March 2021, which also approved the 2021-2022/2025 Strategic Plan, on the proposal of the Remuneration Committee, after obtaining the favourable opinion of the Board of Statutory Auditors, set the cumulative Group Net Cash Flow (before dividends) objective of the 2020-2022 LTI Plan, consistently with the resolution of 5 August 2020, and approved the objectives of the 2021-2023 LTI Plan on a rolling basis.

For both the 2020-2022 Plan and the 2021-2023 Plan it is possible to normalise the potential effects on the final result of the acquisition of Cooper by Goodyear (a company included in the reference panel for the TSR objective) at the start of 2021, in order to calculate its impact on the TSR.

The medium-long term incentive plans (LTI) are intended to:

- link Management remuneration with the medium-long term performance of the Group;
- promote the creation of shareholder value and sustainable success for the Company;
- generate an effective Management retention effect, a key variable for the delivery of the Company's Strategic Plan.

The "rolling" mechanism introduced with the 2020-2022 LTI Plan sets out to: (i) guarantee a high degree of flexibility, bringing the performance indicators into line with the evolution of the market and Company and, therefore, the Company's strategic plan for each new three-year cycle; (ii) create a recurring element of the remuneration policy, as each year it envisages the launch of a new cycle of the LTI plan, (iii) ensure an effective retention effect compared to the "closed" medium-long term incentive plans, (iv) support corporate sustainability in the long term.

Below is an example diagram showing how the rolling mechanism works:

The LTI Plans assign each beneficiary an incentive opportunity (the "**LTI Bonus**"), equal to a percentage of the gross annual base fixed component (GABS) in place on the date on which participation in the LTI Plan is established. This incentive percentage increases in relation to the position held and takes into account the benchmarks for each role.

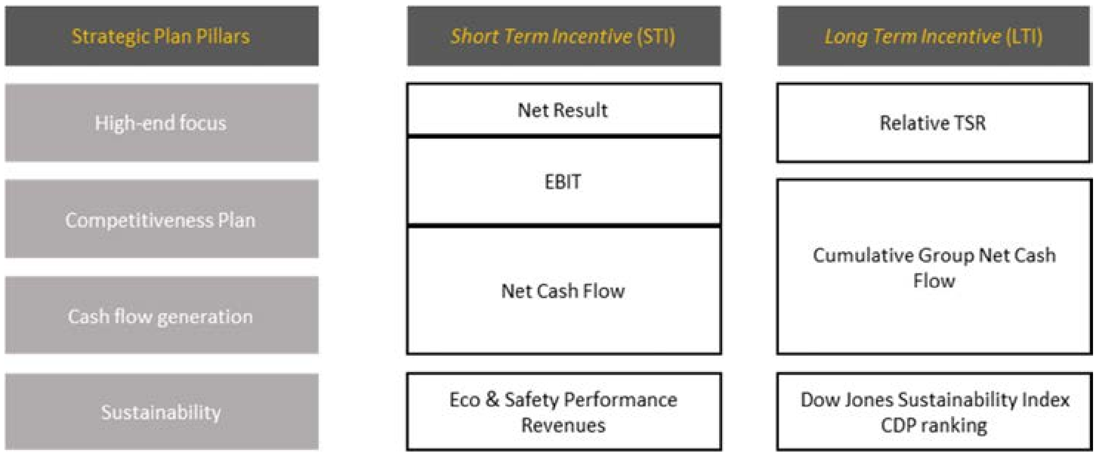
The full cost of the LTI plans is included in the economics of the 2021-2022/2025 Strategic Plan, so that their cost is "self-funded" by achievement of the expected results.

The risk governance process is fully integrated into the strategic planning process in order to ensure that the objectives envisaged for achieving the variable incentive do not expose Pirelli to managerial behaviour inconsistent with an acceptable level of risk ("risk appetite") as defined by the Board of Directors when approving the plans.

In the event of extraordinary transactions affecting the Group's perimeter and/or deep changes in the macroeconomic and business scenario, the Board of Directors, on proposal of the Remuneration Committee, after obtaining the favourable opinion of the Board of Statutory Auditors, can propose:

- any adjustment of the targets (both upward or downward) of the 2020-2022 and 2021-2023 LTI Plans, so as to reflect their value and relative targets, thus ensuring constant alignment between the Company's objectives and the objectives underlying the Management incentive schemes;
- a review of the objectives set in the LTI Plans;
- possible early closure thereof.

The diagram below shows the link between the corporate strategy and the KPIs of the incentive systems.



Non-monetary benefits

When a member of the Management is hired, the Company reserves the right to define, in line with market practice, the experience gained and the conventional seniority that maybe due to such person.

Lastly, non-monetary elements of remuneration are benefits provided to beneficiaries, depending on the position held, as a result of contractual provisions/Company policies or aimed at reinforcing attraction during the recruitment phase (for example, accommodation and student grants for limited periods of time).

3. REMUNERATION OF THE BOARD OF DIRECTORS AND THE BOARD OF STATUTORY AUDITORS

The Board of Directors

Within the Board of Directors, a distinction can be made between:

(i) Directors holding specific offices to whom further specific duties may be attributed;

(ii) Directors with no specific offices.

The attribution to Directors of powers for specific matters, that are not covered by the duties delegated under art. 2381 of the Italian Civil Code, does not per se make them directors to whom specific duties are attributed.

The Shareholders' Meeting of Pirelli & C., when appointing the Board of Directors, resolves on the total annual remuneration of the Board of Directors pursuant to art. 2389, paragraph 1, of the Italian Civil Code - to be distributed among its members in accordance with the resolutions adopted by the Board itself - excluding the remuneration to be attributed by the Board to Directors holding specific offices as provided for by art. 2389 of the Italian Civil Code.

More specifically, on 18 June 2020, the Pirelli & C. Shareholders' Meeting resolved to establish, for the years 2020, 2021, 2022 and until termination of office with the approval of the financial statements as at 31 December 2022, a maximum of euro 2 million as the total annual salary of the Board of Directors in accordance with art. 2389, paragraph 1 of the Italian Civil Code, excluding the remuneration to be assigned by the Board to Directors holding specific offices, as envisaged by art. 2389 of the Italian Civil Code.

The total gross annual remuneration established by the Shareholders' Meeting was allocated by the Board of Directors as follows for the years 2020, 2021 and 2022:

Directors' remuneration

Body	Office	Remuneration
Board of Directors	Director	€65,000
Audit, Risks, Sustainability and Corporate Governance Committee	Chairman	€35,000
	Member	€30,000
Remuneration Committee	Chairman	€35,000
	Member	€30,000
Strategies Committee	Chairman	€50,000
	Member	€30,000
Appointments and Successions Committee	Chairman	€50,000
	Member	€30,000
Related-Party Transactions Committee	Chairman	€75,000
	Member	€50,000
Supervisory Body	Chairman	€60,000
	Member	€40,000

On the same date, the Board of Directors confirmed the remuneration recognised to members of the Supervisory Body during the previous term of office. For completeness, it is reported that the remuneration assigned to members of the Supervisory Body is not included in the total gross annual remuneration established by the Shareholders' Meeting.

In line with best practice, Directors with no specific offices (as defined above) do not receive a variable part of their remuneration. Expenses incurred for official reasons are also reimbursed to the Directors.

In any case, the compensation granted to non-executive directors is determined in such an amount as to guarantee adequacy in terms of the skill, professionalism and effort required by their appointment. In deciding said allocation, the Board of Directors takes into account the effort required for the Directors' attendance of the individual board committees, on the basis of the previous mandate.

In the event that during the current mandate of the Board of Directors is called to resolve again on the allocation of the remuneration established by the Shareholders' Meeting, and unless the Shareholders' Meeting provides otherwise, an allocation of said remuneration that envisages the attribution (i) of a remuneration that is at most +25% of the Directors' remuneration attributed during the previous term of office and (ii) for the members of the board committees, +25% of the remuneration for the office held in the committees in the previous mandate, is compliant with the Policy. If new committees should be established, the maximum limit is that of the highest remuneration envisaged for the corresponding office in other committees.

Again in line with best practices, a Directors & Officers Liability ("**D&O**") insurance policy is envisaged to cover the third party liability of the corporate bodies, the General Managers, the KM, the Senior Managers and Executives, in going about their duties. Consequent to the provisions established on the matter by the applicable national collective bargaining agreement and rules governing mandates, this policy aims to indemnify Pirelli from any expenses deriving from the related compensation, excluding cases of wilful misconduct or gross negligence.

No insurance coverage, whether for social security or pensions, other than the obligatory coverage is provided for Directors holding specific offices.

The Board of Statutory Auditors

The remuneration of members of the controlling body is determined by the Shareholders' Meeting as a fixed annual amount, appropriate to the competence, professionalism and commitment required by the importance of the position held and the size and sector characteristics of the company.

At the moment of renewing the Board of Statutory Auditors, the Shareholders' Meeting of 15 May 2018 determined a gross annual fixed remuneration of its Chairman of euro 75,000 for the years 2018, 2019, 2020 and until termination of office with the approval of the financial statements as at 31 December 2020 and of euro 50,000 for the other standing members.

The Shareholders' Meeting called to approve the financial statements at 31 December 2020 will be required to resolve on the appointment of the new Board of Statutory Auditors as well as, pursuant to art. 2402 of the Italian Civil Code, the remuneration of the members of the controlling body for their entire term of office.

In view of the Shareholders' Meeting, the Board of Statutory Auditors provided the Company with a document summarising the work it performed - specifying the number of meetings and their average duration - as well as the time required for each meeting and the professional resources employed, in order to allow the Shareholders' Meeting and the candidates for election as Statutory Auditors to assess the adequacy of the proposed remuneration[87].

For the Statutory Auditor called to be part of the Supervisory Body, following the Shareholders' Meeting of 15 May 2018, the Board of Directors established for the years 2018, 2019, 2020 and until termination of office with the approval of the financial statements as at 31 December 2020, a gross annual remuneration of euro 40,000. This remuneration was confirmed by the Board of Directors on 22 June 2020, when the Supervisory Body was renewed, as the annual remuneration for the years 2020, 2021 and 2022 and until the end of the mandate of the current Board of Directors and in any case until renewal by the next Board of Directors.

Expenses incurred for official reasons are also reimbursed to the Statutory Auditors.

In line with best practices, a D&O insurance policy is envisaged to cover the third party liability of the corporate bodies, including the members of said controlling bodies.

4. REMUNERATION OF DIRECTORS HOLDING SPECIFIC OFFICES

The remuneration of Directors holding specific offices is proposed by the Remuneration Committee to the Board of Directors when they are appointed, or at the first useful meeting thereafter.

Chairman of the Board of Directors

If a Director has been appointed holding specific offices, but no further specific duties have been assigned to them (at the date of the Report, this applies to Chairman Ning Gaoning) the remuneration consists solely of a fixed gross annual component, as well as the compensation for the office of director and any participation in committees.

At the time of appointment, the Board of Directors determines the remuneration for the Chairman of the Board of Directors, considering the remuneration assigned during the previous mandate (if the same holder of the office) and the market benchmark (if the office is held by a different person).

The Chairman Ning Gaoning shall receive compensation for the office of a gross annual amount of euro 400,000 for the years 2020, 2021 and 2022 and until termination of office with the approval of the financial statements as at 31 December 2022.

In the event that during the current mandate the Board of Directors is called on to resolve again on the compensation of the Chairman, a Chairman's compensation that is at most equal to +10% of the remuneration assigned during the previous mandate (in the case of the same holder of the office) or

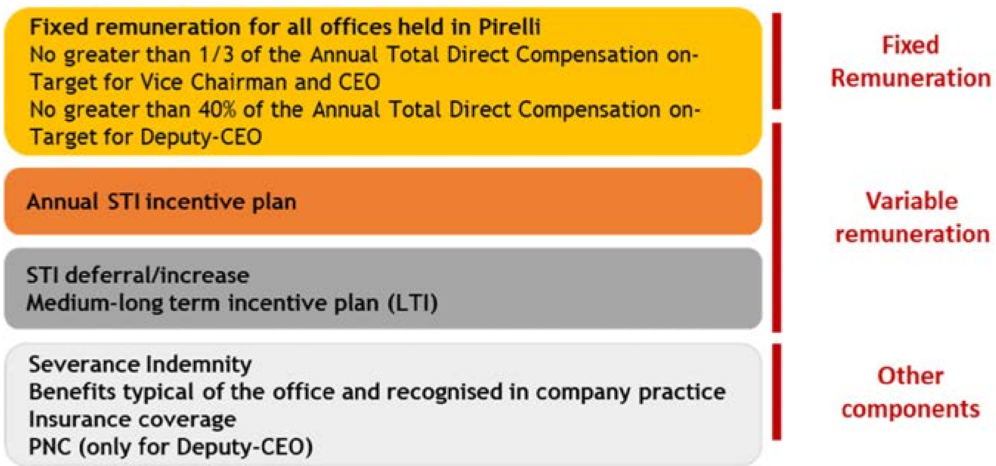
[87] The Document of the outgoing Board of Statutory Auditors is available on the Company's website.

with respect to the market benchmark - median - (if the office is held by a different person), is considered compliant with the Policy.

For those Directors holding specific offices to whom no further specific duties have been attributed, no non-monetary benefits, social security or pension cover is provided other than the obligatory schemes.

Directors holding specific offices to whom further specific duties have also been attributed

The remuneration of Directors holding specific offices to whom further specific duties have also been attributed (at the date of the Report, is the case for the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera and, once appointed, for the Deputy-CEO[88]) is composed of the following elements:



Directors holding specific offices to whom further specific duties have also been attributed[89], shall also receive the compensation for the office of director and any participation in committees[90].

With regard to the incidence of the various components, the structure of the compensation package of the Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO in the event of

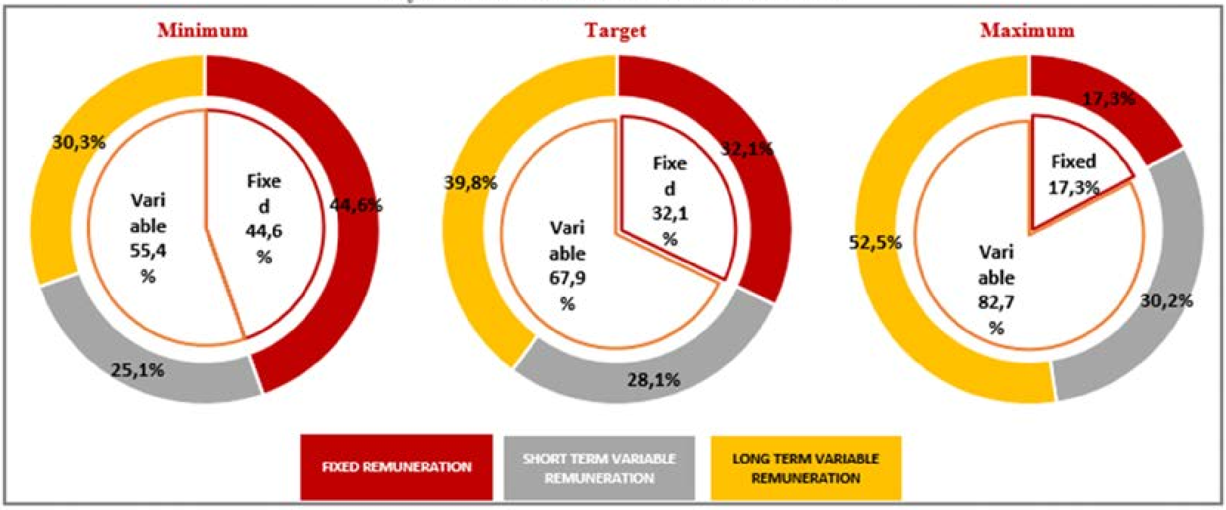
[88] The Board of Directors of 31 March 2021 approved the proposal to the Shareholders' Meeting scheduled for 15 June 2021 to appoint Giorgio Luca Bruno as Board Member, in order to grant him the office of Deputy-CEO.

[89] As at the date of this Report, the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera is the only Director appointed to a specific office to whom specific duties have also been assigned.

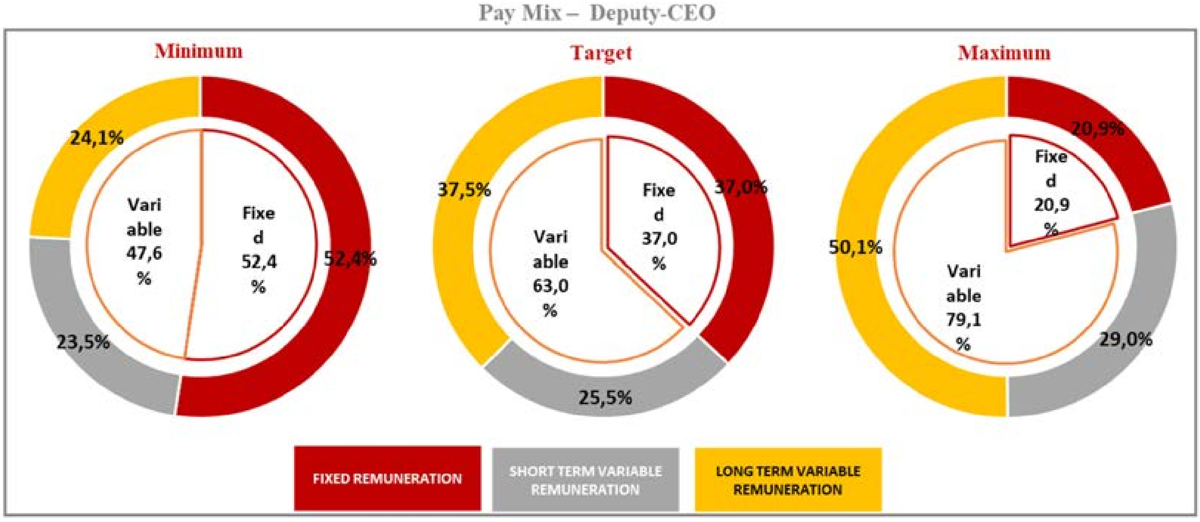
[90] The Executive Vice Chairman and Chief Executive Officer is also entitled to the compensation for serving as a Director (€65,000), and as Chairman of the Strategies Committee (€50,000) and Appointments and Successions Committee (€50,000).

achievement of the objectives of 2021 STI and 2021-2023 LTI plans at minimum, target and maximum level is shown below.

Pay Mix - Executive Vice Chairman and CEO



Pay Mix – Deputy-CEO



Fixed Remuneration

The gross annual base salary for the office of Executive Vice Chairman and Chief Executive Officer and Deputy- CEO is determined at the time of appointment, taking into account the compensation attributed during the previous mandate (in the case of the same holder of the office) and the market benchmark (if the office is held by a different person), in an amount that would ensure a balance between the fixed component and the variable component that is adequate and consistent with the strategic objectives and the risk management policy, taking into account the characteristics of the business and the sector in which the Company operates, in any case establishing that the variable component represents a significant part of the total remuneration.

The gross annual fixed component for financial years 2020, 2021 and 2022 and up until approval of the financial statements at 31 December 2022 attributed to the Executive Vice Chairman and Chief Executive Officer is euro 2,400,000 (no more than a third of the Total Direct Compensation on-Target).

The gross annual fixed component for financial years 2021 and 2022 and up until approval of the financial statements at 31 December 2022 attributed to the Deputy-CEO is euro 1,100,000 (no more than 40% of the Total Direct Compensation on-Target).

In the event that during the current mandate the Board of Directors is called on to resolve again on the gross annual fixed component of the Executive Vice Chairman and Chief Executive Officer or of the Deputy-CEO, is compliant with the Policy the assignment of a gross annual base salary or a review of such, which, considering the annual and medium-long-term incentive percentages, determines an Annual Total Direct Compensation on-Target equal to at most (i) for the Executive Vice Chairman and Chief Executive Officer +5% of the value assigned during the previous mandate (in the case of the same holder of the office) or with respect to the market benchmark third quartile (if the office is held by a different person) and (ii) for the Deputy-CEO +10% of the value assigned during the previous mandate (in the case of the same holder of the office) or with respect to the market benchmark third quartile (if the office is held by a different person).

Annual variable component (STI)

The Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO hold an annual variable remuneration (STI) equal to a percentage of the fixed remuneration determined at the time of appointment and thereafter when launching the individual annual plans.

In the event that during the current mandate the Board of Directors is called on to resolve again on the STI incentive percentages of the Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO, the attribution of STI incentive percentage no higher than the previous financial year is compliant with the Policy.

The objectives underlying the STI Plan represent performance consistent with the corresponding objectives disclosed to the market, in particular the objectives for obtaining the incentive at minimum level are set as equal to the value disclosed to the market.

For each objective there is a minimum and a maximum (cap) to the amount of the incentive that can be achieved; for performance below the minimum level, no pro-quota payment is envisaged.

The on/off condition is represented by the cumulative Group Net Cash Flow (before dividends) and is established as an amount equal to the value announced to the market. Failure to achieve the on/off condition shall result in the total cancellation of the STI incentive regardless of the level of achievement of the other objectives.

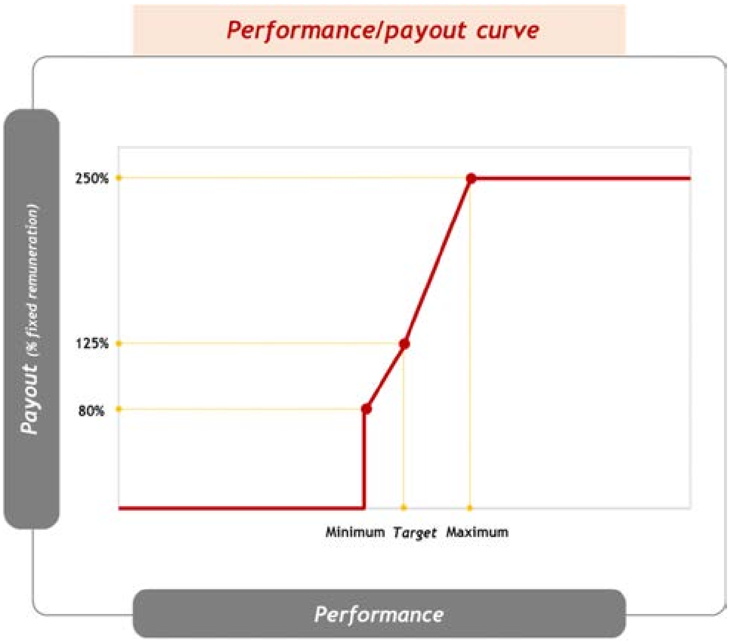
The finalisation of the performance for intermediate results between the minimum value and target and between the target and maximum is carried out by linear interpolation.

Depending on the level of performance achieved, the Executive Vice Chairman and Chief Executive Officer will be paid a bonus of 80% of fixed remuneration for minimum level performance, 125% of the fixed remuneration in the case of on-target performance and 250% of fixed remuneration (equal to double the target incentive) for maximum level performance.

Depending on the level of performance achieved, the Deputy-CEO will be paid a bonus of 65% of fixed remuneration for minimum level performance, 100% of the fixed remuneration in the case of on-target performance and 200% of fixed remuneration (equal to double the target incentive) for maximum level performance.

Once the on/off condition has been achieved, all the objectives envisaged on the STI scorecard shall apply independently, according to the incentive curve shown below. Therefore, according to the performance achieved, each objective will go towards calculating the total payout, on the basis of the weighting shown on the scorecard.

Example curve if all objectives are achieved at minimum, target and maximum level for the Executive Vice Chairman and Chief Executive Officer.



Part of the remuneration accrued as STI is deferred to the benefit of continued results over time and thereby the creation of sustainable value for shareholders in the medium-long term. Indeed, 75% of any STI accrued is paid, since the remaining 25% is deferred by 12 months and subject to achievement of the STI objectives for the following year. In particular:

- in the event that no STI is accrued in the next year, the deferred STI quota of the previous year is definitively "lost";
- in the event that the STI accrued in the next year is below target level, the STI quota deferred from the previous year is paid;
- in the event that the STI accrued in the next year is equal to or higher than target level, the STI quota deferred from the previous year is paid, together with an additional amount equal to the quota deferred (increase).

For 2021, the objectives assigned within the STI Plan to the Executive Vice Chairman and Chief Executive Officer and to the Deputy-CEO are as follows:

STI scorecard - Executive Vice Chairman and CEO and Deputy-CEO	Weight of objectives
Cumulative Group Net Cash Flow (before dividends)	ON/OFF condition
Group EBIT Adjusted	40%
Cumulative Group Net Cash Flow (before dividends)	30%
Group Net Income	20%
Sustainability objective- value of the «Eco & Safety Performance Revenues» on total portfolio	10%

Medium/long term variable component (LTI)

The Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO will be assigned a medium-long-term incentive plan so as to contribute to the Company's strategy and sustainability, and the pursuit of its long-term interests. For 2021, the Executive Vice Chairman and Chief Executive Officer are assigned the 2020-2022 LTI Plan related to the goals of the 2020-2022 Strategic Plan and the 2021-2023 LTI Plan related to achievement of the goals of the 2021-2022/2025 Strategic Plan. For 2021, the Deputy-CEO is beneficiary of the 2021-2023 LTI Plan related to achievement of the goals of the 2021-2022/2025 Strategic Plan. It is pointed out that the Deputy-CEO will be beneficiary, pro-quota, of the 2020-2022 LTI Plan.

Please refer to the Remuneration Report published in 2020 and the related Information Document for details of the objectives of the 2020-2022 LTI Plan, as modified due to the described adjustment of the cumulative Group Net Cash Flow (before dividends) objective; the objectives of the 2021-2023 LTI Plan are indicated below (which, in application of the rolling mechanism, replicate those established for the 2020-2022 LTI Plan).

2021-2023 LTI - Executive Vice Chairman and CEO and Deputy-CEO	Weight of objectives	KPI
Cumulative Group Net Cash Flow (before dividends)	40%	Value disclosed to the market
Relative TSR versus a panel of peers (TIER1: Continental, Michelin, Nokian, Goodyear and Bridgestone)	40%	Performance equal to panel average
Dow Jones Sustainability World Index ATX Auto Component sector ranking	10%	From -1% to -5% vs Top Industry cluster
CDP ranking	10%	«A-» scoring

*** The period of comparison is the second half of 2023 against the second half of 2020.**

On 5 August 2020, as a result of the health emergency linked to the spread of Covid-19, the consequent revision of the 2020-2022 Strategic Plan and the announced launch in the first quarter of 2021 of the Strategic Plan for the period 2021-2022/2025, the Board of Directors conferred mandate to proceed with an adjustment of the cumulative Group Net Cash Flow (before dividends) target of the 2020-2022 LTI Plan, aligning it with the guidance communicated to the market on 5 August 2020 and with the targets of the 2021-2022/2025 Strategic Plan for the years 2021 and 2022.

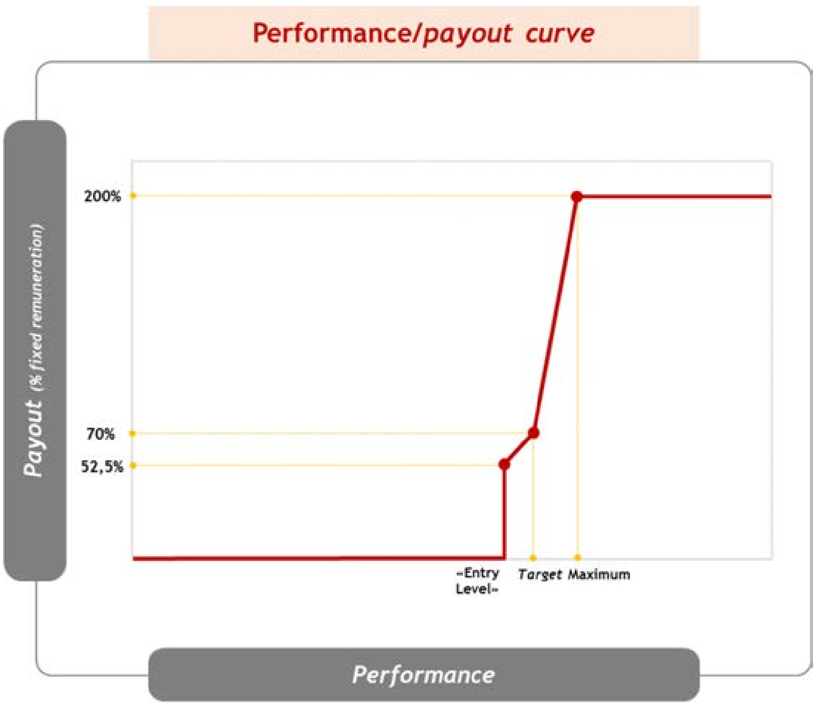
The Board of Directors of Pirelli & C., at the meeting held on 31 March 2021, which also approved the 2021-2022/2025 Strategic Plan, on the proposal of the Remuneration Committee, after obtaining the favourable opinion of the Board of Statutory Auditors, set the cumulative Group Net Cash Flow (before dividends) target of the 2020-2022 LTI Plan, in accordance with the resolution of 5 August 2020, and in application of the rolling mechanism defined the targets of the 2021-2023 LTI Plan. The review aims to maintain the total alignment of shareholders and management's interests.

The targets set in the LTI Plans represent a performance consistent with the corresponding targets disclosed to the market. In particular, the objectives for obtaining the incentive at "access threshold" level are set as equal to the value disclosed to the market (net of the sustainability objectives).

An "access threshold" level – associated with payment of 75% of the pro-quota of the bonus achievable on-target – and a maximum (cap) on the pro-quota amount of the bonus that can be achieved are envisaged for each objective.

The performance range for the economic-financial objectives is defined as the more challenging out of the target and maximum level with respect to that envisaged between the "access threshold" level and target. In order to offer an incentive for achieving results above target, the incentive curve is fixed in such a way that the incentive opportunity grows faster between the target and the maximum than in the range between the “access threshold” and the target (see graph below). All the objectives envisaged on the LTI scorecard shall apply independently, according to the incentive curve shown below. Therefore, according to the performance achieved, each objective will go towards calculating the total payout, on the basis of the weighting shown on the scorecard.

Example curve if all objectives are achieved at “access threshold”, target and maximum level for the Executive Vice Chairman and Chief Executive Officer.



For the TSR and cumulative Group Net Cash Flow (before dividends) objectives, for results falling between the “access threshold” and target, or between the target and the maximum, performance will be calculated by linear interpolation, unlike the sustainability objectives which will be calculated in just three steps: “access threshold”, target and maximum, without considering intermediate performances.

Within the scope of the 2021-2023 LTI Plan, depending on the level of performance achieved, the Executive Vice Chairman and Chief Executive Officer will be recognised an annually based bonus opportunity of 70% of fixed remuneration for on-target performance, 52.5% of fixed remuneration if the “access threshold” performance is achieved (75% of the on-target bonus), and 200% of the fixed remuneration (cap) in the case of maximum performance.

Within the scope of the 2021-2023 LTI Plan, depending on the level of performance achieved, the Deputy-CEO will be recognised an annually based bonus opportunity of 60% of fixed remuneration for on-target performance, 45% of fixed remuneration if the “access threshold” performance is achieved (75% of the on-target bonus), and 160% of the fixed remuneration (cap) in the case of maximum performance.

In the case of lapsing from office at the end of mandate or termination of the entire Board of Directors, and subsequent non-appointment even as director, the LTI Bonus is to be paid pro-quota.

Office Termination Payment and non-monetary benefits

In addition, the Board of Directors has made the following provision for Directors holding specific offices to whom further specific duties have been attributed, in the event that said duties are not related to their executive employment relationship (on the date of this Report, the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera and, once appointed, the Deputy-CEO), similarly to the treatment guaranteed pursuant to the law and/or national collective employment agreement for the Group's Italian executives:

- an Office Termination Payment (TFM) pursuant to art. 17, paragraph 1, letter c) of the TUIR (Italian consolidated law on income tax) no. 917/1986, with similar characteristics to those typical of Severance Indemnity Payment (TFR) pursuant to art. 2120 of the Italian Civil Code, comprising:

  a) an amount equal to the amount that would be due as manager by way of TFR; the basis for calculation consists of the gross annual fixed compensation received for the specific role held in the Company;

  b) an amount equal to the contributions paid by the employer that would be due to social security and welfare institutes or funds in the event of a contract of employment as manager ex lege and/or National Collective Bargaining Agreement for the Italian Managers of the Group with the same degree of seniority of employment; the basis for calculation consists of the gross annual fixed compensation received for the specific role held in the Company, in addition to any other payments due by way of medium/long-term annual variable component.

     TFM, including the relevant value adjustment of such amounts, will be due as a lump sum to the beneficiary at the end of the current mandate or, in the event of premature death, their assignees;

- a compensation allowance for death from any cause and permanent invalidity following illness as well as a compensation allowance for death from any cause and permanent invalidity following accidents, the terms, limits and conditions of which are in line with what was guaranteed in the previous term of office;

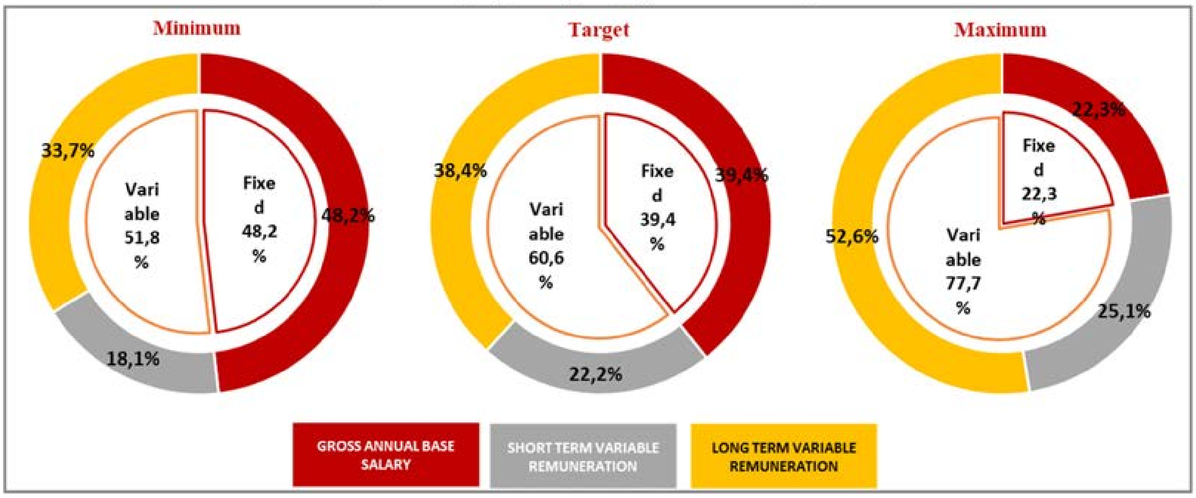
- further benefits typical of the role and currently paid within the Group to General Managers, Executives with strategic responsibilities and Executives (for example, company car).

5. GENERAL MANAGERS AND KM

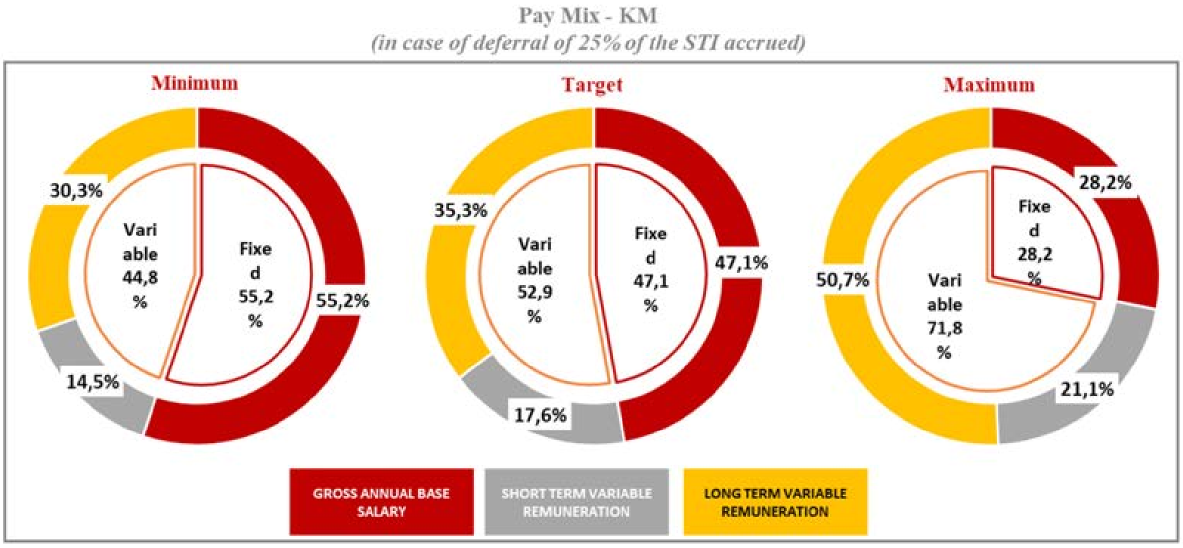
The remuneration of the General Managers (at the date of the Report the General Manager Operations Andrea Casaluci[91]) and the KM has the following elements:

With regard to the incidence of the various components, the structure of the compensation package of the General Manager Operations and KM in the event of achievement of the objectives of 2021 STI and 2021-2023 LTI plans at minimum, target and maximum level is shown below.

Pay Mix – General Manager Operations
(in case of deferral of 25% of the STI accrued)



[91] Note that Angelos Papadimitriou ceased to hold the office of General Manager co-CEO as of 28 February 2021.



The analysis of the remuneration of the General Manager Operations and the KM, reviewed once a year and disclosed in the compensation report, is carried out with the help of an independent company specialised in executive compensation (Korn Ferry). The method used is "Job Grading", which compares the roles on the basis of three different components (know-how, problem solving and accountability), whereby the weighting of each role is determined within the organisation.

The market benchmark used to verify the competitiveness of the related remuneration includes approximately 400 listed European companies selected by Korn Ferry, included on the FTE500 list - which includes the 500 highest cap European companies.

In the case of hiring a new General Manager, in addition to the company mentioned above, the Company may also use the services of another company specialised in executive compensation (Willis Towers Watson) with the relative methodology and comparison market in view of the complexity and specific nature of the role, after obtaining the agreement of the Remuneration Committee.

Fixed remuneration of the General Managers and KM

The fixed remuneration of the General Managers is determined at the time of appointment by the Board of Directors, based on the favourable opinion provided by the Remuneration Committee, in compliance with the Policy.

The remuneration of KM is determined by the Executive Vice Chairman and Chief Executive Officer, in compliance with the Policy.

The Remuneration Committee assesses the compliance of the remuneration of the aforementioned subjects with the Policy.

In the event of the appointment of a new General Manager or the hiring/qualification of a new KM, the Remuneration Committee defines the grade and benchmark of reference on the basis of their role and responsibilities, making use of those prepared by Willis Towers Watson and/or Korn Ferry, after obtaining the agreement of the Remuneration Committee.

Fixed remuneration that, considering the annual and medium-long term incentive percentages, determines an Annual Total Direct Compensation on-Target not exceeding 80% of the Annual Total Direct Compensation on-Target of the Executive Vice Chairman and Chief Executive Officer for the new General Manager and equal at most to + 20% of the market benchmark (third quartile) for KM, is compliant with the Policy.

In the event of hiring a new General Manager, the fixed remuneration may not exceed 85% of that of the Executive Vice Chairman and Chief Executive Officer and the fixed remuneration of a new KM may not exceed that of the General Manager Operations.

The proposals of determination and revision of the fixed remuneration are carried out with reference to the purpose of the Policy to attract, retain and motivate key resources to achieve the Company's objectives. A revision which, taking into account the annual and medium/long-term incentive percentages, determines an Annual Total Direct Compensation on-Target equal to at most +10% compared to the market benchmark (third quartile) is compliant with the Policy, without prejudice, for General Managers, to the limit of 85% of the fixed remuneration of the Executive Vice Chairman and Chief Executive Officer and for KM the limit of the fixed remuneration of the General Manager Operations. In such case the Related-Parties Transactions Procedure applies.

Annual variable component (STI)

The General Managers and KM are beneficiaries of the STI plan, defined according to the same structure, mechanisms and objectives as for the Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO.

On the basis of the performance level achieved, the following shall be paid:

- an incentive of 50% of the GABS for the General Manager Operations and an incentive of 35% of the GABS for KM if the minimum performance level is achieved;
- an incentive of 75% of the GABS for the General Manager Operations and an incentive of 50% of the GABS for KM if the on-target performance is achieved;
- an incentive of 150% of the GABS for the General Manager Operations and an incentive of 100% of the GABS for KM if the maximum performance is achieved (equal to double the on-target incentive).

In the event of hiring a new General Manager, the Remuneration Committee, having as reference the purpose of the Policy to attract key resources for the achievement of corporate objectives, may set incentive percentages higher than those indicated above, provided that they are not higher than those of the Executive Vice Chairman and Chief Executive Officer. In such case the Related-Party Transactions Procedure applies.

For General Managers and KM part of the remuneration accrued as STI, from a minimum of 25% to a maximum of 50%, is deferred, with a view to retention, and disbursed at the end of a three-year period subject to the continuation of employment relationship and together with a company matching component which can vary from a minimum of 1 time to a maximum of 1.5 times the amount of the deferred STI.

Medium-long term variable component (LTI)

In order to contribute to the Company's strategy, the pursuit of long-term interests and the sustainability of the Company, General Managers and KM are beneficiaries of mediu-/long term incentive plans and, in particular, of the 2020-2022 LTI Plan and the 2021-2023 LTI Plan. The LTI plans have the same structure, mechanisms and objectives as those envisaged for the Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO.

Within the scope of the 2021-2023 LTI Plan, on the basis of the performance level achieved, the following shall be paid:

- an annually based bonus opportunity of 45% of the GABS for the General Manager Operations and 37.5% of the GABS for KM if the "access threshold" performance level is achieved (75% of the on-target incentive).
- an annually based bonus opportunity of 60% of the GABS for the General Manager Operations and 50% of the GABS for KM if the on-target performance is achieved;
- an annually based bonus opportunity of 160% of the GABS for the General Manager Operations and 130% of the GABS for KM if the maximum performance is achieved.

In the event of appointment of a new General Manager, the Remuneration Committee, having as reference the purpose of the Policy to attract key resources for the achievement of corporate objectives, may set incentive percentages higher than those indicated above, provided that they are not higher than those of the Executive Vice Chairman and Chief Executive Officer. In such case the Related-Parties Transactions Procedure applies.

In the event of termination of the employment relationship for any reason before the end of the three-year period, the General Managers and KM will no longer form part of the LTI plans and no award nor pro-quota award will be paid.

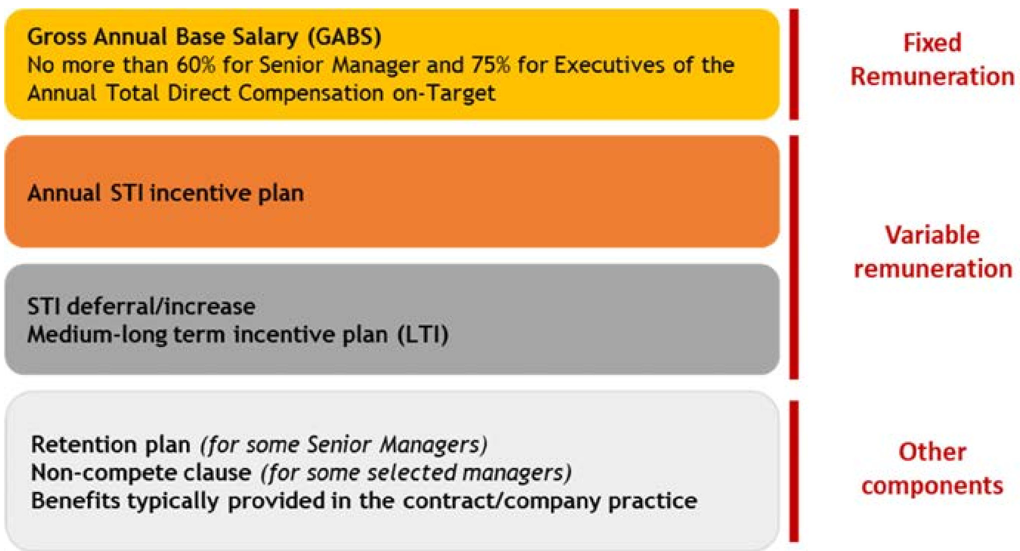
Non-monetary benefits, conventional seniority and welcome bonus

Non-monetary elements of remuneration are benefits provided to General Managers and KM as a result of contractual provisions/company policies or aimed at reinforcing attraction during the recruitment phase (for example, accommodation and student grants for family members for limited periods of time).

Moreover, in the case of hiring a new General Manager or KM, the Remuneration Committee may establish (i) an agreed seniority recognised on the basis of previous experience in similar roles, (ii) the attribution of a one-off bonus not exceeding 100% of the beneficiary's fixed gross annual remuneration, taking into account the Policy's objective of attracting key resources to achieve the company's objectives.

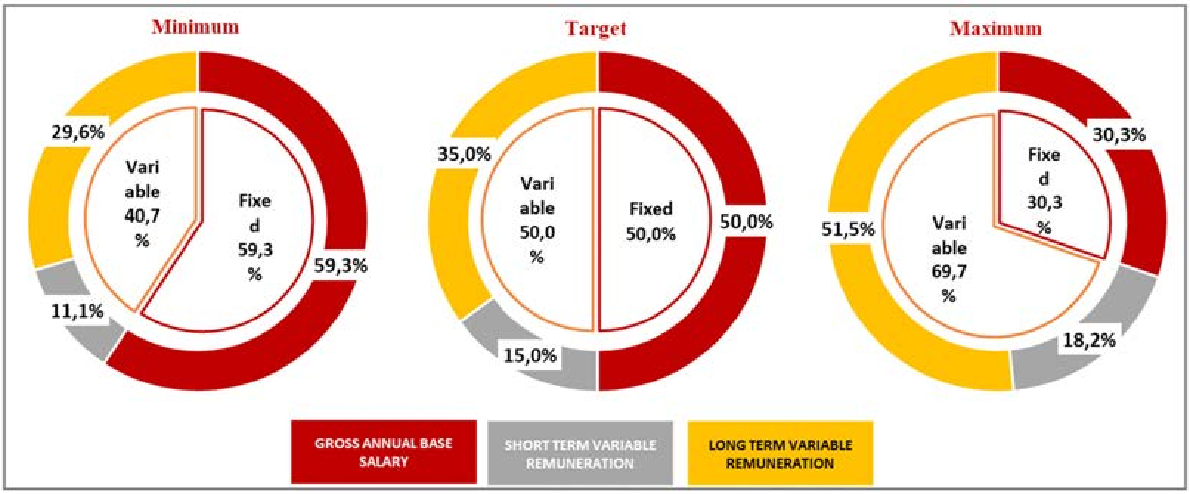
6. SENIOR MANAGERS AND EXECUTIVES

The remuneration of Senior Managers and Executives consists of the following elements:

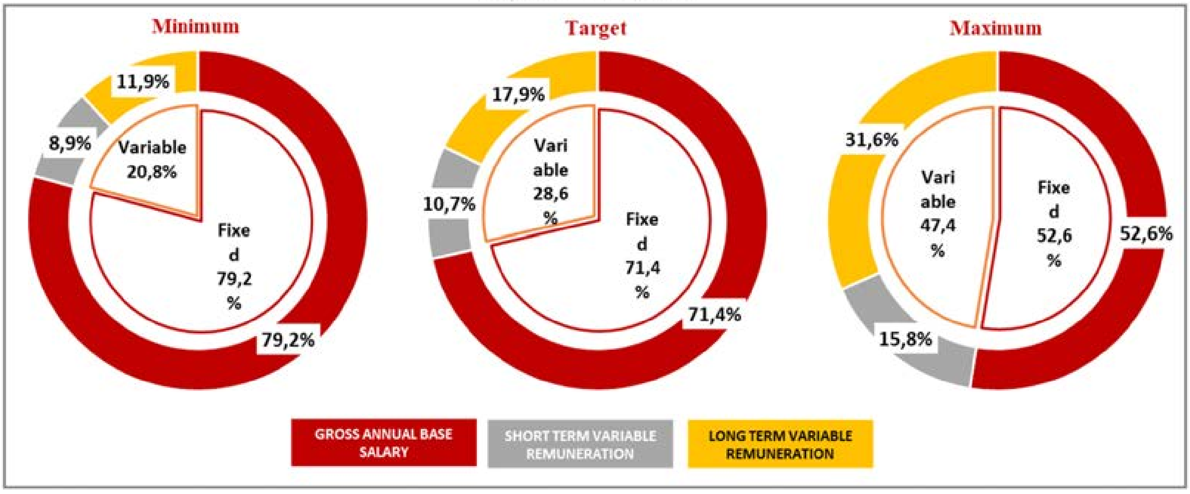


The remuneration structure for Senior Managers and Executives (as a whole) with evidence of the incidence of the various parts of their compensation packages, in the event that they achieve the objectives of the 2021 STI and 2021-2023 LTI plans at -minimum, target and maximum levels is shown below.

Pay Mix – Senior Managers
(in case of deferral of 25% of the STI accrued)



Pay Mix – Executives



Also, the analysis of the remuneration of Senior Managers and Executives is carried out with the help of an independent company specialised in executive compensation (Korn Ferry) with the same methodology as described previously with regard to General Manager Operations and KM.

For managers of the Internal Audit department, it should be noted that, in line with best practices, the fixed component has a higher incidence than the variable.

Annual variable component (STI)

Senior Managers and Executives are beneficiaries of the STI plan, defined according to the same structure and the same mechanisms as for the Executive Vice Chairman and Chief Executive Officer, the Deputy-CEO, the General Managers and the KM.

For the year 2021, the objectives assigned to Senior Managers and Executives are as shown in the table below:

STI scorecard - Senior/Executive Headquarter	Weight of objectives
Group Net Cash Flow (before dividends)	ON/OFF condition
Group adjusted EBIT	30%
Group Net Cash Flow (before dividends)	20%
Functional objective/s with Group scope	40%
Sustainability objective - value of the «Eco & Safety Performance Revenues» on the whole range	10%

STI scorecard - Senior/Executive of Region/BU	Weight of objectives
Group Net Cash Flow (before dividends) - BU Region Net Cash Flow (before dividends) - Region DSO - Sales Managers[1]	ON/OFF condition
Adjusted EBIT of Region/BU/Country	From 30% to 40%
Group/Region Net Cash Flow (before dividends)	From 10% to 20%
Functional objective/s with Region/BU/Group scope	40%
Sustainability objective - value of the «Eco & Safety Performance Revenues» on the whole range	10%

1) If the on/off NCF Region or DSO condition is not met, the on/off NCF Group condition will apply with a 25% reduction of the total payout accrued.

According to the performance level achieved, the Senior Managers and Executives are assigned:

- a bonus ranging between 10% and 25% of the GABS, depending on the position held, if minimum performance is achieved;
- a bonus ranging between 15% and 40% of the GABS, depending on the role held if on-target performance is achieved;
- a bonus ranging between 30% and 80% of the GABS, depending on the position held, if maximum performance is achieved (equal to 200% of the on-target incentive).

For selected Senior Managers, in line with what is provided for General Managers and KM, part of the STI accrued, from a minimum of 25% to a maximum of 50%, is deferred, with a view to retention, and disbursed at the end of a three-year period subject to the continuation of employment relationship and together with a company matching component which can vary from a minimum of 1 time to a maximum of 1.5 times the amount of the deferred STI.

For the rest of the Senior Managers and Executives, 75% of the accrued bonus is paid, and the remaining 25% is deferred by 12 months and payable upon the achievement of the STI objectives of the following year, according to the same parameters specified for the Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO.

Medium-long term variable component (LTI).

Senior Managers and Executives are beneficiaries of the medium-long term incentive plan so as to contribute to the Company's strategy and sustainability, and the pursuit of its long-term interests. The 2020-2022 LTI Plan and 2021-2023 LTI Plan are defined according to the same structure, mechanisms and objectives as envisaged for the Executive Vice Chairman and Chief Executive Officer, the Deputy-CEO, General Managers and KM.

Within the scope of the 2021-2023 LTI Plan, on the basis of the performance level achieved, Senior Managers and Executives shall be paid:

- an annually based bonus opportunity ranging between 11.25% and 37.5% of the GABS, depending on the position held, if "access threshold" performance is achieved (75% of the on-target incentive);

- an annually based bonus opportunity ranging between 15% and 50% of the GABS, depending on the position held if on-target performance is achieved;

- an annually based bonus opportunity ranging between 40% and 130% of the GABS, depending on the position held if maximum performance is achieved.

In the event of termination of the employment relationship for any reason before the end of the three-year period, the beneficiary will no longer form part of the LTI plan and no award nor pro-quota award will be paid.

Non-monetary benefits and conventional seniority

Non-monetary elements of remuneration are benefits provided to the Senior Managers and Executives as a result of contractual provisions/company policies or aimed at reinforcing attraction during the recruitment phase (for example, accommodation and student grants for family members for limited periods of time).

In the case of hiring a Senior Manager or Executive, a conventional seniority, equal to the seniority gained in previous experience, may be recognized.

7. CLAWBACK CLAUSES

The annual STI and multi-year (LTI) incentive plans for Directors holding specific offices to whom further specific duties are attributed, General Managers and KM provide inter alia for clawback mechanisms.

In particular, without prejudice to the possibility of any other action permitted by the order to protect the interests of the Company, contractual agreements will be signed with the aforementioned persons, enabling Pirelli to claim back (in whole or in part), within three years of the payment thereof, incentives paid to persons who, due to wilful misconduct or gross negligence, are held responsible for (or are accomplices to) the facts, as indicated below, related to economic and financial indicators included in the Annual Financial Report that involve subsequent comparative information adopted as parameters for the determination of the variable awards in the aforementioned incentive plans:

(i) proven significant errors resulting in non-compliance with the accounting standards applied by Pirelli, or

(ii) proven fraudulent conduct aimed at obtaining a specific representation of Pirelli's financial and equity situation, economic result or cash flow.

8. COMPENSATION IN THE EVENT OF RESIGNATION, DISMISSAL OR TERMINATION OF RELATIONS

It is Pirelli Group policy not to enter into with Directors, General Managers, KM, Senior Managers or Executives agreements regulating economic aspects related to any early termination of relations in retrospect at the initiative of the Company or the individual ("parachutes").

Pirelli aims at agreements to "terminate" relations in a consensual manner. Without prejudice to any legal and/or contractual obligations, agreements to end relations with the Pirelli Group are inspired by the benchmarks in the matter and are within the limits laid down in case law and by the practices in the country in which the agreement was signed.

The company sets its owns internal criteria, with which the other Group companies also comply, for managing early termination agreements of relations with executives and/or those of Directors holding specific offices. If an executive director or General Manager should cease to hold office and/or their employment be terminated, the Company will, upon completion of the internal processes that lead to the attribution or award of indemnities and/or other benefits, provide detailed information on the issue, by means of a press release disseminated to the market.

With regard to Directors holding specific offices to whom further specific duties are attributed and who are not bound by executive employment relationships, Pirelli does not pay compensation or extra bonuses in relation to the end of their mandate. Specific compensation may be paid subject to assessment by the competent corporate bodies, in the following cases:

- termination by the Company for other than cause;
- termination by the director for cause, including but not limited to substantial changes to the role or duties attributed and/or cases of a "hostile" takeover bid.

In such cases, the indemnity amounts to 2 years of gross annual salary, i.e. the sum of (i) the gross annual base salary for the duties performed in the Group, (ii) the average annual variable remuneration (STI) accrued in the previous three years and (iii) TFM on the aforementioned amounts.

As regards General Managers and KM, agreements for consensual termination of employment are submitted to the Remuneration Committee, which assesses their compliance with the Policy and authorises their negotiation by setting the maximum amounts that can be disbursed, including the maintenance of non-monetary benefits for a predetermined period.

The closure amounts are determined with reference to the applicable category national collective bargaining agreements. In particular, as regards General Managers and KM, reference is made to the contract for Industry managers in Italy and the incentive to take voluntary redundancy is determined with reference to the number of months of notice reimbursable by entities and supplementary indemnity in the event of arbitration, depending on the employee's length of service in the Group. Below is an explanatory table:

No. months

		Arbitration Panel	
Years of seniority	Notice	Min	Max
more than 15 years	12	18	24
up to 15 years	10	12	18
up to 10 years	8	8	12
up to 6 years	6	4	8
up to 2 years	6	4	4

After review, evaluation and approval by the competent Committee, it may also be granted to General Managers and KM:

- an additional amount by way of general and novative transaction, within the limits of the low thresholds established for related-parties transactions;

- a period of paid leave or equivalent substitute indemnity between the stipulation of the exit agreement and the effective date of termination of employment.

Finally, a consultancy (or collaboration) agreement may be stipulated between General Managers and KM and a Group company, which is predefined in the term subsequent to termination of the employment contract and subject, in this case too, to the assessment and approval of the competent Committee.

Remuneration due to General Managers and KM by virtue of positions occupied on the Board of Directors is not included in the calculation of severance pay and is due in the amount determined solely for the period during which the position was held on the Board of Directors.

Finally, as regards the medium-long term incentive system (LTI):

- for the Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO, in the case of lapsing from office at the end of mandate or termination of the entire Board of Directors, and subsequent non-appointment even as director, the bonus is to be paid pro-quota.
- for General Managers, KM, Senior Managers and Executives, in the event of termination of the employment relationship for any reason before the end of the three-year period, no award nor pro-quota award will be paid.

9. NON-COMPETITION AGREEMENTS AND RETENTION PLAN

The Group enters into non-competition agreements providing for a payment to the Deputy-CEO, General Managers, KM and, Senior Managers and Executives for particularly crucial duties, in proportion to the GABS in relation to the duration and extent of the constraints arising from the agreement itself.

The constraints refer to the market sector in which the Group was operating when the agreement was made and to territorial size. Extent varies according to the position held when the agreement was completed and can in some highly critical cases, as in the case of the Deputy-CEO, General Managers and KM extend to a wider geographical area covering the main countries where the Group operates.

The Executive Vice Chairman and Chief Executive Officer is not subject to a non-competition agreement.

In the case of Deputy-CEO, General Managers and KM, the non-competition agreement has the following characteristics:

- the list of competitors: companies operating in the tyre sector and, according to the role held, identification of more specific clusters;
- geography: all the main countries in which the Pirelli Group operates;
- the duration of the non-competition agreement: 24 months from when the contract of employment ends;
- the fee: from a minimum of 30% to a maximum of 60% of the GABS on the basis of the role held and the reason for leaving for each year of the duration of the clause following a potential redundancy, less any portion disbursed during the contract of employment, equal to 10% of the GABS per year of clause validity (usually 5 years). When hiring a new General Manager, the consideration for the non-competition agreement may be determined as a percentage above 60% of the GABS and in any case not above 100% and, in this case, the annual payment during employment may be a maximum of 20% of the GABS.

In 2021, the medium-long term Retention Plan for the General Manager Operations, KM and selected Senior Managers/Executives, approved on 26 February 2018, ends. For the General Manager Operations only, the amount of the last instalment of the Retention Plan is adjusted to the GABS received by the same as at 1 January 2021. This is pursuant to the need to reinforce the retention of the General Manager Operations, whose Retention Plan was based on the GABS received in his previous position as KM.

The Retention Plan envisages the recognition of an amount equal to at most 2.3 times the Total Direct Compensation on-Target of each at the time of inclusion in the plan (2017). It is disbursed in four annual instalments of increasing amounts to obtain the maximum retention effect, with the payment of the final instalment planned for 2021. The payment of each instalment is subject to the continuation of the employment of the manager at the Company on the date of each payment.

The Executive Vice Chairman and Chief Executive Officer do not participate in the Retention Plan.

10. DEROGATION TO THE REMUNERATION POLICY

In compliance with art. 123-*ter* of the TUF and art. 84-*quater* of the Issuers' Regulation, the Company may adopt any decisions that temporarily make an exception to the Policy.

With reference to subjects for whom the Board of Directors defines remuneration in accordance with the Policy, in the presence of exceptional circumstances, it is possible to make a temporary exception to the fixed or variable remuneration criteria indicated in the Policy or the structure of non-competition agreements and the attribution of non-monetary benefits.

Exceptional circumstances are situations in which an exception to the Policy is necessary for the purposes of pursuing the long-term interests and sustainability of the Company as a whole or to ensure its ability to stay on the market, such as, for example (i) the need to replace, due to unforeseen events, the Chief Executive Officer, General Managers or KM and to negotiate a remuneration package quickly, without limits to the possibility of attracting managers with the most suitable professional skills to manage the business and to ensure that the same levels of sustainable success and market positioning are at least maintained; (ii) significant changes in the scope of the company's business during the term of the policy, such as the sale of a company/business unit or acquisition of a significant business.

The Remuneration Committee assesses the existence of exceptional circumstances that allow for a derogation to the Policy. In exceptional circumstances, derogations to the Policy are approved in compliance with the procedures adopted by the Company for related-parties transactions, in implementation of the Consob regulation in force at the time.

The Company provides information about any derogations to the Policy applied in exceptional circumstances, in accordance with the terms and conditions of current provisions of law and regulations in force at the time.

11. OTHER INFORMATION

Pursuant to Scheme 7-bis of Annex 3A of the Issuers' Regulations, introduced by Consob Resolution no. 18049 of 23 December 2011 and amended thereafter with Resolution no. 21623 of 10 December 2020, it should be noted that:

- Pirelli has no shareholder incentive plans in place;
- in defining the 2021 Policy, Pirelli has not used the specific remuneration policies of other companies as a benchmark. The Policy has been prepared on the basis of scheme no. 7-*bis* adopted by Consob and in force as at the date on which the Policy was approved. This scheme establishes that the section of the Report provided for by art. 123-*ter* with reference to members of the governing bodies, General Managers and KM, shall contain at least the information set out in the scheme referred to above.

ANNEX 1– GLOSSARY

Directors: members of the Board of Directors of Pirelli & C.

Directors holding specific offices: these are the Directors of Pirelli & C. holding the office of Chairman, Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO. The Directors holding specific offices in other Group companies, who are also managers, are, for the purpose of the Policy, Executives or Senior Managers, depending on the role held and, unless otherwise resolved by the Board of Directors of Pirelli & C. which classifies them as KM.

Directors with no specific offices: are the Directors of Pirelli & C. other than those holding specific offices. Directors with no specific offices in other Group companies, who are also managers, are, for the purpose of the Policy, Executives or Senior Managers, depending on the role held and unless otherwise resolved by the Board of Directors of Pirelli & C., which classifies them as KM.

Annual Total Direct Compensation on-Target: means the sum total of the following components, regardless of whether they were disbursed by Pirelli & C. or by another Group company:

(i) gross annual base salary of the remuneration;

(ii) annual variable short-term incentive (STI), if target objectives are achieved;

(iii) medium-long term variable component comprising:

a. annual value of the long-term incentive (LTI) plan if multi-year target objectives are achieved;

b. pro quota value of the STI accrued and deferred, to be paid if the underlying conditions are met;

c. an additional value of an equal or higher amount in respect of the pro quota of the STI accrued and deferred, to be paid if the underlying conditions are met.

Shareholders' Meeting: means the meeting of the shareholders of Pirelli & C..

Remuneration Committee: the Remuneration Committee of Pirelli & C..

Board of Directors: indicates the Board of Directors of Pirelli & C..

General Manager(s): the persons chosen by the Pirelli & C. Board of Directors to be assigned extensive powers of business segment management. The subjects holding the office of General Manager in other Group companies are, for the purpose of the Policy, Executives or Senior Managers, depending on the role held and unless otherwise resolved by the Board of Directors of Pirelli & C., which classifies them as KM.

KM: executives, chosen by the Pirelli & C. Board of Directors in accordance with the procedure confirmed and adopted by Board resolution passed on 22 June 2020, having the power or responsibility for planning, directing and controlling the Company's activities or the power to make decisions that can impact its evolution or future prospects and, more generally, those of Pirelli. In accordance with the procedure, in any case all employees holding the following positions must be classified as KM: (i) General Manager; (ii) Executive Vice President; (iii) Manager responsible for the preparation of financial and corporate documents; (iv) Company Secretary.

Executives: managers of the Italian companies or employees of the Group's foreign companies with a position or role that is comparable to that of an Italian manager.

The **Pirelli Group** or **Pirelli** or the **Group**: means all the companies included in the Pirelli & C. consolidation scope.

Management: means all Directors holding specific offices, General Managers, KM, Senior Managers and Executives.

2020-2022 LTI Plan: means the Long-Term Incentive plan for the three-year period cycle 2020-2022, in support of the achievement of the new objectives set by the 2020-2022 Strategic Plan and approved by the Board of Directors on 19 February 2020 and subsequently by the Shareholders' Meeting held on 18 June 2020,as subsequently modified by the Board of Directors on 31 March 2021 (amendment submitted to the Shareholders' Meeting scheduled for 15 June 2021).

2021-2023 LTI Plan: means the Long-Term Incentive Plan for the three-year period cycle 2021-2023 approved by the Board of Directors on 31 March 2021 and subject to the approval of the Shareholders' Meeting scheduled for 15 June 2021, in support of the achievement of the new objectives set by the 2021-2022/2025 Strategic Plan.

Retention Plan: means the Retention Plan explained in paragraph 9, approved by the Board of Directors on 26 February 2018.

2020-2022 Strategic Plan: means the business plan approved by the Pirelli & C. Board of Directors on 19 February 2020.

2021-2022/2025 Strategic Plan: means the business plan approved by the Pirelli & C. Board of Directors on 31 March 2021.

GABS: means the gross annual base salary of the compensation for those employed by a Pirelli Group company.

Senior Managers: means the persons to whom the following shall first report, except where they are KM, (i) Directors holding specific offices to whom specific duties have been attributed and (ii) General Managers, where the work of the Senior Manager significantly impacts business results.

Statutory Auditors: members of the Board of Statutory Auditors of Pirelli & C.

The **Company** or **Pirelli & C.**: means Pirelli & C. S.p.A.

STI: means the annual variable component of remuneration that can be achieved if the predefined corporate objectives are achieved, as more fully described in paragraphs 2, 4, 5 and 6.

Top Management: means all Directors holding specific offices, General Managers and KM.

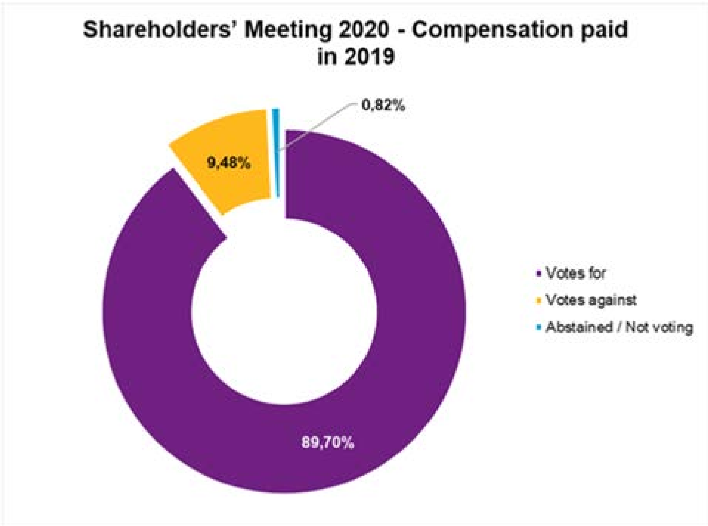
REPORT ON COMPENSATION PAID IN 2020

1. REPRESENTATION OF REMUNERATION ITEMS

The Compensation Report sets out the Policy implemented by the Pirelli Group during the 2020 financial year with regard to remuneration and provides information on the final remuneration of the various categories of persons concerned, without prejudice to the transparency obligations contained by other applicable legal or regulatory provisions, highlighting its compliance with the Policy on remuneration approved the previous year (**2020 Policy**).

The subject appointed to carry out the external audit of the financial statements verifies that the Directors have prepared the Report on Compensation paid. The Shareholders' Meeting express its advisory vote on the second section of the Report.

The Shareholders' Meeting held on 18 June 2020 voted in favour of the Report on Compensation Paid in the 2019 financial year. The graph below shows the result of the advisory vote



1.1 TOTAL REMUNERATION

It is recalled that, given the health emergency related to the spread of Covid-19, at the meeting on 3 April 2020, having obtained the favourable opinion, for all intents and purposes, of the relevant Board Committees and the Board of Statutory Auditors, the Board of Directors resolved - subject to approval by the Shareholders' Meeting of the 2020 Policy and the favourable advisory vote on Compensation Paid during 2019 - to early close the 2020 STI Plan without payment and, as a result (i) to pay, in the first quarter of 2021, the participants of the 2019 STI Plan 25% of the bonus accrued and initially subject to the achievement of the 2020 STI objectives, making the payment conditional to the maintenance of employment relationship/position as director of the Company until that date (except for "good leavers" who will receive this component in any case), and (ii) to cancel the opportunity of increasing the 2019 STI.

On the same date, as part of the actions taken in response to the Covid-19 health emergency, the Board of Directors acknowledged and shared the wish of all the members of the Board of Directors to renounce a part of the remuneration paid to them and in particular (i) the wish of the Executive Vice Chairman and Chief Executive Officer to renounce, for three months, 50% of the gross fixed annual compensation paid to him for the offices of Executive Vice Chairman and Chief Executive Officer, director and Chairman of some board committees; (ii) the wish of the directors to renounce, for the second quarter, 50% of the remuneration they are paid as directors and members of the board committees.

At the same meeting the Board of Directors also acknowledged the wish of the leadership team (made up of KM and some Senior Managers) to renounce 20% of their gross annual base salary for a period of three months.

As a result of the above, no indication is provided for the 2020 financial year with regard to the variable components of remuneration and, in particular, the methods for applying the performance objectives, the comparison between the objectives achieved and those envisaged as well as the proportion between fixed and variable remuneration.

1.2 COMPENSATION IN THE EVENT OF TERMINATION OF OFFICE AND/OR TERMINATION OF EMPLOYMENT RELATIONSHIP DURING THE YEAR 2020

It should be noted that in 2020 there were no cases of termination of office of directors or members of the Board of Statutory Auditors and/or termination of employment of General Managers or KM leading to the allocation of indemnities and/or other benefits.

On 28 February 2021, the agreement for consensual termination of employment with the General Manager co-CEO Angelos Papadimitriou became effective, the terms of which were disclosed to the market and will be reported in the report on compensation paid during the 2021 financial year. Angelos Papadimitriou terminated from the office of Director with the Shareholders' Meeting as of 24 March 2021.

1.3 DEROGATIONS TO THE 2020 POLICY

It should be noted that there were no derogations to the 2020 Policy in exceptional circumstances for Directors (including Directors holding specific offices), General Managers, KM and members of the Board of Statutory Auditors.

1.4 CLAWBACK CLAUSES

It should also be noted that during the year the conditions for the application of the mechanisms for ex post repayment of the variable component (clawback clause) envisaged by the annual (STI) and multi-year (LTI) incentive plans did not occur.

1.5 COMPARISON INFORMATION

The chart below summarises the comparison information for the annual variations, in the last two financial years, of: (i) total remuneration of each of the individuals for whom the information in this section of the Report is provided by name, (ii) the Company's results, (iii) the average gross annual remuneration of the employees.

Annual variation in remuneration and performance

Values in €

		2020	2020 vs 2019	2019 vs 2018
Executive Vice Chairman and Chief Executive Officer			*Actual Total Cash* [1]	
Marco Tronchetti Provera		2.239.112	-47%	-11%
General Manager of Operations			*Actual Total Cash* [1]	
Andrea Casaluci		712.500	-33,0%	23,0%
Board of Directors				
Name	**Position**		*Actual Total Cash* [1]	
Ning Gaoning [2]	Chairman	435.874	-11%	148%
Yang Xingqiang	Director	79.344	-12%	0%
Bai Xinping	Director	128.805	-11%	0%
Tao Haisu	Director	81.844	-9%	0%
Zhang Haitao	Director	47.500	-	-
Paola Boromei	Director	47.500	-	-
Domenico De Sole	Director	121.407	-19%	0%
Roberto Diacetti	Director	47.500	-	-
Giovanni Lo Storto	Director	126.421	15%	58%
Marisa Pappalardo	Director	126.633	27%	0%
Angelos Papadimitriou	Director	664.583	-	-
Giovanni Tronchetti Provera	Director	273.959	3%	23%
Fan Xiaohua	Director	96.844	8%	0%
Wei Yintao	Director	79.344	-12%	0%
Board of Statutory Auditors				
Name	**Position**		*Actual Total Cash* [1]	
Francesco Fallacara	Chairman	75.000	0%	0%
Antonella Carù	Standing auditor	100.000	0%	3%
Fabio Artoni	Standing auditor	70.000	0%	7%
Luca Nicodemi	Standing auditor	60.000	0%	6%
Alberto Villani	Standing auditor	50.000	0%	0%
Results			*Actual Result*	
Relative TSR [3]		-	-7,6%	-2,2%
Group Adjusted EBIT (mln euros)		501	-45,4%	-4,0%
Average remuneration of employees			*Actual Total Cash* [1]	
Employees of Pirelli & C. S.p.A. active at 31/12		78.445	-11,4%	-3,1%

[1] Fixed remunerations as well as the compensations for any partecipation in committees + Bonus and other incentives

[2] Ning Gaoning was appointed Chairman in 2018

[3] Vs peer panel made up of: Nokian, Michelin, Continental, Goodyear and Bridgestone

2. *THE “TABLE”: REMUNERATION PAID TO MEMBERS OF THE ADMINISTRATIVE AND CONTROLLING BODIES, GENERAL MANAGERS AND KM.*

The following tables set out:

- by name, the remuneration paid to Directors, Statutory Auditors and General Managers;
- in aggregate form, the remuneration paid to KM[92]. As of 31 December 2020, in addition to the General Manager co-CEO (Angelos Papadimitriou) and the General Manager Operations (Andrea Casaluci), 7 KM were in office.

Remuneration is reported on an accruals basis and the notes to the tables indicate the office for which the remuneration is received (for example, where a director is a member of more than one Board Committee) and the company - Pirelli & C. or subsidiary and/or affilited company - that proceed with the relevant payment (not for remuneration waived or transferred to the Company).

The tables include all those individuals who held the aforementioned positions during all or even only part of the 2020 year. Non-monetary benefits, where received, are also identified on an accruals basis, and reported according to the “taxable income criterion” of the benefit assigned. In particular, It should be noted that, as mentioned above:

- those who, during 2020, were directors of the Company who accrued/received (on an accruals basis) remuneration established in accordance with the criteria set out in paragraph 3 of the 2020 Policy;
- those who, during 2020, were Directors holding specific offices (Executive Vice Chairman and Chief Executive Officer and Chairman) who accrued/received (on an accruals basis) remuneration established in accordance with the criteria set out in section 4 of the 2020 Policy;
- the General Manager Operations accrued/received (on an accruals basis) compensation established in accordance with the criteria set out in section 5 of the 2020 Policy;
- the General Manager co-CEO, by reason of his employment as of 1 August 2020, accrued/received (on an accrual basis) a fixed compensation established in accordance with the criteria set forth in section 5 of the 2020 Policy (in addition to the compensation received by reason of the positions held on the Board of Directors); -the KM received/accrued remuneration for the 2020 financial year in accordance with the criteria outlined in section 5 of the 2020 Policy;

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[92] Point b) of Section II of Scheme 7-bis of Annex 3 A of the so-called Issuers’ Regulations provides that the Report on compensation paid is structured into two parts:

a) *the remuneration of members of the administrative and controlling bodies and the General Managers;*
b) *the remuneration of any other Key Managers with strategic responsibilities who have received, in the reporting year, total remuneration (obtained by adding their salary and any remuneration based on financial instruments) that exceeded the highest total remuneration attributed to the persons indicated in point a).*

For key managers other than those indicated in point b) information is provided at aggregate level in special tables, indicating the number of persons to whom it refers in place of names”.

- each member of the Board of Statutory Auditors received/accrued remuneration for the 2020 financial year in line with the provisions of the Shareholders' Meeting at the time of appointment, in accordance with the criteria set out in section 3 of the 2020 Policy;

- each member of the Supervisory Body received/accrued remuneration pertaining to the year 2020 equal to an annual gross remuneration of euro 40,000 and the Chairman received/accrued an annual gross remuneration of euro 60,000, as set out in section 3 of the 2020 Policy;

- Senior Managers and KM received/accrued remunerations for 2020 year in accordance with the criteria set out in section 6 of the 2020 Policy.

It should be noted that for the General Manager Operations, KM and more generally other selected Senior Manager and Executives, Pirelli has introduced non-competition agreements to protect strategic and operational know-how. The Executive Vice Chairman and Chief Executive Officer is not party to a non-competition agreement, nor is the General Manager co-CEO. For the resolutions adopted by the Company's Board of Directors in connection with actions in response to the Covid-19 health emergency, please refer to section 1.1. of this section.

First and last name	Office	Period office held	Expiry of term of office	Fixed remuneration	Remuneration for membership of committees	Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	End of employment or office indemnity
						Bonus and other incentives	Profit sharing					
Marco Tronchetti Provera	Vice Chairman and CEO	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2022	**2,153,730.00**	**85,382.00**	**0.00**	**0.00**	**601,202.00**	**0.00**	**2,840,314.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				2,153,730.00 (1)	85,382.00 (2)	0.00 (3)		601,202.00 (4)		2,840,314.00		
Of which remuneration by subsidiary and affiliated Companies												
Ning Gaoning	Chairman	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2022	**395,260.00**	**40,614.00**	**0.00**	**0.00**	**0.00**	**0.00**	**435,874.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				395,260.00 (5)	40,614.00 (6)					435,874.00 (7)		
Of which remuneration by subsidiary and affiliated Companies												
Yang Xingqiang	Director	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2022	**53,730.00**	**25,614.00**	**0.00**	**0.00**	**0.00**	**0.00**	**79,344.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				53,730.00 (8)	25,614.00 (9)					79,344.00 (7)		
Of which remuneration by subsidiary and affiliated Companies												
Bai Xinping	Director	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2022	**53,730.00**	**75,075.00**	**0.00**	**0.00**	**0.00**	**0.00**	**128,805.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				53,730.00 (8)	75,075.00 (10)					128,805.00 (7)		
Of which remuneration by subsidiary and affiliated Companies												
Paola Boromei	Director	18/06/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2022	**32,500.00**	**15,000.00**	**0.00**	**0.00**	**0.00**	**0.00**	**47,500.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				32,500.00 (8)	15,000.00 (11)					47,500.00		
Of which remuneration by subsidiary and affiliated Companies												
Giorgio Luca Bruno	Director	01/01/2020 - 18/06/2020	AGM to approve the financial statements for the year to 31 December 2019	**21,230.00**	**0.00**	**0.00**	**0.00**	**0.00**	**398,000.00**	**419,230.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				21,230.00 (8)	0.00 (12)				398,000.00 (13)	419,230.00		
Of which remuneration by subsidiary and affiliated Companies												
Laura Cioli	Director	01/01/2020 - 18/06/2020	AGM to approve the financial statements for the year to 31 December 2019	**21,230.00**	**17,691.00**	**0.00**	**0.00**	**0.00**	**0.00**	**38,921.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				21,230.00 (8)	17,691.00 (14)					38,921.00		
Of which remuneration by subsidiary and affiliated Companies												

First and last name	Office	Period office held	Expiry of term of office	Fixed remuneration	Remuneration for membership of committees	Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	End of employment or office indemnity
						Bonus and other incentives	Profit sharing					
Domenico De Sole	Director	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2022	**53,730.00**	**67,677.00**	**0.00**	**0.00**	**0.00**	**0.00**	**121,407.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				53,730.00 (8)	67,677.00 (15)					121,407.00		
Of which remuneration by subsidiary and affiliated Companies												
Roberto Diacetti	Director	18/06/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2022	**32,500.00**	**15,000.00**	**0.00**	**0.00**	**0.00**	**0.00**	**47,500.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				32,500.00 (8)	15,000.00 (16)					47,500.00		
Of which remuneration by subsidiary and affiliated Companies												
Fan Xihaoua	Director	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2022	**53,730.00**	**43,114.00**	**0.00**	**0.00**	**0.00**	**0.00**	**96,844.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				53,730.00 (8)	43,114.00 (17)					96,844.00		
Of which remuneration by subsidiary and affiliated Companies												
Ze'ev Goldberg	Director	01/01/2020 - 18/06/2020	AGM to approve the financial statements for the year to 31 December 2019	**21,230.00**	**10,614.00**	**0.00**	**0.00**	**0.00**	**0.00**	**31,844.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				21,230.00 (8)	10,614.00 (9)					31,844.00		
Of which remuneration by subsidiary and affiliated Companies												
Giovanni Lo Storto	Director	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2022	**53,730.00**	**72,691.00**	**0.00**	**0.00**	**0.00**	**0.00**	**126,421.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				53,730.00 (8)	72,691.00 (18)					126,421.00		
Of which remuneration by subsidiary and affiliated Companies												
Marisa Pappalardo	Director	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2022	**53,730.00**	**72,903.00**	**0.00**	**0.00**	**0.00**	**0.00**	**126,633.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				53,730.00 (8)	72,903.00 (19)					126,633.00		
Of which remuneration by subsidiary and affiliated Companies												
Cristina Scocchia	Director	01/01/2020 - 18/06/2020	AGM to approve the financial statements for the year to 31 December 2019	**21,230.00**	**22,998.00**	**0.00**	**0.00**	**0.00**	**0.00**	**44,228.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				21,230.00 (8)	22,998.00 (20)					44,228.00		
Of which remuneration by subsidiary and affiliated Companies												

First and last name	Office	Period office held	Expiry of term of office	Fixed remuneration	Remuneration for membership of committees	Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	End of employment or office indemnity
						Bonus and other incentives	Profit sharing					
Carlo Secchi	Director	18/06/2020 - 05/08/2020	AGM to approve the financial statements for the year to 31 December 2022	**6,305.00**	**73,095.00**	**0.00**	**0.00**	**0.00**	**0.00**	**79,400.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				6,305.00 (8)	73,095.00 (21)					79,400.00		
Of which remuneration by subsidiary and affiliated Companies												
Tao Haisu	Director	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2022	**53,730.00**	**28,114.00**	**0.00**	**0.00**	**0.00**	**0.00**	**81,844.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				53,730.00 (8)	28,114.00 (22)					81,844.00		
Of which remuneration by subsidiary and affiliated Companies												
Giovanni Tronchetti Provera	Director	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2022	**248,345.38**	**25,614.00**	**0.00**	**0.00**	**13,906.00**	**0.00**	**287,865.38**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				53,730.00 (8)	25,614.00 (23)					79,344.00		
Of which remuneration by subsidiary and affiliated Companies				194,615.38 (24)		0.00 (3)		13,906.00 (25)		208,521.38		
Wei Yin Tao	Director	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2022	**53,730.00**	**25,614.00**	**0.00**	**0.00**	**0.00**	**0.00**	**79,344.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				53,730.00 (8)	25,614.00 (9)					79,344.00		
Of which remuneration by subsidiary and affiliated Companies												
Haitao Zhang	Director	18/06/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2022	**32,500.00**	**15,000.00**	**0.00**	**0.00**	**0.00**	**0.00**	**47,500.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				32,500.00 (8)	15,000.00 (16)					47,500.00 (7)		
Of which remuneration by subsidiary and affiliated Companies												
Angelos Papadimitriou	Director and General Manager co-CEO	05/08/2020-31/12/2020 (26)	AGM to approve the financial statements for the year to 31 December 2022	**652,083.00**	**12,500.00**	**0.00**	**0.00**	**9,168.00**	**0.00**	**673,751.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				652,083.00 (27)	12,500.00 (9)			9,168.00 (28)		673,751.00		
Of which remuneration by subsidiary and affiliated Companies												
Andrea Casaluci	General Manager Operations		/	**712,500.00**	**0.00**	**0.00**	**0.00**	**14,478.00**	**350,000.00**	**1,076,978.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies				712,500.00	0.00	0.00 (3)		14,478.00 (29)	350,000.00 (30)	1,076,978.00		

First and last name	Office	Period office held	Expiry of term of office	Fixed remuneration	Remuneration for membership of committees	Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	End of employment or office indemnity
						Bonus and other incentives	Profit sharing					
No. 7 Executives with strategic responsibilities	(31)		/	**3,363,673.08**	**40,000.00**	**0.00**	**0.00**	**102,073.00**	**3,794,000.00**	**7,299,746.08**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				2,324,826.92	40,000.00 (32)	0.00 (3)		72,043.00 (33)	2,296,500.00 (34)	4,733,369.92		
Of which remuneration by subsidiary and affiliated Companies				1,038,846.15	0.00	0.00 (3)		30,030.00 (33)	1,497,500.00 (34)	2,566,376.15		
Francesco Fallacara	Chairman of the Board of Statutory Auditors	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2020	**75,000.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**75,000.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				75,000.00						75,000.00		
Of which remuneration by subsidiary and affiliated Companies												
Antonella Carù	Standing auditor	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2020	**60,000.00**	**40,000.00**	**0.00**	**0.00**	**0.00**	**0.00**	**100,000.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				50,000.00	40,000.00 (32)					90,000.00		
Of which remuneration by subsidiary and affiliated Companies				10,000.00 (35)						10,000.00		
Fabio Artoni	Standing auditor	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2020	**70,000.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**70,000.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				50,000.00						50,000.00		
Of which remuneration by subsidiary and affiliated Companies				20,000.00 (36)						20,000.00		
Luca Nicodemi	Standing auditor	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2020	**60,000.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**60,000.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				50,000.00						50,000.00		
Of which remuneration by subsidiary and affiliated Companies				10,000.00 (35)						10,000.00		
Alberto Villani	Standing auditor	01/01/2020 - 31/12/2020	AGM to approve the financial statements for the year to 31 December 2020	**50,000.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**50,000.00**	**0.00**	**0.00**
Of which remuneration in Pirelli & C. S.p.A.				50,000.00						50,000.00		
Of which remuneration by subsidiary and affiliated Companies												
* * * * *												
Total remuneration in Pirelli & C. S.p.A.				**6,473,194.92**	**824,310.00**	**0.00**	**0.00**	**682,413.00**	**2,694,500.00**	**10,674,417.92**	**0.00**	**0.00**
Total remuneration by subsidiary and affiliated Companies				**1,985,961.54**	**0.00**	**0.00**	**0.00**	**58,414.00**	**1,847,500.00**	**3,891,875.54**	**0.00**	**0.00**
Total				**8,459,156.46**	**824,310.00**	**0.00**	**0.00**	**740,827.00**	**4,542,000.00**	**14,566,293.46**	**0.00**	**0.00**

(1) Of which: euro 53,730 as a Director of Pirelli & C. S.p.A. and euro 2.1 as Executive Vice Chairman and Chief Executive Officer of Pirelli & C. S.p.A.
(2) Of which euro 42,691 as Chairman of the Appointments and Successions Committee of Pirelli & C. S.p.A. and euro 42,691 as Chairman of the Strategies Committee of Pirelli & C. S.p.A.
(3) The 2020 STI incentive is not indicated in light of the resolutions adopted by the Board of Directors on 3 April 2020 (see the table below for details of the amounts relating to 25% of the 2019 STI, payment of which is conditional upon the beneficiary maintaining their employment/position as director until that date).
(4) Of which: euro 595,991 for insurance policies in line with the provisions of the 2020 Remuneration Policy, and euro 5,211 for a company car.

(5) Of which euro 341,530 as a Chairman of Pirelli & C. S.p.A. and euro 53,730 as a Director of Pirelli & C. S.p.A.
(6) Of which euro 25,614 as member of the Appointments and Successions Committee of Pirelli & C. S.p.A. and euro 15,000 as member of the Strategies Committee of Pirelli & C. S.p.A. starting from 22.06.2020.
(7) Remuneration transferred to employer company.
(8) As a Director of Pirelli & C. S.p.A.
(9) As a member of the Strategies Committee of Pirelli & C. S.p.A.
(10) Of which: euro 23,846 as a member of the Remuneration Committee of Pirelli & C. S.p.A., euro 25,615 as a member of the Appointments and Successions Committee of Pirelli & C. S.p.A., and euro 25,614 as a member of the Strategies Committee of Pirelli & C. S.p.A.
(11) As a member of the Remuneration Committee of Pirelli & C. S.p.A. starting from 22.06.2020.
(12) Since 26.02.2019 and up to the expiry of the mandate he was a member of the Strategies Committee of Pirelli & C. S.p.A., expressly renouncing remuneration.
(13) Deriving from the consultancy agreement signed with Pirelli & C. S.p.A. effective as of 1 January 2019 for an annual sum of euro 300,000 and 5-year duration and from the non-competition agreement disbursed after leaving his position as Director for euro 98,000.
(14) Of which: euro 8,845 as member of the Audit, Risks, Sustainability and Corporate Governance Committee of Pirelli & C. S.p.A. (“ARSCGC”) and euro 8,846 as member of the Remuneration Committee of Pirelli & C. S.p.A.
(15) Of which: euro 25,614 as member of the Strategies Committee of Pirelli & C. S.p.A., euro 21,230 as Chairman of the Related-Parties Transactions Committee of Pirelli & C. S.p.A. (“RPT Committee”) from 1.01.2020 to 18.06.2020 and euro 20,833 as member of the RPT Committee from 05.08.2020.
(16) As member of the ARSCGC from 22.06.2020.
(17) Of which: euro 28,114 as Chairman of the ARSCGC and euro 15,000 as member of the Remuneration Committee of Pirelli & C. S.p.A. from 22.06.2020.
(18) Of which: euro 23,845 as member of the ARSCGC, euro 8,846 as member of the Remuneration Committee of Pirelli & C. S.p.A. up until 18.06.2020, euro 15,000 as member of the Strategies Committee of Pirelli & C. S.p.A. from 22.06.2020 and euro 25,000 as member of the RPT Committee from 22.06.2020.
(19) Of which: euro 15,000 as member of the ARSCGC from 22.06.2020, euro 12,500 as member of the Remuneration Committee of Pirelli & C. S.p.A. from 5.08.2020, euro 14,153 as member of the RPT Committee from 1.01.2020 to 18.06.2020 and euro 31,250 as Chairman of the RPT Committee from 05.08.2020.
(20) Of which: euro 8,845 as a member of the ARSCGC and euro 14,153 as a member of the RPT Committee.
(21) Of which: euro 2,910 as member of the ARSCGC, euro 2,910 as member of the Remuneration Committee of Pirelli & C. S.p.A., euro 7,275 as Chairman of the RPT Committee and euro 60,000 as Chairman of the 231 Supervisory Body.
(22) As Chairman of the Remuneration Committee of Pirelli & C. S.p.A.
(23) As a member of the Appointments and Successions Committee of Pirelli & C. S.p.A.
(24) As manager of Pirelli Tyre S.p.A. for the whole of 2020.
(25) Of which: euro 3,370 for a company car, euro 7,200 for supplementary pension contributions and euro 3,336 for health insurance.
(26) Hired as General Manager co-CEO of the Company from 01.08.2020 and member of the Board of Directors from 05.08.2020.
(27) Of which: euro 27,083 as Director of Pirelli & C. S.p.A as of 5 August 2020 and euro 625,000 as General Manager co-CEO of Pirelli & C. S.p.A. as of 1 August 2020.
(28) Of which: euro 2,756 for a company car, euro 1,800 for supplementary pension contributions, euro 1,390 for health insurance and euro 3,222 for accommodation assigned on loan for use, starting from when he was hired as a manager on 01.08.2020.
(29) Of which: euro 3,942 for a company car, euro 7,200 for supplementary pension contributions and euro 3,336 for health insurance.
(30) Of which: euro 275,000 under the Retention Plan and euro 75,000 as payment during the employment contract of a portion of the fee for the non-competition agreement.
(31) As of 31.12.2020 there were 7 KM. It should be noted that the remuneration paid to the General Manager co-CEO and the General Manager Operations is not included in this item, as these figures are named separately in the table.
(32) As a member of the 231 Supervisory Body.
(33) The amounts are for a company car, supplementary pension contributions and health insurance.
(34) The amounts are for payment during the employment contract of a portion of the fee for the non-competition agreement and the Retention Plan paid in 2020.
(35) As a standing auditor of Pirelli Tyre S.p.A.
(36) As a standing auditor of Pirelli Industrie Pneumatici S.r.l. and Chairman of the Board of Statutory Auditors of Pirelli Tyre S.p.A.

3. MONETARY INCENTIVE PLANS FOR MEMBERS OF THE BOARD OF DIRECTORS, GENERAL MANAGERS AND KM

For a description of the monetary incentive plans, please refer to the 2020 Policy.

At the meeting on 3 April 2020, having obtained the favourable opinion of the relevant Board Committees and the Board of Statutory Auditors, the Board of Directors resolved to close the 2020 STI Plan early without payment and, as a result (i) to pay, in the first quarter of 2021, the participants of the 2019 STI Plan 25% of the 2019 STI bonus accrued and initially subject to the achievement of the 2020 STI objectives, making the payment conditional to the maintenance of employment relationship/position as director of the Company until that date (except for "good leavers" who will receive this component in any case), and (ii) to cancel the opportunity of increasing the 2019 STI.
Therefore 25% of the 2019 STI bonus is shown in the "Still deferred" column of the "Bonus for the previous years".

First and last name	Office	Plan	Bonus for the year			Bonus for the previous years			Other bonuses
			Payable/ Paid out	Deferred	Deferment period	No longer payable	Payable /Paid out	Still deferred	
Marco Tronchetti Provera	Executive Vice Chairman and CEO	2020 STI	0.00	0.00	-	-	0.00	409,184.00	0.00
		LTI Plan 2020-2022		-	-	-	-	-	0.00
Giovanni Tronchetti Provera	Director (1)	2020 STI	0.00	0.00	-	-	0.00	4,613.00	0.00
		LTI Plan 2020-2022	-	-	-	-	-	-	0.00
Andrea Casaluci	General Manager Operations	2020 STI	0.00	0.00	-	-	0.00	76,722.00	275,000.00
		LTI Plan 2020-2022	-	-	-	-	-	-	0.00
Executives with strategic responsibilities (2)		2020 STI	0.00	0.00	-	-	0.00	259,708.00	3,437,500.00
		LTI Plan 2020-2022	-	-	-	-	-	-	0.00
(I) Remuneration in the Company that has prepared the financial statements		2020 STI	0.00	0.00			0.00	576,143.00	2,050,000.00
		LTI Plan 2020-2022	-	-	-	-	-	-	-
(II) Remuneration from Subsidiary and Affiliated Companies		2020 STI	0.00	0.00			0.00	174,084.00	1,662,500.00
		LTI Plan 2020-2022		-	-	-	-	-	-
(III) Total			0.00	0.00	-	-	0.00	750,227.00	3,712,500.00

(1) Giovanni Tronchetti Provera is included in the LTI and STI variable incentive plans as a senior manager of Pirelli Tyre S.p.A.

(2) As of 31 December 2020 there were 7 KM. It should be noted that the variable STI remuneration paid to the General Manager Operations is not included in this item, as he is named separately in the table. The General Manager co-CEO has not been assigned any monetary incentive plans.

4. TABLE OF EQUITY INVESTMENTS OF THE MEMBERS OF THE ADMINISTRATIVE AND CONTROLLING BODIES, GENERAL MANAGERS AND KM

The table below provides disclosures on any equity investments held in Pirelli & C. and in its subsidiary companies, by those who, even for a fraction of the year, have held the position of:

- member of the Board of Directors;
- member of the Board of Statutory Auditors;
- General Manager;
- KM.

In particular, it indicates, for each member of the Board of Directors and Board of Statutory Auditors and General Managers, by name, and cumulatively for KM, with regard to each company in which shares are held, the number of shares, by category:

- held at the end of the prior year;
- purchased during the reporting year;
- sold during the reporting year;
- held at the end of the reporting period.

In this regard, the title of possession and the manner in which it is held are also specified.

It includes all the persons who, during the reporting year, held positions as members of the administrative and controlling bodies, General Manager or as KM, even for a fraction of the year.

1) Equity investments of the members of the administrative and controlling bodies and General Managers

First and last name	Office	Investee company	No. of shares owned at 31.12.2019	No. of shares purchased/subscribed	No. of shares sold	No. of shares owned at 31.12.2020
Marco Tronchetti Provera*	Director	Pirelli & C.	100,959,399	-	-	100,959,399**
Angelos Papadimitriou	Director***	Pirelli & C.	-	170000****	-	170,000
Giorgio Luca Bruno	Director	Pirelli & C.	500*****	-	-	500*****

* Shares held by the indirect subsidiary Camfin S.p.A.

** Note that in FY 2019 Camfin S.p.A. took out financial instruments with major financial institutions with maturity in September 2022 called “Call Spread” with an underlying 46,568,099 Pirelli & C. S.p.A. shares, totalling 4.66% of the relative share capital.

*** Mr Angelos Papadimitriou was appointed by co-option to the Board of Directors on 5 August 2020. From 1 August 2020 he held the office of General Manager co-CEO.

**** Shares purchased on 6 August 2020.

***** Shares purchased during the listing of the Company on 4 October 2017 and held on the date of termination of office (18 June 2020).

2) Equity investments of other executives with strategic responsibilities

Number of key managers with strategic responsibilities		Investee company	No. of shares owned at 31.12.2019	No. of shares purchased/subscribed	No. of shares sold	No. of shares owned at 31.12.2020
-		-	-	-	-	-

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(in thousands of euro)*

	Note	12/31/2020	of which related parties (note 43)	12/31/2019	of which related parties (note 43)
Property, plant and equipment	9	3,159,767		3,649,809	
Intangible assets	10	5,582,033		5,680,175	
Investments in associates and j.v.	11	72,588		80,846	
Other financial assets at fair value through other comprehensive income	12	42,720		58,967	
Deferred tax assets	13	109,378		81,188	
Other receivables	15	402,148	*5,826*	342,397	*5,617*
Tax receivables	16	4,761		9,140	
Other assets (*)	22	80,422		57,829	
Derivative financial instruments	27	-		52,515	
Non-current assets		**9,453,817**		**10,012,866**	
Inventories	17	836,437		1,093,754	
Trade receivables	14	597,669	*12,790*	649,394	*9,823*
Other receivables	15	469,194	*111,325*	451,858	*45,154*
Other financial assets at fair value through income statement	18	58,944		38,119	
Cash and cash equivalents	19	2,275,476		1,609,821	
Tax receivables	16	29,153		41,494	
Derivative financial instruments	27	39,327		37,148	
Current assets		**4,306,200**		**3,921,588**	
Total Assets		**13,760,017**		**13,934,454**	
Equity attributable to the owners of the Parent Company:	**20.1**	**4,447,418**		**4,724,449**	
Share capital		1,904,375		1,904,375	
Reserves		2,513,262		2,381,940	
Net income / (loss)		29,781		438,134	
Equity attributable to non-controlling interests:	**20.2**	**104,432**		**102,182**	
Reserves		91,540		82,619	
Net income / (loss)		12,892		19,563	
Total Equity	20	**4,551,850**		**4,826,631**	
Borrowings from banks and other financial institutions	23	4,970,986	*14,693*	3,949,836	*17,386*
Other payables	25	77,280	*213*	90,571	*213*
Provisions for liabilities and charges	21	73,257	*5,926*	120,469	*3,065*
Deferred tax liabilities	13	1,006,799		1,058,760	
Provisions for employee benefit obligations	22	243,931	*2,408*	260,832	-
Tax payables	26	10,795		12,555	
Derivative financial instruments	27	87,601		10,327	
Non-current liabilities		**6,470,649**		**5,503,350**	
Borrowings from banks and other financial institutions	23	883,567	*2,192*	1,419,403	*2,267*
Trade payables	24	1,267,971	*134,597*	1,611,488	*171,909*
Other payables	25	374,266	*6,719*	402,757	*7,510*
Provisions for liabilities and charges	21	48,083		43,528	
Provisions for employee benefit obligations	22	5,013	*3,017*	4,104	*2,257*
Tax payables	26	99,505		81,766	
Derivative financial instruments	27	59,113		41,427	
Current liabilities		**2,737,518**		**3,604,473**	
Total Liabilities and Equity		**13,760,017**		**13,934,454**	

(*) In 2020, the amount related to the UK funded pension fund Pirelli General Executive Pension and Life Assurance Fund that has a value of assets exceeding liabilities in the net amount of euro 80,422 thousand was reclassified to Other non-current assets. To ensure comparability with the previous year, the net assets at December 31, 2019 amounting to euro 57,829 thousand were reclassified to Other non-current assets.

CONSOLIDATED INCOME STATEMENT (in thousands of euro)

	Note	2020	of which related parties (note 43)	2019	of which related parties (note 43)
Revenues from sales and services	**29**	**4,302,131**	*15,074*	**5,323,054**	*19,305*
Other income	**30**	306,313	*49,392*	486,307	*74,783*
Changes in inventories of unfinished, semi-finished and finished products		(160,223)		5,584	
Raw materials and consumables used (net of change in inventories)		(1,280,361)	*(4,917)*	(1,741,249)	*(4,096)*
Personnel expenses	**31**	(949,678)	*(14,959)*	(1,072,167)	*(14,498)*
- of which non-recurring events		*(11,205)*		-	
Amortisation, depreciation and impairment	**32**	(517,152)		(527,818)	
Other costs	**33**	(1,466,294)	*(241,764)*	(1,713,404)	*(278,155)*
Net impairment loss on financial assets	**34**	(17,385)		(22,266)	
Increase in fixed assets for internal works		1,788		4,703	
Operating income / (loss)		**219,139**		**742,744**	
Net income / (loss) from equity investments	**35**	(5,271)		(11,006)	
- share of net income (loss) of associates and j.v.		*(5,629)*	*(5,629)*	*(9,678)*	*(9,678)*
- gains on equity investments		*1,140*		*1,684*	
- losses on equity investments		*(847)*		*(8,538)*	
- dividends		*65*		*5,526*	
Financial income	**36**	146,384	*2,338*	128,761	*1,160*
Financial expenses	**37**	(302,886)	*(921)*	(238,240)	*(1,049)*
Net income / (loss) before tax		**57,366**		**622,259**	
Taxes	**38**	(14,693)		(164,562)	
Net income / (loss)		**42,673**		**457,697**	
Attributable to:					
Owners of the Parent Company		29,781		438,134	
Non-controlling interests		12,892		19,563	
Total earnings / (losses) per base share (in euro per share)	**39**	**0.030**		**0.438**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(in thousands of euro)*

		Note	2020	2019
A	**Total Net income / (loss)**		**42,673**	**457,697**
	- Remeasurement of employee benefits	22	18,946	(13,100)
	- Tax effect		(5,271)	(1,365)
	- Fair value adjustment of other financial assets at fair value through Other Comprehensive Income	12	(16,129)	(366)
B	**Total items that may not be reclassified to income statement**		**(2,454)**	**(14,831)**
	Exchange differences from translation of foreign financial statements			
	- Gains / (losses)	20	(373,552)	(3,247)
	- (Gains) / losses reclassified to Income Statement	35	(932)	(1,567)
	Fair value adjustment of derivatives designated as cash flow hedges:			
	- Gains / (losses)	27	(119,247)	73,439
	- (Gains) / losses reclassified to Income Statement	27	124,345	(79,060)
	- Tax effect		(482)	1,989
	Cost of hedging			
	- Gains / (losses)	27	4,496	2,828
	- (Gains) / losses reclassified to Income Statement	27	(7,104)	(7,189)
	- Tax effect		81	546
	Share of other comprehensive income related to associates and j.v. net of tax	11	(2,093)	(1,176)
C	**Total items reclassified / that may be reclassified to income statement**		**(374,488)**	**(13,437)**
D	**Total other comprehensive income (B+C)**		**(376,942)**	**(28,268)**
A+D	**Total comprehensive income / (loss)**		**(334,269)**	**429,429**
	Attributable to:			
	- Owners of the Parent Company		(336,516)	405,610
	- Non-controlling interests		2,247	23,819

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2020

(in thousands of euro)	Attributable to the Parent Company (note 20.1)					Non-controlling interests (note 20.2)	Total (note 20)
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	Total attributable to the Parent Company		
Total at 12/31/2019	**1,904,375**	**(313,805)**	**(89,424)**	**3,223,303**	**4,724,449**	**102,182**	**4,826,631**
Other components of comprehensive income	-	(365,932)	(365)	-	(366,297)	(10,645)	(376,942)
Net income / (loss)	-	-	-	29,781	29,781	12,892	42,673
Total comprehensive income / (loss)	**-**	**(365,932)**	**(365)**	**29,781**	**(336,516)**	**2,247**	**(334,269)**
Convertible bond reserve	-	-	-	41,200	41,200	-	41,200
Effects of Hyperinflation accounting in Argentina	-	-	-	20,041	20,041	-	20,041
Other	-	-	(104)	(1,652)	(1,756)	3	(1,753)
Total at 12/31/2020	**1,904,375**	**(679,737)**	**(89,893)**	**3,312,673**	**4,447,418**	**104,432**	**4,551,850**

(in thousands of euro)	Breakdown of IAS reserves *					
	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Reserve for cash flow hedge	Remeasurement of employee benefits	Tax effect	**Total IAS reserves**
Total at 12/31/2019	**(228)**	**9,898**	**(31,326)**	**(43,946)**	**(23,822)**	**(89,424)**
Other components of comprehensive income	(16,129)	(2,608)	5,098	18,946	(5,672)	(365)
Other changes	-	-	-	(104)	-	(104)
Total at 12/31/2020	**(16,357)**	**7,290**	**(26,228)**	**(25,104)**	**(29,494)**	**(89,893)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2019

(in thousands of euro)	Attributable to the Parent Company (note 20.1)					Non-controlling interests (note 20.2)	Total (note 20)
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	Total attributable to the Parent Company		
Total at 12/31/2018	**1,904,375**	**(303,557)**	**(66,714)**	**2,934,017**	**4,468,121**	**82,806**	**4,550,927**
Other components of comprehensive income	-	(10,248)	(22,276)	-	(32,524)	4,256	(28,268)
Net income / (loss)	-	-	-	438,134	438,134	19,563	457,697
Total comprehensive income / (loss)	**-**	**(10,248)**	**(22,276)**	**438,134**	**405,610**	**23,819**	**429,429**
Dividends approved	-	-	-	(177,000)	(177,000)	(8,969)	(185,969)
Transactions with non-controlling interests	-	-	-	-	-	4,200	4,200
Effects of Hyperinflation accounting in Argentina	-	-	-	27,514	27,514	-	27,514
Other	-	-	(434)	638	204	326	530
Total at 12/31/2019	**1,904,375**	**(313,805)**	**(89,424)**	**3,223,303**	**4,724,449**	**102,182**	**4,826,631**

(in thousands of euro)	Breakdown of IAS reserves *					
	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Reserve for cash flow hedge	Remeasurement of employee benefits	Tax effect	**Total IAS reserves**
Total at 12/31/2018	**107**	**14,258**	**(25,705)**	**(30,381)**	**(24,993)**	**(66,714)**
Other components of comprehensive income	(366)	(4,360)	(5,621)	(13,100)	1,171	(22,276)
Other changes	31	-	-	(465)	-	(434)
Total at 12/31/2019	**(228)**	**9,898**	**(31,326)**	**(43,946)**	**(23,822)**	**(89,424)**

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)

		Note	2020	of which related parties (note 43)	2019	of which related parties (note 43)
	Net income / (loss) before tax		57,366		622,259	
	Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	32	517,152		527,818	
	Reversal of Financial income / (expenses)	36/37	156,502		109,479	
	Reversal of Dividends	35	(65)		(5,526)	
	Reversal of gains / (losses) on equity investments	35	(293)		6,854	
	Reversal of share of net income from associates and joint ventures	35	5,629	*5,629*	9,678	*9,678*
	Reversal of accruals and other		64,781		37,509	
	Net Taxes paid	38	(90,692)		(141,985)	
	Change in Inventories		140,645		28,300	
	Change in Trade receivables		(35,324)	*(4,029)*	(44,637)	*5,844*
	Change in Trade payables		(184,604)	*390*	18,815	*(19,695)*
	Change in Other receivables		21,926	*(6,868)*	(32,161)	*30,644*
	Change in Other payables		60,555	*2,524*	(47,446)	*(2,596)*
	Uses of Provisions for employee benefit obligations		(37,173)	*(2,257)*	(43,029)	*(2,930)*
	Uses of Other provisions		(58,053)		(23,226)	
A	**Net cash flow provided by / (used in) operating activities**		**618,352**		**1,022,703**	
	Investments in owned tangible assets		(177,879)		(365,935)	
	Disposal of owned tangible assets		5,405		7,646	
	Investments in intangible assets		(15,527)		(20,812)	
	Disposal of intangible assets		279		15	
	Disposal of investments in subsidiaries		69		10,700	
	(Acquisition) of investments in associates and joint ventures		-		(8,925)	*(8,925)*
	Change in Financial receivables from associates and joint ventures		(64,093)	*(64,093)*	(13,420)	*(13,420)*
	Dividends received		65		14,956	
B	**Net cash flow provided by / (used in) investing activities**		**(251,681)**		**(375,774)**	
	Change in Borrowings from banks and other financial institutions due to draw down	23	2,577,182		1,706,457	
	Change in Borrowings from banks and other financial institutions due to repayments and other	23	(1,806,690)		(1,623,341)	
	Change in Financial receivables / Other current financial assets at fair value through income statement		(192,666)		(41,715)	
	Financial income / (expenses)		(38,504)		(85,537)	
	Dividends paid		0		(185,768)	
	Repayment of principal and payment of interest for lease liabilities		(99,924)	*(2,856)*	(101,157)	*(1,921)*
C	**Net cash flow provided by / (used in) financing activities**		**439,398**		**(331,061)**	
D	**Total cash flow provided / (used) during the period (A+B+C)**		**806,069**		**315,868**	
E	**Cash and cash equivalents at the beginning of the financial year**		**1,600,627**		**1,303,852**	
F	**Exchange rate differences from translation of cash and cash equivalents**		(137,013)		(19,092)	
G	**Cash and cash equivalents at the end of the period (D+E+F) (°)**	**19**	**2,269,683**		**1,600,627**	

		2020	2019
(°)	**of which:**		
	cash and cash equivalents	2,275,476	1,609,821
	bank overdrafts	(5,793)	(9,194)

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pirelli & C. S.p.A. is a corporation organised under the laws of the Republic of Italy.

Founded in 1872, Pirelli & C. S.p.A. is - also by way of its subsidiaries in Italy and abroad - a Pure Consumer Tyre Company (which includes tyres for cars, motorcycles and bicycles) whose particular focus is on the High Value tyre market, that is, products created to reach the highest levels of performance, safety, quietness and adherence to the road surface.

The registered Head Office of the Company is located in Milan, Italy at *Viale Piero e Alberto Pirelli n. 25.*

These Financial Statements have been prepared using the euro as the reporting currency, with all values rounded to the nearest thousand euro unless otherwise indicated.

The audit of the Financial Statements has been entrusted to PricewaterhouseCoopers S.p.A. pursuant to Legislative Decree No. 39 of January 27, 2010 and pursuant to the resolution of the Shareholders' Meeting of August 1, 2017 which conferred the mandate to the aforesaid company for each of the nine financial years with closings from December 31, 2017 to December 31, 2025.

Pirelli & C. S.p.A. is directly controlled by Marco Polo International Italy S.r.l. which in turn is indirectly controlled by the China National Chemical Corporation (*"ChemChina"*), a state-owned enterprise (SOE) governed by Chinese law, with registered office in Beijing and which reports to the Central Government of the People's Republic of China.

As of the starting date of trading on the Stock Exchange (October 4, 2017), there are no subjects that exercise management and coordination activities on the Company.

On March 31, 2021 the Board of Directors authorised the publication of these Consolidated Financial Statements.

2. BASIS OF PRESENTATION

COVID–19

During 2020, the tyre sector was strongly impacted by the COVID-19 emergency and by the deterioration in the economic outlook, with a general drop in consumption and production. The demand for car tyres recorded a decline in volumes of -15.3% which was particularly marked for the first half-year (-28.1%), but gradually improved for the second half-year (-3.9%), thanks to the recovery in demand for Car New Premium (+3.6% for the second half-year and -9.5% for the year).

Pirelli responded promptly to the profound change in the global scenario by implementing an action plan, communicated to the financial market on April 3, 2020.

This plan made it possible to:

- guarantee the health and safety of its employees by adopting all necessary preventive measures;
- protect profitability and cash generation through cost containment and the renegotiation of investment programs;
- strengthen the capital structure through the signing of a new sustainable euro 800 million bank credit facility (5-year maturity), the issue of an equity-linked euro 500 million bond (5-year maturity) and in general, to optimise the financial structure through the extension of debt maturities;
- consolidate their collaboration with the main Premium and Prestige vehicle manufacturers and with the sales network, in view of the recovery in demand, while counting on a resilient supply chain and strengthen its leadership in the high-end segment.

In 2020, the Group recorded revenues of 4,302.1 million euros, -19.2% compared to 2019, supported by the market recovery during the fourth quarter and a strengthening of the leadership on the high-end. Regarding the operating result, it should be noted that the impacts of the external scenario, such as weak demand, exchange rate volatility and input cost inflation, were contained thanks to efficiency actions and the cost reduction program related to the Covid-19 emergency.

With regard to the medium term outlook, as well as to the elements of risk and uncertainty, reference should be made to the relevant paragraphs in this document.

On the basis of the measures implemented, and considering the estimated results for the 2021 financial year, as well as for the years 2022-2025, as reported in the *"Outlook for the five-year period"* section of the Directors' Report on Operations, the existence of the going concern assumption underlying the preparation of the Consolidated Financial Statements has been confirmed, using a future period of at least 12 months as of the closing date of the financial year as reference.

The effects deriving from the Covid-19 pandemic, in addition to impacting the Group's economic results, have also been included in the estimates and assumptions, as they have had an impact, in particular, on the assessment of the recoverability of goodwill and other intangible assets with an indefinite useful life, the recoverability of intangible assets with a finite useful life and tangible assets, the recoverability of receivables, the determination of taxes (current and deferred) and the assessment of the recoverability of investments in associates and joint ventures.

These impacts are described in the relevant notes, to which reference should be made for further details.

Financial Statements

The Consolidated Financial Statements at December 31, 2020 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, which are accompanied by the Directors' Report on Operations.

The format adopted for the Statement of Financial Position provides for the distinction of assets and liabilities according to whether they are current or non-current.

The Group has opted to present the components of gains/losses for the financial year in a separate Income Statement, rather than include these components directly in the Statement of Comprehensive Income. The Income Statement format adopted provides for the classification of costs by nature.

The Statement of Comprehensive Income includes the results for the financial year and for the homogeneous categories, income and expenses are recognised directly in equity, in accordance with the IFRS.

The Group has opted for the presentation of tax effects, as well as the reclassifications to the Income Statement of gains/losses which were recognised in equity in previous financial years, directly in the Statement of Comprehensive Income and not in the Explanatory Notes.

The Statement of Changes in Equity sets forth, in addition to the total gains/losses of the period, the amounts from transactions with equity holders and the changes which occurred during the financial year in the reserves.

In the Statement of Cash Flows, the financial flows derived from operating activities are presented using the indirect method, by way of which the gains or losses for the period are adjusted by the effects of non-monetary transactions, by any deferment or accrual of past or future collections or payments for operating activities and by any revenue or cost items connected with the financial flows arising from any investment or financing activity.

Scope of consolidation

The scope of consolidation includes the subsidiaries, associates and agreements for joint control (joint arrangements).

Subsidiaries are defined as all the companies over which the Group contemporarily holds:

- the power of decision making, or the capacity to direct the relevant activities of the subsidiary, that is activities that have a significant influence on the results of the subsidiary;
- the right to the variable (positive or negative) results from the investment in the entity;

- the capacity to utilise its decision-making power to determine the amounts of results arising from the investment in the entity.

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements as of the date when control is assumed until such time when control ceases to exist. The share of equity and the share of the results, attributable to non-controlling interests are separately reported respectively in the Statement of Financial Position, the Income Statement and the Statement of Comprehensive Income.

All companies for which the Group is able to exercise significant influence as defined by IAS 28 – Investments in Associates and Joint Ventures, are considered associates. This influence is legally presumed to exist when the Group holds a percentage of voting rights of between 20% and 50%, or when - even in the case of a lower share of voting rights – it has the power to participate in determining financial and operating policies by virtue of specific legal relationships, such as, for example, the participation in Shareholders' agreements together with other forms of significant exercise of governance rights.

Joint arrangements are agreements whereby two or more parties have joint control under a contract. Joint control is the shared control of a business activity, established by agreement which exists only when decisions relative to the activity require the unanimous consent of all parties who share control. These agreements may give rise to joint ventures or joint operations.

A joint venture is an agreement for the joint control of an entity whereby the parties that have joint control, have rights to the net assets of the said entity. Joint ventures are distinguished from joint operations which instead are configured as agreements which give the parties of the agreement, which have joint control of the initiative, the rights to the individual assets and the obligations of the individual liabilities relative to the agreement. In the case of joint operations, it is mandatory that the assets, liabilities, costs and revenues subject to the agreement be recognised in accordance with the applicable accounting standards. The Group does not currently have any agreements in place for joint operations.

The main changes in the scope of consolidation are summarised as follows:

- disposal of 100% of the company Omnia Motor S.A. – Sociedad Unipersonal which took place on February 20, 2020;
- disposal of 100% of the Joint Stock company "Scientific institute of medical polymers" which took place on December 24, 2020.

Information on subsidiaries

The Consolidated Financial Statements include the assets and liabilities of 88 legal entities. The following is a list of the significant subsidiaries:

	Headquarter	12/31/2020		12/31/2019	
		% group	% non-controlling interests	% group	% non-controlling interests
Pirelli Tyre Co. Ltd	Yanzhou (China)	90.00%	10.00%	90.00%	10.00%
Pirelli Deutschland GmbH	Breuberg/Odenwald (Germany)	100.00%		100.00%	
Pirelli Tyre S.p.A.	Milano (Italy)	100.00%		100.00%	
Pirelli Industrie Pneumatici S.r.l.	Settimo Torinese (Italy)	100.00%		100.00%	
Pirelli International Treasury S.p.A.	Milano (Italy)	100.00%		100.00%	
Pirelli Neumaticos S.A. de C.V.	Silao (Mexico)	100.00%		100.00%	
Pirelli Pneus Ltda	Santo Andrè (Brazil)	100.00%		100.00%	
Pirelli Comercial de Pneus Brasil Ltda	Sao Paulo (Brazil)	100.00%		100.00%	
Pirelli UK Tyres Ltd	Burton on Trent (United Kingdom)	100.00%		100.00%	
Pirelli Tire LLC	Rome (USA)	100.00%		100.00%	
S.C. Pirelli Tyres Romania S.r.l	Slatina (Romania)	100.00%		100.00%	
Limited Liability Company Pirelli Tyre Russia	Moscow (Russia)	65.00%	35.00%	65.00%	35.00%

The complete list of subsidiaries is contained in the attachment *“Scope of Consolidation – Companies consolidated on a line-by-line basis”.*

Non-controlling interests in the subsidiaries of the Group are not relevant either individually or in aggregate form.

Consolidation principles

For consolidation purposes, the Financial Statements of the companies included in the scope of consolidation, prepared at the reporting date of the Financial Statements of the Parent Company, have been appropriately adjusted to render them consistent with the IAS/IFRS standards as applied by the Group.

The Financial Statements expressed in foreign currencies have been translated into euro at the period-end exchange rates for the items in the Statement of Financial Position and at the average exchange rates for the items of the Income Statement, with the exception of the Financial Statements of companies operating in hyperinflation countries, whose Income Statements have been translated at the period-end exchange rates.

The differences arising from the conversion of the initial equity at period-end exchange rates are recognised in the translation reserve, together with the difference arising from the translation of the result for the period at period-end exchange rates, instead of the average exchange rate. The translation reserve is reversed to the Income Statement when the company that originated the reserve is disposed of.

The criteria for consolidation can be summarised as follows:

- subsidiaries are consolidated using the line-by-line method according to which:
  - the assets and liabilities, costs and revenues of the Financial Statements of subsidiaries are assumed in their entirety, regardless of the size of the investment held;
  - the carrying amount of investments is de-recognised against the related portion of equity;
  - equity and income related transactions between fully consolidated companies, including dividends distributed within the Group, are eliminated;
  - non-controlling interests are shown as a separate item under equity and similarly, the share of gains or losses attributable to non-controlling interests is shown separately in the Income Statement;
  - at the time of disposal of the subsidiary and the consequent loss of control, any goodwill allocable to the subsidiary in determining the capital gains or losses arising from the disposal, is taken into account;
  - in the case of an equity investments acquired after the assumption of control, any difference between the purchase cost and the corresponding portion of equity acquired, is recognised in equity. Similarly, the effects deriving from the disposal of non-controlling interests without loss of control are also recognised in equity.
- investments in associates and joint ventures are evaluated using the equity method, on the basis of which, the carrying amount of the investments is adjusted by:
  - the investor's share of the financial results of the subsidiary realised after the acquisition date;
  - the pertinent share of gains and losses are recognised directly in the equity of the subsidiary, in accordance with the applicable standards;
  - dividends are paid by the subsidiary;
  - if the Group's share in the losses of the associate/joint venture exceeds the carrying amount of the investment in the Financial Statements, the carrying amount of the investment is reset to zero and the Group's share of any further losses is recognised under *"Provisions for liabilities and charges"*, if and to the extent to which the Group is contractually or implicitly obligated to cover the losses;
  - the gains emerging from sales made by subsidiaries to joint ventures or associates are eliminated in proportion to the share of ownership held by the acquiring entity.

3. ADOPTED ACCOUNTING STANDARDS

Pursuant to Regulation No. 1606 issued by the European Parliament and the European Council in July 2002, the Consolidated Financial Statements of the Pirelli & C. Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) in force, as issued by the International Accounting Standards Board (IASB) and approved by the European Union at December 31, 2020, as well as the provisions issued in the implementation of Article 9 of Legislative Decree no. 38/2005. The term IFRS signifies the IFRS international accounting standards in force as issued by the International Accounting Standards Board (IASB) and approved by the European Union at December 31, 2020, as well as all the revised International Accounting Standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).

The Consolidated Financial Statements have been prepared using the historical costs method with the exception of the following items which have been evaluated which at their fair value:

- derivative financial instruments;
- other financial assets at fair value through other Comprehensive Income;
- other financial assets at fair value through the Income Statement.

Business combinations

Corporate acquisitions are accounted for using the acquisition method.

When a controlling interest in a company is acquired, goodwill is calculated as the difference between:

- the fair value of the consideration plus any non-controlling interests in the acquired company, measured at fair value (if this option is chosen for the acquisition in question) or in proportion to the non-controlling interest’s share of the net assets of the acquired company;
- the fair value of the assets acquired and the liabilities assumed.

In cases where the aforesaid difference is negative, the difference is immediately recognised in the Income Statement under income.

In the case of the acquisition of the control of a company in which a non-controlling interest is already held (acquisition in phases - step acquisition), the previously held investment is measured at fair value and the effects of this adjustment is recognised the Income Statement.

The costs of business combination operations are recognised in the Income Statement.

Contingent considerations, that is, the obligations of the acquiring company to transfer additional assets or shares to the seller in cases if certain future events occur, or specific conditions are fulfilled, are recognised at fair value at the acquisition date as part of the amount transferred in exchange for the acquisition itself. Any subsequent changes in the fair value of these agreements are recognised in the Income Statement.

Intangible assets

Intangible assets with finite useful lives, are valuated at cost net of any accumulated amortisation and impairment.

Amortisation is calculated on a straight-line basis and begins when the asset becomes available for use or capable of operating in the manner intended by management and ceases on the date when the asset is classified as held for sale or is de-recognised.

Capital gains and capital losses deriving from the sale or retirement of an intangible asset are determined as the difference between the net proceeds from disposal and the carrying amount of the asset.

Goodwill

Goodwill is an intangible asset with an indefinite useful life and is therefore not subject to amortisation. Goodwill is tested for impairment, at least annually or whenever there are indicators of impairment. For this purpose goodwill is allocated to the cash generating units (CGUs) or groups of units, in compliance with the maximum restriction, which cannot exceed that of the business sector identified pursuant to IFRS 8. The criterion applied in the allocation of goodwill coincides with the sole business sector in which the Group operates, being Consumer Activities and takes into consideration the minimum level at which goodwill is monitored, for internal management control purposes.

Trademarks and licenses

Trademarks and licenses for which the conditions for classification as intangible assets with an indefinite useful life have not been met, are evaluated at cost, net of accumulated amortisation and impairment. This cost is amortised for whichever period is shorter between, the duration of the contract and the useful life of the asset. Trademarks for which the conditions for classification as intangible assets with an indefinite useful life have been met, are not systematically amortised and are subjected to an impairment test at least once a year.

Software

Software license costs, including incidental expenses, are capitalised and recognised in the Financial Statements net of any amortisation and net of any accumulated impairment. Software is amortised on the basis of its useful life.

Customer relationships

Customer relationships mainly refer to intangible assets acquired in a business combination, are recognised in the Financial Statements at their fair value at the purchase date and amortised on the basis of their useful life.

Technology

The value of technology refers mainly to product technology and process technology, as well as product development technology identified during the Purchase Price Allocation. This value is recognised in the Financial Statements at fair value at the date of acquisition and is amortised on the basis of its useful life.

Research and development costs

Research costs refer to product innovation, innovation in production processes and research into new materials. These are expensed as they are incurred.

There were no development costs that satisfied the requisites for capitalisation, as provided for by IAS 38.

Owned tangible assets

Property, plant and equipment are recognised at their purchase cost or production cost, including any directly attributable incidental expenses.

Any costs incurred subsequent to the acquisition of goods, plus the cost of replacing any parts or portions of the assets of this category, are capitalised only if they increase the future financial benefits inherent to the actual asset. All other costs are recognised in the Income Statement as they are incurred. When the cost of replacing any parts or portions of the asset is capitalised, the residual value of the replaced parts is recognised in the Income Statement.

Property, plant and equipment are recognised at cost, net of any accumulated depreciation, except for land, which is not depreciated but which is recognised at cost net of any accumulated impairment.

Depreciation is accounted for starting from the month in which the asset is available for use, or is potentially capable of providing the financial benefits associated with it.

Depreciation is charged on a monthly straight-line basis at rates that allow for the depreciation of assets until the end of their useful life or, in the case of decommissioning, until the last month of use.

Depreciation rates were as follows:

Buildings	3% - 10%
Plants	7% - 20%
Machinery	5% - 20%
Equipment	10% - 33%
Furniture	10% - 33%
Motor vehicles	10% - 25%

Of note, is that that during the 2016 financial year a Purchase Price Allocation was completed, following the acquisition of the Pirelli Group by Marco Polo Industrial Holding S.p.A., which resulted in the detection of a significant surplus value for the Group's productive assets, due mainly to their optimally maintained condition, which resulted in an extension of their residual lives. The assets subject to evaluation for the purposes of the Purchase Price Allocation were depreciated, as of the date of the acquisition of control by Marco Polo Industrial Holding S.p.A., on the basis of their new residual useful lives, determined at the time of the evaluation. Useful lives are reviewed annually.

Government capital grants relative to property, plant and equipment are recognised as deferred income and accredited to the Income Statement for the duration of the depreciation of the relevant assets.

Improvements to third-party (leasehold) assets are classified as tangible assets, consistent with the nature of the cost incurred. The depreciation period corresponds to whichever is shorter between the remaining useful life of the asset and the residual period of the lease agreement.

Replacement parts of significant value are capitalised and depreciated for the duration of the estimated useful life of their respective assets.

Any dismantling costs are estimated and added to the cost of the property, plant and equipment, as a counter entry to the provision for liabilities and charges, if the requirements for setting up a provision for liabilities and charges are met. They are then depreciated for the duration of the remaining useful life of the respective asset.

Property, plant and equipment are de-recognised from the Statement of Financial Position at the time of decommissioning or their permanent retirement from use and, as a consequence, no future financial benefits can be expected to be derived from their disposal or use.

Any capital gains or capital losses resulting from the sale or retirement of property, plant and equipment are determined as the difference between the net proceeds from disposal and the carrying amount of the asset.

Right of use

As of the date on which the assets covered by a lease contract become available for use by the Group, lease contracts are accounted for as a right of use asset under non-current assets with a counter entry under financial liabilities.

The cost of the lease payment is separated into two components; as a financial expense which is recognised in the Income Statement for the duration of the contract and as the reimbursement of capital which is recorded as a reduction of the financial liability. The right of use is amortised on a monthly basis at constant rates for whichever period is shorter between the useful life of the asset and the duration of the contract.

Right of use and financial liabilities are initially valuated at the current value of future payments.

The current value of financial liabilities for lease contracts includes the following payments:

- fixed payments;
- variable payments based on an index or rate;
- the exercise price of a redemption option, in the event that the exercise of the option is considered reasonably certain;
- the payment of penalties for the termination of the contract, if the exercise of the option to terminate the contract is considered reasonably certain;
- optional payments subsequent to the non-cancellable period, if the extension of the contract beyond the non-cancellable period is considered reasonably certain.

Future payments are discounted using the incremental borrowing rate. This rate consists of the risk-free rate of the country in which the contract is negotiated and is based on the duration of the contract. It is then adjusted on the basis of the Group’s credit spread and local credit spread.

Right of use is valuated at cost and composed of the following elements:

- initial amount of the financial liability;
- payments made before the start of the contract net of the leasing incentives received;
- directly attributable incidental expenses;

- estimated costs for dismantling or restoration.

Lease payments associated with the following types of lease contracts are recorded in the Income Statement on a linear basis for the duration of the respective contracts:

- contracts with a duration of less than twelve months for all asset classes;
- lease contracts for which the underlying asset is configured as a low-value asset, that is, the unit value of the underlying assets is not greater than euro 8 thousand when new;
- contracts for which the payment for the right of use of the underlying asset changes, in accordance with any changes in the facts or circumstances (not linked to sales performances), which were not foreseeable at the starting date.

Low-value contracts are mainly relative to the following categories of goods:

- computers, telephones and tablets;
- office and multi-function printers;
- other electronic devices.

Impairment of assets

Tangible and intangible assets and right of use

In the presence of specific indicators of impairment, or at least on an annual basis, intangible assets with an indefinite useful life including goodwill, tangible and intangible assets and right of use, are subjected to an impairment test.

The test consists of an estimate of the recoverable amount for the asset compared to its carrying amount.

The recoverable amount of an asset is whichever is higher between its fair value less the costs of sale and its value in use.

The value in use for property plant and equipment and intangible assets, is the present value of the estimated future financial flows originating from the use of the asset, plus those deriving from its retirement at the end of its useful life, net of taxes and the application of a discount rate, which reflects the current market assessment of the time-value of money and the risks specific to the asset.

For the right of use, the value in use is the present value of the estimated future cash flows originating from the right of use, for the duration of the lease contract and of the outgoing right of use which is to be replaced in accordance with the terms of the lease contract (for example, the cost of purchasing an asset to replace the one that is leased).

It is not necessary to estimate both amounts in order to verify the absence of any impairment, as it is sufficient that one of the two configured amounts is higher than the carrying amount.

If the recoverable amount of an asset is lower than the carrying amount, the latter is reduced and adjusted to the recoverable amount. This reduction in value constitutes an impairment which is then recorded in the Income Statement.

In order to evaluate an impairment, assets are aggregated at the lowest level at which their independent cash flows are separately identifiable (cash generating units).

Specifically, goodwill must be allocated to the cash generating units or group of cash generating units in compliance with the maximum aggregation restriction, which cannot be exceeded, for the operating segment.

In the presence of indications that an impairment recognised in previous financial years for property, plant and equipment or intangible assets, other than goodwill or right of use, may no longer exist, or may have decreased, the recoverable amount for the asset is estimated again and if it results as higher than the net carrying amount, then the net carrying amount is increased up to, but not exceeding, the recoverable amount.

The restatement of a value may not exceed the carrying amount that would have been determined (net of impairment, depreciation or amortisation) had no impairment been recognised in previous financial years.

The restatement of the value of an asset other than goodwill is recognised in the Income Statement.

Any impairment which has been detected for goodwill cannot be restated in subsequent financial years.

Any loss due to the impairment of any goodwill recorded in the interim (half-year) Financial Statements cannot be restated in the Income Statement in subsequent financial years.

Investments in associates and joint ventures

Following the application of the equity method, in the presence of the indication of an impairment, the value of investments in associates and joint ventures must be compared with the recoverable amount (the impairment test). The recoverable amount corresponds to the higher amount between the fair value less the costs of sale and the value in use.

For the purposes of impairment testing, the fair value of an investment in an associate or joint venture with shares listed on an active share market is always equal to its market value, irrespective of the percentage of ownership. In the case of investments in unlisted companies, the fair value is determined by resorting to estimates based on the best available information.

For the purposes of determining the value in use of an associate or joint venture, an estimate is made of the owned share of the present value of future cash flows which are estimated will be generated by the associate or joint venture, including financial flows deriving from the operating activities of the associate or joint venture and the amount that will be received from the final disposal of the investment (the so-called Discounted Cash Flow criteria – asset side).

When there is evidence that an impairment recognised in previous financial years may no longer exist or may have been reduced, the recoverable amount of the investment is estimated again and if it results as higher than the amount of the investment, then the latter amount is increased up to and not exceeding the recoverable amount.

The restatement of a value may not exceed the value of the investment that would have been determined (net of impairment) had no impairment been recognised in previous financial years.

The restatement of the value of investments in associates and joint ventures is recognised in the Income Statement.

Other financial assets at fair value through Other Comprehensive Income (FVOCI)

This valuation category includes the equity instruments for which the Group - at the time of their initial detection – had exercised the irrevocable option to report the gains and losses deriving from the changes in fair value in equity (FVOCI), as these are financial assets that do not belong to the Group's usual activity. These are classified as non-current assets under the item *"Other financial assets at fair value through Other Comprehensive Income".*

They were initially recognised at fair value, including the transaction costs directly attributable to the acquisition.

They were subsequently carried at their fair value and any gains and losses deriving from any changes in fair value were recognised in a specific equity reserve. This reserve was not reversed to the Income Statement. In the event of the disposal of the financial asset, the amount suspended in equity is reclassified to retained earnings.

Dividends deriving from these financial assets are recognised in the Income Statement when the right to collect is established.

Other financial assets at fair value through the Income Statement (FVPL)

The items which fall under this evaluation category are:

- equity instruments for which the Group - at the time of their initial detection - had not exercised the irrevocable option to present the gains and losses deriving from the changes in fair value in equity. These are classified as non-current assets under the item *“Other financial assets at fair value through the Income Statement”;*

- debt instruments for which the Group’s asset management model provides that the sale of the debt instruments and the cash flows associated with the financial asset, represent the payment of the outstanding capital. These are classified as current assets under the item *“Other financial assets at fair value through the Income Statement”;*

- derivative instruments, with the exception of those designated as hedging instruments.

These are initially recognised at fair value. Transaction costs directly attributable to their acquisition are recognised in the Income Statement.

They are subsequently valuated at fair value and any gains, earnings or losses deriving from any changes in their fair value are recognised in the Income Statement.

Inventories

Inventories are valued at whichever is lower between, the cost determined under the FIFO method (first-in first-out), or their estimated realisable value. The valuation of inventories includes the direct costs of materials and labour as well as indirect costs. Impairment provisions for inventories considered to be obsolete and slow moving are calculated by taking their estimated future use and their realisable value into account. Their realisable value is the estimated selling price, net of all costs estimated for the completion of the goods, including any sales and distribution costs that will be incurred. The cost is increased by incremental expenses in the same manner as described for property, plant and equipment.

Receivables

Receivables are initially reported at their fair value, which normally corresponds to the agreed consideration or to the present value of the amount that will be collected. They are subsequently measured at their amortised cost, which is reduced in the case of impairment. Amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate which, when applied to future cash flows renders the present carrying amount of such cash flows equal to their initial fair value.

Receivables in currencies other than the functional currency of the individual companies are adjusted to the period-end exchange rates, with a counter entry in the Income Statement. Receivables are de-recognised when the right to receive cash flows is extinguished, when all the risks and benefits connected with holding the receivable have been substantially transferred, or in cases when the receivable is deemed to be definitively irrecoverable, after all the necessary collection procedures have been completed. At the same time that the receivable is de-recognised, the relative provision is also reversed, if the receivable had previously been impaired.

Impairment of receivables

For trade receivables, the Group applies a simplified approach, by calculating the expected losses over the life of receivables from the moment of initial recognition. The Group uses a matrix based on historical experience which is tied to the ageing of the receivable itself and to rating of the customer and which is adjusted to take forecasting factors into account which are specific to some customers. Trade receivables are grouped on the basis of similar risk characteristics. This grouping is based on the original credit maturity date and on the customer’s credit rating, as attributed by independent market assessors. For financial receivables, the calculation of the impairment is made with reference to expected losses for the next twelve months. These calculations are based on a matrix which includes the credit ratings of customers provided by independent market assessors. In the event of any significant increase in credit risk subsequent to the original date of the receivable, the expected loss is calculated for the entire life of the receivable. The Group assumes that the credit risk of a financial instrument has not increased significantly after its initial recognition, if it is determined that the financial instrument has a low credit risk at the reporting date.

The Group assesses whether there has been a significant increase in credit risk when the customer’s credit rating, as attributed by independent market assessors, undergoes a change that shows an increase in the probability of default.

The Group considers that a financial asset is in default when internal or external information indicates that it is improbable that the Group will receive the full expired contractual amount (for example, when receivables have been referred to the legal department).

Payables

Payables are initially recognised at their fair value, which normally corresponds to the agreed consideration or to the present value of the amount that will be paid. They are subsequently valued at the amortised cost. Amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate which, when applied to future cash flows, renders the present value of such cash flows equal to their initial fair value. Payables in currencies other than the functional currency of the individual companies are adjusted to the period-end exchange rates, with a counter entry in the Income Statement. Payables are de-recognised from Financial Statements when the specific contractual obligation is extinguished. In the event of a change in a financial liability that does not entail its de-recognition, the gain or loss resulting from the change is calculated by discounting the change in the contractual cash flows using the original effective interest rate and is immediately recognised in the Income Statement.

The fair value of the debt component of a convertible bond is equal to the fair value of a liability issued on substantially equivalent market terms, without the right of conversion. This component is subsequently measured at the amortised cost until extinguished at the time of conversion, or until the maturity of the bonds. The residual portion, up to the amount collected, is recognised as an equity component. Issuance costs are allocated proportionally to the debt component and to the equity component.

Cash and cash equivalents

Cash and cash equivalents include bank deposits, postal deposits, cash and cash equivalents on hand and other forms of short-term investment whose original maturity is three months or less. Current account overdrafts are classified under financial payables as current liabilities. The amounts included in cash and cash equivalents are measured at their fair value and any relative changes are recognised in the Income Statement.

Potential assets

Any potential assets, which arise as a result of past events and whose generation is linked to the occurrence or otherwise of unpredictable future events, are not reported in the Financial Statements, unless the realisation of revenue is virtually certain.

Provisions for liabilities and charges

Provisions for liabilities and charges include accruals for current obligations (legal or implicit) deriving from a past event, the fulfilment of which will likely require the necessary use of resources and whose amounts can be estimated in a reliable manner.

Changes in estimates are recognised in the Income Statement for the financial year in which the change occurs.

If the effect of discounting is significant, provisions are stated at their present value.

A provision for restructuring is recognised only if, in addition to meeting the requisite conditions for provisions for liabilities and charges, there exists a detailed formal restructuring plan so that any concerned third parties can maintain a valid expectation that the restructuring will take place.

Employee benefits

Employee benefits paid after the termination of the employment relationship such as defined benefit plans and other long-term benefits, are subject to actuarial evaluations. The liability recognised in the Financial Statements is the present value of the Group’s obligation, net of the fair value of any plan assets.

For defined benefit plans, the actuarial gains and losses deriving from adjustments based on past experience and from any changes in the actuarial assumptions, are fully recognised in equity for the financial year in which they occur.

For other long-term benefits, the actuarial gains and losses are immediately recognised in the Income Statement.

The provision for employees’ leaving indemnities (TFR) for Italian companies with at least 50 employees, is considered a defined benefit plan only for the portions matured prior to January 1, 2007 (and not yet paid at the reporting date), whereas the portions accrued subsequent to that date are considered a defined contribution plan.

The net interest calculated on net liabilities is classified under financial expenses.

Costs relative to defined contribution plans are recognised in the Income Statement as they are incurred.

Where defined benefit plan assets exceed the liabilities, the asset is recognised to the extent that the financial benefit in the form of a reimbursement or a reduction in future contributions, is available to the Group in accordance with the rules and regulations of the plan itself and pursuant to the provisions in force in the jurisdiction in which the plan operates.

In the case of the purchase of qualifying insurance policies through the use of plan assets, any additional contributions requested by the insurance company are recognised in equity.

Insurance policies are recognised in the Financial Statements as plan assets and are evaluated on the same basis as the liabilities to which they refer.

Derivative financial instruments designated as hedging instruments

In accordance with the provisions of IFRS 9, derivative financial instruments are accounted for in accordance with the methods established for hedge accounting only when:

- the hedged items and the hedging instruments meet the eligibility requirements;
- at the beginning of the hedging relationship, there is the formal designation and documentation of the hedging relationship, of the Group’s risk management objectives and of the strategy for implementing the hedge cover;

- the hedging relationship meets all the following efficiency requirements:
    - there is a financial relationship between the hedged item and the hedging instrument;
    - the effect of credit risk is not dominant compared to any changes associated with the hedged risk;
    - the hedge ratio defined in the hedging relationship is respected, also by way of any rebalancing measures and is coherent with the risk management strategy adopted by the Group.

These derivative instruments are measured at fair value.

The following accounting treatments are applied on the basis of the type of coverage:

- Fair value hedge – if a derivative financial instrument is designated as a hedge against exposure to any changes in the fair value of an asset or liability attributable to a specific risk, the gain or loss deriving from any subsequent changes in the fair value of the hedging instrument is recognised in the Income Statement. For the portion attributable to the hedged risk, the gain or loss on the hedged item modifies the carrying amount of that asset or liability (basis adjustment) and it too is recognised in the Income Statement;

- Cash flow hedge – if a derivative financial instrument is designated as a hedge against exposure to the variability in the financial flows of an asset or liability recognised in the Financial Statements, or to a highly probable future transaction, the effective portion of the change in the fair value of the hedging instrument is recognised directly in equity, while the ineffective portion is immediately recognised in the Income Statement. Amounts that have been recognised directly in equity are reclassified to the Income Statement for the financial year in which the hedged item produced an effect on the Income Statement. If the hedge of a highly probable future transaction subsequently entails the recognition of a non-financial asset or liability, the amounts that are suspended in equity are included in the initial value of the non-financial asset or liability.

When future transactions are hedged through forward contracts, the Group may designate to hedge accounting:

- the full fair value (including forward points): the effective portion of the changes in fair value of the entire derivative instrument is recognised in equity (cash flow hedge reserve);
- the single spot component (excluding forward points): the effective portion of the changes in fair value relative to the single spot component, is recognised in equity under the cash flow hedge reserve, while the change in forward points for the hedged item is recorded under the cost of hedging reserve, always in equity.

When a hedging instrument reaches maturity or is sold, terminated early, exercised, or no longer meets the conditions to be designated as a hedging instrument, then hedge accounting is discontinued: fair value adjustments accumulated in equity (both in the cash flow hedge reserve and in the cost of hedging reserve) remain suspended in equity until the hedged item manifests an impact on the Income Statement. Subsequently they are reclassified to the Income Statement for the financial years during which the acquired financial asset or the assumed financial liability manifests an impact on the Income Statement.

When the hedged item is no longer expected to have any impact on the Income Statement, the fair value adjustments accumulated in equity (both in the cash flow hedge reserve and in the cost of hedging reserve) are immediately recognised in the Income Statement.

For the derivative instruments that do not satisfy the prerequisites provided for by IFRS 9 for the adoption of hedge accounting, reference should be made to the section *“Financial assets at fair value through the Income Statement”*.

The acquisitions and sales of derivative financial instruments are recorded at the settlement date.

Determination of the fair value of financial instruments

The fair value of financial instruments listed on an active share market is based on market prices at the reporting date. The market price used for financial assets is the bid price, while for financial liabilities it is the ask price. The fair value of instruments not listed on an active market is determined by using evaluation techniques based on a series of methods and assumptions which are tied to market conditions at the reporting date.

The fair value of an interest rate swap is calculated by discounting estimated future cash flows based on observable yield curves.

The fair value of forward exchange contracts is determined by using the forward exchange rate at the reporting date.

The fair value of the cross currency interest rate swaps is calculated by discounting the estimated future cash flows based on observable yield curves and converting them into euro using the exchange rate at the reporting date.

The fair value of natural rubber futures is determined by using the closing price of the contract at the reporting date.

Income taxes

Current taxes are determined on the basis of a realistic forecast of the tax expenses payable in the application of the current tax regulations of the country.

The Group periodically evaluates the choices it has made in determining taxes in situations where the tax legislation in force lends itself to interpretation and if deemed appropriate, adjusts its exposure to the tax authorities on the basis of the taxes it expects to pay. Any interest and penalties accrued on these taxes are recognised under Income tax in the Income Statement.

Deferred taxes are calculated according to the temporary differences which exist between the asset and liability amounts in the Financial Statements and their tax value (global allocation method) and are classified under non-current assets and liabilities.

Deferred tax assets on tax losses carried forward, as well as on temporary differences, are only recognised when there is a likelihood of future recovery during the time frame covered by the forecasts of the business plans.

Deferred tax assets and liabilities are calculated by the applying tax rates that are expected to be applicable during the financial year in which the asset will be realised or the liability settled, based on the tax legislation in force at the closing date of the financial year.

Current and deferred tax assets and liabilities are offset when income taxes are applied by the same tax authority and when there is a legal right to offset. Deferred tax assets and liabilities are determined at the tax rates that are expected to be applicable to taxable income in the respective jurisdictions in which the Group operates, for the financial years during which the temporary differences will arise or be extinguished.

With regard to temporary taxable differences associated with investments in subsidiaries, associates and joint ventures, the relative deferred tax liabilities are not recognised in cases where the investing entity is able to control the reversal of the temporary differences and it is likely that it will not occur in the foreseeable future.

Deferred taxes are not discounted.

Deferred tax assets and liabilities are credited or debited to equity if they refer to items that have been credited or debited directly in equity during the financial year or during previous financial years.

Equity

Treasury shares

Treasury shares are classified as a reduction of equity.

If they are sold, reissued or cancelled, the resulting earnings or losses are recognised in equity.

Costs of capital transactions

Costs that are directly attributable to the capital transactions of the Parent Company are accounted for as a reduction in equity.

Share-based payment transactions (cash settled)

The additional monetary benefits (cash settled) granted to certain Group executives have been recognised under *"Personnel Funds"* (other long-term benefits) with a counter entry under "Personnel costs". This cost is estimated at fair value and is accounted for over the duration of the plan according to the degree of maturity of the vesting condition at the reporting date. The estimate is revised at each reporting date up until the settlement date.

Recognition of revenues

Revenues are recognised for an amount that reflects the consideration to which the Group believes it is entitled to in exchange for the transfer of goods and/or services to its customers. The variable considerations that the Group deems necessary as payable to direct or indirect customers are recognised as a reduction to revenues.

Product sales

Revenues from product sales are recognised when the performance obligations towards customers have been satisfied. Performance obligations are deemed to have been met when the control of goods has been transferred to the customer, that is, generally when the goods are delivered to the customer.

If the products are ready to be delivered, but delivery is postponed to a future date, sales revenues are recognised only if control of the products has been transferred to the customer. Control is considered to have been transferred to the customer when the following conditions have been met:

- the reasons for delivering at a future date are real (for example, the customer has requested delivery at a future date in writing);
- the products in the warehouse are separately identified as being owned by the customer;
- the products are ready to be physically delivered to the customer;
- the Group does not have the possibility to use the product or to deliver it to other customers.

Retrospective discounts are applied to product sales based on the achievement of the objectives defined within the framework of commercial agreements. Revenues from sales are recognised net of these discounts and estimated on the basis of historical experience with the expected valuation method and for amounts which are not expected to be reversed.

Sales do not include a financial component, in that the average terms of payment applied to customers fall within the standard commercial terms for the country in which the sales occur.

Provision of services

Revenues for services are recognised when the service rendered has been completed or based on the stage of completion of the service at the reporting date.

Financial income and expenses

Financial income and expenses are recognised on an accrual basis.

Royalties

Royalties are recognised over time on an accrual basis, according to the provisions of the relevant agreement, which provides for the transfer to the customer of the rights of access to intellectual property. The amounts for royalties are estimated using the output method. Royalties invoiced for each period directly correlate with the value transferred to the customer.

Dividends

Dividends are recognised when the right to collect is established, which normally corresponds to a resolution approved by the Shareholders for the distribution of dividends.

Earnings/(losses) per share

Earnings/(losses) per share - basic: basic earnings/(losses) per share are calculated by dividing the income/(loss) attributable to the Group by the weighted average number of outstanding ordinary shares during the financial year excluding treasury shares.

Earnings/(losses) per share - diluted: diluted earnings/(losses) per share are calculated by dividing the income/(loss) attributable to the Group by the weighted average number of outstanding ordinary shares during the financial year, excluding treasury shares. For the purposes of calculating the diluted earnings/(losses) per share, the weighted average number of outstanding shares is adjusted by assuming the exercise of all the rights of the assignees for the financial year which could potentially have a dilutive effect, while the Group's net income/(loss) is adjusted to take into account any effects, net of taxes, of the exercise of these rights.

Operating segments

An operating segment is one part of the Group that engages in business activities from which it may earn revenues and incur costs and whose operating results are periodically reviewed by the Chief Executive Officer, in his role as Chief Operating Decision Maker (CODM), for the purpose of taking decisions on resources to be allocated to the sector and the evaluation of results, for which financial information is made available.

The business carried out by the Group is identifiable as a single operating *"Consumer Activities"* sector.

Foreign currency transactions

Foreign currency transactions are recorded at the prevailing exchange rates on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the prevailing exchange rates at the reporting date. Exchange rate differences arising from the settlement or extinction of monetary items, or from their translation at rates other than those of their initial recognition for the financial year or different to those at the end of the previous financial, are recognised in the separate Consolidated Income Statement.

Whenever the conditions provided for by IAS 21.15 for the designation of inter-company monetary items such as *"Net Investment in Foreign Operations"* are met, in accordance with the provisions of IAS 21.32, the differences in exchange rate as of the date of the designation are recognised directly in the Consolidated Statement of Comprehensive Income.

Accounting standards for hyperinflationary countries

Group companies operating in hyperinflation countries recalculate the values for the non-monetary assets and liabilities present in their original individual Financial Statements in order to eliminate the distorting effects caused by the loss of purchasing power of the currency. The inflation rate used to implement inflation accounting corresponds to the consumer price index.

Companies, operating in countries where the cumulative inflation rate over a three-year period approximates or exceeds 100%, adopt inflation accounting and discontinue it in the event that the cumulative inflation rate over a three-year period falls below 100%.

Gains or losses on the net monetary position are recognised in the Income Statement.

The financial statements of companies prepared in currencies other than the euro which operate in hyperinflation countries, are translated into euro by applying the period-end exchange rates to the items of both the Statement of Financial Position and the Income Statement.

During the course of the third quarter of 2018, the inflation rate accumulated over the past three years in Argentina exceeded 100%. This, together with other characteristics of the country's economy, led the Group to adopt, as of July 1, 2018, the accounting standard IAS 29 - Financial Reporting in Hyperinflationary Economies, for the Argentine subsidiary Pirelli Neumaticos S.A.I.C.

3.1 Accounting standards and interpretations approved and in force as of January 1, 2020

Pursuant to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the IFRS standards in force as of January 1, 2020 were as follows:

- Amendments to IFRS 3 - Business Combinations

  These changes have introduced a new definition for the term *"business",* according to which, for an acquisition to qualify as a business combination, it must include inputs and processes which contribute substantially in obtaining an output. The definition of output has been amended in a restrictive sense, in that it precisely specifies that any cost savings and other financial benefits are to be excluded as an output. This amendment results in multiple acquisitions qualifying as asset acquisitions instead of as business acquisitions. There were no impacts on the Financial Statements of the Group.

- Amendments to IAS 1 - Presentation of Financial Statements and to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors - Key definitions

  In addition to clarifying the concept relevant to transactions ("materiality"), these amendments focus on the definition of a relevant concept which is coherent and unique amongst the various accounting standards and also incorporate the guidelines included in IAS 1 which are not irrelevant. There were no impacts on the Financial Statements of the Group or in their disclosures.

- Amendments to IFRS 9, IAS 39 and IFRS 7: Reform of interbank offered rates (IBOR reform)

  These changes concern the impacts on the financial statements deriving from the replacement of the current benchmark interest rates with alternative interest rates. In the presence of any hedging relationships impacted by the uncertainty of any benchmark rate reform, these changes make it possible to not carry out the evaluations required by IFRS 9 in the presence of any changes in rates.

The impacts of these amendments on the Group's outstanding interest rate hedging instruments are subjected to continuous monitoring. There are no impacts as long as the LIBOR is not replaced by a new benchmark rate (expected during 2021).

- Amendment to IFRS 16 Leases - COVID-19 related rent concessions

  These amendments introduced an optional accounting treatment for lessees in the presence of reductions in permanent lease payments (rent holidays) or temporary lease payments linked to COVID-19.

  Lessees can choose to account for reductions occurring up to June 30, 2021 as variable lease payments, recognised directly in the Income Statement for the period in which the reduction applies, or treat them as an amendment to the lease, with the consequent obligation to re-measure the lease obligation based on the revised consideration using a revised discount rate. Such reductions in lease payments have been treated as variable lease payments and have therefore been recognised directly in the Income Statement for the period. The positive impact on the Income Statement for 2020 amounted to euro 889 thousand.

3.2 International Accounting Standards and/or interpretations issued but which did not yet enter into force during 2020

Pursuant to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors - the new standards and interpretations that were issued but had not yet come into force, or had not yet been approved by the European Union at December 31, 2020 and which were therefore not applicable, along with any expected impacts on the Consolidated Financial Statements.

None of these standards and interpretations were adopted in advance by the Group.

- Amendments to IAS 1 — Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

  The amendments clarify the standards that must be applied for the classification of liabilities as current or non-current. These amendments, which will come into force on January 1, 2023 have not yet been approved by the European Union. No significant impacts on the classification of financial liabilities are foreseen as a result of these amendments.

- Amendments to IAS 16 – Property, Plant and Equipment - Proceeds before intended use

  These amendments prohibit the deduction of amounts received from the sale of products from the cost of property, plant and equipment, while the asset is being prepared for its intended use.

The proceeds from the sale of products and the relative production cost must be recognised in the Income Statement.

These amendments, which will come into force on January 1, 2022 have not yet been approved by the European Union. No impacts on the Group’s financial statements are forseen as a result of these amendments.

- Amendments to IAS 37 - Provisions, contingent liabilities and contingent assets - Onerous contracts - Cost of fulfilling a contract

  These amendments specify the costs to be taken into consideration when evaluating onerous contracts.

  These amendments, which will come into force on January 1, 2022 have not yet been approved by the European Union. No impacts on the Group’s financial statements are forseen as a result of these amendments.

- Annual improvements (2018–2020 cycle) issued May 2020

  These are limited changes to some principles (IFRS 1 - First time adoption of the International Financial Reporting Standards, IFRS 9 - Financial instruments, IAS 41 - Agriculture and illustrative examples of IFRS 16 Leases) which clarify the wording or correct omissions or conflicts between the requirements of the IFRS principles.

  These amendments, which will come into force on January 1, 2022 have not yet been approved by the European Union. No impacts on the Group’s financial statements are forseen as a result of these amendments.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: (Reform of interbank offered rates - IBOR reform - phase 2)

  These changes relate to the operational methods by which the impacts of replacing the current benchmark interest rates with alternative reference interest rates will have to be managed, particularly:

  - the introduction of a practical expedient for the accounting of changes in the calculation basis on which contractual cash flows of financial assets and liabilities are calculated;
  - the introduction of certain exemptions relative to the termination of hedging relationships;
  - the temporary exemption from the requirement to separately identify a risk component (where that separate hedged component is an alternative interest rate);
  - the introduction of some additional disclosures regarding the impacts of the reform.

These amendments, which came into force on January 1, 2021, whose impact on the Group's financial statements is currently being analysed, have already been approved by the European Union.

4. FINANCIAL RISK MANAGEMENT POLICIES

The Group is exposed to financial risks which are mainly associated with foreign exchange rates trends, with fluctuations in interest rates, with the price of financial assets held in portfolio, with the ability of Pirelli's customers to meet their obligations to the Group (credit risk) and in the procurement of financial resources on the market (liquidity risk).

Financial risk management is an integral part of the Group's business management and is performed centrally in accordance with the guidelines issued by the Finance Department as part of the risk management strategies which are more defined on a more general level by the Risk Management Committee.

4.1 Types of financial risks

Exchange rate risk

The geographical distribution of Group production and commercial activities entails exposure to exchange rate risks such as transaction risk and translation risk.

a) Transaction risk

This risk is generated by the commercial and financial transactions of the individual companies which are executed in currencies other than the functional currency of the Company. Fluctuations in the exchange rate between the time when the commercial or financial relationship is established and the time when the transaction is completed (collection or payment) may generate exchange rate gains or losses.

The Group aims to minimise the impact of transactional risk tied to exchange rate volatility. In order to achieve this objective, the Group's procedures provide that the Operating Units are responsible for the collection of all information inherent to positions subject to transactional exchange rate risk, whose hedging is then provided in the form of forward contracts which are entered into with the Group Treasury.

The positions subject to managed exchange rate risk are mainly represented by receivables and payables in foreign currencies.

The Group Treasury is responsible for hedging the resulting net position for each currency and, in accordance with the established guidelines and predetermined restrictions, it in turn closes all risk positions by trading derivative hedging contracts on the market, which typically take the form of forward contracts.

For such contracts, the Group did not consider it necessary to avail itself of the option for hedge accounting as provided for by IFRS 9, in that the representation of the impacts on the Income Statement and the Statement of Financial Position of a hedging strategy for transactional exchange rate risk is nevertheless substantially guaranteed even without the Group availing itself of the aforementioned option.

With reference to some loans denominated in foreign currencies, the Group has entered into derivative contracts (cross currency interest rate swaps) in order to hedge not only interest rate risk, but also transactional exchange rate risk for which hedge accounting has been activated pursuant to the requirements of IFRS 9.

Of note is that, as part of the annual and three-year planning process, the Group formulates exchange rate forecasts for these time horizons based on the best information available on the market. Fluctuations in the exchange rate between the time when the forecast is made and the time when the commercial or financial transaction occurs represents the transactional exchange rate risk for future transactions.

From time to time the Group evaluates the opportunity to carry out hedging transactions on future transactions for which it typically makes use of either forward buy or sell operations, or optional operations such as risk reversal (for example, zero cost collars). Hedge accounting, as provided for by IFRS 9, is activated if and when the requirements are met.

The impacts on the Group's equity and Income Statement, deriving from changes in the exchange rates calculated on outstanding hedging instruments at December 31, 2020, are described in Note 27 - *"Derivative Instruments".*

b) Translation risk

The Group owns controlling interests in companies that prepare their Financial Statements in currencies other than the euro, which is the currency used to prepare the Consolidated Financial Statements. This exposes the Group to currency translation risk, which is generated by the conversion into euro of the assets and liabilities of these subsidiaries.

The main exposures to translation risk are constantly monitored, however it is not currently deemed necessary to adopt specific policies to hedge this exposure.

At December 31, 2020 approximately 36.3% of the total consolidated equity was expressed in euro (approximately 37.9% at December 31, 2019). The most important currencies for the Group, other than the euro, were the Brazilian real (9.8%; 14.7% at December 31, 2019), the Turkish lira (0.4%;

0.5% at December 31, 2019), the Chinese yuan (15.2%; 12.5% at December 31, 2019), the Romanian leu (14.7%; 11.3% at December 31, 2019), the UK pound sterling (3.8%; 3.8% at December 31, 2019), the US dollar (4.2%; 3.6% at December 31, 2019) the Mexican peso (10.4%; 10.1% at December 31, 2019) and the Russian rouble (1.8%; 2.1% at December 31, 2019).

The effects on consolidated equity of a hypothetical appreciation/depreciation of the above listed currencies against the euro - all other conditions being equal, were as follows:

(in thousands of euro)	**Appreciation of 10%**		**Depreciation of 10%**	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Brazilian Real	49,534	79,039	(40,528)	(64,668)
Turkish Lira	2,073	2,794	(1,696)	(2,286)
Chinese Yuan	76,782	67,007	(62,822)	(54,824)
Romanian Leu	74,158	60,763	(60,675)	(49,715)
Russian Rouble	9,337	11,329	(7,640)	(9,269)
British Pound	19,402	20,475	(15,875)	(16,752)
Argentinian Peso	8,874	9,737	(7,260)	(7,966)
US Dollar	21,081	19,453	(17,248)	(15,916)
Mexican Peso	52,697	54,371	(43,116)	(44,486)
Total on consolidated equity	**313,938**	**324,968**	**(256,860)**	**(265,882)**

It should be noted that during the course of 2020, due to the worsening of the macroeconomic scenario caused by the COVID-19 pandemic, some currencies suffered a depreciation of more than -10%, particularly the Brazilian real, the Turkish lira, the Argentinian peso and the Mexican peso. For information on the effect on equity, reference should be made to Note 20 - *"Equity".*

Interest rate risk

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

Based on market circumstances, the Group assesses, whether to enter into derivative contracts for hedging interest rate risk, for which hedge accounting is activated when the conditions set forth in the IFRS 9 are met.

The table below shows the effects on the net income/(loss) resulting from an increase or decrease of 0.50% in the interest rates - all other conditions being equal, of all currencies to which the Group is exposed:

(in thousands of euro)	**+0,50%**		**-0,50%**	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Impact on Net income / (loss)	(7,332)	(7,949)	7,332	7,949

The effects on the Group's equity resulting from changes in the LIBOR and EURIBOR rates calculated on the interest rate hedging instruments outstanding at December 31, 2020, are described in Note 27 - *"Derivative Instruments"*.

Price risk associated with financial assets

The Group's exposure to price risk is limited to the volatility of financial assets such as listed and unlisted equities and bonds, which constituted approximately 0.74% of the total consolidated assets at December 31, 2020 (0.70% at December 31, 2019). These assets were classified as other financial assets at fair value through other Comprehensive Income and other financial assets at fair value through the Income Statement.

No derivatives were put in place to limit the volatility risk for these assets.

These financial assets are subdivided as follows:

- assets at fair value through other Comprehensive Income represented by listed equity securities amounted to euro 14,076 thousand (euro 24,892 thousand at December 31, 2019) and those represented by securities indirectly associated with listed equity securities (Fin. Priv. S.r.l.), amounted to euro 15,902 thousand, (euro 20,565 thousand at December 31, 2019);
- assets at fair value through the Income Statement amounted to euro 34,571 thousand and are represented by Argentinian dollar-linked bonds.

The financial assets at fair value through other Comprehensive Income constituted 29.5% of the total financial assets subject to price risk (45.7% at December 31, 2019). A change of +5% in the prices of the aforesaid listed securities, all other conditions being equal, would result in a positive change to the Group's equity of euro 704 thousand (a positive change of euro 1,245 thousand at December 31, 2019) while a change of -5% in the prices of the aforesaid listed equities, all other conditions being equal, would result in a negative change to the Group's equity of euro 704 thousand (a negative change of euro 1,245 thousand to the Group's equity at December 31, 2019).

The financial assets at fair value through the Income Statement constitute 34% of the total financial assets subject to price risk (zero at December 31, 2019). A change of +5% in the price of the aforesaid listed securities, all other conditions being equal, would result in a positive change to the Group's equity of euro 1,687 thousand, while a change of -5% in the price of the aforesaid listed equities, all other conditions being equal, would result in a negative change of euro 1,687 thousand to the Group's equity.

Credit risk

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

Other instruments used for commercial credit risk management is the taking out of insurance policies. For over 8 years a master agreement has been in place, which was recently renewed for the 2021-2022 two-year period, with a leading insurance company with AA credit rating according to Standard & Poor's ratings, for worldwide coverage for credit risk, mainly relative to sales on the Replacement channel (the coverage ratio at December 31, 2020 was equal to 72%).

However, with regard to the financial counterparties for the management of its temporarily surplus resources, or for trading in derivative instruments, the Group deals only with entities with a high credit standing. Pirelli does not hold public debt instruments from any European country and constantly monitors its net credit exposure to the banking system and does not show significant concentrations of credit risk.

Expected losses on trade receivables are calculated over the life of the receivables, starting from the moment of initial recognition, using a matrix linked to the customer's credit rating and to the ageing of the receivables, which is adjusted to take forecasting factors into account which are specific to some customers, as well as the presence of any collateral and other credit risk mitigation instruments, such as the insurance coverage mentioned above. The calculation of expected losses is based on (i) a matrix which includes the credit ratings of customers provided by independent market assessors, and on (ii) the value of receivables, which takes the collateral and related insurance coverage into account. Consequently, this calculation includes an updated evaluation of the losses forecast due to the impact that COVID-19 has had on the specific markets in which the counterparties operate, with its impact on the probability of default and on the ceilings granted by the insurance company. The provision for bad debts at December 31, 2020 was calculated according to the method described above, and is composed as follows:

(in thousands of euro)	**Due**	**Past due 1-30 days**	**Past due 31-90 days**	**Past due 91 - 180 days**	**Past due 181 · 365 days**	**Past due > 1 year**	**Total**
Expected loss rate	2.8%	3.4%	6.8%	10.2%	24.3%	90.1%	12.0%
Exposure net of credit enhancements	387,703	38,564	39,000	15,751	23,235	49,112	553,364
Bad debt provision	(10,866)	(1,326)	(2,658)	(1,614)	(5,639)	(44,243)	(66,345)

The exposure gross of credit risk mitigation instruments amounts to euro 754,771 thousand and the difference with respect to the value of trade receivables of euro 664,014 thousand shown in note 14 is given by the credit notes to be issued not considered for the purposes of calculating the allowance for doubtful accounts.

At December 31, 2020, the maximum exposure to credit risk calculated the allowance for doubtful accounts calculated without considering the presence of collateral and other credit risk mitigation instruments is euro 72,369 thousand.

Liquidity risk

Liquidity risk represents the risk that the Company's available financial resources may be insufficient to meet its financial and commercial obligations pursuant to contractual terms and conditions and on the due dates.

The main instruments used by the Group to manage liquidity risk are comprised of one and three year financial plans and treasury plans. These allow for the complete and correct detection and measurement of cash inflows and outflows. The differences between the plans and final data are constantly analysed.

The Group has implemented a centralised system for managing collection and payment flows, in compliance with the various local currency and tax regulations. The negotiation and management of banking relationships is carried out centrally, in order to ensure hedging for short and medium term financial needs at the lowest possible cost. Even the procurement of medium/long-term resources on the capital market is optimised through centralised management.

The prudent management of the aforesaid risk requires the maintenance of an adequate level of cash or cash equivalents and/or easily liquidated short-term securities, the availability of funds obtainable through an adequate amount of committed credit facilities and/or the possibility to resort to the capital market, by diversifying products and maturities to seize the best opportunities available.

Furthermore, the Group has adopted an extremely prudent approach to the maturities of its financial debt, refinancing them well in advance in order to minimise the risks associated with liquidity crises or market shut-downs.

Thanks to this approach, at the outbreak of the COVID-19 pandemic, the Pirelli Group could count on a liquidity margin (total liquidity and committed credit facilities available), which were sufficient enough to cover three years of its financial debt maturities. This level of coverage was maintained throughout all of 2020. This enabled the Group to not have to resort, for liquidity reasons, to financing or guarantees which were granted to support the economy during the pandemic, by the countries in which it operates.

At December 31, 2020 the Group had, in addition to cash and other financial assets at fair value through the Income Statement to the amount of euro 2,334,420 thousand (euro 1,647,940 thousand at December 31, 2019), unused credit facilities to the amount of euro 700,000 thousand (euro 700,000 thousand at December 31, 2019), maturing in the second quarter of 2022.

Maturities for financial liabilities at December 31, 2020 were composed as follows:

(in thousands of euro)	within 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
Trade payables	1,267,971	-	-	-	1,267,971
Other payables	374,266	13,734	24,326	39,220	451,546
Derivative financial instruments	60,068	67,289	2,835	-	130,192
Borrowings from banks and other financial institutions	1,143,948	1,758,008	3,225,909	239,521	6,367,387
of which financial leasing liabilities	*94,982*	*79,673*	*172,514*	*239,521*	*586,690*
	2,846,254	**1,839,032**	**3,253,070**	**278,740**	**8,217,096**

Maturities for financial liabilities at December 31, 2019 were composed as follows:

(in thousands of euro)	within 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
Trade payables	1,611,488	-	-	-	1,611,488
Other payables	402,757	4,811	26,142	59,618	493,328
Derivative financial instruments	43,763	4,021	4,656	139	52,579
Borrowings from banks and other financial institutions	1,278,759	229,189	2,989,547	285,457	4,782,952
of which financial leasing liabilities	*102,595*	*87,227*	*188,597*	*265,017*	*643,436*
	3,336,767	**238,021**	**3,020,345**	**345,214**	**6,940,347**

5. INFORMATION ON FAIR VALUE

5.1 Fair value measurement

In relation to financial instruments measured at fair value, the following table shows the classification of these instruments on the basis of the hierarchy of levels as provided for by IFRS 13, which reflects the significance of the inputs used in determining fair value. The levels are defined as follows:

- level 1 – unadjusted prices quoted on an active market for assets or liabilities subject to evaluation;
- level 2 – inputs other than the quoted prices referred to in the previous point, which are observable on the market either directly (as in the case of prices) or indirectly (because they are derived from prices);
- level 3 – inputs that are not based on observable market data.

The following table shows **assets and liabilities measured at fair value at December 31, 2020** subdivided into the three levels defined above:

(in thousands of euro)	Note	Carrying amount at 12/31/2020	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets carried at fair value through Income Statement:					
Other current financial assets at fair value through Income Statement	18	58,944	34,571	24,373	-
Current derivative financial instruments	27	39,327	-	39,327	-
Other financial assets at fair value through Other Comprehensive Income:					
Securities and shares		39,934	14,076	15,902	9,956
Investment funds		2,786	-	2,786	-
	12	42,720	14,076	18,688	9,956
TOTAL ASSETS		**140,991**	**48,647**	**82,388**	**9,956**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through Income Statement:					
Current derivative financial instruments	27	(58,741)	-	(58,741)	-
Derivative hedging instruments:					
Current derivative financial instruments	27	(372)	(372)	-	-
Non-current derivative financial instruments	27	(87,601)	-	(87,601)	-
TOTAL LIABILITIES		**(146,714)**	**(372)**	**(146,342)**	**-**

The following table shows **assets and liabilities measured at fair value at December 31, 2019** subdivided into the three levels defined above:

(in thousands of euro)	Note	Carrying amount at 12/31/2019	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets carried at fair value through Income Statement:					
Other current financial assets at fair value through Income Statement	18	38,119	-	38,119	-
Current derivative financial instruments	27	26,962	-	26,962	-
Derivative hedging instruments:					
Current derivative financial instruments	27	10,186	-	10,186	-
Non current derivative financial instruments	27	52,515	-	52,515	-
Other financial assets at fair value through Other Comprehensive Income:					
Securities and shares		55,020	24,893	20,565	9,562
Investment funds		3,947	-	3,947	-
	12	58,967	24,893	24,512	9,562
TOTAL ASSETS		**186,749**	**24,893**	**152,294**	**9,562**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through Income Statement:					
Current derivative financial instruments	27	(41,427)	-	(41,427)	-
Derivative hedging instruments:					
Non current derivative financial instruments	27	(10,327)	-	(10,327)	-
TOTAL LIABILITIES		**(51,754)**	**-**	**(51,754)**	**-**

The following table shows **changes in the financial assets** classified as **level 3 that occurred during the course of 2020**:

(in thousands of euro)	
Opening balance 01/01/2020	**9,562**
Translation differences	(25)
Decreases	(91)
Fair value adjustments through Other Comprehensive Income	511
Other changes	(1)
Closing balance 12/31/2020	**9,956**

These financial assets are mainly represented by equity investments in the European Institute of Oncology (euro 7,962 thousand) and TIcom I LP (euro 185 thousand).

Fair value adjustments through other Comprehensive Income equalled a positive value of euro 511 thousand and mainly refers to the fair value adjustment of the investment in the European Institute of Oncology.

During the course of 2020 there were no transfers from level 1 to level 2 or vice versa, nor from level 3 to other levels and vice versa.

The fair value of financial instruments traded on active markets is based on the price quotations published at the reporting date. These instruments, included in level 1, primarily comprise of equity investments classified as financial assets at fair value through other Comprehensive Income.

The fair value of financial instruments not traded on active markets (e.g., derivatives) is determined by the use of evaluation techniques widely used in the financial sector, which maximise the utilisation of observable and available market data:

- market prices for similar instruments;
- the fair value of interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves;
- the fair value of foreign exchange derivatives (forward contracts) is determined by using the forward exchange rate at the reporting date;
- the fair value of the cross currency interest rate swaps is calculated by discounting the estimated future cash flows based on observable yield curves and converting them into euros using the exchange rate at the reporting date;
- the fair value of natural rubber futures is determined by using the closing price of the contract at the reporting date.

5.2 Categories of financial assets and liabilities

The table below shows the carrying amounts for each class of financial assets and liabilities as identified by IFRS 9.

(in thousands of euro)	Note	Carrying amount at 12/31/2020	Carrying amount at 12/31/2019
FINANCIAL ASSETS			
Financial assets at fair value through Income Statement			
Other financial assets at fair value through Income Statement	18	58,944	38,119
Current derivative financial instruments	27	39,327	26,962
		98,271	*65,081*
Financial assets at amortised cost			
Other non-current receivables	15	402,148	342,397
Current trade receivables	14	597,669	649,394
Other current receivables	15	469,194	451,858
Cash and cash equivalents	19	2,275,476	1,609,821
		3,744,487	*3,053,470*
Financial assets at fair value through other comprehensive income (FVOCI)			
Other financial assets at fair value through Other Comprehensive Income	12	42,720	58,967
Financial hedging derivative instruments			
Current derivative financial instruments	27	-	10,186
Non-current financial derivative instruments	27	-	52,515
		-	*62,701*
TOTAL FINANCIAL ASSETS		**3,885,478**	**3,240,219**
FINANCIAL LIABILITIES			
Financial liabilities carried at fair value through Income Statement			
Current derivative financial instruments	27	58,741	41,427
Financial liabilities valuated at amortised cost			
Non-current borrowings from banks and other financial institutions (excl. lease liabilities)	23	4,580,537	3,544,461
Other non-current payables	25	77,280	90,571
Current borrowings from banks and other financial institutions (excl. lease liabilities)	23	808,163	1,341,606
Current trade payables	24	1,267,971	1,611,488
Other current payables	25	374,266	402,757
		7,108,217	*6,990,883*
Lease liabilities			
Non-current lease liabilities	23	390,449	405,375
Current lease liabilities	23	75,404	77,797
		465,853	*483,172*
Derivative financial hedging instruments			
Non-current derivative financial instruments	27	87,601	10,327
Current derivative financial instruments	27	372	-
		87,973	*10,327*
TOTAL FINANCIAL LIABILITIES		**7,720,784**	**7,525,809**

6. CAPITAL MANAGEMENT POLICY

The Company's objective is to maximise the return on net invested capital while maintaining the capacity to operate over time, in order to ensure adequate returns for its shareholders and benefits for other stakeholders and also providing for the gradual de-leveraging of the financial structure of the Group, which is to be achieved over a short to medium-term period, as also reported in the section on "Outlook for the next five years" in the Management Report on Operations.

The main indicator that the Group uses for capital management is the R.O.I.C., calculated as the ratio between adjusted EBIT net of tax effect and average net invested capital which does not include investments in associates and joint ventures, "other financial assets at fair value through other comprehensive income" and "other non-current financial assets at fair value through profit or loss" and", intangible assets related to assets recognized as a result of Business Combinations and deferred tax liabilities related to the latter.

The R.O.I.C. for fiscal year 2020 was 10.4% which compares to 18.1% in fiscal year 2019. The reduction compared to the previous year is mainly due to the decrease in Adjusted EBIT due to the effects that the Covid-19 pandemic had on the sector in which the Group operates.

7. ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated Financial Statements entails the necessity of Management in making estimates and assumptions which, under certain circumstances are based on difficult and subjective evaluations and estimates based on historical experience, as well as assumptions that are from time to time considered reasonable and realistic in light of the circumstances. It is possible that the actual results achieved could therefore differ from these estimates. The estimates and assumptions are reviewed periodically and the effects of any changes made to them are reflected in the Income Statement for the period in which the estimate is revised. If such estimates and assumptions, based on the best valuation available at the time, should differ from actual circumstances, they are consequentially amended for the period in which the change of circumstances occurred. The estimates and assumptions refer mainly to assessments of the recoverability of goodwill and other intangible assets with an indefinite useful life, to the definition of the useful lives of property, plant and equipment and intangible assets, to the recoverability of receivables, to the determination of taxes (current and deferred), to the evaluation of pension schemes and other post-employment benefits and to the recognition/valuation of the provisions for liabilities and charges.

Goodwill

Pursuant to the accounting standards adopted for the preparation of the Financial Statements, goodwill is tested annually in order to ascertain the existence of any impairment to be recorded in the Income Statement. In particular, testing involves the allocation of goodwill to the cash generating units (which for the Group coincide with the business sector that is Consumer Activities), and the subsequent determination of the relative recoverable amount, being the greater amount between the fair value and the value in use.

If the recoverable amount proves to be lower than the carrying amount of the cash generating units, the goodwill allocated to them is impaired.

With reference to the impacts derived from the adoption of the accounting standard IFRS 16 - Leases, the carrying amount of the cash generating units includes the value of the right of use of the CGUs themselves. In determining the present value of future flows, any flows relative to the repayment of lease liabilities are excluded, in that they represent flows deriving from financing activities. Consequently, the value of lease liabilities is excluded from the carrying amount of the CGU at the date of the impairment test.

The configuration of the value used to determine the recoverable amount for Consumer Activities at December 31, 2020, is that of the value in use, which corresponds to the present value of the future financial flows which are expected to be associated with the group of CGUs, using a rate which reflects the specific risks of the individual group of CGUs at the valuation date.

The key assumptions used by Management were the estimates for future increases in sales, in operating cash flows, in the growth rates of operating cash flows beyond the explicit forecast period, for the purpose of estimating the terminal value and the weighted average cost of capital (discount rate).

Pirelli Brand (intangible asset with an indefinite useful life)

The Pirelli Brand is an intangible asset with an indefinite useful life, not subject to amortisation, but which pursuant to IAS 36, is tested for impairment annually, or more frequently if specific events or circumstances arise that may indicate an impairment.

The impairment test at December 31, 2020 was performed using the assistance of an independent third-party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2020, was the fair value, calculated on the basis of the income approach (the so-called Level 3 of the the IFRS 13 hierarchy – Fair Value Measurement).

The key assumptions used by Management were the estimates for future increases in sales, their growth rate beyond the explicit forecast period for the purposes of estimating the terminal value, in the royalty rate, and in the discount rate which is based on the weighted average cost of capital increased by a premium determined on the basis of the riskiness of the specific asset.

Owned tangible assets

In accordance with the relevant accounting standards, fixed assets are tested, in order to ascertain whether there has been any impairment when there are indicators that signal that difficulties are to be expected for in recovery of their relative net carrying amount, through their use. Any verification of the existence of the aforesaid impairment indicators requires that the Directors make subjective judgements based on the information available from both internal and external sources, as well as on historical experience. Also if it is determined that a potential impairment may have been generated, the impairment is calculated using the suitable evaluation techniques.

The correct identification of the indicators of a potential impairment, as well as the estimates used to determine the impairment depend on a subjective evaluation, as well as on factors that may change over time which influence the valuations and estimates made by Management.

Right of use and lease liabilities

As regards the estimates and assumptions used for the determination of lease liabilities and the right of use, the application of IFRS 16 has introduced some elements of professional judgement as well as the use of assumptions and estimates in relation to the lease term and the definition of the incremental borrowing rate.

The main ones are summarised as follows:

- renewal clauses in contracts are considered for the purposes of determining the duration of the contract, that is, when the Group has the option to exercise these clauses without the need to obtain the consent of the other party and when their exercise is considered reasonably certain. In the case of clauses which provide for multiple renewals that can be exercised unilaterally by the Group, only the first extension period has been considered;

- automatic renewal clauses in contracts, in which both parties have the right to terminate the contract, were not considered for the purposes of determining the duration of the contract as the ability to extend its duration, is not under the unilateral control of the Group and the penalty to which the lessor could be exposed to is not significant. However, in the event that the lessor is exposed to a significant penalty, the Group evaluates the inclusion of the renewal option in the determination of the duration of the contract. This assessment is also carried out considering the degree of personalisation of the leased asset. If personalisation is high, the lessor could incur a significant penalty if they oppose the renewal;

- early termination clauses in contracts: these clauses are not considered in determining the duration of the contract if they can be exercised only by the lessor or by both parties. In cases where they can be unilaterally exercised by the Group, specific assessments are made contract by contract (for example, the Group is already negotiating a new contract or has already given notice to the lessor);

- the incremental borrowing rate is the risk-free rate of the country in which the contract is negotiated and is based on the duration of the contract itself. It is then adjusted according to the Group's credit spread and the local credit spread.

Income taxes (current and deferred)

Income taxes (current and deferred) are determined in each country in which the Group operates according to a prudent interpretation of the tax regulations in force. This process sometimes involves complex estimates in determining taxable income and temporary deductible and taxable differences between carrying amounts and tax amounts. In particular, deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which they can be recovered. The assessment of the recoverability of deferred tax assets, recorded in relation both to tax losses that may be used in subsequent financial years and to temporary deductible differences, takes into account the estimate of future taxable income and is based on prudent tax planning.

As regards situations in which the tax legislation in force lends itself to interpretation, if the Group considers it probable (more than 50%), that the tax authority will accept the tax treatment adopted, the net income/(loss) before tax is determined in accordance with the tax treatment applied in the tax return, otherwise the effect of any uncertainty is reflected in the determination of the net income/(loss) before tax. The probability refers to the probable fact that the tax authority will not accept the tax treatment adopted and not to the probability of the assessment.

Pension funds

The companies of the Group have in place pension plans, health insurance plans and other defined benefit plans for their employees, primarily in the United Kingdom and the United States. These funds have been closed to new participants and therefore the actuarial risk refers only to past deficit. Management, through the use of a leading consulting firm, uses different actuarial assumptions to calculate the liabilities and assets servicing these pension plans. The actuarial assumptions of a financial nature concern the discount rate, the rate of inflation and trends in medical costs. The actuarial assumptions of a demographic nature are essentially concerned with mortality rates. The Group has identified discount rates which it has deemed are balanced, given their context.

Provisions for liabilities and charges

In view of the legal and tax risks relative to indirect taxes, provisions for the risk of unfavourable outcomes have been recorded. The value of provisions reported in the Financial Statements relative to these risks, represent the best estimate to date made by Management for legal and tax issues regarding a vast range of problematic issues that are subject to the jurisdiction of different countries. This estimate entails the adoption of assumptions which depend on factors that may change over time and which could therefore have a significant impact on the current estimates made by Management in preparing the Consolidated Financial Statements.

8. OPERATING SEGMENTS

IFRS 8 - Operating segments, defines an operating segment as a component:

- which involves entrepreneurial activities which generate revenues and costs;
- whose operating income is periodically reviewed by the Chief Executive Officer, in his capacity as Chief Operating Decision Maker (CODM);
- for which separate income, equity and other financial data is available.

For the purposes of IFRS 8, the activities performed by Consumer Activities are identifiable in a single operating sector.

With the aim of accelerating the implementation of the business model focused on High Value, the Group adopted a new organisational model at regional level, composed of five Regions instead of six.

In addition to APAC, North America and South America, two new macro Regions were renamed:

- Europe and Turkey;
- Russia, Nordics and MEAI.

The comparative data for 2019 have been restated to adapt them to the new repartitions by Regions.

Revenues from **sales and services according to Regions** were as follows:

(in thousands of euro)	**2020**	**2019**
Europe and Turkey	1,757,359	2,116,885
North America	870,511	1,101,890
APAC	865,988	961,939
South America	458,617	681,995
Russia, Nordics and MEAI	349,656	460,345
Total	**4,302,131**	**5,323,054**

Non-current assets by Region which are allocated on the basis of the country in which the assets are located, are shown below:

(*in thousands of euro*)	12/31/2020		12/31/2019	
Europe and Turkey	5,440,542	62.24%	5,697,779	61.08%
North America	389,634	4.46%	468,610	5.02%
APAC	486,468	5.56%	523,549	5.61%
South America	358,383	4.10%	510,318	5.47%
Russia, Nordics and MEAI	182,828	2.09%	242,740	2.60%
Non-current unallocated assets	1,883,945	21.55%	1,886,988	20.22%
Total	**8,741,800**	**100.00%**	**9,329,984**	**100.00%**

The **non-current allocated assets** reported in the preceding table consist of property, plant and equipment and intangible assets, excluding goodwill. The **non-current unallocated assets** are relative to goodwill.

9. PROPERTY, PLANT AND EQUIPMENT

Their composition was as follows:

(in thousands of euro)	12/31/2020	12/31/2019
Total Net Value:	**3,159,767**	**3,649,809**
- Tangible assets	2,725,755	3,187,190
- Right of use	434,012	462,619

9.1 Owned tangible assets

The composition and changes were as follows:

(in thousands of euro)	12/31/2020			12/31/2019		
	Gross Value	**Accumulated Depreciation**	**Net Value**	**Gross Value**	**Accumulated Depreciation**	**Net Value**
Land	147,406	-	**147,406**	189,417	-	**189,417**
Buildings	787,489	(150,793)	**636,696**	859,506	(133,598)	**725,908**
Plants and machinery	2,458,722	(763,568)	**1,695,154**	2,613,755	(647,884)	**1,965,871**
Industrial and trade equipment	500,443	(303,197)	**197,246**	510,899	(264,423)	**246,476**
Other assets	111,179	(61,926)	**49,253**	114,520	(55,002)	**59,518**
Total	**4,005,239**	**(1,279,484)**	**2,725,755**	**4,288,097**	**(1,100,907)**	**3,187,190**

NET VALUE (in thousands of euro)	**12/31/2019**	**Change in consolidation scope**	**Hyperinflation Argentina**	**Translation differ.**	**Increases**	**Decreases**	**Depreciation**	**Devaluation**	**Recl./Other**	**12/31/2020**
Land	**189,417**	(666)	740	(20,540)	-	(1,560)	-	-	(19,985)	**147,406**
Buildings	**725,908**	(3,624)	3,253	(68,647)	12,428	(1,125)	(33,069)	(33)	1,605	**636,696**
Plants and machinery	**1,965,870**	(503)	6,268	(155,297)	58,419	(2,247)	(176,389)	(7,074)	6,107	**1,695,154**
Industrial and trade equipment	**246,476**	-	1,083	(27,099)	48,874	(1,395)	(69,237)	(1,974)	518	**197,246**
Other assets	**59,519**	(35)	546	(4,895)	4,787	(100)	(10,683)	(57)	171	**49,253**
Total	**3,187,190**	**(4,828)**	**11,890**	**(276,478)**	**124,508**	**(6,427)**	**(289,378)**	**(9,138)**	**(11,584)**	**2,725,755**

NET VALUE (in thousands of euro)	**12/31/2018**	**Hyperinflation Argentina**	**Translation differ.**	**Increases**	**Decreases**	**Depreciation**	**Devaluation**	**Recl./Other**	**12/31/2019**
Land	**189,026**	1,220	(618)	16	-	-	-	(227)	**189,417**
Buildings	**697,247**	4,069	7,855	47,572	(1,322)	(30,961)	(73)	1,521	**725,908**
Plants and machinery	**1,905,358**	8,267	8,279	235,989	(5,778)	(172,445)	(17,333)	3,533	**1,965,870**
Industrial and trade equipment	**242,242**	930	4,155	77,096	(1,871)	(76,903)	(1,074)	1,901	**246,476**
Other assets	**58,812**	3,915	(1,150)	9,026	(987)	(11,736)	(76)	1,715	**59,519**
Total	**3,092,685**	**18,401**	**18,521**	**369,699**	**(9,958)**	**(292,045)**	**(18,556)**	**8,443**	**3,187,190**

Hyperinflation Argentina refers to the revaluation of the assets held by the Argentinian company as a consequence of the application of the accounting standard IAS 29 - Financial Reporting in Hyperinflationary Economies. The effect was offset by negative translation differences of euro 17,194 thousand.

Increases totalling euro 124,508 thousand, were primarily aimed at High Value activities and to the continuous improvement in the mix and quality in all manufacturing plants.

The ratio of investments to amortisations for 2020 was equal to 0.43 (1.27 for the year 2019).

Reclassification/other was mainly due to the reclassification of government concessions for land in China, to the item *"Concessions, licenses and brands - indefinite useful life"* under intangible assets - (Refer to Note 10).

Devaluation refers mainly to plants and equipment in the UK and Italy.

Property, plant and equipment in progress at December 31, 2020, included in the individual asset categories, amounted to euro 138,012 thousand (euro 217,620 thousand at December 31, 2019).

It should be noted that the companies of the Group did not pledge any property, plant and equipment as collateral.

The crisis induced by the COVID-19 pandemic and the New Guidance published by the company on April 3, 2020, which revised the Group's targets for the year 2020 compared to those published on February 19, 2020, on the occasion of the presentation of the 2020-2022 Strategic Plan, represent indicators of possible impairment of the Group's Cash Generating Units. An impairment test was therefore carried out using available updated post-COVID-19 information, consistent with the assumptions made for the purposes of goodwill impairment testing. (Refer to subsequent Note 10 - *"Intangible assets"*).

On the basis of the analysis carried out, no impairment loss emerged.

9.2 Right of use

The value of the assets for which the Group has entered into a lease agreement, was composed as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Right of use land	13,730	15,323
Right of use buildings	336,740	355,939
Right of use plants and machinery	26,012	30,689
Right of use other assets	57,530	60,668
Total net right of use	**434,012**	**462,619**

Right of use buildings mainly refers to contracts relative to offices, warehouses and points of sale.

Right of use other assets mainly refers to contracts relative to motor vehicles and transport equipment. These contracts also include the service component (non-lease component).

Lease contracts are negotiated on an individual basis and include a wide variety of terms and conditions.

Increases in the right of use during the 2020 financial year amounted to euro 68,532 thousand (euro 51,235 thousand for 2019), for new lease contracts signed mainly in Europe and North America.

There were no reassessments or amendments to any significant contracts during the course of 2020.

The **depreciation of the right of use** recognised in the Income Statement and included under the item *"Depreciation and impairments"* - (Note 32), was composed as follows:

(in thousands of euro)	**2020**	**2019**
Land	1,121	1,130
Buildings	60,505	60,613
Plants and machinery	7,644	7,789
Other assets	19,356	19,947
Total depreciation of right of use	**88,626**	**89,479**

For interest on lease liabilities, reference should be made to Note 37 - *"Financial expenses"*.

Information on the costs of lease contracts with a duration of less than twelve months, lease contracts for assets with a low unit value and lease contracts with variable lease payments, is included in Note 33 - *"Other costs"*.

With regard to the considerations for impairment, reference should be made to the details provided in Note 9.1.

10. INTANGIBLE ASSETS

Composition and changes were as follows:

(in thousands of euro)	12/31/2019	Translation differences	Increase	Decrease	Amortisation	Riclass./Other	12/31/2020
Concessions / licenses / trademarks - finite life	**59,834**	(1,608)	430	(6)	(5,061)	20,105	**73,694**
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	-	-	**2,270,000**
Goodwill	**1,886,988**	(2,765)	-	(278)	-	-	**1,883,945**
Customer relationships	**308,585**	(168)	-	-	(34,547)	-	**273,870**
Technology	**1,122,317**	-	-	-	(76,850)	-	**1,045,467**
Software applications	**18,971**	(394)	11,172	(3)	(10,219)	6,654	**26,181**
Patents and design patent rights	**4,490**	-	3,925	-	(726)	-	**7,689**
Other intangible assets	**8,990**	(448)	-	-	(646)	(6,709)	**1,187**
Total	**5,680,175**	**(5,383)**	**15,527**	**(287)**	**(128,049)**	**20,050**	**5,582,033**

(in thousands of euro)	12/31/2018	Translation differences	Increase	Decrease	Amortisation	Other	12/31/2019
Concessions / licenses / trademarks - finite life	**63,375**	741	441	-	(5,274)	551	**59,834**
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	-	-	**2,270,000**
Goodwill	**1,886,862**	(204)	-	-	-	330	**1,886,988**
Customer relationships	**342,796**	332	-	-	(34,543)	-	**308,585**
Technology	**1,199,167**	-	-	-	(76,850)	-	**1,122,317**
Software applications	**18,333**	(32)	8,670	(15)	(8,092)	107	**18,971**
Patents and design patent rights	**-**	-	4,726	-	(236)	-	**4,490**
Other intangible assets	**2,805**	128	6,975	-	(828)	(90)	**8,990**
Total	**5,783,338**	**965**	**20,812**	**(15)**	**(125,823)**	**898**	**5,680,175**

Intangible assets were composed as follows:

- the Pirelli Brand valued at euro 2,270,000 thousand (indefinite useful life). It should be noted that the evaluation of the useful life of brands is based on a series of factors including the competitive environment, market share, history of the brand, life cycles of the underlying product, operating plans and the macroeconomic environment of the countries in which the related products are sold. In particular, the useful life of the Pirelli Brand was assessed as indefinite on the basis of its history of over one hundred years of success (established in 1872) and the intention and ability of the Group to continue investing in order to support and maintain the brand;

- the Metzeler Brand (useful life of 20 years) valued at euro 49,133 thousand included under the item *"Concessions, licenses and brands with a finite useful life";*

- customer relationships (useful life of 10-20 years) which mainly includes the value of commercial relationships both for the Original Equipment channel and the Replacement channel;

- technology which includes the value of both product and process technologies as well the value of the *In-Process R&D* (being formed at the time of the acquisition of the Group in 2015 by Marco Polo Industrial Holding S.p.A.) amounted to euro 980,467 thousand and euro 65,000 thousand respectively. The useful life of product and process Technology was determined to be 20 years, while the useful life for *In-Process R&D* was 10 years. Projected sales in the 2021-2025 Strategic Plan, which are the primary input for determining the Technology's recoverable amount, are higher than those used for impairment testing purposes as of June 30, 2020, therefore there are no signs of impairment with respect to June 30, 2020;

- goodwill to the amount of euro 1,883,945 thousand, of which euro 1,877,363 thousand was recognised at the time of the acquisition of the Group in September 2015. The residual portion refers to the goodwill determined as part of the acquisition of the company JMC Pneus Comercio Importação e Exportação Ltda, which occurred in 2018.

Impairment testing of Goodwill

Pursuant to IAS 36, goodwill is not subject to amortisation, but is tested for impairment annually or more frequently, if specific events or circumstances arise that may suggest an impairment.

For the purposes of such impairment testing, goodwill is allocated to the cash generating units (CGUs) or group of CGUs, in compliance with the maximum aggregation limit which cannot exceed that of the business sector identified pursuant to IFRS 8. Goodwill, amounting to euro 1,883,945 thousand, was allocated to the group of *"Consumer Activities"* CGUs, which represent the only sector of activity in which the Group operates and considers to be the minimum level at which goodwill should be monitored, for the purposes of internal management control.

The impairment test consists of comparing the recoverable value of the Cash Generating Unit (CGU) (or of the set of CGUs) to which the goodwill is allocated and its carrying amount, including its operating assets and goodwill.

The recoverable amount is defined as the higher amount between its value in use (present value of the expected cash flows) and the fair value less the costs of disposal (equivalent value net of sales costs).

The value configuration used to determine the recoverable amount of Consumer Assets at December 31, 2020 is value in use, which corresponds to the present value of the future cash flows expected to be generated by the group of CGUs, using a rate that reflects the risks specific to the group of CGUs at the measurement date. The forecasts move from the 2021-2025 plan approved by the parent company's Board of Directors, prudently adjusted downwards to take account of analysts' consensus estimates as external evidence in accordance with IAS 33 letter (a), and also sterilizing cash flows relating to expansion investments and restructuring charges and related benefits to which the Company was not committed at the balance sheet date, in accordance with IAS 36.44.

The average cumulative annual growth rate (CAGR) of revenues for the explicit forecast period used for the calculation of the recoverable amount, which was calculated with respect to revenues recorded for 2020, equalled 6.67%, while the average EBITDA margin for the period used for the calculation of the recoverable amount, equalled 24.3% with an EBITDA CAGR of 10.4% compared to the absolute value recorded for 2020.

The impairment test at December 31, 2020 was performed using the assistance of an independent third-party professional.

The discount rates, defined as the weighted average cost of capital (WACC) net of taxes, which were applied to the prospective cash flows equalled 6.75%, while the growth factor of operating cash flows, for the purpose of estimating the terminal value (g) equalled zero. The capitalisation rate of operating cash flows (WACC - g) therefore equalled 6.75%.

Based on the results of the tests carried out, no impairment emerged.

The recoverable amount is greater than the carrying amount for Consumer Activities (21%), while, in order for the value in use to be equal to the carrying amount, a downward change in the key parameters is necessary, in particular:

- an increase in the discount rate of 145 basis points;
- an annual growth rate beyond the explicit forecast "g" period negative by -198 basis points;
- a decrease in the EBITDA margin adjusted of 288 basis points.

Impairment testing of the Pirelli Brand (intangible asset with an indefinite useful life)

The Pirelli Brand, valued at euro 2,270,000 thousand is an intangible asset with an indefinite useful life and as such is not subject to amortisation, but pursuant to IAS 36, is tested for impairment annually or more frequently, if specific events or circumstances arise that may suggest an impairment.

The impairment test at December 31, 2020 was performed using the assistance of an independent third-party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2020, was the fair value calculated on the basis of the income approach (the so-called Level 3 of the hierarchy of IFRS 13 – Fair Value measurement) which is based on:

- the same revenue streams used for the purpose of impairment testing of goodwill i.e. revenues lower than those in the plan, in order to take account of analysts' consensus estimates as external evidence; for the purposes of determining the recoverable value of the brand, given that the value configuration is fair value, the benefits deriving from expansion investments were not sterilized;
- a sum-of-parts valuation criterion which also takes into account the contribution of royalties from the Prometeon Tyre Group for the use of the Pirelli trademark in relation to the Industrial segment;

- the royalty rates applied to the revenues of the Consumer High Value and Consumer Standard segment was deduced from the royalty rates implicit in the valuations made by an independent entity relative to the main brands of the listed companies of the Tyre sector and equalled an average royalty rate of 4.62%. With reference to the contribution in terms of royalties from the Prometeon Tyre Group, the royalty rates stipulated in existing contracts were used;

- a discount rate of 8.34% which included a premium, compared to the WACC, determined on the basis of the risk level of the specific asset;

- a growth rate of “g” in the terminal value assumed to be equal to zero;

- the TAB (Tax Amortisation Benefit) that is, the tax benefit from which the market participant who acquires the asset separately could in abstract terms benefit, due to the possibility of amortising it for tax purposes.

For the purposes of impairment testing, the recoverable amount of the Pirelli Brand *cum* TAB was compared with the respective carrying amount (*cum* TAB) and no impairment emerged.

The recoverable amount is greater than the carrying amount of the Brand (19.5%) while, in order for the fair value to be equal to the carrying amount, a downward change in the key parameters is necessary, in particular:

- a reduction in royalty rates for the Consumer valuation units by 77 basis points and the simultaneous zeroing of the balance for royalties from the license agreement with the Prometeon Tyre Group;

- an increase in the discount rate of 144 basis points;

- a g growth rate negative by -265 basis points.

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Changes in investments in associates and joint ventures were as follows:

(in thousands of euro)	12/31/2020			12/31/2019		
	Associates	**JV**	**Total**	**Associates**	**JV**	**Total**
Opening balance	**8,703**	**72,143**	**80,846**	**8,419**	**64,286**	**72,705**
Increases	-	-	-	-	27,580	27,580
Distribution of dividends	(192)	-	(192)	(200)	-	(200)
Share of net income / (loss)	228	(5,857)	(5,629)	249	(9,927)	(9,678)
Share of other components recognised in Equity	-	(2,093)	(2,093)	-	(1,176)	(1,176)
Use of provision for future risks and expenses	-	-	-	-	(8,620)	(8,620)
Other	(344)	-	(344)	235	-	235
Closing balance	**8,395**	**64,193**	**72,588**	**8,703**	**72,143**	**80,846**

11.1 Investments in associates

The item was composed as follows:

(in thousands of euro)	12/31/2019	Distribution of dividends	Share of net income / (loss)	Other	12/31/2020
Eurostazioni S.p.A.	**6,395**	-	-	-	**6,395**
Joint Stock Company Kirov Tyre Plant	**1,417**	-	42	(338)	**1,121**
Investments in other associates	**891**	(192)	186	(6)	**879**
Total	**8,703**	**(192)**	**228**	**(344)**	**8,395**

The investments in associated companies evaluated using the equity method, were not relevant in terms of the impact on the total consolidated assets, either individually or in aggregate form.

11.2 Investments in joint ventures

The details of the item were as follows:

(in thousands of euro)	12/31/2019	Share of net income / (loss)	Share of other components recognised in Equity	12/31/2020
PT Evoluzione Tyres	**15,015**	(1,299)	(1,613)	**12,103**
Xushen Tyre (Shanghai) Co., Ltd	**57,128**	(4,558)	(480)	**52,090**
Total	**72,143**	**(5,857)**	**(2,093)**	**64,193**

The Group holds:

- an investment of 63.04% in PT Evoluzione Tyres, an entity which operates in Indonesia and is active in the production of tyres for motorcycles. Even though the company is 63.04% owned, as a result of contractual agreements between Shareholders, it falls under the definition of a joint venture, in that the governance regulations explicitly require unanimous consensus for significant business decisions. The investment is evaluated using the equity method;

- a 49% stake in the company Xushen Tyre (Shangai) Co., Ltd, a joint venture which, through the company Jining Shenzhou Tyre Co., Ltd. owns a Consumer tyre manufacturing plant in China. The plant provides the necessary production flexibility for the High Value segment, taking into account the evolution of the Chinese market, the expected developments in the electric car segment and the increasing share of homologations obtained for the Original Equipment channel in China, Japan and Korea. The investment is evaluated using the equity method. As announced on August 1st, 2018 the JV agreement provides for a purchase option in favour of Pirelli Tyre S.p.A., exercisable from January 1, 2021 to December 31, 2025, which – if exercised – would would enable the same to increase its holding in the said company up to 70%. During 2020, Pirelli Tyre S.p.A. represented to the associates in Xushen Tyre (Shanghai) Co., Ltd. its intention not to exercise the option until December 31, 2022.

The **share of net income/(loss)** amounted to euro 5,857 thousand, and refers to the pro-rata share of the loss of euro 4,558 thousand attributable to the joint venture Xushen Tyre (Shanghai) Co., Ltd., and of euro 1,299 thousand attributable to the joint venture PT Evoluzione Tyres.

It should be noted that, with regard to both investments, it was considered that the negative result, deriving from the company which owns the production plant, together with the fact that the company operates in a market affected by the crisis induced by the COVID-19 pandemic, represented impairment indicators and therefore the investments were subjected to an impairment test. The recoverable amount of the investments resulted as higher than the carrying amount of the same and therefore no impairment was recorded.

Investments in joint ventures were not significant in terms of their impact on the total consolidated assets.

12. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The changes in other financial assets at fair value through other Comprehensive Income amounted to euro 42,720 thousand at December 31, 2020 (euro 58,967 thousand at December 31, 2019) and were as follows:

(in thousands of euro)	
Opening balance at 01/01/2020	**58,967**
Translation differences	(27)
Decreases	(91)
Fair Value adjustment through other comprehensive income	(16,129)
Closing balance 12/31/2020	**42,720**

The composition of the item according to the individual securities is as follows:

(in thousands of euro)		**12/31/2020**	**12/31/2019**
Listed securities			
RCS Mediagroup S.p.A.		14,076	24,892
	Total	**14,076**	**24,892**
Unlisted securities			
Fin. Priv. S.r.l.		15,902	20,565
Fondo Anastasia		2,786	3,947
Istituto Europeo di Oncologia S.r.l.		7,962	7,465
Euroqube		10	10
Tlcom I LP		185	195
Other companies		1,799	1,893
	Total	**28,644**	**34,075**
Total other financial assets at Fair Value through Other Comprehensive Income		**42,720**	**58,967**

The **fair value adjustment through other Comprehensive Income** amounted to a net loss of euro 16,129 thousand and mainly refers to the RCS MediaGroup S.p.A. (negative at euro 10,816 thousand), to Fin. Priv. S.r.l. (negative at euro 4,663 thousand) and to Fondo Comune di investimento Anastasia (Anastasia Real Estate Investment Fund), (negative at euro 1,161 thousand), which was offset by the European Oncological Institute (positive at euro 497 thousand). For listed securities, their fair value corresponded to the stock market price at December 31, 2020. The fair value of unlisted securities was determined by using estimates based on the best available information.

13. DEFERRED TAX ASSETS AND LIABILITIES

Their composition is as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Deferred tax assets	109,378	81,188
Deferred tax liabilities	(1,006,799)	(1,058,760)
Total	**(897,421)**	**(977,572)**

Deferred tax assets and deferred tax liabilities were offset where a legal right existed that allowed for the offset of current tax assets and current tax liabilities and the deferred taxes refer to the same legal entity and the same taxation authority.

The item **deferred tax liabilities** mainly refers to the difference between the tax value and the carrying amount of the of the assets identified during the course of 2016, following the completion of the allocation of the price paid by Marco Polo Industrial Holding S.p.A. for the acquisition of the Pirelli Group, at fair value of the Pirelli assets and liabilities acquired (Purchase Price Allocation or PPA) and recorded in the Consolidated Financial Statements following the merger by incorporation of the Parent company, Marco Polo Industrial Holding S.p.A. into Pirelli, which took place during the course of the same year, 2016. Changes for the year also include the release, for an amount of euro 13,708 thousand, of deferred liabilities relative to the Metzeler trademark, as a result of the tax reassessment of the same, pursuant to Legislative Decree No. 104/2020.

Their composition, gross of the offsets carried out was as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Deferred tax assets	**355,547**	**351,373**
- of which within 12 months	180,958	159,911
- of which beyond 12 months	174,589	191,462
Deferred tax liabilities	**(1,252,968)**	**(1,328,945)**
- of which within 12 months	(12,134)	(5,935)
- of which beyond 12 months	(1,240,834)	(1,323,010)
Total	**(897,421)**	**(977,572)**

The composition of deferred taxes relative to temporary differences and tax losses carried forward, is shown in the following table:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Deferred tax assets		
Provisions for liabilities and charges	50,369	62,633
Property, plant and equipment	5,189	6,763
Leases	-	1,511
Provision for employee benefit obligations	55,672	66,389
Inventories	48,670	40,452
Tax losses carried forward	50,094	43,338
Trade receivables and other receivables	30,894	29,307
Trade payables and other payables	5,047	2,210
Other	109,612	98,770
Total	**355,547**	**351,373**
Deferred tax liabilities		
Intangible assets	(1,006,521)	(1,055,683)
Property, plant and equipment	(155,339)	(193,202)
Leases	(7,733)	-
Other	(83,375)	(80,060)
Total	**(1,252,968)**	**(1,328,945)**

The item **other** relative to **deferred tax assets** mainly includes deferred tax assets recorded on non-deducted surplus interest payables (euro 6,793 thousand) and on the ACE (Allowance for Corporate Equity) benefit (euro 66,306 thousand).

The item **other**, relative to the **deferred tax liabilities**, mainly includes deferred tax liabilities recorded on the undistributed gains of subsidiaries, for which distribution of the same in future financial years is probable (euro 48,887 thousand).

At December 31, 2020 the value of deferred tax assets not recognised on tax losses equalled euro 89,796 thousand, while those relative to temporary differences equalled euro 31,756 thousand. The latter item mainly includes deferred tax assets not recognised on interest payables. Deferred tax assets were not reported, in that no taxable income is expected to justify their recovery.

The value of tax losses according to their maturity date, against which deferred tax assets are not recognised, are as follows:

(in thousands of euro) **Year of maturity**	**12/31/2020**	**12/31/2019**
2019	-	1,713
2020	2,663	2,663
2021	2,211	2,211
2022	5,135	5,136
2023	1,280	1,280
2024	1,818	1,818
2025	5,117	5,122
2026	3,648	3,648
2027	424	424
2028	764	764
Without maturity date	316,904	282,512
Total	**339,964**	**307,291**

Of the total tax losses with no maturity date, euro 188,997 thousand refers to losses attributable to the subsidiaries in the UK, Spain, Brazil and Chile, and euro 108,970 thousand to Pirelli & C. S.p.A. deriving from the company Marco Polo Industrial Holding S.p.A., incorporated in 2016.

The tax effect of gains and losses recognised directly in equity, was negative to the amount of euro 5,672 thousand (positive to the amount of euro 1,171 thousand for 2019) and is disclosed in the Statement of Comprehensive Income. These changes were mainly due to tax effects connected to actuarial gains/losses on employee benefits and to the fair value adjustment of cash flow hedge derivatives.

14. TRADE RECEIVABLES

Trade receivables were analysed as follows:

(in thousands of euro)	**12/31/2020**			**12/31/2019**		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Trade receivables	664,014	-	664,014	715,361	-	715,361
Provision for bad debts	(66,345)	-	(66,345)	(65,967)	-	(65,967)
Total	**597,669**	**-**	**597,669**	**649,394**	**-**	**649,394**

The gross value of trade receivables amounted to euro 664,014 thousand (euro 715,361 thousand at December 31, 2019).

At the reporting date, overdue receivables, gross of credit notes to be issued and net of credit risk mitigation instruments, amount to euro 165,662 thousand.

Receivables which were past due and not yet due were evaluated in accordance to the Group's policy described in the section on adopted accounting standards.

Impaired receivables include both significant individual positions subject to individual impairment and positions with similar credit risk characteristics which were grouped together and impaired on a collective basis. The calculation of impairment is based on (i) a matrix which includes the credit ratings of customers provided by independent market assessors and on (ii) the value of receivables, which takes the collateral and related insurance coverage into account. Consequently, this calculation includes an updated evaluation of the losses forecast due to the impact that COVID-19 has had on the specific markets in which the counterparties operate, with its impact on the probability of default and on the ceilings granted by the insurance company.

Changes in the provision for bad debts were as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Opening balance	**65,967**	**57,122**
Translation differences	(9,636)	612
Accruals	22,358	30,251
Decreases	(6,788)	(14,433)
Releases	(5,515)	(8,016)
Other	(41)	431
Closing balance	**66,345**	**65,967**

Accruals to the provision for bad debts have been recognised net of releases, in the Income Statement under *"Impairment of net financial assets"* - (Note 34).

The carrying amount for trade receivables is considered to approximate their fair value.

For fully impaired trade receivables which were the subject of legal action, it is estimated that an amount not exceeding 10% of their gross value could be recovered.

15. OTHER RECEIVABLES

Other receivables were analysed as follows:

(in thousands of euro)		12/31/2020			12/31/2019	
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Financial receivables	377,024	273,198	103,826	180,150	140,324	39,826
Trade accruals and deferrals	36,485	11,174	25,311	46,399	15,803	30,596
Receivables from employees	5,038	1,094	3,944	7,513	899	6,614
Receivables from social security and welfare institutions	1,402	-	1,402	2,136	-	2,136
Receivables from tax authorities not related to income taxes	328,654	93,917	234,737	458,921	150,513	308,408
Other receivables	131,986	30,018	101,968	108,080	39,186	68,894
	880,589	**409,401**	**471,188**	**803,199**	**346,725**	**456,474**
Bad debt provision for other receivables and financial receivables	(9,247)	(7,253)	(1,994)	(8,944)	(4,328)	(4,616)
Total	**871,342**	**402,148**	**469,194**	**794,255**	**342,397**	**451,858**

Non-current financial receivables (euro 273,198 thousand) refer mainly to, euro 54,878 thousand in sums deposited as guarantees for tax and legal disputes in relation to the subsidiary Pirelli Pneus Ltda (Brazil) and remunerated at market rates, to euro 185,052 thousand in sums deposited into escrow accounts in favour of the pension funds of Pirelli UK Ltd. and Pirelli UK Tyres Ltd. to euro 14,464 thousand in contributions paid in cash at the time of signing an association in participation contract, to euro 5,826 thousand in loans disbursed in favour of the Indonesian joint venture PT Evoluzione Tyres.

The increase in escrow accounts was the main reason for the increase in financial receivables. Starting from February 2020, the Group has in fact assessed that it is financially more convenient to not renew the insurance guarantees previously issued to guarantee its obligations towards the pension funds of Pirelli UK Ltd., which have therefore been replaced by escrow account deposits. Depending on market conditions prevailing from time to time, Pirelli will decide whether to restore the insurance guarantees.

Current financial receivables (euro 103,826 thousand) refer mainly to, euro 88,769 thousand for the short-term portion of loans disbursed to the joint venture Jining Shenzhou Tyre Co., Ltd., for which there was no significant increase in credit risk since the date of disbursement.

The **provision for bad debts** (euro 9,247 thousand) mainly includes euro 8,505 thousand relative to the impairment of financial receivables.

Receivables from tax authorities not related to income taxes (euro 328.654 thousand compared to euro 458,921 thousand for 2019) are mainly comprised of receivables for IVA (value added tax) and other indirect taxes, the recoverability of which is expected in subsequent years. This decrease, compared to December 31, 2019, mainly refers to the exchange rate impact (negative to the amount of euro 117,901 thousand), mainly for the Brazilian subsidiaries whose currency depreciated during the course of the year, as well as the off-set of the same to the amount of euro 30,039 thousand.

Other non-current receivables (euro 30,018 thousand) mainly refer to amounts deposited as guarantees for legal and tax disputes involving the Brazilian business units (euro 27,057 thousand) and receivables pledged as collateral to the amount of euro 1,297 thousand in Pirelli's favour, which may be exercised in the event of contingent liabilities arising in relation to the acquisition of the company Campneus Lider de Pneumaticos Ltda (Brazil), which was subsequently merged into the company Comercial and Importadora de Pneus Ltda.

The item **other current receivables** (euro 101,968 thousand) mainly includes:

- advances to suppliers amounting to euro 43,976 thousand;
- receivables for the disposal of property owned, but not used for industrial activities in Brazil amounting to euro 1,568 thousand;
- receivables from associated companies and joint ventures to the amount of euro 12,548 thousand, mainly for royalties and the sale of materials and moulds;
- receivables from the Prometeon Group to the amount of euro 7,405 thousand;
- receivables amounting to euro 9,800 thousand from an insurance company for an indemnity not yet paid;
- a receivable for the disposal of the investment in the Joint Stock company "Scientific institute of medical polymers" to the amount of euro 4,301 thousand, collected during the early days of 2021.

For other current and non-current receivables the carrying amount is considered to approximate their fair value.

16. TAX RECEIVABLES

The item tax receivables refers to income taxes which amounted to euro 33.914 thousand (of which euro 4,761 thousand was non-current) compared to euro 50.634 thousand at December 31, 2019 (of which euro 9,140 thousand was non-current). In more detail, it mainly refers to receivables for advance payments on taxes for the financial year and to income tax receivables from previous financial years recorded by the Brazilian companies.

17. INVENTORIES

The following is an inventories analysis:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Raw and auxiliary materials and consumables	108,306	121,048
Sundry materials	6,638	7,915
Work in progress and semi-finished products	51,534	58,183
Finished products	669,433	905,713
Advances to suppliers	526	895
Total	**836,437**	**1,093,754**

The restatement of the value of inventories, which was recognised net of impairments, amounted to euro 14,044 thousand (restatement of euro 7,502 thousand for 2019).

The reduction in value compared to December 31, 2019 is mainly due to the sharp reduction in inventories (approximately 3 million pieces of finished Car and Motorcycle products during the second and third quarters of 2020).

Inventories were not subject to any guarantee pledges.

18. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT - CURRENT

Other financial assets at fair value through the current Income Statement amounted to euro 58,944 thousand at December 31, 2020, compared to euro 38,119 thousand at December 31, 2019. The fair value of unlisted securities was determined by using estimates based on the best available information. This increase compared to December 31, 2019 was mainly due to investments made by the Argentinian subsidiary in dollar-linked bonds, with the aim of mitigating the effects of the depreciation of the local currency. Changes in the fair value for the period were recognised in the Income Statement as *“Financial expenses”* - (Note 37).

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went from euro 1,609,821 thousand at December 31, 2019 to euro 2,275,476 thousand at December 31, 2020. These were concentrated in the finance companies of the Group and in companies that generate liquidity and use it locally. These were essentially invested in accordance with risk diversification principles and in compliance with minimum rating levels, on the short-term deposits market with banking counterparties, at interest rates consistent with the prevailing market conditions. The credit risk associated with cash and cash equivalents is to be considered as limited, as the counterparties are leading national and international banks.

For the Statement of Cash Flows, the balance of cash and cash equivalents was recorded net of passive current accounts, to the amount of euro 5,793 thousand at December 31, 2020 (euro 9,194 thousand at December 31, 2019).

20. EQUITY

20.1 Attributable to the Parent Company

Equity attributable to the Parent Company went from euro 4,724,449 thousand at December 31, 2019 to euro 4,447,418 thousand at December 31, 2020.

The subscribed and paid up **share capital** at December 31, 2020 amounted to euro 1,904,375 thousand and was represented by 1,000,000,000 registered ordinary shares without indication of their nominal value.

The **translation reserve**, generated by the conversion into euro of the financial statements of subsidiaries that use a functional currency other than the euro, was negative to the amount of 679,737 thousand at December 31, 2020. Changes for the financial year mainly included a negative change of euro 365,326 thousand, mainly attributable to the subsidiaries in Brazil, Mexico and Argentina, associates and joint ventures, and a negative change of euro 606 thousand relative to the reversal to the Income Statement of the translation reserve accumulated up until the date of disposal of the Joint Stock company “Scientific institute of medical polymers”.

IAS reserves went from a negative value of euro 89,424 thousand at December 31, 2019 to a negative value of euro 89,893 thousand at December 31, 2020 mainly due to a combined effect of actuarial gains on pension funds (positive to the amount of euro 18,946 thousand), offset by losses on financial assets at fair value through other Comprehensive Income (negative to the amount of euro 16,129 thousand). The reserves in total mainly include the reserve for the remeasurement of employee benefits which was negative to the amount of euro 25,104 thousand, the cash flow hedge reserve negative to the amount of euro 26,228 thousand and the reserve for adjusting the fair value of financial assets at fair value through other Comprehensive Income, which was negative to the amount of euro 16,357 thousand.

Other reserves/retained earnings went from euro 3,223,303 thousand at December 31, 2019, to euro 3,312,673 thousand at December 31, 2020, essentially due to the net income for the financial year (positive to the amount of euro 29,781 thousand), due to hyperinflation in Argentina (positive to the amount of euro 20,041 thousand, offset by a negative translation reserve of euro 30,559 thousand) and due to a new reserve created to accommodate the equity component recognised in respect of the convertible bond issue (positive to the amount of euro 41,200 thousand).

20.2 Attributable to non-controlling interests

Equity attributable to non-controlling Interests went from euro 102,182 thousand at December 31, 2019 to euro 104,432 thousand at December 31, 2020. The change was mainly due to the positive result for the year of euro 12,892 thousand, offset by exchange rate losses of euro 10,645 thousand.

21. PROVISIONS FOR LIABILITIES AND CHARGES

Changes in the non-current portion of provisions that occurred during the period are shown below:

PROVISION FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION *(in thousands of euro)*	**12/31/2019**	**Translation differences**	**Increases**	**Uses**	**Releases**	**Reclass.**	**Other**	**12/31/2020**
Provision for labour disputes	13,520	(4,226)	6,952	(1,107)	(459)	-	17	14,697
Provision for tax risks not related to income taxes	6,019	(1,409)	458	-	(109)	-	28	4,987
Provision for environmental risks	2,575	-	1,180	(114)	-	-	-	3,641
Provision for restructuring and reorganisation	26,181	(3,471)	2,983	(2,494)	(1,232)	(13,582)	-	8,385
Provision for other risks	72,174	(282)	7,991	(36,236)	-	(2,100)	-	41,547
Total	**120,469**	**(9,388)**	**19,564**	**(39,951)**	**(1,800)**	**(15,682)**	**45**	**73,257**

Increases refer mainly to provisions for labour disputes mainly for the Brazilian subsidiaries to the amount of euro 6,880 thousand and to rationalisation measures in Italy to the amount of euro 2,983 thousand.

Uses were mainly attributable to the completion of the antitrust investigation described below, to rationalisation measures in Italy to the amount of euro 2,494 thousand, and to litigation regarding occupational diseases.

On October 28, 2020, the European Court of Justice confirmed in the last instance, the legitimacy of the decision issued on April 2, 2014 by the European Commission, at the conclusion of the antitrust investigation launched in relation to the alleged conduct of restricting competition in the European high voltage electric cables market. The decision had provided for a sanction against Prysmian Cavi e Sistemi S.r.l. (*"Prysmian"*) as it was directly involved in the cartel, a part of which (euro 67 million) Pirelli, despite not having been found directly involved in the activities of the cartel, had been held as jointly liable with Prysmian, based solely on the application of the principle of so-called parental liability in that during part of the period of the infringement, the share capital of Prysmian S.p.A. was held, either directly or indirectly by Pirelli. In this regard, Pirelli had provided, in the Commission's favour (and at the latter's request), a bank guarantee of euro 33.6 million (corresponding to 50% of the aforementioned sanction imposed jointly and severally on Pirelli and Prysmian), in addition to interest, and had consequently made appropriate provisions.

On December 31, 2020, Pirelli paid their portion of the above mentioned sanction to the European Commission.

Reclassifications refer mainly to the reclassification of provisions from current to non-current, relative to provisions for rationalisation measures for Brazilian subsidies. Under *"other risks",* of note were the reclassifications of the provision for commercial risks of the subsidiary Pirelli Tyre S.p.A., from current to non-current.

Changes in the current portion of provisions that occurred during the period are shown below:

PROVISION FOR LIABILITIES AND CHARGES - CURRENT PORTION *(in thousands of euro)*	**12/31/2019**	**Translation differences**	**Increases**	**Uses**	**Releases**	**Reclass.**	**Other**	**12/31/2020**
Provision for labour disputes	312	(40)	81	(120)	(155)	-	-	78
Provision for tax risks not related to income taxes	2,039	(519)	5,783	-	-	-	-	7,303
Provision for environmental risks	2,665	-	500	-	-	-	-	3,165
Provision for restructuring and reorganisation	13,591	(4,445)	-	(4,583)	(137)	11,492	-	15,918
Provision for claims and warranties	10,226	(783)	950	(388)	(2,178)	-	-	7,827
Provision for other risks	14,695	(313)	5,794	(6,710)	(1,600)	2,100	(174)	13,792
Total	**43,528**	**(6,100)**	**13,108**	**(11,801)**	**(4,070)**	**13,592**	**(174)**	**48,083**

Increases were mainly attributable to tax risks for indirect taxes, to the provisions for insurance risks and work place accidents, the latter relative to the English subsidiary.

Uses of the provision for other risks essentially refers to insurance risks and commercial risks of the subsidiary Pirelli Tyre S.p.A..

Releases relative to other risks mostly refer to adjustments to the provisions for work place accidents and insurance risks.

Reclassifications refer mainly to the provision for commercial risks for the subsidiary Pirelli Tyres S.p.A. from current to non-current.

22. EMPLOYEE BENEFIT OBLIGATIONS AND OTHER ASSETS

Pension funds – non-current portion

The item is composed as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Pension funds:		
- Asset for funded pension fund	80,422	57,829
Total other assets	**80,422**	**57,829**
Pension funds:		
- Liability for funded pension fund	65,028	84,064
- Liability for unfunded pension fund	83,630	89,690
Employee leaving indemnities (TFR - Italian companies)	31,486	32,680
Healthcare plans	16,026	17,825
Other benefits	47,761	36,573
Total provisions for employee benefit obligations	**243,931**	**260,832**

Pension funds

The following table shows the **composition of pension funds at December 31, 2020.**

				12/31/2020			
(in thousands of euro)	**Germany**	**Sweden**	**Total unfunded pension funds**	**USA**	**UK**	**Other countries**	**Total funded pension funds**
Funded funds							
Present value of funded liabilities				107,059	1,215,473	34,384	1,356,916
Fair value of plan assets				(92,526)	(1,251,882)	(27,902)	(1,372,310)
Unfunded funds							
Present value of unfunded liabilities	80,454	3,176	83,630				
Net liabilities recognised in the Financial Statements	**80,454**	**3,176**	**83,630**	**14,533**	**(36,409)**	**6,482**	**(15,394)**

The following table shows the **composition of pension funds at December 31, 2019.**

				12/31/2019			
(in thousands of euro)	**Germany**	**Sweden**	**Total unfunded pension funds**	**USA**	**UK**	**Other countries**	**Total funded pension funds**
Funded funds							
Present value of funded liabilities				124,619	1,181,736	32,957	1,339,312
Fair value of plan assets				(102,720)	(1,183,006)	(27,351)	(1,313,077)
Unfunded funds							
Present value of unfunded liabilities	86,477	3,213	89,690				
Net liabilities recognised in the Financial Statements	**86,477**	**3,213**	**89,690**	**21,899**	**(1,270)**	**5,606**	**26,235**

The characteristics of the main pension funds in place at December 31, 2020 were as follows:

- **Germany:** a non-funded defined benefit plan based on the last salary. This fund guaranteed a pension in addition to the state pension. The plan was closed in October 1982. Consequently the participants to this plan are employees whose employment had begun prior to that date;

- **USA**: a funded defined benefit plan based on the last salary which was administered by a Trust. This fund guaranteed a pension in addition to the state pension. The plan was closed in 2001 and frozen in 2003 for employees who then transferred to a defined contribution scheme. All participants to this plan have since retired;

- **UK**: a funded defined benefit plan based on the last salary. It guaranteed a pension in addition to the state pension and was administered internally by a Trust. These plans, managed by the subsidiary Pirelli Tyres Ltd, were closed in 2001 to new participants and frozen during 2010 for employees hired prior to 2001, who were then offered a transfer to a defined contribution plan. The plan was operated by the subsidiary Pirelli UK Ltd and included the employees in the Cables and Systems sector which was sold in 2005 and was already frozen at the date of the disposal. At the end of October 2017, three of the smaller UK pension funds - Pirelli General Executive Pension and Life Assurance Fund, Pirelli Tyres Limited Executive Retirement Benefits Scheme and Pirelli General Overseas Retirement Benefits Scheme, entered into so-called buy-in contracts which consist of the purchase of insurance policies (so-called bulk annuities). For the first two abovementioned funds, it is expected that the buy-out (insurance outsourcing) will be finalised by the first months of 2021, followed by the relative wind-up (closure) of the funds themselves.

- **Sweden**: a defined benefits plan (ITP2), which is closed to new participants. The only participants are retired employees and the recipients of deferred pensions, based on percentages applied to different wage and salary ranges.

Changes in the net liabilities of defined benefits for the 2020 financial year (for both funded and non-funded pension funds) were as follows:

(in thousands of euro)	**Present value of gross liabilities**	**Fair value of plan assets**	**Total net liabilities**
Opening balance at January 1, 2020	1,429,002	(1,313,077)	115,925
Translation difference	(74,152)	73,292	(860)
Movements through income statement:			
- current service cost	1,783	-	1,783
- cost of services rendered for previous years	11,403	-	11,403
- interest expense / (income)	27,508	(26,533)	975
	40,694	**(26,533)**	**14,161**
Remeasurements recognised in equity:			
- actuarial (gains) / losses from change in demographic assumptions	(3,297)	-	(3,297)
- actuarial (gains) / losses from change in financial assumptions	130,989	-	130,989
- experience adjustment (gains) / losses	(8,051)	-	(8,051)
- return on plan assets, net of interest income	-	(138,788)	(138,788)
	119,641	**(138,788)**	**(19,147)**
Employer contributions	-	(37,702)	(37,702)
Employee contributions	532	(532)	-
Benefits paid	(74,118)	68,496	(5,622)
Other	(1,053)	2,534	1,481
Closing balance at December 31, 2020	**1,440,546**	**(1,372,310)**	**68,236**

Changes in the net liabilities of defined benefits for the 2019 financial year (for both funded and non-funded pension funds) were as follows:

(in thousands of euro)	Present value of gross liabilities	Fair value of plan assets	Total net liabilities
Opening balance at January 1, 2019	1,293,724	(1,155,942)	137,782
Translation difference	59,815	(58,817)	998
Movements through income statement:			
- current service cost	1,606	-	1,606
- cost of services rendered for previous years	128	-	128
- interest expense / (income)	37,166	(34,399)	2,767
	38,900	**(34,399)**	**4,501**
Remeasurements recognized in equity:			
- actuarial (gains) / losses from change in demographic assumptions	(13,585)	-	(13,585)
- actuarial (gains) / losses from change in financial assumptions	130,635	-	130,635
- experience adjustment (gains) losses	(6,002)	-	(6,002)
- return on plan assets, net of interest income	-	(101,172)	(101,172)
	111,048	**(101,172)**	**9,876**
Employer contributions	-	(32,469)	(32,469)
Employee contributions	534	(534)	-
Benefits paid	(74,274)	68,352	(5,922)
Other	(745)	1,904	1,159
Closing balance at December 31, 2019	**1,429,002**	**(1,313,077)**	**115,925**

The current service cost and cost of services rendered for previous years are included in the item *"Personnel expenses"* - (Note 31), while interest payables are included in the item *"Financial expenses"* - (Note 37).

The cost of services rendered for previous years refers mainly to the adjustment of the value of some pension funds in the UK for inflation revaluations and gender imbalances as part of the completion of the buy-out operation which will be finalised in early 2021.

The following table shows the **composition of funded pension fund assets**:

(in thousand of euro)	12/31/2020				12/31/2019			
	listed	**unlisted**	**total**	**%**	**listed**	**unlisted**	**total**	**%**
Shares	57,638	315,104	372,742	27.1%	55,412	314,342	369,754	28.2%
Bonds	40,240	94,284	134,524	9.8%	80,590	79,834	160,424	12.2%
Insurance policies	2,835	91,330	94,165	6.9%	83,838	-	83,838	6.4%
Deposits	94,300	8,950	103,250	7.5%	307,900	8,213	316,113	24.1%
Balanced funds	(349)	233,147	232,798	17.0%	(2,546)	237,017	234,471	17.9%
Real Estate	5,112	47,843	52,955	3.9%	3,867	57,447	61,314	4.7%
Derivatives	385,012	(16,490)	368,522	26.8%	-	68,385	68,385	5.2%
Other	13,354	-	13,354	1.0%	18,778	-	18,778	1.3%
Total	**598,142**	**774,168**	**1,372,310**	**100%**	**547,839**	**765,238**	**1,313,077**	**100%**

The main risks to which the Group is exposed in relation to pension funds are detailed as follows:

- volatility of pension fund assets: in order to be able to balance liabilities, an investment strategy cannot limit its horizons exclusively to risk-free assets. This implies that certain investments, such as listed securities, represent high volatility for the short-term and that this exposes the pension plans to risks, such as the reduction in value of the assets in the short-term and to the consequent increase in imbalances. However, this risk is mitigated by diversifying investments into numerous investment classes, through different investment managers, through different investment styles and with exposures to multiple factors which are not perfectly correlated to each other. Moreover, the investments are continuously revised in response to market conditions and adjusted in order to maintain the overall risk at acceptable levels;

- changes in the bond yields and in the forecast inflation: the expectations of declining bond yields and/or rising inflation brings about an increase in the value of liabilities. The plans reduce this risk through investments in liability hedging assets. In the United Kingdom, the protection guaranteed by a portfolio of this type has been built up over the years and as of the second quarter of 2014 it has reached a coverage which oscillates between 100% and 115% of the value of the liabilities hedged by assets;

- life expectancy: the increase in life expectancy entails an increase in the value of a plan's liabilities. The UK plans were completed during the course of 2016, a process which allowed them, through longevity swaps stipulated with a pool of insurance companies, to cover approximately 50% of the risks. Residual risks are evaluated by using prudent assumptions whose adequacy is revised periodically.

In the UK the management of pension fund assets has been delegated, under the supervision and within a precise mandate given by the Trustees, to a Fiduciary Manager who operates in accordance with a model of Liability Driven Investment (LDI), namely using the liability benchmark as a reference, so as to minimise the volatility (and thus the risk) of the deficit, which in fact has been reduced to more than one third compared to the levels which existed prior to its introduction (at the beginning of 2011). In addition, for the 3 smaller funds, the buy-in operation implemented in 2017 and the consequent stipulation of policies on a collective basis (one for each of the three pension funds of the buy-in), not on an individual basis (for each member of the funds), which perfectly replicate the financial profiles of the respective liabilities, has allowed the Group to be relieved of all the aforementioned risks.

The key parameters of this mandate were as follows:

- a mix of assets managed dynamically over time, rather than a fixed allocation strategy;

- a hedge which covers approximately 100% - 115% of the risk associated with interest rates and inflation – understood as a percentage of the value of assets - through the use of debt instruments such as government bonds and derivatives;

- the management of exchange rate risk which aims at covering at least 70% of the exposure to foreign currencies held in the portfolio, through the use of forward contracts.

Furthermore, during the course of 2016, following the increase in financial leverage resulting from the merger of Pirelli & C. S.p.A. with Marco Polo Industrial Holding S.p.A. and the resulting impact on the Group's covenant, an agreement (the Pension Framework Agreement), was entered into as part of the refinancing process with the UK pension funds, through which, through the implementation of a package of measures (Credit Support Guarantees entered into with a pool of insurance companies, comprising of limited deposits into escrow accounts and the definition of an accelerated contributions plan, limited to the period of extraordinary leverage), the *"synthetic"* restoration of these covenants to levels which existed prior to the acquisition of the Pirelli Group, by Marco Polo Industrial Holding S.p.A. was guaranteed, in order to be able to continue with the gradual settlement of the relative deficits previously imposed.

In the United Kingdom, the funding arrangements and funding policies are revised every three years. The next funding evaluation is expected in 2023. In the United States funding evaluations are carried out on an annual basis.

The contributions which are expected to be paid into unfunded pension funds during the 2021 financial year amount to euro 5,384 thousand, while for funded pension funds the amount expected is euro 40,582 thousand.

Employees' leaving indemnities (TFR)

Changes for the year for the employees' leaving indemnities provision were as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Opening balance	**32,680**	**32,175**
Movements through Income Statement:		
- current service cost	41	22
- interest expense	240	498
Remeasurements recognised in equity:		
- actuarial (gains) / losses arising from changes in financial assumptions	292	1,443
Indemnities/advanced payments	(1,273)	(1,364)
Other	(494)	(94)
Closing balance	**31,486**	**32,680**

The current service cost is included in the item *"Personnel expenses"* - (Note 31) while interest payables are included in the item *"Financial expenses*" - (Note 37).

Healthcare plans

This item refers exclusively to the healthcare plan in place in the United States.

(in thousands of euro)	**USA**
Liabilities recognised in the Financial Statements at 12/31/2020	16,026
Liabilities recognised in the Financial Statements at 12/31/2019	17,825

The following changes occurred during the period:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Opening balance	**17,825**	**17,126**
Translation differences	(1,485)	328
Movements through income statement:		
- current service cost	2	2
- interest expense	505	682
Remeasurements recognised in equity:		
- actuarial / (gains) losses arising from changes in financial assumptions	1,061	1,834
- actuarial / (gains) losses arising from changes in demographic assumptions	(467)	(329)
- experience adjustment (gains) losses	(307)	(775)
Benefits paid	(1,109)	(1,043)
Closing balance	**16,026**	**17,825**

The current service cost is included in the item *"Personnel expenses"* - (Note 31), while interest payables are included in the item *"Financial expenses"* - (Note 37).

Contributions which are expected to be paid into the healthcare plan during the 2021 financial year, amount to euro 1,321 thousand.

Additional information regarding post-employment benefits

Net actuarial gains accrued during 2020 which were recorded directly in equity amounted to euro 18,946 thousand.

The main actuarial assumptions used at **December 31, 2020** were as follows:

	Italy	**Germany**	**Sweden**	**UK**	**USA**	**Switzerland**
Discount rate	0.60%	0.80%	0.75%	1.40%	2.20%	0.15%
Inflation rate	1.00%	1.50%	1.50%	2.85%	N/A	0.50%

The main actuarial assumptions used at **December 31, 2019** were as follows:

	Italy	**Germany**	**Sweden**	**UK**	**USA**	**Switzerland**
Discount rate	0.70%	0.90%	1.10%	2.10%	3.00%	0.25%
Inflation rate	1.00%	1.50%	1.70%	2.90%	N/A	0.75%

The following table presents an analysis of the payment deadlines for subsequent benefits

(in thousands of euro)	**within 1 year**	**1 to 2 years**	**3 to 5 years**	**over 5 years**	**Total**
Pension funds	65,112	67,304	203,034	345,404	680,854
Employees' leaving indemnities (TFR)	2,622	2,408	7,112	8,393	20,535
Healthcare plans	1,321	1,300	3,714	5,254	11,589
Total	**69,055**	**71,012**	**213,860**	**359,051**	**712,978**

The weighted average duration for post-employment benefit obligations equalled 14.97 years for pension funds (15.04 years at December 31, 2019), 8.65 years for employees' leaving indemnities (TFR) (8.67 years at December 31, 2019) and 8.65 years for medical assistance plans (8.51 years at December 31, 2019).

A sensitivity analysis for the relevant actuarial assumptions at the end of the financial year was as follows:

(in %)		**Impact on post employment benefits**			
	Change in assumptions	**Increase in assumptions**		**Decrease in assumptions**	
Discount rate	0.25%	decrease of	3.59%	increase of	3.80%
Inflation rate (only UK plans)	0.25%	increase of	2.43%	decrease of	2.29%

At the end of 2019 the situation was as follows:

(in %)		**Impact on post employment benefits**			
	Change in assumptions	**Increase in assumptions**		**Decrease in assumptions**	
Discount rate	0.25%	decrease of	3.53%	increase of	3.82%
Inflation rate (only UK plans)	0.25%	increase of	2.62%	decrease of	2.14%

The sole purpose of the analysis outlined above was to estimate the changes in liability as a result of changes in the discount rates and inflation rates in the UK, in proximity to the central assumption on the rates themselves, rather than referring to an alternative set of assumptions.

The sensitivity analysis on the liabilities relative to post-employment benefits is based on the same methodology used to calculate the liability recognised in the Financial Statements.

Other long-term benefits

The composition of other benefits is as follows:

(in thousands of euro)	12/31/2020	12/31/2019
Long-term incentive plans	11,238	-
Jubilee awards	19,210	19,513
Leaving indemnities	10,366	12,154
Other long-term benefits	6,947	4,906
Total	**47,761**	**36,573**

The item **Long Term Incentive Plans** relates to the amount allocated for the three-year monetary Long Term Incentive 2020 - 2022 plan for Group management (to date around 260 participants) approved by the Board of Directors on February 19, 2020 and correlated with the 2020 - 2022 Business Plan figures presented on the same date. On the occasion of the figures as at 30 June 2020, in order to take account of the radical changes in the macroeconomic scenario, the Board of Directors instructed the Remuneration Committee to draw up a proposal to revise the incentive plan, aligning the targets with the new guidance for 2020 communicated to the market on the same date and with the targets of the new Business Plan for the years 2021 and 2022 approved on March 31, 2021.

Employee benefit obligations - current portion

The item employee benefit obligations, which amounted to euro 5,013 thousand, refers to the relevant portion at December 31, 2020 of the fourth instalment of the retention plan, which will be liquidated during the first half-year of 2021, while the third portion of the plan was liquidated during the first half-year of 2020. The plan was approved by the Pirelli Board of Directors on February 26, 2018 and is aimed at Key Managers, as well as a select number of senior Managers and Executives.

23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Borrowings from banks and other financial institution were as follows:

(in thousands of euro)		12/31/2020			12/31/2019	
	Total	Non-current	Current	Total	Non-current	Current
Bonds	1,524,559	1,442,650	81,909	1,271,392	1,071,475	199,917
Borrowings from banks	3,793,780	3,137,857	655,923	3,532,377	2,472,056	1,060,321
Borrowings from other financial institutions	43,930	-	43,930	56,384	-	56,384
Lease obligations	465,853	390,449	75,404	483,172	405,375	77,797
Accrued financial expenses and deferred financial income	13,512	-	13,512	21,459	-	21,459
Other financial payables	12,919	30	12,889	4,455	930	3,525
Total	**5,854,553**	**4,970,986**	**883,567**	**5,369,239**	**3,949,836**	**1,419,403**

The item **bonds** refers to:

- a non-interest-bearing senior unsecured guaranteed equity-linked bond loan, for a nominal value of euro 500 million maturiing on December 22, 2025. The loan, reserved for institutional investors, was issued by Pirelli &C S.p.A. on December 22, 2020, guaranteed by Pirelli Tyre S.p.A. and admitted for trading on the Vienna MTF system, the multilateral trading facility managed by the Vienna Stock Exchange. The bond is convertible, at the option of the bondholders, into new ordinary shares of the Company at a price of euro 6.235 per share, subject to the anti-dilutive adjustments provided for by the loan regulations. The convertible bond is a compound financial instrument, consisting of (i) a five-year loan at market rates and (ii) a call option sold to the subscribers of the loan, represented by the option to convert the loan into new ordinary shares of the Company at a predefined price. In accordance with the relevant accounting standards, the Parent Company Pirelli & C. S.p.A. accounted for the two components of the loan separately, recording, against the issue value of 500 million euros (euro 492.9 million net of transaction costs), the fair value of the five-year loan (net of transaction costs) under financial payables, and the fair value of the call option sold (net of transaction costs) under equity reserves, to the amount of euro 451.7 million and euro 41.2 million, respectively;

- the unrated bond loan for the nominal amount of euro 553 million (originally for euro 600 million which was partially repurchased for the total amount of euro 47 million during the last quarter of 2018), placed on January 22, 2018 with a fixed coupon of 1.375% and an original maturity of 5 years. This loan, guaranteed by Pirelli Tyre S.p.A. and placed with international institutional investors, was issued as part of the EMTN (Euro Medium-Term Note) program approved by the Board of Directors at the end of 2017, signed on January 10, 2018 and updated on December 19, 2018;

- the floating rate (Euribor + spread) *"Schuldschein"* loan for the nominal value of euro 525 million placed on July 26, 2018. This loan, guaranteed by Pirelli Tyre S.p.A. and signed by primary market operators, consists of one tranche for the amount of euro 82 million with a 3 year maturity, another for euro 423 million with a 5 year maturity and another for euro 20 million with a 7 year maturity.

The **carrying amount for the item bonds**, was determined as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Nominal value	1,578,000	1,278,000
Equity component of the convertible bond	(41,791)	-
Transaction costs	(15,133)	(7,683)
Bond discount	(2,988)	(2,988)
Amortisation of effective interest rate	6,275	4,063
Non monetary interest on convertible bond loan	196	-
Total	**1,524,559**	**1,271,392**

The item **borrowings from banks**, which amounted to euro 3,793,780 thousand, mainly refers to:

- the use of unsecured financing (*"Facilities"*) granted to Pirelli & C. S.p.A. for the amount of euro 1,617,504 thousand, classified under non-current payables. The nominal amount of the refinancing operation signed on June 27, 2017, (with a closing date of June 29, 2017) equalled euro 2.45 billion (net amount of repayments made since the date of signing - original amount of the credit facility granted of euro 4.2 billion). The loan is guaranteed by Pirelli Tyre S.p.A., Pirelli Deutschland GmbH, Pirelli Tyres Romania S.r.l. e Pirelli Pneus Ltda. On November 29, 2018 the loan was amended to insert the right for the Pirelli Group to extend, at its own discretion, the expiry of the individual credit facilities of the loan for up to 2 years, with respect to their original contractual maturity of 3 and 5 years. The facilities are denominated in euros and US dollars and carry a floating interest rate of Euribor + spread and Libor + spread, respectively.

- the *"Sustainable Credit Facility"* for euro 794,599 thousand relative to the euro 800 million credit facility with floating interest rate (Euribor + spread) signed on March 31, 2020 with a pool of leading Italian and international banks and with a 5 year maturity. This bank credit facility is entirely sustainable, that is, parameterised to the Group's financial and environmental sustainability objectives and is guaranteed by Pirelli Tyre S.p.A.;

- euro 921,538 thousand relative to three bilateral loans disbursed to Pirelli & C. S.p.A. by primary banks, consisting of a nominal euro 600 million maturing in February 2024 at a floating rate (Euribor + spread) and guaranteed by Pirelli Tyre S.p.A., euro 200 million maturing in September 2021 at a fixed rate and euro 125 million maturing in August 2023 at a floating rate (Euribor + spread);

- euro 337,793 thousand relative to loans mainly fixed rate disbursed in Brazil by local and international banking institutions of which euro 2,159 thousand has been classified under non-current borrowings from banks. This value includes a negative exchange rate effect of euro 139,813 thousand, due to the significant depreciation of the Brazilian currency;

- borrowings from banks and the use of credit facilities in local currency at local level in Russia, (equivalent to euro 64,296 thousand), in China (equivalent to euro 43,110 thousand) and in Turkey (equivalent to euro 6,660 thousand), classified entirely as current borrowings from banks.

At December 31, 2020 the Group had a liquidity margin equal to euro 3,034.420 million, composed of euro 700.000 thousand in the form of non-utilised committed credit facilities and of euro 2,275.476 thousand in cash and cash equivalents, in addition to financial assets at fair value through the Income Statement to the amount of euro 58.944 thousand.

The item **lease liabilities**, represents the financial liabilities relative to the application of the IFRS 16 accounting standard as of January 1, 2019.

Non-discounted future payments for lease contracts for which the exercise of extension options are not considered to be reasonably certain, amounted to euro 90,373 thousand at December 31, 2020 and were not included in this item (euro 52,124 thousand at December 31, 2019).

Accrued financial expenses and deferred financial income (euro 13,512 thousand) mainly refers to the accrual of interest matured on bond loans to the amount of euro 8,990 thousand (euro 9,082 thousand at December 31, 2019) and to the accrued interest matured on borrowings from banks to the amount of euro 2,062 thousand (euro 11,731 thousand at December 31, 2019).

The **change in the total borrowings from banks and other financial institutions for 2020** is composed as follows:

(in thousands of euro)	
Borrowings from banks and other financial institutions at December 31, 2019	**5,369,239**
Bond issuance (Convertible bond)	500,000
Bond repayment (EMTN program)	(200,000)
Drawdowns of unsecured financing (Facilities)	1,127,978
Repayments of unsecured financing (Facilities)	(1,342,297)
New bilateral borrowings	800,000
Financial inflows for the local credit facilties of Group companies	149,204
Financial outflows for the local credit facilties of Group companies	(250,732)
Transaction costs	(13,661)
Repayment of lease liabilities	(99,924)
Cash changes	**670,568**
Reclassification to equity of convertible option at issuance date	(41,200)
Amortised cost for the period	9,813
Translation differences and other changes for the period	(254,287)
Increases in lease liabilities	89,557
Remeasurement and early termination	10,863
Non-cash changes	**(185,254)**
Borrowings from banks and other financial institutions at December 31, 2020	**5,854,553**

The **change in total borrowings from banks and other financial institutions for 2019** is shown below:

(in thousands of euro)	
Borrowings from banks and other financial institutions at December 31, 2018	**4,729,224**
Drawdowns of unsecured financing (Facilities)	395,931
Repayments of unsecured financing (Facilities)	(1,097,498)
New bilateral borrowings	720,900
Repayment European Investment Bank (EIB) loan	(10,000)
Financial inflows for the local credit facilties of Group companies	589,626
Financial outflows for the local credit facilties of Group companies	(515,844)
Repayment of lease liabilities	(101,157)
Cash changes	**(18,042)**
IFRS 16 first time adoption impact	494,292
Increases in lease liabilities	72,391
Remeasurement and early termination	15,139
Amortised cost for the period	(15,734)
Translation differences and other changes for the period	91,969
Non-cash changes	**658,057**
Borrowings from banks and other financial institutions at December 31, 2019	**5,369,239**

At December 31, 2020 there were no financial payables secured by collateral (pledges and mortgages). At December 31, 2019 these payables totalled euro 96 thousand.

For current financial payables, it is considered that their carrying amount approximates their relative fair value. For non-current financial payables, their fair value is shown below, compared with their carrying amount:

(in thousands of euro)	**12/31/2020**		**12/31/2019**	
	Carrying amount	***Fair value***	**Carrying amount**	***Fair value***
Bonds	1,442,650	1,465,120	1,071,475	1,084,830
Borrowings from banks	3,137,857	3,164,333	2,472,056	2,500,469
Other financial payables	390,479	390,479	406,305	406,305
Total non-current financial payables	**4,970,986**	**5,019,931**	**3,949,836**	**3,991,604**

The public bonds issued by Pirelli & C. S.p.A. are listed and their relative fair value has been measured on the basis of year-end prices. They have therefore been classified in level 1 of the hierarchy provided for by IFRS 13 – Fair Value Measurement. The fair value of the "*Schuldschein*" loan and of borrowings from banks, was calculated by discounting each expected debt cash flow at the market swap rate for the currency and the relevant maturity date and increased by the Group's creditworthiness for other debt instruments similar in nature and technical characteristics, which therefore placed it at level 2 of the hierarchy as provided for by IFRS 13 - Fair Value Measurement.

The **apportionment of borrowings from banks and other financial institutions according to the currency of origin for the debt**, was as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
EUR	3,813,245	2,772,361
USD (US Dollar)	1,770,024	2,303,523
CNY (Chinese Yuan)	62,784	66,284
RUR (Russian Rouble)	66,798	64,939
RON (Romanian Leu)	44,028	28,263
BRL (Brasilian Real)	35,992	52,480
SEK (Swedish Krona)	29,841	29,926
GBP (British Pound)	16,024	19,482
TRY (Turkish Lira)	8,708	16,075
JPY (Japanese Yen)	1,449	10,147
MXN (Mexican Peso)	581	1,684
Other Currencies	5,079	4,075
Total	**5,854,553**	**5,369,239**

At December 31, 2020 there were derivative hedging instruments for interest rates and exchange rates in place for floating rate debt in foreign currencies.

Considering the effects of the aforementioned hedging derivatives, the Group's exposure to changes in interest rates on financial payables, both in terms of the type of interest rate and in terms of the renegotiation (resetting) date of the same, was subdivided as follows:

- floating rate payables to the amount of euro 2,490,368 thousand, whose interest rate is subject to renegotiation during the course of 2021;

- fixed rate payables to the amount of euro 3,364,185 thousand, whose interest rate was not subject to renegotiation until the natural maturity of the debt to which it refers (euro 300,935 thousand with maturity in the next twelve months and euro 3,063,250 thousand euro with maturity beyond twelve months).

The cost of debt year-on-year stood at 1.94% compared to 2.83% at December 31, 2019.

The reduction in the cost of debt during the course of 2020 mainly reflected:

- the lower impact, to the amount of euro 13 million, deriving from the application of hyperinflation accounting in Argentina;

- the general reduction in interest rates in the currencies in which the Group operates, which resulted in a benefit of less interest paid on debt;

- a lower incidence of debt denominated in high-yield currencies mainly in Brazil and Mexico;

- the temporary reduction of the cost of the central credit facilities due to the improvement in the Group's financial leverage and the consequent reduction in the interest margin, from which the Group benefited until November 2020.

With regard to the existence of financial covenants, it is to be noted that (i) the Group's main bank credit facility (*"Facilities"*), granted to Pirelli & C. S.p.A. and Pirelli International Plc (to date to be utilised solely by Pirelli & C. S.p.A.), (ii) the "*Schuldschein"* loan, (iii) the bilateral euro 600 million credit facility granted to Pirelli & C. S.p.A. during the course of the first quarter of 2019 (*"Bilateral 600"*), (iv) the bilateral euro 125 million credit facility granted to Pirelli & C. S.p.A. during the course of the third quarter of 2019 (*"Bilateral 125"*) and, (v) the *"Sustainable Credit Facility"* signed on March 31, 2020, provide for the compliance with the maximum ratio (*"Total Net Leverage")* between net debt and the gross operating margin as reported in the Consolidated Financial Statements of Pirelli & C. S.p.A.

For all of the loans indicated above, any failure to comply with the financial covenant is identified as a default or non-fulfilment event.

Specifically, any such default or non-fulfilment event will have the following consequences, if the lending banks exercise their remedies: (i) for the *"Facilities"* loan, only if requested by a number of the lending banks which represents at least 66 2/3% of the total commitment, the early repayment (partial or total) of the loan with the simultaneous cancellation of the relative commitment; (ii) for the *"Schuldschein"* loan, individually and independently if requested by each lending bank for their own share, the early repayment of the loan only for that share; (iii) for both the *“Bilateral 600”* and the *“Bilateral 125”*, if requested by the sole bank that had granted each of the loans, the termination of the contract and early repayment of the full amount disbursed and (iv) for the *“Sustainable Credit Facility”*, only if requested by a number of the lending banks representing at least 50% of the total commitment (or at least 60% if an additional lending bank is added to the current four), the termination of the contract and early repayment of the loan.

During the second quarter of 2020, the Group, in the new context strongly impacted by the Covid-19 emergency, deemed it prudent to proactively approach its main lenders and obtain additional flexibility for the emergency period (estimated until the end of 2021). The process was concluded with the support of all lenders who agreed to review the terms of existing loans including the financial covenant.

In relation to the above, it should be noted that at December 31, 2020 no default or non-fulfilment event had occurred.

The *“Facilities”, “Schuldschein”, “Bilateral 600”, “Bilateral 125”* loans and the *“Sustainable Credit Facility”* also provide for Negative Pledge clauses and other usual provisions whose terms and conditions are consistent with market standards, for each of the aforementioned types of credit facility.

The other outstanding financial payables at December 31, 2020 were not subject to financial covenants.

24. TRADE PAYABLES

Trade payables were composed as follows:

(in thousands of euro)	12/31/2020			12/31/2019		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Trade payables	1,224,863	-	1,224,863	1,546,714	-	1,546,714
Bill and notes payable	43,108	-	43,108	64,774	-	64,774
Total	**1,267,971**	**-**	**1,267,971**	**1,611,488**	**-**	**1,611,488**

For trade payables, it is considered that their carrying amount approximates their relative fair value.

25. OTHER PAYABLES

Other payables were as follows:

(in thousands of euro)	12/31/2020			12/31/2019		
	Total	Non-current	Current	Total	Non-current	Current
Accrued expenses and deferred income	82,119	52,292	29,827	83,268	57,684	25,584
Tax payables not related to income taxes	120,470	5,178	115,292	86,252	7,002	79,250
Payables to employees	83,074	2,038	81,036	91,426	62	91,364
Payables to social security and welfare intitutions	55,010	17,008	38,002	67,404	24,131	43,273
Dividends payable	254	-	254	270	-	270
Contract liabilities	4,198	-	4,198	4,754	-	4,754
Other payables	106,421	764	105,657	159,954	1,692	158,262
Total Other payables	**451,546**	**77,280**	**374,266**	**493,328**	**90,571**	**402,757**

Non-current accrued expenses and deferred income refer to euro 46,205 thousand in capital contributions received for investments realised in Romania, whose benefits are recognised in the Income Statement in proportion to the costs for which the contribution was disbursed and to euro 3,726 thousand in costs for commercial initiatives in Brazil.

Current accrued expenses and deferred income include euro 7,575 thousand for various trade initiatives realised in Germany and Brazil, euro 8,009 thousand in government grants and tax incentives received mainly in Italy and Romania and euro 1,357 thousand for costs relative to insurance coverage in some European countries.

The item **tax payables for taxes not related to income** is mainly comprised of IVA (value added tax) payables and other indirect taxes, withholding tax for employees and other taxes not related to income.

Current payables to employees mainly includes commissions accrued during the period, but not yet paid.

The item **contract liabilities** refers to advanced payments received from customers, against which the performance obligation has not yet been completed, pursuant to the provisions of IFRS 15.

The item **other payables** (euro 106.421 thousand) mainly includes:

- euro 49,040 thousand for the purchase of property, plant and equipment (euro 109,634 thousand at December 31, 2019); The decrease in this item compared to the previous financial year is due to lower investments in 2020, compared to the previous year;
- euro 10,642 thousand for the settlement of a dispute with a supplier;
- euro 4,430 thousand in payables to representatives, agents, professionals and consultants;
- euro 7,477 thousand in withholding taxes on income;
- euro 5,563 thousand in payables to Prometeon group companies particularly in Brazil and China;

- euro 510 thousand in payables to Directors, Auditors and supervisory bodies.

26. TAX PAYABLES

Tax payables were for the most part national and regional income taxes in different countries and amounted to euro 110,300 thousand (of which euro 10,795 thousand was for non-current liabilities), compared to euro 94,321 thousand at December 31, 2019 (of which euro 12,555 thousand was for non-current liabilities), which was substantially consistent with the current taxes recorded for the financial year. Income tax payables include the Management's assessment of the possible effects of uncertainty on the treatment of income taxes.

27. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes the fair value measurement of derivative instruments. It is composed as follows:

(in thousands of euro)	12/31/2020				12/31/2019			
	Non current assets	**Current assets**	**Non current liabilities**	**Current liabilities**	**Non current assets**	**Current assets**	**Non current liabilities**	**Current liabilities**
Without adoption of hedge accounting								
Exchange rate derivatives - commercial positions	-	4,561	-	(4,815)	-	5,058	-	(9,724)
Exchange rate derivatives - included in net financial position	-	34,422	-	(53,926)	-	21,904	-	(31,703)
Interest rate derivatives - included in net financial position	-	344	-	-	-	-	-	-
Hedge accounting adopted								
- cash flow hedge:								
Interest rate derivatives - included in net financial position	-	-	(10,623)	-	481	-	(10,327)	-
Other derivatives - included in net financial position	-	-	(76,978)	-	52,034	10,186	-	-
Other derivatives - commercial positions	-	-	-	(372)	-	-	-	-
	-	**39,327**	**(87,601)**	**(59,113)**	**52,515**	**37,148**	**(10,327)**	**(41,427)**
Total derivatives included in net financial position	-	34,766	(87,601)	(53,926)	52,515	32,090	(10,327)	(31,703)

The composition of the items by type of derivative instrument is as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Current assets		
Forward foreign exchange contracts - fair value recognised in the Income Statement	38,983	26,962
Interest rate swaps - fair value recognised in the Income Statement	344	-
Cross currency interest rate swaps - cash flow hedge	-	10,186
Total current assets	**39,327**	**37,148**
Non current assets		
Interest rate swaps - cash flow hedge	-	481
Cross currency interest rate swaps - cash flow hedge	-	52,034
Total non-current assets	**-**	**52,515**
Current liabilities		
Forward foreign exchange contracts - fair value recognised in the Income Statement	(58,741)	(41,427)
Commodity Futures in natural rubber - cash flow hedge	(372)	-
Total current liabilities	**(59,113)**	**(41,427)**
Non current liabilities		
Interest rate swaps - cash flow hedge	(10,623)	(10,327)
Cross currency interest rate swaps - cash flow hedge	(76,978)	-
Total non-current liabilities	**(87,601)**	**(10,327)**

Derivative financial instruments not in hedge accounting

The value of **foreign exchange derivatives** included in current assets and liabilities corresponds to the fair value measurement of forward currency purchases/sales outstanding at the end of the reporting period. These transactions mirror commercial and financial transactions of the Group for which hedge accounting has not been adopted. The fair value is determined using the forward exchange rate at the balance sheet date.

The **value of interest rate derivatives** included in current assets refers to the fair value measurement of five USD IRS basis swaps for a total notional value of USD 1,761 million, with a term of one year, effective September 2020. These are hedging transactions of the basis of 3-12 months following the change to the interest period on the underlying liability from 3 months to 12 months, for which the hedge accounting option was not adopted. By means of these IRS basis swaps, the Group pays the 3-month USD LIBOR on the one hand, which will net the proceeds from the pre-existing CCIRS and the 12-month USD LIBOR on the other, which will serve the interest flows on the USD liability paid on a quarterly basis with annual fixing.

Derivative financial instruments with the adoption of hedge accounting

The value of **interest rate derivatives** recorded under current assets to the amount of euro 10,623 thousand refers to the fair value of 10 interest rate swaps.

Derivative	Hedged element	Notional amount (Euro million)	Start date	Maturity	
IRS	Term loan in EUR	250	June 2019	June 2022	receive floating / pay fix
IRS	Term loan in EUR	63	August 2019	August 2023	receive floating / pay fix
IRS	Term loan in USD + CCIRS	100	October 2019	June 2022	receive floating / pay fix
IRS	Schuldschein	180	July 2020	July 2023	receive floating / pay fix
IRS	Schuldschein	20	July 2020	July 2025	receive floating / pay fix
Total		**613**			

For these derivatives, hedge accounting of the cash flow hedge type was adopted. Items subjected to hedge accounting were:

- floating rate bank credit facilities denominated in euro, and the relative future cash flows (refer to Note 23 – *“borrowings from banks and other financial institutions”)*;
- the combination of a floating rate liability in USD and a CCIRS (Basis Swap).

The change in the fair value for the period which was negative to the amount of euro 3,772 thousand, was entirely suspended in equity, while euro 3,054 thousand was reversed to the Income Statement under the item *“Financial expenses”* - (Note 37), correcting the financial expenses recognised on the hedged liability.

A change of +0.5% in the EURIBOR curve, all other conditions being equal, would result in a positive change of euro 5,359 thousand in the equity of the Group, while a change of -0.5% in the EURIBOR curve, all other conditions being equal, would result in a negative change of euro 5,455 thousand in the equity of the Group.

The value of **other derivatives,** recognised under non-current liabilities to the amount of euro 76,978 thousand, refers to the fair value measurement of 6 cross currency interest rate swaps with the following characteristics:

Derivative	Notional amount (USD million)	Notional amount (Euro million)	Start date	Maturity	
CCIRS	682	582	July 2017	June 2022	pay floating EURIBOR / receive floating LIBOR USD
CCIRS	1,079	920	July 2019	June 2022	pay fix EUR / receive floating LIBOR USD
Total	**1,761**	**1,501**			

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, was to hedge the Group against the risk of cash flow fluctuations associated with changes in the LIBOR rate and changes in the USD/EUR exchange rate generated by a liability in USD at a floating rate.

The negative change in the fair value for the period was suspended in equity to the amount of euro 110,791 thousand, (the cash flow hedge reserve was negative to the amount of euro 115,287 thousand and the cost of hedging reserve was positive to the amount of euro 4,496 thousand), while costs to the amount of euro 133,595 thousand were reversed to the Income Statement under *"Financial expenses"* - (Note 37), to the item *"net losses on exchange rates"* to offset unrealised exchange rate gains recorded on the hedged liability and income to the amount of euro 19,223 thousand to correct the financial expenses recognised on the hedged liability.

A parallel change of +0.5% in the EURIBOR and LIBOR curves, all other conditions being equal, would result in a positive change of euro 6,467 thousand in the equity of the Group, while a change of -0.5% in the same curves, all other conditions being equal, would result in a negative change of euro 6,550 thousand in the equity of the Group.

A +10% change in the USD/euro exchange rate, all other conditions being equal, would result in a positive change of euro 378 thousand in the Group's equity, and euro 338 thousand in the Income Statement, while a negative change of -10%, instead, would result in a positive change of euro 307 thousand in the Group's equity, and euro 337 thousand in the Income Statement.

Hedging relationships relative to any IRS (interest rate swap) and CCIRS (cross-currency interest rate swap - Basis Swap) are considered prospectively effective when the following conditions are met:

- there is a financial relationship between the hedging instrument and the hedged item, in that the characteristics of the hedging instrument (the nominal interest rate, the reset of the interest rate and the frequency of interest liquidation) are substantially aligned with those of the hedged item. As a consequence, any changes in the fair value of the hedging instrument regularly offsets that of the hedged item;
- the effect of credit risk is not predominant within the hedging relationship. Based on the Group's operating policy, derivatives are traded only with financial counter-parties with an elevated credit standing, while the credit quality of the outstanding derivatives portfolio is constantly monitored;
- the designated hedge ratio is aligned with that used for financial risk management and is equal to 100% (1:1).

The ineffectiveness of the hedging relationship is calculated at each reporting date using the Dollar Offset method, which provides for the comparison of any changes in the risk adjusted fair value of the hedging instrument (with the exception of those attributable to the currency basis spread), with any changes in the risk-free fair value of the hedged item, through the identification of a hypothetical derivative with the same characteristics as the underlying financial liability.

Possible causes of ineffectiveness include the following:

- the application of credit risk adjustments only to the hedging instrument but not to the hedged item;

- the hedged item incorporates a floor that is not reflected in the hedging instrument;
- the misalignment between the effective contractual conditions of the future transaction and those of the hedging instrument.

During the month of September 2020, in accordance with the terms and conditions of the loan agreement, the tenor of the reference rate of the hedged item was changed from USD LIBOR 1 month to USD LIBOR 12 month. The change in the tenor of the reference rate of the underlying loan resulted in an ineffectiveness due to the misalignment between the characteristics of the hedge item and the hedging instrument, amounting to euro 338 thousand, which was recognised in the Income Statement under *"Financial expenses"*, as part of the fair value measurement of other derivatives - (Note 37).

The value of **other derivatives**, recognised under non-current liabilities to the amount of euro 372 thousand, refers to the fair value valuation of commodity futures trading in natural rubber.

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, was to hedge the Group from the risk of costs fluctuations deriving from the variability of future natural rubber prices, through the negotiation of commodity futures listed on a regulated market, whereby the value of the expected purchases of natural rubber is fixed at levels specific to the relative reference price.

The negative change in the fair value for the period, to the amount of euro 188 thousand was suspended in equity, while euro 184 thousand was reversed to the Income Statement to the item *"raw materials and consumables used (net of change in inventories)"* to reduce the purchase cost of natural rubber.

Hedging relationships relative to any commodities futures are considered prospectively effective when the following conditions are met:

- there is a financial relationship between the hedging instrument and the hedged item, in that the characteristics of the hedging instrument (the notional amounts and the reference price of the underlying future) are substantially aligned with those of the underlying forecast transactions. Therefore, changes in the fair value of the designated hedging instrument are expected to regularly offset those of the relative hedged item;
- the effect of credit risk is not predominant within the hedging relationship. Based on the Group's operating rules, derivatives are negotiated only with banking counterparties of elevated standing. Furthermore, Commodity Futures contracts are listed derivative products subject to central clearing procedures without counter-party risk for all market participants;
- the designated hedge ratio is aligned with that used for financial risk management and is equal to 100% (1:1).

The only potential source of ineffectiveness is represented by a possible over-hedging situation that could occur when the actual volumes of natural rubber purchases are lower than those covered. However, under current risk management policies, over-hedging is considered a remote event.

At December 31, 2020, no ineffectiveness was identified amongst the aforementioned hedging relationships.

28. COMMITMENTS AND RISKS

COMMITMENTS FOR THE PURCHASE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The commitments to purchase property, plant and equipment and intangible assets amounted to euro 77,283 thousand and euro 7,292 thousand respectively and refer mainly to subsidiary companies in Italy, Romania, UK, China, Russia and Mexico.

LEASING CONTRACT COMMITMENTS

At December 31, 2020, the total amount for non-discounted future payments for lease contracts not yet in force and against which no financial debt was recognised, equalled euro 33,446 thousand and mainly referred to rental contracts for warehouses and offices.

COMMITMENTS FOR THE PURCHASE OF EQUITY INVESTMENTS/FUND SHARES

These refer to commitments to purchase shares in Equinox Two S.C.A., a private equity company, for an amount equal to a maximum of euro 2,158 thousand.

OTHER RISKS

Litigation against the companies of the Prysmian Group before the Court of Milan

Pending the settlement of the EU Court proceedings referred to in Note 21 - *"Provisions for Risks and Charges"*, in November 2014, Pirelli & C. S.p.A. (*"Pirelli"*) commenced legal action before the Court of Milan in order to obtain an assessment and declaratory judgement of the obligation of Prysmian Cavi e Sistemi S.r.l. to hold Pirelli harmless from any claim relative to the alleged anti-competitive agreement for the energy cables sector, including the penalty imposed by the European Commission.

Prysmian Cavi e Sistemi S.r.l. entered an appearance in the abovementioned proceedings, seeking the dismissal of Pirelli's claims and by way of a counterclaim, to be held harmless and indemnified by Pirelli in relation to any consequences deriving from the European Commission's decision or otherwise related to it. The proceedings had been suspended pending the final ruling of the EU Courts and were resumed by Pirelli on November 30, 2020 following the ruling of the Court of Justice.

In October 2019 Pirelli took further action before the Court of Milan against Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. requesting the assessment and declaratory judgement of Prysmian Cavi e Sistemi S.r.l.'s obligation to indemnify and hold Pirelli harmless from any charges, expenses, costs and/or damage resulting from the claims by private and/or public third parties (including authorities other than the European Commission) relative, connected and/or consequential to the facts which were subject to the decision of the European Commission, as well as the consequent order that Prysmian Cavi e Sistemi S.r.l. reimburse any charge, expense, costs or damage incurred or suffered by Pirelli.

In this regard, Pirelli also requested that Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. be held liable for certain unlawful conduct connected with the abovementioned anti-competitive agreement and accordingly, that they be ordered to pay compensation for all damages suffered and to be suffered by Pirelli.

Pirelli lastly, requested the assessment and declaratory judgement of the joint and several liability of Prysmian S.p.A. with Prysmian Cavi e Sistemi S.r.l. in relation to the amounts that will be paid both due to these new proceedings and those brought in November 2014 and that they should not be satisfied by the latter.

Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. entered an appearance in the above proceedings in November 2020, seeking the dismissal of Pirelli's claims and, by way of counterclaim, to be held harmless and indemnified by Pirelli in relation to any consequences deriving from the claims of private and/or public third parties relating to, connected with and/or consequential to the facts covered by the European Commission's decision.

On the basis of thorough analysis supported by authoritative external legal opinions, the evaluation of the risk relative to the disputes described above is such as to not require the allocation of any specific provision in the Consolidated Financial Statements at December 31, 2020.

Other litigation in connection with the European Commission Decision

In November 2015, some of the companies of Prysmian Group served Pirelli with a summons for compensation proceedings brought before the London High Court of Justice against them and other defendants named in the European Commission decision of April 2, 2014, by National Grid and Scottish Power, companies who claim to have been harmed by the alleged unlawful agreement. Specifically, the companies of Prysmian Group have filed a petition requesting that Pirelli and Goldman Sachs, in view of their role as Parent companies, hold them harmless with respect to any (as yet unquantifiable) damages obligations towards National Grid and Scottish Power. Pending the aforementioned pending action before the Court of Milan brought in November 2014, Pirelli challenged the lack of jurisdiction of the London High Court of Justice claiming that, that any decision on the merits must be referred to the previous Court of appeal. In April 2016, the High Court of Justice, at the request of Pirelli and the companies in the Prysmian Group, suspended the proceedings until the judgment that will define the Italian proceedings already pending, becomes final.

In April 2019, before the Court of Milan, Terna S.p.A. - National Electricity Grid (*"Terna"*) jointly and severally sued Pirelli, three Prysmian Group companies and another defendant named in the aforementioned European Commission decision, to obtain compensation for the damages allegedly suffered as a result of the anti-competitive conduct, to date quantified by the plaintiff to be euro 199.9 million. Pirelli appeared in court contesting Terna's claims and like the other defendants and against them, has filed a counterclaim for recourse in the unlikely event that it is held jointly and severally liable for the anti-competitive conduct.

Finally, also in April 2019, the Electricity & Water Authority of Bahrain, GCC Interconnection Authority, Kuwait Ministry of Electricity and Water and Oman Electricity Transmission Company, served a writ of summons against Pirelli, some of the Prysmian Group companies and other defendants named in the aforementioned European Commission decision, suing them jointly and severally to obtain compensation for the damages allegedly suffered as a result of the alleged anti-competitive conduct. These proceedings were brought before the Court of Amsterdam, which, with its ruling of November 25, 2020, upheld the objection raised by Pirelli and excluded its jurisdiction over Pirelli itself. In February 2021, the claimants appealed against this judgment before the Court of Appeal in Amsterdam.

On the basis of thorough analysis supported by authoritative external legal opinions, the evaluation of the risk relative to the disputes described above is such as to not require the allocation of any specific provision in the Consolidated Financial Statements at December 31, 2020, even with the initial status of proceedings having been taken into consideration.

Tax disputes in Brazil

The subsidiary Pirelli Pneus is involved in tax disputes and litigations. The most relevant are described below:

Disputes concerning the ICMS tax receivables assigned by the State of Santa Catarina

With reference to the dispute concerning the ICMS tax receivables (*Imposto Sobre Operações Relativas à Circulação* or state value added tax) assigned by the State of Santa Catarina, Pirelli Pneus Ltda received notices of assessment which disavowed the ICMS tax receivables. The claim was motioned by the State of São Paulo, according to which Pirelli Pneus benefited from the ICMS tax credits assigned by the State of Santa Catarina, but which were deemed to have been unlawful from the start, in that they were assigned by the latter in violation of the Brazilian Constitution, in the absence of a previous agreement between the various States. This litigation was brought before the competent administrative-tax commissions. On August 8, 2017, despite the fact that the initial decisions were not in favour of Pirelli Pneus, a legislative provision (Complementary Law No. 160) came into force, capable of putting an end to the dispute between the various states in Brazil. This regulation validates the incentives, which up to now have been considered illegitimate and therefore also extinguishes the relative sanctions imposed by the Brazilian tax authorities. The implementative aspects of this new provision have to date been defined by the Brazilian States and, therefore, Pirelli Pneus has also already filed a petition for amnesty for the dispute in question. This petition does not interrupt the ongoing litigation in court, which can therefore continue in case the petition for amnesty should have a negative outcome. It should be noted that, to date, for two of the cases involving Pirelli Pneus in the above dispute, the petition for amnesty has already been granted, respectively in January and February 2021.

The risk is estimated at approximately euro 122 million, inclusive of taxes, interest and sanctions. The risk of losing the case has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

Contestation concerning the IPI tax applicable to certain types of tyres

The subsidiary Pirelli Pneus is involved in a tax disputes with the Brazilian tax authorities concerning the IPI tax (I*mposto sobre Produtos Industrializados* or tax on industrialised products) with particular reference to the tax rate applicable to the production and importation of tyres for the Sports Utility Vehicle (SUV), vans and other industrial transportation vehicles (such as, for example, trucks). According to statements by the Brazilian tax authorities in the tax assessment notices issued during the course of 2015, 2017 and 2021, the aforementioned tyres should have been subjected to the IPI tax for the production and importation of tyres for cars – with an applicable rate of 15% - instead of the 2% rate applied by Pirelli Pneus, as is provided for the production and importation of tyres destined for heavy industrial use vehicles. To date, the dispute is pending before the competent administrative and tax commissions and, also in light of the recent rulings in favour of Pirelli Pneus, the Group maintains that it has a good chance of winning. This position is also supported by an appraisal prepared by a Brazilian government institution (the INT - National Institute of Technology) specifically commissioned by Pirelli Pneus, who concluded their analysis by equating the tyres discussed, in light of their similar characteristics, with those used for heavy industrial vehicles.

The risk is estimated at approximately euro 30 million, inclusive of taxes, interest and sanctions. The risk of losing the case has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

Litigation concerning transfer pricing applied to some inter-group transactions

Pirelli Pneus is currently in litigation with the Brazilian tax authorities for income tax (IRPJ - *Imposto sobre a renda das pessoas jurídicas*) and social security contributions (CSLL - *Contribuição Social sobre o Lucro Líquido*) due from the Company for the 2008, 2011 and 2012 fiscal years, deriving from the application of transfer pricing regulations to import transactions with related parties. Based on the notices of assessment served on the Company during 2013, 2015 and 2016, the Brazilian tax authorities are mainly contesting the incorrect application by the Company, of the methodology provided for by the administrative practice in force at the time (IN - *Instrução Normativa 243*), for the valuation of transfer prices applied to imports of goods from related parties. To date, the dispute filed by the Company is pending before the competent administrative-judicial courts. The Group maintains that it has a good chance of winning and, in this regard, Pirelli Pneus has already obtained a favourable ruling from the administrative court, which recognised the Company's arguments by reducing the amount originally contested by the Brazilian tax authorities.

In light of the above, the risk is estimated at approximately euro 14 million inclusive of taxes, sanctions and interest. The risk of losing the case has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

Disputes concerning the IPI tax with respect to the sale of tyres to the automotive sector

Pirelli Pneus is involved in a dispute concerning the IPI tax, (*Imposto sobre Produtos Industrializados* or tax on industrialised products) which also refers to the particular case of the sale of components to companies operating in the automotive sector. According to the Brazilian tax authority's claim as stated in a notice of assessment issued in 2013, Pirelli Pneus should not benefit, as regards its secondary office established in the city of Ibiritè in the Federal State of Minas Gerais, from the IPI tax exemption as provided for by law in the case of sales of particular components to companies operating in the automotive sector. The dispute is under discussion before the competent administrative-judicial courts, however the Group maintains that it has well founded reasons to object to the tax administration's claim.

The risk is estimated at approximately euro 17 million, inclusive of taxes, interest and sanctions. The risk of losing the case has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

Dispute concerning the tax impact deriving from the so called "Plano Verão" (Government stabilisation plan)

Pirelli Pneus is involved in dispute over taxes with the Brazilian tax authorities, which, in the opinion of the Company - for the period between 1989 and 1994 - were collected by the Brazilian tax authorities in amounts that exceeded what was actually due following the so called *"Plano Verão"*, the economic measure introduced by the then Brazilian government, to control the phenomenon of hyperinflation that was affecting the country through price freezes. However, the difference between the real and indexed inflation had the effect of creating significant distortions in the financial statements of companies and, last but not least, the amount of taxes paid by the same. Pirelli Pneus made use of the real inflation rate for its own financial statement valuations and, at the same time, commenced legal proceedings aimed at asserting its reasons for the correct amount of taxes owed.

In the course of the aforementioned proceedings, Pirelli Pneus first adhered to an amnesty for the tax disputes in order to define the dispute in question and, only subsequently, on the basis of a ruling with binding effectiveness towards everyone by the Brazilian Supreme Court, requested the annulment of the effects of the amnesty, to which it had previously adhered.

The proceeding is underway before the competent judicial courts and the risk is estimated as up to approximately euro 27 million, inclusive of taxes, interest and sanctions. The risk of losing the case has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

Other Pirelli Pneus disputes

Pirelli Pneus is involved in other tax disputes relevant to federal taxes and excises, (such as the IPI (*Imposto sobre Produtos Industrializados*) tax, the PIS (*Programa de Integração Social*) and COFINS (*Contribução para Financiamento de Seguridade Social*) unemployment insurance and social security contributions), as well as the ICMS state value added tax. In particular, Pirelli Pneus is involved in certain administrative and judicial proceedings aimed at ensuring that their own reasons prevail over those of the tax authorities, with reference to:

(i) the so called *"Desenvolve*" litigation relative to a fiscal incentive which is recognised by the Federal State of Bahia but which, as claimed by the Brazilian tax authorities was incorrectly calculated by Pirelli Pneus - approximately euro 6 million inclusive of taxes, sanctions and interest;

(ii) a dispute relative to import customs costs for natural rubber which, in the opinion of the Brazilian tax authorities, was underestimated by not taking into account the value of the intra-group royalties paid - approximately euro 6 million inclusive of taxes, sanctions and interest.

(iii) a new dispute, relative to the method of calculating the taxable base of PIS and COFINS social security contributions and to the right to deduct the ICMS reported in invoices, on the basis of the interpretation provided by the tax authorities in the Solução - COSIT Internal Consultation Solution No. 13 - approximately euro 15 million in taxes, sanctions and interest.

For the aforementioned disputes, the risk of losing the case has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for these disputes.

29. REVENUES FROM SALES AND SERVICES

Revenues from sales and services were as follows:

(in thousands of euro)	**2020**	**2019**
Revenues from sales of goods	4,191,752	5,174,701
Revenues from services	110,379	148,353
Total	**4,302,131**	**5,323,054**

These revenues refer to contracts with customers.

For further information on the performance of revenues from sales and services, refer to the section *"Group performance and results"* in this document.

30. OTHER REVENUES

The item is composed as follows:

(in thousands of euro)	**2020**	**2019**
Other income from the Prometeon Group	38,897	60,922
Sales of Industrial products	136,305	158,709
Gains on disposal of property, plant and equipment	6,187	1,298
Rent income	2,907	3,780
Income from sublease of rights of use assets	922	1,662
Recoveries and reimbursements	38,598	164,475
Government grants	13,613	13,343
Other income	68,884	82,118
Total	**306,313**	**486,307**

The item **other income from the Prometeon Group** includes the sale of raw materials, semi-finished and finished products to the amount of euro 7,598 thousand, royalties recorded for the trademark license agreement to the amount of euro 13,218 thousand, royalties recorded for the know-how license contract to the amount of euro 6,500 thousand and services rendered to the amount of euro 11,575 thousand. The decrease in other income compared to the previous year, was mainly attributable to lower sales in raw materials, finished goods and semi-finished goods, as well as the renegotiation of know-how royalties for 2020 only.

The item **sales of industrial products** mainly refers to revenues and income generated by the sale of tyres for trucks and agricultural vehicles, purchased mainly by the Prometeon Group and sold by the distribution network controlled by the Pirelli Group.

Gains on the disposal of property, plant and equipment refers to the disposal of buildings carried out in 2020 in Milan and Settimo Torinese.

The item **recoveries and reimbursements** includes, in particular:

- refunds of taxes and duties for a total of euro 3,515 thousand, received mainly from the Brazilian subsidiary. For 2019 the item included euro 73,938 thousand attributable to the benefit recorded following the attainment of favourable rulings by the Federal Regional Court, with registered office in in Brasilia, which recognised the right to exclude the ICMS tax (*Imposto Sobre Operações Relativas à Circulação* or state Value Added Tax for the circulation of goods and the provision of interstate and inter-municipal transport and communication services) from the basis for the calculation of PIS (*Programa de Integração Social*) and COFINS (*Contribução para Financiamento de Seguridade Social*) social security contributions for the 2003-2014 period;

- tax refunds totalling euro 7,918 thousand deriving from tax incentives obtained mainly in the state of Bahia, Brazil for commercial exports;

- proceeds from the sale of tyres and scrap materials carried out in the United Kingdom for a total of euro 1,010 thousand;

- income from the sale of tyres for testing and the recovery of transport expenses incurred in Germany to the amount of euro 1,761 thousand.

The item **other income** includes income from the sale of goods and services in connection with sporting activities, to the amount of euro 33,352 thousand.

31. PERSONNEL EXPENSES

The item is composed as follows:

(in thousands of euro)	**2020**	**2019**
Wages and salaries	721,058	822,647
Social security and welfare contributions	140,469	167,184
Costs for employee leaving indemnities and similar	11,474	16,887
Costs for defined contribution pension funds	23,143	23,583
Costs for defined benefit pension funds	13,210	1,627
Costs for jubilee awards	6,630	3,622
Costs for defined contribution healthcare plans	3,180	5,290
Other costs	30,514	31,327
Total	**949,678**	**1,072,167**

The item **other costs** includes the portion of the retention plan (equal to euro 8,423 thousand in 2020 and euro 6,891 thousand in 2019) which was approved by the Pirelli Board of Directors on February 26, 2018 and intended for Key Managers with strategic responsibilities, as well as a select number of senior Managers and Executives whose contribution to the implementation of the Strategic Plan is considered particularly significant.

The item personnel expenses for 2020 **includes non-recurring events** for a total of euro 11,205 thousand (1.2% of the total) and refers to the buy-out operation of the UK pension funds.

32. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

The item is composed as follows:

(in thousands of euro)	**2020**	**2019**
Amortisation	128,049	125,823
Depreciation (excl. depreciation of right of use)	289,379	292,045
Depreciation of right of use	88,626	89,479
Impairment of property, plant and equipment and intang.assets (excl. right of use)	9,138	18,556
Impairment of right of use	1,960	1,915
Total	**517,152**	**527,818**

The item **impairment of property, plant and equipment** mainly refers to property, plant and equipment in the UK and Italy due to plant decommissioning.

For the composition of the amortisation of the right of use, reference should be made to Note *"9.2 - Right of use".*

33. OTHER COSTS

This item is subdivided as follows:

(in thousands of euro)	**2020**	**2019**
Selling costs	255,395	320,189
Purchases of goods for resale	326,737	367,365
Fluids and energy	142,214	181,650
Advertising	193,039	214,919
Warehouse operating costs	67,045	71,226
IT expenses	38,376	34,537
Consultants	48,038	48,522
Maintenance	41,436	50,494
Insurance	30,401	31,476
Leases and rentals	24,281	36,905
Outsourcing	24,561	34,944
Duty stamps, duties and local taxes	24,190	27,507
Other provisions	32,673	41,785
Travel expenses	16,676	37,311
Key managers compensations	7,469	7,235
Cleaning expenses	13,092	14,836
Canteen	12,811	16,091
Security expenses	10,214	9,714
Waste disposal	8,010	7,558
Telephone expenses	5,427	8,744
Other	144,209	150,396
Total	**1,466,294**	**1,713,404**

The total decrease in the item was mainly attributable to the costs of sales and the purchases of goods held for resale, linked to the drop in volumes as well as to savings on the item *"fluids and energy",* due to the temporary lock-down of factories during the first half-year of 2020, as well as to savings on travel expenses mainly due to the limitations imposed due to the pandemic.

The item **leases and rentals** includes:

- euro 12,358 thousand for lease contracts with a duration of less than twelve months (euro 23,555 thousand for 2019);
- euro 6,820 thousand for lease contracts for low unit value assets (euro 7,394 thousand for 2019);
- euro 5,103 thousand for lease contracts with variable payments (euro 5,956 thousand for 2019).

The item relative to variable lease instalments includes the positive effect of the changes in payments for leasing contracts due to reductions in permanent lease payments (rent holidays), or temporary lease payments linked to COVID-19 (euro 889 thousand) and which was recognised directly in the

Income Statement in that the Group made use of the practical expedient provided by the amendments to IFRS 16.

The item **other** includes, amongst others, labour provided by third parties to the amount of euro 27,230 thousand, (euro 31,083 thousand for 2019) and expenses for technological testing to the amount of euro 11,974 thousand (euro 20,190 thousand for 2019).

34. IMPAIRMENT OF NET FINANCIAL ASSETS

This item, which was negative to the amount of euro 17,385 thousand compared to euro 22,266 thousand for 2019, mainly includes the net impairment of trade receivables to the amount of euro 16,843 thousand (euro 22,235 thousand for 2019).

35. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

35.1 Share of the net income (loss) from equity investments in associates and joint ventures.

The share of the net income/(loss) from equity investments in associates and joint ventures was evaluated using the equity method and amounted to a loss of euro 5,629 thousand, and refers mainly to investments in the joint venture Xushen Tyre (Shanghai) Co., Ltd which recorded a loss of euro 4,558 thousand (a loss of euro 7,158 thousand for 2019), and in the joint venture PT Evoluzione Tyres in Indonesia, which recorded a loss of euro 1,299 thousand (a loss euro 2,769 thousand for 2019).

For further details reference should be made to preceding Note 11 - *“Investments in Associates and Joint Ventures”.*

35.2 Gains on equity investments

The amount euro 1,140 thousand mainly refers to the reversal to the Income Statement of the foreign currency translation reserve, accumulated up until the date of disposal of the subsidiary, of the Joint Stock Company “Scientific institute of medical polymers” equalling euro 932 thousand.

35.3 Losses on equity investments

For 2020 the item amounted to euro 847 thousand and refers to the disposal of the investment in Omnia Motor S.A.

For 2019 the item had amounted to euro 8,538 thousand and referred to the disposal of the investment in Inter Wheel Sweden Aktiebolag.

35.4 Dividends

For 2020 this item amounted to euro 65 thousand compared to euro 5,526 thousand for 2019 and mainly includes dividends received from the RCS Mediagroup S.p.A. (euro 1,482 thousand), from the Fondo Comune di investimento Anastasia (Anastasia Real Estate Investment Fund) (euro 2,434 thousand), from Fin. Priv. S.r.l. (euro 957 thousand) and from Genextra S.p.A. (euro 178 thousand).

36. FINANCIAL INCOME

The item is composed as follows:

(in thousands of euro)	**2020**	**2019**
Interests	15,707	13,774
Other financial income	5,379	112,443
Net gains on exchange rates	-	2,461
Fair value measurement of currency derivatives	124,631	-
Fair value measurement of other derivatives	667	83
Total	**146,384**	**128,761**

The item **interests** includes euro 3,760 thousand for interest on fixed income securities and euro 6,078 thousand for interest receivables from financial institutions and associated companies and joint ventures.

The item **other financial income** mainly includes interest matured on tax credits and on security deposits provided by the Brazilian subsidiaries as a guarantee for legal and tax disputes. The amount for the previous year included the interest accrued on receivables from the Brazilian tax authorities which was recorded following the attainment, during the first-half year of 2019, of a favourable judgement by the Federal Regional Court, with registered offices in Brasilia and San Paolo, which recognised the right to deduct the state tax on goods and services (ICMS) from the calculation basis for the PIS (*Programa de Integração Social*) and COFINS (*Contribução para Financiamento de Seguridade Social*) social security contributions.

The item **valuation at fair value of foreign currency derivatives** refers to forward currency purchase/sale transactions to hedge commercial and financial transactions, in accordance with the Group's exchange risk management policy. For transactions still open at the end of the financial year, the fair value was determined by applying the forward exchange rate at the closing date of the Consolidated Financial Statements. The valuation at fair value is composed of two elements: the interest component which is linked to the interest rate differential between the currencies covered by the individual hedges, equal to a net cost of euro 15,618 thousand and the exchange rate component equal to a net cost of euro 140,249 thousand. The foreign exchange component of the fair value measurement of the cross currency interest rate swaps, for which hedge accounting of the cash flow hedge type was adopted, was negative to the amount of euro 133,595 thousand and was reclassified under the item net losses on exchange rates, offsetting the unrealised exchange gains recorded on the hedged liability. Net of the aforementioned reclassification, in comparing the net losses on exchange rates, which totalled euro 147,683 thousand, recorded for receivables and payables in currencies, other than the functional currency, used by the various subsidiaries, with the fair value valuation of the foreign exchange component of the derivatives to hedge foreign exchange, which amounted to a net income of euro 140,249 thousand, there resulted a negative imbalance of euro 7,434 thousand.

Fair value measurement of other derivative instruments mainly includes:

- the ineffectiveness of cross currency interest rate swaps to the amount of euro 338 thousand, due to the misalignment between the characteristics of the hedge item and the hedging instrument - (Note 27 - *" Derivative financial instruments"*);
- the fair value valuation of the IRS basis swap which was positive to the amount of euro 1,045 thousand - (Note 27 - *"Derivative financial instruments"*).

37. FINANCIAL EXPENSES

The item is composed as follows:

(in thousands of euro)	**2020**	**2019**
Interests	101,602	107,166
Commissions	11,712	20,298
Hyperinflation effect	6,592	19,995
Other financial expenses	11,108	9,303
Interest expenses on lease liabilities	21,334	23,480
Net losses on exchange rates	147,683	-
Net interest costs on provision for employee benefit obligations	2,142	4,612
Fair value measurement of other financial assets	713	-
Fair value measurement of exchange rate derivatives	-	53,386
Total	**302,886**	**238,240**

Interests which totalled euro 101,602 thousand included:

- euro 65,406 thousand for bank credit facilities held by Pirelli & C. S.p.A., and euro 15,059 thousand in financial expenses relative to bond loans, of which euro 9,658 thousand refers to unrated bonds and euro 5,175 thousand is relative to the *"Schuldschein"* loan, both issued by Pirelli & C. S.p.A.. The amount is reported net of net interest income on Cross Currency Interest

Rate Swaps and Interest Rate Swaps to the amount of euro 16,169 thousand. For further details reference should be made to Note 27 - *"Derivative financial instruments";*

- euro 24,280 thousand in financial expenses relative to bank finance for foreign affiliates.

The item **commissions** includes, in particular, euro 3,523 thousand in costs for the assignment of receivables without recourse mainly in South America, Italy and Germany and euro 8,190 thousand relative to expenses for sureties and other bank commissions.

The item **Hyperinflation effect** refers to the effect on monetary items deriving from the application of IAS 29 - Hyperinflation, by the subsidiary company Pirelli Neumaticos SAIC. Reference should be made to Note 41 - "*Hyperinflation*" for more details.

The item **net losses on exchange rates** which amounted to euro 147,683 thousand (gains amounted to euro 2,805,187 thousand and losses amounted to euro 2,952,870 thousand) refers to, the adjustment of period-end exchange rates for items expressed in currencies other than the functional currency and still outstanding at the closing date of the Consolidated Financial Statements and to the net losses realised on items closed during the course of the period. They also include losses to the amount of euro 133,595 thousand due to the exchange rate component of the fair value valuation of the cross currency interest rate swaps, for which hedge accounting of the cash flow hedge type was adopted, to offset unrealised exchange gains recorded on the hedged liability.

38. TAXES

Taxes were composed as follows:

(in thousands of euro)	**2020**	**2019**
Current taxes	106,938	198,460
Deferred taxes	(92,245)	(33,898)
Total	**14,693**	**164,562**

Tax expenses for 2020 amounted to euro 14,693 thousand against pre-tax earnings of euro 57,366 thousand, compared to the amount of euro 164,562 thousand for 2019 against pre-tax earnings of euro 622,259 thousand. The tax rate for 2020 stood at 25.6% compared to 26.5% for 2019.

The reconciliation between theoretical and effective taxes is as follows:

(in thousands of euro)	2020	2019
A) Net income / (loss) before taxes	**57,366**	**622,259**
B) Theoretical taxes	**5,924**	**172,424**
Main causes for changes between estimated and effective taxes:		
Tax incentives	(9,710)	(38,787)
Non-deductible costs	12,965	8,924
Witholding taxes not recoverable	2,175	15,895
Other	3,339	6,106
C) Effective taxes	**14,693**	**164,562**

The difference between the nominal and effective Group tax rate was mainly due to non-deductible costs which were considered irrecoverable net of tax incentives.

The Group's theoretical tax burden is calculated by taking into account the nominal tax rates of the countries where the Group's main companies operate, as shown below:

	2020	2019
Europe and Turkey		
Italy	27.90%	27.90%
Germany	30.00%	30.00%
Romania	16.00%	16.00%
Great Britain	19.00%	19.00%
Turkey	22.00%	22.00%
Russia, Nordics and MEAI		
Russia	20.00%	20.00%
North America		
USA	25.00%	25.00%
Mexico	30.00%	30.00%
South America		
Argentina	30.00%	30.00%
Brazil	34.00%	34.00%
APAC		
China	25.00%	25.00%

The incidence of taxes paid according to geographical Region during the course of the financial year, equal to euro 90,692 thousand, (euro 141,985 thousand for 2019), was as follows:

- 38% South America (14% for 2019);
- 36% APAC (41% for 2019);
- 13% Europe and Turkey (35% for 2019);
- 8% North America (7% for 2019);

- 5% Russia, Nordics and MEAI (3% for 2019).

The term paid taxes refers to the total amount of income taxes effectively paid during the tax period by the Group companies to the respective jurisdictions of tax residence, to income tax advances payments paid in 2020, to income taxes paid during the course of 2020 but relative to previous financial years (e.g. income tax balances relative to 2019) or to payments relative to tax assessments for previous financial years. Taxes paid also include withholding taxes incurred on the cross-border payments such as dividends, interest and royalties which have been reported in the tax residence jurisdictions of the recipient.

The increase in taxes paid in the South America area (14% in 2019) was mainly attributable to the withholding taxes incurred by the Brazilian subsidiary Pirelli Pneus on the cash flows received at the time of closing derivative contracts, which had been entered into to hedge exchange rate risk.

39. EARNINGS (LOSSES) PER SHARE

Earnings/(losses) per share are determined by the ratio between the earnings/(losses) attributable to the Parent Company and the weighted average of the number of ordinary shares outstanding during the period, with the exclusion of treasury shares.

(in thousands of euro)	**2020**	**2019**
Net income/(loss) attributable to the Parent Company	29,781	438,134
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	1,000,000
Earnings /(losses) per share (in euro per share)	**0.030**	**0.438**

It should be noted that the basic and diluted earnings/(loss) per share coincide. The share conversion option relating to the convertible bond has no dilutive effect as the market price of the shares was lower than the exercise price of the option itself from the date of issue of the loan to December 31, 2020.

40. DIVIDENDS PER SHARE

The Board of Directors meeting on March 2, 2020 Pirelli & C.S.p.A. resolved to approve the proposal to distribute a unit dividend of euro 0.183. However, this resolution was subsequently cancelled by the Board of Directors meeting on April 3, 2020 as part of the Covid-19 containment actions.

41. HYPERINFLATION

Based on the provisions of the accounting standards of the Group, with regard to the criteria for entering/exiting inflation accounting, the subsidiary Pirelli Neumaticos SAIC has adopted inflation accounting since July 1, 2018 and is the only Group company operating in a hyperinflation country.

The price index used for this purpose was the national consumer price index (CPI) published by the National Institute for Statistics and Census (INDEC).

For the Consolidated Financial Statements at December 31, 2020 the official inflation index of 37.8% was used.

Losses on the net monetary position were recorded in the Income Statement as "*Financial expenses*" (Note 37) to the amount of euro 6,592 thousand.

42. NON-RECURRING EVENTS

Pursuant to CONSOB Communication No. DEM/6064293 of July 28, 2006, information regarding the impact of non-recurring events and transactions on the Group's Income Statement, Statement of Financial Position and Financial Statement is presented below:

(in millions of euro)	**Equity**	**Net income/(loss)**	**Cash flow**
Financial statement (a)	**4,551.9**	**42.7**	**806.1**
Operating costs	(11.2)	(11.2)	(9.2)
Total impact non recurring items (b)	**(11.2)**	**(11.2)**	**(9.2)**
Total adjusted (a-b)	**4,563.1**	**53.9**	**815.3**

The impact on the consolidated Income Statement items is detailed as follows:

(in millions of euro)	**2020**
Personnel expenses:	
- UK pension fund buy-out	*(11.2)*
Impact on operating income	**(11.2)**
Impact on net income/(loss) before tax	**(11.2)**
Impact on net income/(loss)	**(11.2)**

43. RELATED-PARTY TRANSACTIONS

Related party transactions, including inter-group transactions, are neither exceptional nor unusual, but are part of the ordinary course of business for companies of the Group. Such transactions, when not concluded under standard conditions or dictated by specific regulatory conditions, are in any case governed by conditions consistent with those of the market and carried out in compliance with the provisions of the Procedure for Related Party Transactions which the Company has adopted.

The following table summarises the items from the Statement of Financial Position, the Income Statement and the Statement of Cash Flows which include related party transactions and their relative impact.

The effects of the related party transactions contained in the Income Statement and the Statement of Financial Position on the consolidated data for Pirelli Group were as follows:

STATEMENT OF FINANCIAL POSITION *(in millions of euro)*	**12/31/2020**	**of which related parties**	**% incidence**	**12/31/2019**	**of which related parties**	**% incidence**
Non current assets						
Other receivables	**402.1**	5.8	1.4%	**342.4**	5.6	1.6%
Current assets						
Trade receivables	**597.7**	12.8	2.1%	**649.4**	9.8	1.5%
Other receivables	**469.2**	111.3	23.7%	**451.9**	45.2	10.0%
Non-current liabilities						
Borrowings from banks and other financial institutions	**4,971.0**	14.7	0.3%	**3,949.8**	17.4	0.4%
Other payables	**77.3**	0.2	0.3%	**90.6**	0.2	0.2%
Provisions for liabilities and charges	**73.3**	5.9	8.1%	**120.5**	3.1	2.5%
Provisions for employee benefit obligations	**243.9**	2.4	1.0%	**203.0**	-	n.a.
Current liabilities						
Borrowings from banks and other financial institutions	**883.6**	2.2	0.2%	**1,419.4**	2.3	0.2%
Trade payables	**1,268.0**	134.6	10.6%	**1,611.5**	171.9	10.7%
Other payables	**374.3**	6.7	1.8%	**402.8**	7.5	1.9%
Provisions for employee benefit obligations	**5.0**	3.0	60.2%	**4.1**	2.3	55.0%

INCOME STATEMENT *(in millions of euro)*	**2020**	**of which related parties**	**% incidence**	**2019**	**of which related parties**	**% incidence**
Revenue from sales and services	**4,302.1**	15.1	0.4%	**5,323.1**	19.3	0.4%
Other income	**306.3**	49.4	16.1%	**486.3**	74.8	15.4%
Raw materials and comsumables used (net of changes in inventories)	**(1,280.4)**	(4.9)	0.4%	**(1,741.2)**	(4.1)	0.2%
Personnel expenses	**(949.7)**	(15.0)	1.6%	**(1,072.2)**	(14.5)	1.4%
Other costs	**(1,466.3)**	(241.8)	16.5%	**(1,713.4)**	(278.2)	16.2%
Financial income	**146.4**	2.3	1.6%	**128.8**	1.2	0.9%
Financial expenses	**(302.9)**	(0.9)	0.3%	**(238.2)**	(1.0)	0.4%
Net income / (loss) from equity investments	**(5.3)**	(5.6)	n.a.	**(11.0)**	(9.7)	n.a.

CASH FLOW *(in thousands of euro)*	**2020**	**of which related parties**	**% incidence**	**2019**	**of which related parties**	**% incidence**
Net cash flow operating activities:						
Change in Trade receivables	**(35.3)**	(4.0)	n.a.	**(44.6)**	5.8	n.a.
Change in Trade payables	**(184.6)**	0.4	n.a.	**18.8**	(19.7)	n.a.
Change in Other receivables	**21.9**	(6.9)	n.a.	**(32.2)**	30.6	n.a.
Change in Other payables	**60.6**	2.5	n.a.	**(47.4)**	(2.6)	n.a.
Uses of Provisions for employee benefit obligations	**(37.2)**	(2.3)	n.a.	**(43.0)**	(2.9)	n.a.
Net cash flow investing activities:						
(Acquisition) of investments in associates and J.V.	**-**	**-**	-	**(8.9)**	(8.9)	n.a.
Change in Financial receivables from associates and J.V.	**(64.1)**	(64.1)	n.a.	**(13.4)**	(13.4)	n.a.
Net cash flow financing activities:						
Repayment of principal and payment of interest for lease obligations	**(99.9)**	(2.9)	n.a.	**(101.2)**	(1.9)	n.a.

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

STATEMENT OF FINANCIAL POSITION (in millions of euro)	**12/31/2020**	**12/31/2019**
Other non current receivables	5.8	5.6
of which financial	*5.8*	*5.6*
Trade receivables	6.9	3.4
Other current receivables	102.3	40.7
of which financial	*88.8*	*26.5*
Borrowings from banks and other financial institutions non-current	13.7	15.4
Borrowings from banks and other financial institutions current	1.7	1.6
Trade payables	30.6	36.2

INCOME STATEMENT (in millions of euro)	**2020**	**2019**
Revenues from sales and services	12.8	19.0
Other income	3.4	6.8
Raw materials and consumables used (net of change in inventories)	(2.6)	(0.4)
Other costs	(98.2)	(85.4)
Financial income	2.3	1.0
Financial expenses	(0.5)	(0.6)
Net income/ (loss) from equity investments	(5.6)	(9.7)

CASH FLOW (in millions of euro)	**2020**	**2019**
Change in Trade receivables	(3.6)	0.2
Change in Trade payables	(5.2)	13.1
Change in Other receivables	(1.2)	11.9
Change in Financial receivables from associates and J.V.	(64.1)	(13.4)
Repayment of principal and payment of interest for lease liabilities	(2.2)	(1.6)
Net cash flows provided by / (used in) investing activities	-	(8.9)

Transactions – Statement of Financial Position

The item **other non-current receivables** refers to a loan granted by Pirelli Tyre S.p.A. to the Indonesian joint venture PT Evoluzione Tyres.

The item **trade receivables** includes receivables for services rendered mainly to the Chinese joint venture Jining Shenzhou Tyre Co., Ltd.

The item **other current receivables** mainly refers to:

- receivables for Pirelli Tyre S.p.A. for royalties, from PT Evoluzione Tyres and Jining Shenzhou Tyre Co., Ltd. to the amount of euro 2.5 million each;
- receivables for the sale of materials and moulds to the Joint Stock Company “Kirov Tyre Plant” to the amount of euro 4.1 million;

- receivables for service fees for the Pirelli Tyre Co., Ltd from Jining Shenzhou Tyre Co., Ltd. to the amount of euro 2 million.

The financial portion refers to two loans:

- one granted by Pirelli Tyre Co., Ltd to Jining Shenzhou Tyre Co., Ltd. for euro 88.8 million;
- the other granted by Pirelli Tyre S.p.A. to the Indonesian joint venture PT Evoluzione Tyres for euro 5.1 million.

The item **non-current borrowings from banks and other financial institutions** refers to payables for machine hire by the company Pirelli Deutschland GMBH from the company Industriekraftwerk Breuberg Gmbh.

The item **current borrowings from banks and other financial institutions** refers to a portion of the aforementioned short-term debt.

The item **trade payables** mainly refers to payables for the purchase of energy from Industriekraftwerk Breuberg Gmbh and trade payables towards the Jining Shenzhou Tyre Co., Ltd.

Transactions - Income statement

The item **revenues from sales and services** mainly refers to sales of materials and services to the Jining Shenzhou Tyre Co., Ltd. to the amount of euro 10 million, as well as to royalties charged to PT Evoluzione Tyres and to Jining Shenzhou Tyre Co., Ltd. for a total of euro 2.7 million.

The item **other income** refers mainly to the recharging of labour costs.

The item **other costs** mainly refers to costs for:

- the purchase of tyres from Jining Shenzhou Tyre Co., Ltd. to the amount of euro 44.8 million;
- the purchase of motorcycle products from PT Evoluzione Tyres to the amount of euro 30.8 million;
- the purchase of energy and machine hire from Industriekraftwerk Breuberg Gmbh to the amount of euro 15.4 million.

The item **financial income** refers to interest on the loans disbursed to the two joint ventures.

TRANSACTIONS WITH OTHER RELATED PARTIES

The transactions detailed below refer mainly to transactions with the Aeolus Tyre Co., Ltd. and to transactions with the Prometeon Group, both of which are subject to the control of the direct Parent company or indirect Parent companies of Pirelli & C. S.p.A.

Also included is the remuneration paid to Directors and Key Managers.

STATEMENT OF FINANCIAL POSITION		
(in millions of euro)	**12/31/2020**	**12/31/2019**
Trade receivables	5.9	6.4
Other current receivables	9.0	4.4
Borrowings from banks and other financial institutions non-current	1.0	2.0
Other non-current payables	0.2	0.2
Provisions for liabilities and charges non-current	5.9	3.1
Provisions for employee benefit obligations non-current	2.4	-
Borrowings from banks and other financial institutions current	0.5	0.6
Trade payables	104.0	135.7
Other current payables	6.7	7.5
Provisions for employee benefit obligations current	3.0	2.3

INCOME STATEMENT		
(in millions of euro)	**2020**	**2019**
Revenues from sales and services	2.3	0.3
Other income	46.0	68.0
Raw materials and consumables used (net of change in inventories)	(2.3)	(3.7)
Personnel expenses	(15.0)	(14.5)
Other costs	(143.5)	(185.5)
Financial income	0.1	0.1
Financial expenses	(0.4)	(0.4)

CASH FLOW		
(in millions of euro)	**2020**	**2019**
Change in trade receivables	(0.5)	5.6
Change in trade payables	5.6	(32.8)
Change in Other receivables	(5.7)	18.7
Change in Other payables	2.5	(2.6)
Uses of Provisions for employee benefit obligations	(2.3)	(2.9)
Repayment of principal and payment of interest for lease liabilities	(0.7)	(0.3)

Transactions – Statement of Financial Position

The item **trade receivables** refers to receivables from companies of the Prometeon Group.

The item **other current receivables** refers to receivables from companies of the Prometeon Group to the amount of euro 7.4 million and from the Aeolus Tyre Co., Ltd. to the amount of euro 1.6 million.

The item **non-current borrowings from banks and other financial institutions** refers to payables of the company Pirelli Otomobil Lastikleri A.S. for machine hire from the Prometeon company Turkey Endüstriyel ve Ticari Lastikler A.S. to the amount of euro 0.7 million and to the payables of Pirelli Pneus Ltda to the Prometeon Tyre Group Industria Brasil LTDA to the amount of euro 0.3 million.

The item **current borrowings from banks and other financial institutions** refers to the short-term portions of the previously mentioned debts.

The item **trade payables** almost exclusively refers to payables to companies of the Prometeon Group to the amount of euro 102.7 million.

The item **other current payables** mainly refers to other current payables to companies of the Prometeon Group to the amount of euro 5.7 million.

Transactions - Income statement

The item **other income** includes recognised royalties regarding the Aeolus Tyre Co., Ltd. in respect of the license agreement stipulated in 2016 to the amount of euro 7 million per year, which was subjected to the renegotiation of some of the terms and conditions in February 2019. The item also includes income from companies of the Prometeon Group mainly relative to:

- royalties recorded in respect of the license agreement for the use of the Pirelli trademark to the amount of euro 13.2 million;
- the sale of raw materials, finished and semi-finished products for the total amount of euro 7.6 million, of which euro 5.8 million was carried out by Pirelli Pneus Ltda;
- the licence agreement for know-how charged by Pirelli Tyre S.p.A. to the amount of euro 6.5 million;
- the Long-Term Service Agreement to the amount of euro 5.7 million of which euro 2.7 million was earned by Pirelli Sistemi Informativi S.r.l. and euro 1 million by Pirelli Pneus Ltda;
- logistic services for a total of euro 1.1 million, rendered by the Spanish company Pirelli Neumaticos S.A. - Sociedad Unipersonal.

The decrease in other income compared to the same period of the previous financial year was mainly attributable to lower sales of raw materials, finished and semi-finished products, as well as the renegotiation of royalties for know-how for 2020 only.

The item **raw materials and consumable materials used** refers to costs payable to companies of the Prometeon Group for the purchase of direct materials/consumables/compounds, of which euro 1 million was carried out by the Brazilian company Pirelli Pneus Ltda and euro 0.6 million by the Turkish company Pirelli Otomobil Latikleri A.S.

The item **other costs** includes contributions to the Hangar Bicocca Foundation and the Pirelli Foundation to the amount of euro 0.8 million and costs payable to companies of the Prometeon Group mainly for:

- the purchase of truck products for a total amount of euro 79.7 million, of which euro 64.5 million was carried out by the Brazilian company Comercial e Importadora de Pneus Ltda and subsequently resold to retail customers and euro 4.1 million was carried out by the German company Driver Reifen und KFZ-Technik Gmbh;

- the purchase of Car/Motorcycle and semi-finished products for a total amount of euro 36.3 million of which euro 34.2 million was carried out by the Turkish company Pirelli Otomobil Latikleri A.S. in respect of the off-take contract and euro 2.1 million by Pirelli Pneus Ltda for the purchase of inner tubes for tyres;

- costs to the amount of euro 6 million incurred by Pirelli Pneus Ltda for services for the transformation of raw materials as a result of activities pertinent to the toll manufacturing contract.

The item **financial income** refers to interest between Pirelli Tyre S.p.A. and the Prometeon Group.

Benefits for key managers of the Company

Statement of Financial Position and Income Statement transactions regarding Directors and Key Managers can be summarised as follows:

- the Statement of Financial Position items **provisions for liabilities and charges** and **provisions for employee benefit obligations – non-current,** include long-term benefits to the amount of euro 5.9 million and euro 2.4 million, respectively, relative to the monetary three-year 2020-2022 Long Term Incentive Plan, as well as employee leaving indemnities;

- the Statement of Financial Position item **provisions for employee benefit obligations – current,** includes short-term benefits for the year (euro 3 million), relative to the fourth installment of the retention plan;

- the Income Statement items **personnel expenses** and **other costs,** include the remuneration for the financial year equal to euro 15 million (euro 14.5 million for 2019) and euro 7.5 million (euro 7.2 million for 2019) respectively. It should be noted that the amounts mentioned include euro 1.2 million relative to employees' leaving indemnity (TFR) and retirement benefits (euro 1.5 million for 2019), as well as short-term benefits to the amount of euro 6.1 million (euro 7 million for 2019), and long-term benefits to the amount of euro 4.4 million.

NON-FINANCIAL DISCLOSURES ON CLIMATE CHANGE

With regard to non-financial disclosures, and in particular the risks relating to climate change as well as the objectives of sustainable development and the main international commitments for sustainability, reference should be made to the relevant sections of the Report on Responsible Management on the Value Chain within this Annual Report.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

During **January and February 2021**, Pirelli repaid some of its maturing debt in advance, which had been scheduled for 2021 and 2022 to the total amount of euro 838 million. In particular, a tranche of the *"Schuldschein"* loan, to the amount of euro 82 million with original maturity on July 31, 2021 was repaid, plus a portion of the unsecured *("Facilities")* loan to the amount of euro 756 million with original maturity in 2022, was repaid. These repayments, for which part of the liquidity raised in 2020 was used, made it possible to reduce financial expenses, thereby optimising the financial structure of the debt.

On **February 25, 2021** Pirelli announced the terms of the termination of the employment relationship, effective February 28, 2021, with the General Manager, co-CEO Angelos Papadimitriou, already announced to the market on **January 20, 2021**.

In accordance with the current Remuneration Policy of the Pirelli Group, the Board of Directors granted to Mr. Papadimitriou, in addition to the amounts due by way of compensation and other legal benefits accrued up to the date of his termination: (i) 10 months' gross annual remuneration as a redundancy incentive, equal to the value of what would have been the compensation in lieu of notice, based on conventional seniority recognised at the time of recruitment as an executive, to be paid by April 20, 2021; (ii) euro 100,000 gross by way of a general novative settlement, to be paid once the termination has been defined in accordance with the existing labour law procedures, by April 20, 2021, as well as the maintenance until December 31, 2021 of certain non-monetary benefits granted at the time of recruitment as an executive. As provided for at the time of his recruitment, subordinate to the suspensory condition of the approval of the 2021 Remuneration Policy by the Shareholders' Meeting, Mr. Papadimitriou will be bound, for the two years following his termination of office as Director, to a non-compete agreement, valid for the main countries in which Pirelli operates, in exchange for a consideration, for each year, equal to 100% of his gross annual remuneration, to be paid in 8 deferred quarterly instalments starting from July 1, 2021. The non-compete agreement includes a *non-solicit* clause as well as penalties, in the event of any breach of the obligations pursuant to the non-compete agreement.

On **March 24, 2021**, in order to provide support for the execution of the Industrial Plan, the Executive Vice Chairman and CEO, Marco Tronchetti Provera, decided to propose the appointment of Giorgio Luca Bruno to the office of Deputy-CEO, which reports directly to him.

This proposal - shared with the Chairman of the Board of Directors, Ning Gaoning, and the Nominations and Successions Committee, whose Directors were informed - aims also at strengthening the management team in view of the future succession path in-line with the Procedure already adopted by the Company, and provides that the Deputy-CEO may also contribute to the development of internal management. The Executive Vice Chairman and CEO will therefore propose on March 31, to the Board of Directors, to invite the Shareholders' Meeting scheduled for June 15, 2021, to appoint Giorgio Luca Bruno as a Director, and will also propose that once appointed as a Director, he assumes the role of Deputy-CEO.

Following the proposal, Angelos Papadimitriou renounced his candidacy for Director. Therefore, the Shareholders' Meeting, which **met on the same date** with, amongst other things, his reappointment on the Agenda, decided to postpone the appointment of a new Director until June 15, which the Board of Directors will nominate in the person of Giorgio Luca Bruno. Angelos Papadimitriou, who had previously been co-opted, has therefore ceased to be a Director. The Shareholders' Meeting, also approved, during an extraordinary session, the convertibility of the *"euro 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025"*, issued on December 22, 2020, as well as approved a divisible share capital increase, with the exclusion of option rights, to service the conversion of the aforementioned bond, for a total counter-value, including any share premium, of euro 500 million. On the basis of the initial conversion ratio of the Bond Loan of euro 6.235 this increase will correspond to the issue of a maximum of 80,192,461 Pirelli & C. ordinary shares (notwithstanding that the maximum number of Pirelli & C. ordinary shares could increase on the basis of the effective conversion ratio applicable from time to time).

On **March 31, 2021**, the Board of Directors approved the 2021-2022|2025 Industrial Plan, which was presented to the financial community on the same date. For further information, reference should be made to the section "Outlook for the five-year period" in this document.

44. OTHER INFORMATION

Research and Development expenses

Research & Development expenses for 2020 amounted to euro 194.6 million and represented 4.5% of sales and mainly included expenses destined for High Value activities (euro 182.5 million, equal to 6.0% of High Value revenues). Research and development costs refer to expenses for product and process innovation, as well as to the development of new materials. For further details, reference should be made to the section *"Research and development activities*" within the Directors' Report on Operations in this document.

Remuneration for Directors and Statutory Auditors

The compensation paid to the Directors and Statutory Auditors was as follows:

(in thousands of euro)	**2020**	**2019**
Directors	5,507	6,020
Statutory Auditors	315	315
Total	**5,822**	**6,335**

Employees- average headcounts

The average headcounts for employees, sub-divided by category, for the companies included in the scope of consolidation were as follows:

	2020	**2019**
Executives and white collar staff	6,082	6,755
Blue collar staff	23,708	23,920
Temporary workers	898	993
Total	**30,688**	**31,668**

Remuneration for Independent Auditors

Pursuant to the applicable laws, the total fees for the 2020 financial year for auditing services and for services other than auditing, rendered by the company PricewaterhouseCoopers S.p.A. and by other entities belonging to its network were as follows:

(in thousands of euro)	**Company that provided the service**	**Company that received the service**	**Partial fees**	**Total fees**	
Independent auditing services	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	79		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	1,147		
	Network PricewaterhouseCoopers	Subsidiaries	1,222	**2,448**	*78%*
Independent certification services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	150		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	334		
	Network PricewaterhouseCoopers	Subsidiaries	33	**517**	*17%*
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	150		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	-		
	Network PricewaterhouseCoopers	Subsidiaries	5	**155**	*5%*
				3,120	100%

1) the item "certification services" indicates the amounts paid for other services that require the issuance of an auditor's report, as w ell as the amounts paid for the so-called certification services, as they are concomitant w ith the statutory auditing services

Information required by Law No.124 / 2017 art. 1 paragraphs 125-129

Pirelli Tyre S.p.A. also obtained a non-refundable grant from the Lombardy Region for euro 1,695 thousand and euro 2,462 thousand for the implementation of two research and development projects on Safety and Smart Manufacturing issues, for which euro 1,695 thousand and euro 972 thousand were received during the year, respectively. With reference to the agreement signed with the MiSE (Ministry of Economic Development) during the previous year for the subsidisation of three R&D projects, for up to a maximum of euro 6.3 million in total for the current year, the Company has completed the approval process with the submission of the final applications for subsidies and the subsequent preliminary assessments by the competent body.

For the purposes of providing complete information, it should be noted that during the 2018 financial year, Pirelli Tyre S.p.A. received from M.I.U.R. - Ministero dell'Istruzione, dell'Università e della Ricerca (Ministry of Education, University and Research) - a subsidised loan of euro 5,305 thousand with a duration of 5 years and with an interest rate of 0.50% per annum, granted as an incentive for an R&D project for the development of innovative materials for the tyre manufacturing process.

Unusual and/or exceptional transactions

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it is hereby specified that during the course of the 2020 financial year that no exceptional and/or unusual transactions as defined in the aforesaid Notice were carried out by the Company.

Exchange rates

The main exchange rates used for consolidation were as follows:

(local currency vs euro)	**Period-end exchanges rates**		**Change in %**	**Average exchange rates**		**Change in %**
	12/31/2020	**12/31/2019**		**2020**	**2019**	
Swedish Krona	**10.0375**	10.4489	(3.94%)	**10.4862**	10.5907	(0.99%)
Australian Dollar	**1.5896**	1.5995	(0.62%)	**1.6549**	1.6109	2.73%
Canadian Dollar	**1.5633**	1.4598	7.09%	**1.5300**	1.4855	3.00%
Singaporean Dollar	**1.6218**	1.5111	7.33%	**1.5742**	1.5273	3.07%
U.S. Dollar	**1.2271**	1.1234	9.23%	**1.1422**	1.1195	2.03%
Taiwan Dollar	**34.4742**	33.6919	2.32%	**33.6519**	34.5990	(2.74%)
Swiss Franc	**1.0802**	1.0854	(0.48%)	**1.0705**	1.1125	(3.77%)
Egyptian Pound	**19.3879**	18.0936	7.15%	**18.1303**	18.8758	(3.95%)
Turkish Lira (new)	**9.0079**	6.6506	35.44%	**8.0186**	6.3512	26.25%
New Romanian Leu	**4.8694**	4.7793	1.89%	**4.8376**	4.7451	1.95%
Argentinian Peso	**103.2605**	67.2804	53.48%	**103.2605**	67.2804	53.48%
Mexican Peso	**24.4791**	21.1707	15.63%	**24.5637**	21.5622	13.92%
South African Rand	**18.0219**	15.7773	14.23%	**18.7655**	16.1757	16.01%
Brazilian Real	**6.3779**	4.5305	40.78%	**5.8989**	4.4169	33.55%
Chinese Yuan	**8.0067**	7.8371	2.16%	**7.8802**	7.7226	2.04%
Russian Rouble	**90.6824**	69.3406	30.78%	**82.4781**	72.3888	13.94%
British Pound	**0.8990**	0.8508	5.67%	**0.8897**	0.8778	1.36%
Japanese Yen	**126.4900**	121.9400	3.73%	**121.8458**	122.0058	(0.13%)

NET FINANCIAL POSITION

(Alternative performance indicators not provided for by the accounting standards)

(in thousands of euro)	**Note**	**12/31/2020**	**of which related parties (note 43)**	**31/12/2019**	**of which related parties (note 43)**
Current borrowings from banks and other financial institutions	**23**	883,567	*2,192*	1,419,404	*2,267*
Current derivative financial instruments (liabilities)	**27**	53,926		31,703	
Non-current borrowings from banks and other financial institutions	**23**	4,970,986	*14,693*	3,949,836	*17,386*
Non-current derivative financial instruments (liabilities)	**27**	87,601		10,327	
Total gross debt		**5,996,080**		**5,411,270**	
Cash and cash equivalents	**19**	(2,275,476)		(1,609,821)	
Other financial assets at fair value through income statement	**12**	(58,944)		(38,119)	
Current financial receivables and other assets**	**15**	(102,574)	*(88,769)*	(35,503)	*(26,486)*
Current derivative financial instruments (assets)	**27**	(34,766)		(32,090)	
Net financial debt *		**3,524,320**		**3,695,737**	
Non-current derivative financial instruments (assets)	**27**	-		(52,515)	
Non-current financial receivables and other assets**	**15**	(265,945)	*(5,826)*	(135,996)	*(5,617)*
Total net financial (liquidity) / debt position		**3,258,375**		**3,507,226**	

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

** The item “financial receivables and other assets” is reported net of the relative provision for impairment which amounted to euro 8,505 million at December 31, 2020 (euro 8,651 million at December 31, 2019).

SCOPE OF CONSOLIDATION

Companies consolidated line-by-line

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Europe						
Austria						
Pirelli GmbH	Tyre	Wien	Euro	726,728	100.00%	Pirelli Tyre (Suisse) SA
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	100.00%	Pirelli Tyre (Suisse) SA
France						
Pneus Pirelli S.A.S.	Tyre	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre S.p.A.
Germany						
Deutsche Pirelli Reifen Holding GmbH	Tyre	Breuberg / Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre S.p.A.
Driver Handelssysteme GmbH	Tyre	Breuberg / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland GmbH	Tyre	Breuberg / Odenwald	Euro	23,959,100	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Personal Service GmbH	Tyre	Breuberg / Odenwald	Euro	25,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
PK Grundstuecksverwaltungs GmbH	Tyre	Hoechst / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Driver Reifen und KFZ-Technik GmbH (ex Pneumobil Reifen und KFZ-Technik GmbH)	Tyre	Breuberg / Odenwald	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding GmbH
Greece						
Elastika Pirelli C.S.A.	Tyre	Elliniko-Argyroupoli	Euro	11,630,000	99.90%	Pirelli Tyre S.p.A.
					0.10%	Pirelli Tyre (Suisse) SA
Pirelli Hellas S.A. (in liquidation)	Tyre	Athens	US $	22,050,000	79.86%	Pirelli Tyre S.p.A.
The Experts in Wheels - Driver Hellas C. S.A.	Tyre	Elliniko-Argyroupoli	Euro	100,000	73.20%	Elastika Pirelli C.S.A.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Italy						
Driver Italia S.p.A.	Tyre	Milan	Euro	350,000	71.21%	Pirelli Tyre S.p.A.
Driver Servizi Retail S.p.A.	Tyre	Milan	Euro	120,000	100.00%	Pirelli Tyre S.p.A.
HB Servizi S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
Maristel s.r.l.	Services	Milan	Euro	50,000	100.00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	40,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli International Treasury S.p.A.	Finance	Milano	Euro	125,000,000	70.00%	Pirelli Tyre S.p.A.
					30.00%	Pirelli & C. S.p.A.
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Services	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Information Systems	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	558,154,000	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	90.35%	Pirelli & C. S.p.A.
					2.95%	Pirelli Tyre S.p.A.
					0.95%	Poliambulatorio Bicocca S.r.l.
					0.98%	Pirelli International Treasury S.p.A.
					0.95%	Driver Italia S.p.A.
					0.98%	Pirelli Industrie Pneumatici S.r.l.
					0.95%	Pirelli Servizi Amministrazione e Tesoreria S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	HB Servizi S.r.l.
The Netherlands						
E-VOLUTION Tyre B.V.	Tyre	Rotterdam	Euro	170,140,000	100.00%	Pirelli Tyre S.p.A.
Pirelli China Tyre N.V.	Tyre	Rotterdam	Euro	38,045,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Rotterdam	Euro	18,152	100.00%	Pirelli Tyre (Suisse) SA
Poland						
Driver Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	100,000	64.50%	Pirelli Polska Sp. z o.o.
Pirelli Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre S.p.A.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
United Kingdom						
CTC 2008 Ltd	Tyre	Burton on Trent	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Cif Trustees Ltd	Financial	Burton on Trent	British Pound	4	25.00%	Pirelli General Executive Pension Trustees LTD
					25.00%	Pirelli General & Overseas Pension Trustees LTD
					25.00%	Pirelli Tyres Executive Pension Trustees LTD
					25.00%	Pirelli Tyres Pension Trustees LTD
Pirelli International Limited (ex Pirelli International plc)	Financial	Burton on Trent	Euro	5,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Motorsport Services Ltd	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli General Executive Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli General & Overseas Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli Tyres Executive Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli Tyres Ltd	Tyre	Burton on Trent	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Tyres Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli UK Ltd	Financial	Burton on Trent	British Pound	163,991,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd	Tyre	Burton on Trent	British Pound	85,000,000	100.00%	Pirelli Tyre S.p.A.
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6,639	100.00%	Pirelli Tyre S.p.A.
Romania						
Pirelli & C. Eco Technology RO S.r.l.	Sustainable mobility	Slatina	Rom. Leu	20,002,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Romania S.r.l.	Tyre	Slatina	Rom. Leu	2,189,797,300	100.00%	Pirelli Tyre S.p.A.
Russia						
Closed Joint Stock Company "Voronezh Tyre Plant"	Tyre	Voronezh	Russian Rouble	1,520,000,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Services	Tyre	Moscow	Russian Rouble	54,685,259	95.00%	Pirelli Tyre (Suisse) SA
					5.00%	Pirelli Tyre S.p.A.
Limited Liability Company "Industrial Complex "Kirov Tyre"	Tyre	Kirov	Russian Rouble	348,423,221	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Russia	Tyre	Moscow	Russian Rouble	6,153,846	65.00%	E-VOLUTION Tyre B.V.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Spain						
Euro Driver Car S.L.	Tyre	Valencia	Euro	960,000	58.44%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Neumaticos Arco Iris, S.A.	Tyre	Barcellona	Euro	302,303	66.20%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli Neumaticos S.A. - Sociedad Unipersonal	Tyre	Valencia	Euro	25,075,907	100.00%	Pirelli Tyre S.p.A.
Tyre & Fleet S.L. - Sociedad Unipersonal	Tyre	Valencia	Euro	20,000	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Sweden						
Dackia Aktiebolag	Tyre	Stockholm	Swed. Krona	31,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre Nordic Aktiebolag	Tyre	Stockholm	Swed. Krona	950,000	100.00%	Pirelli Tyre S.p.A.
Switzerland						
Driver (Suisse) SA	Tyre	Bioggio	Swiss Franc	100,000	100.00%	Pirelli Tyre (Suisse) SA
Pirelli Group Reinsurance Company SA	Reinsurance	Basel	Swiss Franc	3,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) SA	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre S.p.A.
Turkey						
Pirelli Lastikleri Dis Ticaret A.S.	Tyre	Istanbul	Turkey Lira	50,000	100.00%	Pirelli Otomobil Lastikleri A.S.
Pirelli Otomobil Lastikleri A.S.	Tyre	Istanbul	Turkey Lira	85,000,000	100.00%	Pirelli Tyre S.p.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre S.p.A.
North America						
Canada						
Pirelli Tire Inc.	Tyre	St-Laurent (Quebec)	Can. $	6,000,000	100.00%	Pirelli Tyre (Suisse) SA
U.S.A.						
Pirelli North America Inc.	Tyre	New York (New York)	US $	10	100.00%	Pirelli Tyre S.p.A.
Pirelli Tire LLC	Tyre	Rome (Georgia)	US $	1	100.00%	Pirelli North America Inc.
Prestige Stores LLC	Tyre	Los Angeles	US $	10	100.00%	Pirelli Tire LLC

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Central/South America						
Argentina						
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	2,948,055,176	99.83%	Pirelli Tyre S.p.A.
					0.17%	Pirelli Pneus Ltda
Brazil						
Comercial e Importadora de Pneus Ltda.	Tyre	Sao Paulo	Bra. Real	381,473,982	100.00%	Pirelli Comercial de Pneus Brasil Ltda
Pirelli Comercial de Pneus Brasil Ltda.	Tyre	Sao Paulo	Bra. Real	1,149,296,303	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
Pirelli Latam Participaçoes Ltda.	Tyre	Sao Paulo	Bra. Real	343,514,252	100.00%	Pirelli Tyre S.p.A.
Pirelli Ltda.	Financial	Santo Andrè	Bra. Real	14,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda.	Tyre	Campinas (Sao Paulo)	Bra. Real	1,132,178,494	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
Comércio e Importação Multimarcas de Pneus Ltda.	Tyre	Sao Paulo	Bra. Real	3,691,500	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
C.P.Complexo Automotivo de Testes, Eventos e Entretenimento Ltda.	Tyre	Elias Fausto (Sao Paulo)	Bra. Real	89,812,000	60.00%	Pirelli Pneus Ltda
					40.00%	Pirelli Comercial de Pneus Brasil Ltda.
TLM - Total Logistic Management Serviços de Logistica Ltda.	Tyre	Santo Andrè	Bra. Real	3,074,417	99.99%	Pirelli Pneus Ltda
					0.01%	Pirelli Ltda
Chile						
Pirelli Neumaticos Chile Ltda	Tyre	Santiago	US $	3,520,000	85.25%	Pirelli Comercial de Pneus Brasil Ltda
					14.73%	Pirelli Latam Participaçoes Ltda
					0.02%	Pirelli Ltda
Colombia						
Pirelli Tyre Colombia S.A.S.	Tyre	Santa Fe De Bogota	Col. Peso/000	1,863,222,000	85.00%	Pirelli Comercial de Pneus Brasil Ltda
					15.00%	Pirelli Latam Participaçoes Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Silao	Mex. Peso	335,691,500	100.00%	Pirelli Tyre S.p.A.
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	11,260,032,348	99.83%	Pirelli Tyre S.p.A.
					0.17%	Pirelli Latam Participaçoes Ltda
Pirelli Servicios S.A. de C.V.	Tyre	Silao	Mex. Peso	50,000	99.00%	Pirelli Tyre S.p.A.
					1.00%	Pirelli North America Inc.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Africa						
Egypt						
Pirelli Egypt Tyre Trading S.A.E.	Tyre	Giza	Egy. Pound	84,250,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Egypt Consumer Tyre Distribution S.A.E.	Tyre	Giza	Egy. Pound	89,000,000	99.89%	Pirelli Egypt Tyre Trading S.A.E.
					0.06%	Pirelli Tyre S.p.A.
					0.06%	Pirelli Tyre (Suisse) SA
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Gauteng 2090	S.A. Rand	1	100.00%	Pirelli Tyre (Suisse) SA
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Pyrmont	Aus. $	150,000	100.00%	Pirelli Tyre (Suisse) SA
Asia						
China						
Pirelli Taiwan Co. Ltd	Tyre	New Taipei City	N.T. $	10,000,000	100.00%	Pirelli Tyre (Suisse) SA
Pirelli Trading (Beijing) Co., Ltd.	Tyre	Beijing	Ch. Yuan	4,200,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre (Jiaozuo) Co., Ltd.	Tyre	Jiaozuo	Ch. Yuan	350,000,000	80.00%	Pirelli Tyre S.p.A.
Pirelli Tyre Co., Ltd	Tyre	Yanzhou	Ch. Yuan	2,071,150,000	90.00%	Pirelli China Tyre N.V.
Pirelli Tyre Trading (Shanghai) Co., Ltd	Tyre	Shanghai	US $	700,000	100.00%	Pirelli China Tyre N.V.
Korea						
Pirelli Korea Ltd	Tyre	Seoul	Korean Won	100,000,000	100.00%	Pirelli Asia Pte Ltd
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2,200,000,000	100.00%	Pirelli Tyre S.p.A.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. $	2	100.00%	Pirelli Tyre (Suisse) SA

Investments accounted for by the equity method

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Europe						
Germany						
Industriekraftwerk Breuberg GmbH	Cogeneration	Hoechst / Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland GmbH
Greece						
Eco Elastika S.A.	Tyre	Athens	Euro	60,000	20.00%	Elastika Pirelli C.S.A.
Italy						
Consorzio per la Ricerca di Materiali Avanzati (CORIMAV)	Financial	Milan	Euro	103,500	100.00%	Pirelli & C. S.p.A.
Eurostazioni S.p.A.	Financial	Rome	Euro	160,000,000	32.71%	Pirelli & C. S.p.A.
Focus Investments S.p.A.	Financial	Milan	Euro	183,333	8.33%	Pirelli & C. S.p.A. (25% of the voting share capital)
Slovakia						
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsaw	Pln	1,008,000.00	20.00%	Pirelli Polska Sp. z o.o.
Slovakia						
ELT Management Company Slovakia S.R.O.	Tyre	Bratislava	Euro	132,000.00	20.00%	Pirelli Slovakia S.R.O.
Romania						
S.C. Eco Anvelope S.A.	Tyre	Bucarest	Rom. Leu	160,000	20.00%	S.C. Pirelli Tyres Romania S.r.l.
Russia						
Joint Stock Company "Kirov Tyre Plant"	Tyre	Kirov	Russian Rouble	5,665,418	20.00%	Limited Liability Company Pirelli Tyre Russia
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200,000	20.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Asia						
China						
Xushen Tyre (Shanghai) Co, Ltd	Tyre	Shanghai	Ch. Yuan	1,050,000,000	49.00%	Pirelli Tyre S.p.A.
Jining Shenzhou Tyre Co, Ltd	Tyre	Jining City	Ch. Yuan	1,050,000,000	100.00%	Xushen Tyre (Shanghai) Co, Ltd
Indonesia						
PT Evoluzione Tyres	Tyre	Subang	Rupees	1,313,238,780,000	63.04%	Pirelli Tyre S.p.A.

FINANCIAL STATEMENTS

AT DECEMBER 31, 2020

STATEMENT OF FINANCIAL POSITION *(in euro)*

	Note	12/31/2020		12/31/2019	
			of which related parties (Note 39)		of which related parties (Note 39)
Property, plant and equipment	8	76,326,337		67,368,466	
Intangible assets	9	2,273,753,812		2,275,363,639	
Investments in subsidiaries	10	4,633,665,637		4,647,665,638	
Investments in associates	11	6,374,501		6,374,501	
Other financial assets	12	41,073,518		57,202,933	
Other receivables	13	2,000,575,034	*2,000,000,000*	619,605	
Derivative financial instruments	17	-		30,268,648	*30,268,648*
Non-current assets		**9,031,768,839**		**7,084,863,430**	
Trade receivables	14	80,567,655	*76,654,853*	23,774,954	*21,725,022*
Other receivables	13	1,166,741,332	*1,154,822,631*	2,347,951,637	*2,327,043,431*
Cash and cash equivalents	15	1,741,849		1,754,093	
Tax receivables	16	32,675,745	*31,368,963*	31,743,542	*29,829,632*
Derivative financial instruments	17	2,894,124	*2,894,124*	10,154,148	*10,154,148*
Current assets		**1,284,620,705**		**2,415,378,374**	
Total assets		**10,316,389,544**		**9,500,241,804**	
Shareholders' equity:					
- Share capital		1,904,374,936		1,904,374,936	
- Other reserves		2,162,640,657		2,135,985,619	
- Retained earnings reserve		540,084,129		266,842,318	
- Net income of the year		43,956,054		273,241,811	
Total shareholders' equity	18	**4,651,055,776**		**4,580,444,684**	
Borrowings from banks and other financial institutions	19	4,623,295,428		3,577,172,974	
Other payables	23	538,238	*211,511*	211,511	*211,511*
Provisions for liabilities and charges	20	11,105,042	*5,925,871*	40,330,854	*3,065,355*
Provision for deferred tax liabilities	24	524,338,063		538,902,124	
Employee benefit obligations	21	8,463,592	*1,349,130*	4,276,571	-
Derivative financial instruments	17	109,696,906	*109,696,906*	9,588,636	*9,588,636*
Non-current liabilities		**5,277,437,269**		**4,170,482,670**	
Borrowings from banks and other financial institutions	19	307,349,886	*2,084,327*	678,288,912	*252,124*
Trade payables	22	27,570,277	*3,080,055*	19,262,363	*4,770,882*
Other payables	23	25,312,098	*6,575,851*	32,107,042	*14,565,091*
Employee benefit obligations	21	2,447,901	*1,697,946*	2,034,344	*1,099,996*
Tax payables	25	11,985,460	*11,756,578*	17,616,705	*17,387,827*
Derivative financial instruments	17	13,230,877	*13,230,877*	5,084	*5,084*
Current liabilities		**387,896,499**		**749,314,450**	
Total Liabilities and Equity		**10,316,389,544**		**9,500,241,804**	

INCOME STATEMENT *(in euro)*

	Note	2020		2019	
			of which related parties (Note 39)		of which related parties (Note 39)
Revenues from sales and services	27	53,485,963	*53,336,756*	51,992,302	*50,822,605*
Other income	28	124,405,233	*111,602,641*	110,179,851	*106,726,066*
Raw materials and consumables used	29	(228,201)		(225,458)	
Personnel expenses	30	(49,952,080)	*(8,909,020)*	(48,228,505)	*(5,571,006)*
Amortisation, depreciation and impairment	31	(9,916,348)		(8,253,996)	
Other costs	32	(108,667,961)	*(20,456,756)*	(89,518,450)	*(22,315,223)*
Net impairment loss on financial assets	33	(23,024)		(96,923)	
Operating income (loss)		**9,103,582**		**15,848,821**	
Net income (loss) from equity investments	34	39,650,001		268,905,541	
- gains on equity investments		*1*		*2,065*	*2,065*
- losses on equity investments		(14,000,000)	*(14,000,000)*	-	
- dividends		*53,650,000*	*53,650,000*	*268,903,476*	*263,841,647*
Financial income	35	68,152,687	*30,994,080*	40,274,216	*39,705,871*
Financial expenses	36	(104,537,534)	*(34,837,663)*	(64,024,611)	*51,506,753*
Net income (loss) before taxes		**12,368,736**		**261,003,967**	
Taxes	37	31,587,318		*12,237,844*	
Total net income of the year		**43,956,054**		**273,241,811**	

STATEMENT OF COMPREHENSIVE INCOME *(in euro)*

		Note	2020	2019
A	**Net income of the year**		**43,956,054**	**273,241,811**
	- Remeasurement of employee benefits	21	(18,491)	(95,957)
	- Tax effect		4,438	21,120
	- Fair value adjustment of other financial assets at fair value through other comprehensive income	12	(16,129,415)	(366,374)
B	**Items that may not be reclassified to income statement**		**(16,143,468)**	**(441,211)**
	Fair value adjustment of derivatives designated as cash flow hedge:			
	- Gains / (losses) for the period	17	(118,508,558)	69,841,426
	- (Gains) / losses reclassified to income statement	17	120,951,632	(78,130,940)
	- Tax effect		(586,338)	1,989,483
	Cost of hedging			
	- Gains / (losses) for the period	17	4,682,676	5,350,715
	- (Gains) / losses reclassified to income statement	17	(5,022,200)	(7,627,777)
	- Tax effect		81,486	546,495
C	**Items reclassified / that may be reclassified to income statement**		**1,598,698**	**(8,030,598)**
D	**Total other components of comprehensive income (B+C)**		**(14,544,770)**	**(8,471,809)**
A+D	**Total comprehensive income / (loss) for the financial year**		**29,411,284**	**264,770,002**

STATEMENT OF CHANGES IN EQUITY *(in euro)*

	Share Capital	Legal Reserve	Share Premium Reserve	Concentration Reserve	Other reserves	IAS Reserves *	Merger Reserve	Reserve from results carried forward	Net result of the year	Total
Total at 12/31/2018	**1,904,374,936**	**380,874,988**	**630,380,599**	**12,466,897**	**92,534,791**	**5,240,963**	**1,022,927,715**	**181,511,752**	**262,362,041**	**4,492,674,684**
Dividend distribution	-	-	-	-	-	-	-	-	(177,000,000)	(177,000,000)
Result carried forward as per resolution of May 15, 2019	-	-	-	-	-	-	-	85,362,041	(85,362,041)	-
Other components of comprehensive income	-	-	-	-	-	(8,471,809)	-	-	-	(8,471,809)
Result for the year	-	-	-	-	-	-	-	-	273,241,811	273,241,811
Total comprehensive income/(loss) for the year	-	-	-	-	-	*(8,471,809)*	-	-	*273,241,811*	*264,770,002*
Other changes	-	-	-	-	-	31,475	-	(31,475)	-	-
Total at 12/31/2019	**1,904,374,936**	**380,874,988**	**630,380,599**	**12,466,897**	**92,534,791**	**(3,199,371)**	**1,022,927,715**	**266,842,318**	**273,241,811**	**4,580,444,684**
Result carried forward as per resolution of June 18, 2020	-	-	-	-	-	-	-	273,241,811	(273,241,811)	-
Bond conversion reserve	-	-	-	-	41,199,808	-	-	-	-	41,199,808
Other components of comprehensive income	-	-	-	-	-	(14,544,770)	-	-	-	(14,544,770)
Result for the year	-	-	-	-	-	-	-	-	43,956,054	43,956,054
Total comprehensive income/(loss) for the year	-	-	-	-	-	*(14,544,770)*	-	-	*43,956,054*	*29,411,284*
Total at 12/31/2020	**1,904,374,936**	**380,874,988**	**630,380,599**	**12,466,897**	**133,734,599**	**(17,744,141)**	**1,022,927,715**	**540,084,129**	**43,956,054**	**4,651,055,776**

(in euro)	**BREAKDOWN OF IAS RESERVES ***					
	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Cash flow hedge reserve	Reserve Remeasurement for employee benefit	Tax effect	**Total IAS Reserves**
Balance at 12/31/2018	**10,972,470**	**6,835,817**	**(17,037,448)**	**2,019,748**	**2,450,376**	**5,240,963**
Other components of comprehensive income	(366,374)	(2,277,062)	(8,289,514)	(95,957)	2,557,098	(8,471,809)
Other changes	31,475	-	-	-	-	31,475
Balance at 12/31/2019	**10,637,571**	**4,558,755**	**(25,326,962)**	**1,923,791**	**5,007,474**	**(3,199,371)**
Other components of comprehensive income	(16,129,415)	(339,524)	2,443,074	(18,491)	(500,414)	(14,544,770)
Balance at 12/31/2020	**(5,491,844)**	**4,219,231**	**(22,883,888)**	**1,905,300**	**4,507,060**	**(17,744,141)**

CASH FLOW STATEMENT *(in euro)*

		Note	2020	of which related parties (Note 39)	2019	of which related parties (Note 39)
	Net income (loss) before taxes		12,368,736		261,003,967	
	Reversals of amortisation, depreciation, impairment losses	31	9,916,348		8,253,996	
	Reversal of accruals	32	11,834,568		2,623,933	
	Reversal of Financial income/(financial expenses)	36	36,384,847	*3,843,583*	23,750,395	*(91,212,624)*
	Reversal of Dividends	34	(53,650,000)	*(53,650,000)*	(268,903,476)	
	Reversal of (gain)/losses on investments	34	13,999,999	*13,999,999*	(2,065)	*(263,841,647)*
	Reversal of Gains/losses from sales of property,plant and equipment and intangible assets	28	(7,939,419)		1,909	
	Net taxes paid		-		-	
	Change in Trade receivables	14	(56,815,726)	*(54,929,831)*	11,505,912	*10,627,130*
	Change in Trade payables	22	8,307,914	*(1,690,827)*	(3,070,023)	*(1,784,032)*
	Change in Other receivables	13	13,731,447	*247,000*	5,316,000	*1,367,000*
	Change in Other payables	23	(5,745,869)	*(5,517,611)*	(17,055,252)	*(14,282,767)*
	Change in Tax receivables/Tax payables	16	9,237,046	*9,237,046*	45,327,218	*45,961,314*
	Use of Provisions for employee benefit obligations	21	(2,119,269)	*(1,099,996)*	(1,965,000)	(552,734)
	Use of Other provisions	20	(38,459,199)		(3,146,200)	
A	**Net cash flows provided by/(used in) operating activities**		**(48,948,576)**		**63,641,315**	
	Investments in property, plant and equipment	**8**	(2,671,000)		(165,500)	
	Disposal of property, plant and equipment	8	4,683,035		21,000	
	Investments in intangible assets	9	(858,351)		(1,554,334)	
	(Acquisition) of investments in subsidiaries	10	-		(75,883,269)	*(75,883,269)*
	Disposals /(Acquisition) of other non current financial assets at fair value through other comprehensive income	12	-		9,431,000	
	Dividends received	34	53,650,000	*53,650,000*	268,270,519	*263,841,647*
B	**Net cash provided/(used) by investment activities**		**54,803,684**		**200,119,416**	
	Change in Financial receivables	13	(827,567,175)	*(821,528,964)*	(204,828,000)	*(204,802,000)*
	Financial income	35	24,606,201	*24,524,783*	43,889,329	*43,840,121*
	Change in Borrowings from banks and other financial institutions due to draw down	19	2,427,978,000		1,120,930,986	
	Change in Borrowings from banks and other financial institutions due to repayments	19	(1,557,746,749)		(1,100,556,252)	
	Dividends paid	18	-		(177,000,000)	
	Financial expenses	36	(67,338,777)	*22,625,758*	(43,508,386)	*52,134,229*
	Cash outflow for lease obligations	19	(5,798,851)		(2,698,417)	
C	**Net cash provided/(used) by financing activities**		**(5,867,352)**		**(363,770,741)**	
D	**Total net cash generated/(used) in the year (A+B+C)**		**(12,244)**		**(100,010,010)**	
E	**Opening balance of Cash and cash equivalents**		**1,754,093**		**101,764,103**	
F	**Closing balance of Cash and cash equivalents (D+E)**		**1,741,849**		**1,754,093**	

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pirelli & C. S.p.A. (hereinafter also the “Company” or the “Parent Company”) is a corporation organized under the laws of the Republic of Italy.

Founded in 1872, it is a holding company that manages, coordinates and funds the activities of subsidiaries (hereinafter Pirelli Group).

The registered office of the Company is in Viale Piero e Alberto Pirelli 25 – Milan.

As from October 4, 2017, Pirelli & C. S.p.A. shares are now traded on the Mercato Telematico Azionario (MTA Telematic Stock Market), managed by Borsa Italiana S.p.A.

The audit of the financial statements is entrusted to PricewaterhouseCoopers S.p.A. pursuant to Legislative Decree January 27, 2010 no. 39 and in execution of the resolution of the shareholders’ meeting of August 1, 2017, which assigned the mandate to this company for each of the nine financial years ending from December 31, 2017 to December 31, 2025.

Pirelli & C. S.p.A. is directly controlled by Marco Polo International Italy S.r.l., a company indirectly controlled by China National Chemical Corporation (“ChemChina”), a “state-owned enterprise” (SOE) under Chinese law, with registered office in Beijing, referring to the Central Government of the People’s Republic of China.

There are no entities that exercise management and coordination activities over the Company.

On March 31, 2021, the Board of Directors authorised publication of these Annual Financial Statements (“Annual Financial Statements or Separate Financial Statements”).

Significant Events 2020

Following the Covid-19 emergency, in the **first three months of 2020**, Pirelli activated a series of measures to protect the health of employees and the community at both the Headquarters and the factories, the production of which, first in China and then in the rest of the world, has progressively slowed and subsequently stopped. During the **second quarter**, after the restart of operations already in China, the other Group plants also gradually restarted production, initially at a slower pace, taking into account the drop in demand.

On **March 2, 2020**, the Pirelli Board of Directors approved the 2019 financial statements of Pirelli & C. S.p.A. that closed with a profit of euro 273,242 thousand and resolved to propose to the shareholders’ meeting the distribution of a unit dividend of euro 0.183 for a total of euro 183 million. On **April 3, 2020**, as part of the containment actions of Covid-19, the Board of Directors subsequently cancelled the distribution of dividends for the 2019 financial year, modifying the previous resolution.

On **March 31, 2020**, Pirelli announced that it had signed a new euro 800 million credit line with an incentive mechanism linked to product and process environmental sustainability objectives and with a 5-year maturity used mainly to repay existing debt. The company has also extended the maturity of a euro 200 million credit line by more than one year (to September 2021 from June 2020). These transactions are part of the constant optimisation and strengthening actions of Pirelli's financial structure.

On **October 28, 2020,** the EU Court of Justice confirmed the previous decisions of the EU Court and the EU Commission regarding the cartel in the electricity cables market, which had imposed a pecuniary sanction on Prysmian Cavi e Sistemi S.r.l., for a part of which (euro 67,310,000) Pirelli had been called to jointly respond with Prysmian in the exclusive application of the EU principle of parental liability. In this regard, Pirelli had already filed a bank guarantee of euro 33,655,000 in favour of the EU Commission (corresponding to 50% of the fine imposed jointly on Prysmian and Pirelli) in addition to interest. The payment by Pirelli of the aforementioned portion of the fine to which it is entitled, the value of which had already been accrued in its provisions for risks and charges, took place on **December 31, 2020**. It should be noted that since 2014, a judgement brought by Pirelli before the Court of Milan has also been pending, aimed at obtaining the assessment and declaration of the obligation of Prysmian to hold Pirelli harmless from any claim relating to the cartel, including the sanction imposed by the EU Commission.

On **December 15, 2020,** Pirelli placed euro 500 million of non-interest bearing unsecured guaranteed equity-linked senior bonds maturing in 2025 convertible, subject to approval by the shareholders' meeting, into Pirelli shares. The bonds were issued at a price equal to 100.0% of the nominal value, with a conversion price of euro 6.235 per share (equal to a 45% premium on the reference price of the transaction of euro 4.3 per share). This financing makes it possible to optimise the debt profile, extending its maturities, and to preserve the cash generated by the business, thanks to the non-interest bearing nature of the bonds. The proceeds deriving from the issue of the bonds can be used both for the general activities of the Group and for the refinancing of part of the existing debt. The bond was admitted to trading on the Vienna MTF, a multilateral trading facility managed by the Vienna Stock Exchange.

2. BASIS FOR PREPARATION

These Financial Statements have been prepared on a going concern assumption since the Directors have verified the absence of financial, operational or other types of indicators that could indicate critical issues regarding the ability of the Company to meet its obligations in the foreseeable future and in particular in the next 12 months. Please refer to the Explanatory Notes to the Consolidated Financial Statements on the considerations regarding the actions implemented in response to the Covid-19 emergency, confirming the assumption of business continuity. The description of the ways in which the Company manages financial risks is contained in Chapter 4 Financial risk management policy and Chapter 6 Capital management policy of these Notes.

In application of Legislative Decree of February 28, 2005, no. 38, “Exercise of the options provided for by article 5 of regulation (EC) no. 1606/2002 on international accounting standards”, issuers are required to prepare not only the consolidated financial statements but also the financial statements of the Company in compliance with the international accounting standards (IFRS) issued by the International Accounting Standards Board (IASB) and published in the Official Journal of the European Community (GUCE).

IFRS include all “International Financial Reporting Standards”, “International Accounting Standards” (IAS), all interpretations of the “International Financial Reporting Interpretations Committee” (IFRIC), formerly the “Standing Interpretations Committee” (SIC).

The financial statements have been prepared on the basis of the historical cost criterion with the exception of the following items valued at fair value:

- derivative financial instruments;
- other financial assets at fair value recorded in the other components of the comprehensive income statement;
- other financial assets at fair value through the income statement.

Financial Statements

The separate Financial Statements at December 31, 2020 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, and are accompanied by the Directors’ Report on Operations.

The format adopted for the Statement of Financial Position classifies assets and liabilities as current and non-current.

The Company has opted to present the components of profit/loss for the year in a separate Income Statement, rather than include these components directly in the Comprehensive Income Statement. The Income Statement adopted classifies costs by nature.

The Statement of Comprehensive Income includes the result for the period and, for homogeneous categories, the revenues and costs which, in accordance with IFRS, are recorded directly in equity.

The Company opted for the presentation of the tax effects and reclassifications to the income statement of profits/losses recognised in equity in previous years directly in the Statement of Comprehensive Income and not in the Notes.

The Statement of Changes in Equity includes, in addition to the total gains/losses of the period, the amounts from transactions with equity holders and the changes in reserves during the year.

In the Statement of Cash Flows, the cash flows deriving from operating activities are presented using the indirect method, according to which the profit or loss for the period is adjusted by the effects of non-monetary items, by any deferment or accrual of past or future operating receipts or payments, and by any revenue or cost items connected with the cash flows arising from investing activities or financing activities.

It shall also be noted that the Group has applied the provisions of Consob Resolution no. 15519 of July 27, 2006 in regard to the formats of financial statements and Consob Notice no. 6064293 of July 28, 2006 in regard to corporate disclosure.

In order to provide greater clarity and comparability of the financial statement items, the amount of the corresponding items of the previous year were adjusted where necessary.

All amounts included in the Notes, unless otherwise specified, are in thousands of euro.

3. ACCOUNTING STANDARDS

The accounting standards used in the preparation of separate financial statements are the same as those used for the purposes of preparing the consolidated financial statements where applicable, except as indicated below.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognised at cost, net of any impairment losses.

In the presence of specific impairment indicators, the value of investments in subsidiaries and associates, determined based on the historical cost basis, is tested for impairment.

The indicators are as follows:

- the carrying amount of the investment in the separate financial statements exceeds the carrying amount of the investee's net assets (inclusive of any associates goodwill) expressed in the consolidated financial statements;
- the dividend distributed by the investee exceeds the total comprehensive income of the investee company in the year to which the dividend refers;
- the operating result achieved by the investee company is significantly lower than the amount envisaged in the management plan, if this indicator can be considered significant for the reference company;
- there are expectations of significantly decreasing operating results for future years;

- existence of changes in the technological, market, economic or regulatory environment in which the investee operates that may generate significant negative economic effects on the company's results.

The impairment test consists of comparing the carrying amount and the recoverable value of the investment.

If the recoverable amount of an investment is lower than the carrying amount, the latter is reduced to the recoverable amount. This reduction constitutes an impairment loss recognised in the Income Statement.

The recoverable amount of an investment is identified as the greater of fair value, less costs to sell, and value in use.

For the purposes of impairment testing, the fair value of an investment in a subsidiary, associate or joint venture with shares listed on an active market is always equivalent to its market value, irrespective of the percentage of ownership. In the case of investments in unlisted companies, the fair value is determined using estimates based on the best information available.

For the purposes of determining the value in use of a subsidiary and associate, the future net operating cash flows are estimated, discounted net of the net financial position of the company considered at the reference date of the estimate (Discounted Cash Flow criterion – Asset side). The value in use reflects the effects of factors that may be entity specific, factors that may not be applicable to any entity.

If the reason for impairment ceases to exist, the carrying amount of the investment is recognised in the Income Statement, up to the original cost.

Impairment of financial receivables from subsidiaries and associates

The impairment of financial receivables from subsidiaries and associates is calculated with reference to the expected losses in the following twelve months. This calculation is based on a matrix that includes the ratings of the companies provided by independent market operators. In the event of a significant increase in credit risk after the date of origin of the credit, the expected loss is calculated with reference to the entire life of the credit. The Company assumes that the credit risk relating to a financial instrument has not increased significantly after initial recognition, if it is determined that the financial instrument has a low credit risk at the reporting date.

The Company assesses whether there has been a significant increase in credit risk when the counterparty's credit rating, as assigned by independent market participants, undergoes a change that shows an increase in the probability of default. The Company considers a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the full contractual amount past due (for example, when receivables have been referred to the legal department).

Dividends

Dividend income is recognised in the Income Statement when the right to receive payment is established, which normally corresponds to the resolution approved by the Shareholders' Meeting for the distribution of dividends.

3.1 Accounting standards and interpretations endorsed and in force from January 1, 2020

In accordance with IAS 8 "Accounting standards, changes in accounting estimates and errors", the IFRS effective from January 1, 2020 are indicated below:

- Amendments to IFRS 3 "Business Combinations"

These amendments introduced a new business definition, according to which for an acquisition to qualify as a business combination, it must include input and processes that contribute substantially to obtaining an output. The definition of output is modified in a restrictive sense, and it is specified that cost savings and other economic benefits are to be excluded as output. This amendment will result in multiple acquisitions qualifying as asset acquisitions rather than business acquisitions. There are no impacts on the Financial Statements of the Company.

- Amendments to IAS 1 "Presentation of Financial Statements" and to IAS 8 "Accounting standards, changes in accounting estimates and errors" – Definition of relevant

In addition to clarifying the concept of materiality of transactions, these amendments focus on the definition of a coherent and unique concept of materiality among the various accounting standards and incorporate the guidelines included in IAS 1 on insignificant information.

There are no impacts on the Financial Statements and disclosures of the Company.

- Amendments to IFRS 9, IAS 39 and IFRS 7: Reference interest rate reform (IBOR reform)

These amendments concern the impacts on the financial statements deriving from the replacement of the current reference interest rates (benchmark) with alternative interest rates: in the presence of hedging relationships affected by the uncertainty of the reform of the reference rates, these amendments do not allow the valuations required by IFRS 9 in the presence of changes in rates.

The effects of these amendments on interest rate hedging transactions carried out by the Company are continuously monitored. There are no impacts until LIBOR is replaced by the new benchmark rate (expected in 2021).

- Amendments to IFRS 16 Leases – reductions in fees related to Covid-19

These amendments introduce an optional accounting treatment for lessees in the presence of reductions in permanent (rent holidays) or temporary fees related to Covid-19.

Lessees can choose to account for lease reductions occurring up to June 30, 2021 as variable lease payments recognised directly in the income statement for the period in which the reduction applies, or treat them as a modification of the lease contract with the consequent obligation to remeasure the lease payable based on the revised fee using a revised discount rate. These lease reductions were treated as variable lease payments, and therefore recognised directly in the income statement for the period. The positive impact on the 2020 income statement was euro 111 thousand.

3.2 International accounting standards and/or interpretations issued but not yet in force in 2020

Pursuant to IAS 8 "Accounting standards, changes in accounting estimates and errors", the following are the new Standards or Interpretations that have been issued but have not yet come into force or have not yet been endorsed by the European Union at December 31, 2020, and which are therefore not applicable, and the foreseeable impacts on the Separate Financial Statements.

None of these standards and interpretations have been adopted in advance by the Group.

- Amendments to IAS 1 - Presentation of Financial Statements - Classification of liabilities as current or non-current

  The amendments clarify the principles that must be applied for the classification of liabilities as current or non-current. These amendments, which will come into force on January 1, 2022, have not yet been endorsed by the European Union. No significant impacts are expected on the classification of financial liabilities following these amendments.

- Amendments to IAS 16 - Property, plant and machinery - Fees received before intended use

  These amendments prohibit deducting from the cost of property, plant and machinery amounts received from the sale of products, while the asset is being prepared for its intended use. The proceeds from the sale of the products, and the related production cost must be recorded in the income statement.

  These amendments, which will come into force on January 1, 2022, have not yet been approved by the European Union. No significant impacts are expected on the Company's Financial Statements following these amendments.

- Amendments to IAS 37 - Provisions, contingent liabilities and contingent assets - Onerous contracts - Costs of fulfilling a contract

  These amendments specify the costs to be taken into account when evaluating onerous contracts.

  These amendments, which will come into force on January 1, 2022, have not yet been approved by the European Union. No significant impacts are expected on the Company's Financial Statements following these amendments.

- *Annual Improvements* (cycle 2018 – 2020) issued in May 2020

  These are amendments limited to some standards (IFRS 1 First-time adoption of IFRS, IFRS 9 Financial Instruments, IAS 41 Agriculture and illustrative examples of IFRS 16 Leases) that clarify the formulation or correct omissions or conflicts between the requirements of IFRS. These amendments, which will come into force on January 1, 2022, have not yet been endorsed by the European Union. No significant impacts are expected on the Company's Financial Statements following these amendments.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Reference interest rate reform (IBOR reform – phase 2)

  These amendments concern the operating methods by means of which to manage the impacts deriving from the replacement of the current reference interest rates (benchmark) with alternative interest rates, in particular:

  - the introduction of a practical expedient for accounting for changes in the basis on which the contractual cash flows of financial assets and liabilities are calculated;
  - the introduction of some exemptions relating to the termination of hedging;
  - the temporary exemption from the obligation to separately identify a risk component (where such separate component subject to hedging is represented by an alternative interest rate);
  - the introduction of some additional disclosures regarding the impacts of the reform.

  These amendments, which will come into force on January 1, 2021, have already been endorsed by the European Union. The impacts on the Company's Financial Statements are being analysed.

4. FINANCIAL RISK MANAGEMENT POLICY

The measurement and management of the financial risks of Pirelli & C. S.p.A. are consistent with as defined by the Group policies.

The Pirelli Group is exposed to financial risks. These are principally associated with foreign exchange rates, fluctuations in interest rates, the price of financial assets held as investments, the ability of customers to meet their obligations to the Group (credit risk), and raising funds on the market (liquidity risk).

Financial risk management is an integral part of Group business management and is handled directly by the headquarters in accordance with guidelines issued by the Finance Department on the basis of general risk management strategies defined by the Managerial Risk Committee.

The main financial risk categories to which the Company is exposed are shown below:

Exchange rate risk

This risk is generated by the commercial and financial transactions that are executed in currencies other than the Euro. Exchange rate fluctuations between the time when the commercial or financial relationship is established and when the transaction is completed (collection or payment) may generate foreign exchange gains or losses.

The Group aims to minimise the impact of transaction exchange rate risk related to volatility. To achieve this objective, Group procedures make the Operating Units responsible for collecting complete information about the assets and liabilities that are subject to transaction exchange rate risk. This risk is hedged with forward contracts made with the Group Treasury.

The items subject to exchange rate risk are mainly represented by receivables and payables denominated in foreign currency.

The Group Treasury is responsible for hedging the net position for each currency and, in accordance with established guidelines and restrictions, it closes all risk positions by trading derivative contracts on the market, which typically take the form of forward contracts.

The Group has decided not to opt for hedge accounting pursuant to IFRS 9, insofar as the representation of the economic and financial effects of the hedging strategy on foreign exchange rate risk is still substantially guaranteed even without adopting such option.

Furthermore, it shall be noted that as part of the annual and three-year planning process, exchange rate forecasts are made using the best information available on the market. The fluctuation in exchange rates between the time when the forecast is made and the time when the commercial or financial transaction occurs represents the exchange rate risk on future transactions.

From time to time, the Group assesses the need to engage in hedging transactions on future transactions for which it typically uses both forward and optional purchase or sale transactions such as risk reversal (e.g. zero cost collar). Hedge accounting in accordance with IFRS 9 is used when the conditions are met.

With reference to some foreign currency loans, the Company enters into derivative contracts, cross currency interest rate swaps, to hedge for which hedge accounting is activated in compliance with the requirements of IFRS 9.

The effects on the shareholders' equity and on the income statement of the Company deriving from changes in exchange rates calculated on the hedging instruments in place at December 31, 2020 are described in Note 17 "Derivative financial instruments".

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial asset or liability will change due to fluctuations in market interest rates.

The Group assesses based on market circumstances whether to enter into derivative contracts, typically interest rate swaps, to hedge for which hedge accounting is activated when the conditions set out in IFRS 9 are fulfilled.

The following is an outline of the effects on net arising from an increase or decrease of 0.50% in the level of interest rates, with all other conditions being equal:

(in thousands of euro)	**+0.50%**		**-0.50%**	
	12/31/2020	**12/31/2019**	**12/31/2020**	**12/31/2019**
Impact on Net income (loss)	(4,982)	505	4,982	(505)

The effects on the Company shareholders' equity resulting from changes in the LIBOR and EURIBOR rates calculated on the interest rate hedging instruments outstanding at December 31, 2020 are described in Note 17 "Derivative financial instruments".

Price risk associated with financial assets

The Company is exposed to price risk, which is limited to the volatility of financial assets such as listed and unlisted stocks and bonds; these assets are classified as financial assets at fair value recognised as other components of the statement of comprehensive income.

Derivatives hedges are not set up to limit the volatility of these assets.

Financial assets at fair value recognised as other components of the statement of comprehensive income consist of listed securities amounted to euro 14,076 thousand (euro 24,892 thousand at December 31, 2019) and those represented by securities indirectly associated with listed shares (Fin. Priv. S.r.l.) amounted to euro 15,902 thousand (euro 20,565 thousand at December 31, 2019); these financial assets represent 73% of total financial assets subject to price risk; a +5% price change in the above listed securities, other things being equal, would result in a positive change of euro 704 thousand of the Company's shareholders' equity (positive for euro 1,245 thousand at December 31, 2019), while a -5% negative change of these listed securities, other things being equal, would result in a negative change of euro 704 thousand of the Company's shareholders' equity (negative for euro 1,245 thousand at December 31, 2019).

Credit risk

Credit risk represents the Company's exposure to contingent losses resulting from default by commercial and financial counterparties.

The Company's exposure to commercial and financial obligations is mainly towards Group companies.

To limit the risk for commercial obligations towards third parties, the Company has implemented procedures to evaluate its customers' potential and financial solidity, for the monitoring of expected cash flows and taking credit recovery action if necessary. The Company operates only with highly rated financial counterparties for the management of its temporary cash surpluses and constantly monitors its exposure to individual counterparties.

The Company does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system.

Cash is deposited according to risk diversification principles and in compliance with minimum rating levels. Specifically, as of December 31, 2020, cash and cash equivalents totaling 1,742 thousand euros were held in the company's current accounts with domestic credit institutions with credit ratings of Baa1 according to Moody's and BBB according to Standard & Poor's ratings

Liquidity risk

Liquidity risk represents the risk that the financial resources available are insufficient to meet the financial and commercial obligations pursuant to the contractual terms and conditions.

The principal instruments used by the Group to manage liquidity risk are comprised by its annual and three-year financial and cash-pooling plans. These allow complete and fair detection and measurement of incoming and outgoing cash flows. The differences between plans and actual data are constantly analysed.

The Group has implemented a centralised cash pooling system for the management of collection and payment flows in compliance with various local currency and tax laws. Banking relationships are negotiated and managed centrally, in order to ensure coverage of short and medium-term financial needs at the lowest possible cost. The procurement of medium and long-term resources on the capital market is also streamlined through centralised management.

Prudent management of the risk described above requires maintaining an adequate level of cash or cash equivalents and/or highly liquid short-term financial instruments, and the availability of funds through an adequate amount of committed credit facilities and/or recourse to the capital market, while diversifying the products and their maturities to seize the best available opportunities.

Furthermore, the Group adopts an extremely prudent approach with respect to the maturities of its financial debt, with refinancing well in advance in order to minimize the risks associated with liquidity crises or market shut-downs.

At December 31, 2020, the Company had, aside from cash equal to euro 1,742 thousand (euro 1,754 thousand at December 31, 2019), unused credit facilities equal to euro 700,000 thousand (euro 700,000 thousand at December 31, 2019) maturing Q2 2022.

The **maturities of financial liabilities at December 31, 2020** may be broken down as follows:

(in thousands of euro)	12/31/2020				
	up to 1 year	**from 1 to 2 years**	**from 2 to 5 years**	**over 5 years**	**Total**
Payables to banks and other lenders	347,480	1,683,574	3,068,653	22,821	5,122,528
of which lease liabilities:	*7,301*	*7,073*	*19,393*	*22,821*	*56,587*
Trade payables	27,570	-	-	-	27,570
Other payables	25,312	538	-	-	25,850
Derivative financial instruments	13,180	90,838	2,865	-	106,883
Total	**413,542**	**1,774,950**	**3,071,518**	**22,821**	**5,282,831**

The **maturities of financial liabilities at December 31, 2019** may be broken down as follows:

(in thousands of euro)	12/31/2019				
	up to 1 year	**from 1 to 2 years**	**from 2 to 5 years**	**over 5 years**	**Total**
Payables to banks and other lenders	729,738	152,065	3,557,415	42,221	4,481,439
of which lease liabilities:	*4,143*	*5,448*	*14,497*	*21,880*	*45,968*
Trade payables	19,262	-	-	-	19,262
Other payables	33,383	-	-	-	33,383
Derivative financial instruments	1,650	3,354	4,008	142	9,154
Total	**784,033**	**155,419**	**3,561,423**	**42,363**	**4,543,238**

5. INFORMATION ON FAIR VALUE

5.1 Fair value measurement

In relation to financial instruments measured at fair value, the following table shows the classification of these instruments on the basis of the hierarchy of levels pursuant to IFRS 13, reflecting the significance of the inputs used in determining the fair value. The levels are as follows:

- level 1 – unadjusted quotations recorded on an active market for assets or liabilities subject to valuation;

- level 2 – inputs different from the quoted prices referred to at the preceding level, which are observable on the market either directly (as in the case of prices) or indirectly (because they are derived from prices);

- level 3 – inputs that are not based on observable market data.

The following table shows the **assets measured at fair value at December 31, 2020**, divided into the three levels defined above:

(in thousands of euro)	Note	12/31/2020	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Other financial assets at fair value through income statement					
Non current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	2.894	-	2.894	-
Other financial assets at fair value through other comprehensive income					
Equities and shares	12	38.288	14.076	15.903	8.309
Investment funds	12	2.786	-	2.786	-
Derivative hedging instruments					
Non current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	-	-	-	-
TOTAL ASSETS		**43.968**	**14.076**	**21.583**	**8.309**
FINANCIAL LIABILITIES					
Financial liabilities at fair value through profit or loss					
Current derivative financial instruments	17	(13.226)	-	(13.226)	-
Derivative hedging instruments					
Non current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	(109.697)	-	(109.697)	
TOTAL LIABILITIES		**(122.923)**	**-**	**(122.923)**	**-**

At December 31, 2019, the breakdown was as follows:

(in thousands of euro)	Note	12/31/2019	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Other financial assets at fair value through income statement					
Non current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	11	-	11	-
Other financial assets at fair value through other comprehensive income					
Equities and shares	12	53.256	24.892	20.565	7.799
Investment funds	12	3.947	-	3.947	-
Derivative hedging instruments					
Non current derivative financial instruments	17	30.269	-	30.269	-
Current derivative financial instruments	17	10.143	-	10.143	-
TOTAL ASSETS		**97.626**	**24.892**	**64.935**	**7.799**
FINANCIAL LIABILITIES					
Financial liabilities at fair value through profit or loss					
Current derivative financial instruments	17	(5)	-	(5)	-
Derivative hedging instruments					
Non current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	(9.589)	-	(9.589)	-
TOTAL LIABILITIES		**(9.594)**	**-**	**(9.594)**	**-**

The following table shows the **changes of financial assets that occurred in level 3**:

(in thousands of euro)	12/31/2020	12/31/2019
Opening balance	**7,799**	**7,372**
Fair value adjustments through other comprehensive income	510	427
Closing balance	**8,309**	**7,799**

These financial assets mainly consist of the equity investment in Istituto Europeo di Oncologia (European Institute of Oncology) (euro 7,962 thousand).

In the year ended December 31, 2020, there were no transfers from level 1 to level 2 and vice versa, nor from level 3 to other levels and vice versa.

The fair value of financial instruments traded on active markets is based on the price quotations published at the reporting date of the Financial Statements. These instruments, included in level 1, primarily comprise equity investments classified as financial assets at fair value through other comprehensive income.

The fair value of financial instruments not traded on active markets (e.g. derivatives) is determined by the use of evaluation techniques widely used in the financial sector, which maximise the utilisation of observable and available market data:

- market prices for similar instruments;
- the fair value of cross currency interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves;
- the fair value of foreign exchange derivatives (forward contracts) is determined by using the forward exchange rate at the reporting date.

5.2 Categories of financial assets and liabilities

The following are the carrying amounts for each class of financial asset and liability identified by IFRS 9:

(in thousands of euro)	Note	12/31/2020	12/31/2019
FINANCIAL ASSETS			
Financial assets at fair value through Income Statement			
Non-current derivative financial instruments	17	-	11
Current derivative financial instruments	17	2,894	-
		2,894	*11*
Financial assets at amortized cost			
Other non-current receivables	13	2,000,575	620
Current trade receivabels	14	80,568	23,775
Other current receivables	13	1,166,741	2,347,952
Cash and cash equivalents	15	1,742	1,754
		3,249,626	*2,374,100*
Financial assets at fair value through Other Comprehensive Income			
Financial assets at fair value through Other Comprehensive Income	12	41,074	57,203
Derivative hedging instruments			
Current derivative financial instruments	17	-	10,143
Non-current derivative financial instruments	17	-	30,269
		-	*40,412*
Total financial assets		**3,293,594**	**2,471,727**
FINANCIAL LIABILITIES			
Financial liabilities at fair value through Income Statement			
Current derivative financial instruments	17	13,231	5
Financial liabilities at amortized cost			
Non-current borrowings from banks and other financial institutions (excl. Lease payables)	19	4,579,366	3,541,694
Current borrowings from banks and other financial institutions (excl. Lease payables)	19	301,571	675,542
Current trade payables	22	27,570	19,262
Other non-current payables	23	538	212
Other current payables	23	25,312	32,107
		4,934,357	*4,268,817*
Lease payables			
Non-current lease payables	19	43,929	35,479
Current lease payables	19	5,779	2,747
		49,708	*38,226*
Derivative hedging instruments			
Current derivative financial instruments	17	-	-
Non current derivative financial instruments	17	109,697	9,589
		109,697	*9,589*
Total financial liabilities		**5,106,994**	**4,316,637**

6. CAPITAL MANAGEMENT POLICY

The Company's objective is to maximise the return on net invested capital while maintaining the ability to operate over time, ensuring adequate returns for its shareholders and benefits for the other stakeholders, with progressive deleverage of the financial structure in the short/medium term, as also reported in the section on "Outlook for the next five years" in the Management Report on Operations.

7. ESTIMATES AND ASSUMPTIONS

The preparation of the Separate Financial Statements entails Management making estimates and assumptions which, under certain circumstances, are based on difficult and subjective assessments and estimates that are based on historical experience, and assumptions that are periodically considered reasonable and realistic in light of the circumstances. Therefore, the actual results achieved may differ from said estimates. Estimates and assumptions are reviewed periodically and the effects of any changes made to them are reflected in the Income Statement in the period in which the estimate is revised. If such estimates and assumptions, based on the best evaluation currently available, should differ from actual circumstances, they will be modified accordingly in the period of the change of the circumstances. The estimates and assumptions mainly refer to the valuation of the recoverability of intangible assets with indefinite useful life and of the investments in subsidiaries, to the determination of payables for leases and rights of use, to the determination of taxes (current and deferred), and to the recognition/valuation of provisions for risks and charges. These estimates and assumptions take into account the effects deriving from the Covid-19 pandemic, which have had particular impacts on the assessment of the recoverability of intangible assets with indefinite useful life, on the determination of taxes (current and deferred) and on the assessment of the recoverability of investments in subsidiaries. These impacts are described in the explanatory notes to which reference is made for further details.

Pirelli Brand (intangible assets with indefinite useful life)

The Pirelli Brand is an intangible asset with indefinite useful life not subject to amortisation, but, pursuant to IAS 36, to impairment test annually or more frequently, if specific events or circumstances occur which may lead to the presumption of impairment.

The impairment test at December 31, 2020 was performed using the assistance of an independent third-party professional.

The recoverable value configuration for the purposes of the impairment test at December 31, 2020 is the Fair Value, calculated on the basis of the income approach (Level 3 of the hierarchy of IFRS 13 – Fair Value measurement). The key assumptions used by management are the estimate of future increases in sales, their growth rate beyond the explicit forecast period, the royalty rate, and the discount rate, which is based on the weighted average cost of capital plus a bonus determined based on the riskiness of the specific asset.

Rights of use and lease payables

With regard to the estimates and assumptions used to determine lease payables and rights of use, the application of IFRS 16 introduced some elements of professional judgement and the use of assumptions and estimates in relation to the lease term, to the definition of the incremental borrowing rate. The standards are summarised as follows:

- the contract renewal clauses are considered for the purposes of determining the duration of the contract when the Company has the option of exercising them without the need to obtain the consent of the counterparty and when their exercise is deemed reasonably certain. In the case of clauses which provide for multiple renewals that can be exercised unilaterally by the Company, only the first extension period has been considered;

- the automatic renewal clauses of contracts in which both parties have the right to terminate the contract have not been considered for the purposes of determining the duration of the contract, as the ability to extend the duration of the same is not under the unilateral control of the Company and the penalties to which the lessor could be exposed to is not significant. However, in the event that the lessor is exposed to a significant penalty, the Company considers including a renewal option in determining the duration of the contract. This assessment is also carried out considering the degree of customisation of the asset subject to leasing: if the customisation is high, the lessor may incur a significant penalty if opposing the renewal;

- early termination clauses in contracts: these clauses are not considered in determining the duration of the contract if they can only be exercised by the lessor or by both parties. If they are unilaterally exercised by the Company, specific assessments are contractually conducted (for example, the Company is already negotiating a new contract or has already given notice to the lessor).

Investments in subsidiaries

Investments are assessed to establish whether there was a decrease in value, to be recognised with impairment, if there are indications that it will be difficult to recover their net accounting value. To establish the presence of said indications, Directors must make subjective assessments on the basis of information available within the Company and the market, as well as historical experience. Moreover, if it is determined that a potential impairment loss may be generated, the Company calculates this loss using appropriate measurement techniques. The proper identification of elements indicating the existence of a potential impairment loss, and the estimates for calculating the amount of such losses, depend on factors that may vary over time, affecting the assessments and estimates made by Directors. In particular, the key assumptions used by management are the estimate of future increases in sales, operating cash flows, the growth rate of operating cash flows beyond the explicit forecast period to estimate the terminal value and the weighted average cost of capital (discount rate).

Provisions for risks and charges

Provisions are set aside against legal and fiscal risks related to indirect taxes, representing the risk of losing lawsuits. The value of the provisions recorded in the financial statements relating to these risks represents the best estimate at the date made by the directors. Such an estimate entails making assumptions that depend on factors that may change over time and which could therefore have a material impact with respect to the current estimates made by Directors for the preparation of the Company's Financial Statements.

Taxes

Significant elements of estimation are necessary in defining the forecasts of current taxes for the year and deferred tax assets and liabilities.

8. PROPERTY, PLANT AND EQUIPMENT

The breakdown of these items is as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
- Tangible assets	33,988	34,878
- Rights of use	42,338	32,490
Net Value	**76,326**	**67,368**

8.1 Owned tangible assets

The breakdown and changes of these items are as follows:

(in thousands of euro)	12/31/2020			12/31/2019		
	Gross Value	**Accumulated Depreciation**	**Net Value**	**Gross Value**	**Accumulated Depreciation**	**Net Value**
Land	5,245	-	**5,245**	6,584	-	**6,584**
Buildings	44,179	(21,866)	**22,313**	48,974	(24,934)	**24,040**
Plant and machinery	2,787	(1,820)	**967**	3,627	(3,380)	**247**
Industrial and trade equipment	1,891	(1,011)	**880**	942	(936)	**6**
Other assets	14,938	(10,355)	**4,583**	14,397	(10,560)	**3,836**
Assets under construction	-	-	**-**	165	-	**165**
Total	**69,040**	**(35,052)**	**33,988**	**74,689**	**(39,811)**	**34,878**

NET VALUE *(in thousands of euro)*	**12/31/2019**	**Increases**	**Decreases**	**Riclassif.**	**Depreciation**	**12/31/2020**
Land	6,584	-	(1,339)	-	-	**5,245**
Buildings	24,040	45	(355)	1	(1,418)	**22,313**
Plant and machinery	247	884	(33)	98	(229)	**967**
Industrial and trade equipment	6	949	-	-	(76)	**879**
Other assets	3,836	793	(16)	66	(95)	**4,584**
Assets under construction	165	-	-	(165)	-	**-**
Total	**34,878**	**2,671**	**(1,743)**	**-**	**(1,818)**	**33,988**

NET VALUE *(in thousands of euro)*	**12/31/2018**	**Increases**	**Decreases**	**Business combination**	**Depreciation**	**12/31/2019**
Land	6,584	-	-	-	-	**6,584**
Buildings	25,535	-	-	-	(1,495)	**24,040**
Plant and machinery	453	-	-	-	(206)	**247**
Industrial and trade equipment	9	-	-	-	(3)	**6**
Other assets	4,046	-	(21)	15	(203)	**3,836**
Assets under construction	-	165	-	-	-	**165**
Total	**36,627**	**165**	**(21)**	**15**	**(1,907)**	**34,878**

The increases are mainly due to the purchase by the company of plant, equipment and furniture for the new company canteen.

The decreases in the year mainly refer to the sale of the land located in Settimo Torinese and the building and related land located in Milano, on which gains of approximately euro 8,000 thousand euro were realised, as outlined in Note 28.

Financial expenses were not capitalised on property, plant and equipment.

8.2 Rights of use

The net value of the assets for which the Company has stipulated a lease contract is as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Rights of use Buildings	40,588	30,327
Rights of use Other assets	1,750	2,163
Net value	**42,338**	**32,490**

Rights of use on buildings mainly refer to contracts relating to offices.

Rights of use on other assets mainly refer to contracts relating to motor vehicles. These contracts also include the service component (non-lease component).

Lease contracts are negotiated on an individual basis and include a wide variety of terms and conditions.

The increases in rights of use in 2020 amounted to euro 14,506 thousand (euro 550 thousand in 2019) for new office lease contracts.

There were no reassessments or changes to significant contracts in 2020.

At December 31, 2020, amortisation of user rights recognised in the income statement and included in the item “depreciation, amortisation and impairments” are as follows:

(in thousands of euro)	**2020**	**2019**
Buildings	4,839	3,234
Other assets	792	789
Total depreciation of right of use	**5,631**	**4,023**

For interest expense recognised in connection with lease contracts, refer to the information in Note 36 “Financial expenses”.

For information on costs for lease contracts with a duration of less than twelve months, lease contracts for low unit value goods and lease contracts with variable fees, refer to note 32 “Other costs”.

For information on lease payables, refer to note 19 “Borrowings from banks and other lenders”.

9. INTANGIBLE ASSETS

The items in question and the related changes are detailed as follows:

(in thousands of euro)	**12/31/2019**	**Increase**	**Business combination**	**Amortisation**	**12/31/2020**
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	**2,270,000**
Software licenses	**489**	357	-	(279)	**567**
Other intangible assets	**4,875**	276	-	(2,189)	**2,962**
Assets under construction	**-**	225	-	-	**225**
Total	**2,275,364**	**858**	**-**	**(2,468)**	**2,273,754**

(in thousands of euro)	**12/31/2018**	**Increase**	**Business combination**	**Amortisation**	**12/31/2019**
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	**2,270,000**
Software licenses	**833**	-	-	(344)	**489**
Other intangible assets	**2,831**	2,111	1,912	(1,979)	**4,875**
Total	**2,273,664**	**2,111**	**1,912**	**(2,323)**	**2,275,364**

The Pirelli Brand (asset with indefinite useful life) for euro 2,270,000 thousand, originated following the allocation of the merger deficit, generated following the incorporation of the parent company Marco Polo International Holding Italy S.p.A. in 2016. The allocation of the deficit was made consistently with the consolidated financial statements as a result of the completion of the Purchase Price Allocation.

The valuation of the useful life of the brands is based on a series of factors including the competitive environment, market share, history of the brand, life cycles of the underlying product, operational plans and macroeconomic environment of the countries in which the related products are sold. In particular, the useful life of the Pirelli Brand was assessed as indefinite based on its history of over one hundred years of success (created in 1872) and the intention and ability of the Group to continue investing to support and maintain the brand.

The **increases** in the year mainly include costs for the purchase of application software (euro 218 thousand).

No impairment was carried out in 2020.

Impairment test of the Pirelli Brand (asset with indefinite useful life)

The Pirelli Brand, amounting to euro 2,270,000 thousand, is an intangible asset with indefinite useful life and therefore not subject to amortisation, but, pursuant to IAS 36, to impairment annually or more frequently, if specific events or circumstances occur which may lead to the presumption of impairment.

The impairment test at December 31, 2020 was performed using the assistance of an independent third-party professional.

The recoverable value configuration for the purposes of the impairment test at December 31, 2020 is the Fair Value, calculated on the basis of the income approach (Level 3 of the hierarchy of IFRS 13 – Fair Value measurement) and is based on:

- the same revenue streams used for the purpose of impairment testing of goodwill in the consolidated financial statements, i.e., revenues lower than those in the plan, in order to take account of analysts' consensus estimates as external evidence; for the purposes of determining the recoverable value of the brand, given that the value configuration is Fair Value, the benefits deriving from expansion investments were not sterilized;
- evaluation criterion for the sum of parts that also considers the contribution in terms of royalties from the Prometeon Tyre Group for the use of the Pirelli brand in the Industrial segment;
- royalty rate applied to the revenues of the Consumer High Value and Consumer Standard valuation units taken from the royalty rates implicit in the valuations made by an independent entity relative to the main brands of the listed companies of the Tyre sector and equal to an average royalty rate of 4.62%. With reference to the contribution in terms of royalties from the Prometeon Tyre Group, the royalty rates envisaged in the outstanding contracts were used;
- discount rate of 8.34%, which includes a premium with respect to WAAC determined on the basis of the risk of the specific asset;
- growth rate "g" in the terminal value assumed to be zero;
- TAB (Tax Amortization Benefit), which is the tax benefit that could potentially benefit the market participant that acquired the asset separately due to the possibility of fiscally amortizing it.

For the purposes of the impairment test, the recoverable value of the Pirelli Brand *cum* TAB is compared with the respective carrying amount (*cum* TAB) and no impairment has emerged.

The recoverable value is higher than the carrying amount of the Brand (19.5%) while, in order for the Fair Value to be equal to the carrying amount, a worsening variation of the key parameters is necessary and in particular:

- decrease in the royalty rates of the Consumer valuation units of 77 basis points and the simultaneous cancellation of royalties from the license contract with Prometeon Tyre Group;
- increase in the discount rate of 144 basis points;
- a negative growth rate "g" of -265 basis points.

10. INVESTMENTS IN SUBSIDIARIES

At December 31, 2020, this item amounted to euro 4,633,666 thousand compared to euro 4,647,666 thousand at December 31, 2019, and the breakdown is as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
HB Servizi S.r.l.	230	230
Maristel S.p.A.	1,315	1,315
Pirelli Group Reinsurance Company S.A.	6,346	6,346
Pirelli Ltda	9,666	9,666
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	3,238	3,238
Pirelli Sistemi Informativi S.r.l.	1,655	1,655
Pirelli Tyre S.p.A.	4,528,245	4,528,245
Pirelli UK Ltd.	7,871	21,871
Pirelli International Treasury S.p.A.	75,000	75,000
Servizi Aziendali Pirelli S.C.p.A.	100	100
Total investments in subsidiaries	**4,633,666**	**4,647,666**

Below are the changes during the year:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Opening balance	**4,647,666**	**4,568,324**
Increases	-	79,342
Write-downs	(14,000)	-
Closing balance	**4,633,666**	**4,647,666**

The company checks the recognised values of its investments and the existence of impairment indicators on the basis of as set out in paragraph 3 Accounting standards – Investments in subsidiaries and associates. Following the verification of the indicators, the subsidiaries on which it was necessary to carry out the test were Pirelli Tyre S.p.A, Pirelli UK Ltd and Pirelli Ltda.

With specific reference to the investment in the subsidiary Pirelli Tyre S.p.A., the carrying amount was compared to the recoverable value identified as the value in use, which was calculated starting from the value in use of Consumer Activities estimated for the purposes of the impairment test of goodwill in the consolidated financial statements, which represent the Pirelli Group as a whole, adjusted downwards for the recoverable value of the assets of Pirelli & C. S.p.A. other than the investment in Pirelli Tyre S.p.A. (for example the Pirelli brand) and activities that do not generate operating flows and that decrease the Net Financial Position of Pirelli Tyre S.p.A. There were no resulting impairment losses.

With specific reference to the investment in the subsidiary Pirelli UK Ltd, the carrying amount was compared to the recoverable value identified as the carrying amount of equity. The impairment test determined the need for an impairment of euro 14 million of the investment in Pirelli UK Ltd.

The impairment test of the investment in the subsidiary Pirelli Ltda did not give rise to impairment losses.

Further details are set out in the Annexes to the Explanatory Notes.

11. INVESTMENTS IN ASSOCIATED COMPANIES

At December 31, 2020, this item amounted to euro 6,375 thousand, unchanged compared to December 31, 2019, and the breakdown is as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Consorzio per le Ricerche sui Materiali Avanzati (CORIMAV)	104	104
Eurostazioni S.p.A. - Roma	6,271	6,271
Total investment in associates	**6,375**	**6,375**

No changes occurred during the year. Further details are set out in the Annexes to the Explanatory Notes.

12. OTHER FINANCIAL ASSETS AT FAIR VALUE RECOGNISED IN THE OTHER COMPONENTS OF THE STATEMENT OF COMPREHENSIVE INCOME (FVOCI)

Other financial assets at fair value recognised in the other components of the statement of comprehensive income amounted to euro 41,074 thousand at December 31, 2020 (euro 57,203 thousand at December 31, 2019).

The breakdown of the item for each security is as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Listed securities		
RCS Mediagroup S.p.A. - Milano	14,076	24,892
Unlisted securities		
Fin. Priv Srl	15,902	20,565
Fondo Comune di Investimento Immobiliare Anastasia	2,786	3,947
Istituto Europeo di Oncologia S.r.l.	7,962	7,465
Other companies	348	334
Total financial assets at fair value through other comprehensive income	**41,074**	**57,203**

The changes in the year are shown below:

(in thousands of euro)	
Opening balance	**57,203**
Adjustment to fair value recognised in other comprehensive income	(16,129)
Closing balance	**41,074**

The **fair value adjustments in the other components of the statement of comprehensive income** mainly refer to the investments in RCS MediaGroup S.p.A (negative for euro 10,816 thousand), in Fin.Priv. S.r.l. (negative for euro 4,663 thousand), in Fondo Comune di investimento

Anastasia (negative for euro 1,161 thousand), in Istituto Euroopeo di Oncologia (positive for euro 497 thousand) and in Nomisma - Società di Studi Economici S.p.A. (positive for euro 13 thousand).

The fair value of listed securities corresponds to the stock market price at December 31, 2020. For unlisted securities and real estate funds, the fair value was estimated according to available information.

13. OTHER RECEIVABLES

The breakdown of other receivables is as follows:

(in thousands of euro)	12/31/2020			12/31/2019		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Other receivables from subsidiaries	2,307	-	2,307	2,554	-	2,554
Financial receivables from subsidiaries	3,151,544	2,000,000	1,151,544	2,317,507	-	2,317,507
Financial receivables from third parties	5,000	-	5,000	-	-	-
Guarantee deposits	267	267	-	268	268	-
Other receivables from third parties	3,705	308	3,397	11,212	352	10,860
Receivables from tax authorities for taxes not related to income	3,390	-	3,390	9,368	-	9,368
Financial accrued interest income	943	-	943	6,982	-	6,982
Financial prepaid expenses	160	-	160	681	-	681
Total other receivables	**3,167,316**	**2,000,575**	**1,166,741**	**2,348,572**	**620**	**2,347,952**

Financial receivables from subsidiaries include the current portion of the short-term use of a long-term credit line (maturity 31/1/2023) disbursed in favour of Pirelli International Treasury S.p.A. for an amount of euro 1,140 million, the receivable for interest accrued not yet paid on the same line for euro 9,923 thousand and the relation with Pirelli International Treasury S.p.A. relating to the interest-bearing current account, regulated at interest rates market for euro 1,622 thousand (at December 31, 2019 equal to euro 284,051 thousand).

The amount shown in non-current other financial receivables from subsidiaries refers to an existing loan with Pirelli International Treasury S.p.A. taken out on January 31, 2020 with maturity on January 31, 2023.

For the purposes of applying the IFRS 9 accounting standard in relation to loans to Group companies, management has made an estimate of the expected credit losses in the 12 months following the closing of the financial statements. The analysis takes into consideration qualitative, quantitative, historical and prospective information to determine whether the intra-group loan has a credit risk at December 31, 2020. Using a probability of default of a Pirelli & C. Group loan considering their equity-financial situation, the management of the company concluded that any impairment required by the standard would be of an insignificant amount.

Current financial receivables of euro 5,000 thousand refer to an escrow account established following the sale of a property, released in the first days of March.

Receivables from the tax authorities for taxes not related to income for euro 3,390 thousand mainly refer to receivables for VAT, which decreased compared to the previous year.

Accrued financial assets refer to portions of interest accrued but not yet collected on cross currency interest swap derivative contracts related to the unsecured syndicated financing "Facilities" granted to Pirelli & C. S.p.A.

Deferred financial assets relate mainly to the commissions on the revolving and term loan credit line.

The carrying amount of financial receivables and other receivables approximates their fair value.

14. TRADE RECEIVABLES

Trade receivables amounted to euro 80,568 thousand compared to euro 23,775 thousand of the previous year and the breakdown is as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Receivables from subsidiaries	76,578	21,486
Receivables from associates	3	3
Receivables from other companies	4,630	2,906
Total receivables - gross amount	**81,211**	**24,395**
Provision for bad debt	(643)	(620)
Total receivables	**80,568**	**23,775**

Below is the breakdown of trade receivables based on the currency in which they are expressed:

(in thousands of euro)	**12/31/2020**	**% of total trade receivables**	**12/31/2019**	**% of total trade receivables**
EUR	74,625	92%	20,657	85%
USD (Dollar USA)	111	0%	-	0%
RUB (Ruble Russia)	1,556	2%	619	2%
CHF	4,919	6%	3,119	13%
Total	**81,211**	**100%**	**24,395**	**100%**

Receivables from subsidiaries at December 31, 2020 mainly include the amounts that Pirelli & C. S.p.A. charges for services rendered through Corporate functions and charge-backs of costs. The aforementioned receivables are due within the financial year and do not show past due balances of significant amount.

Receivables from other companies of euro 4,630 thousand (euro 2,906 thousand at December 31, 2019), shown gross of the provision for bad debts of euro 643 thousand, are past due for euro 1,566 thousand.

Past due receivables and receivables due have been valued in accordance with the Group policies described in the paragraph relating to credit risk management in the "Financial risk management policy".

Impaired receivables include both significant positions impaired separately, and positions with similar characteristics in terms of credit risk, grouped and impaired on a collective basis.

The change in the provision for bad debts is shown below:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Opening balance	**620**	**2,970**
Accruals	23	96
Utilizations/reversals	-	(2,446)
Closing balance	**643**	**620**

Accruals to the provision for bad debts are recognised in the income statement as "Impairment of financial assets" (Note 33).

For trade receivables, the carrying amount is considered to approximate the applicable fair value.

15. CASH AND CASH EQUIVALENTS

At December 31, 2020, they amounted to euro 1,742 thousand, against euro 1,754 thousand at December 31, 2019 and refer to balances of bank accounts in euro repayable on demand.

The credit risk associated with cash and cash equivalents is to be considered limited because the counterparties are represented by leading national and international banking institutions.

It is believed that the value of cash and cash equivalents is in line with their fair value.

16. TAX RECEIVABLES

At December 31, 2020, they amounted to euro 32,676 thousand (euro 31,744 thousand at December 31, 2019).

The amount mainly includes:

- receivables from Group companies participating in the tax consolidation for euro 31,369 thousand (euro 29,828 thousand at December 31, 2019). The increase compared to the previous year substantially depends on the greater contribution of the positive taxable result by the subsidiary Pirelli International Treasury S.p.A.;
- receivables for IRAP advances for euro 125 thousand (euro 925 thousand at December 31, 2019).

17. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes the fair value of derivative instruments. The breakdown is as follows:

(in thousands of euro)	12/31/2020				12/31/2019			
	Non Current Assets	Current Assets	Non Current Liabilities	Current Liabilities	Non Current Assets	Current Assets	Non Current Liabilities	Current Liabilities
Without adoption of hedge accounting								
Forex instruments - trade positions	-	25	-	(5)	-	11	-	(5)
Forex instruments - included in net financial position	-	2,642	-	(13,226)	-	-	-	-
Derivatives for interest rate - included in net financial position	-	227	-	-	-	-	-	-
In hedge accounting								
- cash flow hedge:								
Derivatives for interest rate	-	-	(9,733)	-	449	-	(8,735)	-
Other derivatives instruments	-	-	(99,964)	-	29,820	10,143	(854)	-
Total derivative instruments	**-**	**2,894**	**(109,697)**	**(13,231)**	**30,269**	**10,154**	**(9,589)**	**(5)**

The above derivatives are intercompany derivatives stipulated mainly with the Group's treasury company, Pirelli International Treasury S.p.A.

Derivative financial instruments not in hedge accounting

The value of **exchange rate derivatives** corresponds to the fair value of forward currency purchases/sales outstanding at the closing date of the year. These are transactions that mirror Company commercial and financial transactions for which the hedge accounting option was not adopted. The fair value is determined by using the forward exchange rate at the reporting date.

The value of **interest rate derivatives** included in current assets refers to the fair value measurement of five IRS basis swaps USD for a total notional of USD 1,761 million starting September 2020 and duration of one year. These are hedging transactions of the basis 3 - 12 months following the change in the period of interest on the underlying liability from 3 months to 12 months, for which the hedge accounting option was not adopted. Through these IRS basis swaps, the Company pays Libor USD 3 months that nets the proceeds from the pre-existing CCIRS on one side, and collects Libor USD 12 months that will serve the interest flows on liabilities in USD liquidated on a quarterly basis with annual fixing on the other.

Derivative financial instruments in hedge accounting

The value of **interest rate derivatives** recorded under current liabilities for euro 9,733 thousand refers to the fair value of 6 interest rate swap contracts with the following characteristics:

Instrument	Covered Item	Notional (in thousands of euro)	Start date	Deadline	Description
IRS	Term loan in Eur	250,000	June 2019	June 2022	receive fix / pay floating
IRS	Term loan in Eur	62,500	August 2019	August 2023	receive fix / pay floating
IRS	Term loan in USD + CCIRS	100,000	October 2019	June 2022	receive fix / pay floating
IRS	Schuldschein	180,000	July 2020	July 2023	receive fix / pay floating
IRS	Schuldschein	20,000	July 2020	July 2025	receive fix / pay floating
Total		**612,500**			

For these derivatives, cash flow hedge accounting was adopted. Items subjected to hedge accounting are:

- floating rate bank lines denominated in Euro, and the related future cash flows (see note 19 Borrowings from Banks and other lenders);

- the combination of a USD floating rate liability and a CCIRS or cross-currency interest rate swap (Basis Swap).

The change in the fair value of the IRS for the year, negative for euro 3,770 thousand, was entirely suspended in equity, while in the income statement, euro 2,382 thousand was reversed to the item “financial expenses” (Note 36), correcting the financial expenses recognised on the liability hedged.

A +0.5% change in the EURIBOR curve, other things being equal, would result in a positive change of euro 5,361 thousand in the Company’s shareholders’ equity, while a -0.5% change in the same curve would result in a negative change of euro 5,456 thousand in the Company’s shareholders’ equity.

The value of **other derivatives**, recognised as non-current liabilities for euro 99,964 thousand, refers to the fair value measurement of 3 cross currency interest rate swaps with the following characteristics:

Instrument	Notional (in thousands of USD)	Start date	Deadline	Description
CCIRS	681,690	July 2017	June 2022	pay floating EURIBOR / receive floating LIBOR
CCIRS	170,422	July 2019	June 2022	pay fix EURIBOR / receive floating LIBOR
CCIRS	908,920	July 2019	June 2022	pay fix EURIBOR / receive floating LIBOR
Total	**1,761,032**			

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, is to hedge the Company against the risk of fluctuations in cash flows associated with changes in the LIBOR rate and changes in the USD/EUR exchange rate, generated by a liability in USD at variable rate with a notional value of USD 1,761,032 thousand (see note 19 Payables to banks and other lenders).

The negative change in fair value for the year was suspended in equity for euro 110,056 thousand (cash flow hedge reserve negative for euro 114,739 thousand and cost of hedging reserve positive for euro 4,683 thousand), while euro 133,595 thousand was reversed to the income statement to offset unrealised exchange rate gains recognised on liabilities hedged and euro 20,047 thousand was instead reversed in the item “financial expenses” (Note 36), adjusting the financial expenses recognised on the liability hedged.

Other things being equal, a hypothetical increase and decrease of 0.50% of the EURIBOR and LIBOR curves would have respectively a positive net impact of euro 6,638 thousand and a negative net impact of euro 6,724 thousand on the shareholders’ equity of the Company.

A +10% change in the USD/EUR exchange rate, all other conditions being equal, would result in a positive change of euro 378 thousand in the Company's equity and euro 338 thousand in the Income Statement; a negative 10% change, on the other hand, would entail a positive change of euro 307 thousand in the Company's equity and of euro 337 thousand on the Income Statement.

IRS and CCIRS hedging relationships are considered prospectively effective when the following conditions are met:

- there is an economic relationship between the hedging instrument and the hedged item, as the characteristics of the hedging instrument (nominal interest rate, interest rate reset and frequency of interest payment) are substantially aligned with those of the hedged item. As a result, changes in the fair value of the hedging instrument offset those of the hedged item on a regular basis;
- the effect of credit risk is not predominant within the hedging relationship: according to the Group's operating rules, derivatives are only traded with high standing bank counterparties and the credit quality of the outstanding derivatives portfolio is constantly monitored;
- the designated hedge ratio is in line with that used for financial risk management purposes and is 100% (1:1).

The ineffectiveness of the hedging relationship is calculated at each reporting date using the Dollar Offset method, which involves comparing the risk-adjusted fair value changes of the hedging instrument (except for those attributable to the currency basis spread) with the risk-free fair value changes of the hedged item, through the identification of a hypothetical derivative with the same characteristics as the underlying financial liability.

Possible causes of ineffectiveness are the following

- application of credit risk adjustment only to the hedging instrument but not to the hedged item;
- the hedged item incorporates a floor that is not reflected in the hedging instrument;
- mismatch between the actual contractual terms of the future transaction and those of the hedging instrument.

During September 2020, in accordance with the terms and conditions of the loan agreement, the tenor of the reference rate of the hedged item was changed from USD Libor 1m to USD Libor 12m. The change in the tenor of the reference rate of the underlying loan resulted in an ineffectiveness due to the misalignment between the characteristics of the hedge item and the hedging instrument amounting to euro 338 thousand, which was recognised in the income statement under "financial expenses", within net expenses on derivatives (Note 36).

18. SHAREHOLDERS' EQUITY

Equity amounted to euro 4,651,056 thousand (euro 4,580,445 thousand at December 31, 2019).

The statement of changes in equity is shown in the main financial statements.

Equity went from euro 4,580,445 thousand at December 31, 2019 to euro 4,651,056 thousand at December 31, 2020. The positive change is essentially due to the net result for the year (positive for euro 43,956 thousand), the creation of a reserve to accommodate the equity component relating to the convertible bond (positive for euro 41,200), the adjustment to fair value of derivatives designated as cash flow hedges (positive for euro 1,599 thousand) and to the adjustment to fair value of financial assets at fair value recognised as other components of comprehensive income (negative for euro 16,129 thousand).

Share capital

The share capital at December 31, 2020, fully subscribed and paid-in, amounted to euro 1,904,374,935.66 divided into 1,000,000,000 ordinary shares without nominal value and unchanged compared to December 31, 2019.

Legal reserve

The legal reserve at December 31, 2020 amounted to euro 380,875 thousand, unchanged compared to December 31, 2019, having already reached the limit set by article 2430 Civil Code.

Share premium reserve

At December 31, 2020, the share premium reserve amounted to euro 630,381 thousand and unchanged compared to December 31, 2019.

Concentration reserve

At December 31, 2020, concentration reserves amounted to euro 12,467 thousand and unchanged compared to December 31, 2019.

Other reserves

At December 31, 2020, other reserves amounted to euro 133,735 thousand (euro 92,535 thousand at December 31, 2019). The positive change is due to the reserve created to include in equity the component related to the fair value of the option sold to subscribers of the convertible bond loan issued during the year (positive for euro 41,200 thousand). Refer to Note 19.

IAS reserve

At December 31, 2020, the IAS reserves were negative for euro 17,744 thousand and refer to the reserve for the fair value adjustment recognised in the statement of comprehensive income (negative for euro 5,492 thousand), to the employee benefits remeasurement reserve (positive for euro 1,905 thousand) and the cash flow hedge reserve and the cost of hedging reserve, net of the tax effect (negative for euro 14,157 thousand).

Merger reserve

At December 31, 2020, the merger reserve amounted to euro 1,022,928 thousand, unchanged compared to December 31, 2019. The reserve was generated following the merger by incorporation of Marco Polo International Holding Italy S.p.A. in Pirelli & C. S.p.A. in 2016.

Reserve from results carried forward

The reserve from results carried forward amounted to euro 540,084 thousand compared to a 266,842 at December 31, 2019. The increase is to be attributed to the allocation of the entire 2019 result to retained earnings as per the shareholders’ resolution of June 18, 2020.

In accordance with the provisions of article 2427, no. 7-bis of the Italian Civil Code, in the following table each item of equity is indicated analytically, with indication of its origin, possibility of use and distributability, as well as of its use in previous years.

(in thousands of euro)	**Amount**	**Possible use**	**Available portion**	**Summary of reserves uses in the last 3 previous years**
Share capital	1,904,375			
Share premium reserve	630,381	A, B, C	630,381	-
Legal reserve	380,875	B	380,875	-
Other reserves				
- Concentration reserve	12,467	A, B, C	12,467	-
- Convertible bond loan Reserve	41,200	A	41,200	-
- Other Reserves	92,535	A, B	92,535	-
- IAS Reserves	(17,744)	-	-	-
- Merger Reserve	1,022,928	A, B, C	1,022,928	-
- Reserve from results carried forward	540,084	A, B, C	540,084	-
Total	**4,607,101**		**2,720,470**	**-**
Non distributable			514,610	
Residual quota available			2,205,860	

A to increase the share capital
B to cover losses
C to distribute to the shareholders

19. BORROWINGS FROM BANKS AND OTHER LENDERS

The item borrowings from banks and other lenders, is broken down as follows:

(in thousands of euro)	**12/31/2020**			**12/31/2019**		
	Total	**Not currents**	**Currents**	**Total**	**Not currents**	**Currents**
Bonds	1,524,500	1,442,650	81,850	1,271,393	1,071,476	199,917
Borrowings from banks	3,336,716	3,136,716	200,000	2,921,413	2,469,318	452,095
Lease payables	49,708	43,929	5,779	38,226	35,479	2,747
Other financial payables	7,335	-	7,335	4,222	900	3,322
Accrued liabilities	12,386	-	12,386	20,208	-	20,208
Total borrowings from banks and other financial institutions	**4,930,645**	**4,623,295**	**307,350**	**4,255,462**	**3,577,173**	**678,289**

The item **bonds** refers:

- to the non-interest bearing senior unsecured guaranteed equity-linked bond loan for a nominal value of euro 500 million maturing December 22, 2025. The bond, reserved for institutional investors, issued by Pirelli & C. S.p.A. on December 22, 2020, guaranteed by Pirelli Tyre S.p.A. and admitted to trading on the Vienna MTF, multilateral trading facility managed by the Vienna Stock Exchange. The bond loan is convertible, at the discretion of the bondholders, into new ordinary shares of the Company at a price of euro 6.235 per share, subject to the anti-dilutive adjustments envisaged by the loan regulations. The convertible bond loan is a compound financial instrument, consisting of (i) a five-year loan at market rates and (ii) a call option sold to the bond subscribers, represented by the right to convert the loan into new ordinary shares of the Company at a predefined price. In accordance with the reference accounting standards, the parent company Pirelli & C. S.p.A. has separately accounted for the two components of the loan, recording, against an issue value of euro 500 million (euro 492,9 million net of transaction costs), the fair value of the five-year loan (net of transaction costs) under financial payables, and the fair value of the call option sold (net of transaction costs) under equity reserves, to the amount of euro 451.7 million and euro 41.2 million, respectively;

- the fair value of the five-year loan under financial payables, and the fair value of the call option sold under equity reserves, respectively equal to euro 458.2 million and euro 41.8 million;
- to the unrated bond, for a nominal amount of euro 553 million (originally euro 600 million partially repurchased for a total amount of euro 47 million during the last quarter of 2018) placed on January 22, 2018 with a fixed coupon of 1.375% and with an original maturity of 5 years. The bond, guaranteed by Pirelli Tyre S.p.A. and placed with international institutional investors, was issued as part of the EMTN (Euro Medium Term Note) program approved by the Board of Directors at the end of 2017, signed on January 10, 2018 and updated on December 19, 2018;
- to the floating rate (Euribor + spread) “Schuldschein” loan for a total nominal value of euro 525 million placed on July 26, 2018. The loan, and entered into by leading market operators, consists of a tranche of euro 82 million with 3-year maturity, a tranche of euro 423 million with 5-year maturity and a tranche of euro 20 million with 7-year maturity.

The carrying amount of bonds was determined to be as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Nominal value	1,578,000	1,278,000
Equity convertible bond component	(41,791)	-
Transaction costs	(15,133)	(7,683)
Bond discount	(2,988)	(2,988)
Non- monetary interest convertible bond loan	196	-
Amortisation of effective interest rate	6,216	4,063
Total	**1,524,500**	**1,271,392**

The breakdown of the item bonds is as follows:

(in thousands of euro)	
Bonds as at 12/31/2019	**1,271,392**
Bond issues (Convertible bond)	500,000
Transactions costs	(8,041)
Bond repayments (EMTN program)	(200,000)
Reclassification of convertible option at issue date	(41,200)
Non-cash interest convertible bond	196
Amortised cost of the year	2,153
Bonds as at 12/31/2020	**1,524,500**

The following is the change in the item bonds for the previous year:

(in thousands of euro)	
Bonds as at 12/31/2018	**1,269,514**
Amortised cost of the year	1,878
Bonds as at 12/31/2019	**1,271,392**

Borrowings from banks, amounting to euro 3,336,716 thousand, mainly refer to:

- use of the unsecured loan (Facilities) granted to Pirelli & C. S.p.A. for euro 1,620,578 thousand, classified under non-current payables. The nominal refinanced total subscribed to on June 27, 2017 (with a closing date of June 29, 2017), amounted to euro 2.45 billion (the net amount of repayments made since the date of signing – the original amount of the credit facility granted was euro 4.2 billion). The loan is guaranteed by Pirelli Tyre S.p.A., Pirelli Deutschland GmbH, Pirelli Tyres Romania S.r.l. and Pirelli Pneus Ltda. On November 29, 2018, the loan was modified to include the right of the Pirelli Group to extend the maturity of the individual lines of the loan up to 2 years at its discretion with respect to their original contractual 3-year and 5-year maturity.The lines of credit are denominated in euros and US dollars and carry a floating interest rate of Euribor + spread and Libor + spread, respectively;

- Sustainable Credit Line for euro 794,599 thousand relating to the credit line of euro 800 million at variable rate (Euribor + spread) stipulated on March 31, 2020 with a pool of leading Italian and international banks and with a 5-year maturity. The banking line is entirely sustainable, i.e., parametrised to the Group's economic and environmental sustainability objectives and guaranteed by Pirelli Tyre S.p.A.;

- euro 921,538 thousand relating to three bilateral loans disbursed to Pirelli & C. S.p.A. by leading banking institutions, of which nominal euro 600 million maturing in February 2024 at variable rate (Euribor + spread) and guaranteed by Pirelli Tyre S.p.A., euro 200 million maturing in September 2021 at fixed rate, and euro 125 million with maturity August 2023 at variable rate (Euribor + spread).

At December 31, 2020, the Company had a liquidity margin equal to euro 701,742 thousand composed of euro 700,000 thousand of unused committed credit lines, and euro 1,742 thousand in cash.

Below are the changes in borrowings from banks:

(in thousands of euro)	
Borrowings from banks at 12/31/2019	**2,921,413**
Drawdown of unsecured financing *(Facilities)*	1,127,978
Reimbursements of unsecured financing (*Facilities*)	(1,342,297)
New bilateral borrowings	800,000
Transactions costs	(10,520)
Amortized cost for the period	11,124
Translation differences	(170,982)
Borrowings from banks at 12/31/2020	**3,336,716**

The change in total borrowings from banks for the previous year is shown below:

(in thousands of euro)	
Borrowings from banks at 12/31/2018	**2,851,995**
Drawdown of unsecured financing *(Facilities)*	395,931
Reimbursements of unsecured financing (*Facilities*)	(1,097,498)
New bilateral borrowings	725,000
Transactions costs	(4,100)
Amortised cost of the year	14,182
Translation differences	35,903
Borrowings from banks at 12/31/2019	**2,921,413**

Lease liabilities represent financial liabilities relating to the application of IFRS 16 starting from January 1, 2019.

Below are the changes in lease liabilities:

(in thousands of euro)	
Lease payables as at 12/31/2019	**38,226**
Increase of lease obligations	14,967
Remeasurement and early termination	541
Cash outflow for lease obligations - principal amount	(4,026)
Lease payables as at 12/31/2020	**49,708**

The change in total borrowings from banks for the previous year is shown below:

(in thousands of euro)	
IFRS 16 first time adoption impact	**37,250**
Increase of lease obligations	1,277
Remeasurement and early termination	972
Cash outflow for lease obligations - principal amount	(1,273)
Lease payables as at 12/31/2019 (IFRS 16)	**38,226**

Non-discounted future payments for lease contracts for which the exercise of extension options is not considered reasonably certain amounted to euro 50,144 thousand at December 31, 2020 and are not included in this item (euro 40,248 thousand at December 31, 2019).

The item **other financial payables** includes for euro 2,415 thousand the payable to shareholders following the squeeze out operation, for euro 4,000 thousand the short-term portion of bank fees on the sustainable credit line, for euro 900 thousand the short-term portion of the upfront fee on the “Bilaterale 600” loan, and for euro 20 thousand fees on sureties.

The item **accrued expenses** essentially refers to interest that has accrued on the term loans but has not yet been paid (euro 1,285 thousand) and to interest accrued on bonds for euro 8,990 thousand.

The carrying amount of current financial payables is considered to approximate their fair value. The table below compares the fair value of non-current financial payables with their carrying amount:

(in thousands of euro)	12/31/2020		12/31/2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,442,650	1,465,120	1,071,476	1,084,830
Borrowings from banks	3,136,716	3,160,117	2,469,318	2,492,591
Lease payables	43,929	43,929	35,479	35,479
Other financial payables	-	-	900	900
Total borrowings from banks and other financial institutions - non current	**4,623,295**	**4,669,166**	**3,577,173**	**3,613,800**

The public bonds issued by Pirelli & C. S.p.A. are listed on an active market and the related fair value was measured with reference to its prices at the end of the year. It has therefore been classified in level 1 of the hierarchy, as provided for by IFRS 13 – Fair Value Measurement. The fair value of the "Schuldschein" loan and of current payables to banks was calculated by discounting each expected borrowings cash flow at the market swap rate for the currency and at the maturity date, increased by the Group's creditworthiness for debt instruments similar by nature and technical characteristics, which therefore places it at level 2 of the hierarchy as provided for by IFRS 13 – Fair Value Measurement.

The distribution of payables to banks and other lenders by currency of origin of the payable at December 31, 2020 and December 31, 2019 is as follows:

(in thousands of euro)	12/31/2020	12/31/2019
EUR	3,499,002	2,439,408
USD (Dollar USA)	1,431,643	1,816,054
Total	**4,930,645**	**4,255,462**

At December 31, 2020, there are hedging derivatives for interest rate and exchange rate on payables at variable rate in foreign currency.

Considering the effects of the above-mentioned hedging derivatives, the Company's exposure to changes in interest rates on its financial debt, in terms of both the type of interest rate and the date of resetting, breaks down as follows

- floating rate debt totaling euro 2,006,594 thousand, the interest rate on which is subject to renegotiation during 2021;
- fixed rate debt totaling euro 2,924,051 thousand, the interest rate on which is not subject to renegotiation until the natural maturity of the debt in question (euro 205,779 thousand falling due in the next twelve months and euro 2,718,272 thousand falling due beyond twelve months).

With regard to the existence of financial covenants, it is noted that (i) Group's main bank credit facility ("Facilities") granted to Pirelli & C. S.p.A. and Pirelli International Plc (currently usable only by, and in its entirety by Pirelli & C.), (ii) the "Schuldschein" loan, (iii) the bilateral line of euro 600 million granted to Pirelli & C. in the first quarter of 2019 ("Bilaterale 600"), (iv) the bilateral line of euro 125 million granted to Pirelli & C. in the third quarter of 2019 ("Bilaterale 125") and (v) the "Linea di Credito Sustainable" entered into March 31, 2020, require compliance with a maximum ratio (Total Net

Leverage) between net indebtedness and the gross operating margin as reported in the consolidated Financial Statements of Pirelli & C. S.p.A.

In all the loans indicated above, failure to comply with the financial covenant is identified as an event of default.

Specifically, this event of default will have the consequence, in cases of exercise of the relative remedies by the lending banks (i) as part of the Facilities, only if requested by a number of lending banks representing at least 66 2/3% of the total commitment, the early (partial or total) repayment of the loan with simultaneous cancellation of the related commitment; (ii) as part of the Schuldschein loan, individually and independently if requested by each lending bank for its portion, the early repayment of the loan only for said portion; (iii) as part of both the Bilateral 600 and Bilateral 125, if requested by the only bank that granted said loan, the termination of the contract and the early repayment for the entire amount disbursed; and (iv) as part of the Sustainable Credit Line, only if requested by a number of lending banks that represents at least 50% of the total commitment (or at least 60% if an additional lending bank is added to the current four), the termination of the contract and early repayment of the loan.

During the second quarter of 2020, the Group, in the new context strongly impacted by the Covid-19 emergency, deemed it prudent to proactively approach its main lenders and obtain additional flexibility for the emergency period (estimated until the end of 2021). The process was concluded with the support of all lenders who agreed to review the terms of existing loans including the financial covenant.

In relation to the above, it is noted that at December 31, 2020, no event of default or default has occurred.

The Facilities, the Schuldschein loan, the Bilateral 600, the Bilateral 125 and the Sustainable Credit Line also provide for Negative Pledge clauses and other usual provisions, the terms of which are in line with market standards for each of the aforementioned types of credit facilities.

The other outstanding financial payables at December 31, 2020 did not contain financial covenants.

NET FINANCIAL POSITION (alternative performance indicator not required by IFRS accounting standards)

The table below shows the breakdown of the net financial position and net financial debt at December 31, 2020 and December 31, 2019, determined in accordance with the provisions of Consob communication DEM/6064293 of July 28, 2006 and in compliance with the ESMA/2013/319 Recommendations.

(in thousands of euro)	Note	12/31/2020	of which related parties (note 39)	12/31/2019	of which related parties (note 39)
Current borrowings from banks and other financial institutions	19	307,350	-	711,021	-
Current derivative financial instruments (liabilities)	17	13,226	-	-	-
Non-current borrowings from banks and other financial institutions	19	4,623,295	-	3,544,441	-
Non-current derivative financial instruments (liabilities)	17	109,697	*109,697*	9,589	*9,589*
Total gross debt		**5,053,568**		**4,265,051**	
Cash and cash equivalents	15	(1,742)	-	(1,754)	-
Current financial receivables and other assets	13	(1,157,648)	*(1,152,488)*	(2,325,160)	*(2,324,489)*
Derivative financial instruments - assets	17	(2,869)	*(2,869)*	(10,154)	*(10,143)*
Net financial debt *		**3,891,309**		**1,927,983**	
Non-current financial receivables and other assets	13	(2,000,267)	*(2,000,000)*	(268)	-
Derivative financial instruments	17	-	-	(30,269)	*(30,269)*
Total net financial (liquidity)/debt position		**1,891,042**		**1,897,446**	

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

20. PROVISIONS FOR RISKS AND CHARGES

The following is a detail of changes of the item in question:

(in thousands of euro)	12/31/2019	Increases	Uses	Reversals	12/31/2020
Provision for employees controversies	1,997	632	(563)	(152)	1,914
Provision for tax risks	1,141	-	-	-	1,141
Provision for environmental risks	627	1,180	(80)	-	1,727
Provision for other risks	36,566	3,450	(33,693)	-	6,323
Provision for liabilities and charges - non current portion	**40,331**	**5,262**	**(34,336)**	**(152)**	**11,105**
Closing balance	**40,331**	**5,262**	**(34,336)**	**(152)**	**11,105**

Increases mainly refer to provisions for environmental reclamation, labour disputes and end-of-term indemnity for directors.

The **uses** are mainly attributable to the payment of its share of the sanction in favour of the European Commission for euro 33.6 million; in this regard, it should be noted that on October 28, 2020, the Court of Justice of the European Union ultimately confirmed the legitimacy of the decision issued on April 2, 2014 by the European Commission at the conclusion of the antitrust investigation launched in relation to alleged restrictive conduct of competition in the European high voltage electrical cables market. This decision had imposed a sanction against Prysmian Cavi e Sistemi S.r.l. (Prysmian) as directly involved in the cartel, of which a part (euro 67 million), Pirelli, despite having been found to not have been involved directly in the activities of said cartel, was held as being jointly liable with Prysmian, based solely on the application of the principle of parental liability, in that during part of the period of the infringement, the capital of Prysmian was directly or indirectly held by Pirelli. In this regard, Pirelli had provided the Commission (and at the latter's request) with a bank guarantee of euro 33.6 million (corresponding to 50% of the sanction imposed jointly on Prysmian and Pirelli) in addition to interest, and had consequently made the appropriate allocations. On December 31, 2020, Pirelli paid the aforementioned portion of the sanction in favour of the European Commission.

Reversals of excess funds are mainly related to the adjustment of provisions for labour disputes.

21. PERSONNEL PROVISIONS

Personnel provisions amounted to euro 10,912 thousand (euro 6,311 thousand at December 31, 2019), and the breakdown is as follows:

(in thousands of euro)	12/31/2020			12/31/2019		
	Total	Non current	Current	Total	Non current	Current
Employee leaving indemnities (TFR)	2,518	2,518	-	2,672	2,672	-
Other benefits	8,394	5,946	2,448	3,639	1,605	2,034
Total employees' benefit obligation	**10,912**	**8,464**	**2,448**	**6,311**	**4,277**	**2,034**

Employee severance indemnity (TFR)

The changes in the year 2020 for the employee severance indemnity are the following:

(in thousands of euro)	12/31/2020	12/31/2019
Opening balance	**2,672**	**1,077**
Movements through income statement:		
- current service cost	1,786	1,800
- interest expense	23	23
Remeasurements recognised in equity:		
- actuarial (gains) or losses arising from changes in financial assumption	18	96
- increase related to business combination	-	1,411
Indemnities, advance payments, relocations, payment to funds	(1,981)	(1,735)
Total employees' leaving indemnities (TFR)	**2,518**	**2,672**

The amounts recognised in the income statement are included in the item “Personnel Costs” (note 30).

Net actuarial gains accrued in 2020, recognised directly in equity, amounted to euro 18 thousand and are essentially related to the change in the economic parameters of reference (discount rate and inflation rate).

In accordance with national legislation, the amount due to each employee accrues based on the service provided and is paid when the employee leaves the company. The treatment due to the termination of the employment relationship is calculated based on its duration and the taxable remuneration of each employee. The liability, annually revalued on the basis of the official cost of living and statutory interest rate, is not associated with any accrual condition or period, nor with any financial funding obligation; therefore, there is no activity at the service of the provision.

The discipline was supplemented by Legislative Decree no. 252/2005 and by Law no. 296/2006 (Finanziaria 2007) which, for companies with at least 50 employees, has established that the portions accrued since 2007 be allocated, on the employees' option, either to the INPS Treasury Fund or to supplementary pension schemes, assuming the nature of "Defined contribution plan". In any case, for all companies, the revaluations of the amounts outstanding at the option dates are still accounted for under staff severance indemnities as well as, for companies with less than 50 employees, also the portions accrued and not allocated to supplementary pensions.

The principal actuarial assumptions used at December 31, 2020 are as follows:

	2020
Discount rate	0.6%
Inflation rate	1.0%

The main actuarial assumptions used at December 31, 2019 were as follows:

	2019
Discount rate	0.7%
Inflation rate	1.0%

Hired employees at December 31, 2020 amounted to 345 units (353 units at December 31, 2019).

In other conditions being equal, a hypothetical change of 0.25% in the discount rate would result in a decrease in liabilities equal to 1.81%, in the case of an increase (1.84% at December 31, 2019), and an increase in liabilities of 1.84%, in the case of a decrease (1.88% at December 31, 2019).

Other employee benefits

The breakdown of other benefits is as follows:

(in thousands of euro)		**12/31/2020**			**12/31/2019**	
	Total	**Non current**	**Current**	**Total**	**Non current**	**Current**
Long-term incentive plans	4,253	4,253	-	-	-	-
Jubilee awards	1,692	1,692	-	1,605	1,605	-
Other benefits	2,448	-	2,448	2,034	-	2,034
Total	**8,394**	**5,946**	**2,448**	**3,639**	**1,605**	**2,034**

The item **Long Term Incentive Plans** relates to the amount allocated for the three-year monetary Long Term Incentive 2020 - 2022 plan for Group management (to date around 260 participants) approved by the Board of Directors on February 19, 2020 and correlated with the 2020 - 2022 Business Plan figures presented on the same date. On the occasion of the figures as at 30 June 2020, in order to take account of the radical changes in the macroeconomic scenario, the Board of Directors instructed the Remuneration Committee to draw up a proposal to revise the incentive plan, aligning the targets with the new guidance for 2020 communicated to the market on the same date and with the targets of the new Business Plan for the years 2021 and 2022 approved by the Board of Directors on 31 March 2021.

The **other benefits** for euro 2,448 thousand refer to the portion attributable to December 31, 2020 of the fourth installment of the retention plan that will be paid in the first half of 2021. The plan was approved by the Board of Directors on February 26, 2018 and is intended for Key Managers and a selected number of senior Managers and Executives.

22. TRADE PAYABLES

The breakdown of trade payables is as follows:

(in thousands of euro)	**12/31/2020**	**12/31/2019**
Payables to subsidiaries	2,815	4,562
Payables to associates	265	102
Payables to other companies	24,490	14,598
Total trade payables	**27,570**	**19,262**

The carrying amount of trade payables is considered to approximate their fair value.

23. OTHER PAYABLES

The breakdown of other payables is as follows:

(in thousands of euro)	12/31/2020			12/31/2019		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Payables to subsidiaries	5,997	-	5,997	11,515	-	11,515
Payables to social security and welfare institution	3,810	-	3,810	3,193	-	3,193
Payables to employees	4,431	-	4,431	7,213	-	7,213
Other payables	11,370	538	10,832	9,593	211	9,382
Accrued liabilities	56	-	56	271	-	271
Deferred income	186	-	186	533	-	533
Total other payable	**25,850**	**538**	**25,312**	**32,318**	**211**	**32,107**

Payables to subsidiaries mainly refer to receivables related to VAT consolidation.

Payables to pension and social security institutions mainly consist of contributions to be paid to the INPS (National Social Welfare Institute).

Payables to employees refer to the remuneration to be paid to employees.

Other payables include liabilities for compensation to be paid to directors and auditors, for withholding taxes on income from self-employed and employed work.

For **other current payables** it is considered that the carrying amount approximates their fair value.

24. PROVISION FOR DEFERRED TAX LIABILITIES

The deferred tax provision amounted to euro 524,338 thousand at December 31, 2020 (euro 538,902 thousand at December 31, 2019).

The breakdown of the deferred tax provision gross of offsetting is as follows:

(in thousands of euro)	12/31/2020	12/31/2019
Deferred tax assets	**114,631**	**101,909**
- of which within 12 months	46,362	64,050
- of which over 12 months	68,269	37,859
Provision for deferred tax liabilities	**(638,969)**	**(640,811)**
- of which within 12 months	(5,639)	(1,842)
- of which over 12 months	(633,330)	(638,969)
Total	**(524,338)**	**(538,902)**

The breakdown of deferred tax assets related to temporary differences and tax losses carried forward is shown in the following table:

(in thousands of euro)	12/31/2020	12/31/2019
Deferred tax assets		
Provision for risk and charges	1,533	665
Property, plant and equipment	-	65
Employees provision	2,202	1,037
Provision for bad debt	126	120
Tax losses carried forward	34,596	24,080
ACE Benefit	66,306	54,501
Interests	5,253	16,010
Derivatives	4,480	4,984
Other	135	446
Total deferred tax assets	**114,631**	**101,909**
Provision for deferred tax liabilities		-
Brand Pirelli	(633,330)	(633,330)
Exchange differences not realised	(5,639)	(7,481)
Total provision for deferred tax liabilities	**(638,969)**	**(640,811)**
Total	**(524,338)**	**(538,902)**

At 31 December 2020, the value of unrecognised deferred tax assets relating to unlimited tax losses that can be carried forward was euro 25,294 thousand (euro 30,048 thousand at December 31, 2019), while those relating to temporary differences amounted to euro 25,856 thousand (unchanged from December 31, 2019).

The tax effect of gains and losses recognised directly in equity was negative for euro 500 thousand (positive for euro 2,557 thousand in 2019), and is disclosed in the Comprehensive income statement; these changes were mainly due to the tax effects associated with actuarial gains/losses on employee benefits obligations and to the adjustment of derivatives in cash flow hedges to their fair value.

25. TAX PAYABLES

These amounted to euro 11,985 thousand (euro 17,617 thousand at December 31, 2019) and mainly include payables to subsidiaries that adhere to the tax consolidation, which arose following the transfer of withholding taxes incurred abroad (WHT).

26. COMMITMENTS AND RISKS

Lease contract commitments

At December 31, 2020, there were no commitments for lease contracts not yet in force.

Disputes against Prysmian Group Companies before the Court of Milan.

Pending the definition of the Community proceeding pursuant to Note 20 “Provision for risks and charges”, in November 2014, Pirelli & C. S.p.A. (“Pirelli”) took action before the Court of Milan in order to obtain the ascertainment and declaration of the obligation of Prysmian Cavi e Sistemi S.r.l. to hold it free from any claim relating to the alleged anti-competitive agreement in the energy cables sector, including the penalty imposed by the European Commission.

Prysmian Cavi e Sistemi S.r.l. appeared in the aforementioned judgement, requesting the rejection of Pirelli’s claims, and as counter-claim, to be indemnified by Pirelli in relation to the consequences deriving from or related to the decision of the European Commission. The judgement had been suspended pending the definitive sentence of the EU judges and was resumed by Pirelli on November 30, 2020 following the sentence of the Court of Justice.

In October 2019, Pirelli took further action before the Court of Milan against Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. requesting the assessment and declaration of the obligation of Prysmian Cavi e Sistemi S.r.l. to indemnify and release it from any charge, expense, cost and/or damage resulting from claims of private and/or public third parties (including authorities other than the European Commission) relating, connected and/or consequential to the facts covered by the decision of the European Commission, as well as the consequent conviction of Prysmian Cavi e Sistemi S.r.l. to reimburse any charge, expense, cost or damage incurred or suffered by Pirelli.

On this occasion, Pirelli also requested to ascertain the liability of Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. in relation to certain illegal conduct connected to the aforementioned anti-competitive agreement, carried out by the same and, as a result, the conviction to compensation for all damages suffered and being suffered by Pirelli.

Lastly, Pirelli requested the ascertainment and declaration of the joint liability of Prysmian S.p.A. with Prysmian Cavi e Sistemi S.r.l. in relation to the amounts that will be paid both in this new judgement and in the one in November 2014 and that may not be settled by the latter.

Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. appeared in the aforementioned judgement in November 2020, requesting the rejection of Pirelli's claims and, as counter-claim, to be held harmless and indemnified by Pirelli in relation to any consequences deriving from claims of private and/or public third parties relating, connected and/or consequential to the facts covered by the decision of the European Commission.

Based on accurate analyses supported by authoritative opinions from external lawyers, the risk assessment related to the disputes described above is such as not to have to request the allocation of any specific provision in the Financial Statements at December 31, 2020.

Other disputes in relation to the European Commission Decision

In November 2015, some companies of the Prysmian Group notified Pirelli of proceedings for the recovery of damages before the High Court of Justice of London against them and other recipients of the European Commission Decision of April 2, 2014 by National Grid and Scottish Power, companies that claim to have been injured by the alleged cartel. Specifically, the companies of the Prysmian Group submitted a request to obtain from Pirelli and Goldman Sachs, based on the role of parent companies during the period of the cartel, to hold them harmless in respect of any obligations to pay any damages claims (to date unquantified) by National Grid and Scottish Power. Due to the aforementioned pending legal action before the Court of Milan, filed in November 2014, Pirelli challenged the lack of jurisdiction of the High Court of Justice of London claiming that, that any decision on the merits should be assigned to the Court previously referred to. In April 2016, the High Court of Justice, at the request of Pirelli and the companies of the Prysmian Group, suspended the proceedings until the final passing of judgement that will define the Italian judgement already pending.

In April 2019, Terna S.p.A. – Rete Elettrica Nazionale ("Terna") summoned Pirelli, three Prysmian Group companies and another recipient of the aforementioned European Commission decision, before the Court of Milan, to obtain compensation for the damage allegedly suffered as a result of the anti-competitive conduct, quantified by the plaintiff at euro 199.9 million. Pirelli appeared in court contesting the claims made by Terna and filing, like the other defendants and against them, a counter-claim in recourse for the denied case in which it was held jointly liable for the anti-competitive agreement.

Lastly, also in April 2019, the Electricity and Water Authority of Bahrain, the GCC Interconnection Authority, the Kuwait Ministry of Electricity and Water and the Oman Electricity Transmission Company, served a summons against Pirelli, some Prysmian Group companies and others recipients of the aforementioned European Commission decision, jointly agreeing with each other to obtain compensation for the damage allegedly suffered as a result of the alleged anti-competitive conduct. The proceeding was initiated before the Court of Amsterdam, which, with sentence of November 25, 2020, upholding the objection brought by Pirelli, excluded its jurisdiction against Pirelli itself In February 2021, the claimants appealed against said sentence before the Amsterdam Court of Appeal.

Based on accurate analyses supported by authoritative opinions from external lawyers, the risk assessment related to the disputes described above is such as not to have to request the allocation of any specific provision in the Financial Statements at December 31, 2020, also considering their initial status.

INCOME STATEMENT

27. REVENUES FROM SALES AND SERVICES

Revenues from sales and services amounted to euro 53,486 thousand for 2020 compared to euro 51,992 thousand in 2019 and the breakdown is as follows:

(in thousands of euro)	**2020**	**2019**
Sales of services to subsidiaries	53,125	50,108
Sales of services to other companies	361	1,884
Total revenues from sales and services	**53,486**	**51,992**

Revenues from subsidiaries refer to services provided by the central functions.

28. OTHER INCOME

Other income amounted to euro 124,405 thousand in 2020 (euro 110,180 thousand in 2019), and the breakdown is as follows:

(in thousands of euro)	**2020**	**2019**
Other income from subsidiaries	111,548	106,613
Other revenues from third parties	12,857	3,567
Other income from other companies	**124,405**	**110,180**

Other income from subsidiaries mainly include royalties paid by Group companies for the use of the brand (euro 57,610 thousand in 2020 compared to euro 71,730 thousand in 2019) and also include cost recovery and other revenues deriving from the charge-back of costs to Group companies.

Other revenues from other companies mainly include the gains deriving from the sale of the property located in Milan and land located in Settimo Torinese for approximately euro 8,000 thousand and the royalties paid by other companies for the use of the Pirelli brand (euro 1,370 thousand in 2020 compared to euro 1,645 thousand in 2019).

29. RAW MATERIALS AND CONSUMABLES USED

They amounted to euro 228 thousand in 2020 (euro 225 thousand in 2019) and include purchases of advertising material, fuels and various materials.

30. PERSONNEL COSTS

Personnel costs amounted to euro 49,952 thousand (euro 48,229 thousand in 2019), and the breakdown is as follows:

(in thousands of euro)	**2020**	**2019**
Wages and salaries	35,441	33,886
Social security and welfare contributions	8,046	8,568
Employee leaving indemnities	1,901	1,933
Retirement and similar obbligations	563	533
Other costs	4,001	3,309
Total	**49,952**	**48,229**

The item **other costs** includes this includes the portion of the retention plan (euro 3,297 thousand in 2020 and euro 2,597 thousand in 2019) that was approved by the Board of Directors on February 26, 2018 and intended for Managers with strategic responsibilities and a selected number of senior Managers and Executives.

The average staff headcount is the following:

- Executives 80
- White collars 260
- Workers 6

31. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

The breakdown of the item is as follows:

(in thousands of euro)	**2020**	**2019**
Amortisation - intangible assets	2,468	2,324
Depreciation - property, plant and equipment (excl. Depreciation of Right of Use)	1,817	1,907
Depreciation of right of use	5,631	4,023
Total depreciation, amortisation and impairments	**9,916**	**8,254**

For the breakdown of the amortisation of the rights of use, see note 9.2 - Rights of use.

32. OTHER COSTS

The breakdown of other costs is the following:

(in thousands of euro)	**2020**	**2019**
Advertising and sponsorship	59,806	38,625
Consultancy and collaboration services	12,580	11,204
Accruals to provisions (net of reversals)	2,212	77
Legal and notarial expenses	762	835
Travel expenses	2,734	4,013
Remuneration of Directors and supervisory bodies	7,548	7,086
Membership fees and contributions	2,272	2,418
Rental and lease instalments	969	1,202
IT expenses	5,674	6,327
Energy, gas and water expenses	1,271	1,351
Security service	1,856	2,474
Insurance premiums	2,896	2,594
Patents and trademarks expenses	874	1,198
Cleaning and property ordinary maintenance expenses	444	750
Property maintenance	1,829	683
Other	4,941	8,681
Total other costs	**108,668**	**89,518**

The item **Advertising and sponsorships** increased from 2019 due to non-discretionary sponsorship costs for event cancelled or with reduced visibility due to Covid-19.

The item **Leases and rentals** includes costs relating to the application of the accounting standard IFRS 16, in particular:

- euro 661 thousand for lease contracts with a duration of less than twelve months (euro 980 thousand at December 31, 2019);
- euro 197 thousand for lease contracts for low unit value assets (euro 208 thousand at December 31, 2019);
- euro 111 thousand for lease contracts with variable fees (euro 14 thousand at December 31, 2019) and refers to the positive effect of changes in payments for lease contracts due to reductions in permanent (rent holidays) or temporary lease fees related to Covid-19 (euro 111 thousand) that was recognised directly in the income statement as the Group made use of the practical expedient envisaged by the amendments to IFRS 16.

33. NET IMPAIRMENT OF FINANCIAL ASSETS

The item, negative for euro 23 thousand, mainly includes the net impairment of trade receivables. At December 31, 2019, the net impairment of trade receivables amounted to euro 97 thousand.

34. RESULT FROM INVESTMENTS

34.1. Gains from investments

They were almost nil in 2020 compared to euro 2 thousand in 2019, which referred to the sale of 1,014 shares of Servizi Aziendali Pirelli S.c.p.A. to Pirelli International Treasury S.p.A.

34.2. Losses from investments

Losses from investments amounted to euro 14,000 thousand in 2020 and refer to the impairment of the investment in the subsidiary Pirelli UK Ltd. No losses on equity investments were recognised in 2019.

34.3 Dividends

They amounted to euro 53,650 thousand in 2020 compared to euro 268,903 thousand in 2019, and the breakdown is as follows:

(in thousands of euro)	**2020**	**2019**
From subsidiaries:		
- Pirelli Tyre S.p.A. - Italy	50,000	250,000
- Pirelli Group Reinsurance Company SA - Switzerland	-	13,342
- Pirelli Servizi Amministrazione e Tesoreria S.p.A. - Italia	200	200
- Pirelli Sistemi Informativi S.r.l. - Italy	1,050	300
- Pirelli International Treasury S.p.A. - Italy	2,400	-
From other financial assets:		
- RCS S.p.A. - Italy	-	1,482
- ECA Ltd - United the Kingdom	-	10
- Fin. Priv. S.r.l. - Italy	-	957
- Genextra S.p.A. - Italy	-	178
- Fondo Anastasia - Italy	-	2,434
Total	**53,650**	**268,903**

The lower amount of dividends from subsidiaries received in fiscal 2020 compared to fiscal 2019 is primarily attributable to lower dividends distributed by the subsidiary Pirelli Tyre S.p.A., which, in view of the pandemic, resolved to allocate a large portion of the profits earned during the year to its own capital strengthening.

35. FINANCIAL INCOME

The breakdown of the item is as follows:

(in thousands of euro)	**2020**	**2019**
Interest	31,075	39,723
Other financial income	11	32
Net gains on exchange rates	37,067	519
Total financial income	**68,153**	**40,274**

Interest refers to interest accrued on loans granted in 2020 to subsidiaries.

Net exchange rate gains of euro 37,067 in 2020 (euro 519 thousand in 2019) refer to the adjustment to the year-end exchange rate of the items expressed in the currency other than the functional one still in effect at the closing date of the Financial Statements and the net profits on items closed during the year.

They also include the unrealised exchange rate gains recorded on the liability hedged by cross currency interest rate swaps, for which cash flow hedge accounting was adopted for euro 133,595 thousand. These exchange rate gains are presented net of losses of the same amount relating to the exchange rate component of the fair value measurement of the aforementioned derivatives.

36. FINANCIAL EXPENSES

The breakdown of the item is as follows:

(in thousands of euro)	**2020**	**2019**
Interest and other financial expenses	65,763	59,712
Commissions	2,241	2,736
Interest expenses on lease liability	1,725	1,421
Net interest on employee benefit obligations	28	36
Net losses on derivative financial instruments	34,781	120
Total financial expenses	**104,538**	**64,025**

Interest and other financial expenses for a total of euro 65,763 thousand mainly include:

- euro 63,320 thousand for the bank loan lines held by Pirelli & C. S.p.A.;
- euro 15,059 thousand of financial expenses related to bonds, of which euro 9,658 thousand related to unrated bonds, euro 5,175 thousand related to the “Schuldschein” loan and euro 226 thousand of notional interest relating to the convertible bond issued in December 2020;
- net of euro 16,781 thousand for net interest income on the Cross Currency Interest Rate Swap and Interest Rate Swaps to adjust the flow of interest expense of the bank lines and bonds referred to in the previous points.

For further details, refer to as reported in Note 17 “Derivative financial instruments”.

Net expenses on derivatives refer to forward purchases/sales of foreign currencies to hedge the payables in foreign currency of the Company, in accordance with the Group foreign exchange risk management policy. For transactions outstanding at the end of the year, the fair value is determined using the forward exchange rate at the reporting date. The fair value measurement includes two elements: the interest component linked to the interest rate spread between the currencies subject to the individual hedges, a net revenue of euro 2,455 thousand, and the exchange rate component, a net cost of euro 170,831 thousand. The exchange rate component of the fair value measurement of cross currency interest rate swaps, for which cash flow hedge accounting was adopted, negative for euro 133,595 thousand, was reclassified to the item net exchange rate gains, to offset unrealised exchange rate gain recorded on the hedged liability.

Comparing net exchange rate gains, equal to euro 37,067 thousand, with the exchange rate component of net gains on derivatives, net of the aforementioned reclassification (euro 37,236 thousand), the difference is immaterial and shows that the positions at exchange risk have been hedged in line with Group policies.

37. TAXES

The breakdown of taxes is as follows:

(in thousands of euro)	**2020**	**2019**
Current taxes	(16,523)	(26,120)
Deferred taxes	(15,064)	13,882
Total income taxes	**(31,587)**	**(12,238)**

Current taxes for the year 2020 were positive for euro 16,523 thousand compared to euro 26,120 thousand in the previous year and mainly include income from tax consolidation. The reduction compared to the previous year is essentially attributable to the lower taxable income of the subsidiary Pirelli Tyre.

Deferred tax assets were positive for euro 15,064 thousand and mainly refer to the recognition of deferred tax assets on the ACE benefit and on previous tax losses.

The table below shows the reconciliation of the effective tax rate with the theoretical rate of the Parent Company:

(in thousands of euro)	**2020**	**2019**
A) Profit/(loss) before taxes	12,369	261,004
B) Theoretical taxes	**2,968**	**62,641**
Main causes that give rise to changes between theoretical and effective taxes:		
Tax incentives	-	(5,736)
Dividends and gains from investments not subject to taxation	(12,232)	(60,755)
Loss on investments	3,360	-
Non-deductible costs	1,179	1,305
Uses losses previous years not activated	(4,431)	(1,007)
Deferred tax assets on previous tax losses and other temporary differences	(11,805)	(8,686)
Taxes relating to previous years	(10,626)	-
C) Effective taxes	**(31,587)**	**(12,238)**
Theoretical tax rate (B/A)	24%	24%
Effective tax rate (C/A)	-255.4%	-4.7%

Tax consolidation

It shall be noted that starting from 2004, the Company exercised the option for consolidated taxation as consolidator, pursuant to article 117 and following of the TUIR, with regulation of relations arising from adhesion to consolidation through a special “Regulation”, which involves a common procedure for the application of laws and regulations.

Said regulation was updated in subsequent years as a result of amendments made within the companies participating in the agreement and the related shareholding structure, as well as in light of the corrective and supplementary interventions of the relevant legislation.

The above amendments particularly concerned the remuneration of the tax losses used by the companies adhering to the consolidation. The adoption of the consolidation makes it possible to compensate, with regard to the parent company Pirelli & C. S.p.A., the taxable income or loss of the same parent company with those of its resident subsidiaries which have exercised the option, given that the tax losses accrued during periods prior to the introduction of Group taxation can be used by those companies which are eligible.

38. NON-RECURRING EXPENSES AND INCOME

Pursuant to Consob Communication no. DEM/6064293 of July 28, 2006, no non-recurring events were recognised in 2020.

39. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties mainly include transactions with subsidiaries related to:

- services (technical, organisational, general) provided by the headquarters;

- royalties for the use of the brand.
- financial transactions.

All the transactions listed above are part of the ordinary management of relations between the Parent Company and its subsidiaries.

Transactions with related parties also included the fees paid to Directors and Key Managers.

The statement below shows a summary of the Statement of Financial Position and the Income Statement that include transactions with related parties and their impact.

(in thousands of euro)	**12/31/2020**	***of which related parties***	**% share**	**12/31/2019**	***of which related parties***	**% share**
BALANCE SHEET						
Non current assets						
Other receivables	2,000,575	2,000,000	100.0%	620	-	0.0%
Derivative financial instruments	-	-	0.0%	30,269	30,269	100.0%
Current assets						
Trade receivables	80,568	76,655	95.1%	23,775	*21,725*	91.4%
Other receivables	1,166,741	1,154,823	99.0%	2,347,952	*2,327,043*	99.1%
Tax receivables	32,676	31,369	96.0%	31,744	*29,830*	94.0%
Derivative financial instruments	2,894	2,894	100.0%	10,154	*10,154*	100%
Non-current liabilities						
Other payables	538	212	39.3%	212	212	100.0%
Provision for liabilities and charges	11,105	5,926	53.4%	40,331	3,065	7.6%
Employee benefit obligations	8,464	1,349	15.9%	4,277	-	0.0%
Derivative financial instruments	109,697	109,697	100.0%	9,589	*9,589*	100.0%
Current liabilities						
Payables to banks and other financial lenders	307,350	2,084	0.7%	678,289	*252*	0.0%
Trade payables	27,570	3,080	11.2%	19,262	*4,771*	24.8%
Other payables	25,312	6,576	26.0%	32,107	*14,565*	45.4%
Employee benefit obligations	2,448	1,698	69.4%	2,034	*1,100*	54.1%
Tax payables	11,985	11,757	98.1%	17,617	*17,388*	98.7%
Derivative financial instruments	13,231	13,231	100.0%	5	*5*	100.0%

(in thousands of euro)	**2020**	***of which related parties***	**% share**	**2019**	***of which related parties***	**% share**
INCOME STATEMENT						
Revenues from sales and services	53,486	*53,337*	99.7%	51,992	*50,823*	97.8%
Other income	124,405	*111,603*	89.7%	110,180	*106,726*	96.9%
Personnel expenses	(49,952)	*(8,909)*	17.8%	(48,229)	*(5,571)*	11.6%
Other costs	(108,668)	*(20,457)*	18.8%	(89,518)	*(22,315)*	24.9%
Income on equity investments	-	-	0.0%	2	*2*	100.0%
Losses on equity investments	(14,000)	*(14,000)*	100.0%	-	-	0.0%
Dividends	53,650	*53,650*	100.0%	268,903	*263,842*	98.1%
Financial income	68,153	*30,994*	45.5%	40,274	*39,706*	98.6%
Financial expenses	(104,538)	*(34,838)*	33.3%	(64,025)	*51,507*	-80.4%

Transactions with related parties

The tables below shows the main equity transactions with related parties for the years ended December 31, 2020 and December 31, 2019.

(in thousands of euro)	**Subsidiaries**	**Associates**	**Other related parties**	**Total 12/31/2020**
Other non current receivables	2,000,000	-	-	2,000,000
Trade receivables	76,578	3	74	76,655
Other current receivables	1,154,823	-	-	1,154,823
Tax receivables	31,369	-	-	31,369
Derivative financial instruments (current assets)	2,894	-	-	2,894
Other payables (Non-current liabilities)	-	-	212	212
Provision for liabilities and charges (Non-current liabilities)	-	-	5,926	5,926
Employee benefit obligations (Non-current liabilities)	-	-	1,349	1,349
Derivative financial instruments (non-current liabilities)	109,697	-	-	109,697
Payables to banks and other lenders (current liabilities)	2,084	-	-	2,084
Trade payables	2,815	265	-	3,080
Other payables (current liabilities)	5,929	-	647	6,576
Employee benefit obligations (current liabilities)	-	-	1,698	1,698
Tax payables	11,757	-	-	11,757
Derivative financial instruments (current liabilities)	13,231	-	-	13,231

(in thousands of euro)	**Subsidiaries**	**Associates**	**Other related parties**	**Total 12/31/2019**
Trade receivables	21,486	3	236	21,725
Other current receivables	2,327,043	-	-	2,327,043
Tax receivables	29,830	-	-	29,830
Derivative financial instruments (current assets)	10,154	-	-	10,154
Derivative financial instruments (non current assets)	30,269	-	-	30,269
Other payables (Non-current liabilities)	-	-	212	212
Provision for liabilities and charges (Non-current liabilities)	-	-	3,065	3,065
Derivative financial instruments (non-current liabilities)	9,589	-	-	9,589
Payables to banks and other lenders (current liabilities)	252	-	-	252
Trade payables	4,562	102	107	4,771
Other payables (current liabilities)	11,698	-	2,867	14,565
Employee benefit obligations (current liabilities)	-	-	1,100	1,100
Tax payables	17,388	-	-	17,388
Derivative financial instruments (current liabilities)	5	-	-	5

Other non-current receivables amounted to euro 2,000,000 thousand (zero at December 31, 2019) and refer to credit lines granted to Pirelli International Treasury S.p.A., maturity 2023.

Trade receivables amounted to euro 76,655 thousand (euro 21,725 thousand at December 31, 2019) and mainly refer to receivables for services/provisions provided to Group companies (euro 68,060 thousand from Pirelli Tyre S.p.A., euro 4,919 thousand from Pirelli Group Reinsurance Company SA, euro 1,667 thousand from Limited Liability Company Pirelli Tyre Russia, euro 980 thousand from Pirelli Tyre Co. Ltd., euro 400 thousand from Pirelli Tyre Trading (Shanghai) Co).

Other related parties include trade relations with the Prometeon Group for euro 74 thousand.

Other current receivables amounted to euro 1,154,823 thousand (euro 2,327,043 thousand at December 31, 2019) and mainly refer for euro 1,622 thousand to the intra-group current account with Pirelli International Treasury S.p.A., euro 1,149,923 thousand to the loan including accrued interest granted to Pirelli International Treasury S.p.A., euro 983 thousand to the accrued asset towards Pirelli International Treasury S.p.A. on the hedging transactions of the Cross Currency

Interest Rate Swap in place at December 31, 2020, euro 2,307 thousand to the VAT receivables transferred to the consolidation (euro 1,705 thousand from Pirelli Industrie Pneumatici S.r.l., euro 353 thousand from Pirelli Sistemi Informativi S.r.l., euro 247 thousand from Pirelli Servizi Amministrazione e Tesoreria S.p.A.).

Tax receivables amounted to euro 31,369 thousand (euro 29,830 thousand at December 31, 2019) and refer to receivables from Group companies that adhere to tax consolidation (mainly euro 20,697 thousand from Pirelli Tyre S.p.A., euro 679 thousand from Pirelli Industrie Pneumatici S.r.l., euro 9,083 thousand from Pirelli International Treasury S.p.A.).

Derivative financial instruments (current assets) for euro 2,894 thousand (euro 10,154 thousand at December 31, 2019) refer to hedging transactions with Pirelli International Treasury S.p.A..

Provisions for risks and charges (non-current liabilities) include long-term benefits of euro 1,962 thousand, relating to the three-year monetary Long Term Incentive Plan 2020-2022 and the Directors' severance indemnity of euro 3,964 thousand.

Employee benefit obligations (non-current liabilities) include long-term benefits of euro 1,349 thousand, relating to the three-year monetary Long Term Incentive Plan 2020-2022 and regarding Key Managers.

The amount of euro 109,697 thousand (euro 9,589 thousand at December 31, 2019) of **derivative financial instruments (non-current liabilities)** refers to the fair value measurement of the cross currency interest rate swap (euro 99,964 thousand) and IRS (euro 9,733 thousand) with Pirelli International Treasury S.p.A..

Payables to banks and other lenders (current) amounted to euro 2,084 thousand (euro 252 thousand at December 31, 2019) and mainly refer to the accrued liability to Pirelli International Treasury S.p.A. on the hedging transactions of the existing interest rate swap at December 31, 2020.

Trade payables amounted to euro 3,080 thousand (euro 4,771 thousand at December 31, 2019) and mainly refer to payables for the provision of services. These payables mainly refer for euro 2,466 thousand to Pirelli Tyre S.p.A. and for euro 735 thousand to HB Servizi S.r.l..

Trade payables to associated companies refer to the Consortium for the Research of Advanced Materials (Consorzio per la Ricerca di Materiali Avanzati - CORIMAV).

Other payables (current liabilities) amounted to euro 6,576 thousand (euro 11,895 thousand at December 31, 2019) and mainly refer to payables with Group companies that adhere to the VAT consolidation. The main ones are: euro 5,653 thousand to Pirelli Tyre S.p.A., euro 74 thousand to Driver Servizi Retail S.p.A..

The item **Employee benefit obligations (current liabilities)** includes the portion pertaining to December 31, 2020 of the fourth installment of the retention plan referring to Key Managers.

Tax payables amounted to euro 11,757 thousand (euro 17,388 thousand at December 31, 2019) and refer to payables to subsidiaries that adhere to tax consolidation (euro 10,491 thousand Pirelli Tyre S.p.A., euro 1,182 thousand Pirelli International Treasury S.p.A.).

The amount of euro 13,231 thousand (euro 5 thousand at December 31, 2019) of **derivative financial instruments – current liabilities** refers to hedging transactions with Pirelli International Treasury S.p.A..

Transactions with related parties

The tables below show the main financial transactions with related parties for the years 2020 and 2019.

(in thousands of euro)	**Subsidiaries**	**Associates**	**Other related parties**	**Total 2020**
Revenues from sales and services	53,125	-	212	53,337
Other income	111,548	-	55	111,603
Personnel expenses	-	-	(8,909)	(8,909)
Other costs	(12,423)	(265)	(7,769)	(20,457)
Losses from investments	(14,000)	-	-	(14,000)
Dividends	53,650	-	-	53,650
Financial income	30,994	-	-	30,994
Financial expenses	(34,838)	-	-	(34,838)

(in thousands of euro)	**Subsidiaries**	**Associates**	**Other related parties**	**Total 2019**
Revenues from sales and services	50,108	-	715	50,823
Other income	106,613	-	113	106,726
Personnel expenses	-	-	(5,571)	(5,571)
Other costs	(14,399)	(270)	(7,646)	(22,315)
Dividends	263,842	-	-	263,842
Financial income	39,706	-	-	39,706
Financial expenses	51,507	-	-	51,507

Revenues from sales and services amounted to euro 53,337 thousand in 2020 (euro 50,823 thousand in 2019) and mainly refer to service contracts. The main transactions with subsidiaries are: euro 51,606 thousand with Pirelli Tyre S.p.A., euro 658 thousand with Pirelli Servizi Amministrazione e Tesoreria S.p.A., euro 262 thousand with Pirelli International Treasury S.p.A.. Transactions with other related parties refer to the service/provisions contract with Prometeon Tyre Group S.r.l..

Other income for euro 111,603 thousand in 2020 (euro 106,726 thousand in 2019) mainly refer to: royalties (euro 55,924 thousand with Pirelli Tyre S.p.A., euro 1,665 thousand with Limited Liability Company Pirelli Tyre Russia); other recoveries (euro 50,220 thousand from Pirelli Tyre S.p.A., euro 1,836 thousand from Pirelli Group Reinsurance Company SA, euro 645 thousand from Pirelli Tire LLC, euro 384 thousand from Pirelli Tyre Co.Ltd.); lease contracts (euro 113 thousand with Pirelli Sistemi Informativi S.r.l.).

The amount recorded under other related parties for euro 55 thousand mainly refers to service contracts with Camfin S.p.A. (euro 31 thousand), and with Marco Tronchetti Provera & C. S.p.A. (euro 23 thousand).

The item **personnel expenses** includes the emoluments related to key managers.

Other costs for euro 20,457 thousand in 2020 (euro 22,315 thousand in 2019) mainly refer to charges for services and miscellaneous costs (euro 4,150 thousand HB Servizi S.r.l., euro 3,360 thousand Pirelli Sistemi Informativi S.r.l., euro 2,930 thousand Pirelli Tyre S.p.A., euro 992 thousand Pirelli Servizi Amministrazione e Tesoreria S.p.A.).

The amount recorded under associates refers to relations with the Consortium for Research on Advanced Materials – Corimav.

The amounts recorded under other related parties refer to the remuneration of directors and key managers for euro 5,507 thousand.

The item **losses from investments** shows the impairment of the investment of Pirelli UK Ltd.

Dividends for euro 53,650 thousand in 2020 (euro 263,842 thousand in 2019) refer to dividends collected during the year (euro 50,000 thousand from Pirelli Tyre S.p.A., euro 1,050 thousand from Pirelli Sistemi Informativi S.r.l., euro 2,400 thousand from Pirelli International Treasury S.p.A. and euro 200 thousand from Pirelli Servizi Amministrazione e Tesoreria S.p.A.).

Financial income for euro 30,994 thousand in 2020 (euro 39,706 thousand in 2019) refers to interest income on receivables from Pirelli International Treasury S.p.A. (euro 27,661 thousand) and Pirelli Tyre S.p.A. (euro 3,333 thousand).

Financial expenses of euro 34,838 thousand in 2020 (positive for euro 51,507 thousand in 2019) mainly refer to net expenses on derivatives with Pirelli International Treasury S.p.A..

Benefits for key managers

At December 31, 2020, remuneration payable to key managers amounted to euro 16,378 thousand. The portion relating to employee benefits was recognised in the Income Statement item “personnel costs” for euro 8,909 thousand. The difference, equal to euro 7,469 thousand and mainly related to directors’ fees, is recognised in the Income Statement item “other costs”. The remuneration also includes euro 1,038 thousand relating to employee severance indemnity and end-of-term indemnity (euro 1,332 thousand at December 31, 2019), as well as short-term benefits for euro 3,750 thousand (euro 3,919 thousand at December 31, 2019) and long-term benefits for euro 3,311 thousand.

40. ADDITIONAL INFORMATION

Directors and auditors' fees

The fees due to Directors of Pirelli & C. S.p.A. amounted to euro 5,467 thousand in 2020. The fees due to the Auditors for the function performed at Pirelli & C. S.p.A. amounted to euro 315 thousand in 2020.

Independent auditors' fees

Pursuant to applicable regulations, the following table shows the fees pertaining to 2020 for the auditing activities and other services rendered by the Auditing Company PricewaterhouseCoopers S.p.A.:

(in thousands of euro)	**Company that provided the service**	**Company that received the service**	**Partial fees**	**Total fees**	
Independent auditing services	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	79		20%
Independent certification services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	150		40%
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	150		40%
				379	100%

(1) the item "independent certification services" includes amounts paid for other services that envisage the issuance of an auditor's report as well as amounts paid for the so called certification services since they create synergies with the auditing services.

Disclosure requested by Law no. 124/2017 article 1 paragraphs 125-129

There is no information to highlight pursuant to the legislation in question referring to Pirelli & C. S.p.A. for 2020.

Any information referring to the subsidiaries of Pirelli & C. S.p.A. are included in the consolidated financial statements.

41 ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob Communication no. 6064293 of July 28, 2006, the Company certifies that no atypical and/or unusual transactions as defined in said Communication were carried out in 2020.

42. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

In **January and February 2021**, Pirelli repaid in advance some debt maturities scheduled for 2021 and 2022 for a total of euro 838 million. In particular, a tranche of the "Schuldschein" loan with original maturity on July 31, 2021 for euro 82 million and part of the unsecured loan (“Facilities”) for euro 756 million with original maturity in 2022 were repaid. The repayments, for which part of the liquidity collected in 2020 was used, make it possible to reduce financial expenses, thus optimising the financial structure of the debt.

On **February 25, 2021**, Pirelli communicated the terms of the termination, with effect from February 28, 2021, of the employment relationship with the co-CEO General Manager Angelos Papadimitriou, already announced to the market on **January 20, 2021**.

In accordance with the current Remuneration Policy of the Pirelli Group, Mr. Papadimitriou was recognised by the Board of Directors, in addition to the amounts due by way of remuneration and other employment law services accrued up to the date of termination: (i) 10 months of gross annual remuneration as an incentive to retirement, equal to the value of the expected indemnity in lieu of the notice, based on the conventional seniority recognised at the time of hiring as executive, to be paid by April 20, 2021; (ii) euro 100,000 gross as a general novative settlement, to be paid once the termination is defined in accordance with the current employment law procedures, by April 20, 2021 as well as the maintenance until December 31, 2021 of some non-monetary benefits attributed at the time of hiring as executive. As envisaged at the time of hiring, subject to the suspensive condition of the approval of the 2021 Remuneration Policy by the shareholders’ meeting, Mr. Papadimitriou will remain bound, for two years following the termination of the office of Director, to a non-competition agreement, valid for the main countries in which Pirelli operates, against a fee, for each year of validity, equal to 100% of the gross annual remuneration, to be paid in 8 deferred quarterly installments starting from July 1, 2021; the non-competition agreement includes a non-solicit clause as well as penalties in the event of violation of the obligations deriving from the non-competition agreement.

On **March 24, 2021**, in order to provide support for the execution of the Industrial Plan, the Executive Vice Chairman and CEO, Marco Tronchetti Provera, decided to propose the appointment of Giorgio Luca Bruno to the office of Deputy-CEO, which reports directly to him.

This proposal - shared with the Chairman of the Board of Directors, Ning Gaoning, and the Nominations and Successions Committee, whose Directors were informed - aims also at strengthening the management team in view of the future succession path in-line with the Procedure already adopted by the Company, and provides that the Deputy-CEO may also contribute to the development of internal management. The Executive Vice Chairman and CEO will therefore propose on March 31, to the Board of Directors, to invite the Shareholders’ Meeting scheduled for June 15, 2021, to appoint Giorgio Luca Bruno as a Director, and will also propose that once appointed as a Director, he assumes the role of Deputy-CEO.

Following the proposal, Angelos Papadimitriou renounced his candidacy for Director. Therefore, the Shareholders’ Meeting, which **met on the same date** with, amongst other things, his reappointment on the Agenda, decided to postpone the appointment of a new Director until June 15, which the Board of Directors will nominate in the person of Giorgio Luca Bruno. Angelos Papadimitriou, who had previously been co-opted, has therefore ceased to be a Director. The Shareholders’ Meeting, also approved, during an extraordinary session, the convertibility of the *“euro 500 million Senior*

Unsecured Guaranteed Equity-linked Bonds due 2025", issued on December 22, 2020, as well as approved a divisible share capital increase, with the exclusion of option rights, to service the conversion of the aforementioned bond, for a total counter-value, including any share premium, of euro 500 million. On the basis of the initial conversion ratio of the Bond Loan of euro 6.235, this increase will correspond to the issue of a maximum of 80,192,461 Pirelli & C. ordinary shares (notwithstanding that the maximum number of Pirelli & C. ordinary shares could increase on the basis of the effective conversion ratio applicable from time to time).

On **March 31, 2021**, the Board of Directors approved the 2021-2022|2025 Business Plan, which was presented to the financial community on the same date. For further information, reference should be made to the section "Outlook for the five-year period" in the Directors' Report on Operations.

— ANNEXES TO THE NOTES

MOVEMENTS OF INVESTMENTS IN SUBSIDIARIES FROM 12/31/2019 TO 12/31/2020

	12/31/2019				CHANGES		12/31/2020			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
INVESTMENTS IN SUBSIDIARIES										
ITALY **Unlisted:**										
Pirelli Servizi Amministrazioni e Tesoreria S.p.A. - Milan	2,047,000	3,237	100	100	-	-	2,047,000	3,237	100	100
Maristel S.r.l. - Milan	1 share	1,315	100	100	-	-	1 share	1,315	100	100
Pirelli International Treasury SpA - Milan	37,500,000	75,000	100	30	-	-	37,500,000	75,000	100	30
Pirelli Sistemi Informativi S.r.l. - Milan	1 share	1,656	100	100	-	-	1 share	1,656	100	100
Pirelli Tyre S.p.A. - Milan	558,154,000	4,528,245	100	100	-	-	558,154,000	4,528,245	100	100
Servizi Aziendali Pirelli S.C.p.A. - Milan	92,950	100	100	90	-	-	92,950	100	100	90
HB Servizi Srl - Milan	1 share	230	100	100	-	-	1 share	230	100	100
Total investments in Italian subsidiaries		4,609,783				-		4,609,783		

	12/31/2019				CHANGES		12/31/2020			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
FOREIGN COMPANIES										
Brazil										
Pirelli Ltda - Sao Paulo	13,999,991	9,666	100	100	-	-	13,999,991	9,666	100	100
Prometeon Tyre Group Industria Brasile Ltda	1	0	-	-	(1)	(0.0)	-	-	-	-
Pirelli Latam Participações Ltda.	1	0	-	-	-	-	1	0	-	-
UK										
Pirelli UK ltd. - London - ordinary	163,991,278	21,871	100	100	-	(14,000.0)	163,991,278	7,871	100	100
Switzerland										
Pirelli Group Reinsurance Company S.A.	300,000	6,346	100	100	-	-	300,000	6,346	100	100
Total investments in foreign subsidiaries		37,883				(14,000.0)		23,883		
Total investments in subsidiaries		4,647,666				(14,000.0)		4,633,666		

MOVEMENTS OF INVESTMENTS IN ASSOCIATES FROM 12/31/2019 TO 12/31/2020

	12/31/2019				CHANGES		12/31/2020			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
INVESTMENTS IN ASSOCIATES										
ITALY **Unlisted:**										
Consorzio per le Ricerche sui Materiali Avanzati (CORIMAV) -Milan	1 share	104	100	100	-	-	1 share	104	100	100
Eurostazioni S.p.A. - Rome	52,333,333	6,271	33	33	-	-	52,333,333	6,271	33	33
Focus Investments S.p.A.	111,111	-	8	8	-	-	111,111	-	8	8
Total unlisted companies		6,375				-		6,375		
Total investments in associates - Italy		6,375				-		6,375		
Total investments in associates		6,375				-		6,375		

MOVEMENTS OF OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME FROM 12/31/2019 TO 12/31/2020 (Continue)

	12/31/2019				Changes		12/31/2020			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
INVESTMENTS IN OTHER COMPANIES										
ITALIAN LISTED COMPANIES										
RCS Mediagroup S.p.A. - Milan	24,694,918	24,892	4.7	4.7	-	(10,816)	24,694,918	14,076	4.7	4.7
Total other Italian listed companies		24,892				(10,816)		14,076		
Total other listed companies		24,892				(10,816)		14,076		

	12/31/2019				Changes		12/31/2020			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
ITALIAN UNLISTED COMPANIES										
Aree Urbane S.r.l. (in liquidazione) - Milan	1 share	-	0.3	0.3	-	-	1 share	-	-	-
C.I.R.A. - Centro Italiano di Ricerche Aerospaziali S.c.p.A. - Capua (CE)	30	-	0.1	0.1	-	-	30	-	0.1	0.1
Alitalia Compagnia Aerea Italiana S.p.A. - Rome	1,162,098,622	-	1.4	1.4	-	-	1,162,098,622	-	1.4	1.4
CEFRIEL - Società Consortile a Responsabilità limitata	1 share	-	4.9	4.9	-	-	1 share	-	4.9	4.9
Consorzio DIXIT (in liquidazione) - Milan	1 share	-	14.3	14.3	-	-	1 share	-	14.3	14.3
MIP Politecnico di Milano - Graduate School of Business società consortile per azioni già Consorzio per L'Innovazione nella Gestione di Azienda -Mip -(Master Imprese Politecnico) Milan	12,000	-	2.9	2.9	-	-	12,000	-	2.9	2.9
Consorzio Milano Ricerche - Milan	1 share	-	9.0	9.0	-	-	1 share	-	9.0	9.0
Societa' Generale per la Progettazione Consulenze e Partecipazioni (ex Italconsult) S.p.A. - Rome	1,100	-	3.7	3.7	-	-	1,100	-	3.7	3.7
F.C. Internazionale Milano S.p.A. - Milan	55,805,625	-	0.4	0.4	-	-	55,805,625	-	0.4	0.4
Fin. Priv. S.r.l. - Milan	1 share	20,565	14.3	14.3	-	(4,663)	1 share	15,903	14.3	14.3
Istituto Europeo di Oncologia S.r.l. - Milan	1 share	7,465	6.1	6.1	-	497	1 share	7,962	6.1	6.1
Nomisma - Società di Studi Economici S.p.A. - Bologna	959,429	280	3.3	3.3	-	13	959,429	293	3.3	3.3
Tiglio I S.r.l. - Milan	1 share	16	0.6	0.6	-	1	1 quota	17	0.6	0.6
Genextra S.p.A.	592,450	26	0.6	0.6	-	-	592,450	26	0.6	0.6
Total other Italian unlisted companies		28,352				(4,152)		24,200		

MOVEMENTS OF OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME FROM 12/31/2019 TO 12/31/2020

	12/31/2019				Changes		12/31/2020			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
FOREIGN COMPANIES										
Libia										
Libyan-Italian Joint Company - ordinary shares B	300	-	1.0	1.0	-	-	300	-	1.0	1.0
Belgium										
Euroqube S.A. (in liquidation)	67,570	12	18.0	18.0	-	(0)	67,570	11	18.0	18.0
U.S.A.										
Gws Photonics Inc - Wilmington - Az. Priv tipo B	1,724,138	-	-	-	-	-	1,724,138	-	-	-
Gws Photonics Inc - Wilmington - Az. Priv tipo C	194,248	-	-	-	-	-	194,248	-	-	-
UK										
Eca International	100	-	2.8	2.8	-	-	100	-	2.8	2.8
Total other foreign companies		12				(0)		11		
OTHER PORTFOLIO SECURITIES										
Fondo Comune di Investimento Immobiliare - Anastasia	53 shares	3,947	-	-	-	(1,161)	53 shares	2,786	-	-
TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS		3,947				(1,161)		2,786		
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME		57,203				(16,129)		41,074		

LIST OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (PURSUANT TO ART. 2427 OF THE CIVIL CODE)

(in thousand of euro)	Legal address	Carrying amount	Share %	Share capital	Attributable equity	Attributable net income (loss)
INVESTMENTS IN SUBSIDIARIES - ITALY						
Pirelli Servizi Amministrazioni e Tesoreria S.p.A.	Milan	3,237	100%	2,047	3,179	(19)
Maristel S.p.A.	Milan	1,315	100%	50	3,379	(43)
Pirelli Sistemi Informativi S.r.l.	Milan	1,656	100%	1,010	2,836	507
Pirelli Tyre S.p.A.	Milan	4,528,245	100%	558,154	1,714,474	7,299
Servizi Aziendali Pirelli S.c.p.a.	Milan	100	91.3%	104	405	44
HB Servizi S.r.l	Milan	230	100%	10	328	90
Pirelli International Treasury S.p.A.	Milan	75,000	30%	125,000	81,992	6,763
Total investments in subsidiaries - Italy		**4,609,783**				
INVESTMENTS IN FOREIGN SUBSIDIARIES						
Switzerland						
Pirelli Group Reinsurance Company S.A.	Lugano	6,346	100%	2,777	12,795	1,656
Brasil						
Pirelli Ltda	Sao Paulo	9,666	100%	2,195	978	(397)
UK						
Pirelli UK Ltd.	London	7,871	100%	182,409	7,476	(13,551)
Total investments in foreign subsidiaries		**23,883**				
Total investments in subsidiaries		**4,633,666**				
INVESTMENTS IN ASSOCIATES - ITALY						
Consortium for the Reserach into Advanced Materials (CORIMAV)	Milan	104	100%	104	104	-
Eurostazioni S.p.A. **	Rome	6,271	32.7%	6,482	6,398	84
Focus Investments S.r.l.	Milan	-	8.3%	*	*	*
Total investments in associates - Italy		**6,375**				
Total investments in associates		**6,375**				

* Data not yet available
** balance sheet at July 31, 2020

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS’ MEETING

Dear Shareholders,

The Board of Statutory Auditors of Pirelli & C. S.p.A. (“**Pirelli**” or the “**Company**”) (which, pursuant to legislative decree no. 39 of 27 January 2010, also acts as the Internal Control and Audit Committee), pursuant to art. 153 of legislative decree no. 58 of 24 February 1998 (“**TUF**”) and the applicable provisions of the Italian Civil Code, is called on to report to the Shareholders’ Meeting, convened to approve the financial statements, on the supervisory activities carried out during the financial year and on any omissions and misconduct it might have detected. The Board of Statutory Auditors may also make proposals regarding the financial statements and their approval and other matters under its responsibility.

First, it should be noted that the Board of Statutory Auditors, as of the date of drafting and publication of this Report (**“Report”**), has been continuously updated on the actions to monitor the situation and the social, economic and financial effects for Pirelli and the Group of which it is the parent company, deriving from the spread of the Covid-19 virus (“**Coronavirus**”) since January 2020. The considerations made are set out in a specific paragraph of this Report.

During the financial year, the Board of Statutory Auditors has carried out its supervisory activities as required by the law in force, taking account of the provisions of European Regulation 537/2014, the Rules of Conduct for the Boards of Statutory Auditors of Listed Companies recommended in the document issued by the Italian National Council of Chartered Accountants and Accounting Experts last updated in April 2018 (“**Rules of Conduct**”), and the Consob provisions on company controls and the activities of the Board of Statutory Auditors and the indications contained in the Corporate Governance Code for listed companies, in force until 31 December 2020 (“**Corporate Governance Code”**), and in the new Corporate Governance Code in force from 1 January 2021 (“**New Corporate Governance Code**”), to which Pirelli has resolved to adhere.

As well as through the attendance of all or some of the Statutory Auditors at meetings of the Board of Directors and its committees, this also took place through the constant exchange of information between the Board of Statutory Auditors and the relevant administrative, audit and compliance departments, and with the Supervisory Body created pursuant to Legislative Decree no. 231 of 8 June 2001, as well as with the members of the boards of statutory auditors of the principal subsidiaries and with the firm appointed as external auditor.

APPOINTMENT AND COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors in office at the Report date was appointed by the Shareholders’ Meeting held on 15 May 2018 for the financial years 2018-2020 and will expire due to having reached the end of the mandate at the Shareholders' Meeting convened to approve the financial statements at 31 December 2020.

The Board of Statutory Auditors is composed of Standing Auditors Francesco Fallacara (Chairman), Fabio Artoni, Antonella Carù, Luca Nicodemi and Alberto Villani, and Alternate Auditors Elenio Bidoggia, Franca Brusco and Giovanna Oddo.

Pursuant to art. 148, paragraph 3, of the TUF, and the provisions of the Corporate Governance Code and New Corporate Governance Code, to which, as previously mentioned, Pirelli has resolved to adhere, the Board of Statutory Auditors has verified that as of 31 December 2020 its Standing members had retained the requirements of independence (that they already ascertained to possess at the time of their appointment, together with the correct application of the criteria and the ascertainment procedures adopted by the Board of Directors to assess the independence of Directors). For more details in this regard see paragraph "Self-assessment process for the Board of Statutory Auditors".

ADHESION TO THE CODES OF CONDUCT

As anticipated, Pirelli resolved to adhere, first, to the Corporate Governance Code and, then, to the New Corporate Governance Code.

The Board of Statutory Auditors has assessed the effective and correct application of corporate governance rules provided herein by the Company and ensured that these are fully implemented in the corporate governance model currently in force, described in the Report on the Corporate Governance and Share Ownership (as described in more detail below), that is substantively in line with the principles contained in both codes of conduct mentioned above.

COMMENTS ON THE 2020 FINANCIAL STATEMENTS AND ON TRANSACTIONS OF MAJOR IMPORTANCE CARRIED OUT DURING THE YEAR

It should be noted that Pirelli's financial statements have been drawn up based on the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, in force on 31 December 2020 and in accordance with the instructions issued in implementation of art. 9 of Legislative Decree 38/2005. The financial statements also include the notice required by law 124/2017 (art. 1, paragraphs 125-129).

The principal risks and uncertainties are summarised in the Directors' Report on Operations, and there is a section on the outlook for the coming year.

The Company's financial statements are composed of the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Explanatory Notes.

The financial statements are accompanied by the Directors' Report on Operations, and include the Report on the Corporate Governance and Structure of Share Ownership – prepared pursuant to art. 123-bis of the TUF – as well as the Report on responsible management of the value chain (consolidated non-financial declaration pursuant to legislative decree no. 254, of 30 December 2016), drawn up by the Company in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) - Comprehensive option - and the principles of inclusiveness, materiality and compliance with the AA1000 Standard. The financial statements also include the Report on the remuneration policy and the compensation paid, comprising the 2021 Remuneration Policy ("**2021 Policy**") and the Report on Compensation Paid in 2020.

The 2020 separate financial statements and consolidated financial statements of Pirelli include statements of compliance by the CEO and by the Manager responsible for the preparation of the corporate financial documents, as required by prevailing legislation.

Pirelli's 2020 consolidated financial statements present the following summary data:

Revenues	4,302.1 million euro
Operating income (EBIT)	219.1 million euro
Adjusted EBIT	501.2 million euro
Consolidated net profit	42.7 million euro

The consolidated net financial position is negative for 3,258.4 million euro, compared to 3,507.2 million euro at 31 December 2019;

Parent company Pirelli closed the financial year with positive net income to the amount of 44.0 million euro (273.2 million euro in 2019).

Events of major importance are accounted for in detail in the Directors' Report on Operations, and in the financial statements. The following events, in particular, should be noted:

- on **19 February 2020** Pirelli presented the 2020-2022 Business Plan with a vision through to 2025 to the financial community. On the same date the Board of Directors approved the adoption of a new monetary incentive plan (LTI) intended for the whole management of the Group and related to the targets of the plan and it resolved on the early closure - effective as of 31 December 2019 - with no disbursement, of the previous plan adopted in 2018 and linked to the objectives of the 2018-2020 period. The Board of Directors of **3 April 2020**, as part of the cost containment actions for Covid-19, reformulated the 2020 targets and reviewed the 2020 Remuneration Policy ("**2020 Policy**") taking into account, in particular, the cancellation of the short-term incentive system for 2020;

- following the Covid-19 emergency, **in the first three months of 2020**, Pirelli implemented a series of measures protecting the health of its employees and community, at both the Headquarters and plants, where production progressively slowed until it stopped, first in China and then in the rest of the world. During the **second quarter**, operations started up again, first in China, and then progressively in the other plants, with slow initial production considering the decline in demand;

- in **March 2020**, thanks to the support of certain partners, including Camfin S.p.A. and Fondazione Silvio Tronchetti Provera, Pirelli promoted a series of charitable initiatives in Italy and throughout the world to support the fight against Coronavirus and Coronavirus research;

- on **2 March 2020**, Pirelli's Board of Directors approved the 2019 financial statements closed with consolidated net income to the amount of 457.7 million euro and resolved to propose to the Shareholders' Meeting a distribution of a dividend to the amount of 0.183 euro, for a total of 183 million euro. The Board of Directors of **3 April 2020**, as part of the cost containment actions for Covid-19, described below in more detail, cancelled the distribution of dividends in the financial year 2019, changing the previous resolution proposed to the Shareholders' Meeting;

- on **31 March 2020**, Pirelli announced that it had stipulated a new credit facility for 800 million euro with an incentive mechanism related to the Group's product and process environmental sustainability goals provided for by Pirelli's business plan and expiring 5 years after first use, mainly to repay existing debt. The Company also extended the expiry of a credit facility for 200 million euro by more than a year (from June 2020 to September 2021), through the early repayment of the existing loan and the simultaneous granting of a new credit line of the same amount and under the same economic conditions. These operations are examples of the constant actions implemented to optimise and strengthen Pirelli's financial structure;

- on **3 April 2020** Pirelli's Board of Directors, beyond the above resolutions, implemented - before a deteriorated scenario - a series of actions aimed at protecting profitability and cash generation. In particular, it implemented further cost containment actions, revisited the investment plan in line with the new market outlook, implemented actions for the optimal management of working capital and reduced the remuneration of Top Management;

- on **29 April 2020**, following the call of the Shareholders' Meeting held on **28 April 2020**, Pirelli announced the entry into force of agreements undersigned on 1 August 2019 - already disclosed to the market - between China National Chemical Corporation Limited ("**ChemChina**"), China National Tire & Rubber Corporation Ltd. ("**CNRC**"), Silk Road Fund Co., Ltd., Camfin S.p.A. and Marco Tronchetti Provera & C. S.p.A., concerning their long-term partnership with Pirelli. Moreover, with the occasion, Silk Road Fund Co., Ltd. and CNRC undersigned the "Revised Acting-in-concert Agreement", that supersedes and replaces the previous "Acting-in-concert Agreement" undersigned by the parties on 28 July 2017, and the "Amendment" to the Supplemental Agreement of the investment agreement in Pirelli, signed by the parties on 28 July 2017. The Revised Acting-in-concert Agreement was in force from **29 September 2020**, following the completion of the non-proportional and asymmetric partial demerger of Marco Polo International Italy S.r.l. in favour of PFQY S.r.l. - a company wholly owned by Silk Road Fund Co., Ltd. - whereby, among other things, an equity investment of 9.02% of Pirelli's capital was assigned to the latter. Following the above demerger, Marco Polo International Italy S.r.l., controlled by ChemChina/CNRC, holds 37,01% of Pirelli's capital;

- on **30 April 2020**, Pirelli announced the relaunching of activities from 4 May with a plan, in collaboration with the University of Milan - Department of Biomedical and Clinical Science "L. Sacco", directed by Professor Massimo Galli, aimed at ensuring the maximum protection of the health of its employees and the safety of the workplaces. In **May and June**, after the reopening of factories in China in March, all of the Group's production plants were gradually reopened, at a pace that was proportionate to the demand trend. In particular, at the Bollate site - a plant that will focus on the Velo business - a procedure was launched for the production of masks for the exclusive use of employees and their families, allowing for potential risks related to the discontinuity of supply by third parties to be eliminated;

- on **18 June 2020**, the Pirelli Shareholders' Meeting approved the financial statements of 2019 and the allocation of the result, appointed, until the approval of the Company's financial statements at 31 December 2022, the Board of Directors with 15 component members, of which the majority are independent members, and confirmed Ning Gaoning as Chairman. Based on the two slates submitted, the following were appointed Directors of Pirelli: *Ning Gaoning, Marco Tronchetti Provera, Yang Xingqiang, Bai Xinping, Wei Yintao, Domenico De Sole, Giovanni Tronchetti Provera, Zhang Haitao, Fan Xiaohua, Marisa Pappalardo, Tao Haisu, Carlo Secchi, Giovanni Lo Storto, Paola Boromei* and *Roberto Diacetti*. The Shareholders' Meeting also approved the 2020 Policy and voted in favour of the Report on Compensation Paid in the financial year 2019. The Shareholders' Meeting also approved the adoption of the three-year monetary Incentive Plan (LTI Plan) for the period 2020-2022 for the management of the Pirelli Group and the "Directors and Officers Liability Insurance". In extraordinary session, the Shareholders' Meeting also approved certain changes to the bylaws, mainly related to the new legislation on gender quotas;

- on **22 June 2020**, Pirelli's new Board of Directors appointed Marco Tronchetti Provera as Executive Vice Chairman and Chief Executive Officer (CEO), granting him with the operational management powers of Pirelli. The Board also proceeded to appoint Board Committee members, confirming all the previous Committees with their respective duties of investigation, consultation and advice. The Board of Directors also confirmed Francesco Tanzi as the Group's Chief Financial Officer and Manager responsible for the preparation of the corporate financial documents; it also appointed the Supervisory Body, whose term of office ended at the same time as the Board;

- on **23 July 2020**, the Pirelli Board of Directors appointed, at the proposal of the Executive Vice Chairman and Chief Executive Officer and directly reporting to him, the General Direction co-CEO, assigned to Angelos Papadimitriou, with effect from 1 August 2020. Angelos Papadimitriou was co-opted by the Board of Directors on **5 August 2020** (and qualified, as General Manager of the Company, as "executive director"), replacing Carlo Secchi who, with effect from the same date, resigned from his position as Director. Mr Carlo Secchi continues to hold the office of Chairman of the Supervisory Body of the Company;

- on **5 August 2020**, the Board of Directors, in order to take account of the radical changes to the macroeconomic scenario, gave the Remuneration Committee a mandate to review the ‘Net Cash Flow’ section of the Long-Term Incentive Plan 2020-2022, to align the relative goal with the new guidance disclosed to the market, on the occasion of the data at 30 June 2020 and with the targets of the business plan for the years 2021 and 2022, that would have been communicated within the first quarter of 2021. This was to maintain the full alignment of interests between shareholders and management in an LTI Plan that confirms the Total Shareholders Return objectives (with respect to the peers tier one) and Pirelli’s position in selected sustainability indices at the global level;

- on **28 October 2020**, the European Union Court of Justice confirmed the previous decisions of the EU Court and the EU Commission, with regards to the cartel in the electricity cables market, to sentence Prysmian Cavi e Sistemi S.r.l. to the payment of a fine, for a part of which (equal to 67,310,000 euro) Pirelli was called to answer jointly with Prysmian under the exclusive application of the Community principle of parental liability. In this regard, Pirelli had already deposited a bank guarantee, in favour of the EU Commission, of 33,655,000 euro (corresponding to 50% of the sanction imposed jointly to Prysmian and Pirelli), with interest. The payment, by Pirelli, of its part of the fine, whose value was already allocated in its provisions for liabilities and charges, was made on **31 December 2020.** It should be noted that a case brought by Pirelli in 2014 is still pending before the Court of Milan to ascertain and obtain a declaration that Prysmian has an obligation to hold Pirelli fully harmless against any claim related to the cartel, including the fine issued by the EU Commission;

- on **15 December 2020**, Pirelli allocated 500 million euro worth of non interest-bearing Convertible Senior Unsecured Guaranteed Equity-linked Bonds in Pirelli shares due in 2025, having obtained the approval of the Shareholders’ Meeting. The bonds were issued at 100% of their nominal value, with a conversion price of 6.235 euro per share (equal to a premium of 45% on the reference price of the operation of 4.3 euro). This loan transaction allows for the optimisation of the company debt profile, extending their expiry dates, and maintaining the business-generated cash, thanks to the fact that the bonds are non interest-bearing. The revenues deriving from the bonds can be used both for the Group’s general operations and to refinance part of its existing debt. The bond was admitted for trading on the Vienna MTF, a multilateral trading system managed by the Vienna Stock Exchange.

SIGNIFICANT EVENTS THAT OCCURRED AFTER THE CLOSURE OF THE FINANCIAL YEAR

The most significant events that occurred after the closure of the financial year are detailed in the Directors’ Report on Operations and in the financial statements.

It should be noted, in particular, that in **January and February 2021**, Pirelli made early repayment of some of its debt due in 2021 and 2022, for a total amount of 838 million euro. In particular, the Company repaid a tranche of the “Schuldschein” loan, due on 31 July 2021, equal to 82 million euro and part of the unsecured loan, due in 2022, equal to 756 euro. The repayments, for which part of the liquidity received in 2020 was used, reduce the company's financial expenses, thereby optimising its debt financial structure.

On **25 February 2021**, Pirelli communicated the terms of the termination, with effect from 28 February 2021, of the employment contract with the General Manager co-CEO Angelos Papadimitriou, already disclosed to the market on **20 January 2021.**

In compliance with the 2020 Policy, Mr. Papadimitriou was acknowledged, by the Board of Directors, the following benefits, in addition to the amounts owed to him by way of remuneration and other employment law accrued up to the date of termination of his office as General Manager co-CEO: (i) 10 months of gross annual salary, by way of incentive to take redundancy, equal to the amount that would have been due to him by way of indemnity in lieu of notice, due to the conventional seniority acknowledged at the time he was hired as manager, to be paid by 20 April 2021; (ii) a gross 100,000 euro by way of general novative transaction by 20 April 2021, once the termination has been defined, in accordance with current employment law procedures as well as the maintenance until 31 December 2021 of some of the non-monetary benefits attributed at the time he was hired as manager. As envisaged at the time he was hired, subject to the condition precedent of approval of the 2021 Policy by the Shareholders' Meeting, Mr Papadimitriou will remain bound, for two years after leaving his position as Director, to a non-competition agreement, valid for the main countries in which Pirelli operates, in exchange for payment, for each year of validity, equal to 100% of the gross annual salary, to be disbursed in 8 quarterly instalments in arrears, starting from 1 July 2021; the non-competition agreement includes a non-solicit clause, as well as penalties in the event of breach of the obligations deriving therefrom.

On **24 March 2021**, in support of the execution of the business plan, the Executive Vice Chairman and CEO decided to propose the appointment of Giorgio Luca Bruno, directly reporting to him, as Deputy-CEO.

Pursuant to the above, Angelos Papadimitriou withdrew his candidature for the position of Director. Therefore the Shareholders' Meeting, convenedon the same date and during which his reconfirmation was planned, among other things, as part of the Agenda, decided to postpone the appointment of a new Director, in the person of Giorgio Luca Bruno as shall be indicated by the Board of Directors, to 15 June. Angelos Papadimitriou, previously co-opted, has therefore expired from his position as Director. The Shareholders' Meeting also approved, in extraordinary session, the convertibility of the equity-linked bond, named "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025", issued on 22 December 2020, and approved a capital increase in tranches, with the exclusion of the option rights, to service the conversion of the aforementioned bond, for a total equivalent amount, including surcharges, of 500 million euro. Based on the initial bond conversion ratio of 6.235 euro, the abovementioned increase will correspond to the issue of a maximum of 80,192,461 ordinary Pirelli shares (without prejudice to the fact that the maximum number of ordinary Pirelli shares could increase based on the effective applicable conversion ratio).

On **31 March 2021**, the Board of Directors approved the 2021-2022|2025 Business Plan that was presented on the same date to the financial community.

UNUSUAL OR EXCEPTIONAL TRANSACTIONS

We are unaware of any atypical or unusual transactions, as defined by Consob in Decision DEM/6064293 of 28 July 2006.

INTRAGROUP OR RELATED PARTY TRANSACTIONS

Pursuant to art. 2391-*bis* of the Italian Civil Code and Consob resolution 17221 of 12 March 2010, containing the "Regulations on Related Party Transactions", subsequently amended by Consob Resolution 17389 of 23 June 2010 ("**Consob Regulation**"), the Board of Directors, on 31 August 2017, unanimously approved the "Procedure for Related-Party Transactions" ("**RPT Procedure**") with effect from 4 October 2017, when listing of the Company's ordinary shares started on the Stock Exchange Market organised and managed by Borsa Italiana S.p.A.

In line with the information set out in the listing prospectus, on 6 November 2017 the Board of Directors subject to the favourable opinion of the relevant Committee, comprised exclusively of Independent Directors (and entrusted with this duty under art. 4 of the aforementioned Consob Regulation with a specific resolution passed by the Board of Directors - "**RPT Committee**") unanimously confirmed the text of the RPT Procedure approved before listing.

On 22 June 2020, the Board of Directors appointed by the Shareholders' Meeting of 18 June 2020 resolved to confirm the RPT Procedure.

On 11 November 2020, the Board of Directors - taking into account that pursuant to art. 17.2 of the RPT Procedure, "*Periodically and at least every three years, the Board of Directors, having received the opinion of the RPT Committee, assesses the need to revise this Procedure, taking into account any amendments made to the ownership structure as well as its effectiveness*" - resolved, having received the favourable opinion of the RPT Committee, to confirm the RPT Procedure, without changes, reserving itself to carry out a further re-assessment of the same to ensure all the necessary or appropriate updates are adopted, in light of the changes to the Consob Regulation to be adopted by the Supervisory Authority on implementation of the changes to the European directive, "Shareholders' rights directive II".

In this context, the Board of Statutory Auditors, in virtue of the supervisory duties laid down by current regulations, agreed with the RPT Committee's proposal to the Board of Directors regarding the confirmation of the RPT Procedure and carried out supervisory activities to ensure this Procedure was compliant with the principles indicated in the Consob Regulation. Pursuant to art. 4, paragraph 6, of the Consob Regulation, it should be noted that the RPT Procedure adopted by the Company and currently in force (i) is coherent with the principles contained in said Regulation, and (ii) is published on the Company's website (www.pirelli.com).

The abovementioned changes to the Consob Regulation were, as has already been established, introduced with Consob Resolution no. 21624 of 10 December 2020, which amended the Consob Regulation ("**New Consob Regulation**"). The New Consob Regulation will enter into force from 1 July 2021 and by 30 June 2021 the Company will undertake to adjust the RPT Procedure to the New Consob Regulation. In this context, the Board of Statutory Auditors will be called to monitor compliance of the procedure with the principles indicated in the New Consob Regulation.

During the 2020 financial year there were both intragroup and non-intragroup related-party transactions.

The intragroup transactions, the effects of which are reported in the financial statements, are ordinary in that they are essentially made up of the reciprocal provision of services (technical, organisational, general) provided by the headquarters to the subsidiaries and charging royalties for the use of patents to the Group companies that benefit from them. They were regulated applying normal conditions determined using standard parameters that reflect the actual use made of the services and were carried out in the interests of the Company, since they were aimed at rationalising the use of the Group's resources.

The non-intragroup related-party transactions that we reviewed were also of an ordinary nature (since they were part of normal business operations or related financial activities) and/or concluded at market or standard equivalent terms and were in the interest of the Company. These transactions were reported to us periodically by the Company.

We attended the meetings of the RPT Committee during which the Committee expressed a favourable opinion of some related party transactions of "lesser significance", after having considered the interest of the Company in the completion of the transaction and the convenience and substantial correctness of their conditions.

Regarding such transactions, we have always expressed the view that they were in the interests of the Company.

The effects of the aforementioned transactions for the 2020 financial year are fully reflected in the financial statements.

We have monitored compliance with the RPT Procedure and the correctness of the process followed by the Board and by the competent RPT Committee for the qualification of related parties - sharing, *inter alia*, the assessments of the RPT Committee regarding the qualification of Pirelli's related parties established in November 2020 in light of the changes to the share ownership structure of the Company itself - and have nothing to report.

The transactions with related parties are detailed in the notes to the Company's separate and consolidated financial statements, including information on the consequent effects on the Income

Statement and the Statement of Financial Position. The Statutory Auditors deem the information on transactions with related parties provided in the financial statements to be adequate.

IMPAIRMENT TEST PROCEDURE

It should be noted that the Board of Directors, as provided for in the joint Banca d’Italia/Consob/ISVAP document of 3 March 2010, independently, and before the approval of the relative periodic financial report by the Board of Directors, resolved that the impairment test procedure complied with the prescriptions of international accounting standard IAS 36, after said procedure had been approved by the Audit, Risks, Sustainability and Corporate Governance Committee and the Board of Statutory Auditors; this occurred, in particular, in the meetings:

(i) of 23 July 2020 (therefore, independently and before the meeting of 5 August 2020 for the approval of the Half Year Financial Report as at 30 June 2020), in the context of a review of the impairment test procedure approved by the Board itself on 19 February 2020, by virtue of the indications of the Supervisory Authorities in relation to the financial markets (respectively Consob warning notice no. 6/20 of 9 April 2020 and the ESMA public statement 32-63-972 of 20 May 2020), which invited the listed companies to assess, on the basis of internal and external information sources, and also in consideration of the effects deriving from the Covid-19 emergency, the presence, or lack thereof, of any loss in value indicators in relation to the assets entered into the Half Year Financial Report); and

(ii) of 25 February 2021 (therefore, independently and before the meeting of 31 March 2021 for the approval of the draft financial statements as at 31 December 2020).

In both cases, the Company carried out an impairment test on the goodwill allocated to the group of Consumer Business cash generating units and to the Pirelli brand, with the assistance of a highly qualified expert.

Information on the assessment process in point (ii) conducted with the assistance of a highly qualified expert, and on its outcomes, is provided in the explanatory notes to the financial statements.

The Board of Statutory Auditors deems the procedure adopted by the Company for the preparation of the financial statements as at 31 December 2020 adequate (the same as the one used in the preparation of the Half Year Financial Report at 30 June 2020) and the relative information comprehensive.

SUPERVISORY ACTIVITY PURSUANT TO LEGISLATIVE DECREE 39/2010 "EXTERNAL AUDITORS"

The Board of Statutory Auditors, in collaboration with the Audit, Risks, Sustainability and Corporate Governance Committee and pursuant to changes to the regulations introduced by legislative decree no. 135 of 17 July 2016, supervised:

- the financial reporting process;
- the effectiveness of the internal control, internal audit and risk management systems;
- the external audit of the annual and consolidated accounts;
- the independence of the external auditor, in particular with regard to the provision of non-auditing services;
- the results of the external audit with specific reference to the additional report pursuant to art. 11 of European Regulation 537/2014.

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SUPERVISING THE FINANCIAL REPORTING PROCESS

The Board of Statutory Auditors, having verified that there are adequate rules and processes governing the "formulation" and "dissemination" of financial information, considers that the financial reporting information process is adequate, and believes that there are no issues to raise with the Shareholders' Meeting in this regard.

In addition to the annual and half-year reports, the Company voluntarily publishes the additional periodic financial information specified in art. 82-*ter* of Consob Regulation 11971/99 (so called "interim reports on operations") for the periods that end on 31 March and 30 September each year.

Regarding the single electronic communications format for the annual financial reports (ESEF), for completeness, attention should be drawn to the power of postponing provisions of the Delegated Regulation (EU) 2019/815 regarding financial reports relative to the financial years starting from 1 January 2021, introduced by Regulation (EU) 2021/337 of the European Parliament and the Council, and subject to notification, to the European Commission, by each member State of its intention to authorise said postponement before19 March 2021, the option - as already established - implemented by Italy (with law no. 21 of 26 February 2021, converting legislative decree no. 183 of 31 December 2020, "Milleproroghe") and notified to the Commission on 2 March 2021. In virtue of the information provided above, the draft financial statements as at 31 December 2020 were not prepared using the ESEF format.

SUPERVISING THE NON-FINANCIAL REPORTING PROCESS

The Board of Statutory Auditors has monitored compliance with the provisions contained in legislative decree no. 254 of 30 December 2016 with reference to the non-financial declaration (the "**DNF**"), also verifying that there are adequate rules and processes governing the process of "formulating" and "disseminating" non-financial information, and considers that the non-financial reporting information process is adequate, and believes that there are no issues to raise with the Shareholders' Meeting in this regard.

In particular, the Board of Statutory Auditors acknowledged that the Company has adopted a structured system to monitor the content of the DNF which includes: (i) a dedicated operating rule to ensure adequate reporting of information of a non-financial nature; (ii) a control system to ensure greater assurance that the principal non-financial information is reported correctly; (iii) checks of the data of a non-financial nature in the DNF, after appropriate highlighting and verification; (iv) signature of a letter of attestation by the senior management on the non-financial data included in the paragraphs on this subject in the financial statements.

The Company did not avail itself of its right pursuant to art. 3, paragraph 8, of legislative decree no. 254 of 30 December 2016 to omit information concerning imminent developments and transactions being negotiated.

SUPERVISING THE EFFECTIVENESS OF THE INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS, AND THE EXTERNAL AUDIT OF THE ANNUAL SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

The Board of Statutory Auditors, together with the Audit, Risks, Sustainability and Corporate Governance Committee, met with the Head of Internal Audit once every quarter. At those meetings, information was provided on the results of the audits designed to ascertain the adequacy and operational effectiveness of the Internal Control System, compliance with the laws and the business procedures and processes, as well as on the implementation of the related improvement plans. The Board of Statutory Auditors also confirmed the efficiency and adequacy of the internal control system, following some changes to the organisational structure arising from the Internal Audit department, which was carried out during 2020. The Board also received the Audit Plan for the financial year, its final results and the risk analysis, expressing a favourable opinion of their approval by the Board, where requested. During the meetings, it was also constantly updated about the application of the "Whistleblowing" procedure in the Pirelli Group.

Furthermore, every six months it received the reports of the Audit, Risks, Sustainability and Corporate Governance Committee and the Supervisory Body on the activities they had undertaken.

The Board of Statutory Auditors also took note of the report made by the Manager responsible for the preparation of the corporate financial documents who, when the draft financial statements were being approved, confirmed the adequacy and appropriateness of the powers and resources conferred on him by the Board of Directors, and also confirmed that he had been given direct access to all the information necessary to produce accounting data, without needing to obtain any authorisation. The Board of Statutory Auditors also acknowledged that the Manager Responsible had reported that he had participated in the development of internal flows of information for accounting purposes and had approved all corporate procedures which impacted the Company's profitability, financial position and/or assets and liabilities.

The Board of Statutory Auditors confirms that at present there is no need for measures to guarantee the effectiveness and impartiality of the corporate departments involved in the internal control and risk management system and, specifically, other than the Internal Audit department (mentioned above), the Compliance and Rules department, the Tax Risk Officer and Enterprise Risk Management;

Accordingly, the Board of Statutory Auditors expresses a positive opinion of the adequacy of the internal control and risk governance system as a whole, and has no issues to raise to the Shareholders' Meeting in this regard.

The Board of Statutory Auditors also met with the external auditor at least once every quarter. No fundamental issues or significant shortcomings in the internal control system related to the financial reporting process arose in these meetings, also with regard to the provisions set out in art. 19, paragraph 3 of legislative decree no. 39 of 27 January 2010.

In particular, it should be noted that the Board of Statutory Auditors found that the controls specified in law 262/2005 on the financial statements as at 31 December 2020 evidenced that the administrative-accounting procedures had been applied correctly. The prescribed controls on the application of the control framework for the DNF evidenced that the internal procedures had also been applied correctly.

The Board of Statutory Auditors considered that no "significant shortcomings" in the internal control system for the financial reporting process and the DNF emerged in the letter of recommendations to the management drafted by the external auditor.

The firm appointed to undertake the external audit of the accounts of the Company is PricewaterhouseCoopers S.p.A. ("**PWC**"). The appointment as external auditor of the accounts was made by the Shareholders' Meeting, on the reasoned proposal of the controlling body, in its meeting on 1 August 2017, for the nine-year period 2017/2025, pursuant to the applicable provisions for listed companies (the appointment was effective from 4 October 2017, the date Pirelli's shares were admitted to trading). PWC was also appointed as external auditor of the accounts of the principal Pirelli Group companies in Italy and abroad.

It should be specified that, with respect to the remuneration granted in favour of PWC, on 19 October 2020 the Board of Statutory Auditors undertook to acknowledge, in favour of PWC, the adjustment of the remuneration, for the financial year 2020 only, of 5,000 euro - an insignificant amount which, as such, does not constitute a substantial review of the proposal approved by the Shareholders' Meeting of 1 August 2017 - by virtue of the integrated activities carried out by PWC, under the scope of the limited audit of Pirelli's Half Year Financial Report, due to the Covid-19 emergency.

Pursuant to art. 14 of legislative decree no. 39 of 27 January 2010, and art. 10 of Regulation (EU) 537/3014, on 2 April 2021 PWC issued its Reports on the separate and consolidated financial statements as at 31 December 2020. On the same date, the auditing firm issued its Additional report for the internal control and audit committee, drafted pursuant to art. 11 of Regulation (EU) 537/3014. On the same date, PWC issued its Report on the consolidated non-financial disclosure pursuant to art. 3, paragraph 10 of legislative decree no. 254 of 30 December 2016.

The texts of the aforementioned reports - drafted in accordance with the applicable legal provisions - do not contain any elements to bring to the attention of the Shareholders' Meeting.

SUPERVISING THE INDEPENDENCE OF THE EXTERNAL AUDITOR, IN PARTICULAR WITH REGARD TO THE PROVISION OF NON-AUDITING SERVICES

The Board of Statutory Auditors monitored the independence of the external auditor and in particular received periodic evidence of non-audit work assigned to PWC, also by virtue of specific regulatory provisions.

Regarding the independence of the external auditor, a structured procedure has been issued at Group level. In line with the provisions of legislative decree no. 39 of 27 January 2010, this sets out that no Pirelli Group company may assign tasks other than the external audit of the accounts to companies that are members of the network of the appointed external auditor without the prior express authorisation of the Board of Statutory Auditors, which, with the assistance of the Chief Financial Officer and of the Secretary of the Board, has the responsibility of checking that the proposed assignment is not listed as not permitted by art. 5 of Regulation (EU) no. 537/2014, and that in any event, given its characteristics (considering the payment planned, the nature of the service and the reasons for the assignment), said assignment complies with the principles of independence of the external auditor and it has no impact on the independence of the external auditor.

In a letter dated 2 April 2021, PWC confirmed its independence pursuant to art. 6, paragraph 2, of Regulation (EU) 537/2014 and paragraph 17, letter a) of International Audit Standard (IAS) 260.

During the 2020 financial year, PWC and its network carried out the activities summarised below for the Group. These activities were the object of assignments approved by the Board of Statutory Auditors where they do not relate to tasks assigned before the Company was listed:

2020 EXTERNAL AUDITOR FEES

(thousands of euros)	Service provider	Recipient	Partial fees	Total fees	
External auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	79		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	1.147		
	Network PricewaterhouseCoopers	Subsidiaries	1.222	**2.448**	*78%*
Attestation services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	150		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	334		
	Network PricewaterhouseCoopers	Subsidiaries	33	**517**	*17%*
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	150		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	-		
	Network PricewaterhouseCoopers	Subsidiaries	5	**155**	*5%*
				3.120	*100%*

(1) “Attestation services” include amounts paid for other services that require the issuance of an audit report as w ell as amounts paid for so-called attestation services as they are synergistic w ith the external auditor.

The Board of Statutory Auditors considers the fees mentioned above to be adequate to the size, complexity and characteristics of the work carried out, and also considers that the non-audit assignments (and their fees) are not such as to have an impact on the independence of the external auditor.

In this latter regard, it should be noted that the Board of Directors, after having obtained the assessment of the Audit, Risks, Sustainability and Corporate Governance Committee, was in agreement with the Statutory Auditors’ opinion.

We would like to remind you that pursuant to Regulation (EU) no. 537/2014 of 16 April 2014, as of 1 January 2020 the Board of Statutory Auditors of Public-Interest Entities (EIP), as the Internal Control and Audit Committee, is required to monitor the assignments other than auditing attributed to the external auditor in order to comply with the limit of 70% of the average fees paid in the last three financial years for the external audit activity. The Company has launched a procedure to comply with the aforementioned standard.

The Board of Statutory Auditors notes:

- that it assessed the adequacy of these procedures which are adequate to allow the Board of Statutory Auditors to understand the reasons for the proposal to assign a service other than an external audit and to possess all the data required to carry out the assessments;

- that it shared with the auditing firm the methodological system used for the calculation and periodic update of the aforementioned fee cap and payments made to the auditing firm for non-audit tasks carried out, and that said methodological system is deemed adequate for the purpose of monitoring compliance with the independence requirements of the auditing firm itself, and

- that the remuneration received by PWC during 2020 for services other than external auditing do not exceed 70% of the average remuneration for the external audit activity carried out at Pirelli and received in the three-year period 2017-2019.

ORGANISATIONAL STRUCTURE

The Board of Statutory Auditors considered the Company's organisational structure to be adequate for the needs of the Company and appropriate to ensure that the principles of correct administration are respected.

The Report on corporate governance and the share ownership describes in detail the types of powers conferred on the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera and indicates the matters reserved to the competence of the Board of Directors of Pirelli & C..

It should be noted that on 31 March 2021 the Board of Directors confirmed its preceding assessments regarding the absence of a subject that exercises direction and coordination on the Company pursuant to art. 2497 of the Italian Civil Code, without prejudice to the right of the parent company to include Pirelli within its own consolidation perimeter for accounting purposes.

It is useful to note that Pirelli exercises direction and coordination activity on numerous subsidiaries, having made the communications required by art. 2497-*bis* of the Italian Civil Code. The Board imparted instructions to the subsidiaries regarding compliance with the provisions pursuant to art. 114 of the TUF that are deemed adequate.

REMUNERATION OF THE DIRECTORS, GENERAL MANAGER AND KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES

During 2020, the Board of Statutory Auditors has expressed the opinions required by law regarding proposals for the remuneration of directors holding special offices, pursuant to the provisions of art. 2389 of the Italian Civil Code.

In particular, the Board of Statutory Auditors:

- expressed its favourable opinion at the meeting of the Board of Directors of 19 February 2020 on (i) the payment of the 2019 STI (MBO) incentives on the basis of the preliminary data (later confirmed during approval of the final results at the Board of Directors meeting of 2 March 2020, provided in the following point) and the 2020 STI (MBO) Plan; (ii) the closure of the 2018-2020 LTI Plan with no disbursement, not even pro-quota, and the launch of the new 2020-2022 LTI Plan to support the 2020-2022 business plan (with the inclusion of a new sustainability objective – with 10% weighting – relating to Pirelli's rating in the CDP index).

- at the Board of Directors meeting of 2 March 2020 it expressed its favourable opinion, in addition to the above, of the approval of the 2020 remuneration report (made up of the 2020 Policy and the Report on Compensation Paid in 2019), as well as the relative Directors' Reports to the Shareholders' Meeting on compensation;

- at the Board of Directors meeting of 3 April 2020, it expressed its favourable opinion, within its competence:

  - on the renunciation, under the scope of the cost containment measures, by the Executive Vice Chairman and Chief Executive Officer, members of the Board of Directors and managers of the leadership team, of a part of their remuneration for the following quarter;

  - on the cancellation of the 2020 STI (MBO) plan, aimed at the Group's managers, including the Executive Vice Chairman and Chief Executive Officer and the leadership team, subject to the approval, by the Shareholders' Meeting, of the 2020 Policy and the advisory vote in favour of the Report on Compensation Paid in the financial year 2019;

- at the Board of Directors meeting of 13 May 2020, it confirmed its approval of the remuneration of the Corporate Vice President Internal Audit:

- at the Board of Directors meeting of 22 June 2020, it expressed its favourable opinion:

  - on the distribution, by the Board, of the overall remuneration granted by the Shareholders' Meeting of 18 June 2020;

  - on the confirmation of the remuneration in favour of the Chairman, the Executive Vice Chairman and Chief Executive Officer and the General Manager;

  - on the confirmation, for the General Manager and Key Managers, of the structure of the 2020/2022 long-term incentive plan, as well as the retention plan under the terms already resolved by the Company during the previous mandate, taking into account the resolutions passed by the Board of Directors in the meeting held on 3 April 2020; and

- at the Board of Directors meeting of 23 July 2020, it expressed its favourable opinion on the remuneration of the General Manager co-CEO to be appointed, responsible for the corresponding newly established General Manager co-CEO Direction, directly reporting to the Executive Vice Chairman and Chief Executive Officer.

In addition, following the close of the 2020 financial year, the Board of Statutory Auditors:

- at the Board of Directors meeting of 25 February 2021, expressed its favourable opinion on the consensual termination of the managerial employment contract with the General Manager co-CEO, from 28 February 2021, approving the economic terms of the relative termination agreement;

- at the Board of Directors meeting of 31 March 2021, it expressed its favourable opinion on (i) the 2021 STI plan; (ii) the review of the "Cumulative Group Net Cash Flow (before dividends)" objective included in the 2020-2022 LTI plan and the possibility of normalising the effects on the promotion of the TSR relative to Cooper's integration in Goodyear; (iii) the adoption of the new 2021-2023 LTI plan, to support the new 2021-2022/2025 Strategic plan; (iv) the approval of the 2021 Remuneration Report (composed of the 2021 Policy and the Report on Compensation Paid in 2020), as well as the relative Directors' reports to the Shareholders' Meeting on compensation and the remuneration of the Deputy CEO.

For more details see the Report on the Remuneration Policy and on Compensation Paid.

FURTHER ACTIVITIES OF THE BOARD OF STATUTORY AUDITORS AND INFORMATION REQUIRED BY CONSOB

In exercising its duties, the Board of Statutory Auditors, as prescribed in art. 149 of the TUF, monitored:

- observance of the law and the deed of incorporation;
- compliance with the principles of correct administration;
- the adequacy, for those aspects within its remit, of the organisational structure of the Company, the internal control system and the administrative-accounting system, and of the reliability of the latter to correctly represent operations;
- as already pointed out, how the corporate governance rules contained in the codes of conduct which the Company, in a notice to the public, declares that it complies with are actually implemented. In this respect, it should be noted that, pursuant to art. 123-*bis* of the TUF, the Company has, also for the 2020 financial year, drafted its annual Report on corporate governance and share ownership which provides information on (i) the corporate governance practices actually applied by the Company, over and above the obligations specified in the legal or regulatory provisions, (ii) the principal features of the risk and internal control systems that exist in relation to the financial reporting process, including the consolidate financial reports, (iii) how the Shareholders' Meeting functions, including its principal powers and shareholders' rights and how they are exercised, (iv) the composition and operation of the administration and control bodies and their committees, and the other information specified in art. 123-*bis* of the TUF;
- the adequacy of the instructions imparted by the Company to its subsidiaries pursuant to art. 114, paragraph 2, of the TUF, having ascertained that the Company is able to promptly and regularly fulfil the disclosure obligations set out in law and in the EU regulations, as prescribed

in the aforementioned article, also by collecting information from the heads of the organisational departments, and periodic meetings with the external auditor, to exchange relevant data and information. In this regard, we have no particular comments to make.

It should also be noted that the Directors' Report on Operations includes a paragraph containing a description of the principal features of the internal control and risk management system in relation to the financial reporting process, including the reporting of consolidated financial information.

The Board of Statutory Auditors notes:

- that the Directors' Report on Operations complies with the current laws, reflecting the resolutions made by the administrative body and the results in the financial statements, and contains adequate information on operations during the year and on intra-group transactions. The section containing the report on transactions with related parties has been included in the explanatory notes to the financial statements, in compliance with the IFRS standards;

- that the explanatory notes comply with the current standards, indicating the criteria used in determining the balance sheet items and in the value adjustments, and that the separate and consolidated financial statements of the Company appear to have been drafted in accordance with the structure and frameworks imposed by the current standards. In application of Consob's provisions, the effects of relations with related parties on the Company's profitability, financial position, assets and liabilities and cash flows;

- that Directors and/or Senior Managers of the Parent Company are members of the Boards of Directors of the principal subsidiary companies to guarantee coordinated direction and an adequate flow of information, also supported by suitable accounting information.

It should also be noted that the Board of Statutory Auditors:

- received information from the Directors at least once every quarter concerning their activity and the transactions carried out by the Company having the greatest impact on its strategy, earnings, financial position and equity, and that it received this information in compliance with the specific procedure approved by the Board of Directors. The Board of Statutory Auditors can give reasonable assurance that the resolved and executed transactions comply with the law and the Bylaws, and are not manifestly imprudent, reckless or in conflict of interest, or in violation of the resolutions passed by the Shareholders' Meeting, or capable of compromising the integrity of the company's assets;

- received from the Supervisory Body, of which Statutory Auditor Ms. Antonella Carù is a member, information about the results of its own control activity, which did not reveal anomalies or misconduct;

- held periodic meetings with representatives of the external auditor in order to exchange important data and information for the performance of its duties, as prescribed in art. 150, paragraph 3, of the TUF. In this regard, it should be noted that no important data and information were identified which would require a mention in this Report;

- obtained information from the corresponding bodies of the main subsidiaries with regard to their management and control systems and their general operating performance (pursuant to paragraph 1 and 2 of art. 151 of the TUF);

- gave its favourable opinion to confirm the role of Manager responsible for the preparation of the corporate financial documents to Mr Francesco Tanzi, resolved by the Board of Directors of 22 June 2020;

- gave its favourable opinion, pursuant to art. 2386 of the Italian Civil Code, on the appointment by co-option of Director Angelos Papadimitriou on 5 August 2020;

- endorsed, as better described above, the RPT Committee proposal to confirm the RPT Procedure;

- received the annual report from the Company's Data Protection Officer which showed the Company is fully compliant with privacy legislation;

- issued statements on the (i) non-application of the limits pursuant to art. 2412 of the Italian Civil Code for the issue of the equity-linked bond "EUR 500 million Senior Unsecured Guaranteed Equity-link Bonds due 2025", approved by the Board of Directors on 14 December 2020 and (ii) underwriting and payment, in full, of the share capital, during the Shareholders' Meeting held on 24 March 2021, that resolved on the conversion of the aforementioned bond and the increase of capital in favour of said bond.

During the 2020 financial year the Board of Statutory Auditors did not receive any complaints or reports pursuant to art. 2408 of the Italian Civil Code.

With regard to the external auditor, the Board of Statutory Auditors noted that PWC:

- issued its report pursuant to art. 14 of legislative decree no. 39 of 27 January 2010 and art. 10 of Regulation (EU) 537/201 on 2 April 2021. This containing its opinion without remarks stating that the separate and consolidated financial statements provide a truthful and accurate representation of the equity and financial position of Pirelli and of the Group as at 31 December 2020, and of the economic results and cash flow for the financial year that closed on that date, in compliance with applicable accounting standards, and provided evidence of key aspects of their audit;

- issued a coherence opinion indicating that the Report on Operations accompanying the separate and consolidated financial statements as at 31 December 2020, and some specific information contained in the Report on corporate governance and share ownership, as laid down in art. 123-*bis*, paragraph 4, of the TUF have been drafted in compliance with current legislation;

- as regards possible significant errors in the Report on Operations, stated that, based on the knowledge and understanding of the company and its market that it had acquired in the course of the audit activities, it had no matters to raise;

- confirmed the Company's statement regarding the fact that no other assignments have been given to persons or entities with on-going relationships with the external auditor itself;
- on 2 April 2021, provided the Board of Statutory Auditors with the Additional Report referred to in art. 11 of regulation EU 537/2014, indicating that there were no significant shortcomings in the internal control system in relation to the financial reporting process that needed to be brought to the attention of persons responsible for "governance" activities;
- on 2 April 2021, pursuant to art. 3, paragraph 10, of legislative decree no. 254 of 30 December 2016, issued the Report on the responsible management of the value chain (consolidated non-financial declaration pursuant to legislative decree no. 254 of 30 December 2016), concluding that no elements had come to PWC's attention that led it to believe that the group's DNF for the year to 31 December 2020 had not been drawn up, in all significant aspects, in accordance with the requirements set out in legislative decree 254/2016 and the GRI Standards;
- annexed to the Additional report, the external auditor provided the Board of Statutory Auditors, pursuant to art. 6 of Regulation (EU) 537/2014, with a statement from which no situations emerge that could compromise the independence of the external auditor (for more details concerning the provision of non-auditing services, see the paragraph entitled "supervising the independence of the external auditor, in particular with regard to the provision of non-auditing services" in this Report).

The Board of Statutory Auditors also took note of the Transparency Report drafted by the external auditor and published on its web site, pursuant to art. 18 of legislative decree 39/2010.

Furthermore, with regard to the corporate bodies, the Board of Statutory Auditors noted that:

- the Board of Directors in office - that will expire at the Shareholders' Meeting convened for the approval of the financial statements of the financial year ending 31 December 2022 - at the date of the Report is composed of 14 Directors (due to a vacancy following the aforementioned resignation of Angelos Papadimitriou on his re-appointment as Director), of which 13 are non-executive Directors and, of these, 8 hold the independence requirements provided for by the Corporate Governance Code (in force until 31 December 2020), by the New Corporate Governance Code (in force from 1 January 2021) and by the TUF. During 2020, it met 9 times.

At the date of the Report:

- the Audit, Risks, Sustainability and Corporate Governance Committee is composed of five Directors, the majority of whom are independent. During 2020, it met 8 times;
- the Remuneration Committee is composed of five Directors, the majority of whom are independent (the Chairman is an independent Director). During 2020, it met 4 times;
- the Related-Parties Transactions Committee is composed of three Directors, all independent. During 2020, it met 10 times;

- the Appointments and Successions Committee is composed of four Directors, one of whom is the Executive Director. During 2020, it met 2 times;

- the Strategies Committee is composed of seven Directors, including the Executive Director and three independent Directors. During 2020 it met 2 times.

The Board of Statutory Auditors has always attended the meetings of the Board of Directors and the board committees, also in its capacity as internal control and audit committee pursuant to art. 19 of legislative decree no. 39 of 27 January 2010.

The Board of Statutory Auditors also attended the ordinary Shareholders' Meeting that in 2020 was held on 18 June.

The percentage attendance figures of the single members of the Board of Statutory Auditors at the meetings of the above corporate bodies are provided in the Report on corporate governance and share ownership.

Finally, the Statutory Auditors acknowledge:

- that they have monitored fulfilment of the requirements linked to the "Market Abuse" and "Investor Protection" regulations on the subject of corporate information and internal dealing, with particular reference to the handling of inside information and the procedure for the dissemination of press releases and information to the public;

- that they periodically ascertained, upon their appointment and most recently in their meeting on 22 March 2021, as recommended by the Borsa Italiana Corporate Governance Code and the New Corporate Governance Code, that members possess the same independence requirements - where applicable - as those requested for the directors in the aforementioned Codes of Conduct;

- that they have found that the criteria and procedures to ascertain the independence requirements adopted by the Board of Directors to annually verify the independence of its members are correctly applied, and have no comments to make on this point;

- that they have determined that the Director's report on the Company's financial statements describes the main risks and uncertainties to which the Company is exposed;

- that, with reference to the provisions of art. 15 of Consob Regulation 20249 of 28 December 2017 concerning market discipline, they have ascertained that the organisation of the company and the procedures adopted enable Pirelli to ensure that the companies it controls and which are constituted in and regulated by the laws of States that are not members of the European Union subject to respecting the aforementioned Consob provisions, have administrative-accounting systems appropriate to regularly provide the senior management and external auditor of the Company with the information on its profitability, financial position and assets and liabilities needed to draw up the consolidated financial statements. On 31 December 2020, the subsidiaries set up in and regulated by the laws of States that are not members of the

European Union and deemed to have significant importance under art. 15 of Consob Market Regulation are: Pirelli Neumaticos SAIC (Argentina), Pirelli Pneus Ltda (Brazil), Comercial e Importadora de Pneus Ltda. (Brazil), Pirelli Comercial de Pneus Brasil Ltda (Brazil), Pirelli Tyre Co., Ltd (China), Pirelli Neumaticos de Mexico S.A. de C.V. (Mexico), Pirelli Neumaticos S.A. de C.V. (Mexico), Limited Liability Company Pirelli Tyre Russia (Russia), Pirelli Tyre (Suisse) S.A. (Switzerland), Pirelli Otomobil Lastiskeri S.A. (Turkey), Pirelli Tire LLC (USA).

During the course of its supervisory activities, and on the basis of the information obtained from the external auditor, no omissions, misconduct, irregularities or significant facts were found which are worthy of being reported or mentioned in this Report.

The activities described above, conducted both collectively and individually, have been documented in the minutes of the 12 meetings of the Board of Statutory Auditors held during 2020.

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The Board of Statutory Auditors noted that, at the date of this Report, the Coronavirus health emergency was still ongoing around the world, including in Italy.

In this regard, the Board of Statutory Auditors:

- undertook to continuously monitor the evolution of the reference regulatory framework and provisions issued by the competent Authorities to address the ongoing Covid-19 crisis, concerning the supervisory activities it is responsible for with reference to Pirelli;

- was constantly informed by the competent departments of the Company of the assessments carried out by the management and the actions implemented to monitor the possible social, economic and financial impact of the Covid-19 emergency on the Group. This exchange of information was continuous throughout 2020 and will continue until the end of the ongoing pandemic;

- continuously monitored, within its respective competence, throughout 2020, the issuing of *i)* recommendations, by the competent European and Italian local Authorities, that could impact on Company and Group activities and, in particular, on the process of periodic financial reporting, *ii)* guidelines by the trade associations and the firm engaged to perform the external audit, PWC, on the interpretation and the consequent application of certain international accounting standards.

In particular, the Board of Statutory Auditors, as part of its duties and for the purpose of the issue of the present Report, also took into account:

- the recommendations provided by ESMA in the public statement "*Implications of the COVID-19 outbreak on the half-yearly financial Reports*" of 20 May 2020;

- the Consob warning notice no. 6/20 of 09 April 2020;

- the Consob warning notice no. 8/20 of 16 July 16 2020;
- the Consob warning notice no. 9/20 of 30 July 2020;
- the recommendations provided by ESMA in the public statement *“European common enforcement priorities for 2020 annual financial reports”* of 28 October 2020;
- the Consob warning notice no. 1/21 of 16 February 2021, and
- the Consob warning notice no. 4/21 of 15 March 2021.

To this end, the Board of Statutory Auditors expressed:

- that it had received correct and complete information from the Board of Directors, the Manager in charge, the Chief Executive Officer and the competent Departments within the Company on the training process and on the information provided in the 2020 Company’s draft financial statements and the 2020 Group’s Consolidated Financial Statements;
- that it had constant, continuous and particularly in-depth exchanges with the auditing firm regarding the training process and the information provided in the 2020 Company’s draft financial statements and the 2020 Group’s Consolidated Financial Statements and regarding the elements which arose during the auditing and control activities for which the same was responsible; no issues worth noting in this Report arose during these exchanges;
- that there had been a constant exchange of information, pursuant to the provisions of art. 151, paragraph 2, of the TUF, with the corresponding control bodies of the main subsidiaries; no issues worth noting in this Report arose during these exchanges;
- that there was no particular evidence that would lead the Board of Statutory Auditors to disagree with the assessments carried out by the Board of Directors confirming the existence of the requirement for business continuity;
- that the Company did not make use of its opportunity to suspend the regulations pursuant to articles 2446 and 2447 of the Italian Civil Code;
- that the regulatory restrictions imposed, at the national and international level, with regard to movement during the ongoing Covid-19 emergency did not pose particular limitations on the monitoring activities of the Board of Statutory Auditors of the Company and those of the corresponding Control Bodies of the main subsidiaries or on the auditing activities carried out by the auditing firm.

With reference to the ongoing Covid-19 emergency, the Board of Statutory Auditors also noted that the “2020 Annual Financial Report”, approved by the Board of Directors of the Company on 31 March

2021 and made available to the public according to the terms and procedures provided for by the regulatory frameworks in force, reports:

- in the Directors' Report on Operations at 31 December 2020, a paragraph entitled "The cost competitiveness plan and actions to tackle the Covid-19 emergency";
- in the Explanatory Notes, a paragraph on "Covid-19", as well as additional information on the effects of the pandemic with regards to each potentially affected component.

SELF-ASSESSMENT OF THE BOARD OF STATUTORY AUDITORS

In 2020, the Board of Statutory Auditors – in continuity with the previous financial year and as recommended by the Standards of Conduct – conducted a self-assessment with the assistance of the independent consulting firm Spencer Stuart.

This self-assessment was carried out through individual interviews, based on a questionnaire containing questions on the suitability, size, composition and operation of the Board of Statutory Auditors in order to attest that the body is operating correctly and effectively and that its composition is adequate and the related outcomes were discussed and agreed upon by the Board of Statutory Auditors during a dedicated meeting held on 22 March 2021.

The Board of Statutory Auditors noted that the self-assessment of 2020 (the current Board of Statutory Auditors' third and last year of mandate) confirmed a broadly positive picture of the composition and operation of the Board of Statutory Auditors, as already outlined in the previous years. In fact, despite the exceptional circumstances due to the pandemic, the profound knowledge of the Group's business and dynamics acquired by the Statutory Auditors over the course of the previous years has enabled them (also while working remotely) to efficiently carry out the work they initiated at the end of the first year of mandate.

The areas for which the most appreciation was reported include, *inter alia*, the excellent relations with the Company and the Pirelli management team, the suitability of the size and composition of the Board of Statutory Auditors, the extremely efficient training and induction sessions, used as a means of gaining knowledge about the Group and the business, and the Company and Board of Directors' significant contribution to addressing the challenges of the current health crisis, along with accurate and timely communications and reporting;

From the investigation, some areas have been identified for future reflection, including forecasting, when possible, opportunities for informal meetings with Company Directors and managers and continuing an active participation in induction sessions.

It should also be noted that the Board of Statutory Auditors, due to expire - as already established - on completion of its mandate with the Shareholders' Meeting convened to approve the annual financial report at 31 December 2020, undertook to draft a document, pursuant to the Rules of Conduct, intended to make available to the shareholders a complete picture of the activities that the

Pirelli Board of Statutory Auditors, appointed by the Shareholders' Meeting, is required to perform and, in addition to this, a summary of its assessments regarding the optimum composition of the controlling body (in addition to the regulatory requirements) for the purposes of the effective operation of the same. The considerations presented in the aforementioned document take into account the experience gained by the members of the outgoing Board of Statutory Auditors in performing their duties, Pirelli's corporate governance system and the results of the self-assessment process referred to in this paragraph of the Report.

BOARD OF DIRECTORS SELF-ASSESSMENT PROCESS

The Board of Statutory Auditors notes that the Board of Directors carried out the process to evaluate its operation and the operation of its Committees (board performance evaluation) for the 2020 financial year. For the purposes of the assessment process, the Board – in line with what was done in the previous financial year – also availed itself of the assistance of the aforementioned consulting firm, Spencer Stuart. The self-assessment process was carried out through individual interviews with questions about the size, composition and operation of the Board of Directors. The results of the board performance evaluation were shown and shared in the Board of Directors Meeting of 31 March 2021, after sharing these with the Audit, Risks, Sustainability and Corporate Governance Committee on 22 March 2021. The Board of Statutory Auditors notes that it participated in both of the aforementioned meetings. The Report on the corporate governance and share ownership summarises the areas regarding which the most appreciation was reported, along with some indications which emerged on how to further improve the operation of the Board.

PROPOSALS TO THE SHAREHOLDERS' MEETING

FINANCIAL STATEMENTS AT 31 DECEMBER 2020

The Board of Statutory Auditors expresses its favourable opinion on the approval of the Financial Statements at 31 December 2020 and has no objections to raise regarding the proposal made to:

1) distribute to the shareholders a total dividend, gross of withholdings tax, consisting:

- for euro 43,956,054.00 of the profit for the year;
- for euro 36,043,946.00 of retained earnings from previous years and recorded in the balance sheet liabilities under the item "Retained earnings reserve",

and therefore to distribute a dividend of 0.08 euro for each of the 1,000,000,000 outstanding ordinary shares, for a total of 80,000,000.00 euro;

2) to authorise the Directors to allocate to retained earnings the balance of the rounding that may be determined at the time of payment of the dividend.

3) to establish, in the event that before the ex-dividend date, the number of outstanding ordinary shares changes following the bond conversion of the equity-linked bond named "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025", that the abovementioned unit dividend remains unchanged and that the amount necessary for distribution of any new shares is taken from the item "Retained earnings reserve".

APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors is due to expire due to the completion of its mandate.

We would like to thank you for the trust you have put in us and we would like to remind you that all Shareholders are invited to appoint the Board of Statutory Auditors for the next three-year period using the slate voting system.

REMUNERATION POLICY AND COMPENSATION PAID

Please note that the Board of Statutory Auditors expressed a favourable opinion of the Remuneration Policy for the 2021 financial year subject to the binding vote of the Shareholders' Meeting and the Report on Compensation Paid in the 2020 financial year, subject to the advisory vote of the Shareholders' Meeting.

THREE-YEAR MONETARY INCENTIVE PLAN FOR THE PIRELLI GROUP'S MANAGEMENT

We would like to inform you that the Board of Statutory Auditors has expressed its favourable opinion, within the scope of its competence, on the review of the "Group Cumulative Net Cash Flow (before dividends)" objective included in the 2020-2022 LTI Plan, on the possibility of normalising the effects on the promotion of the TSR objective relative to Cooper's integration in Goodyear, and on the adoption of the new 2021-2023 LTI Plan to support the new 2021-2022/2025 Strategic Plan.

OTHER ISSUES SUBMITTED TO THE SHAREHOLDERS' MEETING FOR APPROVAL

Regarding the other issues submitted to you for approval (the appointment of Director) the Board of Statutory Auditors has no comment to make.

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Pursuant to art. 144-*quinquiesdecies* of the Issuers' Regulations, duly approved by Consob with resolution 11971/99, as subsequently amended and supplemented, the list of offices held by members of the Board of Statutory Auditors in the companies listed in Book V, Title V, Chapters V, VI and VII of the Italian Civil Code is published by Consob on its website (www.consob.it).

It should be noted that art. 144-*quaterdecies* (Consob reporting obligations) establishes that a person who is a member of the controlling body of just one issuer is not subject to the reporting obligations provided by said article, and therefore, in that case, they do not appear in the lists published by Consob.

The Company lists the main positions held by the members of the Board of Statutory Auditors in its Report on corporate governance and share ownership.

The Board of Statutory Auditors here acknowledges that all its members were in full compliance of the aforementioned regulatory provisions laid down by Consob governing the "maximum number of positions to be held".

Milan, 2 April 2021

Mr Francesco Fallacara

Mr Fabio Artoni

Ms Antonella Carù

Mr Luca Nicodemi

Mr Alberto Villani

RESOLUTIONS

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020:

- **APPROVAL OF THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020. PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020. PRESENTATION OF THE REPORT ON RESPONSIBLE MANAGEMENT OF THE VALUE CHAIN RELATED TO 2020 FINANCIAL YEAR;**
- **PROPOSAL ON THE ALLOCATION OF THE RESULT OF THE FINANCIAL YEAR AND DISTRIBUTION OF DIVIDENDS USING ALSO PROFITS SET ASIDE IN PREVIOUS YEARS;**

RELATED AND CONSEQUENT RESOLUTIONS.

(item 1 on the agenda)

Dear Shareholders,

The year ended December 31, 2020 closed with a profit of euro 43,956,054.00.

The Board of Directors, considering that:

- following the shareholders' resolutions adopted in 2017, the legal reserve was completed and reached the limit set by art. 2430 of the Italian Civil Code;
- the "Retained earnings reserve" is sufficient enough to proceed with the distribution proposed below;

proposes to distribute a dividend, gross of withholding taxes, of euro 0.08 for each of the 1,000,000,000 outstanding ordinary shares, by means of:

- distribution of the entire 2020 profit of euro 43,956,054.00;
- distribution of a further amount of euro 36,043,946.00 to be drawn from the "Retained earnings reserve", which after this withdrawal will remain at euro 504,040,183.00.

The proposed dividend was calculated taking into account the number of shares currently outstanding. This number may vary following any requests for conversion of the "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025". In this case, the Board proposes to withdraw any necessary amounts from the item "Retained earnings reserve".

If you agree with our proposal, we request that you adopt the following

RESOLUTIONS

"The Shareholders' Meeting,

- having examined the annual report at December 31, 2020;
- having acknowledged the Statutory Auditors' Report;

- having acknowledged the Independent Auditors' Report;
- taking into account that from the financial statements at December 31, 2020, it emerges that the "Retained earnings reserve" is sufficient for eur 540,084,129.00

RESOLVED

a) to approve the Company's financial statements for the year ended December 31, 2020, as presented by the Board of Directors as a whole, in the individual entries and with the proposed provisions, showing a profit of eur 43,956,054.00;

b) to distribute to shareholders a total dividend, gross of withholding taxes, consisting:

   - for euro 43,956,054.00 of the profit for the year;
   - for euro 36,043,946.00 of retained earnings from previous years[93] and recorded in the balance sheet liabilities under the item "Retained earnings reserve"

   and therefore to distribute a dividend, gross of withholding taxes, of euro 0.08 for each of the 1,000,000,000 outstanding ordinary shares, for a total of euro 80,000,000.00;

c) to authorise the Directors to allocate to retained earnings the balance of the rounding that may be determined at the time of payment of the dividend;

d) to establish, in the event that before the ex-dividend date, the number of outstanding ordinary shares changes following the conversion of the "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025", that the unit dividend referred to above will remain unchanged and that the amount necessary for distribution to any new shares will be taken from the item "Retained earnings reserve".

The dividend will be paid as from June 23, 2021, with ex-dividend date on June 21, 2021 (record date June 22).

[93] This is a share of profits related to tax year 2017.

APPOINTMENT OF A MEMBER OF THE BOARD OF DIRECTORS; RELATED AND CONSEQUENT RESOLUTIONS.

(item 2 on the agenda)

Illustrative report drafted by the Directors pursuant to art. 125-*ter* of Legislative Decree no. 58 of 24 February 1998 and subsequently amended and supplemented, approved by the Board of Directors on 31 March 2021.

Dear Shareholders,

- following the resignation from the office of Director of the Company presented by Carlo Secchi with effect from the approval of the half year financial report as at 30 June 2020, on 5 August 2020, Angelos Papadimitriou was co-opted as member of the Board of Directors, pursuant to art. 2386 of the Italian Civil Code, with resolution approved by Board of Statutory Auditors, until the Shareholders' Meeting called on 24 March 2021;

- on 24 March 2021, Pirelli announced that, in order to support the execution of the business plan presented to the market on 31 March 2021, the Executive Vice Chairman and CEO has proposed to the Board of Directors to invite the Shareholders' Meeting scheduled for 15 June 2021, to appoint Giorgio Luca Bruno as Director. The Executive Vice Chairman and CEO has also proposed to the Board that, once appointed, Director Giorgio Luca Bruno shall be designated, reporting directly to him, as Deputy-CEO.

  The proposal – approved by the Board of Directors on 31 March 2021 - aims to strengthen the management team in view of the future succession pathway in line with the procedure already adopted by the Company and expects that the Deputy-CEO may also contribute to optimise the internal management team.

  Following the future assumption of the position of Deputy-CEO by Giorgio Luca Bruno, the macro-organisational structure of Pirelli foresees that Strategic Planning & Controlling; Investor Relations, Competitive, Business and Value Insight, Micromobility Solutions; Communication and Brand Image; Institutional Affairs and Culture; Corporate Affairs, Compliance, Audit and Company Secretary will continue to report to the Executive Vice Chairman and CEO.

  The Deputy-CEO shall be attributed all the necessary executive levers, in addition to the staff areas not directly reporting to the Executive Vice Chairman and CEO, and the report of the General Manager Operations, Andrea Casaluci, who will continue to head up all the business lines and the regions.

  Informed of this proposal, Angelos Papadimitriou, whose confirmation as Director was envisaged on the agenda of the Shareholders' Meeting called on 24 March 2021, communicated the withdrawal of his candidacy as Director, to allow the implementation of the above proposal;

- therefore, the Shareholders' Meeting held on 24 March 2021 did not resolve on the appointment of a new director, deleting the sole point of the ordinary session on the agenda. As a result, Angelos Papadimitriou, co-opted by the Board of Directors on 5 August 2020, expired from the office of Director with effect from 24 March 2021; for this reason a seat on the Board of Directors is currently vacant.

It should be noted that, for the purposes of adopting the decisions of the Shareholders' Meeting, the procedure of the slate vote, provided for by the Bylaws, does not apply, as there is no full renewal of the Board of Directors. Therefore, as provided for in art. 10 of the Bylaws, the Shareholders' Meeting shall vote on the basis of the majorities required by law.

It is also recalled that:

- each member of the Board of Directors receives a gross annual remuneration for the position of Euro 65 thousands, in addition to the eventual further remuneration established by the Board of Directors in the event of participation in Board Committees;[94]
- the new Director will expire at the same time as those currently in office, therefore on the date of the Shareholders' Meeting called to resolve upon the approval of the Company financial statements as at 31 December 2022.

BOARD OF DIRECTORS DECISION PROPOSAL

In light of the above, the Board of Directors proposes you the following resolution:

- **to confirm as fifteen the number of members of the Board of Directors of Pirelli & C. S.p.A. and to appoint Giorgio Luca Bruno as member of the Board of Directors, born in Milan on 23 February 1960, who will remain in office until the date of the Shareholder's Meeting called to approve the Company financial statements closed on 31 December 2022.**

Shareholders are informed that the Shareholders' Meeting is called to resolve upon the decision proposal above.

The curriculum vitae of Director Giorgio Luca Bruno is available on the Company website at www.pirelli.com in the section dedicated to the Shareholders' Meeting.

Finally, for completeness, as at the date of the Report, the Director Giorgio Luca Bruno is holder of no. 500 Pirelli shares.

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[94] For further details on the remuneration established for participation in the Board Committees, please see the Remuneration Policy for the year 2021 contained in the Annual Report 2020 and available on the Company website www.pirelli.com.

The Board of Directors invites the Shareholders who wish to submit further proposals for the candidacy for the office of Board Member to take into account, not only the legal provisions and the Bylaws of the Company, but also the relevant recommendations of the Corporate Governance Code.

In particular, the Board wishes that any further candidacy shall be made available to the public - even through the Company - accompanied by the necessary documentation, as detailed in the Shareholders' Meeting section on the Company website, at least 21 days before the Shareholders' Meeting and therefore by 25 May 2021, in order to allow persons entitled to vote at the Shareholders' Meeting to know in advance the personal and professional data of the candidate(s), consistently with the terms required for the publication of the slates in case of appointment of the whole Board of Directors.

Finally, the Board of Directors invites Shareholders to also take into account the professional skills and competences necessary for the office of Director of Pirelli as well as the orientation towards the maximum number of appointments deemed compatible with the effective performance of the role of Director of the Company published on the Pirelli website www.pirelli.com – Governance section.

APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS FOR THE FINANCIAL YEARS 2021, 2022 AND 2023 AND DETERMINATION OF ITS REMUNERATION:

- **APPOINTMENT OF STANDING AND ALTERNATE AUDITORS;**
- **APPOINTMENT OF THE CHAIRMAN OF THE BOARD OF STATUTORY AUDITORS;**
- **DETERMINATION OF THE ANNUAL REMUNERATION OF THE BOARD OF STATUTORY AUDITORS' MEMBERS;**

RELATED AND CONSEQUENT RESOLUTIONS.

(item 3 on the agenda)

Illustrative report drafted by the Directors pursuant to art. 125-*ter* of Legislative Decree no. 58 of 24 February 1998 and subsequently amended and supplemented, approved by the Board of Directors on 31 March 2021.

Dear Shareholders,

the term of office of the Board of Statutory Auditors of Pirelli & C. S.p.A., appointed by the Shareholders' Meeting of 15 May 2018 for the three-year period 2018/2020, is due to expire on approval of the annual financial report as of 31 December 2020.

At present, the members of the Board of Statutory Auditors are:

- Francesco Fallacara (Chairman of the Board of Statutory Auditors)
- Fabio Artoni (Standing Auditor)
- Antonella Carù (Standing Auditor)
- Luca Nicodemi (Standing Auditor)
- Alberto Villani (Standing Auditor)
- Elenio Bidoggia (Alternate Auditor)
- Giovanna Maria Carla Oddo (Alternate Auditor)
- Franca Brusco (Alternate Auditor).

The Shareholders' Meeting is therefore called on, pursuant to applicable legal and regulatory provisions and art. 16 of the company Bylaws (reported in full as a footnote to this report) to:

- appoint five Statutory Auditors and three Alternate Auditors for the financial years 2021, 2022 and 2023;

- appoint the Chairman of the Board of Statutory Auditors, where it is not possible to identify this figure following application of the slate voting mechanism;

- determine the remuneration of members of the Board of Statutory Auditors.

Standing and Alternate Auditors shall be appointed using the slate voting mechanism.

In this regard, it is pointed out that only shareholders who, alone or together with other shareholders, represent at least 1% of the share capital entitled to vote at an Ordinary Shareholders' Meeting (minimum threshold laid down in the company Bylaws, identical to that established by Consob with Executive Resolution no. 44 of 29 January 2021) are entitled to submit slates.

Slates of candidates – signed by the shareholders that submit them, indicating their identity and the percentage of total shares held by them in the ordinary share capital of the Company – must be filed at the Company's registered offices at least twenty-five days before the scheduled date of the Shareholders' Meeting.

Shareholders may also file the slates of candidates by sending them and the relative supporting documentation to the following certified email address: assemblea@pec.pirelli.it.

If by the deadline indicated above only one slate or only slates submitted by shareholders who are connected to each other have been submitted, pursuant to the applicable legislation, including regulations, additional slates may be submitted up to the third day after the deadline for the submission of slates. In this case, the thresholds set for their submission shall be reduced by half, therefore, 0.5% of the share capital entitled to vote at an ordinary Shareholders' Meeting.

Ownership of the total equity investment shall be confirmed, pursuant to current regulatory provisions, even after the filing of the slates as long as it occurs at least 21 days prior to the date of the Shareholders' Meeting.

The slates of candidates must be divided into two distinct sections: the first section contains the list of candidates (indicated by a consecutive number) for the office of Standing Auditor, while the second section contains the list of candidates (indicated by a consecutive number) for the office of Alternate Auditor. The first candidate in each section shall be selected from among those registered in the Register of Chartered Accountants who has worked on external audits for a period of not less than three years. In order to ensure gender balance, slates that - taking account of both sections - present a number of candidates equal to or exceeding three, must include candidates of each gender at least to the minimum extent required by law and / or *pro tempore* regulations in force, as specified in the notice of call of the Shareholders' Meeting, both in the section for standing statutory Auditors and in the section for alternates.

Each slate must also be accompanied by the documentation required by art. 16 of the Bylaws and applicable legal and regulatory provisions. In particular, each slate filed must be accompanied by acceptances of nomination and declarations from each candidate confirming, under their own responsibility, that there are no reasons that would make them ineligible for or incompatible with the role, and that they satisfy any requirements established by applicable provisions, including regulations, and by the Bylaws to hold the office. Together with the declarations, a *curriculum vitae* is to be filed for each candidate containing comprehensive information on their personal and professional characteristics and providing information – even in an annex – on the administration and control positions held with other companies.

Note that - pursuant to the Corporate Governance Code ("**Code**")[95], to which the Company has subscribed – "*all the members of the supervisory body meet the independence requirements prescribed by Recommendation no. 7 for directors*"[96] and, therefore, those who wish to submit slates and are entitled to do so are invited to take account of this when identifying the candidates to be proposed.

Each shareholder may submit or contribute to the submission of just one slate and each candidate may be included in just one slate, under penalty of ineligibility.

Slates which are submitted in breach of the provisions pursuant to art. 16 of the Company Bylaws are deemed not to have been submitted.

If only one list is submitted, the Shareholders' Meeting shall vote on it and, if the list obtains the relative majority, the standing and alternate Auditors candidates listed in the respective section of the slate shall be elected; the person named first on the above slate becomes the Chairman of the Board of Statutory Auditors.

Whereas, if two or more slates are submitted, members of the Board of Statutory Auditors shall be elected as follows:

- four standing members and two alternate members shall be chosen from the slate which obtains the highest number of votes (known as the majority slate), in the consecutive order in which they are listed thereon;
- the remaining standing member and the other alternate member shall be chosen from the slate which obtains the highest number of votes cast by the shareholders after the first slate (known as the minority slate), in the consecutive order in which they are listed thereon. If several slates obtain the same number of votes, a new vote between said slates will be cast by all those entitled to vote attending the meeting, and the candidates on the slate which will obtain the simple majority of the votes will be elected.

If more than one slate is submitted the position of Chairman of the Board of Statutory Auditors shall be assigned to the standing member indicated as the first candidate on the slate that came second in terms of numbers of votes.

[95] Available for consultation at the following website: https://www.borsaitaliana.it/comitato-corporate-governance/codice/2020eng.en.pdf.

[96] See recommendation no. 9 of the Corporate Governance Code.

If no slates are submitted, the Shareholders' Meeting shall arrange for the Board of Statutory Auditors to be appointed with the legal majorities, in any case without prejudice to compliance with gender balance regulations.

In this regard, note that as regards gender quotas for the composition of the control bodies of listed companies, art. 148 of Legislative Decree no. 58 of 24 February 1998 (TUF), as amended by law no. 160 of 27 December 2019, states that at least two-fifths of the standing members of the Board of Statutory Auditors shall belong to the least represented gender. This allocation criterion shall apply for six consecutive terms of office.

Therefore, in order to ensure gender balance, art. 16 of the Bylaws establishes that, as mentioned earlier, slates that - taking account of both sections - present a number of candidates equal to or exceeding three, must include candidates of each gender at least to the minimum extent required by law and / or *pro tempore* regulations in force, as specified in the notice of call of the Shareholders' Meeting, both in the section for standing Auditors and in the section for alternate Auditors. The Bylaws also establish that, should application of the slate voting mechanism not obtain, considering the standing and alternate Auditors separately, the minimum number of statutory Auditors belonging to the less represented gender envisaged by the laws and/or regulations in force at the time, the candidate belonging to the most represented gender and elected, indicated with the highest progressive number of each section from the slate that obtained the largest number of votes, is replaced by the first candidate belonging to the less represented gender not already elected from the same section of that slate, pursuant to the sequential order of presentation.

Outgoing Auditors may be re-elected.

In view of the above, the Board of Directors invites shareholders who intend to submit slates for the election of members of the Board of Statutory Auditors to comply with the aforementioned provisions.

In view of the renewal of the board, the Board of Statutory Auditors has made a document available, in accordance with the rules of conduct of the Board of Statutory Auditors of listed companies issued by the CNDCEC on 26 April 2018, in which, *inter alia*, it sets out its assessments on what it considers to be the optimal composition of the controlling body (in addition to fulfilling the regulatory requirements) for its efficient functioning. This document is made available to the public at the same time and in the same manner as this Report. Shareholders who intend to submit slates for the election of members of the Board of Statutory Auditors are invited to bear in mind the aforementioned indications of the outgoing Board of Statutory Auditors when choosing the candidates.

The Company will make any slates of candidates submitted available to the public, together with the information required by applicable legislation, at its registered offices, on the authorised storage mechanism and through publication on its website www.pirelli.com, in the specific section dedicated to the Shareholders' Meeting.

Lastly, shareholders that intend to submit slates for the appointment of members of the Board of Statutory Auditors are invited to examine the specific documentation published on the Company's website www.pirelli.com and, in particular, the recommendations contained in Consob

Communication no. DEM/9017893 of 26 February 2009 and current Consob provisions on the limits set for the accumulation of offices of members of the control bodies of listed companies.

In addition to the appointment of the Board of Statutory Auditors and its Chairman, it is also necessary to resolve on the allocation of the gross annual compensation due to members of the Board of Statutory Auditors, currently established as 75 thousand euro for the Chairman of the Board of Statutory Auditors and 50 thousand euro for each of the Standing Auditors (at present an additional 40 thousand euro is attributed to the member of the Board of Statutory Auditors called on to join the Company's Supervisory Body).

In determining the compensation to be attributed to the members of the Board of Statutory Auditors, you are invited, moreover, as already occurred during the previous renewal of the controlling body, to take into consideration - in addition to what is envisaged by the current regulatory provisions regarding the competences of the Board of Statutory Auditors – also the additional duties attributed to this body by Legislative Decree no. 39 of 27 January 2010, "Implementation of Directive 2006/43/EC concerning statutory audits of annual accounts and consolidated accounts" and the circumstance that, pursuant to art. 6, paragraph 4-*bis* of Legislative Decree no. 231 of 8 June 2011, "Provisions on the administrative liability of legal persons, companies and associations, including those without legal personality, pursuant to art. 11 of Law no. 300 of 29 September 2000", the Board of Statutory Auditors may be assigned the duties of the Supervisory Body laid down by the aforementioned legislative decree.

Lastly, note that Standing Auditors attend the meetings of the Board of Directors and (some or all of) are invited to attend the meetings of the Committees set up within the Board.

In view of the above, the Board of Directors, in accordance and compliance with applicable provisions of the Bylaws and legislation, including regulations, invites you to submit slates of candidates for the appointment of the members of the Board of Statutory Auditors as well as proposals on the determination of the relative compensation and to resolve in this regard on:

1. the appointment of the members of the Board of Statutory Auditors (five standing Auditors and three alternate Auditors) for the financial years 2021, 2022 and 2023, by voting on any slates of candidates that are submitted;

2. the appointment of the Chairman of the Board of Statutory Auditors, unless this figure cannot be identified according to the provisions of the Bylaws; and

3. the determination of the compensation due to the members of the Board of Statutory Auditors.

Bylaws - Article 16

16.1 The Board of Statutory Auditors shall be composed of five effective and three alternate auditors, who must be in possession of the requisites established under applicable laws and regulations; to this end, it shall be borne in mind that the fields and sectors of business closely connected with those of the Company are those stated in the Company's purpose, with particular reference to companies or corporations operating in the financial, industrial, banking, insurance and real estate sectors and in the services field in general.

16.2 The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its remuneration. The minority shareholders shall be entitled to appoint one effective auditor and one alternate auditor.

16.3 The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of paragraph 17 of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.

16.4 Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

16.5 Shareholders who, alone or together with other shareholders, represent at least 1 percent of the shares with voting rights in the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa for the submission of slates for the appointment of the Board of Directors shall be entitled to submit slates.

16.6 Each shareholder may present or take part in the presentation of only one slate.

16.7 The slates of candidates which must be undersigned by the parties submitting them, shall be filed in the Company's registered office at least twenty-five days prior to the date set for the shareholders' meeting that is required to decide upon the appointment of the members of the Board of Statutory Auditors, except for those cases in which the law and/or the regulation provide an extension of the deadline. They are made available to the public at the registered office, on the Company website and in the other ways specified by Commissione Nazionale per la Società e la Borsa regulations at least 21 days before the date of the general meeting. Without limitation to any further documentation required by applicable rules, including any regulatory provisions, a personal and professional curriculum including also the offices held in management and supervisory bodies of other companies, of the individuals standing for election must accompany the slates together with the statements in which the individual candidates agree to: - their nomination – declare, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet the requisites prescribed by law, by these Bylaws and by regulation for the position. Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.

16.8 Any slates submitted without complying with the foregoing provisions shall be disregarded.

16.9 Each candidate may appear on only one slate, on penalty of losing the right to be elected.

16.10 The slates shall be divided into two sections: one for candidates for the position of standing Auditor and one for candidates for the position of alternate Auditor. The first candidate listed in each section must be selected from among the persons enrolled in the Register of Auditors who have worked on statutory audits for a period of no less than three years. In order to ensure gender balance, slates that - taking account of both sections - present a number of candidates equal to or exceeding three, must include candidates of each gender at least to the minimum extent required by law and/or *pro-tempore* regulations in force, as specified in the notice of call of the shareholders' meeting, both in the section for standing statutory auditors and in the section for alternates.

16.11 Each person entitled to vote may vote for only one slate.

16.12 The Board of Statutory Auditors shall be elected as specified below: a) four standing members and two alternate members shall be chosen from the slate which obtains the highest number of votes (known as the majority slate), in the consecutive order in which they are listed thereon; b) the remaining standing member and the other alternate member shall be chosen from the slate which obtains the highest number of votes cast by the shareholders after the first slate (known as the minority slate), in the consecutive order in which they are listed thereon; if several slates obtain the same number of votes, a new vote between said slates will be cast by all those entitled to vote attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

16.13 The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the minority slate.

16.14 If, considering the standing statutory auditors and the alternate statutory auditors separately, the application of the slate voting procedure fails to secure the minimum number of statutory auditors of the less represented gender as required by law and/or regulation in force at the time, the appointed candidate of the more represented gender indicated with the higher progressive number in each section of the slate that attracts most votes, shall be substituted by the non-appointed candidate of the less represented gender drawn from the same section of the same slate on the basis of their progressive order of presentation.

16.15 The position of a standing auditor which falls vacant due to his/her death, forfeiture or resignation shall be filled by the first alternate auditor chosen from the same slate as the former. If filling the position in this way fails produce a composition of the Board of Statutory Auditors that complies with the rules in force even on gender balance, the position will be filled by the second alternate auditor drawn from the same slate. If, subsequently, there is a need to substitute another statutory Auditor from the same slate that obtained most votes, the other alternate auditor drawn from the same slate shall fill the position, whatever the outcome. In the event of the replacement of the Chairman of the Board of Statutory Auditors, the chair shall pertain to the statutory auditor of the same slate as the outgoing Chairman, following the order contained in the slate, subject in all cases to observance of the requirements in law and/or in the Company By-laws for holding that office and to compliance with gender balance as provided by law and/or regulation currently in force; if it proves impossible to effect substitutions and replacements under the foregoing procedures, a shareholders' meeting shall be called to complete the Board of Statutory Auditors which shall adopt resolutions by relative majority vote.

16.16 When the shareholders' meeting is required, pursuant to the provisions of the foregoing paragraph or to the law, to appoint the standing and/or alternate members needed to complete the Board of Statutory Auditors, it shall proceed as follows: if auditors elected from the majority slate have to be replaced, the appointment shall be made by relative majority vote without slate constraints, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time; if, however, auditors elected from the minority slate have to be replaced, the shareholders' meeting shall replace them by relative majority vote, selecting them where possible from amongst the candidates listed on the slate on which the auditor to be replaced appeared and in any event in accordance with the principle of necessary representation of minorities to which this By-Laws ensure the right to take part to the appointment of the Board of Statutory Auditors, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time. The principle of necessary representation of minorities shall be considered complied with in the event of the appointment of Statutory Auditors nominated before in the minority slate or in slates different other than the one which obtained the highest number of votes in the context of the appointment of the Board of Statutory Auditors.

16.17 In case only one slate has been presented, the Shareholders' Meeting shall vote on it; if the slate obtains the relative majority of the share capital, the candidates listed in the respective sections shall be appointed to the office of standing auditors and alternate auditors; the candidate listed at the first place in the slate shall be appointed Chairman of the Board of Statutory Auditors.

16.18 When appointing auditors who, for whatsoever reason, were not appointed under the procedures established herein, the shareholders' meeting shall vote on the basis of the majorities required by law, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time.

16.19 Outgoing members of the Board of Statutory Auditors may be re-elected to office.

16.20 Meetings of the Board of Statutory Auditors may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

REMUNERATION POLICY AND COMPENSATION PAID:

- **APPROVAL OF THE REMUNERATION POLICY FOR 2021 FINANCIAL YEAR PURSUANT TO ART. 123-TER, PARAGRAPH 3-TER OF LEGISLATIVE DECREE 24 FEBRUARY 1998 N. 58;**
- **ADVISORY VOTE ON THE REPORT ON COMPENSATION PAID FOR 2020 FINANCIAL YEAR PURSUANT TO ART. 123-TER, PARAGRAPH 6 OF LEGISLATIVE DECREE 24 FEBRUARY 1998 N. 58;**

RELATED AND CONSEQUENT RESOLUTIONS.

(item 4 on the agenda)

Illustrative reports drafted by the Directors pursuant to art. 125-*ter* of Legislative Decree no. 58 of 24 February 1998 and subsequently amended and supplemented, approved by the Board of Directors on 31 March 2021.

A. Approval of the 2021 remuneration policy

Dear Shareholders,

In accordance with art.123-*ter* of Legislative Decree no. 58 of 24 February 1998 ("**TUF**"), as amended and supplemented by art. 3 of Legislative Decree no. 49 of 10 May 2019 ("**Decree**"), the Shareholders' Meeting has also been called to vote on the first section of the Report on the remuneration policy and on the compensation paid ("**Remuneration Report**") which outlines the remuneration policy ("**2021 Policy**") for members of administrative bodies, General Managers and Key managers ("**KM**"), to which Pirelli refers in order to define the remuneration of the Senior Managers and Executives of Pirelli.

The 2021 Policy submitted for your vote was drawn up on the basis of the application experience and pursuant to art. 123-*ter* of the TUF and the regulations adopted by Consob, pursuant to art. 84-*quater* and on the basis of Scheme 7-*bis* of Annex 3A of the Consob Resolution no. 11971 of 14 May 1999 ("**Issuers' Regulation**"), as recently amended and supplemented by Consob under Resolution no. 21623 of 10 December 2020.

With respect to the 2020 Policy, the 2021 Policy takes into account the following aspects:

- composition of the reference panel for the purpose of comparing the Annual Total Direct Compensation at Target of the Executive Vice Chairman and Chief Executive Officer, limiting it to companies in the industry in which Pirelli operates;
- revision of the 2020-2022 LTI Plan for the part concerning the cumulative Group Net Cash Flow (before dividends) target, aligning the relative target to the guidance communicated to the market on 5 August 2020 and to the targets of the 2021-2022/2025 Strategic Plan for the years 2021 and 2022, in accordance with the mandate conferred to the Compensation Committee by the Board

of Directors on 5 August 2020, as a result of the health emergency related to the spread of Covid-19 and the consequent revision of the 2020-2022 Strategic Plan and the announced launch for the first quarter of 2021 of the Strategic Plan for the period 2021-2022/2025. With reference to 2020-2022 LTI Plan, 2021 Policy provides also the normalisation of the potential effects on the final result of the acquisition of Cooper by Goodyear (a company included in the reference panel for the TSR objective) at the start of 2021, in order to calculate its impact on the TSR (for both the 2020-2022 LTI Plan and the 2021-2023 LTI Plan);

- establishment of Policy compliance criteria to be applied in the case of hiring of a new General Manager and new KM to define the fixed remuneration and the other parts of the compensation package, with indication of the relative cap;

- downward revision of the STI Plan incentive percentages upon achievement of the minimum performance objectives;

- revision, for General Managers, KM and selected Senior Managers, of the deferral mechanism of part of the accrued STI Plan which provides for the disbursement, together with a company matching component, at the end of a three-year period subject to the permanence of the employment relationship.

The 2021 Policy takes into account the definition of the objectives of the new LTI Plan for the three-year period 2021-2023, in application of the rolling mechanism already provided for in the 2020 Policy, in support of the objectives of the 2021-2022/2025 Strategic Plan, with consequent re-proportioning on an annual basis, in line with the provisions of the 2020 Policy, of the three-year incentive percentages. Furthermore, it provides also for 2021-2023 LTI Plan the option to normalise the potential effects on the final result of the acquisition of Cooper by Goodyear (a company included in the reference panel for the TSR objective) at the start of 2021, in order to calculate its impact on the TSR (for both the 2020-2022 LTI Plan and the 2021-2023 LTI Plan).

The 2021 Policy also takes into account the inclusion of the Deputy-CEO and the relevant remuneration.

As provided for in art.123-*ter* TUF, the first section of the Remuneration Report brought to your attention outlines:

a. the remuneration Policy for the members of the administrative bodies, General Managers and Key managers and, without prejudice to the provisions of art. 2402 of the Italian Civil Code, for members of the controlling bodies, to which Pirelli refers to define the remuneration of the Senior Managers and Executives;

b. the procedures used for the adoption and implementation of this Policy.

In accordance with TUF, the Shareholders'Meeting is asked to express its favourable vote on the first section of the Remuneration Report.

B. Advisory vote on the Report on the remuneration paid in 2020

Dear Shareholders,

pursuant to art.123-*ter* of the Legislative Decree no. 58 of 24 February 1998 ("**TUF**"), as amended and supplemented by art. 3 of Legislative Decree no. 49 of 10 May 2019 ("**Decree**"), we have also called you to submit to your advisory vote the second section ("**Compensation Report**") of the Report on the remuneration policy and compensation paid ("**Remuneration Report**"), which provides, by name, for the members of the administrative and controlling bodies, for the General Managers, as well as, in aggregate form, for the Key managers ("**KM**"), a summary of the remuneration paid in implementation of the remuneration policy adopted by the Group in 2020, highlighting its compliance with the same.

The Compensation Report submitted for your vote is drawn up pursuant to art. 123-*ter* TUF and takes into account the regulatory provisions adopted by Consob, as per art. 84-*quater* and on the basis of Scheme 7-*bis* of Annex 3A of the Consob Resolution no. 11971 of 14 May 1999 ("**Issuers' Regulation**"), as amended and supplemented by Consob Resolution no. 21623 of 10 December 2020.

As required by art. 123-*ter* of the TUF, the second section of the Remuneration Report that we submit to you illustrates, by name, for the members of the administrative and controlling bodies, the General Managers, as well as, in aggregate form, the KM:

a. the items of which the remuneration is composed, including payments prescribed in case of resignation from office or termination of employment;

b. the sums paid in the 2020 financial year for any reason and in any form by the Company and its subsidiaries or affiliates, indicating any components of said payments that are referable to activities undertaken in years preceding the year of reference and also highlighting the payments to be made in one or more subsequent years for activity undertaken in the reference year, providing, if applicable, estimates for the components that cannot be objectively quantified in the year of reference.

The subject appointed to carry out the external audit of the financial statements verifies that the Directors have prepared the Compensation Report.

In accordance with TUF, the Shareholders'Meeting is asked to express its favourable advisory vote on the second section of the Remuneration Report.

THREE-YEAR MONETARY INCENTIVE PLANS FOR PIRELLI'S GROUP MANAGEMENT:

- **APPROVAL OF THE MONETARY INCENTIVE PLAN FOR THE THREE-YEAR PERIOD 2021-2023 FOR PIRELLI'S GROUP MANAGEMENT;**
- **ADJUSTMENT OF THE OBJECTIVE OF CUMULATIVE GROUP NET CASH FLOW (BEFORE DIVIDENDS) AND NORMALIZATION OF POTENTIAL EFFECTS ON THE RELATIVE TOTAL SHAREHOLDER RETURN OBJECTIVE INCLUDED IN THE MONETARY INCENTIVE PLAN FOR THE THREE-YEAR PERIOD 2020-2022 FOR PIRELLI'S GROUP MANAGEMENT;**

RELATED AND CONSEQUENT RESOLUTIONS AND CONFERMENT OF POWERS.

(item 5 on the agenda)

Illustrative reports drawn up by the Directors pursuant to art. 125-*ter* of Italian Legislative Decree no. 58 of 24 February 1998 as subsequently amended and supplemented, approved by the Board of Directors on 31 March 2021

A. Approval of the monetary incentive plan for the three year period 2021-2023 for Pirelli's Group management

Dear Shareholders,

in the meeting of 31 March 2021, the Board of Directors approved the objectives of the three-year, monetary incentive Plan for the 2021-2023 cycle for the Pirelli's Management ("**2021-2023 LTI Plan**"), related to the targets of the 2021-2022/2025 Strategic Plan presented on the same date ("**Strategic Plan**"). The 2021-2023 LTI Plan was also approved pursuant to art. 2389 of the Italian Civil Code, on the proposal of the Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, in relation to the persons for whom such opinion is required. The 2021-2023 LTI Plan is subject to the approval of the Shareholders' Meeting pursuant to art. 114-*bis* of Legislative Decree no. 58 of 24 February 1998 ("**TUF**") as it states, inter alia, that part of the incentive is determined on the basis of a relative Total Shareholder Return target, calculated with respect to an index made up of selected "Tier 1" peers in the Tyre sector.

Moreover, pursuant to art. 123-*ter* of TUF, the 2021-2023 LTI Plan is included in the 2021 remuneration policy adopted by Pirelli ("**2021 Policy**"), submitted for the approval to the Shareholders' Meeting.

The main information on the 2021-2023 LTI Plan is set out below, while for a more analytical description you are invited to read the Information Document prepared pursuant to art. 84-*bis*, paragraph 1, of Consob Resolution No. 11971 of 14 May 1999 (**"Issuers' Regulation**"), which is also available to the public at the registered offices of Pirelli & C. S.p.A. (in Milan, Viale Piero e Alberto Pirelli 25) and on the website www.pirelli.com as well as at Borsa Italiana S.p.A. together with this report.

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Reasons for adopting the Plan[97]

In line with national and international best practices, the 2021 Policy is tailored to Pirelli's objective of attracting, motivating and retaining resources with the professional qualities required to pursue business objectives. In addition, through the multi-year variable components assigned, in particular, to the Executive Vice Chairman and Chief Executive Officer, Deputy-CEO, General Managers, KM, Senior Managers and Executives, it aims to achieve long-term interests, contributing to the achievement of strategic objectives and the sustainable success of the Company, as well as aligning the interests of Management with those of shareholders.

Starting from LTI Plan of the three-year cycle 2020-2022, included in the 2020 Remuneration Policy approved by the Shareholders' Meeting of 18 June 2020 ("**2020 Policy**"), the Company introduced a "rolling" mechanism for medium-long term incentive plans. On applying it, the Board of Directors of Pirelli & C. defined the 2021-2023 LTI Plan objectives, linked to achieving the Strategic Plan targets for the 2021-2022/2025 period ("**Strategic Plan**"), with no change to the incentive plan structure.

Recipients of the Plan[98]

The 2021-2023 LTI Plan is extended to all Top Management - except for the Chairman - and extended, except in specific cases, to all Executives whose grade, determined with the Korn Ferry method, is equal to or above 20. It is also assigned to those who join the Group and/or were promoted to an Executive position, due to internal career growth, during the three-year period. In this case, their inclusion is subject to participation in the LTI Plan for at least one full financial year and the incentive percentages are scaled to the number of months of actual participation in the LTI Plan.

In particular, as at the date of this report, among others, the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera, the Director Giovanni Tronchetti Provera (as Senior Manager), the General Manager Operations Andrea Casaluci, and Key managers ("**KM**") are participants in the LTI Plan[99].

Performance Targets and Bonus Calculation[100]

The Management remuneration structure, as better described in the 2021 Policy which should be referred to for further details, has several elements:

- gross annual base salary (GABS);
- STI annual variable component: designed to reward the beneficiary's performance in the short term, motivating Management to achieve the Company's annual objectives; it is set as a percentage of the base salary, increasing in relation to the role held by the beneficiary and taking

97 Information required by Article 114-*bis*, paragraph 1, letter a) of the TUF.

98 Information required by Article 114-*bis*, paragraph 1, letters b) and b-*bis*) of the TUF.

99 In case of appointment, the Deputy-CEO will partecipate to the 2021-2021 LTI Plan.

100 Information required by Article 114-*bis*, paragraph 1, letter c) of the TUF.

account of the benchmarks for each figure. This percentage can range, in case of on-target performance, from a minimum of 15% for Executives (managers of Pirelli's Italian companies or employees of Group's foreign companies with a position or role comparable to that of an Italian manager) up to a maximum of 125% for Directors holding specific offices to whom further specific duties may be attributed;

- medium-long term variable component (LTI): composed of LTI incentive plans linking Management remuneration to the Group's medium-long term performances, and of the deferral and mark-up component of the STI incentive.

  As for the STI incentive, the LTI incentive is also set as a percentage of the base salary with increasing percentages in relation to the role held and taking into account the reference benchmarks of each figure. Applying the rolling mechanism, the 2021-2023 LTI Plan confirms the three-year incentive percentages set forth in the 2020-2022 LTI Plan which, as of 2021, are re-proportioned on an annual basis and, in case of on-target performance, can go from a minimum of 15% for Executives to a maximum of 70% for Directors holding specific offices to whom further specific duties may be attributed. There is also a limit (cap) to the maximum achievable LTI incentive.

  The 2021-2023 LTI Plan, which is monetary and does not include the assignment of shares or options on shares, is also subject to the achievement of three-year objectives and determined as a percentage of the gross annual base salary (GABS) received by the beneficiary at the date on which their participation in the Plan was established.

  The medium-long term incentive plan "rolling" structure introduced with the 2020 Policy enables yearly definition of the value of the following three-year period targets, while ensuring management loyalty and the correct focus on performance targets. The date of eventual first payment is April 2023 (if the 2020-2022 results are achieved) and, from then on, April of each subsequent year if the results of the previous three-year period are achieved.

  In continuity with the 2020-2022 LTI Plan, the 2021-2023 LTI Plan foresees three objectives types, all independent of each other and each with a specific weight:

  — objective represented by the cumulative Group Net Cash Flow (before dividends), with a weight at target performance of 40% of the overall LTI bonus;

  — Total Shareholder Return ("TSR") objective related to a panel of selected Tier 1 peers, with a weight at target performance of 40%. The Information Document made available at the Shareholders' Meeting provides more detailed information on the application of the Total Shareholder Return objective;

  — the remaining 20% is calculated on the basis of Sustainability indicators in relation to Pirelli's positioning in two indices of equal weight: (i) Dow Jones Sustainability World Index ATX Auto Component sector and (ii) CDP Ranking.

For all three objectives (cumulative Group Net Cash Flow (before dividends), relative TSR and Sustainability) there is a minimum value associated with the recognition of a payout of 75% of the bonus achievable at target performance.

Regarding each objective, where the set minimum value is not attained, no right is accrued by the beneficiary to the payment of the related pro-quota bonus.

For intermediate results falling between the "access threshold" and the target or between the target and the maximum, performance will be calculated by linear interpolation, differently to the Sustainability objectives, which are calculated only in three steps: "access threshold", target and maximum, without considering intermediate performances.

Bonus Period

If objectives are achieved, the 2021-2023 LTI Plan incentive (so-called LTI Bonus) will be paid in the first half of 2024, subject to participants being present at 31 December 2023.

If the office and/or employment relationship has been terminated for any reason (without prejudice to the following) before the end of the three-year period, the beneficiary's participation in the 2021-2023 LTI Plan shall cease and, as a result, no LTI Bonus nor pro-rated bonus will be paid. For Directors holding specific office to whom further specific duties may be attributed who cease to hold office due to having completed their mandate or to the termination of the entire Board of Directors, and are not appointed thereafter even as Directors, a pro-rata payment of the LTI Bonus is provided for.

Plan Duration and Amendments

The 2021-2023 LTI Plan implements the second LTI Plan cycle, based on the "rolling" mechanism already included in the 2020 Policy, structured on three-year performance periods (cycles) that start each year, with the definition of performance indicators and related objectives.

The "rolling" mechanism allows performance indicators to be aligned, for each new cycle, with market changes and the company's strategic objectives which could be revised from year to year.

Special fund to encourage workers' participation in enterprises[101]

The LTI Plan 2021-2023 does not receive any support from the Special Fund to encourage workers' participation in enterprises, referred to in art. 4, paragraph 112, of Law No. 350 of 24 December 2003.

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The 2021-2023 LTI Plan is to be considered "of particular importance" as it is addressed, as at the date of this report, inter alia, to the Executive Vice Chairman and Chief Executive Officer, the General

[101] Information required by Article 114-bis, paragraph 1, letter d) of the TUF.

Manager Operations and KM as they have regular access to inside information and have the power to make decisions that may affect the Group's development and future prospects[102].

Considering that the LTI Plan is monetary in nature, as it does not provide for the assignment of shares or stock options on shares, but only a cash incentive partly linked to the performance of Pirelli & C.'s ordinary shares, the Information Document prepared in accordance with current regulations does not contain the information required for mechanisms that consider the assignment of shares or stock options.

[102] In case of appointment, the Deputy-CEO will partecipate to the 2021-2021 LTI Plan.

B. Adjustment of the cumulative Group Net Cash Flow (before dividends) and normalization of potential effects on the relative total shareholder return objective included in the monetary incentive plan for the three-year period 2020-2022 for Pirelli's Group management.

Dear Shareholders,

in its meeting of 5 August 2020, as a result of the health emergency linked to the spread of Covid-19, of the consequent revision of the 2020-2022 Strategic Plan and the announced launch for the first quarter of 2021 of the Strategic Plan for the period 2021-2022/2025, the Board of Directors gave the Remuneration Committee a mandate to proceed with an adjustment of the cumulative Group Net Cash Flow objective (before dividends) of the three-year monetary incentive Plan for the 2020-2022 cycle for the Pirelli's Management ("**2020-2022 LTI Plan**") - already submitted for Shareholders' Meeting approval on 18 June 2020 pursuant to art. 114-*bis* of Legislative Decree no. 58 of 24 February 1998 - to align it with the 2020 guidance disclosed to the market on 5 August 2020 and with the targets of the 2021-2022/2025 Strategic Plan ("**Strategic Plan**") for the years 2021 and 2022.

That adjustment was examined and approved in the Board of Directors' meeting of 31 March 2021 (which also approved the Strategic Plan) implementing what was planned related to the plan review and adjustment of objectives in the Information Document on the 2020-2022 LTI Plan made available to the public on 28 April 2020 pursuant to art. 84-*bis*, paragraph 1 of the Consob Resolution no. 11971 of 14 May 1999 ("**Issuers' Regulation**"). The adjustment is also reported in the 2021 remuneration policy (the "**2021 Policy**") and was approved by the Board of Directors subordinate to Shareholders' Meeting approval of that adjustment and the 2021 Policy.The adjustment of the cumulative Group Net Cash Flow objective (before dividends) of the 2020-2022 LTI Plan is aligned with the guidance disclosed to the market on 5 August 2020 and the new Strategic Plan. For a more analytical description of the adjustment of the cumulative Group Net Cash Flow objective (before dividends) of the 2020-2022 LTI Plan, you are invited to read the Information Document prepared pursuant to art. 84-*bis*, paragraph 1, of the Issuers' Regulation, as amended by the adjustment described, made available to the public at the registered offices of Pirelli & C. S.p.A. (in Milan, viale Piero e Alberto Pirelli 25) and on the website www.pirelli.com as well as at Borsa Italiana S.p.A. together with this report.

Also for the 2020-2022 LTI Plan, it is provided the option to normalise the potential effects on the final result of the acquisition of Cooper by Goodyear (a company included in the reference panel for the TSR objective) at the start of 2021, in order to calculate its impact on the TSR.

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Dear Shareholders,

on the basis of the above, we hereby ask you to adopt the following resolutions:

Related to item 5.1 on the agenda:

1. approve - pursuant to art. 114-*bis* of Legislative Decree No. 58 of 24 February 1998, as subsequently amended and supplemented - the adoption of the three-year monetary incentive plan for the 2021-2023 period ("**2021-2023 LTI Plan**") for the Management of the Pirelli Group, regarding the part where it is also based on the performance of Pirelli shares, in the terms set out in this report and as better described in the Information Document (prepared pursuant to art. 84-*bis*, paragraph 1, of the Issuers' Regulation). The LTI Plan 2021-2023 states, inter alia, that a quota of the LTI bonus will be determined on the basis of a relative Total Shareholder Return objective, calculated with respect to an index made up of selected Tier 1 peers in the Tyre sector;

2. grant the Board of Directors with all the powers needed or opportune to implement the 2021-2023 LTI Plan and to adjust or modify the performance indicators and relative 2021-2023 LTI Plan objectives, submitting the new performance indicators and objectives to the Shareholders' Meeting if the plan has characteristics established by art. 114-*bis* of TUF (remuneration plans based on financial instruments);

related to item 5.2 on the agenda:

3. with reference to the monetary incentive plan for the three-year cycle 2020-2022 for Pirelli's Group Management, already approved by the Shareholders' Meeting of 18 June 2020 ("**2020-2022 LTI Plan**"), approve the adjustment of the «cumulative Group Net Cash Flow (before dividends)» objective of in the terms described in this report and as indicated in the Information Document (prepared pursuant to art. 84-*bis*, paragraph 1, of the Issuers' Regulation) as amended by the adjustment to align it with the guidance communicated to the market on 5 August 2020 and with the 2021-2022/2025 Strategic Plan targets for the years 2021 and 2022;

4. with reference to the 2020-2022 LTI Plan, already approved by the Shareholders' Meeting of 18 June 2020, approve the option to normalise the potential effects on the final result of the acquisition of Cooper by Goodyear (a company included in the reference panel for the TSR objective) at the start of 2021, in order to calculate its impact on the TSR;

5. grant the Board of Directors with all the powers needed or opportune to implement the 2020-2022 LTI Plan (as adjusted) and perform any other adjustment or amendment of the performance indicators and relative objectives, submitting the new performance indicators and objectives to the Shareholders' Meeting if the plan has the characteristics established by art. 114-*bis* of TUF (remuneration plans based on financial instruments).

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-*BIS* OF LEGISLATIVE DECREE 58 OF FEBRUARY 24, 1998, AND PURSUANT TO ARTICLE 81-*TER* OF CONSOB REGULATION NO. 11971 OF MAY 14, 1999, AS AMENDED

1. The undersigned Marco Tronchetti Provera, in his capacity as Executive Vice Chairman and Chief Executive Officer, and Francesco Tanzi, in his capacity as Corporate Financial Reporting Manager of Pirelli & C. S.p.A. hereby certify pursuant to, *inter alia*, Article 154-*bis*, clauses 3 and 4, of Legislative Decree 58 of February 24, 1998:

   - the adequacy in relation to the characteristics of the company and
   - the effective application

   of the administrative and accounting procedures for preparation of the consolidated financial statements, during the period January 1, 2020 – December 31, 2020.

2. In this regard it should be noted that the adequacy of the administrative and accounting procedures for preparation of the consolidated financial statements for the year ended December 31, 2020 was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the "Internal Control – Integrated Framework" guidelines issued by the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO), which is a reference framework generally accepted at the international level.

3. We also certify that:

3.1. the consolidated financial statements:

   a. were prepared in accordance with the applicable international accounting standards recognised in the European Union under the terms of Regulation (EC) 1606/2002 of the European Parliament and Council, of July 19, 2002;

   b. correspond to the information in the account ledgers and books;

   c. give a true and fair view of the assets, liabilities, income, expenses and financial position of the reporting entity and of the Group of companies included in the scope of consolidation.

3.2. The report on operations includes a reliable analysis of the performance and results of operations, and of the situation of the reporting entity and of the Group of companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

March 31, 2021

The Executive Vice Chairman and Chief Executive Officer

(Marco Tronchetti Provera)

The Corporate Financial Reporting Manager

(Francesco Tanzi)

pwc

PIRELLI & C SPA

**INDEPENDENT AUDITOR'S REPORT
IN ACCORDANCE WITH ARTICLE 14 OF
LEGISLATIVE DECREE 39/2010 AND
ARTICLE 10 OF REGULATION (EU) 537/2014**

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

Independent auditor's report

in accordance with article 14 of Legislative Decree 39/2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of Pirelli & C SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Pirelli & C SpA and its subsidiaries (Pirelli group), which comprise the statement of financial position as of 31 December 2020, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Pirelli group as of 31 December 2020, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia).
Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Consolidated Financial Statements of this report. We are independent of Pirelli & C SpA (the Company) based on ethic and independence regulations and standards applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matters	***How our audit addressed the key audit matter***
Recoverability of brands with indefinite useful life and goodwill *Note 10 "Intangible assets"* As of 31 December 2020 the indefinite-lived intangible assets Pirelli brand and goodwill amount to € 2,270 million and € 1,884 million, respectively. Recoverability of the carrying amount of Pirelli brand and goodwill were tested for impairment at the year-end, in accordance with IAS36 – Impairment of Assets. The recoverable amount of Pirelli brand is measured using its fair value less cost to sell, based on an income approach. This requires the use of estimates for revenue projections, implied royalty rates and discount rate. The recoverable amount of goodwill, entirely allocated to the the group of cash generating units ("CGU") "Consumer segment", which represents the sole sector of activity of Pirelli group, is measured using its value in use, calculated based on the expected future cash flows of the Consumer segment. The recoverable amount of Pirelli Brand is compared with its carrying amount. The recoverable amount of the Consumer segment is compared with the carrying amount of segment assets and liabilities, including brand and goodwill. Considering the magnitude of the carrying amounts and the subjective judgment in some of the assumptions used for the calculation of the recoverable amounts, the impairment test of Pirelli brand and goodwill represented a key matter in the audit of the consolidated financial statements.	We have performed an understanding and evaluation of the internal controls in place over the impairment testing of brand and goodwill. We have tested the operating effectiveness of such controls. We have performed, with the support of PwC experts, the following audit procedures: • assessment over the adequacy of the impairment testing process in accordance with the requirement of the accounting standard; • assessment of the key assumptions used when determining the fair value of Pirelli brand taking into account the uncertainties related to COVID-19 pandemic, with focus to revenue projections , implied royalty rates and discount rate, including benchmarking e sensitivity analysis; • assessment of the allocation of goodwill to the group of cash generating units – CGU; • assessment of the key assumptions used when determining the value in use of the Consumer segment, to which the goodwill is allocated, taking into account the uncertainties related to COVID-19 pandemic, with focus to expected growth rate and discount rate, including benchmarking e sensitivity analysis; • testing of the accuracy of the carrying amounts of assets and liabilities directly attributable to the Consumer segment; • testing the mathematical accuracy of the calculation model used. We have tested the accuracy and completeness of the disclosure presented in the notes to the consolidated financial statements.

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Key Audit Matters	*How our audit addressed the key audit matter*
Revenue recognition	
Note 3 "Adopted Accounting Standards"	
Revenue recognition, in accordance with the accounting standard IFRS15 - "Revenue from contracts with customers", considering the magnitude and the high volume of sales transactions carried out through a global distribution network, different sales channels and logistic platforms, represented a key matter in the audit of the consolidated financial statements.	We have carried out our procedures to verifying existence, completeness, accuracy and cut off of sales transactions. For the main revenue streams identified using the requirements of the accounting standard IFRS15, we have performed an understanding and evaluation of the internal controls over the revenue recognition process and a validation of relevant controls. We have tested the proper recognition of revenue through testing samples of sales transactions, obtaining appropriate supporting evidence with specific attention to key contractual terms regulating the various performance obligations. We have performed external confirmation procedures over accounts receivable balances with the objective of validating trade receivable balances recorded in the consolidated accounts. We have tested samples of sales returns transactions, credit notes and year-end accruals. We have tested the accuracy and completeness of the disclosure presented in the notes to the consolidated financial statements.

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Key Audit Matters	*How our audit addressed the key audit matter*
Accounting for the bond convertible into Pirelli & C. SpA ordinary shares *Note 23 "Borrowings from banks and other financial instututions" – Note 20 "Equity" and Consolidated statement of changes in equity at 31/12/2020*	
On 22 December 2020 Pirelli & C. SpA issued a zero coupon convertible bond amounting to € 500 million, with a maturity date on 22 December 2025. The bond is convertible at the discretion of the bondholders into new ordinary shares of the Company at a initial conversion price per share of € 6.235, before any anti dilutive adjustments as described in the terms and conditions of the bond. The convertible bond is a compound financial instrument consisting of (i) a five year bond at market rates and (ii) a written call option in favour of the bondholders, represented by their right to convert the bond into ordinary shares of the Company at a pre-established conversion price. In accordance with the applicable accountig standards, the parent company Pirelli & C SpA has accounted for separately the two components of the convertible bond; the net proceed of the bond of € 493 million has been recorded against the fair value of the five year bond financial debt, net of transaction costs, and the fair value of the written call option, net of transaction costs, classified as equity, for € 452 million and € 41 million respectively. Considering the magnitude of the transaction and the complexity of the measurement at fair value of the five year bond and written call option, the accounting for this transaction represented a key matter in the audit of the consolidated financial statements.	We have performed an understanding of the entire transaction and the internal controls in place over the proper accounting in line with the applicable accounting standards. We have performed, with the support of PwC experts, the following audit procedures: • assessment over the adequacy in relation to recognition, measurement and presentation of the transaction in accordance with the requirements of the applicable accounting standards; • assessment of the key assumptions used in the valuation techniques when determining the fair value of the five year bond and of the written call option over the new shares of Pirelli & C SpA, , including independent and sensitivity analysis; • testing the mathematical accuracy of the calculation model used. We have reviewed the accuracy and completeness of the disclosure presented in the notes to the consolidated financial statements.

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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/2005 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the group ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management intends either to liquidate Pirelli & C SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the group financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional scepticism throughout the audit. Furthermore:

- we identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group internal control;
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists

related to events or conditions that may cast significant doubt on the group ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;
- we evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that are of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report.

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of Pirelli & C SpA at the general meeting held on 1 August 2017 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2017 through 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared in accordance with article 11 of the aforementioned Regulation.

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Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree 58/1998

Management of Pirelli & C SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Pirelli group as of 31 December 2020, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree 58/1998, with the consolidated financial statements of the Pirelli group as of 31 December 2020 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Pirelli group as of 31 December 2020 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/2010, issued on the basis of our knowledge and understanding of the group obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob Regulation implementing Legislative Decree 254/2016

Management of Pirelli & C SpA is responsible for the preparation of the non-financial disclosure in accordance with Legislative Decree 254/2016. We have verified that the non-financial disclosure was approved by the board of directors.

In accordance with article 3, paragraph 10, of Legislative Decree 254/2016, the non-financial disclosure is subject to separate audit reporting by our firm.

Milan, 2 April 2021

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

CERTIFICATION OF THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-*BIS* OF LEGISLATIVE DECREE 58 OF FEBRUARY 24, 1998, AND PURSUANT TO ARTICLE 81-*TER* OF CONSOB REGULATION NO. 11971 OF MAY 14, 1999, AS AMENDED

1. The undersigned Marco Tronchetti Provera, in his capacity as Executive Vice Chairman and Chief Executive Officer, and Francesco Tanzi, in his capacity as Corporate Financial Reporting Manager of Pirelli & C. S.p.A. hereby certify pursuant to, *inter alia*, Article 154-*bis*, clauses 3 and 4, of Legislative Decree 58 of February 24, 1998:

   - the adequacy in relation to the characteristics of the company and
   - the effective application

   of the administrative and accounting procedures for preparation of the separate financial statements, during the period January 1, 2020 – December 31, 2020.

2. In this regard it should be noted that the adequacy of the administrative and accounting procedures for preparation of the separate financial statements for the year ended December 31, 2020 was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the "Internal Control – Integrated Framework" guidelines issued by the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO), which is a reference framework generally accepted at the international level.

3. We also certify that:

3.1 the separate financial statements:

a. were prepared in accordance with the applicable international accounting standards recognised in the European Union under the terms of Regulation (EC) 1606/2002 of the European Parliament and Council, of July 19, 2002;

b. correspond to the information in the account ledgers and books;

c. give a true and fair view of the assets, liabilities, income, expenses and financial position of the reporting entity and of the Group of companies included in the scope of consolidation.

3.2 The report on operations includes a reliable analysis of the performance and results of operations, and of the situation of the reporting entity, together with a description of the principal risks and uncertainties to which they are exposed.

March 31, 2021

The Executive Vice Chairman and Chief Executive Officer	The Corporate Financial Reporting Manager
(Marco Tronchetti Provera)	(Francesco Tanzi)

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PIRELLI & C SPA

INDEPENDENT AUDITOR'S REPORT
IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE 39 OF 27 JANUARY 2010 AND ARTICLE 10 OF REGULATION (EU) 537/2014

SEPARATE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

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Independent auditor's report

in accordance with article 14 of Legislative Decree 39/2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of Pirelli & C SpA

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Pirelli & C SpA (the "Company"), which comprise the statement of financial position as of 31 December 2020, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as of 31 December 2020, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Separate Financial Statements of this report. We are independent of the Company based on ethic and independence regulations and standards applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matter	*How our audit addressed the key audit matter*
Recoverability of brands with indefinite useful life *Note 9 "Intangible assets"*	
As of 31 December 2020 the indefinite-lived intangible asset Pirelli brand amounts to € 2,270 million. Recoverability of the carrying amount of Pirelli brand was tested for impairment at the year-end, in accordance with IAS36 – Impairment of Assets. The recoverable amount of Pirelli brand is measured using its fair value lest cost to sell, based on an income approach. This requires the use of estimates for revenue projections, implied royalty rates and discount rate. The recoverable amount of Pirelli brand is compared with its carrying amount. Considering the magnitude of the carrying amount and the subjective judgment in some of the assumptions used for the calculation of the fair value less cost to sell, the impairment test of Pirelli brand represented a key matter in the audit of the separate financial statements.	We have performed an understanding and evaluation of the internal controls in place over the impairment testing of the Pirelli brand. We have tested the operating effectiveness of such controls. We have performed, with the support of PwC experts, the following audit procedures: • assessment over the adequacy of the impairment testing process in accordance with the requirement of the accounting standard; • assessment of the key assumptions used when determining the fair value of Pirelli brand, taking into account the uncertainties related to COVID-19 pandemic, with focus on revenue projections , implied royalty rates and discount rate, including benchmarking e sensitivity analysis; • testing the mathematical accuracy of the calculation model used. We have assessed the accuracy and completeness of the disclosure presented in the notes to the separate financial statements.

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Key Audit Matter	*How our audit addressed the key audit matter*
Recoverabilty of the carrying amount of the investment held in Pirelli Tyre SpA *Note 10 "Investments in subsidiaries"* As of 31 December 2020 the carrying amount of the investment held in Pirelli Tyre SpA is € 4,528 million. Considering the existence of impairment indicators, the Company has tested for impairment the recoverability of the carrying amount, measured at cost, of the investment held in Pirelli Tyre SpA, in accordance with IAS36 – Impairment of Assets. The recoverable amount of Pirelli Tyre SpA was measured using its value in use, calculated based on future cash flows of the "Consumer segment", properly adjusted to consider the different perimeter of the investment held in Pirelli Tyre SpA. Considering the magnitude of the carrying amount of the investment and the subjective judgment in some of the assumptions used for the calculation of the value in use, the impairment test of the carrying amount of the investment in Pirelli Tyre SpA represented a key matter in the audit of the separate financial statements.	We have performed an understanding and evaluation of the internal controls in place over the impairment testing of the investment. We have tested the operating effectiveness of such controls. We have performed, with the support of PwC experts, the following audit procedures: • assessment over the adequacy of the impairment testing process in accordance with the requirement of the applicable accounting standard; • assessment of the key assumptions used when determining the value in use of Pirelli Tyre SpA, taking into account the uncertainties related to COVID-19 pandemic, with focus to growth rate and discount rate, including benchmarking e sensitivity analysis; • testing the mathematical accuracy of the calculation model used. We have assessed the accuracy and completeness of the disclosure presented in the notes to the separate financial statements.

Key Audit Matter	*How our audit addressed the key audit matter*
Accounting for the bond convertible into Pirelli & C. SpA ordinary shares *Note 19 "Borrowings from banks and other financial instututions" – Note 18 "Equity" and Statement of changes in equity at 31/12/2020* On 22 December 2020 Pirelli & C. SpA issued a zero coupon convertible bond amounting to € 500 million, with a maturity date on 22 December 2025. The bond is convertible at the discretion of the bondholders into new ordinary shares of the Company at a initial conversion price per share of € 6.235, before any anti dilutive adjustments as described in the terms and conditions of the bond. The convertible bond is a compound financial instrument consisting of (i) a five year bond at market rates and (ii) a written call option in favour of the bondholders, represented by their right to convert the bond into ordinary shares of the Company at a pre-established conversion price. In accordance with the applicable accountig standards, Pirelli & C SpA has accounted for separately the two components of the convertible bond; the net proceed of the bond of € 493 million has been recorded against the fair value of the five year bond financial debt, net of transaction costs, and the fair value of the written call option, net of transaction costs, classified as equity, for € 452 million and € 41 million respectively. Considering the magnitude of the transaction and the complexity of the measurement at fair value of the five year bond and written call option, the accounting for this transaction represented a key matter in the audit of the separate financial statements.	We have performed an understanding of the entire transaction and the internal controls in place over the proper accounting in line with the applicable accounting standards. We have performed, with the support of PwC experts, the following audit procedures: • assessment over the adequacy in relation to recognition, measurement and presentation of the transaction in accordance with the requirements of the applicable accounting standards; • assessment of the key assumptions used in the valuation techniques when determining the fair value of the five year bond and of the written call option over the new shares of Pirelli & C SpA, , including independent and sensitivity analysis; • testing the mathematical accuracy of the calculation model used. We have reviewed the accuracy and completeness of the disclosure presented in the notes to the separate financial statements.

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Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/2005 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company ability to continue as a going concern and, in preparing the separate financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the separate financial statements, management uses the going concern basis of accounting unless management intends either to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional scepticism throughout the audit. Furthermore:

- we identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company internal control;

- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that are of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our report.

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of Pirelli & C SpA at the general meeting held on 1 August 2017 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2017 through 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared in accordance with article 11 of the aforementioned Regulation.

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Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree 58/1998

Management of Pirelli & C SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Pirelli & C SpA as of 31 December 2020, including their consistency with the relevant separate financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree 58/1998, with the separate financial statements of the Company as of 31 December 2020 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the separate financial statements of the Company as of 31 December 2020 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/2010, issued on the basis of our knowledge and understanding of the Company obtained in the course of the audit, we have nothing to report.

Milan, 2 April 2021

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

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UNGC PRINCIPLES SUMMARY TABLE

Areas of the Global Compact	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
Human Rights	**Principle 1** – Business should promote and respect internationally proclaimed human rights in their respective spheres of influence.	Disclosure 407: Freedom of Association and Collective Bargaining Disclosure 408: Child Labor Disclosure 409: Forced or Compulsory Labor Disclosure 410: Security Practices Disclosure 411: Rights of Indigenous Peoples Disclosure 412: Human Rights Assessment Disclosure 414: Supplier Social Assessment Disclosure 103-2: Grievance Mechanism	Disclosure 413: Local Communities
	Principle 2 – Business should ensure that they are not, albeit indirectly, complicit in human rights abuses.	Disclosure 410: Security Practices Disclosure 412: Human Rights Assessment Disclosure 414: Supplier Social Assessment	

Areas of the Global Compact	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
Labour Standards	**Principle 3** – Businesses should uphold the freedom of association of workers and recognise the right to collective bargaining.	Disclosure 402: Labour/Management Relations Disclosure 403: Occupational Health and Safety Disclosure 407: Freedom of Association and Collective Bargaining Disclosure 410: Security Practices Disclosure 102-11: Precautionary Principle or Approach Disclosure 102-41: Collective Bargaining Agreements	
	Principle 4 – Business should uphold the elimination of all forms of forced and compulsory labour.	Disclosure 409: Forced or Compulsory Labor Disclosure 410: Security Practices	Disclosure 412: Human Rights Assessment
	Principle 5 – Business should uphold the effective elimination of child labour.	Disclosure 408: Child Labor Disclosure 410: Security Practices	Disclosure 412: Human Rights Assessment
	Principle 6 – Business should uphold the elimination of discrimination in respect of employment and occupation.	Disclosure 401: Employment Disclosure 404: Training and Education Disclosure 405: Diversity and Equal Opportunity Disclosure 406: Non-Discrimination Disclosure 410: Security Practices Disclosure 102-8: Information on Employees and other Workers	Disclosure 202: Market Presence Disclosure 401: Employment Disclosure 412: Human Rights Assessment Disclosure 414: Supplier Social Assessment Disclosure 102-41: Collective Bargaining Agreements

Areas of the Global Compact	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
Environment	**Principle 7** – Businesses should support a precautionary approach to environmental challenges.	Disclosure 102-11: Precautionary Principle or Approach Disclosure 201: Economic Performance	Disclosure 301: Materials Disclosure 302: Energy Disclosure 303: Water and Effluents Disclosure 304: Biodiversity Disclosure 305: Emissions Disclosure 306: Effluents and Waste Disclosure 307: Environmental Compliance
	Principle 8 – Business should undertake initiatives to promote greater environmental responsibility.	Disclosure 301: Materials Disclosure 302: Energy Disclosure 303: Water and Effluents Disclosure 304: Biodiversity Disclosure 305: Emissions Disclosure 306: Effluents and Waste Disclosure 307: Environmental Compliance Disclosure 308: Supplier Environmental Assessment Disclosure 103-2: Grievance Mechanism	Disclosure 201: Economic Performance
	Principle 9 – Businesses should encourage the development and diffusion of environmentally friendly technologies.	Disclosure 301: Materials Disclosure 302: Energy Disclosure 303: Water and Effluents Disclosure 305: Emissions	
Anti-Corruption	**Principle 10** – Businesses should work against corruption in all its forms, including extortion and bribery.	Disclosure 205: Anti-Corruption Disclosure 419: Socioeconomic Compliance Disclosure 102-16: Values, Principles, Standards, and Norms of Behavior Disclosure 102-17: Mechanism for Advice and Concerned about Ethics	Disclosure 205: Anti-Corruption Disclosure 419: Socioeconomic Compliance Disclosure 102-16: Values, Principles, Standards, and Norms of Behavior Disclosure 102-17: Mechanism for Advice and Concerned about Ethics

SDGS SUMMARY TABLE

Sustainable Development Goals (SDGs)	Paragraphs describing the Group's activities in support of the SDGs and relevant targets (from Sustainability Plan 2020-2022 with Vision 2025 and 2030)
1 - No Poverty	Company Initiatives for the External Community (Solidarity p. 207)
2 - Zero Hunger	Company Initiatives for the External Community (Solidarity p. 207)
3 - Good Health and Well-being	Welfare and Initiatives for the Internal Community (pp. 176-178) Occupational Health, Safety and Hygiene (pp. 182-192) Company Initiatives for the External Community (Road Safety pp. 203-205, Sport and Social Responsibility pp. 206-207, Health pp. 208-209) Target: • Accident Frequency Index: ≤ 0.15 by 2022 and ≤ 0.1 by 2025
4 - Quality Education	Training (pp. 169-175) Company Initiatives for the External Community (Training pp. 205-206, Culture and Social Value pp. 209-210) Target: • Training: training on new digital competences
5 - Gender Equality	Diversity Management (pp. 160-165)
6 - Clean Water and Sanitation	Water Management (pp.138-140) Target: • Specific water withdrawal: -43% by 2025 compared to 2015
7 - Affordable and Clean Energy	Joining the Task Force on Climate-Related Financial Disclosures (TCFD) (pp. 118-121) Energy Management (pp. 129-132) Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 132-138) Targets: • Specific Energy Consumption: -10% by 2025 compared to 2019 • Renewable Electricity: 100% by 2025 • Group Carbon Neutrality by 2030
8 - Decent Work and Economic Growth	Our Suppliers (pp. 98-116) Internal Community (pp. 155-192)
9 - Industry, Innovation and Infrastructure	Company Initiatives for the External Community (Training pp. 205-206) Target: • For new product segments, by 2025: > 40% renewable materials, > 3% recycled materials e < 40% fossil-based materials; by 2030: > 60% renewable materials, > 7% recycled materials e < 30% fossil-based materials
10 - Reduced Inequalities	Diversity Management (pp. 160-165)

Sustainable Development Goals (SDGs)	Paragraphs describing the Group's activities in support of the SDGs and relevant targets (from Sustainability Plan 2020-2022 with Vision 2025 and 2030)
11 - Sustainable Cities and Communities	Main International Commitments for Sustainability (WBCSD pp. 198-200) Company Initiatives for the External Community (Road Safety pp. 203-205, Solidarity pp. 207) Target: • Absolute CO_2 Emissions: -25% by 2025 compared to 2015 • Group Carbon Neutrality by 2030 • Eco & Safety Performance Revenues: > 71% on total car tyres revenues e > 78% on High Value revenues by 2022 • Raw Materials Suppliers Absolute CO_2 Emissions: -8.6% by 2025 compared to 2018 • Product performance by 2022: o car (vs 2015): rolling resistance -10%, wet grip +7%, wear rate -12%, noise -4% o moto (vs 2015): rolling resistance -15%, wet grip +21%, mileage +4% o velo (vs 2017): rolling resistance -25%, wet grip +10%, braking +5% • Product performance by 2025: o car (vs 2015): rolling resistance -14%, wet grip +9%, wear rate -18%, noise -4% o moto (vs 2015): rolling resistance -20%, wet grip +25%, mileage +13% o velo (vs 2017): rolling resistance -25%, wet grip +15%, braking +10%
12 - Responsible Consumption and Production	Joining the Task Force on Climate-Related Financial Disclosures (TCFD) (pp. 118-121) Energy Management (pp. 129-132) Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 132-138) Water Management (pp. 138-140) Waste Management (pp. 141-142) Company Initiatives for the External Community (Environmental Initiatives p. 209) Targets: • Specific Energy Consumption: -10% by 2025 compared to 2019 • Absolute CO_2 Emissions: -25% by 2025 compared to 2015 • Renewable Electricity: 100% by 2025 • Group Carbon Neutrality by 2030 • Water Specific Withdrawal: -43% by 2025 compared to 2015 • Waste Recovery: ≥ 98% by 2025

<table>
<tr><th>Sustainable Development Goals (SDGs)</th><th>Paragraphs describing the Group’s activities in support of the SDGs and relevant targets (from Sustainability Plan 2020-2022 with Vision 2025 and 2030)</th></tr>
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Joining the Task Force on Climate-Related Financial Disclosures (TCFD) (pp. 118-121)
Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 132-138)
Main International Commitments for Sustainability (International Commitments against Climate Change pp. 202-203)

<u>Targets</u>:
• Specific Energy Consumption: -10% by 2025 compared to 2019
• Absolute CO_2 Emissions: -25% by 2025 compared to 2015
• Renewable Electricity: 100% by 2025
• Group Carbon Neutrality by 2030
• Eco & Safety Performance Revenues: > 71% on total car tyres revenues e > 78% on High Value revenues by 2022
• Product performance by 2022:
o car (vs 2015): rolling resistance -10%, wet grip +7%, wear rate -12%, noise -4%
o moto (vs 2015): rolling resistance -15%, wet grip +21%, mileage +4%
o velo (vs 2017): rolling resistance -25%, wet grip +10%, braking +5%
• Product performance by 2025:
o car (vs 2015): rolling resistance -14%, wet grip +9%, wear rate -18%, noise -4%
o moto (vs 2015): rolling resistance -20%, wet grip +25%, mileage +13%
o velo (vs 2017): rolling resistance -25%, wet grip +15%, braking +10%</td></tr>
<tr><td>14 - Life below Water</td><td>Water Management (pp. 138-140)</td></tr>
<tr><td>15- Life on Land</td><td>Sustainability of the Natural Rubber Supply Chain (pp. 105-108)
Company Initiatives for the External Community (Environmental Initiatives p. 209)</td></tr>
<tr><td>16- Peace, Justice and Strong Institutions</td><td>Programs of Compliance 231, Anti-corruption, Privacy and Antitrust (pp. 78-81)</td></tr>
<tr><td>17 - Partnerships for the Goals</td><td>Sustainability of the Natural Rubber Supply Chain (pp. 105-108)
Main International Commitments for Sustainability (WBCSD pp. 198-200)
Company Initiatives for the External Community (Road Safety pp. 203-205)</td></tr>
</table>

Please note that in March 2021 the Company will be presenting the new Industrial Plan and the related long-term strategic sustainability targets. Contextually, the Plan will be published on the institutional website www.pirelli.com.

CORRELATION TABLE WITH TOPICS LISTED IN ART. 2, D. LGS 254/2016

	Topics from D. Lgs 254/2016	Reference Paragraph	Page Number
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	Greenhouse Gas Emissions and Air-Polluting Emissions	• Risks Related To Climate Change • Joining the Task Force on Climate-Related Financial Disclosures (TCFD) • Management Of Greenhouse Gas Emissions and Carbon Action Plan • Solvents • NO_x Emissions • Other Emissions and Environmental Aspects	44-45, 118-121, 132-138, 142; 144-145
Social Aspects	**Health and Safety**	• Coronavirus risk (COVID -19) • Employee Health and Safety Risks • Occupational Health, Safety and Hygiene	44, 48, 182-192
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	Respect for Human Rights: Measures Taken and Prevention	• Risks relative to Corporate Social and Environmental Responsibility, and Business Ethics • Human Rights Governance • Diversity Management	53, 152-154, 160-165
Governance Aspects	**Fight against Active and Passive Corruption**	• Risks relative to Corporate Social and Environmental Responsibility, and Business Ethics • Programs of Compliance 231, Anti-corruption, Privacy and Antitrust	53, 78-81

PIRELLI & C SPA

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED NON-FINANCIAL DISCLOSURE IN ACCORDANCE WITH ARTICLE 3, PARAGRAPH 10 OF LEGISLATIVE DECREE 254/2016 AND WITH ARTICLE 5 OF CONSOB REGULATION 20267 ADOPTEDBY RESOLUTION OF JANUARY 2018

FOR THE YEAR ENDED 31 DECEMBER 2020

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Independent auditor's report on the consolidated non-financial disclosure

in accordance with article 3, paragraph 10, of Legislative Decree 254/2016 and with article 5 of CONSOB Regulation 20267 of January 2018

To the board of directors of Pirelli & C SpA

In accordance with article 3, paragraph 10, of Legislative Decree 254/2016 (the Decree) and with article 5 of CONSOB Regulation 20267/2018, we have performed a limited assurance engagement on the consolidated non-financial disclosure of Pirelli & C SpA and its subsidiaries (Pirelli group) as of and for the year ended 31 December 2020, prepared in accordance with article 4 of the Decree, and included in section Report on Responsible Management of the Value Chain annual report 2020 of Pirelli group, approved by the board of directors of Pirelli & C SpA on 31 March 2021 (the NFD).

Responsibility of the directors and of the board of statutory auditors for the NFD

The directors are responsible for the preparation of the NFD in accordance with article 3 and 4 of the Decree and with the Sustainability Reporting Standards, issued by Global Reporting Initiative in 2016 and updated up to 2019 (GRI Standards), and with the process suggested in AA1000APS (AccountAbility Principles Standards).

The directors are responsible, in accordance with the law, for the implementation of internal controls necessary to ensure that the NFD is free from material misstatement, whether due to fraud or unintentional errors.

The directors are responsible for identifying the content of the NFD, within the matters mentioned in article 3, paragraph 1 of the Decree, considering the activities and characteristics of the group and to the extent necessary to ensure the understanding of the group activities, its trends, results and related impacts.

The directors are responsible for defining the business and organisational model of the group and, with reference to the matters identified and reported in the NFD, for the policies adopted by the group and for the identification and management of risks generated or faced by the group.

The board of statutory auditors is responsible for overseeing, in accordance with the law, the compliance with the Decree.

PricewaterhouseCoopers SpA

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Auditor's independence and quality control

We are independent in accordance with the principles of ethics and independence set out in the Code of Ethics for Professional Accountants published by the International Ethics Standards Board of Accountants, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, privacy and professional behaviour. Our audit firm adopts the International Standard on Quality Control 1 (ISQC Italy 1) and, accordingly, maintains an overall quality control system which includes processes and procedures for the compliance with ethical and professional standard and with applicable laws and regulations.

Auditor's responsibility

We are responsible for expressing, on the basis of the work performed, a conclusion, regarding the compliance of the NFD with the Decree, with the GRI Standards and with the process suggested in AA1000APS. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB), for limited assurance engagements. The standard requires that we plan and perform procedures in order to obtain limited assurance that the NFD does not contain material errors. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised (reasonable assurance engagement) and, therefore, do not provide us with a sufficient level of assurance to become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFD are based on our professional judgement and consisted of interviews, primarily with company personnel responsible for the preparation of the NFD, analysis of documents, recalculations and other procedures aimed at obtaining evidence as appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant matters reported in the NFD relating to the activities and characteristics of the group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree, with the reporting standard adopted and considering AA1000SES (Stakeholder Engagement Standard);
2. analysis and assessment of the criteria used to identify the consolidation area, in order to assess the compliance with the Decree;
3. comparison of the financial information reported in the NFD with the information reported in the group consolidated financial statements;
4. understanding of the following matters:
   - business and organisational model of the group, with reference to the management of the matters specified by article 3 of the Decree;
   - policies adopted by the Group with reference to the matters specified by article 3 of the Decree, actual results and related key performance indicators;
   - main risks, generated or faced by the group, with reference to the matters specified in article 3 of the Decree.

   With reference to such matters, we have carried out some validation procedures on the information presented in the NFD and other audit procedures as described under point 6 a) below;
5. understanding of the processes underlying the preparation, collection and management of the

significant qualitative and quantitative information presented in the NFD. In particular, we have held meetings and interviews with management of Pirelli & C SpA, and with management of Pirelli Tyre Co, Ltd and Limited Liability Company "Industrial Complex Kirov Tyre" and we performed limited analysis of documentary evidence and validation procedures, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFD;

6. analysis of policies and procedures in place and of the coherence of the sustainability management model compared to UNI ISO 26000 principles, among which: governance, human rights, relationship and work conditions, and environment.

Moreover, for significant information, considering the activities and characteristics of the group:

- at group level,
  a) with reference to the qualitative information included in the NFD, and in particular for the business model, the policies adopted and the main risks, we carried out interviews and obtained supporting documentation to verify its consistency with available evidence;
  b) with reference to quantitative information, we performed analytical procedures and limited tests, to assess, on a sample basis, the proper consolidation of the information;
- for the industrial sites located in Yanzhou (China) and Kirov (Russia), which were selected on the basis of their activities, their contribution to the performance indicators at consolidated level and their locations, we carried out site visits during which we met local management and gathered supporting documentation regarding the compliance with procedures and calculation methods used for the key performance indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFD of Pirelli Group as of and fer the year endede 31 December 2020 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree, with the GRI Standards and with the principles of inclusivity, materiality and responsiveness of AA1000APS, as described in the Methodological note of the Report on Responsible Management of the Value Chain.

Milan, 2 April 2021

Signed by

Paolo Caccini
(Partner)

Signed by

Paolo Bersani
(Authorized signatory)

This report has been translated from the Italian original solely for the convenience of international readers.

PIRELLI & C. Società per Azioni (Joint Stock Company)

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Share Capital Euro 1,904,347,935.66 fully paid in
Register of Companies of Milan No. 00860340157
REA (Economic Administrative Index) No. 1055