



Pirelli & C. S.p.A.

Report to the Shareholders' Meeting

Explanatory report of the Board of Directors of

Pirelli & C. S.p.A.

on the merger by absorption of Marco Polo Industrial Holding S.p.A. into Pirelli & C. S.p.A.

**EXPLANATORY REPORT OF THE BOARD OF DIRECTORS OF
PIRELLI & C. S.P.A.
ON THE MERGER BY ABSORPTION
OF
MARCO POLO INDUSTRIAL HOLDING S.P.A.
INTO
PIRELLI & C. S.P.A.**

PREPARED PURSUANT TO ARTICLES 2501-*BIS*, PAR. 3 AND 2501-*QUINQUIES* OF THE ITALIAN CIVIL CODE

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Dear Shareholders,

the Extraordinary Shareholders' Meeting has been called to resolve upon the plan of merger by absorption of the parent company Marco Polo Industrial Holding S.p.A. ("**Marco Polo Industrial Holding**" or the "**Absorbed Company**") into Pirelli & Co. S.p.A. ("**Pirelli**" or the "**Surviving Company**" and, together with Marco Polo Industrial Holding, the "**Parties to the Merger**").

The abovementioned transaction (the "**Merger**") entails, from a technical standpoint, a reverse merger by absorption.

This report (the "**Report**") has been prepared by the Board of Directors of Pirelli, pursuant to Articles 2501-*bis*, par. 3, and 2501-*quinquies* of the Italian Civil Code, to illustrate the reasons justifying the Merger and the relevant joint merger plan (the "**Merger Plan**").

1. Description of the Parties to the Merger

1.1. Surviving Company

The Surviving Company is "Pirelli & C. S.p.A.", an Italian company limited by shares (*società per azioni*), with registered office in Milan, Viale Piero e Alberto Pirelli No. 25, share capital of Euro 1,345,380,534.66 divided into 487,991,493 shares with no par value, of which No. 475,740,182 ordinary shares and No. 12,251,311 savings shares, enrolled with the Companies' Registry of Milan, tax code and VAT No. 00860340157, subject to the management and coordination of Marco Polo International Italy S.p.A., with registered office in Milan, via San Primo No. 4 ("**NewCo**").

The savings shares of Pirelli (whose conversion into special class shares will be submitted to the Extraordinary Shareholders' Meeting and special assembly of savings shareholders for approval on 15 February 2016) are currently listed on the Electronic Stock Market organized and managed by Borsa Italiana S.p.A.

Founded in 1872, Pirelli is among the main tyre makers globally (sales of 6.02 billion Euro in 2014) with a distinctive focus on high-end segments, Premium tyres with the highest technological content. Partnering with the best Prestige and Premium car makers worldwide, Pirelli has a portfolio of more than 1,500 homologated tyres which fit the personality of each car model, designed and tested to achieve perfect driving.

Through its 20 plants located in 14 countries, Pirelli can count on production facilities across 4 continents with a capacity of 72 million Consumer tires (Car and Moto) and 6.3 million Industrial tires (Truck and Agro) in 2014. Rapidly developing economies with a competitive cost base make up 100% of the production output for the Industrial Business and 78% of the production output of the Consumer Business. Capacity growth in Russia, Mexico, Romania and China will bring low cost production in the Consumer Business to 80% of total in 2017.

Pirelli is distinguished by a long industrial tradition, which combines a capacity for innovation with product quality and brand strength.

The following table shows the ordinary shareholders and savings shareholders of Pirelli at the date of the Merger Plan.

Shareholder	Ordinary shares	% of the ordinary share capital	% of the entire share capital
Marco Polo Industrial Holding S.p.A.	No. 475,388,592	99.926%	97.417%
Treasury shares	No. 351,590	0.074%	0.072%

Shareholder	Savings shares	% of the savings share capital	% of the entire share capital
Marco Polo Industrial Holding S.p.A.	No. 11,018,242	89.935%	2.258%
Treasury Shares	No. 408,342	3.333%	0.084%
Shares of third parties	No. 824,727	6.732%	0.169%

1.2. Absorbed Company

The Absorbed Company is “Marco Polo Industrial Holding S.p.A.”, an Italian company limited by shares (*società per azioni*) with a sole shareholder, with registered office in Milan, via San Primo No. 4, share capital of Euro 10,195,652.10, divided into No. 32,777,910 ordinary shares with no par value, enrolled in the Companies’ Registry of Milan, tax code and VAT No. 09065250962, subject to the management and coordination of Newco.

Marco Polo Industrial Holding has as its corporate purpose the exercise of the activity of purchase, holding and management of corporate stakes. It has been incorporated on 21 April 2015 within the framework and for the purpose of the acquisition of Pirelli by the group headed by National Chemical Corporation (“**ChemChina**”) and China National Tire & Rubber Co., Ltd. (“**CNRC**”), as described below.

The share capital of Marco Polo Industrial Holding is wholly-owned by Marco Polo International Holding Italy S.p.A. (“**Holdco**”), a company incorporated under the laws of Italy within the framework and for the purpose of the abovementioned transaction. In turn, the share capital of Holdco is wholly-owned by the holding company NewCo. The share capital of Newco is currently owned as follows: (i) No. 16,475,520 class “A” shares, equal to 58.88% of the share capital, by Fourteen Sundew S.à r.l., a company incorporated under the laws of Luxemburg indirectly controlled by ChemChina and CNRC ⁽¹⁾; (ii) No. 7,362,970 class “B” shares, equal to 26.32% of the share capital, by Camfin S.p.A. (“**Camfin**”), a company incorporated under the laws of Italy indirectly controlled by Mr Marco Tronchetti Provera (Chief Executive Officer and Executive Vice Chairman of Pirelli, and Chief Executive Officer of Marco Polo Industrial Holding) ⁽²⁾; (iii) No. 2,148,688 class “B” shares, equal to 7.68% of the share capital, by Long-Term Investments Luxembourg S.A. (“**LTI**”); and (iv) No. 1,992,952 class “B” shares, equal to 7.12% of the share capital, by LTI Holding S.r.l. (“**LTI Ita**”), a company wholly-owned by LTI ⁽³⁾.

Therefore Marco Polo Industrial Holding is indirectly controlled by ChemChina. ChemChina, established in 2004 by reorganizing the subsidiary companies under the former Ministry of the Chemical Industry of the People’s Republic of China, is a state-owned enterprise (SOE) headed by the Chinese Central Government. ChemChina is the largest enterprise in China’s chemical industry, ranking 265th among the 2015 Fortune 500 companies. It registered in 2014 total assets of RMB 272.1 billion, sales revenue of RMB 257.6 billion and profit before tax of RMB 2 billion.

ChemChina operates production and R&D bases in 140 countries and regions across the world, and boasts a full-fledged marketing network. Specifically, it has 6 strategic business units (advanced chemical materials

⁽¹⁾ More specifically, CNRC (controlled by ChemChina) controls Fourteen Sundew S.à r.l. through CNRC International Limited and CNRC International Holding (HK) Limited, companies incorporated under the laws of Hong Kong (Silk Road Fund Co., Ltd., a Chinese medium to long term investment fund, indirectly holds a stake of 25% in CNRC International Holding (HK) Limited).

⁽²⁾ More specifically, Mr Marco Tronchetti Provera controls Camfin S.p.A. through Coinv S.p.A. (Intesa Sanpaolo S.p.A., through Manzoni S.r.l., and UniCredit S.p.A. hold a stake of 12% each in Coinv S.p.A.), Nuove Partecipazioni S.p.A. and Marco Tronchetti Provera & C. S.p.A., companies incorporated under the laws of Italy.

⁽³⁾ The share capital of LTI is wholly-owned – indirectly by Long-Term Investments LLC, a company incorporated under the laws of Russia – by a closed-end investment fund called “RFR Long-Term Investments”, managed by “Management Company RegionFinanceResurs”.

and specialty chemicals, basic chemicals, oil processing, agrochemicals, tire & rubber products and chemical equipment), 2 directly affiliated units, 112 production and operation enterprises, 6 overseas enterprises, 24 research institutes and design academies.

ChemChina rubber product business unit is operated by CNRC and the entities directly and indirectly controlled by CNRC (the “**CNRC Group**”). CNRC Group’s main products include truck and bus radial (TBR) tires, passenger car radial (PCR) tires, bias tires, rubber conveyer belt, brake hose and automobile services. With a combined capacity of more than 16 million TBR, off-the-road (OTR) and PCR tires, CNRC Group is a leading tire and rubber product manufacturer in China. CNRC Group is the long-term supplier for major Chinese auto OEMs and construction machinery vehicle manufacturers and its products are sold in over 140 nations around the world. In addition, CNRC owns a 42.58% stake in Fengshen Tires Stock Limited Company (AEOLUS), a company listed on the Shanghai Stock Exchange

CNRC registered total assets of RMB 17.2 billion and sales revenue of RMB 11.5 billion in 2014.

2. The background to the Merger

2.1. Introduction

Before proceeding with the analytical description of the rationale, objectives and reasons of the Merger, it is appropriate to summarize the framework and conditions at the base of the reorganization and simplification of the corporate structure that it is submitted for your approval.

2.2. The acquisition of control of Pirelli by ChemChina through Marco Polo Industrial Holding

2.2.1. The acquisition of the stake held by Camfin in Pirelli

On 22 March 2015, ChemChina and CNRC, on one side, and Camfin and its shareholders Coinv and LTI, on the other side, signed a sale and purchase and co-investment agreement (subsequently amended and integrated in accordance with an amending and supplementing agreement signed by the same parties on 5 August 2015, the “**Sale and Purchase and Co-Investment Agreement**”) aimed at regulating the terms and conditions, *inter alia*, of:

- the purchase by Marco Polo Industrial Holding, subject to conditions customary for a transaction of this type, for a price equal to Euro 15.00 per share, of No. 96,779,841 Pirelli ordinary shares, representing 20.34% of the ordinary share capital of Pirelli, directly held by Camfin (the “**Initial Stake**”), and, to the extent possible, of No. 27,831,232 Pirelli ordinary shares, representing 5.85% of the ordinary share capital of Pirelli, at that time held by Cam 2012 S.p.A., a company wholly-owned by Camfin;
- the reinvestment by Camfin (and, as a result of the Camfin corporate restructuring, by Camfin, LTI and LTI Ita) in NewCo, of a portion of the proceeds of the sale and purchase of the Initial Stake;
- simultaneously with the execution of the above sale and purchase, the signing by ChemChina, CNRC and other subsidiaries, and Camfin, Coinv, LTI and LTI Ita, of a shareholders’ agreement, regulating, *inter alia*, the corporate governance of Pirelli, NewCo, Holdco and Marco Polo Industrial Holding, as well as the transfer of the respective shares (the “**Shareholders’ Agreement**”);
- following the completion of the above acquisition and the concurrent signing of the Shareholders’ Agreement, the launch by Marco Polo Industrial Holding, of the mandatory tender offer on the ordinary share capital of Pirelli and the voluntary tender offer on the savings share capital of Pirelli, aimed to acquire the entire share capital of Pirelli or, in any case, to achieve the delisting from Electronic Stock Market of the ordinary and savings shares of Pirelli.

The transaction contemplated by the Sale and Purchase and Co-Investment Agreement is aimed at implementing a long-term industrial partnership between CNRC, Camfin and LTI in relation to Pirelli, with the goal to strengthen its development plans, to cover geographically strategic areas and to achieve the integration of tire activities of the Industrial segment of CNRC and Pirelli, by preserving the continuity and independence of the current management structure of the Pirelli Group (the “**Industrial Integration**”).

On 30 April 2015, the loan agreements required for the completion of the transaction contemplated by the Sale and Purchase and Co-Investment Agreements were signed, and in particular:

- the loan agreement for a total amount of Euro 4,400,000,000, named “*Bidco Senior Facilities Agreement*” (as subsequently amended, most recently, on 11 December 2015, the “**Bidco Senior Facilities Agreement**”), destined to make available the financial resources required to complete the transaction, executed by and between HoldCo and BidCo, on one side, and, *inter alios*, J.P. Morgan Limited (in its capacity as “*Global Co-ordinator*”), J.P. Morgan Limited, China Construction Bank Corporation, Hong Kong Branch, Intesa Sanpaolo S.p.A. and Unicredit S.p.A. (in their capacity as “*Bookrunners*”);
- the loan agreement for Euro 2,400,000,000 named “*Multicurrency Term and Revolving Facilities Agreement*” (the “**Target Facilities Agreement**”), destined, *inter alia*, to refinance a portion of the existing Pirelli’s indebtedness and working capital, entered into by and between, *inter alios*, J.P. Morgan Limited (in its capacity as “*Global Co-ordinator*”), J.P. Morgan Limited, China Construction Bank Corporation, Hong Kong Branch, Intesa Sanpaolo S.p.A. and Unicredit S.p.A. (in their capacity as “*Bookrunners*”) and Bidco (in its capacity as “*Initial Company*”), to which Pirelli was entitled to adhere following completion of the acquisition of the Initial Stake.

On 11 August 2015 (the “**Closing Date**”), in execution of the Sale and Purchase and Co-Investment Agreement and given the occurrence of the relevant conditions precedent, Marco Polo Industrial Holding S.p.A. purchased the Initial Stake for a price equal to Euro 15.00 per Pirelli ordinary shares (the “**Initial Acquisition**”) and Camfin reinvested in NewCo a portion of the proceeds of the sale and purchase by subscribing a first *tranche* of the capital increase reserved to Camfin, as a result of which Camfin acquired a stake corresponding to 35% of the share capital of NewCo.

On the Closing Date, the Shareholders Agreement was signed and, pursuant to the Sale and Purchase and Co-Investment Agreement and the Shareholders Agreement, the put option deed and call option deed concerning the interests of Camfin, LTI and LTI Ita in NewCo were also signed.

2.2.2. The tender offers on the ordinary shares and savings shares of Pirelli

On the Closing Date, pursuant to Art. 102, par. 1, of Legislative Decree No. 58 of 24 February 1998, (“**TUF**”) and Art. 37 of the issuers’ regulation approved by Consob with resolution No. 11971 of 14 May 1999, (the “**Consob Issuers Regulation**”), Marco Polo Industrial Holding released the notice relating to the triggering of the legal requirements for the launch of a mandatory tender offer, pursuant to Articles 106, par. 1-*bis*, and 109 of the TUF, on the Pirelli ordinary shares (the “**Mandatory Tender Offer**”), as well as to its intention to launch a voluntary tender offer, pursuant to Art. 102 of the TUF, on the Pirelli savings shares (the “**Voluntary Tender Offer**” and, together with the Mandatory Tender Offer, the “**Offers**”).

The Offers have been launched on 20 August 2015 at a price of Euro 15.00 per each Pirelli share tendered and the related offer document (the “**Offer Document**”), approved by Consob on 4 September 2015 with resolution No. 19341, has been published on 8 September 2015.

The Offer Period, which begun on 9 September 2015, ended on 13 October 2015.

Since the occurrence of the conditions referred to in Art. 40-*bis* of the Consob Issuer Regulation, the Offer Period of the Mandatory Tender Offer has been reopened from 21 to 27 October 2015. Following the reopening period and also as a result of further purchases of Pirelli ordinary shares made by Marco Polo

Industrial Holding outside the Offers (including the purchase of the shares held by CAM 2012), the requirements for the exercise by Marco Polo Industrial of the right to purchase the outstanding ordinary shares pursuant to Art. 111 of the TUF have been met. On 6 November 2015, Marco Polo Industrial Holding exercised its squeeze-out right (by means of a joint procedure, which terms and conditions have been agreed with Consob and Borsa Italiana S.p.A., aimed at the simultaneous fulfilment of its obligation to purchase such shares pursuant to Art. 108, par. 2, of the TUF) and it became the holder, directly and indirectly, of 100% of the share capital of Pirelli (including No. 351,590 treasury ordinary shares of Pirelli). Effective from the same date, Borsa Italiana ordered the delisting on the Electronic Stock Market of the ordinary shares of Pirelli.

With respect to the savings shares, following the Voluntary Tender Offer and further purchases made by Marco Polo Industrial Holding during and after the offer period, as of today Marco Polo Industrial Holding owns directly and indirectly (including in the Marco Polo Industrial Holding Stake also the treasury savings shares of Pirelli) more than 93.2% of the savings share capital. More specifically, No. 824.727 saving shares owned by third party shareholders, representing 0.169% of the entire share capital and 6.732% of the savings share capital of Pirelli still remain. The savings shares are currently listed on the Electronic Stock Market organized and managed by Borsa Italiana S.p.A.

For a detailed presentation of the shareholding structure of the Parties to the Merger and related group, see Section 2.7 below.

2.3. Method of financing the Initial Acquisition, the Offers and the further purchases of Pirelli shares by Marco Polo Industrial Holding

2.3.1. Financing sources

The purchase of the Initial Stake, of the shares tendered under the Offers as well as the further purchases of ordinary and savings shares made by Marco Polo Industrial Holding outside the Offers, entailed an overall disbursement of Euro 7,462 million (including the costs of the transactions). Such disbursement have been financed by making use of own funds and bank financing.

More specifically, the necessary resources to finance the above disbursement were obtained as follows:

- (i) Euro 3,273 million through the subscription, in more tranches, of the capital increase of Euro 3,273 million approved by the Shareholders' Meeting of Marco Polo Industrial Holding on 5 August 2015;
- (ii) Euro 4,217 million by making use, by Marco Polo Industrial Holding, of the facilities provided with the *Bidco Senior Facilities Agreement*. More specifically, the lenders made available to Marco Polo Industrial Holding (a) a *Term Facility* up to EUR 4,200,000,000, to be used to, *inter alia*, the purchase of Pirelli shares, and (b) a *Revolving Facility* up to Euro 200,000,000, to be used to finance the interest and the fees to be paid in respect of the loans disbursed under the *Bidco Senior Facilities Agreement*, and the operating and administrative costs of Marco Polo Industrial Holding for the transaction. The Term Facility has been used up to Euro 4,193 million; the Revolving Facility has been used up to Euro 24 million.

As of today, as a result of the obtainment of the financial resources referred to in points (i) and (ii) and the disbursement related to the purchase of the Pirelli shares, the amount of cash of Marco Polo Industrial Holding is equal to Euro 28 million and it is available, *inter alia*, for the potential purchase of further savings shares of Pirelli on the market or off the market.

It is also noted that, following the Initial Acquisition, Pirelli was entitled to adhere to the *Target Facilities Agreement* which entailed (a) the facility "Facility A" up to EUR 1,800,000,000 to be used, *inter alia*, to refinance a portion of the existing debt of the Pirelli, and (b) facility "Facility B" up to EUR 600,000,000 to be used, *inter alia*, to meet the financial requirements of Pirelli and its own working capital purposes.

2.3.2. Repayment or refinancing obligations

In accordance with the *Bidco Senior Facilities Agreement*, within 60 days from the date of effectiveness of the Merger the facility must be repaid or through the facility that the lenders themselves will make available to Pirelli pursuant to the *Irrevocable Offer* up to Euro 6,800,000,000 called “**Mergeco Facilities Agreement**” (the *Mergeco Facilities Agreement* is destined, inter alia, to refinance the facilities *Term Facility* and *Revolving Facility* provided under the *Bidco Senior Facilities Agreement*) or through the refinancing currently under discussion with the lenders and that should be reasonably executed and made available in good time, considering that, in any case, the *Mergeco Facilities Agreement* has been extended until 31 December 2016.

2.4. Completion of the delisting of Pirelli through the mandatory conversion of the savings shares into “Special Shares”

Following the delisting of the Pirelli ordinary shares and at the same time with the beginning of the Merger process, on 23 November 2015, due to the limited number of savings shares still owned by shareholders other than the controlling shareholder and of the small volume traded, the Board of Directors of Pirelli resolved to call on 15 February 2016 the Extraordinary Shareholders’ Meeting also to approve the mandatory conversion of the outstanding savings shares into a special class of newly issued delisted non-voting shares (the “**Special Shares**”), on the conversion ratio No. 1 (one) Special Share for each No. 1 (one) savings share, without cash adjustment (the “**Mandatory Conversion**”).

The Special Shares will have no voting rights in the General Shareholders’ Meeting of the Company and will carry the same economic privileges attributed to the Savings Shares by Articles 6 and 18 of the current Pirelli’s By-Laws. The Special Shares will not be listed.

The Mandatory Conversion will be followed by the delisting of the savings shares from the Electronic Stock Market organized and managed by Borsa Italiana S.p.A.

The Mandatory Conversion is subject to the approval of the Special Assembly of the savings shareholders, pursuant to and in accordance with Art. 146 of the TUF. Such assembly has been called on 15 February 2015, after the Extraordinary Shareholders’ Meeting of Pirelli.

2.5. Adoption of a new By-Laws of Pirelli

On 23 November 2015 the Board of Directors of Pirelli resolved also to submit to the Extraordinary Shareholders’ Meeting of Pirelli called on 15 February 2016 the adoption of the new text of By-Laws, which reflects, at the same time: (i) the occurred delisting of the ordinary shares of the Company from the Electronic Stock Market organized and managed by Borsa Italiana S.p.A.; (ii) the Mandatory Conversion; and (iii) the Shareholders Agreement provisions.

Therefore, the new By-Laws of the Company contains provisions in line with the corporate governance guidelines as provided under the Shareholders Agreement and essentially reflecting, *mutatis mutandis*, those set forth in the by-laws of Marco Polo Industrial Holding.

The terms of the new By-Laws – which will be the same adopted by the Surviving Company after the Merger – are detailed in the report referred to in Art. 125-ter, par. 1, of the TUF that the Board of Directors of Pirelli prepared in relation to the related proposed resolution. Please see also Section 3 of and Appendix “A” to the Merger Plan.

The adoption of the new By-Laws is also on the agenda of the Savings Shareholders’ Meeting on 15 February 2016, for their pertaining resolutions.

2.6. The background to the Merger in the context of the partnership set forth in the Sale and Purchase and Co-Investment Agreement

In light of the above, the Merger has to be considered within the context of the wider transaction of reorganisation and optimization set forth in the Sale and Purchase and Co-Investment Agreement and it is aimed – as the abovementioned acquisition of the control of Pirelli – at achieving a long-term industrial partnership relating to Pirelli between CNRC, Camfin and LTI.

The purpose of the partnership, which will create a global leader in the field of industrial tires, is the strengthening of Pirelli development plans and the expansion of activities in Asia, area strategically located and characterized by a strong growth.

The partnership is based on the continuity of the Pirelli business and entrepreneurial culture. In fact, the parties have recognized the central role of the current top management of Pirelli as a key element of its success, its growth and its activities.

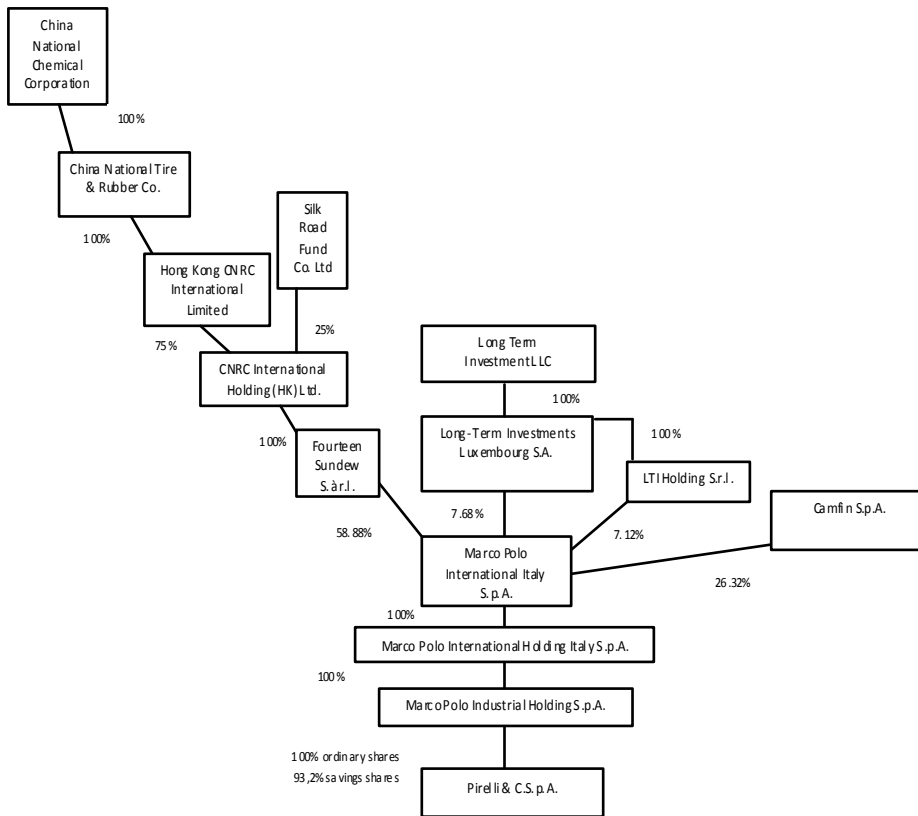
Activities and know-how that make Pirelli one of the global leaders of the industry will remain a central element of the partnership itself: the Research and Development Center and the Pirelli headquarter (the administrative and operational headquarter) will continue to be located in Italy. Furthermore, the proposed new By-Laws of Pirelli (see Section 2.5 above) provides limitations to the transfer of the trademarks and the technological know-how of Pirelli (for further information see the report referred to in Art. 125-ter of the TUF that has been prepared by the Pirelli Board of Directors in relation to the proposed resolution of adoption of the new By-Laws).

Pirelli intends to continue to make investment mainly relying on the cash flow generated from its operating activities and its financial resources.

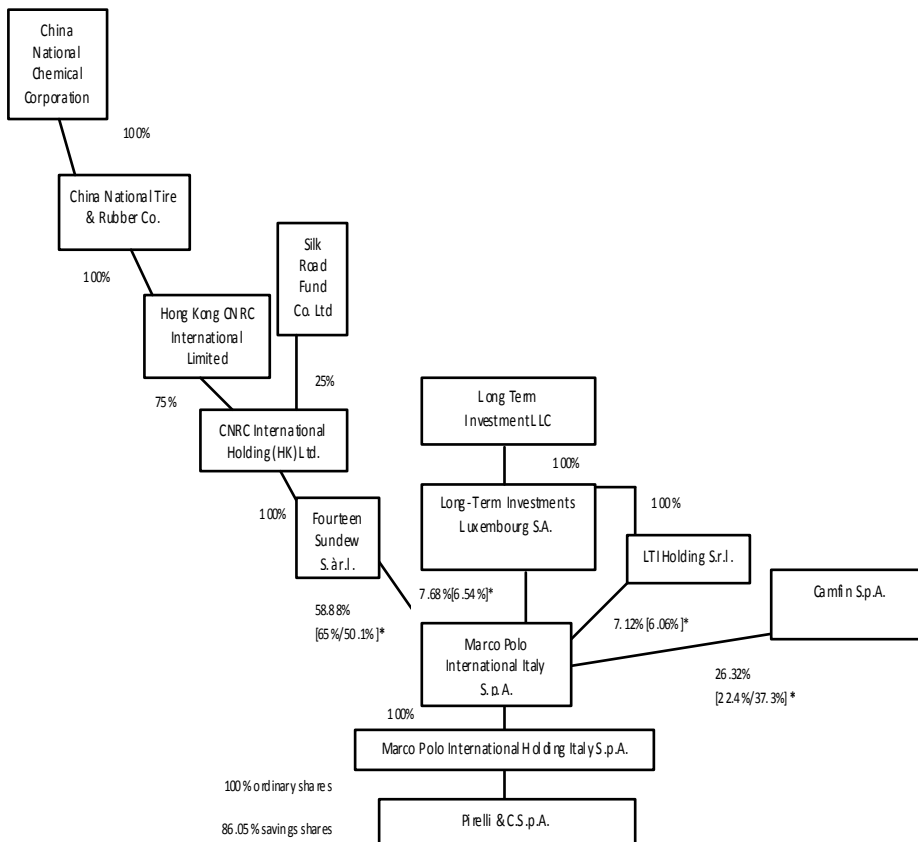
2.7. Group structure before and after the Merger

The following charts summarize, respectively:

- the current ownership chain relating to the Surviving Company group and Absorbed Company group, with the indication of the percentage of the equity interests held by the respective shareholders



- the future group structure following the completion of the Merger



* In square brackets are the shareholding resulting as a consequence of the subscription of the share capital increase of Newco resolved upon 5 August 2015 and not yet subscribed (reserved for subscription to Camfin S.p.A. and/or, in the absence of its subscription, to Fourteen Sundew S.à r.l.).

3. Legal frameworks of the Merger

3.1. "Reverse" nature of the Merger

As anticipated in the introduction, and in consideration of the rationale set out below, the Merger provides the absorption of the parent company Marco Polo Industrial Holding into Pirelli, according with the so called "reverse" merger model.

Therefore, the Merger will entail the extinction of the Absorbed Company and the continuation of Pirelli as surviving company resulting from the Merger.

3.2. Nature of the leveraged buy-out transaction

As a consequence of the financial debt incurred by Marco Polo Industrial Holding for the completion of the acquisition referred to in Section 2 above, Art. 2501-*bis* of the Italian Civil Code applies to the Merger, as explained in more detail below. Therefore, the Boards of Directors of Marco Polo Industrial Holding and Pirelli:

- pursuant to Articles 2501-*bis*, par. 2 and 2501-*ter* of the Italian Civil Code, have indicated the financial resources intended to fulfil the obligations of the company resulting from the Merger in the Merger Plan;
- pursuant to Articles 2501-*bis*, par. 4 and 2501-*sexies* of the Italian Civil Code, have jointly requested and obtained from the Court of Milan the appointment of a common expert (the "**Common Expert**"), with the task, *inter alia*, of certifying the reasoning of the guidelines contained in the Merger Plan pertaining to the financial resources intended to fulfil the obligations of the company resulting from the Merger. With the ruling filed on 27 November 2015, the Court of Milan appointed as Common Expert the company KPMG S.p.A., which is subject to the supervision of Consob;
- Reconta Ernst & Young S.p.A., the auditing firm in charge in auditing the financial statements of the Parties to the Merger, prepared its report referred to in Art. 2501-*bis*, par. 5, of the Italian Civil Code, attached to the Merger Plan.

Lastly, pursuant to Articles 2501-*bis*, par. 3 and 2501-*quinquies* of the Italian Civil Code, the Board of Directors of Pirelli indicated below in this Report the reasons justifying the transaction, including the economic and financial plan indicating the source of financial resources and the description of the targets it intends to reach (see Section 10 below).

3.3. Financial statements

The relevant Merger financial statements are the following: (i) for Pirelli, in accordance with Art. 2501-*quater*, par. 2, of the Italian Civil Code, the half-yearly report at 30 June 2015 prepared pursuant to Art. 154-*ter*, par. 2, of TUF, approved by the Board of Directors on 6 August 2015; and (ii) for Marco Polo Industrial Holding, the financials at 30 November 2015 (prepared on the basis of international accounting principles based IAS/IFRS) approved by the Board of Directors of Marco Polo Industrial Holding on 22 December 2015.

With respect to the abovementioned financial statements and in relation to Marco Polo Industrial Holding no material post-financial statements events are noted.

In relation to Pirelli, no material post-financial statements events are noted, except for the review of 2015 guidance approved by the Board of Directors of Pirelli on 11 November 2015.

3.4. Nature of “significant” transaction between related parties

It is noted that, as a result of the *de jure* control by the Absorbed Company over the Surviving Company following the Offers and due to the significance of the Merger, it constitutes a related-party transaction of “major importance” pursuant to the regulations containing the provisions on related-party transactions, adopted by the Consob with Resolution No. 17221 of 12 March 2010, as subsequently amended (“**Regulations on Related-Party Transactions**”) and the procedure approved by the Board of Directors of Pirelli pursuant to Art. 2391-*bis* of the Italian Civil Code and Art. 4.1 of the Regulations on Related-Party Transactions, as subsequently amended (“**Procedure on Related-Party Transactions**”).

Therefore, the Committee on Related-Party Transactions of Pirelli has been involved in the preliminary phase of the Merger and, among other things, the Merger Plan was approved with the favourable opinion of said Committee pursuant to the Regulations on Related-Party Transactions and the Procedure on Related-Party Transactions with respect to the existence of an interest for Pirelli in the execution of the Merger, as well as on the expedience and substantive fairness of the terms and conditions set forth in the said Merger Plan (see Section 4).

With respect to the above, also see the information document to be prepared pursuant to Art. 5 of the Regulations on Related-Party Transactions and in compliance with Schedule 4 of said Regulations on Related-Party Transactions, which will be made available to the public within 29 December 2015.

3.5. Nature of significant Merger transaction pursuant to Art. 70 of the Issuers’ Regulation

Pirelli exercised its right, provided under Art. 70, par. 8, of the Issuers’ Regulation, to disregard (so called *opt-out*) the obligation referred to in Art. 70, par. 6, of the Issuers’ Regulation, in case of significant mergers/demerger. Consequently the information document pursuant to Schedule 3B of the Issuers’ Regulation will not be prepared.

4. **Conditions precedent to the completion of the Merge**

The completion of the Merger transaction is subject to the following conditions being met:

- a) lack of contrary opinion expressed by the Common Expert regarding the congruence of the Exchange Ratio; and
- b) the obtainment of the certification by the Common Expert regarding the reasonableness of the indications contained in the merger plan pursuant to Article 2501-*bis*, par. 2, of the Italian Civil Code.

5. **Rationale, objectives and reasons of the Merger transaction**

The Merger, that has to be considered in the context of the wider transaction described in Section 2, entails a necessary first step towards the implementation of the Industrial integration and, more specifically, it will allow a rationalisation of the current indebtedness structure of the companies belonging to the group.

5.1. Objectives and reasons of the transaction in respect of the debt structure of the group

As pointed out in Section 2 above, the Merger is strictly and intrinsically linked with the acquisition of the control of Pirelli by Marco Polo Industrial Holding and with the Offers which led to the current shareholding structure of the group. Therefore, such transactions were made possible, among other thing, by the Lenders that made available to Marco Polo Industrial Holding certain short-term facilities (in particular, the *Term Facility* and the *Revolving Facility* provided under the *Bidco Senior Facilities Agreement*)

As a consequence of the Merger, the current financial debt of Marco Polo Industrial Holding will be transferred to Pirelli, whose equity will constitute a generic guarantee or a source of repayment (also) of such facilities. The concentration on a single entity of the indebtedness arising from the facilities and the activities generating cash flows for debt servicing meets the request of the lenders and it will allow to obtain better economic conditions given the lower risk profile entailing a benefit for the group.

5.2. Rationale and objectives of the Merger

In line with the purposes specified above, the merger between Pirelli and Marco Polo Industrial Holding was part of the program of reorganization and restructuring indicated by Marco Polo Industrial Holding in the Offer Document, to be proposed to the competent corporate bodies after the end of the tender Offers period.

Now, following the Offers, the delisting of the ordinary shares of Pirelli has been completed and it is expected the completion of the delisting also of the savings shares through the abovementioned Mandatory Conversion. In addition, considering that Marco Polo Industrial Holding is a simple holding company that has a relatively simple financial statements compared to the one of its subsidiary (Pirelli), it is believed more efficient and suitable, in such circumstances, to proceed with the Merger (so called “reverse”).

6. **The Exchange Ratio established and the criteria followed to determine it. Values attributed to the Company to the Merger for the purpose of determining the exchange ratio.**

6.1. The Exchange Ratio

The Merger will be completed through the absorption of the parent company Marco Polo Industrial Holding into Pirelli (so called reverse merger). Given that in the Surviving Company there are minority shareholders (whose stake represents 0.169% of the share capital), the ratio between the assets economic value of the Parties to the Merger has been determined and the exchange ratio established (the “**Exchange Ratio**”).

Since: (a) the minority shareholders participate in the share capital of the Surviving Company while the share capital of the Absorbed Company is held by a sole shareholder, and (b) the Absorbed Company’s equity consists basically in the stake held in the Surviving Company and the related debts, the Exchange Ratio is served by: (i) the allocation to the sole shareholder of the Absorbed Company of a number of shares (ordinary and special class shares) lower than the number of shares currently held by the Absorbed Company in the Surviving Company, (ii) the minority shareholders will maintain the shares currently held, and (iii) the cancellation, without reduction of the share capital, of the shares currently held by the Absorbed Company in the Surviving Company exceeding to the allocation set forth in Paragraph (i) above.

Without prejudice to the prohibition of treasury shares allocation pursuant to Art. 2504-ter of the Italian Civil Code, the Merger exchange of shares in favour of the sole shareholder of the Absorbed Company will be completed through the allocation of the two classes of shares of the Surviving Company (ordinary shares and savings shares or, if the Mandatory Conversion has become effective, Special Shares) originally held by the Absorbed Company, in the same proportion existing between the two classes of shares owned by the Absorbed Company before the Merger. The shares of the Surviving Company held before the Merger by the Surviving Company to be used for the Merger exchange will be allocated directly to the sole shareholder (Marco Polo Industrial Holding S.p.A.) of the Absorbed Company, which means that such shares shall not be considered, not even for one moment, as held by the Surviving Company and, therefore, without the transaction being considered as a “purchase of treasury shares”. As a result of the simultaneous transfer of the shares of Pirelli to the shareholder Marco Polo Industrial Holding, the negative reserve for treasury shares in portfolio required under Art. 2424, par. 1, of the Italian Civil Code (as amended by the Legislative Decree n. 39 of 18 August 2015) shall not be established, since the above provision is not applicable in relation to the Merger.

The merger financial statements referred to in Art. 2501-quater, par. 1, of the Italian Civil Code are the following: (i) for Pirelli, in accordance with Art. 2501-quater, par. 2, of the Italian Civil Code, the half-yearly financial report at 30 June 2015 prepared pursuant to Art. 154-ter, par. 2, of TUF, approved by the Board of Directors of Pirelli on 6 August 2015; and (ii) for Marco Polo Industrial Holding, the financials at

30 November 2015 prepared on the basis of international accounting principles based IAS/IFRS, approved by the Board of Directors of Marco Polo Industrial Holding on 22 December 2015.

The Board of Directors of the Parties to the Merger have reached the determination of the following common Exchange Ratio for both classes of shares:

No. 6.30 shares of the Surviving Company to be allocated following the Merger to the sole shareholder of the Absorbed Company for each No. 1 share of the Absorbed Company owned before the Merger by the sole shareholder of the Absorbed Company.

No cash payments are planned.

The shares of the Surviving Company to be allocated in exchange will be made available to the single shareholder of Marco Polo Industrial Holding according to the allocation method and the procedures provided for the allocation of shares in dematerialised form (see Section 7 below).

The expert's report referred to in Art. 2501-*sexies* of the Italian Civil Code that, in accordance with Art. 2501-*bis*, par. 4, of the Italian Civil Code, must certify the reasonableness of the indications contained in the Merger Plan pursuant to Art. 2501-*bis*, par. 2, of the Italian Civil Code, will be prepared by KPMG S.p.A. as Common Expert of the Parties to the Merger appointed pursuant Art. 2501-*sexies* of the Italian Civil Code in a decree filed on 27 November 2015 by the Court of Milan, which is the court of the place where the Companies to the Merger have their registered office. The report will be made available to the public in accordance with applicable laws.

The report referred to in Art. 2501-*bis*, par. 5, of the Italian Civil Code, has been prepared by Reconta Ernst Young S.p.A., the auditing firm in charge of auditing the financial statements of the Parties to the Merger, and it is attached to Merger Plan as Appendix "B".

6.2. Description of the evaluation criteria used in determining the Exchange Ratio

For the purposes of identification of the evaluation criteria to be used for the determination of the Exchange Ratio, the peculiarities of the Merger were considered, attributable to three main aspects:

- a) the Merger concerns an operating company (Pirelli) and a pure holding company (Marco Polo Industrial Holding), it therefore does not involve evaluating two different business, but the same business characterized by different financial structures (lower indebtedness for Pirelli);
- b) the pure holding company directly and indirectly holds all the ordinary shares and 93.2% of the outstanding savings shares and the exchange ratio is therefore relevant solely for third-party savings shareholders holding 0.169% of the capital;
- c) the Merger envisages that the sole shareholder of Marco Polo Industrial Holding is offered in exchange Pirelli ordinary shares and savings shares in proportion corresponding to the number of ordinary shares and savings shares held by the latter before the Merger.

These distinctive aspects resulted in the following choices from a methodological point of view:

- a) the shares of Marco Polo Industrial Holding were evaluated in transparency with respect to the Pirelli shares held in the portfolio. More precisely, the shares of Marco Polo Industrial Holding were evaluated by deducting from the value of the Pirelli shares in the portfolio the financial debt taken out by Marco Polo Industrial Holding for the purchase of the shares;
- b) it was verified that the Pirelli savings shares and ordinary shares before the Merger had the same value, taking into account on one hand, the benefit in terms of dividend of the savings shares with respect to the ordinary shares and on the other, the higher cost of capital that characterized the savings shares in the period before the announcement of the transaction. Said verification is also

supported by the fact that the public offerings for the ordinary and savings shares were settled at the same price.

In line with these decisions, the evaluation of the Pirelli ordinary and savings shares was made by adopting a stand-alone perspective and considering only outstanding shares (=shares issued net of the treasury shares in the portfolio):

- a) on the basis of a main method: DCF - Discounted Cash Flow asset side, in relation to which the value of the shares is determined by the algebraic sum:
 - i. of the present value of unlevered cash flows (expressive of the value of core operating assets);
 - ii. of non-operating assets (taken at book value of the consolidated financial statements, except for shareholdings in listed companies for which the current market value was estimated);
 - iii. of financial payables and other liabilities (pension funds and other personnel funds) and the additional debt related to the distribution of the minimum dividend to the savings shares provided by the By-Laws for the 2015 profit;
 - iv. of minorities (taken at book value).
- b) on the basis of a control criterion: multiples criterion of comparable listed companies, in relation to which the value of the shares was determined by the algebraic sum:
 - i. of the value of the core operating assets obtained on the basis of asset side multiples based on the Enterprise Value;
 - ii. of non-operating assets (taken at book value of the consolidated financial statements, except for shareholdings in listed companies for which the current market value was estimated);
 - iii. of financial payables and other liabilities (pension funds and other personnel funds) and the additional debt related to the distribution of the minimum dividend to the savings shares provided by the By-Laws for the 2015 profit;
 - iv. of minorities (taken at book value).

With regard to the main criterion (DCF - Asset Side), the main input elements for the estimation of the value of the core operating assets were:

- i. projections of Pirelli management for the period from 30.09.2015 to 31.12.2019. These projections were made based on the same logic already followed for the purpose of the evaluations in support of the offerings, but updated on the basis of results at 30.09.2015, the guidance included in the quarterly report at 30.09.2015 and the downward revision of expectations with regard to the LATAM area;
- ii. the weighted average cost of capital calculated at 30.09.2015, placed in the range 8.33% and 8.86%. For the purposes of the weighted average cost of capital, reference was made:
 - a. to the cost of equity (calculated on the basis of the Capital Asset Pricing Model and the beta of comparable companies);
 - b. to the marginal cost of the Pirelli debt;
 - c. to the average financial structure of comparable companies;
- iii. to the growth rate of unlevered cash flows in the terminal value of zero.

With respect to the control criterion (Multiples of comparable listed companies), the main input elements for the estimation of the value of the core operating assets were:

- a) the average market capitalization at 75 days (with respect to 30.09.2015) of the comparable listed companies (identified by the 17 listed companies in the world with SIC Code 3011 – Tyres and Inner Tubes in addition to Hankook Tire);
- b) the book value of the net financial position, other financial liabilities, non-operating assets and equity of third parties, in order to obtain an estimate of core Enterprise Value of the comparable companies at 30.09.2015;
- c) consensus forecasts on revenues and EBIT for the year 2015 of the comparable listed companies in addition to the growth forecasts of EBIT in the two-year period 2015-2017;
- d) projections of Pirelli management related to revenues and EBIT 2015 and expected growth in EBIT in the two-year period 2015-2017.

The reference date of the valuation of Pirelli shares is 30 September 2015.

For the purposes of determining the value of Marco Polo Industrial Holding shares, the following were estimated:

- a) the value of assets based on the value of Pirelli ordinary shares and savings calculated previously and the dividend solely on the savings shares that Marco Polo Industrial Holding will collect for the 2015 profit (and equal to the statutory minimum corresponding to 7% of Euro 3.19), which excludes capitalized costs and the cash intended to repay the negative working capital and expenses not yet incurred at the date of 30.09.2015;
- b) the value of the debt at fair value.

The reference date of the valuation of Marco Polo Industrial Holding shares is 30 November 2015.

The misalignment of the valuation dates of Pirelli and Marco Polo Industrial Holding is due to the fact that in the case of the latter company, the portfolio of Pirelli shares and the related level of indebtedness were considered, updated to the current amount of Pirelli shares in the portfolio.

6.3. Values attributed to the shares of the Participating Companies

The application of the main criterion (DCF – Asset Side), using the range of costs-opportunities of the capital identified led to a range of value of the Pirelli ordinary and savings shares between Euro 13.97 and Euro 15.09. The application of the control criterion (Multiples of comparable listed companies) led to identify a range of possible values of the Pirelli share between Euro 14.08 and Euro 15.11, values that confirm the estimates obtained through the main criterion (DCF – Asset Side). To the range of values per Pirelli share identified with the main criterion corresponds a value of the Marco Polo Industrial Holding shares between Euro 79.25 and Euro 95.87. The exchange ratio is thus between 5.67 and 6.35 Pirelli shares per each Marco Polo Industrial Holding share.

The following tables show the sensitivity of the exchange ratio as inputs vary (WACC and growth rate g) used in estimating the value of the Pirelli share based on the main criterion (DCF - Asset Side).

Sensitivity Exchange Ratio						
		WACC				
		8,08%	8,33%	8,60%	8,86%	9,11%
g	-0,50%	6,20	5,89	5,54	5,20	4,87
	-0,25%	6,43	6,12	5,78	5,44	5,11
	0,00%	6,66	6,35	6,01	5,67	5,35
	0,25%	6,90	6,58	6,24	5,91	5,58
	0,50%	7,13	6,82	6,48	6,15	5,82

Sensitivity Value per Share Pirelli						
		WACC				
		8,08%	8,33%	8,60%	8,86%	9,11%
g	-0,50%	€ 14,83	€ 14,31	€ 13,77	€ 13,29	€ 12,85
	-0,25%	€ 15,23	€ 14,68	€ 14,13	€ 13,62	€ 13,16
	0,00%	€ 15,66	€ 15,09	€ 14,50	€ 13,97	€ 13,49
	0,25%	€ 16,12	€ 15,51	€ 14,90	€ 14,34	€ 13,83
	0,50%	€ 16,61	€ 15,97	€ 15,32	€ 14,73	€ 14,20

Sensitivity Value per Share Marco Polo Industrial Holding						
		WACC				
		8,08%	8,33%	8,60%	8,86%	9,11%
g	-0,50%	€ 92,01	€ 84,29	€ 76,28	€ 69,16	€ 62,63
	-0,25%	€ 97,95	€ 89,78	€ 81,62	€ 74,05	€ 67,23
	0,00%	€ 104,33	€ 95,87	€ 87,11	€ 79,25	€ 72,12
	0,25%	€ 111,15	€ 102,10	€ 93,05	€ 84,74	€ 77,17
	0,50%	€ 118,42	€ 108,93	€ 99,28	€ 90,53	€ 82,66

6.4. Difficulties and limitations encountered in the evaluation of the Exchange Ratio

In order to report the difficulties and limitations in the evaluation of the Exchange Ratio, it is noted that the estimate of the Exchange Ratio was made:

- on the basis of a main criterion that is based on the economic-financial projections of Pirelli from 30.09.2015 to 31.12.2019. Said data was updated to incorporate the best projections formulated on the prospects of the LATAM area, but by nature is uncertain, in particular precisely with regard to the prospects of countries with the highest risk;
- on the basis of a verification through a control criterion that makes use of asset side multiples of comparable companies. Although these multiples constitute the valuation practice in the industry to estimate the value of the equity of listed companies, it is noted that the Enterprise Value is obtained from the sum of the market capitalization of the comparable companies and the book value of certain financial statement items that may differ also significantly from their market value (net financial position, other financial liabilities, non-operating assets and equity of third parties);
- on the basis of equality of value before the Merger between Pirelli ordinary and savings shares. However, it is noted that after the Merger, Pirelli may not distribute dividends to the ordinary shares, even for an extended number of years, while the savings shares will be entitled to the minimum dividend provided by the By-Laws (equal to 7% of Euro 3.19). This circumstance ensures that the savings shares benefit in the years following the Merger from a strengthened privilege with respect to the pre-Merger situation. Since the exchange ratio was established by adopting a stand-alone

perspective of Pirelli, the additional benefit after the Merger resulting from the strengthened privilege was not taken into account for the protection of the same third-party savings shareholders.

7. Method for allocating Pirelli shares and entitlement date

As said, the Merger will be implemented – taking into account the minimal rounding off necessary in order to balance the operation on a mathematical basis – as follows:

- cancellation of all the shares of Marco Polo Industrial Holding;
- allocation on the basis of the Exchange Ratio to the sole shareholder of Marco Polo Industrial Holding of No. 201,823,177 Pirelli ordinary shares and No. 4,677,655 Pirelli savings shares (or, if the Mandatory Conversion has become effective, Special Shares); and
- cancellation of the residual No. 273,565,415 ordinary shares of Pirelli and No. 6,340,587 savings shares of Pirelli (or, if the Mandatory Conversion has become effective, Special Shares) held by Marco Polo Industries Holding, with no reduction of the share capital since Pirelli shares have no par value;

the above is without prejudice to the adjustments due to the possible purchases, by Marco Polo Industrial Holding, of additional savings shares of Pirelli (or, if the Mandatory Conversion has become effective, Special Shares) entered into before the Merger is implemented.

The savings shareholders of Pirelli, other than the Absorbed Company, and, after the Mandatory Conversion, the Special Shares shareholders, will retain the shares held by them. Also the number of treasury shares held in portfolio by Pirelli (i.e. No. 351,590 ordinary shares and No. 408,342 savings shares or, if the Mandatory Conversion has become effective, Special Shares) will remain unchanged.

No cash payments are planned.

The shares representing the entire share capital of Marco Polo Industrial Holding and all the ordinary and savings shares of Pirelli held by Marco Polo Industrial Holding are pledged in favour of the following financial institutions:

1. J.P. Morgan Securities plc;
2. Barclays Bank plc;
3. Banca Popolare di Milano S.c. a r.l.;
4. Bank of America, N.A., Milan Branch;
5. The Bank of Tokyo - Mitsubishi UFJ, Ltd.;
6. The Bank of Tokyo - Mitsubishi UFJ, Ltd., Milan Branch;
7. BNP Paribas, Italian Branch;
8. China Construction Bank (Europe) S.A.;
9. Commerzbank Aktiengesellschaft Filiale di Milano;
10. HSBC Bank plc;
11. ICBC (Europe) S.A.;
12. ICBC (Europe) S.A., Milan Branch;
13. ING Bank N.V., Milan Branch;
14. Banca IMI S.p.A.;
15. Mediobanca – Banca di Credito Finanziario S.p.A.;
16. Mizuho Bank, Ltd., Milan Branch;
17. Naxitis S.A., Milan Branch;
18. Société Générale S.A.;

19. Société Générale, Milan Branch;
20. Standard Chartered Bank;
21. UniCredit S.p.A.;
22. Bank of America Merrill Lynch International Limited;
23. China Construction Bank Corporation, Hong Kong Branch;
24. Intesa Sanpaolo S.p.A.;
25. J.P. Morgan Limited;
26. J.P. Morgan Europe Limited,

to secure the fulfilment of the obligations under the loan agreement “*Bidco Senior Facilities Agreement*” originally executed on 30 April 2015 contemplating, among other things, the facilities granted to Marco Polo Industrial Holding for the purchase of the Pirelli shares by Marco Polo Industrial Holding, with the consequent application of Art. 2501-*bis* of the Italian Civil Code (“*Merger following leveraged buyout*”).

Therefore, after the Merger contemplated by this Project, the right of pledge in favour of the abovementioned secured creditors will remain unchanged on all ordinary shares and savings shares (or, if the Mandatory Conversion has become effective, Special Shares) of the Surviving Company allocated to the sole shareholder of Marco Polo Industrial Holding S.p.A. and the allocation in exchange of the pledged shares of the Surviving Company to Marco Polo International Holding Italy S.p.A. shall be duly registered. The pledged shares of the Surviving Company will continue to be deposited through BNP Paribas Securities Services of Milan, as agent of the secured creditors.

The share certificates representing the shares of Marco Polo Industrial Holding will be cancelled after the perfection of the Merger contemplated by this Merger Plan.

While the Mandatory Conversion and, as of competence, the adoption of the new By-Laws, pursuant to Art. 146, par. 1, letter b), of the TUF, are subject to the approval of the special assembly of savings shareholders that has been called for this purpose by the Board of Directors on 15 February 2016, the Merger does not need to be submitted for approval to a Special Meeting of savings shareholders (nor of holders of Special Shares after the Mandatory Conversion has become effective), since the characteristics of the savings shares (or, if the Mandatory Conversion has become effective, Special Shares) are not amended due to the Merger.

No charge will be made payable by the sole shareholder of the Absorbed Company for the Merger exchange.

The ordinary shares of the Surviving Company allocated to service the exchange will be made available starting from the effective date of the Merger.

8. Accounting methods for the completion of the Merger transaction and effects on the Pirelli financial statements

Preliminarily, it is noted that the company resulting from the Merger will continue to prepare its annual and consolidated financial statements in accordance with IFRS, as permitted by Legislative Decree no. 38 of 28 February 2005.

Consistent with the provisions of the Assirevi preliminary guidance regarding IFRS OPI 2, “Accounting treatment of mergers in the annual financial statements”, the Merger will be accounted for in the annual financial statements of the company resulting from the transaction in question in accordance with the principle of continuity of values. In fact, the Merger in this case does not qualify as a business combination, as it does not involve the acquisition of a business from third parties but rather as a reorganization. Moreover, despite Pirelli has been identified as a company that will survive the Merger, the accounting will follow the economic substance of the same; specifically, the book values that will require continuity and with respect to which the Merger shall be recorded, are those resulting from the annual financial statements of Marco Polo Industrial Holding.

It follows that due to the Merger, the cancellation difference between the cost of the shareholding in Pirelli & C. S.p.A. held by Marco Polo Industrial Holding and the shareholders' equity of Pirelli & C. S.p.A., will

generate a deficit of about Euro 5.2 billion that will be allocated in principle, for the same values of the amount of assets and goodwill resulting from the consolidated financial statements.

In this case, in the annual financial statements of the company resulting from the Merger, the assets and liabilities of Pirelli will be accounted for on the basis of the relative values, as also resulting from the Purchase Price Allocation procedure as required by IFRS for the consolidated financial statements.

It is also noted that the shareholders' equity of Pirelli due to the Merger will increase to a value equal to the difference between the deficit described above and the net debt contributed by the Absorbed Company.

As regards the effective date of the transaction in question, it is specified that, as part of the options provided by OPI 2, the Merger will be accounted for according to the so-called "retrospective method", under which the expenses and revenues of the Absorbed Company, Marco Polo Industrial Holding, will be represented in the income statement of the Merging Company as of the effective date of acquisition through the restatement of comparative figures for the previous year.

9. By-Laws amendments

As described in Section 2.5 above, the adoption of the new By-Laws of Pirelli is envisaged and the proposal will be submitted to the Extraordinary Shareholders' Meeting of the Surviving Company called on 15 February 2016 as well as to the Special Assembly of the savings shareholders as far as it pertains them.

Due to the Merger and its effectiveness, the abovementioned post-Merger By-Laws of the Surviving Company will be further amended solely with respect to Article 5.1 reflecting the variation of the number of shares of the share capital due to the Exchange Ratio. More specifically (without prejudice to the adjustments due to the possible purchases, by Marco Polo Industrial Holding, of additional savings shares of Pirelli - or, if the Mandatory Conversion has become effective, Special Shares - entered into before the Merger is implemented) Art. 5.1 will be as follows: "*The fully subscribed and paid-in share capital amounts to Euro 1,345,380,534.66 (one billion three hundred and forty five million three hundred and eighty thousand five hundred and thirty four points six six) and is represented by no. 208,085,491 (two hundred eight million eighty-five thousand four hundred ninety-first) shares without par value, of which 202,174,767 (two hundred two million one hundred seventy-four thousand seven hundred sixty-seventh) Ordinary Shares (as defined herein) and no. 5,910,724 (five million nine hundred ten thousand seven hundred twenty-fourth) Special Shares (as defined herein)*".

10. Economic and financial plan, with indication of the sources of financial resources planned for satisfying obligations following the Merger

10.1. Economic and financial plan

The administrative bodies of Pirelli and Marco Polo Industrial Holding have applied the discipline foreseen under articles 2501-*bis* and 2501-*quinquies* of the Civil Code to this transaction.

For this purpose, in preparing the documentation in respect of the Merger, the administrative bodies of the companies taking part in the Merger have formulated, as is required under the third paragraph of art. 2501-*bis* of the Civil Code mentioned, an economic and financial plan (1 January 2015 – 31 December 2019) which is based on updating the Strategic Plan 2013-2017 with the addition of the projections for the two-year period 2018-2019 obtained by extrapolation (hereafter referred to as "the **2015-2019 Plan**"). Additionally, solely for the purpose of verifying the sustainability of financial indebtedness post-merger of Pirelli, the projections for the two-year period 2018-2019 have been further extrapolated up until 2023. (hereinafter the "Inertial Projections" and the 2015-2019 Plan, the "**Economic and Financial Plan of the Merger**").

The Economic and Financial Merger Plan was drafted with the following criteria:

- From the economic standpoint:

- a) The 2015-2019 Plan has been prepared starting from the projections for 2015-2019 and contained in the press release – drafted pursuant to Art. 103, section 3 of the Consolidated Financial Text and Art. 39 of the Issuer Regulation – approved by the Board of Directors of Pirelli on 2 September 2015, expressly its assessments of the Offers and published in annex to the relative Offer Document. These forecasts exclude all benefit arising from the *partnership* that will bring a global leader in the sector of industrial tyres into being and expansion of the business in Asia by the Pirelli Group, and have been obtained by updating the 2013-2017 plan and formulating forecasts for 2018-2019 by means of extrapolation. The 2018-2019 projections were processed by assuming the non-realisation of new expansion investments as well. These projections have been used by financial *advisors* to assess ordinary and savings shares in Pirelli & C. S.p.A. for the purposes of the Offers;
- b) The forecasts and projections set forth under the foregoing point have been updated on the basis of the results as at 30.09.2015 considering: a) the variances taking place between the guidelines for August 2015 (in respect of the entire accounting period) and that for November 2015; b) the significant devaluation of the Brazilian *real* that occurred in the third quarter of 2015. The effects both of the variances and the devaluation of the real have been incorporated into the forecasts for the subsequent years. This update has translated into incomes and cash flows that are lower than those implied in the forecasts and projections used in the evaluations for the purposes of the Offers mainly in respect of the consequences of the devaluation of the Brazilian currency;
- c) The projections thus updated have then been further extrapolated up until 2023 solely for the purposes of verifying the sustainability of debt. Consistently with this aim, a hypothesis of extreme prudence has been adopted in respect of the constancy of the operating results of the Group from 2019 to 2023, so as to have available a check upon the sustainability of the debt excluding the contribution made to the growth of operating results (also solely for the mere effects of inflation);
- from the financial standpoint:
- d) extension of the period of extrapolation up until 2023 solely for the purposes of verifying the financial sustainability of indebtedness has been defined so as to be able to grant visibility to the dynamic of indebtedness beyond the normal horizon of five year planning, within a prudent hypothesis of constancy of operational flows after 2019. Even in the absence of growth in operational results, the company would record net financial charges for 2023 substantially in line with those recorded by Pirelli in 2015 pre-Merger).
- e) The Economic and Financial Merger Plan considered refinancing of debt for Pirelli and Marco Polo Industrial Holding through a mix of financing instruments (*secured* and *unsecured*) representing the best management forecast, formulated also on the basis of the draft proposals made by the financial *advisors*. These refinancings, if carried out prior to the requirements for redemption of current debt applying, may render recourse to the *mergeco facility* set up by Marco Polo Industrial Holding (a syndicated loan subscribed to by a pool of 18 banks for an aggregate sum of Euro 6.8 billion and described in paragraph 7.2 below) unnecessary;
- f) Throughout the period covered by the Plan (2015-2019) and the subsequent extrapolations (2020-2023) an absence of dividend distribution in respect of ordinary shares and solely distribution of dividends on savings shares (applying to profit from the 2015 accounting period) and Special Shares (applying to profits for the subsequent accounting periods) up to the limits of the minimum guaranteed dividend (amounting to 7% of 3.19 Euros per share) has been assumed.

The Economic and Financial Merger Plan has been prepared using a set of assumptions about the realization of future events and actions that will have to be undertaken by the Directors that include, *inter alia*, general and hypothetical assumptions related to future events and actions by Directors that will not necessarily occur, and to events and actions that the Directors and management cannot influence or can influence only in part, regarding the trend of the main economic and financial indicators or other factors that might influence their evolution, indicated above and primarily related to: i) the non-realisation of new expansion investments in the period 2018 - 2019 and in the subsequent periods; ii) the constancy of the operating flows from 2020 to 2023, therefore without any contribution of the growth of the operating results; iii) the refinancing of Pirelli and Marco Polo Industrial Holding debt through a mix of “secured” and “unsecured” financing instruments; iv) the non-distribution of dividends to ordinary shares and the distribution of dividends only to the saving

shares and to the future special shares within the limits of the minimum guaranteed dividend and v) the positive completion of the merger transaction.

It should be however noted that, due to the uncertainties of the occurrence of future events, with respect to the realization of the event and its quantification and time of occurrence, variations between actual results and those forecasted in the Economic and Financial Merger Plan may be material, even if the events anticipated under the aforementioned hypothetical assumptions and under the Inertial Projections occur.

The Economic and Financial Merger Plan was prepared according to accounting principles and criteria that are consistent with those used by Pirelli in preparing the consolidated financial statements as at 31 December 2014 (International Financial Reporting Standards or “IFRS”) to which reference is hereby made for a detailed setting out of these principles and criteria, and have been prepared in accordance with a “post-Merger” logic basis, i.e. considering the aggregate values of the Companies Participating in the Merger, with effect from as early as 1 January 2016, including especially the net financial position of the Company being Incorporated.

Here below the 2015-2019 Plan and the extrapolations for the sole purpose of verifying the sustainability of debt for the period 2020-2023 is shown:

PIRELLI & C POST MERGER EuroMIn @ Historical rates	PROFIT & LOSS AND NET FINANCIAL POSITION					INERTIAL PROJECTIONS FOR THE SOLE PURPOSE OFSUSTAINABILITY DEBT CHECK			
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net Sales	6.291,1	6.699,7	7.057,2	7.204,9	7.280,7	7.280,7	7.280,7	7.280,7	7.280,7
-Variation %	4,5%	6,5%	4,3%	2,1%	1,1%	0,0%	0,0%	0,0%	0,0%
EBITDA before restructuring expenses	1.242,8	1.356,1	1.466,5	1.501,4	1.510,8	1.510,8	1.510,8	1.510,8	1.510,8
-% of net sales	19,8%	20,2%	20,8%	20,8%	20,8%	20,8%	20,8%	20,8%	20,8%
EBIT before restructuring expenses	925,0	1.020,7	1.116,6	1.147,7	1.156,6	1.160,1	1.160,1	1.160,1	1.160,1
-% of net sales	14,7%	15,2%	15,8%	15,9%	15,9%	15,9%	15,9%	15,9%	15,9%
Restructuring expenses	(55,0)	(48,0)	(20,0)	(20,0)	(20,0)	(20,0)	(20,0)	(20,0)	(20,0)
EBIT	869,9	972,7	1.096,6	1.127,7	1.136,6	1.140,1	1.140,1	1.140,1	1.140,1
-% of net sales	13,8%	14,5%	15,5%	15,7%	15,6%	15,7%	15,7%	15,7%	15,7%
Net income/(loss) from equity investments	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Financial income/(expenses)	(259,6)	(379,4)	(337,3)	(306,1)	(278,4)	(253,6)	(228,4)	(204,8)	(170,0)
PBT	610,3	593,3	759,2	821,6	858,2	886,5	911,7	935,3	970,1
Fiscal charges	(213,6)	(228,2)	(271,5)	(287,6)	(300,4)	(310,3)	(319,1)	(327,4)	(339,5)
- Tax rate %	-35,0%	-36,5%	-35,8%	-35,0%	-35,0%	-35,0%	-35,0%	-35,0%	-35,0%
Net income before discontinued oper.	396,7	365,1	487,7	534,0	557,8	576,2	592,6	608,0	630,5
Discontinued operations	(14,6)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net income	382,1	365,1	487,7	534,0	557,8	576,2	592,6	608,0	630,5
Net financial position	5.038,1	4.756,7	4.361,7	3.911,2	3.426,9	2.940,1	2.377,0	1.798,5	1.257,4

PIRELLI & C POST MERGER Euro/Min @ Historical rates	NET CASH FLOW					INERTIAL PROJECTIONS FOR THE SOLE PURPOSE OF SUSTAINABILITY DEBT CHECK			
	2015	2016	2017	2018	2019	2020	2021	2022	2023
EBIT before restr. expenses	925,0	1.020,7	1.116,6	1.147,7	1.156,6	1.160,1	1.160,1	1.160,1	1.160,1
Amortisation and depreciation	317,8	335,4	349,9	353,7	354,2	350,7	350,7	350,7	350,7
Net capital expenditures	(390,2)	(386,8)	(397,1)	(328,7)	(318,9)	(318,9)	(318,9)	(318,9)	(318,9)
Change in working capital	(152,3)	(42,4)	(46,1)	(47,3)	(47,6)	0,0	0,0	0,0	0,0
Pension funds	(45,0)	(60,0)	(60,0)	(60,0)	(60,0)	(60,0)	(60,0)	(60,0)	(60,0)
LTI	0,0	0,0	(60,0)	0,0	0,0	(60,0)	0,0	0,0	(60,0)
Other variations	0,0	0,0	20,0	20,0	20,0	20,0	20,0	20,0	20,0
FREE CASH FLOW	655,3	866,9	923,3	1.085,4	1.104,3	1.091,9	1.151,9	1.151,9	1.091,9
Other variations	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
OPERATING CASH FLOW	655,3	866,9	923,3	1.085,4	1.104,3	1.091,9	1.151,9	1.151,9	1.091,9
Financial income/(expenses)	(259,6)	(379,4)	(337,3)	(306,1)	(278,4)	(253,6)	(228,4)	(204,8)	(170,0)
Fiscal charges	(213,6)	(228,2)	(271,5)	(287,6)	(300,4)	(310,3)	(319,1)	(327,4)	(339,5)
NET OPERATING CASH FLOW	182,1	259,3	314,4	491,8	525,5	528,0	604,4	619,7	582,3
Financial asset acquisition	(27,6)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Financial asset disposals	120,0	100,0	115,0	0,0	0,0	0,0	0,0	0,0	0,0
Real estate disposals	0,0	5,0	5,0	0,0	0,0	0,0	0,0	0,0	0,0
Write off Venezuela incl. in financial exp.	23,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Deferred active tax incl. in fiscal charges	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Cash-out for restructuring operations	(39,6)	(48,0)	(20,0)	(20,0)	(20,0)	(20,0)	(20,0)	(20,0)	(20,0)
Other dividends paid	(10,1)	(7,0)	(8,0)	(10,0)	(10,0)	(10,0)	(10,0)	(10,0)	(10,0)
Exchange rates difference/other	27,2	(25,3)	(10,2)	(10,0)	(10,0)	(10,0)	(10,0)	(10,0)	(10,0)
Net cash flow before divid.	275,3	284,0	396,2	451,8	485,5	488,0	564,4	579,7	542,3
Dividend paid by Parent	(179,5)	(2,6)	(1,2)	(1,2)	(1,2)	(1,2)	(1,2)	(1,2)	(1,2)
Impact of Steel Cord dismissal	45,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Debt push down	(4.200,0)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
NET CASH FLOW	(4.058,6)	281,4	395,0	450,6	484,3	486,8	563,1	578,5	541,1

10.2. Sources of the financial resources foreseen for meeting the obligations following on from the Merger

In order to meet the obligations following on from the Merger, Marco Polo Industrial Holding has foreseen and made a syndicated credit facility available to the company resulting from the Merger, subscribed to by a pool of 18 banks for an aggregate sum of Euro 6.8 billion. The sum of Euro 6.8 billion is split into two tranches, one of Euro 6 billion foreseen in the technical form of a term loan (aimed at redemption of the initial and structural debt of the company resulting from the Merger), and one of Euro 800 million in the technical form of revolving credit facility (the use of which will allow the company resulting from the merger to meet the seasonal nature of the business and need for working capital).

The facility, referred to as the *Mergeco Facility Agreement*, has a due date of 31 December 2016 agreed with the lending banks.

Pirelli intends to achieve a debt structure that is “balanced”, refinancing the company resulting from the Merger without making use of the *Mergeco Facilities Agreement*, but having direct recourse of the bond market and the banking market so as to diversify its sources of financing and obtain the right mix of due dates and costs. In order to minimise the risk of refinancing the Group, and financial, market conditions permitting, Pirelli intends to stabilise its debt in advance as compared to the effect of the merger and so, prudentially, financial charges and redemptions included in the financial plan are those connected to the more onerous of the scenarios described, i.e. the one in which the *Mergeco Facilities Agreement* is not used.

Prudentially, the hypotheses of refinancing foresee:

- Euro 3,5 billion of bank financing in the form of a *term loan*, split into 2 tranches of which one of Euro 2 billion with due date at 3 years and cost of 4.0% p.a. and one of Euro 1.5 billion, due date at 5 years, cost 4.5% per annum with amortising profile;
- Euro 2,5 billion of bond debt in USD and/or Euros, with due date at 7 years and cost of 6% p.a. (bullet form);

- Euro 1 billion in a Revolving Credit Facility with due date at 5 and estimated cost amounting to 4.25% p.a.;

in addition to the Euro 0.7 billion of local financing in countries with structurally weak currencies which would be maintained and whose cost is approximately 10% p.a.

Bank debt and bond lands, when they fall due along the forecast horizon have been progressively replaced with bank financing and bonds for sums that have been increasingly lower. The financial structure at 2023 sees a reduction in bank debt to 250 million Euros (from the original 3.5 billion Euros) and bond debt at 1.9 billion Euros (from the original 3.5 billion Euros) with a progressively greater weight of *secured* financial facilities as compared to *unsecured* financial facilities.

The cost of debt to Pirelli post-Merger is expected to be, approximately 6%, in line with that of pre-Merger thanks to a diverse mix of currencies. In particular, in the post-merger scenario as compared to the pre-Merger one, currency in Euro will be privileged and whose rate of interest, which is relatively less onerous as compared to other currencies, will be counteracted by an increase, at last initially, in credit spread due to the greater financial leverage of the Group.

10.3. Sensitivity analysis in a basic scenario and three stressed scenarios.

Verification of the capacity of the Company to redeem debt at the due dates set, in addition to on the basis of the 2015-2019 Plan added to by the extrapolations for the period 2020-2023 (so-called base scenario), has been founded on alternative stressed scenarios that consider (in increasing order of stress):

- a) the effects of the main risk factors as can be represented on the basis of a possible diverse dynamic in the main key operating variables in the 2015-2019 horizon as compared to what is implicit in the forecasts. This diverse dynamic has been simulated through the Monte Carlo method up until 2019 and then extrapolated for subsequent years. This situation echoes the analysis of risk factors for the main variables (risk & opportunity assessment) made at the same time as approving each new plan and attributes a probability of a diverse dynamic in the main key variables as compared to that of the plan becoming manifest as lower than 100%. The minimum expected value for operating income (after restructuring costs) obtained with a level of confidence of 95% and which defines downside from the perspective of management, makes up the first stressed scenario;
- b) the effects of the main risk factors relating to the key operating variables set forth under the foregoing point assigning a probability of becoming manifest of 100%. In this case the minimum value of operating income (after restructuring costs) is found to be lower than the downside scenario and makes up the second stressed scenario;
- c) the effects of the main risk factors relating to the key operating variables set forth under the foregoing point (probability of becoming manifest at 100%) and an increase in costs of debt as compared to the base scenario of 200 base points with effect from 1 January 2016 (without a matching effect in terms of greater yield from cash on hand). This scenario, which also considers the effects of financial stress in addition to the maximum stress in operating variables, makes up the third stressed scenario.

Verification of the financial sustainability of debt has also looked at abidance by the most widespread ratios expressing the basis for calculating the *financial covenants* that are the most common in loan contracts. In all the scenarios (in the base scenario and in the three scenarios considered, with a growing level of stress) the ratios display satisfactory levels. Details are given below:

<i>In m.in of Euro</i>									
Base Scenario	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net Debt - Final	5.038	4.757	4.362	3.911	3.427	2.940	2.377	1.798	1.257
Net Margin on Facilities Activated	800	1.001	1.010	1.022	1.020	1.013	994	968	930
Net Margin on Total Available Facilities	800	1.001	1.010	1.022	1.140	1.133	1.614	2.188	2.750
Net Debt /EBITDA ante-restructuring costs	4,05x	3,51x	2,97x	2,60x	2,27x	1,95x	1,57x	1,19x	0,83x

<i>In m.in of Euro</i>									
First Stressed Scenario (Events Prob. < 100%)	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net Debt - Final	5.038	4.803	4.462	4.070	3.648	3.229	2.736	2.232	1.771
Net Margin on Facilities Activated	800	978	936	893	830	758	670	571	456
Net Margin on Total Available Facilities	800	978	936	893	950	878	1.290	1.791	2.276
Net Debt /EBITDA ante-restructuring costs	4,05x	3,74x	3,21x	2,87x	2,57x	2,28x	1,93x	1,58x	1,26x

<i>In m.in of Euro</i>									
Second Stressed Scenario (Events Prob. = 100%)	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net Debt - Final	5.038	4.818	4.496	4.124	3.724	3.327	2.858	2.379	1.944
Net Margin on Facilities Activated	800	971	912	849	765	671	560	437	296
Net Margin on Total Available Facilities	800	971	912	849	885	791	1.180	1.657	2.116
Net Debt /EBITDA ante-restructuring costs	4,05x	3,82x	3,31x	2,97x	2,67x	2,40x	2,07x	1,72x	1,41x

<i>In m.in of Euro</i>									
Third Stressed Scenario (Events Prob. = 100% + ΔCod = +2%)	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net Debt - Final	5.038	4.914	4.686	4.402	4.085	3.768	3.377	2.972	2.605
Net Margin on Facilities Activated	800	923	769	615	445	270	80	-119	-331
Net Margin on Total Available Facilities	800	923	769	615	565	390	700	1.101	1.489
Net Debt /EBITDA ante-restructuring costs	4,05x	3,89x	3,45x	3,17x	2,93x	2,72x	2,44x	2,15x	1,89x

10.4. Conclusions

In the light of the data commented above, it is reasonable to believe that the incorporating company Pirelli will be able to abide by the financial undertakings deriving from the credit facilities, both in terms of the plan of redemptions of capital and in terms of payment of interest. The financial resources that it is expected will be generated over the life of the Economic and Financial Merger Plan will indeed allow the obligations deriving from the Merger transaction to be met, and at the same time allow Pirelli to maintain its capacity to make the investments needed for carrying on its business.

11. **Application date of transactions of the Parties to the Merger to the Pirelli financial statement, for tax purposes as well**

The Merger effective date, in accordance with Article 2504-*bis*, par. 2, of the Italian Civil Code will be specified in the deed of merger and may follow the last filing required under Art. 2504 of the Italian Civil Code.

Starting from the Merger effective date, the Surviving Company will succeed into all the assets and liabilities of the Absorbed Company.

For accounting purposes, the operations of the Absorbed Company will be charged to the financial statement of the Surviving Company as of 1st of January 2016.

As set forth pursuant to art. 172, comma 9, of D.P.R. n. 917 dated 22 December 1986, tax effect will start as of 1st of January 2016.

12. **Tax implications of the Merger on the Parties to the Merger**

The Merger transaction is tax “neutral” for direct taxation purposes. Pursuant to Art. 172 of Law 917 of 22 December 1986 (Consolidated Law on Tax Income – “**TUIR**”), in effect, the merger will not give rise to the emergence of positive or negative taxable income components pertaining to the Parties to the Merger and their shareholders.

Specifically, with reference to the Absorbed Company, the transfer of its equity will not give rise to the creation of capital gains or losses in the assets and liabilities transferred including goodwill.

By the same token, the assets received by the Surviving Company are taken on the same tax value they had when pertaining to the Absorbed Company (continuity principle of “recognized tax values”).

13. Forecasts for the composition of the shareholding and ownership structure of Pirelli following the Merger

13.1. Significant shareholding and ownership structure of the Parties to the Merger

At the date of this Report: (i) the share capital of Pirelli represented by ordinary shares is wholly-owned by Marco Polo Industrial Holding (with the exception of No. 351,590 treasury ordinary shares held by Pirelli itself), which consequently exercises de jure control over the Surviving Company; and (ii) the share capital of Pirelli represented by savings shares is owned by Marco Polo Industrial Holding which held a stake of more than 93.2%. Therefore the share capital of Pirelli is owned by Marco Polo Industrial Holding, which holds a stake equal to 99.83%, and for the rest by third party savings shareholders

The share capital of Marco Polo Industrial Holding is wholly-owned by Holdco. Holdco is controlled by Newco that, in turns, is indirectly controlled by ChemChina.

Therefore, the Parties to the Merger are both controlled by ChemChina and are subject to the management and coordination of Newco.

For a detailed explanation of the chain control currently headed by ChemChina, see chart in Section 2.7 above.

13.2. Forecast on the composition of the shareholding following the Merger

On the basis of the Exchange Ratio, the ownership structure of Pirelli resulting from the Merger (except for potential purchases of additional savings shares or Special Shares by Marco Polo Industrial Holding entered into in the meantime) will be as follows:

- Marco Polo International Holding Italy S.p.A. (Holdco) will hold, directly or indirectly, No. 202,174,767 ordinary shares, equal to 100% of the share capital represented by ordinary shares and 97.16% of the entire share capital;
- Marco Polo International Holding Italy S.p.A. will hold, directly or indirectly, No. 5,085,997 savings shares (or Special Shares in the event the Mandatory Conversion has become effective), equal to 86.05% of the share capital represented by savings shares (or Special Shares in the event the Mandatory Conversion has become effective) and 2.44% of the entire share capital;
- third party shareholders will hold the remaining No. 824,727 savings shares (or Special Shares in the event the Mandatory Conversion has become effective), equal to 13.95% of the share capital represented by savings shares (or Special Shares in the event the Mandatory Conversion has become effective) and 0.4% of the entire share capital.
- the treasury shares held in portfolio by Pirelli (No. 351,590 ordinary shares and No. 408,342 savings shares or, if the Mandatory Conversion has become effective, Special Shares) will remain unchanged and are included in the stake of Marco Polo International Holding Italy S.p.A.

14. Evaluation of the Board of Directors on the occurrence of the right of withdrawal

The approval of the Merger resolution will not give rise to any right of withdrawal for Pirelli shareholder, since the conditions provided by Art. 2437 of the Italian Civil Code or other legal provisions are not verified.

Without prejudice to the right of withdrawal granted to the savings shareholders as consequence of the Mandatory Conversion and adoption of the new By-Laws, within the terms detailed in the Board of

Directors' report containing the related proposed resolution, released in accordance with Art. 125-ter, par. 1, of the TUF.

* * *

It is noted that it will be deposited at the Company's registered office, in the legal manner, (i) the merger plan referred to in Articles 2501-bis and 2501-ter of the Italian Civil Code and related appendixes (the report prepared, pursuant Art. 2501-bis, par. 5, of the Italian Civil Code, by Reconta Ernst & Young S.p.A., the auditing firm in charge in auditing the financial statements of the Parties to the Merger, and the new By-Laws adopted by the surviving company Pirelli), (ii) the reports referred to in Articles 2501-bis, par. 3, and 2501-quinquies of the Italian Civil Code prepared by the administrative bodies of the Parties to the Merger, (iii) the financial statements relating to the last three financial years of Pirelli (together with the reports prepared by the competent administrative and auditing entities) (Marco Polo Industrial Holding has not finalized any financial statements since it has been incorporated on 2015), (iv) the report, referred to in Articles 2501-bis, par. 4, and 2501-sexies of the Italian Civil Code, certifying the reasonableness of the indications contained in the Merger Plan for the financial resources provided for the fulfilment of the obligations of the company resulting from the Merger (Pirelli) prepared by KPMG S.p.A., as the expert appointed by the Court of Milan pursuant to Art. 2501-sexies, par. 4, of the Italian Civil Code and (v) the financial statements of the companies participating to the Merger, as described in Section 3.3 in accordance with Art. 2501-quarter of the Italian Civil Code.

* * *

PROPOSED RESOLUTION FOR THE EXTRAORDINARY SHAREHOLDERS' MEETING

On the basis of the above, the Board of Directors submits to Your approval the following proposal of resolution:

"The Extraordinary Shareholders' Meeting of Pirelli & C. S.p.A.,

- (a) having examined the merger plan prepared pursuant to Articles 2501-ter and 2501-bis, par. 2, of the Italian Civil Code,*
- (b) having recalled the relevant financial statements of the Company as at 30 June 2015 and having acknowledged the relevant financial statements of "Marco Polo Industrial Holding S.p.A." (with a sole shareholder) as at 30 November 2015,*
- (c) having acknowledged the explanatory report of the Board of Directors, prepared pursuant to Articles 2501-quinquies and 2501-bis, par. 3, of the Italian Civil Code,*
- (d) having acknowledged the Report issued by the Auditing Firm KPMG S.p.A., common expert appointed by the Court of Milan pursuant to and in accordance with Articles 2501-sexies and 2501-bis, par. 4, of the Italian Civil Code,*
- (e) having acknowledged the Report issued by the Auditing Firm Ernst & Young S.p.A., pursuant to Art. 2501-bis, par. 5, of the Italian Civil Code,*
- (f) having acknowledged the further documentation published and deposited with the Company's office,*

resolves

- 1) to approve, pursuant to Art. 2502 of the Italian Civil Code, the merger plan by absorption into***

"Pirelli & C. S.p.A."

with registered office in Milan, viale Piero e Alberto Pirelli No. 25

of

"Marco Polo Industrial Holding S.p.A." (with a sole shareholder)

with registered office in Milan, via San Primo No. 4,

on the base of the financial statements, respectively, as at 30 June 2015 for the surviving company, and as at 30 November 2015 for the absorbed company, and according to the conditions provided by the merger plan;

- 2) to delegate severally all the Board of Directors' members pro tempore in office, to implement the abovementioned resolution and, in particular, to:***

- a) stipulate, with the express power referred to in Art. 1395 of the Italian Civil Code, also by means of special proxies, the deed of merger, also establishing the effective date, in accordance with art. 2504-bis, par. 2, of the Italian Civil Code, that may follow the last filing required under Art. 2504 of the Italian Civil Code, setting forth any clause and terms in compliance with the merger plan; to execute any potential supplementary and amendment agreement; to allow the transfers of ownership of any activity;*
- b) make provision, in general, for anything else requested, necessary, useful for the full implementation of the abovementioned resolutions, also through holders of special powers appointed for this purpose;*
- c) fulfill any requested formality in order to file the abovementioned resolution at the Companies' Registry with the faculty to make the amendments deemed necessary or appropriate for the purpose of the transaction”.*

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This Report is made available to the public in accordance with applicable laws at the registered office of the Parties to the Merger, on the Pirelli web site www.pirelli.com as well as on the authorized storage information system “NIS-Storage” (www.emarketstorage.it).

Milan, 22 December 2015

For the Board of Directors of

Pirelli & C. S.p.A.

(Signed on the original Italian version)

Mr Marco Tronchetti Provera

(Chief Executive Officer and Executive Vice Chairman)

Statement

The Responsible Officer that prepares the accounting documents Francesco Tanzi certify, pursuant to Art. 154-*bis*, par. 2, of the TUF, that the accounting disclosure contained in this explanatory Report of the Directors corresponds to the results in the accounting records, account books and book entries.

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This is a courtesy English translation of the Italian original document. In case of inconsistency the Italian original version shall prevail.