



Pirelli & C. S.p.A.

HALF-YEAR REPORT ON CORPORATE GOVERNANCE

1. INTRODUCTION

Pirelli & C. S.p.A. (“**Pirelli**” or the “**Company**”) adopts the traditional administration and control system. The corporate governance system of Pirelli is based on: (i) the centrality of the Board of Directors (composed of 15 Directors), which is responsible for strategic guidance and supervision of the overall business activity; (ii) central role of independent Directors (representing the majority of the Board); (iii) effective internal control system; (iv) proactive risk management system; (v) remuneration system, in general, and incentives, in particular, for managers linked to medium and long term economic objectives so as to align the interests of the management with those of shareholders, pursuing the priority objective of creating sustainable value in the medium to long term; (vi) balances principles of conduct for carrying out transactions with related parties. Pirelli is aware that an efficient system of corporate governance, aligned to best practices of international organizations, is one of the essential elements for achieving the goals of sustainable value creation. Pirelli adheres to the Corporate Governance Code for listed companies approved by the Corporate Governance Committee set up by the Business Associations (ABI, ANIA, Assonime, Confindustria) and professional investors (Assogestioni), as well as by Borsa Italiana S.p.A.¹.

The system of governance of the Company is formalized in the Code of Ethics, in the Articles of Association, in the Regulations of the Shareholders' Meetings and in a series of principles and procedures, periodically updated according to the national and international best practices.

The Company, on a voluntary basis, in the half-year financial report highlights the updates and additions made to its corporate governance system compared to the contents of the Annual Financial Report.

¹ Approved by the Corporate Governance Committee set up by the Business Associations (ABI, ANIA, Assonime, Confindustria) and professional investors (Assogestioni), as well as by Borsa Italiana S.p.A. The membership took place with the approval of the Board of Directors as part of the Company's *relisting* process, which ended in October 2017. It is recalled that Pirelli has adhered to the Code since its first issue (October 1999) and that in the period 26 February 2016 - 3 October 2017 the Company was not listed on the Stock Exchange.

2. ORDINARY SHAREHOLDERS' MEETING OF MAY 15, 2018

(i) Appointment of a new director

The ordinary shareholders' meeting held on May 15, 2018 approved with a percentage equal to around 93% of those voting, the increase from fourteen to fifteen of the number of members of the Board of Directors and, on the proposal of a group of Asset Management Companies and Institutional Investors, the appointment of Giovanni Lo Storto - who will expire together with the remaining Directors with the Shareholders' Meeting to be called to approve the financial statements for the year ended December 31, 2019 - as new independent Director of the Company.

The majority shareholder Marco Polo International Italy S.p.A. (“**Marco Polo**”) did not take part in the vote on the matter, to allow minority shareholders to appoint their representative in complete autonomy, in accordance with the shareholders' agreements and the commitments made during the meeting of August 1, 2017.

The candidature of Giovanni Lo Storto was presented before the Shareholders' Meeting in compliance with the provisions of the Corporate Governance Code, even in the absence of a voting procedure through a list voting mechanism.

The new Director, as anticipated in the Company's relisting process, was also appointed as member of the Control, Risks, Sustainability and Corporate Governance Committee and of the Remuneration Committee.

(ii) Integration of the Board of Statutory Auditors

With the approval of the financial statements as of December 31, 2017 the Board of Statutory Auditors, appointed by the Shareholders' Meeting on May 14, 2015 for the 2015/2017 three-year period, expired. Therefore, the Shareholders' Meeting held on May 15, 2018 renewed the Board of Statutory Auditors, appointing five standing auditors and three alternate auditors for the years 2018-2020.

Through the adoption of the list vote, the so-called minorities have appointed the Chairman of the Board of Statutory Auditors (Francesco Fallacara) and an alternate auditor (Franca Brusco) and the majority shareholder has appointed four statutory auditors (Fabio Artoni, Antonella Carù, Luca Nicodemi and Alberto Villani) and two alternate auditors (Elenio Bidoggia and Giovanna Oddo).

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In particular, two lists were presented to the Shareholders' Meeting: one by Marco Polo (which obtained about 79% of the votes of the capital represented at the meeting) and the other by a group of asset management companies and institutional investors (which obtained about 18% of the votes of the capital represented at the meeting).

The *curricula vitae* submitted during the filing of the lists were promptly published on the Company's website, where they are constantly available and periodically updated.

The shareholders' meeting set the gross annual remuneration for the Chairman of the Board of Statutory Auditors at 75 thousand euros and the gross annual remuneration of each standing statutory auditor at 50 thousand euros.

It should finally be highlighted that the Board of Directors decided to confirm the Auditor Antonella Carù as member of the Supervisory Body.

(iii) Further resolutions

In the aforementioned meeting of May 15, 2018, the Shareholders' Meeting was also called to resolve on the following:

- i) Remuneration policy: the definition of this policy is the result of a clear and transparent process in which the Remuneration Committee and the Board of Directors of the Company play a central role. The policy, submitted to the advisory vote of the Shareholders' Meeting, was drawn up also on the basis of previous practical experiences and takes into account the regulatory provisions adopted by Consob, as well as the adoption in 2018 of a new Long Term Incentive Cash Plan for the period 2018-2020 to support the new 2017-2020 Business Plan, made known to the market during the new listing process (cf. point (ii) that follows).

The Shareholders' Meeting voted in favour of the consultation with a percentage equal to about 81% of the capital represented in the Shareholders' Meeting.

- ii) Three-year monetary incentive plan (2018/2020) for the management of the Pirelli Group: in line with the variable remuneration mechanisms adopted at international level and in continuity with what was done in the past, the new LTI plan is also based on the performance of the Pirelli shares (as reflected in the so-called Total Shareholder Return) and allows a complete alignment of the interests of the management with those of the shareholders.

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The Shareholders meeting approved - for the part linked to the Total Shareholder Return - the adoption of the 2018-2020 three-year LTI incentive plan (Long Term Incentive) with a percentage equal to about 96% of the capital represented in the Shareholders' Meeting.

- iii) Insurance policy so-called "Directors and Officers Liability Insurance": the Shareholders' Meeting authorized the signing of a so-called "Directors and Officers Liability Insurance" policy, in line with the widespread international practices in advanced financial markets, with a percentage equal to around 93% of the capital represented at the Shareholders' Meeting.

3. BOARD OF DIRECTORS MEETING OF AUGUST 7, 2018

The Board of Directors' of Pirelli held on August 7, 2018 has co-opted Ning Gaoning and has appointed the latter as Chairman of the Board of Directors, hence replacing Ren Jianxin, who resigned from the offices held in Pirelli effective from 30 July 2018.

The Board of Directors has also appointed Ning Gaoning as member of the Appointments and Succession Committee.

Therefore, as of the date of this report, the Board of Directors of Pirelli is composed of 15 Directors, most of whom are independent and, in particular by: Ning Gaoning (Chairman), Marco Tronchetti Provera (Executive Vice President and Chief Executive Officer), Yang Xingqiang, Bai Xinping, Giorgio Luca Bruno, Laura Cioli, Domenico De Sole, Ze'ev Goldberg, Giovanni Lo Storto, Tao Haisu, Marisa Pappalardo, Cristina Scocchia, Giovanni Tronchetti Provera, Fan Xiaohua and Wei Yintao.

For the sake of completeness, it should be noted that the current composition of the Board of Directors reflects the shareholders' agreements existing between Marco Polo's shareholders².

² See the following link <https://corporate.pirelli.com/corporate/it-it/governance/patti>.