2014

ANNUAL REPORT

PIRELLI

COMPANY PROFILE

PIRELLI & C. S.p.A. - Milan

2014 ANNUAL REPORT

THE 2014 PIRELLI ANNUAL REPORT IS AVAILABLE IN DIGITAL VERSION

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KEY
DATA 2014

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MANAGEMENT
REPORT

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Dear Stakeholders,

2014 was a positive year for Pirelli. The figures illustrate that, despite a complex economic situation, we were able to capitalise on our work in recent years and continue to improve our processes and products, particularly in the Premium and Super Premium segments where our interests are focused. Today, we have a global market share for the Prestige segment close to 50% for Original Equipment: extraordinary growth compared to the 36% of 2011. Meanwhile, in the Premium Products segment our share in Europe, where the segment is concentrated, reaches nearly 20% in the Original Equipment compared to 14% just 4 years ago. This is the result of continuing efforts, recognised by the market, in trying to stay ahead of the needs of our consumers and car-manufacturing partners by offering them increasingly high-tech tyres that are always aligned with the evolution of demand. These results are possible thanks to the continuous improvement of our factories, which are always more efficient in terms of processes and oriented in a logic of value creation, while staying close to their reference markets. This is also thanks to the development of capillary commercial networks that continue to nourish direct dialogue with the market - and absorb its expectations.

Dialogue with investors has also been consistent, transparent and open. The new “Integrated Report” also forms a part of this dialogue: a single publication that describes the company's year through a unified and integrated approach, providing a direct, concise and functional representation of the value creation process. The 2014 financial statements document the first year of implementation of the 2014-2017 Industrial Plan. In a year that was once again characterised by an unpredictable economic scenario, we were able to face the challenges offered by the global economy achieving the goals that we had set for ourselves: sales of more than 6 billion Euro, EBITDA up by 6.7% to over 1.1 billion Euro, a further increase in profitability, which reached 13.9% from 12.9% for the previous year, and a return on investments that increased to 22% from 20% in 2013. Thanks to the selective investments programme, efficiency and solid operating performance, cash flow - prior to the distribution of the dividends and steelcord disposal - was equal to 312 million Euro, 5.2% of revenue (3.8% in 2013).

In a world of constant change we will continue to focus heavily on technology, maintaining an investment in Research & Development equal to 7% of the Premium sales. Technology will, in fact, continue to be an element of distinction and excellence in the competitive tyre industry. For this reason, in 2014 we added a Technology General Management function to the Operations General Management function already established in 2013 in order to oversee all departments directly involved in the development of an increasingly sophisticated and evolved product. The development of the Cyber Tyre, the results from Formula 1 – for which we are the exclusive supplier – and the achievements in the numerous Motorsport competitions in which Pirelli participates are clear evidence of the capabilities of our technicians.

We will continue to place great importance on those who work at Pirelli, nurturing and developing talent. Sustainable development will also play a central role, as a priority for all of us. The Sustainability Plan that kept us at the top of the most influential industry rankings in 2014 will carry on this year. We will continue to set ourselves new targets, ensuring a solid future for our company.

To all of our Stakeholders, once again, thank you.

The Chairman and CEO
Marco Tronchetti Provera

2014

ANNUAL REPORT

PRESENTATION OF 2014 PIRELLI INTEGRATED REPORT

The 2014 Pirelli Integrated Report (2014 Annual Report) aims to provide all stakeholders with a comprehensive view of the value creation process. The Annual Report shows the company's financial and sustainability performance, the interaction between the business model, the external scenario and the competitive environment, business strategy, integrated risk management and corporate governance.

The Parent and the Consolidated Financial Statements, included in the 2014 Annual Report, have been prepared in accordance with International Financial Reporting Standards in force issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, as at December 31, 2014, and the measures issued in implementation of article 9 of Italian Legislative Decree no. 38/2005. The Annual Report has been also prepared in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI-G4 version - Comprehensive option) and taking into account the principles contained in the Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)

The Pirelli business model is inspired by the United Nations Global Compact, by the Stakeholder Engagement principles set out in the AA1000 and by the ISO 26000 Guidelines[1]. This Model aims to create value for all stakeholders through the interaction between financial, productive, intellectual, human, natural, social and relational capitals.

The financial capital of Pirelli, comprising the financial resources of the company, drives the sustainable management of the other forms of capitals and is, in turn, directly affected by the value created by the them. The management of the business in 2014 has produced cash generation of €312 million (5.2% weight on revenues compared to 3.8% in 2013), and a return on investment (ROI) of 22%[2], an improvement of two percentage points over 2013.

The productive capital, which includes 19 tyre factories in four continents with a total capacity of 72 million Consumer units and 6.3 million Industrial units, benefits from actions to protect natural capital; in this regard Pirelli during 2014 invested in environmental protection, obtaining, compared to the previous year, a reduction in specific CO_2 emissions of 2%, a reduction in water withdrawal of 19%, and an increase in the waste recovery rate of 3%, thus contributing to the achievement of cost efficiencies totalling €92 million. Innovation has always been at the core of Pirelli; in 2014 the group invested €205.5 million in research and development, or 7% of premium revenues and 3.4% of total revenues. These investments contribute to the fuelling of the intellectual capital, which includes assets such as patents, copyrights, brands, software etc. Pirelli possesses a globally recognized brand and a portfolio of approximately 5,000 patents on product, process and material-related innovations. Pirelli's research and development contributes to the improvement of environmental performance along the entire life cycle of the product, from raw materials to the innovative process, distribution and use until the end of the useful life of the tyre. In this respect, the Green Performance products produced by Pirelli, which combine performance and respect for the environment, represent at the end of 2014 46%[3] of total tyre turnover (43% in 2013).

Pirelli social and relational capitals are based on the continuous and transparent dialogue that the company maintains with its stakeholders. This dialogue has led to the materiality mapping of the company, which analyses the expectations of key Pirelli stakeholders on issues relating to sustainable growth (cf. Section "Report on Value Chain Responsible Management"); this mapping is a reference point for the identification of opportunities for improvement and thus the Sustainability Targets.

All the types of capital mentioned could not evolve without adequate investment in Human Capital, which lies at the heart of the Company. Pirelli constantly invests in training, coming to 8.2 average days per employee as at the end of 2014, as well as in the culture of Occupational Health and Safety, with an injury frequency index which fell by 17.7% in 2014 compared to 2013 and by 71% compared to the 2009 figure, in line with the 2020 target that includes a decrease in the index of 90% compared to the base year 2009.

Merit, rules, ethics and sharing of strong values and clear policies, attention to welfare and diversity are combined with advanced tools to attract and retain the best talents.
In line with the Management Model adopted, sustainability forms part of management long-term incentives.

[1] The compliance of the Pirelli Sustainability Model with the principles set out in the AA1000 and ISO26000 Guidelines was audited by a third party once again in 2014: see the SGS Assurance Statement included at the end of this report.
[2] Return on Investments without financial assets, before restructuring costs.
[3] Data obtained by weighing the value of sales of *Green Performance* tyre products as a percentage of total Group tyre sales worldwide. *Green Performance* products identify those tyres that Pirelli produces worldwide and in line with Classes A, B, C of rolling resistance and wet grip according with the labelling parameters required by EU legislation.

WHO WE ARE

Internationalism, technology, talent,
speed and culture are part of Pirelli's past, present and future

The ambition has always been there. From its founding in the 19th century, Pirelli has been a fusion of pioneering technology and an international outlook. A combination of Italian design and culture with innovation; challenging the accepted ways.

Today, that alchemy of man, machine and geography remains. We believe that technology and people are the way to compete in the global market.

Pirelli's business model is based on a simple premise, a journey. First, the company develops tyres with Premium car makers, then we focus on the aftermarket of tyre dealers, tyre specialists and car dealers. Sales to carmakers of tyres to go on new vehicles comprise about 24% of total sales; 76% comes from selling further sets of tyres in the aftermarket. At one end is the Premium carmaker; at the other, the Premium car driver. Pirelli aims to connect the two throughout the value chain.

With Pirelli technologies, drivers get the most out of their cars and the driving experience, under all conditions; this is epitomized by the Brand's motto: "Power is nothing without Control".

AT THE TOP OF THE MARKET

Pirelli has two divisions – Consumer (tyres for cars and motorbikes) and Industrial (tyres for trucks, buses and farming vehicles). The Consumer division accounts for just over three quarters of total sales revenue, with more than 70% coming from car tyres and approximately 7% from motorbike products. The Industrial division produces the remaining quarter - 20% from truck tyre sales and 3% farming vehicle tyres.

What distinguishes us from our competitors is our focus on the Premium tyre sector. That market is technologically challenging, high-margin, resilient and growing – especially in rapidly developing economies. Premium currently comprises 55% of the company's Consumer business. It will rise to 60% by 2016.

Pirelli's superior R&D and desirable brand have helped us to forge close partnerships with the world's high-end Premium carmakers - Audi, Mercedes, BMW, Jaguar Land Rover and Volvo. The group has an even stronger position in the Prestige sector, serving the likes of Ferrari, Maserati, Lamborghini, Porsche, Bentley, Aston Martin and McLaren. We are proud of the large number of tyre approvals, or 'homologations' to use the technical term, that Pirelli has been awarded by car manufacturers for its products to be fitted on new models. There are currently more than 1,500 homologated Premium Pirelli products.

In the motorbike business, the company has two Premium brands: Pirelli and Metzeler. The latter is a German brand bought by Pirelli in the early 1980s. The two have significant presence in the Premium segment in mature markets such as Europe and the United States.

Pirelli's Industrial division has a selective regional strategy. The company holds leadership positions in South America, the Middle East and Africa. We are also a leader in agricultural tyres in South America.

PIRELLI'S TECHNOLOGICAL HERITAGE

Product innovation was always part of the Pirelli story. The company was founded in Milan in 1872 by Giovanni Battista Pirelli, a 24-year-old engineer who identified early on the industrial potential of rubber. The fledgling business initially made rubber textiles, rubber tubes and belts for machinery.

As an early statement of its international and technological

intent, Pirelli started to produce undersea cables for telegraphy, laying lines in the Mediterranean in the late 19th century. Its first factory outside Italy was in Spain; the first car tyre was patented in 1901. To complete the story, the distinctive elongated 'P' logo originated in New York in 1908.

Pioneering technology informed Pirelli's work from its inception. Our tyre designs led the way for other manufacturers. We developed the Superflex Stella Bianca, our first sporting tyre, back in 1930, while radial tyres were launched as long ago as 1951.

Pirelli's patents also reinforce our ambitions in Premium markets. The PZero, a pioneering ultra-low tyre with asymmetric tread pattern for prestige models, came on the market in 1987 and the Cinturato P7, the first high-performance tyre with a green philosophy, was launched in 2009.

Pirelli is the exclusive tyre supplier to Formula One for a second three-year period that started in 2014. This is a brilliant showcase for our engineering and research, emphasising Pirelli's global footprint and constant search for technological perfection. The company is also active in 150 other car and motorbike races around the world.

A TRULY GLOBAL COMPANY

Today, Pirelli's international footprint – we have a commercial presence in more than 160 countries – is bigger than ever, affording us lower costs and the ability to meet the demands of rapidly expanding economies.

Pirelli has 37,500 employees in 160 countries. We are in present Europe (30%), South America (37%), North America (4%), Asia Pacific (11%), MEAI (9%) and Russia (9%). Our 19 facilities have a capacity of 72 million units for Consumer and 6.3 million for Industrial.

2014 KEY DATA

REVENUES **6€/MLD**

312€/MLN NET CASH FLOW*

EBIT MARGIN **14%**

22% ROI

* BEFORE DIVIDENDS AND STEELCORD DISPOSAL

THE IMPORTANCE OF OE MARKED TYRES

- Pirelli tyres homologated by the world's top car makers are the result of a strong technical collaboration.
- Homologated tyres provide your car with the best performances in handling and safety, as they are designed step by step with the mechanics and electronics of the vehicle.
- These tyres are the perfect match for the car model they developed for, both on road and track.
- Homologated tyres for Premium Car Brands can be identified by a unique marking on the sidewall linking them to the car maker, for example: "AO" for Audi, "MO" for Mercedes, a star sign for BMW, "LR" for Land Rover, "F" for Ferrari, "L" for Lamborghini, "MGT" for Maserati and "MC" for McLaren.
- These tyres are designed with the purpose of enhancing your car performance while assuring a unique driving experience.

Industrial division production is entirely located in lower-cost, high-growth regions. Some 78% of Consumer manufacturing is also in these areas, a figure set to grow to 80% by 2017 with the expansion of facilities in Russia, Mexico, Romania and China.

The company's global reach and focus on high growth areas is underlined by the sources of revenue. Less than half of Pirelli's revenue comes from mature markets – 34% from Europe, 12% from North America. Of the rapidly growing economies, 4% of revenue originates from Russia; 33% is in South America; 8% in the Middle East and Africa; and 9% in the Asia Pacific region.

As a significant business on the world stage, we fully integrate our economic strategy with environmental and social targets, thus pursuing value creation through the interaction of financial capital, production capital, intellectual, human, natural, social and relational capital.

This commitment is reflected in Pirelli's inclusion in the world's major global sustainability indices, such as the Dow Jones Sustainability index where the group has led the ATX Auto Components sector for eight years, the FTSE4Good index where in 2014 we reached a 100/100 rating, and the Climate Disclosure Leadership Index, where we outperformed our peers. Since 2004 Pirelli has been an active member of the United Nations Global Compact, and sits in the Global Compact Lead Steering Committee.

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

ROBECOSAM Sustainability Award Industry Leader 2015

ROBECOSAM Sustainability Award Gold Class 2015

FTSE4Good

ETHIBEL SUSTAINABILITY INDEX EXCELLENCE Europe

CDP CLIMATE DISCLOSURE LEADER 2014

STOXX

United Nations Global Compact

ECPI Sense in sustainability

SUSTAINALYTICS

EURONEXT

vigeo

AN EMOTIONAL EXPERIENCE

Pirelli's market positioning also stems from its supporting activities, the Pirelli Calendar, the Foundation and PZero Design.

The Pirelli Foundation, founded in 2009 by the Group and the Pirelli family, houses and develops the company's heritage and promotes contemporary corporate culture through exhibitions, conferences and collaborations with other cultural institutions. HangarBicocca is a contemporary art space near the company's Milan headquarters with a 15,000 square metre exhibition area. We believe that contemporary art is a source of future innovation.

The Pirelli Calendar, now in its 51st year, has been shot by the greats of photography such as Stephen Meisel, Steve McCurry, Patrick Demarchelier, Richard Avedon, Peter Lindbergh, Annie Leibovitz. Fashion luminaries including Naomi Campbell, Jennifer Lopez, Sophia Loren and Kate Moss have all modelled for the calendar. The PZero brand houses the company's design and lifestyle projects, building on our heritage and enhancing the core business.

This mixture of internationalism, technological leadership, talent, speed, responsibility and culture is a mark of Pirelli's past, present and future. We will continue to harness people skills and energy along with science, data and design to reach ever greater heights. That means introducing new technologies, setting trends, advancing sustainability and governance.

HOW WE SEE THE WORLD

The demand for Premium tyres will grow as new middle classes in developing economies choose top European carmakers over local brands

The automotive industry is exposed to several external factors, such as macroeconomic trends, regulatory obligations and evolving consumer and lifestyle habits. This leads to an ever changing external scenario.
There are huge shifts in world demographics, leading to increasing demand for high-end goods and services; the evolution of new technologies in automotive and related fields; and increasing national and international regulation.

PREMIUM OPPORTUNITIES

There are more than 1 billion cars in the world, 9% of which are Premium; this percentage is set to grow, as consumer preferences move in favour of high-end and the new middle classes in rapidly growing economies choose top European carmakers over local brands.

In 2014, more than 8 million new Premium cars were sold, or 10% of the total. Europe and North America accounted for 63% of this market; 29% were sold in the Asia Pacific region. Following strong growth in recent years, China is now the world's second largest Premium car market, after the US. Chinese consumers show a clear preference for European carmakers, which represented 70% of total Premium car sales in the country in 2014 and are among Pirelli's top customers.

This growth offers an opportunity for tyre makers. Approximately 1.4 billion car and light truck tyres were sold in 2014, 30% of the total were fitted to new cars and 70% as replacements, the latter being less buffeted by the dynamics of the automotive market.

Premium tyres have historically outgrown the rest of the tyre market by three times and this trend was well in evidence in 2014: the global Premium tyre market showed growth of 10% while growth in the non-Premium market was much lower (+1.3%).

Premium tyres account today for 24% of the total tyre market and are expected to grow to 25% of total in 2015. The Premium market is expected to grow by 7% in 2015 compared with 2.5% for the overall car tyre market.

To stay ahead, Prestige and Premium car designers must constantly refine and improve their models' performance – placing intense demands and increasing complexity on the tyre manufacturers who supply them.

Pirelli is among the few tyre makers with a clear focus on Premium; we patented process technologies able to deal with rising complexity and variety while keeping cost under control. Most of the world's largest tyre makers produce high-end tyres, but none are so dedicated to the Premium sector as Pirelli is.

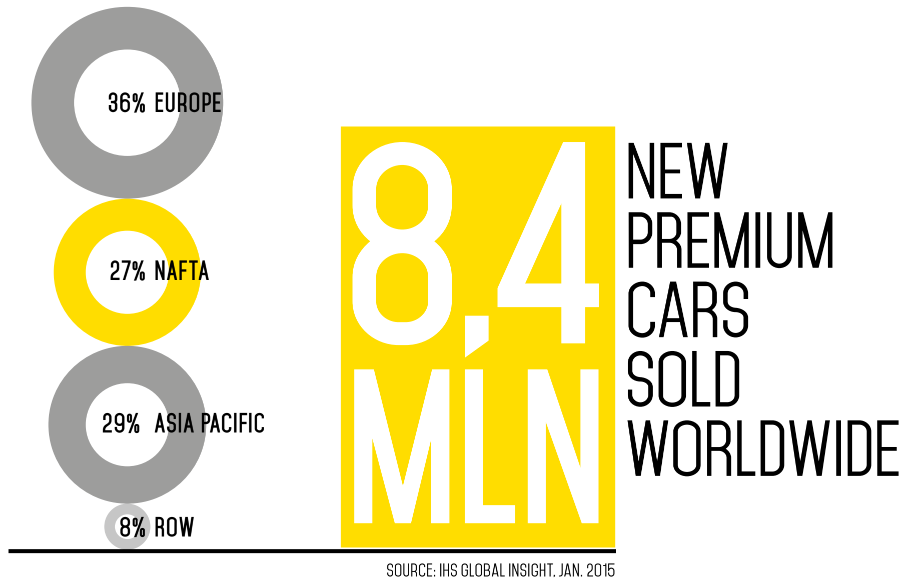
INCREASED CONNECTIVITY, BIG DATA AND THE NEW TECHNOLOGIES

The new world will increasingly be an urban one. Large populations are moving from the country to the city to take advantage of business and job opportunities. It has been forecast that 600 big cities in the world will contribute significantly to global growth over the next 20 years.

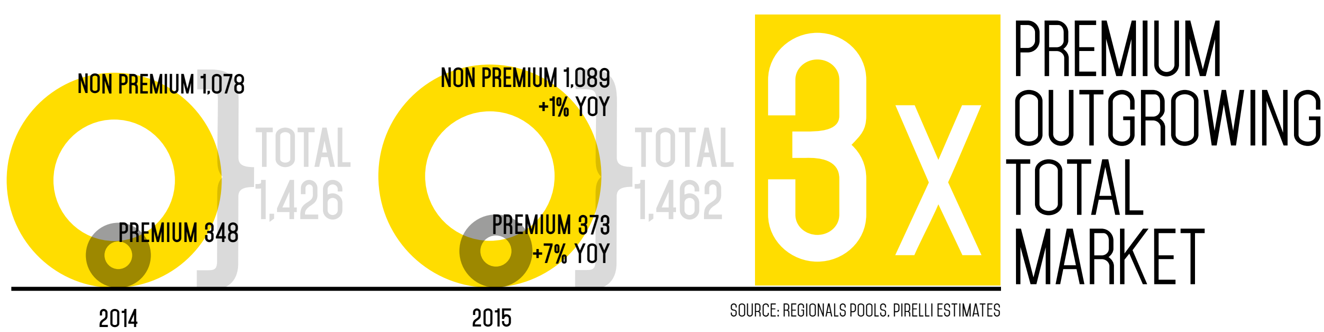
Newly affluent consumers in these metropolitan areas will require more than goods. In changing and increasingly affluent societies, people are busier and want higher standards of service and availability. Again, this is an opportunity.


Cinturato P7
PIRELLI

2014 PREMIUM CAR GLOBAL SALES: BREAKDOWN BY REGION



GLOBAL CAR TYRE MARKET (MLN PCS)



The next two decades will see the rapid growth of the "Internet of Things", or machine-to-machine communication, along with an exponential growth in the amount of data available to companies and consumers.

This offers great advantage. Industrial companies are able to make production more efficient through data analysis and to acquire extraordinary amounts of data on the performance of their products. Equally, marketing departments have access to an unprecedented volume of information, useful to provide higher level of service to customers. Almost every industrial concern in the world is engaged in a race to harness Big Data to give it an edge over its rivals.

Pirelli has already started working on projects such as the Cyber Tyre, with applications in the Consumer and Industrial businesses. This technology is the result of a collaboration between Pirelli's R&D division and the department of Engineering at The Polytechnic University of Milan.

The Cyber Tyre provides vital information about vehicle performance and road conditions, as well as the tyre's status, thanks to an embedded electronic sensor the size of a one euro coin. The sensor 'talks' via a wireless connection to the car's on-board computer and other electronics, displaying information to the driver via a graphic interface. This information can be transferred later to a central computer for more analysis. The result will be ever higher levels of safety and performance.

TYRES AND THE ENVIRONMENT

As technology and cities develop, so environmental pressures grow. The Kyoto Protocol in 1997, leading to the Copenhagen Agreement in 2009 and the Cancun Accord in 2010 all oblige governments to reduce carbon dioxide emissions. Transport is a key influence on emissions, especially the driving and making of cars and their components.

This places tyres, one of the key influences on a car's energy efficiency, under greater scrutiny. Regulations in Europe, the United States and Brazil demand lower fuel consumption as well as encouraging ownership of hybrid and electric cars – and these moves will reward tyre manufacturers which have the right products.

At the same time, the manufacture of tyres must be achieved with less energy, water and raw materials. This puts up technological barriers to new entrants in the tyre market. Other legislative changes place greater emphasis on vehicle safety, benefiting tyre-makers which have sophisticated research and development.

Pirelli develops green performance tyres which maximise respect for the environment and safety. Green performance tyres make up 46%[1] of 2014 tyre sales, up from 35% in 2011. The company's target is to reach 48% in 2017. The rolling resistance of our car products will be reduced by 40% between 2007 and 2020. Additionally we work on environmental process efficiency and have set targets for 2020, as compared with 2009, to reduce CO_2 emissions by 15%, specific energy consumption by 18%, specific water withdrawal by 18% and, improve recycling of production waste from 73% to 95%.

[1] Global revenues of tyres produced respecting the A, B, C features for rolling resistance and wet grip according to European tyre labet regulations.

HOW WE ARE ORGANISED

A matrix organization combining function with geography ensures the linkage between Premium Car makers and Consumers

To succeed on the international stage, Pirelli must have world class governance, embracing best practice from around the globe. We believe corporate governance is more than a matter of box-ticking. Transparency, accountability and scrutiny are, in fact, fundamental to profitability.

For a company which has always had an international footprint, such values are doubly important. We must adhere to local regulations and international standards.

The board has 15 members including the chief executive, all on three-year terms of office. Seven members of the board are independent, where Italian law requires only two and the Italian exchange self-regulatory code only one third of total.

Of those 15 directors, three – or one fifth – represent minority shareholders. This arrangement has been codified in the company bylaws while the actual law requires just one minority shareholder. Over the last few years, there has been significant streamlining of structure and governance. Simplicity helps transparency.

Pirelli's board is supported by four committees, from which it receives reports and recommendations: the Audit, Risks, Sustainability and Corporate Governance Committee (known as the Audit Committee); the Remuneration Committee; the Appointments and Successions Committee; and the Strategies Committee.

In their existence and mode of operation, the Audit Committee and Remuneration Committee adhere to the demanding self-regulatory code of the Italian stock exchange.

The Internal Control Committee monitors the activities of internal auditors and the governance structure, the management of sustainability and risk assessment. It has only independent directors and has always included one from a minority shareholder.
Understanding risk and taking steps to reduce its impact have been features of Pirelli's spirit and professional approach since the company's founding. The board uses a proactive risk-governance model. This allows board members and senior managers to assess, understand and mitigate risk. Management of risk – and not just financial risk – is crucial to Pirelli. We also analyse political uncertainty, and health and safety, along with legislative, environmental and sustainability risk.

The Remuneration Committee – again with entirely independent directors – deals with the compensation and long-term incentives of the chief executive and all the managers who have strategic responsibilities. Such compensation guidelines are submitted to shareholders for approval.

The Appointments Committee is responsible for advising the board on changes to the independent directors. It is also concerned with succession planning.

An extra level of scrutiny is provided by the Strategies Committee, composed of the chief executive, non-executive directors and independent directors. It looks at and examines plans and budgets before they go to the board.

The Committee of Related Party Transactions is another important check and balance. It must approve all transactions

with related parties above €150,000. It is made up entirely of independent directors.

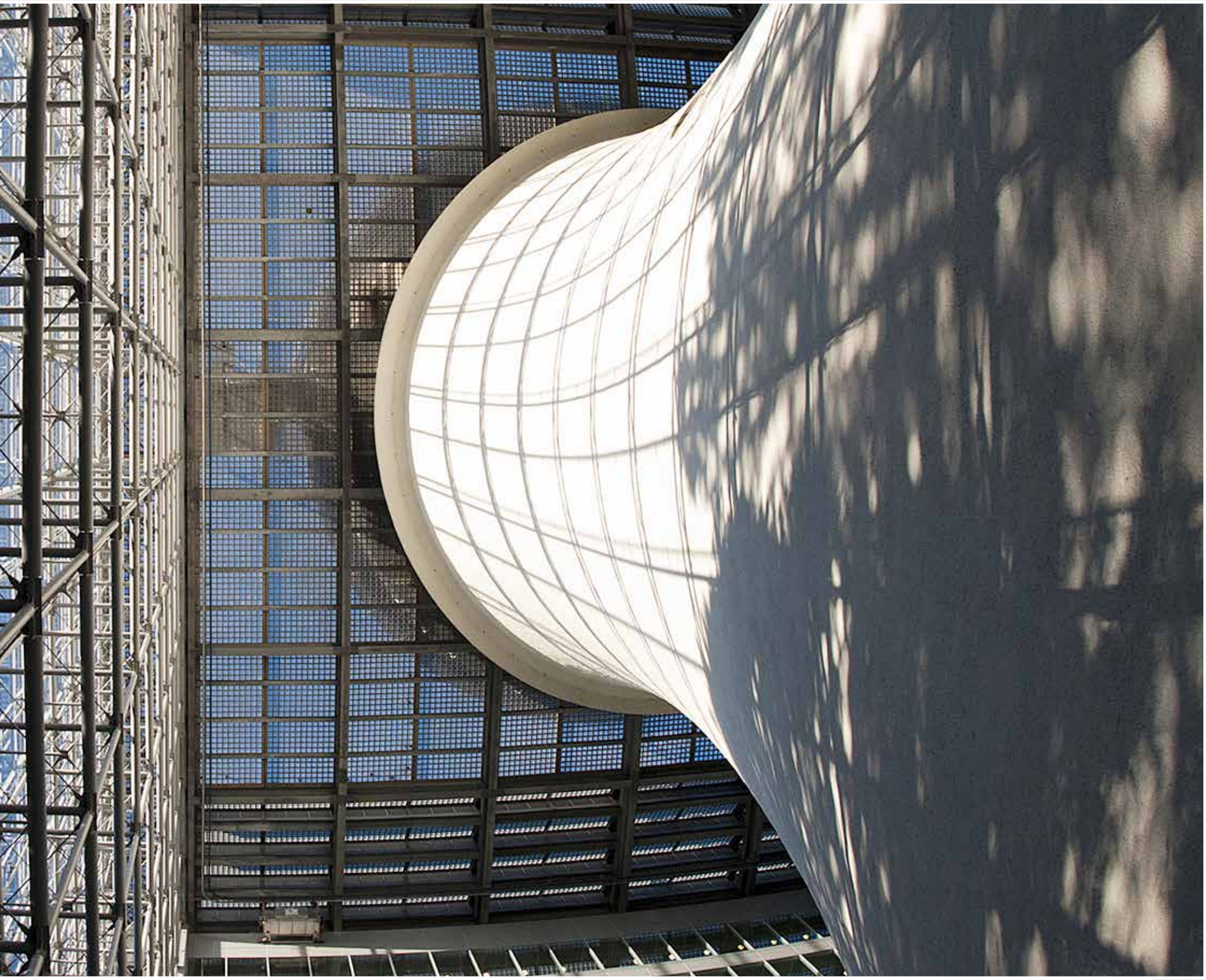
A MATRIX OF EXCELLENCE

Pirelli's global management follows a matrix organisation combining function with geography. This design ensures that functions optimize the linkage between Premium car manufacturers and consumers who drive their cars over the entire life cycle of the vehicle, and that these levers are coherently deployed in all regions.

In particular, the value chain linkages are managed through four key cross-functional processes involving headquarters and local markets. These are: product development, supply chain management, customer management and brand equity management. At regional level, group guidelines and best practices are rolled out in plants, local development centres, and sales and marketing organisations.

OBJECTIVES TIED TO VALUE CREATION

The way Pirelli rewards its staff has changed significantly in recent years. The company is now structured to reflect value creation in the short, medium and long term. Part of the executive's Long-Term Incentive plan is tied to Pirelli shares' total shareholder return. Sustainability and non-financial targets form part of Executives' Long-Term Incentive plans. The annual Management by Objectives programme is built around 22 indicators.



All executives – some 330 people – and about 15% of white collar staff are now on the Management by Objectives scheme.

Pirelli also uses the Hay Group salary benchmarking tools to compare pay and benefits with appropriate companies around the world.

Pirelli's code of ethics provides for fairness and correctness in all dealings inside and outside the company. It calls for transparency, encourages debate and the exchange of information at all levels. It boosts value creation, professional excellence, social progress, concern for stakeholders, and higher standards of living and environmental quality.

The company's philosophy is always to observe the substance of regulation, not just the legal formalities. We believe that innovation is about the way a company is run, as well as its technological prowess, and we will continue to pioneer new levels of best practice in corporate governance in coming years.

MORE TO A TYRE THAN MEETS THE EYE

Rosie Millard
is one of the best known and noted Arts commentators on the international scene. She is a former BBC Arts correspondent and author of The Tastemakers: UK Art Now, a guide to contemporary UK art. She is a regular figure at arts festivals and currently also Chair of Hull UK City of Culture 2017.

By Rosie Millard

Pirelli’s triumphant display of street art to accompany its 2014 annual report reinforces the company’s long links with contemporary culture and provides an apt and unconventional reference to its own cultural touchstones: emotion, art, technology and the roads on which we travel.

Three artists, Marina Zumi from Brazil, the German artist Dome and Russian artist Alexey Luka, were commissioned to produce a piece, one on each side of a large truncated pyramid. Each artist incorporated the Pirelli tyre in their work, which in each case suggested modernity and the future.

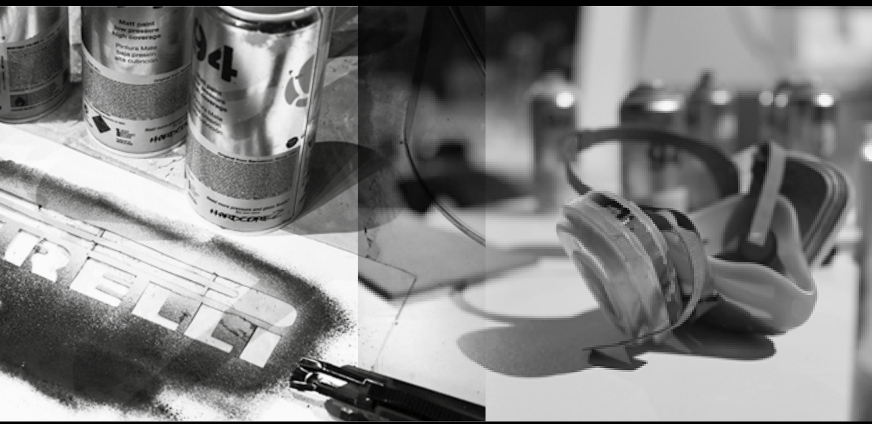
Three artists *[from left]*:

Marina Zumi [Brazil]
Dome [Germany]
Alexey Luka [Russia]

Images from:

“Street Artist Event”
to HangarBicocca

Zumi produced a magical dreamscape in which the tyre was a moon shining upon a fictional world, while Luka did a constructivist vista of shapes including the circle of the tyre. Dome’s work combined classical figures in a futuristic setting, the tyre acting as a gesture of love. The work, curated by street art expert Christian Omodeo, was displayed in the giant HangarBicocca before the world’s press.



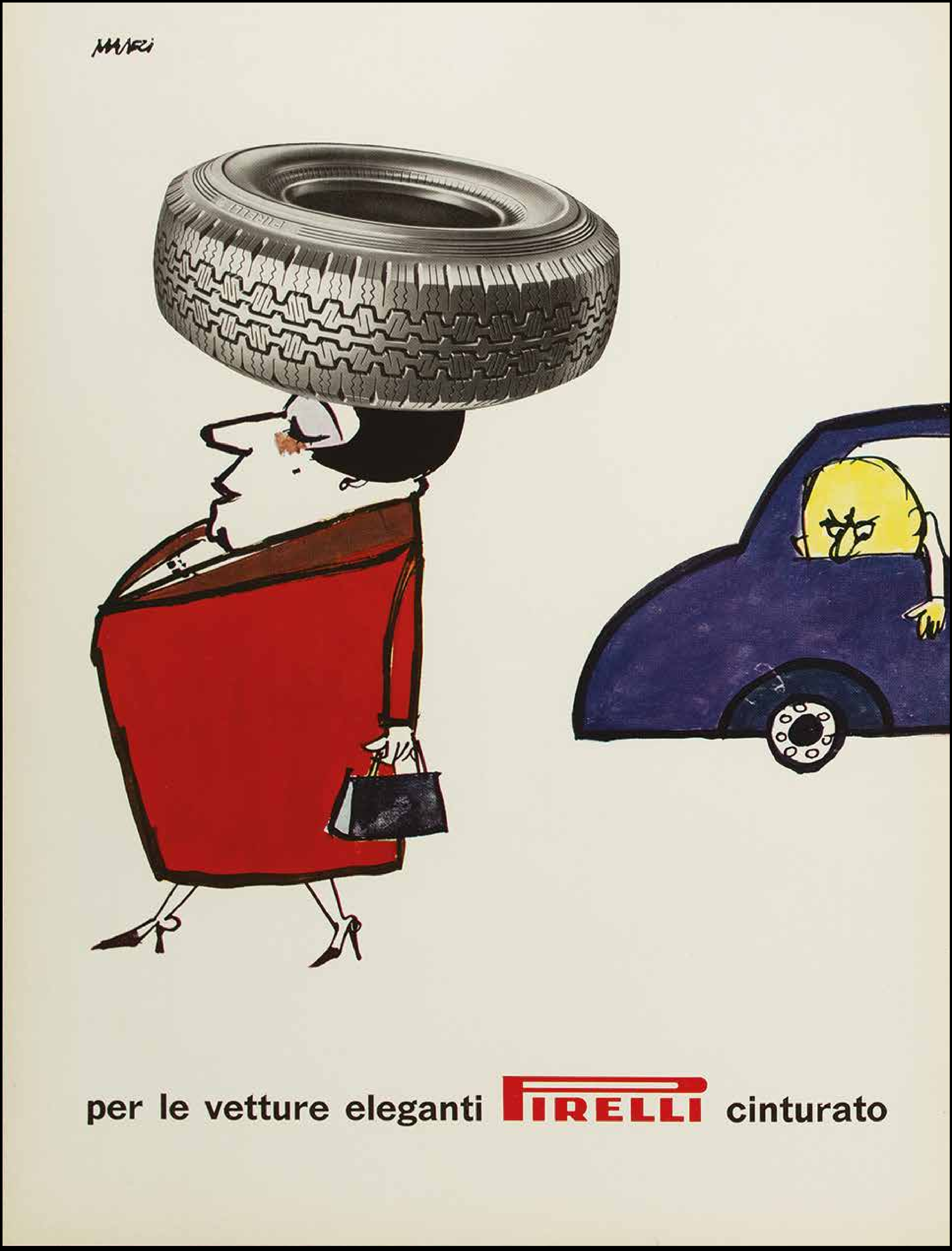
Pirelli has long been close to exciting and globally recognised artists. Its showcasing of art alongside the release of the Annual Report, which has become a yearly practice, reveals how vitally important the company views creativity. Art is inherent in the Pirelli tradition, both as a language and in its way of viewing the world; the innovation proposed by artists underlines the innovation of the company itself, and the social connection of the art forms that are chosen highlights Pirelli's connection with people.

This year, Marco Tronchetti Provera, the Chairman and CEO, suggested that street art was a natural choice. Since Pirelli provides the materials that connect the car to the road, why not? "Street art is an expression of place," he said. "Through the tyre, we can be in all places."

Image:
Riccardo Manzi,
sketch for Pirelli Cinturato tyre,
advertising campaign,
1962

The futuristic style of the three artists helps narrate the story of Pirelli, where innovation, evolution and creativity have always been key. The artists' internationalism reinforces a multicultural message of diversity and respect.

Throughout its 140-year old history, Pirelli has always suggested there is more to the tyre than meets the eye: it has commissioned artists to interpret this with brilliance, style and wit many times over. The strength, flexibility, safety and dynamism of the Pirelli tyre has been glowingly depicted by artists who have turned the tyres into a chain (Ezio Bonini), an elephant (Armando Testa), or an eye and an umbrella (Riccardo Manzi). Writers such as Hanif Kureshi, Umberto Eco and William Least Heat-Moon have also considered the importance of the tyre to civilisation. Without the tyre, Pirelli and the artists seem to suggest, global progress would not be what it is today.


MANZI
per le vetture eleganti PIRELLI cinturato

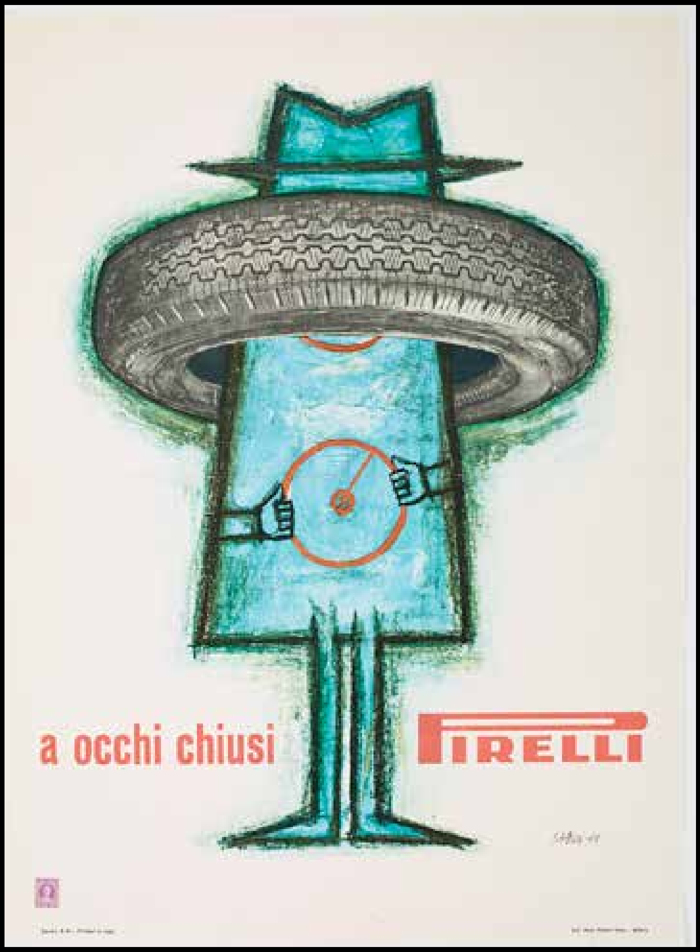


Image *(from left)*:
Riccardo Manzi,
sketch for Pirelli Cinturato tyre advertising campaign, 1961

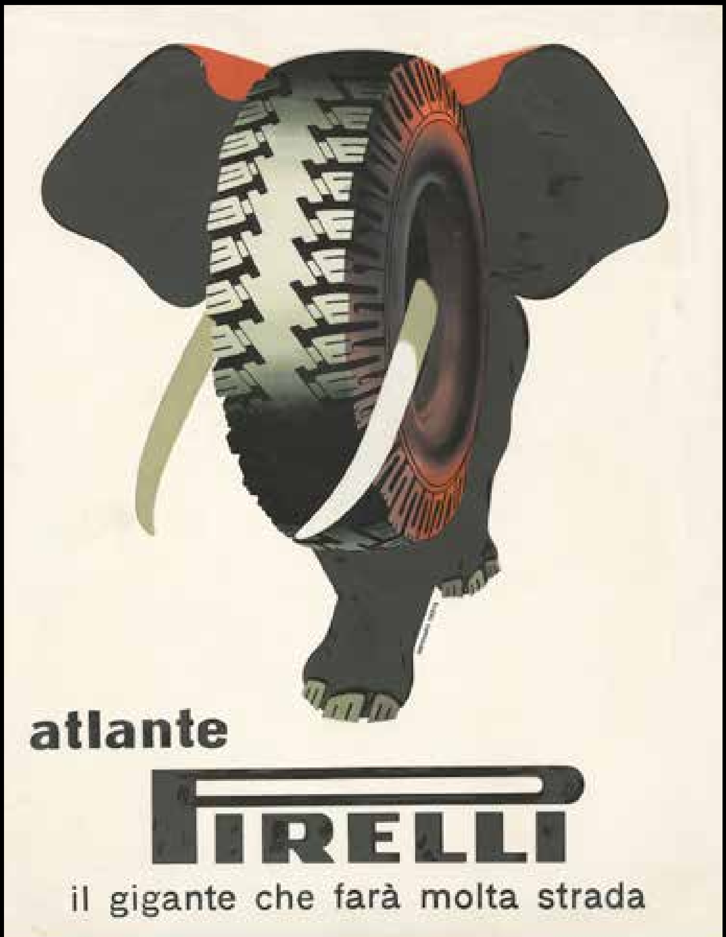
Mario Brunati, Alessandro Mendini, Ferruccio Villa,
sketch for Pirelli Rolle tyre advertising campaign, 1958

Mario Brunati, Alessandro Mendini, Ferruccio Villa,
sketch for Pirelli Rolle tyre advertising campaign, 1959

Armando Testa,
sketch for Pirelli Stelvio tyre advertising campaign, 1954

In all over 200 artists at the top of their game, from all disciplines and all countries, have worked with Pirelli since the company's birth when it started by commissioning the top painters of the day to illustrate its new factory buildings. The company's constant interaction with art and culture creates campaigns that, like the tyres themselves, are forward looking, dynamic, international and durable.

Of course, Italian industry has long been innately connected with high art and sleek, brilliant design. Pirelli's long 'P' graphic was a key feature within Pirelli advertising from as early as 1908, and in the 1930s, Pirelli deliberately positioned itself at the forefront of the latest in contemporary graphic trends.


atlante
PIRELLI
il gigante che farà molta strada

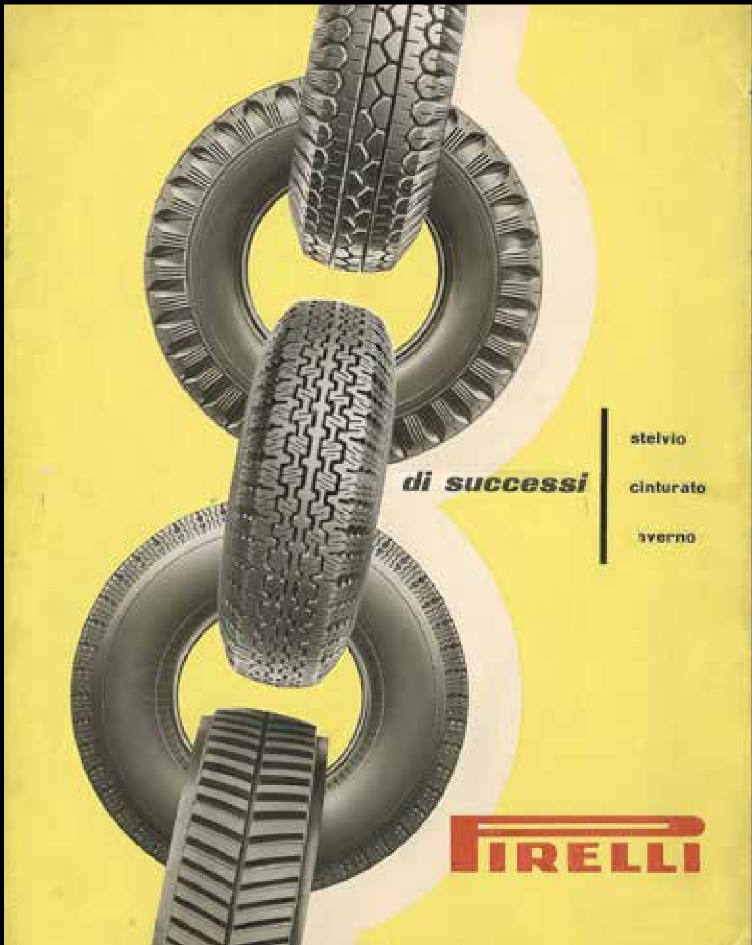

di successi
stelvio
cinturato
inverno
PIRELLI

Image *[from left]*:
Riccardo Manzi,
ketch for Pirelli Cinturato Tyre
advertising campaign,
1961

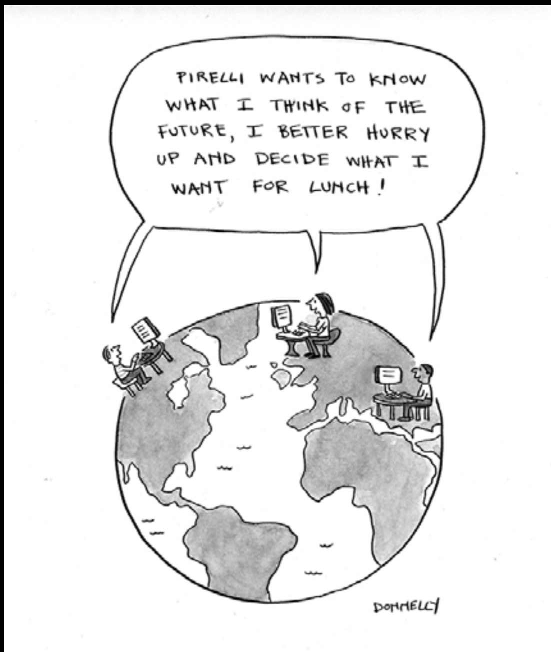
Riccardo Manzi,
sketch for Pirelli BS3 tyre
advertising campaign,
1960

Armando Testa,
sketch for Pirelli Atlante tyre
advertising campaign,
1955

Ezio Bonini,
ketch for Pirelli Stelvio Cinturato
and Winter Tyres
advertising campaign,
1954

After the war, the in-house magazine *Rivista Pirelli* went further, including contributions from intellectuals, internationally famous journalists and photographers, as well as brilliant graphic design from the world's greatest draughtsmen. The company magazine, now called *World*, continues this work.

Recently, the campaigns have had a new ambition. Each year has seen the annual financial report released alongside a particular artistic 'story', which seeks to pick up on core Pirelli values of technology, innovation and people.



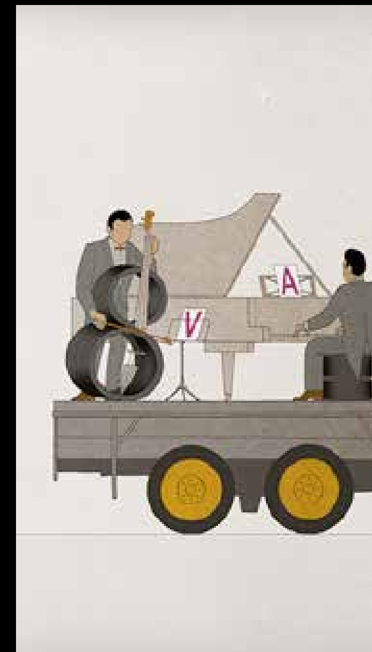
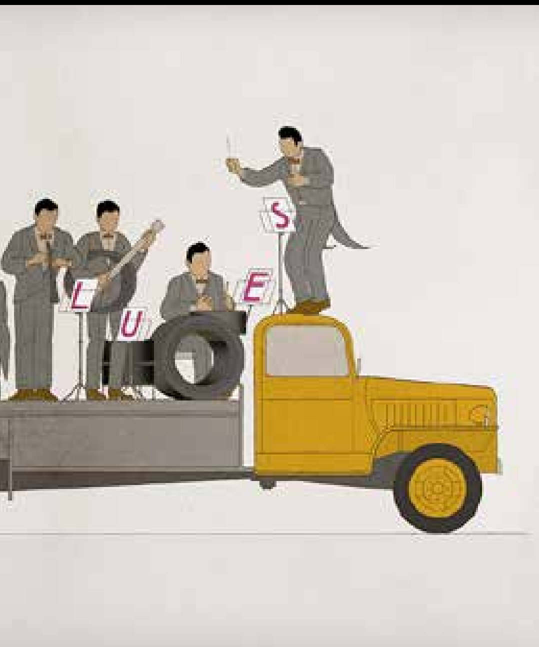
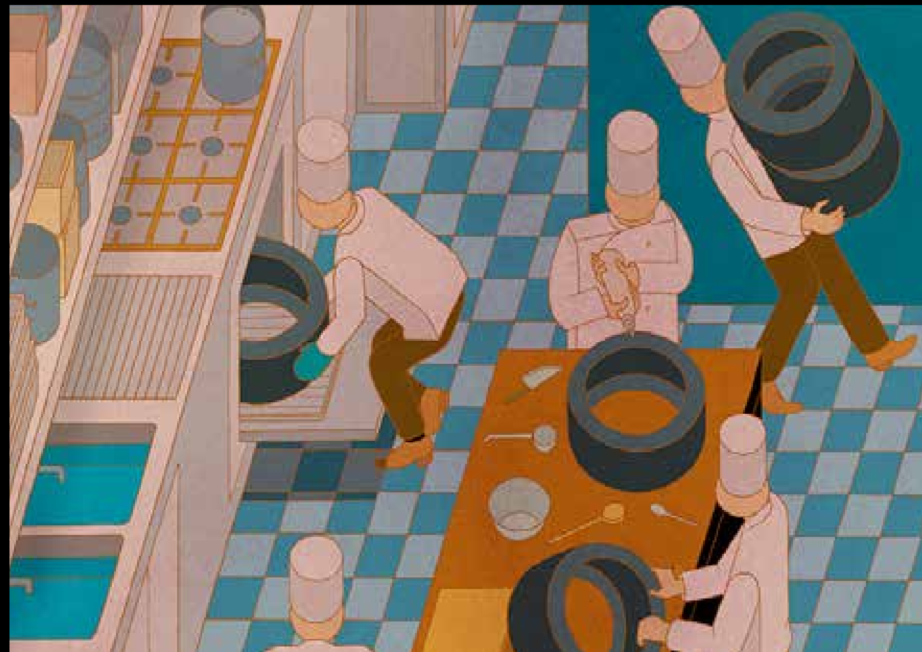


Image *[from left]*:
Lisa Donnelly,
Illustration
Annual Report
Pirelli, 2012

Other images:
Stefan Glerum,
Illustration
Annual Report
Pirelli, 2011

In 2011, the Dutch illustrator Stefan Glerum wittily illustrated pieces from four international authors, while a year later, *New Yorker* cartoonist Lisa Donnelly created drawings to run alongside the words of ten university students, each of whom was asked to describe their values for the future. Last year's report was curated by the writer Hanif Kureishi, who worked with artists on the concept of 'Spinning the Wheel', each reinventing it through their own discipline.





And so back to this year’s street art. Here, the work is not confined to the images on the giant pyramid – it can also be seen in a series of online videos which show viewers how each piece was created, and why. The videos encourage an understanding of the geographic, cultural and social contexts in which each piece was created: the international reach of the artists helps to underline a number of different viewpoints, and in turn the global nature of Pirelli itself.

Modern communication modes have of course not been overlooked. There is also a major social networking initiative as visitors to HangarBicocca have been encouraged to take photos and share them using the hashtag #TakePart. The most original will be published on the Pirelli social network channels as a bespoke work of art.

Society’s progress and innovation links back once again to the production of an industrial object, with the beauty and style of the classical Italian manner receiving in Pirelli’s eyes a thoroughly modern overhaul.

PIRELLI'S BUSINESS MODEL

Connecting the Premium carmaker with the Premium car driver throughout the value chain

Pirelli's ambition in the medium term is to outperform industry growth. We want to improve returns, generate greater cash flow and value for all stakeholders: from shareholders to employees, local communities, suppliers, clients and those 10,000 or more trade partners who sell Pirelli every day.

Our business model is based on a simple premise, a journey connecting the Premium carmaker with the Premium car driver throughout the value chain.

The golden rule is follow the maker. Pirelli sells to top carmakers' plants; then it sells to the aftermarket through all channels – tyre specialists, dealers and auto chains. Fast information and a fleet of foot attitude in the aftermarket, we believe, are the key to success.

LONGSTANDING PARTNERSHIPS ARE THE KEY

Pirelli aims to be the preferred technology partner to the world's most prestigious car makers. We are leader in Premium car homologations, ranking first in winter and summer tyre approvals, varied by grip and tread path, and second in all-season tyres. We added more than 200 homologations from carmakers in 2014. Now with a portfolio of more than 1,500 homologations, Pirelli is one of the foremost companies supplying tyres to Premium car factories.

Almost every car produced by a Premium carmaker requires a different tyre. Engineers develop exactly the tyre needed for each type of car. Our managers have the big task of expanding the range but keeping costs under control: with demand in different climates and innovative technologies such as run-flat and self-sealing, the breadth of products continues to expand. For example, varying winter climates in Germany, Canada, Russia and Japan each require different tyre technologies. In order to reduce such complexity, Pirelli has developed several de-complexity projects with the aim to simplify and standardize the production of certain components and processes. Such agility is possible only because of the way the business is organised.

The Premium segment is Pirelli's sweet spot – it has higher technological hurdles to overcome but also boasts higher margins. Pirelli has grown its market share with Premium car makers from 14% to 20% between 2011 and 2014. Meanwhile, its share of the prestige segment – Ferrari, Maserati, Lamborghini, Porsche, Bentley, Aston Martin and McLaren – has grown from 30% to around 50%.

FOLLOWING THE CAR THROUGH ITS WHOLE LIFE CYCLE

Our business model has two key stages. Winning top manufacturers' approval is only the first objective. After Pirelli tyres are fitted in the factory, the second stage of success is measured by the second and third sets bought by drivers.

Fidelity to a tyre brand is higher in the Premium market. Once drivers become accustomed to Premium tyre performance, they want to continue: the majority choose the same brand for replacements.

If a driver goes to the dealer that sold him or her the car, the dealer is likely to recommend the same tyre brand. Equally, a car's warranty may be void if it is not fitted with approved tyres. Concentration on Premium brings rewards.

Pirelli captures the replacement business through different levers amongst which by developing a full range of marked tyres, which carry a special imprint on the sidewall linking them to the individual car model. For example, BMW marked tyres are identified by a star sign on the sidewall, MO stands for Mercedes Original, AO for Audi Original, MGT stands for Maserati. By choosing marked tyres, the driver ensures the optimal driving experience, as originally intended by the carmaker. Pirelli can count on the widest portfolio of marked tyres in the industry.

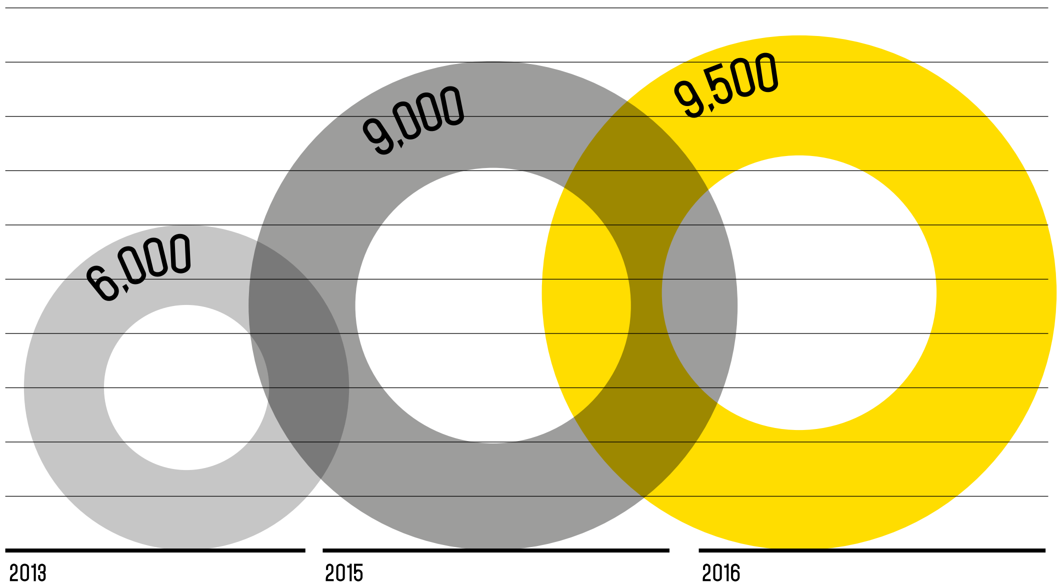
Mapping of car distribution and Big Data offer huge opportunities. Through our geo-marketing system, we are able to identify for each postcode or zip code where cars and tyres have been sold area by area, where the car lives, how many of those cars have Pirelli tyres and when those tyres will need to be replaced.
This work is essential to understanding the consumer, the dealer network and tyre shops that will sell second and third sets of tyres over three- or four-year periods. The mapping and data crunching allow the company to communicate expertly with dealers so they can stock the right tyres and gain more sales.

Pirelli deploys three main marketing programmes: coverage of the car dealer network and co-operation on marked tyres; growth of retail network; and engagement with the end consumer through digital programmes, which also leverage on Pirelli's Motorsports, including the exclusive presence in Formula One.

It all means that Pirelli, for the first time probably in the tyre industry, is driven by a consumer-centric approach.


PORSCHE
McLaren P1 GTR
51


PIRELLI RETAIL NETWORK: NUMBER OF POINT OF SALE



	2013	2015	2016
	6.000	9.000	9.500
Nafta	2%	2%	
Russia	3%	5%	
MEAI	7%	6%	
APAC	26%	35%	
LATAM	30%	23%	
EUROPE	32%	29%	

AN "OPEN INNOVATION" R&D MODEL

At the heart of the Pirelli Premium story is an ever-evolving technological process that takes raw materials such as rubber and steel and turns them into high performance products to meet the exacting requirements of carmakers and car drivers.

If you want to be a leader in the tyre business, you cannot just count on your in-house resources. That's why Pirelli chose to use an Open Innovation Model: today its external collaborations account for more than 150 projects with universities and suppliers. Among our research projects in the fields of innovative materials and technologies, we are looking at silica derived from rice husks and selective de-vulcanisation technology to make scrap tyres reusable.

On top of that, there are about 100 collaborative development projects with carmakers. Many of these are Joint Development Agreements focused on the most advanced areas in each part of R&D, from materials to electronics.

Formula One is excellent advertising of course, but it also motivates research, enhances speed of change and flexibility and encourages talent. Pirelli places young engineers on the motor-racing programme; their work helps other parts of the company by providing data, especially on materials, and pushing R&D.

Formula One helps to improve simulation programmes and provides significant feedback from the racing teams about Pirelli's tyres. Some F1 engineers later switch to the tyre business. Pirelli's products are made better and faster through F1, through working with the best people in the business. The company likens Formula One to a gym: it can only come out better and stronger.

THE OPTIMAL MANUFACTURING FOOTPRINT

Pirelli's manufacturing footprint is technologically advanced, efficient and sited close to the markets in which we sell.

Production capacity amounts to approximately 72 million Consumer tyres, 50% of which are Premium, and 6.3 million Industrial tyres. Production is totally in low-cost countries for the Industrial business while 78% of Consumer production is in these areas.

Today's manufacturing setup is the result of a journey that was started in 2008, reshaping the company's footprint by building capacity in Romania, China and Mexico to replace production in mature markets. As a result, Pirelli has reaped greater efficiency and reduced costs.

SUSTAINABILITY AND PROFITABILITY RIDE TOGETHER

Our unceasing focus on the finest products goes hand in hand with Pirelli's commitment to sustainability. Profitability is informed by all aspects of sustainability. A sustainable business will stay successful.

Sustainability is embodied in the management system adopted by the company. We map, control and manage the economic, social and environmental impact and opportunities connected to Pirelli's processes, products and services.

PIRELLI'S INDUSTRIAL PLAN 2013-2017

Entering a new phase of value generation for all stakeholders

For us, Premium is more than a product. It is not just about black, round tyres with enhanced performance. Premium is a way of doing business, geared to value creation which serves all stakeholders, from shareholders to customers.

From the beginning, Pirelli's internal culture has emphasised technology and innovation. Now, our focus is evolving to embrace a better understanding of customer needs. This is all embodied in the industrial plan for 2013-2017, presented in London in November 2013.

The industrial plan lays out strategies in four key areas of the business: Car, Motorbike, Truck and Agricultural. It provides for:

- Growth in the business segments with the highest value. Premium is expected to account for 60% of revenues in the Car business in 2016, compared with 55% in 2014.
- A more competitive offering in the medium car tyre segment with a focus on specialty products such as winter and self-sealing tyres. At the same time, emphasis is being placed on production cost reduction through process and platform standardisation, and manufacture in low-cost countries.
- Maintaining leadership of the Industrial business in the key markets of South America, and Middle East and Africa, along with business development in Europe and partnerships in the Asia Pacific region. This is to be accomplished by a more competitive offering and all production in low-cost facilities.
- Continuous innovation in products including 14 new lines of Car products, 21 of Moto products and 11 of Truck products by the end of 2017. The new Car product lines include six for the winter season and consideration of the specific demands of different regions. There is also growth in niche products such as run-flat, self-sealing and noise reduction models - [PNCS] - .
- Implementation of a new efficiency programme saving €350 million between 2013 and 2017, amounting to 1% of revenues each year.
- Careful management of working capital.
- Selective investments in high-return projects: there is €1.6 billion in capex in the 2014-17 period.

The industrial plan's key targets for 2017 include:

- Profitability above 15% Ebit margin.
- ROI[1] at 28% compared with 22% in 2014.
- Cash flow generation of €1.6 billion between 2014 and 2017 [€312 million in 2014].
- A dividend policy of 40% of consolidated net income.

THE CAR BUSINESS

Pirelli's strategy in the Car business has three pillars. First, there will be an acceleration of the Premium strategy. Volumes in the Premium segment are expected to reach 44% of the total in 2016 compared with 38% in 2013, and revenues will account for 60% of the total in 2016.

An essential element of Premium growth is the 'pull-through' effect, working on the sales of tyres on Premium cars through their replacement in the aftermarket. Pirelli

[1] ROI without financial assets, before restructuring costs

has embarked on ambitious plans to gather greater knowledge of drivers and dealers, and to educate them on the benefits of replacing the first set with the same approved tyres.
The company is also expanding its database and analytics capabilities so we can identify the areas where vehicles with approved Pirelli tyres reside and predict the evolution of demand.
For instance, a German luxury model might have a 25% share of Premium car ownership in the area south of Munich. This is valuable insight. It allows the company to work with the area's high-end dealers, so they can be warned to stock up on marked tyres approved by that manufacturer. Wider inventory management will be introduced, allowing Pirelli salespeople access to greater detail on local markets for forecasting.

Pirelli is intensifying sales activities in the most relevant areas and will expand its retail network from 6,000 units at the end of 2013 to approximately 9,500 units in 2016.
To achieve this, Pirelli will invest more in its partnerships with dealers, rewarding successful operators, targeting independent tyre specialists and moving towards greater retail integration with its whole production and sales operation.

More attention will be paid to consumers, through a retail network integration programme and targeted marketing actions including new levels of service for busy people with Premium cars. A Pirelli dealer could for example take away your car and have new tyres fitted while you are in the office.

INDUSTRIAL PLAN 2017 TARGETS:

>15% EBIT MARGIN

1,6€ /BLN CASH FLOW GENERATION IN 2014-2017

28% ROI

The second pillar for the Car business provides for a more competitive offering in the medium range, through the development of specialty tyres and specific efficiency measures. The medium range still includes high-margin products and has a dominant position in some countries such as Brazil.

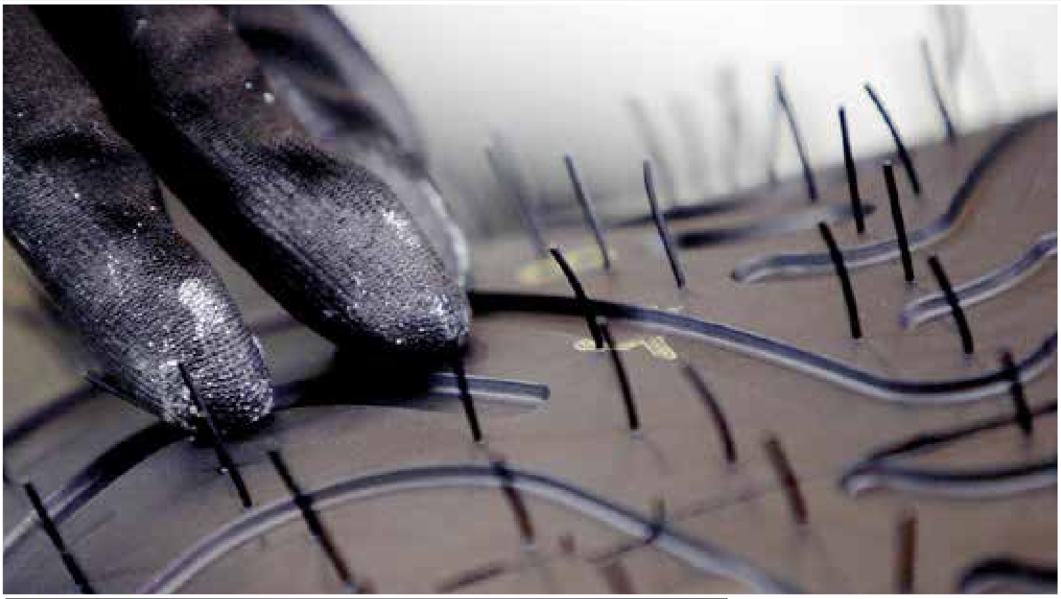
The third and final pillar for the Car business is an efficiency plan to reduce costs by approximately €290 million in the four years to 2017. This will be possible through design-to-cost projects, using a more versatile range of compounds and structures; rationalising the product portfolio; standardising components; concentrating production in low-cost plants in countries such as China, Romania and Russia; and extending products like run-flat and winter tyres to non-Premium segments.

MOTORBIKE BUSINESS

The industrial plan for Moto aims to consolidate technological leadership and expand to new fast-growing markets. The main points are:

- In Europe, to strengthen Pirelli's leadership in the Premium segment through technological innovation, a strong commercial presence and closer proximity to end consumers.
- In North America, to rank first or second in all major segments by extending the distribution network and implementing the company's digital strategy.
- In South America, to drive technological development in the Premium market with a renewed sales strategy and a more intensive use of Pirelli's proprietary retail chain.
- In Asia Pacific and the Middle East and Africa, to establish a strong commercial presence and improve brand awareness.

There are other important developments. A new Moto tyre plant will open in Indonesia in 2015. Situated



outside Jakarta, the factory is a joint venture with Astra Otoparts, an Indonesian component maker. Pirelli holds the majority stake.

The Indonesia plant will serve demand in its home country and in other parts of south-east Asia, including Vietnam, Thailand, the Philippines and Malaysia. It will make Premium and non-Premium tyres.

TRUCK BUSINESS

The needs of large fleets are the most powerful influence on manufacturers and component makers in the truck business. In this sector, the cost of a tyre through its life cycle is crucial: when multiplied over many vehicles, any savings can be hugely significant. This means not only the cost of buying the tyre, but also the time it will last and its fuel efficiency.

Pirelli's Cyber Fleet service, with embedded sensors in tyres, can provide data to improve safety and efficiency. This can achieve fuel savings of up to 10 %, or €800 a year in a single truck. This offers huge potential when some fleet managers own 10,000 trucks.

Pirelli aims to consolidate its leadership in the truck division in the following ways:

- In South America, through the introduction of the 01 Series, a renewed offering of fleet services and expansion of the distribution network.
- In the Middle East and Africa, through an extension of the product portfolio, the introduction of Pirelli Fleet Solutions, the development of the sales force and greater integration with dealers.
- In Europe, a strong boost to profitability is envisaged from the rollout of the 01 Series and the use of low-cost sources for production.
- Our target in the Asia Pacific region is to improve positioning by co-operating with new distributors and

"

OUR WAY TO 2017

1

GROW IN HIGHEST VALUE
ADDED SEGMENTS ACROSS BUSINESSES

2

EXTRACT VALUE FROM SELECTED
NON PREMIUM SEGMENTS

3

CONTINUE TO DELIVER SUBSTANTIAL
EFFICIENCY GAINS

4

INVEST IN SELECTED PROJECTS
WITH HIGHEST RETURN

5

MAINTAIN A TIGHT CONTROL
OF WORKING CAPITAL

"

partners, extending the retail network and optimal management of plant capacity.

AGRICULTURAL BUSINESS

Pirelli is by far the market leader in the South American Agro Tyre segment. Pirelli plays to its strengths in the Premium end of the market, serving large professional farmers and agricultural companies who use larger tractors.

Pirelli aims to consolidate its leadership through:

- Investments in local production capacity and R&D.
- Technological innovation, leading the development of the radial market in the region with products that can increase productivity and withstand severe stress.

In addition, the quality of the company's product portfolio and consolidated partnerships with the main manufacturers will allow Pirelli's agricultural business to expand to new markets. Other plans include a renewal of the product range and enhanced co-operation with major brands such as John Deere, CNH Industrial and AGCO with the aim of developing products to meet their local requirements.

INVESTMENTS AND PRODUCTION CAPACITY

Pirelli reached its investment peak in 2011 and is now in a position to open up a whole new phase of value creation. The investments made to 2013 allowed Pirelli to achieve its optimal plant set up, including the opening of plants in Mexico, China and Romania. Production is now mainly located in countries with low industrial costs (100% of Industrial and 78% of Consumer production capacity).

The current industrial plan provides for investments between 2014 and 2017 of up to €1.6 billion, accounting for 5% of revenues in 2017 compared with 7% in 2013. Through these investments, the overall capacity of the Consumer business is growing from 70 million units in 2013 to 81 million in 2017, with the Premium segment accounting for 63% of total production. In the Industrial business, capacity is growing from 6.2 million in 2013 to 6.8 million in 2017.

Pirelli's plants use the latest technology and are upgraded progressively, consistent with the company's focus on Premium.

SUSTAINABILITY TARGETS

Pirelli set sustainability targets for 2020. They integrate, support and protect our capability to achieve the business and financial targets. The plan forecasts:

- Revenues from green performance tyres will reach at least 48% in 2017 (46% in 2014).
- A reduction in the injury frequency index by 90% as compared with 2009.
- The company's lower environmental impact: as compared with 2009, a cut of 15% in CO_2 emissions, an 18% cut in specific energy consumption, a reduction of 58% in specific water withdrawal, and a zero waste to landfill approach which is translated in a more than 95% waste recovery rate by 2020.
- The adoption of increasingly advanced models for the management of economic, social and environmental responsibility in the supply chain.

WINNING THE BATTLE FOR TALENT

Pirelli has placed recruitment and talent management at the heart of its plans. We aim to hire more young people and provide an attractive career path that will lead to significant roles in the company by the time they are 35. We plan to have more local managers and more female managers. Diversity is a strength, we believe, offering more motivation, knowledge and different points of view.

Training is an important part of this. Pirelli's Commercial Academy teaches sales staff, often through e-learning. There are 10 professional academies and 400 certified internal trainers, sometimes referred to as the 'Green Army'. They coach staff in new plants, bringing them up to speed and updating headquarters on progress.

Each person in the company receives an average of eight days of training a year. Such programmes are all part of a continual focus on innovation that is essential to Pirelli's future.

HOW 2014 RESULTS MEASURE AGAINST THE PLAN

Premium growth and efficiency led to cash flow generation above expectations

The 2014 results marked the first important milestone of the value creation journey that Pirelli envisaged with its 2013-2017 Industrial Plan. Among the highlights were:

- Pirelli outperformed market growth in the Premium segment, winning share in all regional markets.
- Profitability reached 14.4% Ebit margin before restructuring costs, a yearly increase of 1 percentage point.
- Cash generation was stronger than expected, at €312 million before dividends and steelcord disposal.
- Return on investments improved to the tune of 22%, compared with 20% in 2013.

These results were particularly good when the macroeconomic slowdown in Latin America is taken into account. That market alone represents one third of our business. Equally, the situation in Russia was challenging, but we nevertheless remained well on track with our turnaround plan.

Additionally, the company has restructured its debt.
Pirelli successfully launched a €600 million five-year bond in November 2014. It was fully subscribed at the company's lowest coupon rate yet of below 2%. Pirelli also renewed a €1 billion credit facility for five years with a syndicate of 10 international banks. This essentially completes the company's most important refinancing requirements for the next few years.

PREMIUM EXCEEDING EXPECTATIONS

The accepted wisdom is that Premium grows at three times the pace of non-Premium. In fact, Pirelli's Premium business grew by about 10% year-on-year against the non-Premium market. The latter's growth was only slightly positive. Pirelli acquired an extra 1 percentage point of market share worldwide.

Manufacturing approvals from carmakers – homologations - continued to grow. Pirelli added more than 200 homologations in 2014, with 60 Prestige and Premium approvals in the fourth quarter alone. These included best-selling car models such as the Jaguar XE, the Land Rover Discovery Sport and the Porsche Macan.

The modern Pirelli lives by data. The adoption of sophisticated data programmes was rolled out fully in 2014. We map the consumer journey in 40 countries and in particular in six key markets where Premium is strong. As a result, we have been able to grow our Premium market share in Europe, the United States and China.

We are ahead of the competition in our ability to go to tyre dealers and explain what ranges they need to stock

REVENUES **6,018 MLN/€**

312 €/MLN NET CASH FLOW*

EBIT **838 MLN/€**

7% R&D EXPENDITUREON PRIMIUM REVENUES

* BEFORE DIVIDENDS AND STEELCORD DISPOSAL

EBIT MARGIN **14%**

to meet consumer demand. This and other initiatives are driving increases in customer loyalty.
In 2014 Pirelli has expanded its offering in run-flat and self-sealing technologies. The first, run-flat, are tyres that can maintain their shape and keep going for a long distance after a puncture. They are fitted on BMWs, Minis, Mercedes and Corvettes.

Self-sealing tyres create an almost instantaneous seal around penetrating objects such as nails, trapping the air inside. No emergency roadside tyre is needed. In 2014, Pirelli ramped up its prototypes in this area, developed for Volkswagen, Porsche and Bentley.

Another area of improvement has been in noise reduction


ALL SEASON
Cinturato
PIRELLI

products, PNCS or Pirelli Noise Canceling System, where in 2014 Pirelli produced tyres that made 3-5 decibels less noise. The driver enjoys 50% less noise inside the car.

Nanotechnology, renewable resources and electronics inside tyres offer more possibilities in the near future.

Five new car product lines were launched in 2014 and nine are expected in 2015. Such developments meet today's technological challenges. The Cyber PZero, for instance, has just been fitted on the new Ferrari FXX K Hybrid. Four new product lines were introduced in the Moto business in 2014, six in Truck.

2014 marked significant progress towards the Sustainability goals set by the Industrial Plan, on track towards the 2020 targets. To mention few, as compared with 2013, Pirelli reduced water specific withdrawal by 19%, energy specific consumption by 3% and CO_2 emissions by 2%; we also increased the waste recovery rate a further 3%. Social capital also benefited of important achievements on core subjects, including 8.2 average training days per employee, reaching the target of 7 average days one year in advance, and a decrease in the injury frequency index by 17.7%.

PRODUCT LAUNCH:
5 CAR PRODUCTS
4 MOTO PRODUCTS
6 TRUCK PRODUCTS

HOW WE SEE THE WORLD CHANGING IN 2015

Pirelli will lead the Premium market with unrivalled technology, the greatest talent and a relentless global outlook

Seven years after the turmoil of September 2008, the recovery remains mixed. This year, world gross domestic product will be slightly up, with the US forecast to be the frontrunner with growth of 3.3%. Pirelli's new factory in Mexico is well placed to serve North America.

South America is expected to be volatile, with negative GDP growth in Venezuela and Argentina and a stable economic activity Brazil. Europe should grow 2%, benefiting from the European Central Bank's pledge to do whatever it takes to stabilise and boost the region's economy. A weaker euro and growth-orientated policies by individual governments should help European companies.

Despite uncertainty last year, the rapidly developing economies will make a significant contribution to global growth in coming years. China is expected to become the biggest Premium car market by volume by 2017, while Germany will remain the highest blue-chip car market by percentage of cars on the road, at about 40%.

Foreign exchange markets are expected to be volatile in 2015, with emerging market currencies such as the Brazilian Real, Argentinian Peso and the Russian Rouble forecast to devaluate against the US dollar.

Raw material markets are expected to show a slight rebound in prices starting from the second half of 2015, especially with regards to natural rubber; the resulting raw material cost reduction as compared with 2015 will be eroded by the mentioned devaluation of emerging markets currencies.

TYRE MARKET OUTLOOK

Premium is expected to account for 25% of the total car tyre market in 2015, 1 percentage point ahead of 2014. After 10% growth in 2014, the market is expected to increase by 7% in 2015. China, Europe and North America will be the major growth areas for Premium tyres.

Truck tyre markets (all steel only) are expected to grow by 2% globally in 2015. The strength of Europe and North America is expected to offset a slowdown in emerging markets.

South America – which accounts for 13% of the total truck tyre market in rapidly developing economies – experienced a steep drop of 23% in tyres fitted by manufacturers in 2014. It will only partially recover in 2015.

PIRELLI PRIORITIES FOR 2015

A 2015 priority is the consolidation of our Prestige and Premium leadership in supply of tyres to car manufacturers. This means innovating with products that meet today's technological challenges.

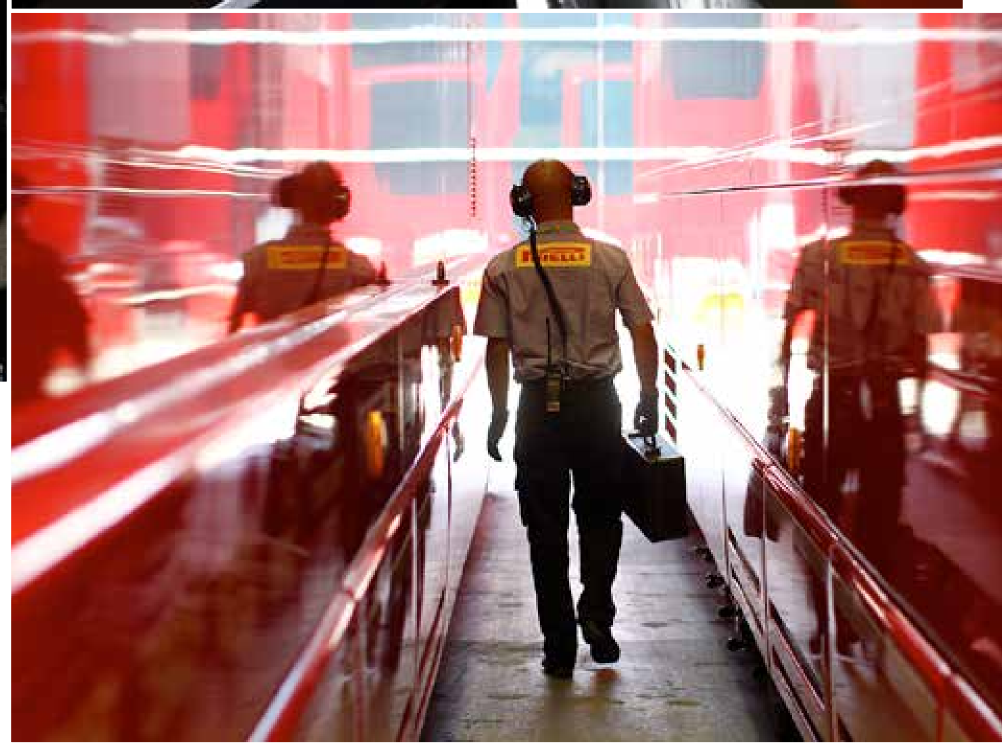
Moreover, we aim to continue growing market presence in the replacement channel but with a selective strategy. We

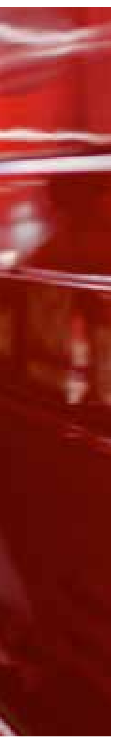
want to reduce business with generalist wholesalers and grow in car models where the company does not have homologated products.

In the medium market segment, Pirelli plans a significant product renewal which includes the Cinturato All Season, targeting a small but growing market niche.
In the Moto business, 2015 will see the beginning of production in Indonesia to supply the Asia Pacific region.

For truck and agricultural tyres, starting in the core South American market, our business model will become more 'fleet-centric' and will benefit from a value proposition which focuses on tyre efficiency, retreads and services. These will be delivered through owned dealers, independent trade partners, retread specialists and truck vehicle dealers.

Pirelli's ambition remains the same: to lead the high-end tyre market and capture high-margin markets around the world for many years to come. We will do that through our unrivalled technology, the best talent and a relentless global outlook, creating value in a responsible and sustainable way.





PIRELLI PRIORITIES FOR 2015

CAR: MAINTAIN PRESTIGE AND PREMIUM OE LEADERSHIP, GROW REPLACEMENT MARKET SHARE

MOTO: STRENGHTEN TECHNOLOGICAL LEADERSHIP AND EXPAND IN ASIA PACIFIC

TRUCK: ENHANCE BUSINESS MODEL, MORE FLEET-CENTRIC, WITH ENRICHED VALUE PROPOSITION www.pirelli.com/ir

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CACAO DESIGN, MILAN

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KEY DATA

2014 ANNUAL REPORT

PIRELLI

KEY PERFORMANCE INDICATORS

	2010	2011	2012	2013[B]	**2014[B]**
ECONOMIC KPIs €/MLN					
Group Revenues	4,848	5,655	6,072	6,061	**6,018**
Consumer Revenues	3,300	3,926	4,420	4,479	**4,610**
Industrial Revenues	1,472	1,676	1,612	1,552	**1,397**
Premium[A] Revenues	1,448	1,716	2,075	2,274	**2.536**
% on Consumer Revenues	44%	44%	47%	51%	**55%**
Group EBITDA Before Restr. Costs	654	835	1,103	1,095	**1,168**
Consumer EBITDA Before Restr. Costs	488	669	871	840	**935**
Industrial EBITDA Before Restr. Costs	196	206	256	280	**242**
Group EBITDA Margin Before Restr. Costs	13.5%	14.8%	18.2%	18.1%	**19.4%**
Consumer EBITDA Margin Before Restr. Costs	14.8%	17.1%	19.7%	18.7%	**20.3%**
Industrial EBITDA Margin Before Restr. Costs	13.3%	12.3%	15.9%	18.1%	**17.3%**
Group EBIT Before Restr. Costs	433	610	832	810	**869**
Consumer EBIT Before Restr. Costs	335	507	664	612	**697**
Industrial EBIT Before Restr. Costs	142	155	196	227	**183**
Group EBIT Margin Before Restr. Costs	8.9%	10.8%	13.7%	13.4%	**14.4%**
Consumer EBIT Margin Before Restr. Costs	10.1%	12.9%	15.0%	13.7%	**15.1%**
Industrial EBIT Marging Before Restr. Costs	9.6%	9.3%	12.1%	14.6%	**13.1%**
Net Income Before Disc. Operations	228	313	392	304	**315**
Net Income	4	441	392	306	**333**
Attributable Net Income	22	452	387	304	**319**
EPS €	0.04	0.93	0.79	0.62	**0.65**

[A] Premium Car: tyres with rim size of 17 inches and above; Premium Moto: Radial tyres and Custom Touring, Off Road and Sport Touring X-ply tyres with speed index ≥ H.
[B] Steelcord Among Discontinued Operations.

	2010	2011	2012	2013[B]	**2014[B]**
ECONOMIC KPIs €/MLN					
Dividend Per Share (Ordinary) €	0.17	0.27	0.32	0.32	**0.37**
Dividend Per Share (Risp) €	0.23	0.34	0.39	0.39	**0.43**
Dividend Pay Out on Group Net Income Adj.[C]	93%	40%	40%	43%	**41%**
Capex	439	626	471	413	**378**
% on sales	9%	11%	8%	7%	**6%**
Consumer Capacity (mln pcs)	56	59	68	70	**72**
% Premium Capacity	34%	37%	40%	48%	**52%**
Industrial Capacity (mln pcs)	5.8	5.9	6.3	6.2	**6.3**
Net Cash Flow Before Dividends and Acquisitions/ Disposals	153	(115)	(59)	232	**312**
% on Sales	3%	n.m.	n.m.	4%	**5%**
Net Invested Capital	3,281	3,727	4,427	4,455	**4273.1**
Net Debt	456	737	1,205	1,322	**980**
Net Debt/Ebitda	0.7x	0.9x	1.1x	1.2x	**0.8x**
Net Debt/Equity - Gearing	22%	34%	50%	54%	**38%**
Group ROI[D]	15%	19%	22%	20%	**22%**
Stock Market Capitalisation[E]	3,011	3,220	4,258	5,570	**5,412**
Number of Ordinary Shares (millions)	475.7	475.7	475.7	475.7	**475.7**
Number of Savings Shares (millions)	12.3	12.3	12.3	12.3	**12.3**

[C] 2010 data based on parent company Net Income.
[D] ROI: without financial assets, before restructuring costs. 2012 trend discounts the different consolidation perimeter.
[E] Stock market capitalization, December average in €/mln.

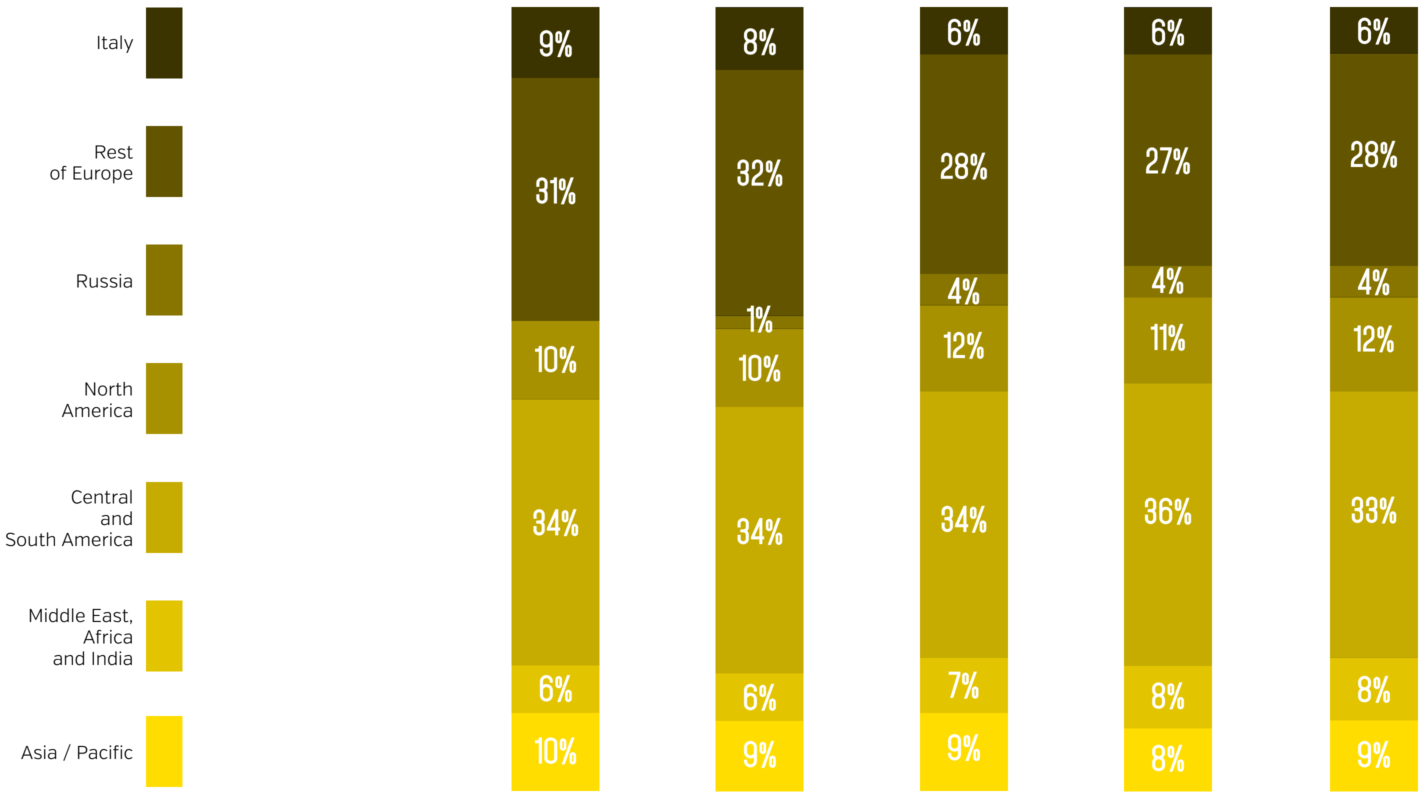
	2010	2011	2012	2013	2014
ECONOMIC KPIs €/MLN					
Gross global added value	1,496	1,918	2,211	2,218	**2,296**
of which contributions to the external community	3.6	5,1	5.3	5,5	**6,6**
R&D expenses	150	170	179	199	**206**
% of Revenues	3%	3%	3%	3%	**3%**
% of Premium Revenues	7%	7%	7%	7%	**7%**
Green Performance Revenues	n.a.	34.9%	39.7%	43.1%	**45.7%**

EMPLOYEES AND SOCIETY KPIs					
Headcount at end of year	29,573	34.259	37,338	37,979	**37,561**
of whom % women in managerial positions	17%	18%	18%	18%	**19%**
of whom temporary workers	2,426	2,649	2,714	2,620	**2,448**
Scope of Pirelli subject to application of SA8000® reference standard	100%	100%	100%	100%	**100%**
OHSAS 18001 certified	90%	90%	83%	83%	**96%**
Accident frequency index	1.6	1.1	0.8	0.6	**0.5**
Average number of training days per employee	6.3	6,2	5.1	7.2	**8.2**
ISO 9001 certified Tyre operating facilities	100%	100%	100%	100%	**100%**
Whistleblowing reports	1	2	8	11	**23**
Number of independent audits on suppliers' sustainability	46	56	62	62	**78**

ENVIRONMENT KPIs					
Energy specific consumption [GJ/ton_{FP}]	14.57	14.65	14.86	14.45	**14.05**
CO_2 equivalents specific emission [ton/ton_{FP}]	1.05	1.04	1.11	1.09	**1.07**
Water specific withdrawal [m^3/ton_{FP}]	16.2	15.0	16.5	14.9	**12.1**
Waste specific production [kg/ton_{FP}]	141	131	152	160	**142**
Waste recovery	66%	69%	76%	80%	**83%**
ISO 14001 certified Tyre operating facilities	100%	100%	100%	96%	**100%**

TYRE REVENUES BREAKDOWN

BY GEOGRAPHICAL AREA



	2010	2011	2012	2013	**2014**
BY BUSINESS					
% Consumer	70%	70%	73%	74%	**77%**
% Industrial	30%	30%	27%	26%	**23%**
BY CHANNEL					
% Original Equipment	25%	26%	24%	25%	**24%**
% Replacement	75%	74%	76%	75%	**76%**

MANAGEMENT REPORT

PIRELLI & C. S.p.A. - Milan

2014 ANNUAL REPORT

It should be noted that for purposes of law and pursuant to art. 154-*ter* of Legislative Decree of February 24, 1998 no. 58 ("TUF"), the Annual Report includes the following chapters of the present volume: Directors' Report on Operations, Consolidated Financial Statements, Parent Financial Statements, Certifications pursuant to art. 154-*bis* § 5 TUF, Report on Corporate Governance and Ownership Structure, prepared pursuant to art. 123-*bis* TUF.

04

CALL OF GENERAL MEETING

Those entitled to vote in the meeting of ordinary shareholders of Pirelli & C. Società per Azioni are called to an Ordinary General Meeting in Milan at Viale Sarca no. 214, at 14:30 on Thursday, 14 May 2015, in a single call, to discuss and resolve on the following

AGENDA

- Financial Statements as at 31 December 2014. Related and consequent resolutions.
- Appointment of six members of the Board of Directors. Related and consequent resolutions.
- Board of Statutory Auditors:
  - appointment of standing and alternate auditors;
  - appointment of the Chairman;
  - determination of remuneration of auditors.
- Remuneration policy: consultation.
- Insurance policy designated “Directors and Officers Liability Insurance”. Related and consequent resolutions.
- Purchase and disposal of treasury shares. Related and consequent resolutions.

BOARD OF DIRECTORS[1]

Chairman and Chief Executive Officer	**Marco Tronchetti Provera**
Deputy Chairman	Alberto Pirelli
Independent Director	Anna Maria Artoni
Director	Didier Casimiro
Director	Paolo Fiorentino
Independent Director	Ivan Glasenberg
Independent Director	Andrey Kostin
Director	Petr Lazarev
Independent Director	Elisabetta Magistretti
Director	Gaetano Micciché
Independent Director	Paolo Pietrogrande
Lead Independent Director	Luigi Roth
Director	Igor Sechin
Independent Director	Manuela Soffientini
Director	Igor Soglaev
Secretary of the Board	Anna Chiara Svelto

BOARD OF STATUTORY AUDITORS[2]

Chairman	**Francesco Fallacara**
Statutory Auditor	Antonella Carù
	Umile Sebastiano Iacovino
Deputy Auditor	Andrea Lorenzatti

AUDIT, RISKS, SUSTAINABILITY AND CORPORATE GOVERNANCE COMMITTEE

Chairman of the Committee	**Anna Maria Artoni**
Independent Director	Andrey Kostin
Independent Director	Elisabetta Magistretti

REMUNERATION COMMITTEE

Chairman of the Committee-Lead Indipendent Director	**Luigi Roth**
Independent Director	Ivan Glasenberg
Independent Director	Manuela Soffientini

APPOINTMENTS AND SUCCESSIONS COMMITTEE

Chairman of the Committee	**Marco Tronchetti Provera**
Independent Director	Anna Maria Artoni
Director	Didier Casimiro
Independent Director	Paolo Pietrogrande

STRATEGIES COMMITTEE

Chairman of the Committee	**Marco Tronchetti Provera**
Director	Didier Casimiro
Independent Director	Andrey Kostin
Director	Paolo Fiorentino
Lead Independent Director	Luigi Roth
Director	Igor Sechin
Independent Director	Manuela Soffientini

INDEPENDENT AUDITOR[3]

	Reconta Ernst & Young S.p.A.

CORPORATE FINANCIAL REPORTING MANAGER[4]

	Francesco Tanzi

GENERAL MANAGER OPERATIONS[5]

	Gregorio Borgo

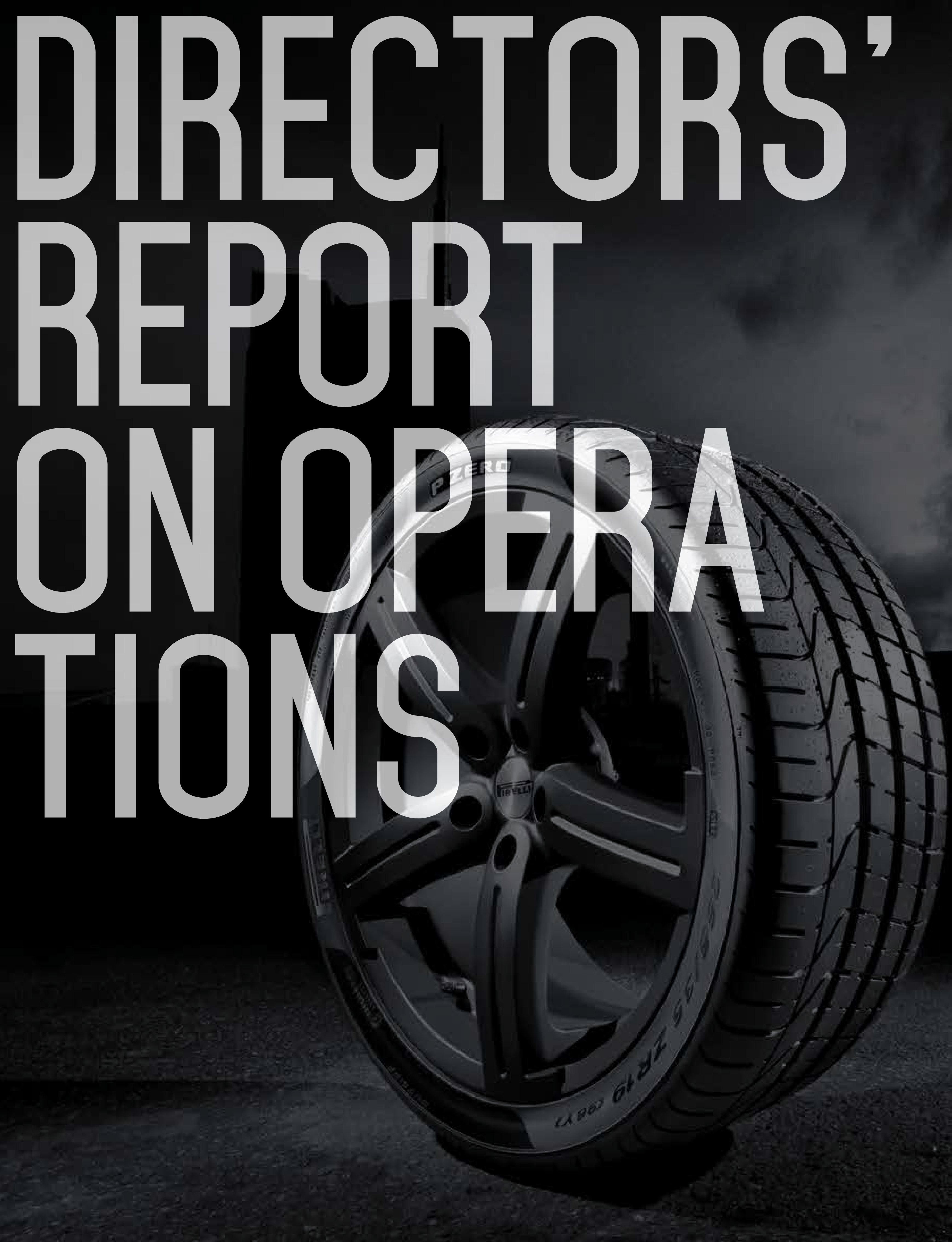
GENERAL MANAGER TECHNOLOGY[6]

	Maurizio Boiocchi

Avv. Angelo Cardarelli was appointed Joint Representative of the Savings Shareholders for the three-year period 2015-2017 by the General Meeting of that body held on January 27, 2015.

[1] Appointment: June 12, 2014. Expiry: Shareholders' meeting called to approve the Annual Financial Report at December 31, 2016. Didier Casimiro, Ivan Glasenberg, Andrey Kostin, Petr Lazarev, Igor Sechin e Igor Soglaev were co-opted on July 10, 2014.
[2] Appointment: May 10, 2012. Expiry: Shareholders' meeting called to approve the Annual Financial Report at December 31, 2014. On June 12, 2014 Umile Sebastiano Iacovino took the place of Enrico Laghi, who resigned.
[3] Post conferred by the Shareholders' Meeting held on April 29, for the nine-year term 2008/2016.
[4] Appointment: Board of Directors meeting held on June 12, 2014. Expiry: Shareholders' meeting called to approve the Annual Financial Report at December 31, 2016.
[5] Appointment: Board of Directors meeting held on September 26, 2013.
[6] Appointment: Board of Directors meeting held on August 5, 2014.

DIRECTORS' REPORT ON OPERATIONS



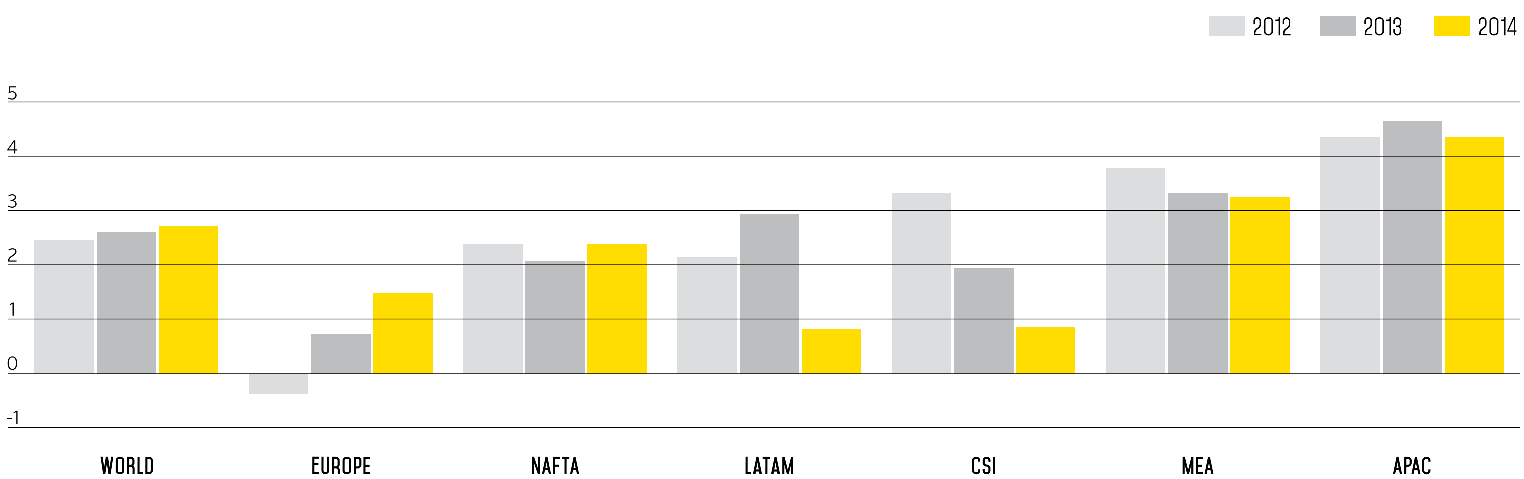
MACROECONOMIC AND MARKET SCENARIO

The international economy

In 2014, global economic activity recorded a growth of 2.8% (GDP), in line with the previous two years however with a greater contribution from mature countries. GDP growth in Europe, the USA and China offset the higher volatility of emerging countries, in particular South America and Russia.

GROWTH GLOBAL GDP. (ANNUAL CHANGE IN %)

Source: IHS, January 2015.



Analysing the dynamics of the different geographical areas, Europe saw a gradual recovery in economic activity (+0.9% GDP growth), particularly in the United Kingdom, Spain and Germany. The trend in the European economy was however affected by the sharp slowdown in the Russian economy, affected by geopolitical tensions and the rapid depreciation of oil prices. Excess production capacity in some areas and weak domestic demand have weighed on price performance: inflation in the Eurozone stood at 0.4% for 2014 and at -0.6% in January 2015. In this context, the European Central Bank cut interest rates twice during the year and strengthened its monetary stimulus measures, culminating in the program of government securities purchases announced in January 2015.
Growth in the US economy was more sustained: +2.4% change in GDP over the previous year, accompanied by a reduction in the unemployment rate: 5.6% in December compared to 6.7% in the same month of 2013. The Federal Reserve concluded the program of quantitative easing in the fourth quarter of 2014, and the expectations of a change in monetary policies with the rise in interest rates generated a revaluation of the US dollar in the second half of 2014.
There was a slowdown in the growth of Latin American countries, where the drop in raw material prices decreased the value of export and the high inflation rate penalized domestic demand. The Brazilian GDP grew by only 0.1% in the third quarter of 2014, after two quarters of decline, and indicators confirm the activity is still weak in the fourth quarter. Both Argentina and Venezuela closed the year in recession; Venezuela in particular was strongly impacted by the collapse in oil prices, resulting in greater difficulty for economic operators in finding “strong” currency for importing the industrial goods required for production.

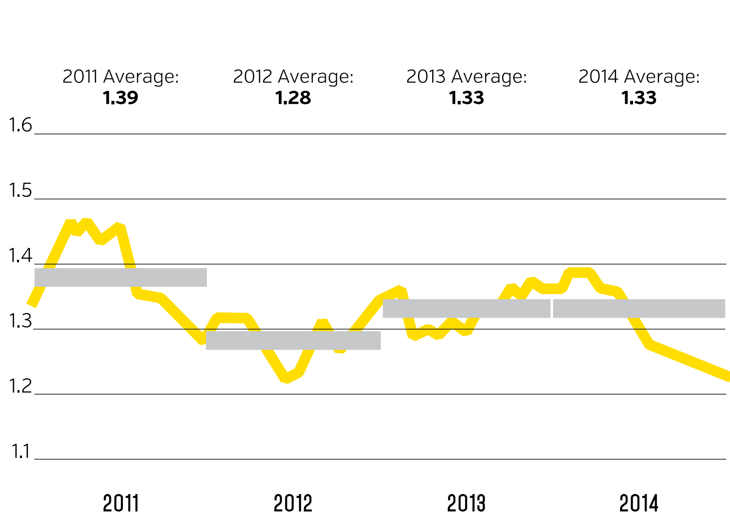
China closed 2014 with a growth of 7.4%, slightly lower than the previous year's growth of 7.7%, but however in line with the "new normal" of the government, which accepts a slower but more sustainable economic growth.

Exchange rates

The year 2014 was characterized by high volatility in exchange rates, reflecting the aforementioned conflicting international monetary policies. The appreciation of the US dollar against the euro was strong in the second half of 2014, which closed at the euro/dollar exchange rate of 1.21 compared to the average rate of 1.37 in the first half. Overall, the euro/dollar rate reported an average of 1.33 US dollars per euro in 2014, unchanged from 2013.

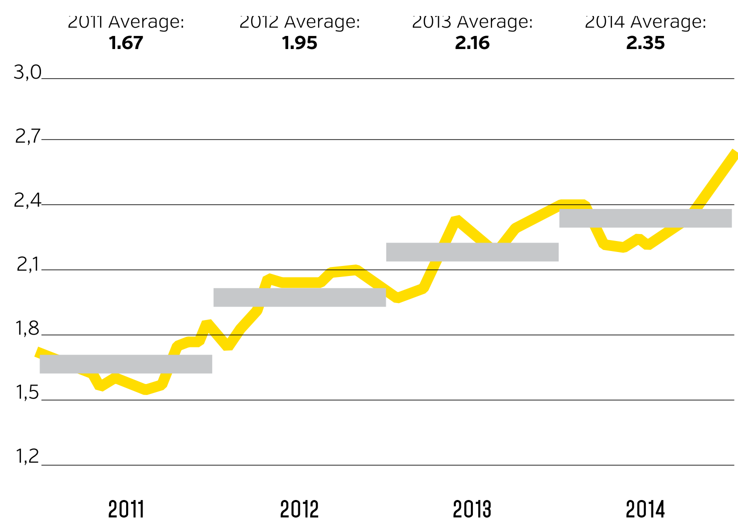
EXCHANGE RATE: US DOLLAR PER EURO

Source: European Central Bank, monthly data up to 31 December 2014



EXCHANGE RATE: BRAZILIAN REAL PER USD

Source: European Central Bank, monthly data up to 31 December 2014



Latin American currencies also depreciated, sharply in the fourth quarter. The exchange rate of the Brazilian real against the US dollar, stable in the two middle quarters around 2.2 to 2.3, then depreciated by over 10% in the last quarter to close the year at 2.65.
The trend of the Chinese renminbi was more stable, with an average rate in 2014 of 6.15, in line with the previous year, despite the depreciation in the fourth quarter. The Japanese yen, following the Central Bank's announcement that it would continue its expansionary monetary policy, continued the depreciation trend which started in late 2012, registering an average rate of 106 yen to the dollar for the year 2014, a drop of 8% compared to the 2013 average.

AUTOMOTIVE MARKETS

In 2014, the global **car market** recorded an increase in registrations of 3.5% thanks to the sales performance in China, the US, the UK and Japan, especially of the Premium and Prestige brands (+16%) which represent 10% of the total volume of cars sold in the year. Contributions to this trend came both from the European and North American markets, traditionally characterized by high incidence of high-end vehicles, and from the strong growth in emerging markets; the global appeal of this segment is evidenced by the emergence of China among the leading Premium car markets in the world. The automotive market recovered in Europe with an increase of 5.7% in registrations over 2013 (ACEA data), after six consecutive years of decline. The growth was mainly driven by the United Kingdom and Spain. The market in NAFTA countries continued the positive trend of recent years also in 2014, increasing registrations by 6% (IHS source). In Latin America the performance of the

sector was affected by the slowdown in economic activity which resulted in a drop in registrations in almost all markets. In Brazil, the main market of the region, registrations were down by 6.9%. On the other hand, trends in the automotive market in China were positive: despite the slowdown in the GDP growth rate, both production and registrations of light vehicles increased by about 8%. In Japan, vehicle registrations were up 3% mainly due to sales concentrated in the early months of the year, before the increase in the consumption tax introduced in April.
The global demand for **commercial vehicles** decreased by about 3.5% in 2014: the positive trend of the NAFTA region (+13%) mitigated the decline of the markets (IHS estimates) in Europe (-8%), Russia (-23%) and Latin America (-16%). In Europe the slowdown was particularly sharp in the second half of the year, after the good results registered in the second half of 2013 and the beginning of 2014 thanks to the introduction of emission regulations (Euro 6). The slowdown in Russia and Latin America is basically a consequence of the slowdown in economic activity in these countries. In China, sales and production of commercial vehicles decreased in 2014 by approximately 6%, after double-digit growth in the previous year.

TYRE MARKETS

In 2014, sales volumes in the Car market increased by 3% year on year, a slight slowdown compared to 4% of the previous year. The Premium segment (tyres with a rim diameter equal to or higher than 17 inches) continued to grow at a rate at least three times higher than the rest of the market, recording a +10% increase in the year. In 2014, Premium tyres represented about a quarter of the total car tyre market.
As far as the radial segment of the Industrial tyre market is concerned (Truck and Bus), 2014 recorded a growth of 3.0%, a slight slowdown compared to +5% in 2013.

TYRE SALES, CONSUMER MARKET (annual change in %)

		2010	2011	2012	2013	2014
Europe*	Original Equipment	13	3	-9	0	4
	Replacement	8	3	-12	0	2
NAFTA	Original Equipment	39	10	17	5	5
	Replacement	4	-1	-5	-1	3
Latam**	Original Equipment	13	2	0	6	-17
	Replacement	11	7	1	9	5
China	Original equipment	31	2	7	17	10
Japan	Original Equipment	20	-13	19	-4	2
	Replacement	9	8	-1	4	4

TYRE SALES, INDUSTRIAL MARKET (annual change in %)

		2010	2011	2012	2013	2014
Europe*	Original Equipment	57	32	-8	6	-4
	Replacement	18	-1	-17	7	2
NAFTA	Original Equipment	30	55	5	-4	16
	Replacement	18	3	-11	2	10
Latam**	Original Equipment	47	11	-29	34	-23
	Replacement	23	2	-4	10	-3
China	Original Equipment	53	-15	-19	17	-5
	Replacement	10	1	-4	3	3
Japan	Original Equipment	37	-2	15	1	4
	Replacement	14	7	-4	6	6

* Including Turkey, excluding Russia. ** Argentina, Brazil and Venezuela.
Note: the data excludes imports except Latin America where the spare parts segment includes imports. Source: Pirelli estimates

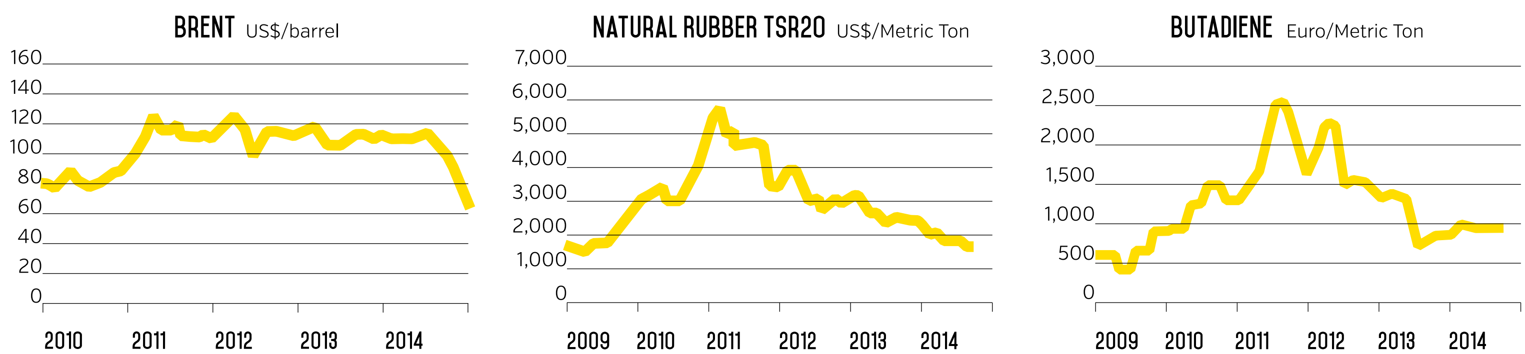
The performance of the tyre market in 2014 was supported by the gradual recovery in Europe, the acceleration of economic activity in North America and the continued growth in China.
In Latin America the trend of the OE (Original Equipment) tyre market reflects the reduction in the production of vehicles in a difficult macroeconomic context; instead the sales trend of Consumer replacement tyres was positive as a result of the growth and improvement of the fleet mix over the last few years. In Russia, the sales of tyres were affected by the general economic slowdown and the impact of the geopolitical tensions in the area on the economic activity.

Raw Materials

Over the course of 2014, the prices of key raw materials declined, also impacted by the sharp fall in oil prices in the latter months of the year. The price of Brent fluctuated between 105 and 115 dollars a barrel in the first half of 2014 but fell sharply in the fourth quarter, which brought the price down to 63 dollars a barrel in December, a drop of 43% against December 2013. The average of the year 2014 stood at 100 dollars a barrel, down by 8.5% over the previous year. The main factors contributing to this trend are the increase in supply, supported by the production of shale oil in the USA, the weakening of global demand and the appreciation of the US dollar.
Purchase prices of natural rubber continued the decline started after the peaks reached in 2011, to stand at an average of 1,711 US dollars per ton in 2014, a decrease of 32% compared to the average price of 2013. The drop in prices occurred despite the efforts of major manufacturers to limit their exports in an attempt to prop up prices by reducing global supply. The price of butadiene, the main material for producing synthetic rubber, also decreased in 2014, eventually averaging 944 euro per ton, down by 15% compared to 2013.

PRICES OF RAW MATERIALS

Source: IHS



SIGNIFICANT EVENTS 2014

On **January 16, 2014**, following up on the decision by the World Motor Sport Council which confirmed Pirelli as the sole supplier of tyres to the FIA Formula 1 World Championship, Pirelli announced the extension of the relative contract with FIA for a three year term.

On **February 28, 2014** Pirelli Tyre S.p.A. and Bekaert signed an agreement for the sale of Pirelli's steelcord business to Bekaert for a total value (enterprise value related to 100% of assets) of about euro 255 million. As part of the agreement, a long-term supply and joint product development agreement was also defined. The sale of steelcord activities in Italy (Figline), Romania (Slatina) and Brazil (Sumaré) was finalized on December 18, 2014 for an enterprise value of about euro 150 million, consistent – in pro-rata terms – with the approximately 255 million of the total value of the agreement. The closing for the sale of steelcord activities in Turkey (Izmit) was announced on February 6, 2015, while on March 27, 2015 sale of activities in China (Yanzhou) was closed.

On **February 28, 2014**, Pirelli & C. S.p.A. announced that effective from December 31, 2013, the medium to long term management cash incentive plan – Long Term Incentive (LTI) – adopted in 2012 to support the 2012-2014 three-year objectives had been closed without proceeding with any pay-out, either full or pro rata, of the three-year incentive. The company adopted a new plan based on the objectives of the period 2014/2016 contained in the Industrial Plan presented in London on November 6, 2013. As in the past, the 2014-2016 plan as is also entirely self-funded, insofar as the relative expenses are included in the financial figures of the Industrial Plan.

At the beginning of **April 2014** the European Commission notified Pirelli and the other parties involved (including Prysmian Cavi e Sistemi, a subsidiary of Pirelli until July 2005), of the decision taken upon the completion of the antitrust investigation in the energy cables business, that levies a fine of about euro 104 million on Prysmian with Pirelli being held jointly liable with Prysmian for a portion of that amount equal to euro 67 million. This decision confirms that there was no direct involvement by Pirelli in the alleged cartel.
The alleged antitrust violation is attributable solely to the principle of "parental liability", because, during part of the period of the alleged cartel, Prysmian was controlled by Pirelli. Pirelli appealed to the European Court of Justice against the decision of the European Commission alleging the application of the principle of "parental liability".
In fact, Pirelli deems that it shall not be applied the "parental liability" principle. The European Commission also ordered Pirelli to deposit bank guarantee to cover the payment, if and when due, of 50% of the penalty levied on Prysmian and Pirelli jointly. In consequence of the above on December 17, 2014, Pirelli provided the Commission with the guarantees requested.
Pirelli took action before the Court of Milan for the obligation of Prysmian to hold Pirelli harmless from any claim by the European Commission in relation to the aforementioned penalty to be ascertained and declared.
Pirelli, on the basis of careful legal analysis supported by professional opinions of external legal advisers, believes it is not involved in the alleged irregularities of its former subsidiary, and that the ultimate full liability for any violation (and the payment of the related penalty) shall be the exclusive responsibility of the company directly involved.
In consequence of the above, the risk assessment is such as not to have to request the allocation of any specific provision in the annual Financial Statements at December 31, 2014.

On **April 14, 2014**, following the occurrence of the conditions for the anticipation of the conversion of the Prelios bond (the so-called "Convertendo") at the time subscribed by Pirelli & C. S.p.A. under the debt restructuring plan of Prelios S.p.A., Pirelli & C. S.p.A. received, in exchange bonds held by Prelios S.p.A. (Tranche A and B), with a total nominal value of euro 148.4 million (plus accrued interest):

- approximately 112 million Prelios S.p.A. class A ordinary shares, which led to an increase in the portion of the voting capital held by Pirelli from 13.06% to 29.22%, of which about 7% freely transferable and about 22% bound by lock-up obligations until July 2016;
- approximately 93 million class B ordinary shares – unlisted and without voting rights – which, according to the agreements between the shareholders of Fenice S.r.l. were transferred on June 30, 2014 to Fenice itself. Following this transfer, Fenice S.r.l., a vehicle established in 2013 following the restructuring of the financial credit to Prelios S.p.A. and held by Pirelli as well as by Feidos 11 S.p.A., Unicredit S.p.A. and Intesa Sanpaolo S.p.A., holds all the class B shares with the purpose to proceed with the sale on the market.

Pirelli reiterated its strategy of focusing on the tyre core business and to not be a long-term investor in the 'real estate' sector.

On **May 24, 2014** Pirelli and Rosneft strengthened the industrial and commercial cooperation by signing two Memorandums of Understanding (MoU). On the industrial front, Pirelli and Rosneft will collaborate in Russia in the production of synthetic rubber (including styrene-butadiene) in Nakhodka, in the wake of the MoU signed in Armenia in December 2013. The agreement in Nakhodka was subsequently opened to a third technology partner. On the trade front, however, Pirelli and Rosneft agreed to open at least 200 Pirelli brand product stores at Rosneft service stations by 2019.

On **May 24, 2014** the transaction that led Long-Term Investments Luxembourg S.A. – a company controlled by Fondo Pensioni Neftegarant – to hold 50% of Camfin S.p.A. (company that holds 26.19% of Pirelli & C. S.p.A.) was completed. The remaining part is owned by Coinv S.p.A. held 76% by Nuove Partecipazioni S.p.A. and 12% each by Intesa Sanpaolo S.p.A. and Unicredit S.p.A.. The transaction, which was closed on July 10, 2014, valued the share of Pirelli & C. S.p.A. held by Camfin S.p.A. at euro 12 per share. According to the agreements between the parties, the governance of Pirelli & C. S.p.A. remains unchanged and focused on the fundamental role of leadership of the board, in line with the international best practices. All strategic materials, the definition of the business plan and Pirelli budget are submitted to the board by the President and CEO and, as is already the case, approved by a majority.

On **June 12, 2014** the Shareholders' Meeting of Pirelli & C. S.p.A., approved the Financial Statements for 2013 closed with a consolidated net profit of euro 306.5 million and a net profit of the parent company of euro 191.9 million, resolving the distribution of a dividend of euro 0.32 per ordinary share and euro 0.39 per savings share. The Shareholders Meeting renewed the authorization for the purchase and disposal of treasury shares up to 10% of the share capital and for a maximum period of 18 months, also expressing a favourable opinion on the policy regarding the remuneration of the company and approving the adoption of the three-year incentive plan 2014-2016 LTI (Long Term Incentive).
The Shareholders Meeting also established the duration of the Board of Directors for three years (until approval of the Financial Statements at December 31, 2016) consisting of 15 members, including 8 independent. On the basis of the lists presented, the following directors were appointed: Marco Tronchetti Provera, Alberto Pirelli, Anna Maria Artoni, Luigi Piergiuseppe Ferdinando Roth, Paolo Fiorentino, Gaetano Micciché, Claudio Sposito, Riccardo Bruno, Piero Alonzo, Emiliano Nitti, Luciano Gobbi, Enrico Parazzini, Elisabetta Magistretti, Manuela Soffientini and Paolo Pietrogrande.
The new Board of Directors appointed Marco Tronchetti Provera as Chairman and CEO, and Alberto Pirelli as Deputy Chairman. The Board of Directors also confirmed Francesco Tanzi as Chief Financial Officer of the Group.

On **July 10, 2014** the Directors Claudio Sposito, Riccardo Bruno, Piero Alonzo, Emiliano Nitti, Luciano Gobbi and Enrico Parazzini resigned. The Board of Directors co-opted Igor Sechin, Didier Casimiro, Andrey Kostin, Ivan Glasenberg, Petr Lazarev and Igor Soglaev in place of the Directors who resigned.
The Board of Directors also appointed Luigi Roth Lead Independent Director and appointed the new Supervisory Board, which shall remain in office until the end of the mandate of the current Board of Directors.

On **November 5, 2014** Pirelli was selected as leader of the "Climate Disclosure Leadership Index Italy 2014" (CDLI), index that evaluates the completeness of corporate strategies against climate change and transparency in communication to stakeholders.

On **November 13, 2014** Pirelli completed the placement with international institutional investors of an unrated bond, on the Euromarket for a nominal amount of euro 600 million. The transaction obtained the lowest coupon ever for Pirelli – 1.75% – as well as an Italian unrated corporate Eurobond.

On **November 18, 2014** the 2015 Pirelli Calendar signed by Steven Meisel was presented to the press and to guests and collectors from around the world at the "Hangar Bicocca" in Milan. The choice of Milan stems from the desire to link this "Made in Italy" cult object to the city which will be flying Italy's flag in the world in 2015 by hosting the great universal Expo.

On **November 25, 2014** Pirelli and the Minister for Investment of the Arab Republic of Egypt signed a Memorandum of Understanding for the possible expansion of the radial truck tyre factory of Alexandria Tire Co. (Atco), the Egyptian company of which Pirelli controls more than 90%, in Alexandria, Egypt.

GROUP PERFORMANCE AND RESULTS 2014

In this document, in addition to the financial figures provided by the International Financial Reporting Standards (IFRS), alternative performance indicators derived from IFRS are used in order to allow a better assessment of Group operations. These indicators are: Gross Operating Margin, Fixed Assets, Funds, Operating Working Capital, Net Working Capital, Net Financial Position. A more detailed description of these indicators is made in paragraph "Alternative Performance Indicators".
As a result of the signing of the agreement for the disposal of the steelcord business between Pirelli and Bekaert on February 28, 2014, the steelcord business qualifies as a "discontinued operation"; the result of the year of the discontinued operation along with the results from the disposal of the steelcord businesses in Italy, Romania and Brazil, was reclassified to the income statement in a single item "net income (loss) from discontinued operations". The comparative economic data of 2013 were restated, unless otherwise indicated; specifically, the steelcord business was part of the Industrial Business, the results of which were the subject of the restatement.

* * *

The **Group's** results, in line with the targets, highlight the improvement in key economic indicators, the strengthening of the Premium segment positioning and high cash generation.

In particular, the results are characterized by:

- the strong growth in the Premium segment, volumes at +17.8%, higher than expected (>+16% the target), with an increase in market share which strengthens the position of Pirelli in all main geographical areas. Premium revenues (euro 2,536.0 million) represent 55% of Consumer revenues, up from 50.8% in 2013;
- improved price/mix component at +4.2% (+4%/+5% the target set for 2014) thanks to the performance in the Premium segment, the product mix in the Industrial Business and price increases in emerging countries;
- organic revenue growth +5.9% (-0.7% net of the negative change in exchange rates equal to 6.6%), obtained not only thanks to the aforementioned improvement in the price/mix but to higher volumes (+2.0%) as well;
- the achievement of internal efficiencies for euro 92.4 million (in line with the annual target of euro 90 million, euro 350 million the quadrennial efficiency plan 2014-2017);
- a significant improvement in profitability, with an EBIT growth of 6.8% that reached euro 837.9 million (about euro 840 million target set for 2014) and profitability (EBIT margin) at 13.9%, +1 percentage point compared to 2013. The Premium strengthening strategy and efficiencies more than offset the negative impact of exchange rates and inflation of production factors;
- the positive performance of the business in Europe, Asia Pacific and NAFTA, with an overall growth in revenues higher than the Group average and an improvement in Operating Income (EBIT) that mitigates the effects of the slowdown in the South American market;
- the turnaround of the business in Russia, characterized by a significant improvement in product mix and positive profitability "mid-single digit" (versus a loss in 2013), and the improvement of the results in the MEAI area;
- a net profit of euro 332.8 million, up 8.6%, and which reflects the impact of the devaluation of the exchange rate in Venezuela and the value adjustment of financial shareholdings;
- a net financial position negative for euro 979.6 million, a significant improvement compared to euro 1,322.4 million at the end of 2013 thanks to improved Operating Income and careful management of working capital. The data also reflects the positive impact of the partial disposal of the steelcord business already realized by December and the deconsolidation of the Chinese company Sino Italian Wire for a total of euro 187.9 million;
- operational cash flow before dividends and before the disposal of the steelcord business higher than expectations (> euro 250 million 2014 target) and equal to euro 311.6 million (5.2% weight on revenues, 3.8% in 2013).

The Group's main economic-financial and equity results are summarized in the table below:

(in millions of euro)

	12/31/2014	12/31/2013 RESTATED (*)	12/31/2013 REPORTED
Net sales	**6,018.1**	**6,061.0**	**6,146.2**
Gross operating profit before restructuring expenses	1,168.0	1,095.0	1,105.4
% of net sales	19.4%	18.1%	18.0%
Operating income (loss) before restructuring expenses	869.2	810.2	816.5
% of net sales	14.4%	13.4%	13.3%
Restructuring expenses	(31.3)	(25.5)	(25.5)
Operating income (loss)	**837.9**	**784.7**	**791.0**
% of net sales	13.9%	12.9%	12.9%
Net income (loss) from equity investments	(87.0)	(78.3)	(78.3)
Financial income/(expenses)	(262.4)	(192.9)	(195.8)
Net Income (loss) before tax	**488.5**	**513.5**	**516.9**
Tax expenses	(173.3)	(209.0)	(210.4)
Tax rate %	35.5%	40.7%	40.7%
Net income (loss) from continuing operations	**315.2**	**304.5**	**306.5**
Net income (loss) from discontinued operations	**17.6**	**2.0**	**-**
Total net income (loss)	**332.8**	**306.5**	**306.5**
Net income attributable to Pirelli & C. S.p.A.	319.3	303.6	303.6
Total net earnings per share attributable to Pirelli & C. S.p.A. (in euro)	0.654	0.622	0.622
Operating fixed assets	**3,874.0**	**4,043.0**	**4,043.0**
Inventories	1,055.0	987.3	987.3
Trade receivables	673.8	666.4	666.4
Trade payables	(1,394.4)	(1,244.5)	(1,244.5)
Operating working capital related to continuing operations	**334.4**	**409.2**	**409.2**
% of net sales	5.6%	6.8%	6.7%
Other receivables/other payables	33.9	3.0	3.0
Total Net working capital related to continuing operations	**368.3**	**412.2**	**412.2**
% of net sales	6.1%	6.8%	6.7%
Net invested capital held for sale	**30.8**	**-**	**-**
Total Net invested capital	**4,273.1**	**4,455.2**	**4,455.2**
Equity	**2,611.5**	**2,436.6**	**2,436.6**
Total Provisions	**682.0**	**696.2**	**696.2**
of which provisions held for sale	5.2	-	-
Total Net financial (liquidity)/debt position	**979.6**	**1,322.4**	**1,322.4**
of which Net Financial (liquidity)/debt position held for sale	(5.8)	-	-
Equity attributable to Pirelli & C. S.p.A.	2,548.3	2,376.1	2,376.1
Equity per share attributable to Pirelli & C. S.p.A. (in euro)	5.222	4.869	4.869
Investments in property, plant and equipment and intangible assets	378.1	413.1	413.1
Research and development expenses	205.5	199.2	199.2
% of net sales	3.4%	3.3%	3.2%
Headcount (number at end of period)	37,561	37,979	37,979
Industrial sites (number)	19	23	23

(*) only Income Statement figures related to Steelcord business have been reclassified as "net income (loss) from discontinued operations".

For a better understanding of the **Group's** performance, the following is the economic data by business segment.

(in millions of euro)

	A		B		A+B = C		D		C+D = E	
	CONSUMER		INDUSTRIAL		TOTAL TYRE		OTHER BUSINESS		TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Net sales	**4,610.3**	**4,478.9**	**1,397.2**	**1,551.7**	**6,007.5**	**6,030.6**	**10.6**	**30.4**	**6,018.1**	**6,061.0**
Gross operating margin before restructuring expenses	934.7	839.6	242.2	280.3	1,176.9	1,119.9	(8.9)	(24.9)	1,168.0	1,095.0
Operating income (loss) before restructuring expenses	697.2	612.2	183.2	226.9	880.4	839.1	(11.2)	(28.9)	869.2	810.2
Restructuring expenses	(20.8)	(15.8)	(7.0)	(7.6)	(27.8)	(23.4)	(3.5)	(2.1)	(31.3)	(25.5)
Operating income (loss)	**676.4**	**596.4**	**176.2**	**219.3**	**852.6**	**815.7**	**(14.7)**	**(31.0)**	**837.9**	**784.7**

(in millions of euro)

TOTAL GROUP	1 Q		2 Q		3 Q		4 Q		TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Net sales	**1,473.2**	**1,514.6**	**1,513.7**	**1,575.4**	**1,541.8**	**1,496.4**	**1,489.4**	**1,474.6**	**6,018.1**	**6,061.0**
yoy	*-2.7%*	-	*-3.9%*	-	*3.0%*	-	*1.0%*	-	*-0.7%*	-
Gross operating margin before restructuring expenses	277.3	253.0	305.5	276.3	284.9	277.5	300.3	288.2	1,168.0	1,095.0
% of net sales	*18.8%*	*16.7%*	*20.2%*	*17.5%*	*18.5%*	*18.5%*	*20.2%*	*19.5%*	*19.4%*	*18.1%*
Operating income (loss) before restructuring expenses	206.7	181.7	232.2	204.2	208.9	207.5	221.4	216.8	869.2	810.2
% of net sales	*14.0%*	*12.0%*	*15.3%*	*13.0%*	*13.5%*	*13.9%*	*14.9%*	*14.7%*	*14.4%*	*13.4%*
Restructuring expenses	(5.7)	(3.2)	(7.0)	(4.2)	(5.4)	(7.8)	(13.2)	(10.3)	(31.3)	(25.5)
Operating income (loss)	**201.0**	**178.5**	**225.2**	**200.0**	**203.5**	**199.7**	**208.2**	**206.5**	**837.9**	**784.7**
% of net sales	**13.6%**	**11.8%**	**14.9%**	**12.7%**	**13.2%**	**13.3%**	**14.0%**	**14.0%**	**13.9%**	**12.9%**

The Group net sales as at December 31, 2014 amounted to euro 6,018.1 million compared to euro 6,061.0 million at December 31, 2013. The sales trend (+5.9% net of the exchange rate negative impact for 6.6%) was driven by the growth in the Consumer Business (+8.9% net of exchange rates) while the Industrial Business (-1.5% revenue performance net of exchange rates) was affected by the slowdown in the South American market.

Specifically **Tyre business** showed the following performance:

(in millions of euro)

TYRE BUSINESS	1 Q		2 Q		3 Q		4 Q		TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Net sales	**1,469.5**	**1,505.0**	**1,511.3**	**1,567.9**	**1,539.2**	**1,489.4**	**1,487.5**	**1,468.3**	**6,007.5**	**6,030.6**
yoy	*-2.4%*		*-3.6%*		*3.3%*		*1.3%*		*-0.4%*	
Gross operating margin before restructuring expenses	280.3	257.8	308.7	280.8	287.2	282.3	300.7	299.0	1,176.9	1,119.9
% of net sales	*19.1%*	*17.1%*	*20.4%*	*17.9%*	*18.7%*	*19.0%*	*20.2%*	*20.4%*	*19.6%*	*18.6%*
Operating income (loss) before restructuring expenses	210.3	187.5	236.1	209.7	211.7	213.3	222.3	228.6	880.4	839.1
% of net sales	*14.3%*	*12.5%*	*15.6%*	*13.4%*	*13.8%*	*14.3%*	*14.9%*	*15.6%*	*14.7%*	*13.9%*
Restructuring expenses	(5.4)	(3.2)	(7.0)	(3.4)	(5.4)	(7.6)	(10.0)	(9.2)	(27.8)	(23.4)
Operating income (loss)	**204.9**	**184.3**	**229.1**	**206.3**	**206.3**	**205.7**	**212.3**	**219.4**	**852.6**	**815.7**
% of net sales	**13.9%**	**12.2%**	**15.2%**	**13.2%**	**13.4%**	**13.8%**	**14.3%**	**14.9%**	**14.2%**	**13.5%**

Tyre business net sales amounted to euro 6,007.5 million, with organic growth of 6.2% (-0.4% including the negative exchange rate impact of 6.6%) compared to 2013.

Premium segment net sales (tyres with rim diameter equal or higher than 17 inches for the car business and radial tyres and X-ply custom touring, off-road and Sport Touring tyres with speed index ≥ H in the motorcycle business) amounted to euro 2,536.0 million (+11.5%, +13.2% excluding the impact of exchange rates), with a weight on Consumer revenues up to 55.0% (50.8% in 2013).

The following table outlines the drivers of the tyre sales performance:

	1 Q		2 Q		3 Q		4 Q		CUMULATIVE AT 12/31	
	2014	**2013 reported**	**2014**	**2013 reported**	**2014**	**2013 reported**	**2014**	**2013 reported**	**2014**	**2013 reported**
Volume	3.8%	3.9%	-0.2%	8.8%	3.1%	5.4%	1.6%	4.9%	2.0%	5.7%
of which Premium volume	*22.2%*	*4.0%*	*20.9%*	*12.9%*	*17.3%*	*19.1%*	*10.7%*	*27.5%*	*17.8%*	*15.3%*
Price/mix	4.6%	0.0%	6.0%	5.1%	3.3%	2.5%	2.8%	4.3%	4.2%	2.9%
Change on a like-for-like basis	**8.4%**	**3.9%**	**5.8%**	**13.9%**	**6.4%**	**7.9%**	**4.4%**	**9.2%**	**6.2%**	**8.6%**
Translation effect	-10.8%	-4.9%	-9.4%	-5.0%	-3.1%	-9.9%	-3.1%	-9.1%	-6.6%	-7.2%
Total change	**-2.4%**	**-1.0%**	**-3.6%**	**8.9%**	**3.3%**	**-2.0%**	**1.3%**	**0.1%**	**-0.4%**	**1.4%**

The increase in volumes (+2.0%) reflects a trend in the opposite direction between Consumer and Industrial.
Volume growth in the Consumer segment (+5.0%) was supported by the good performance of the business in all major markets and particularly by the continued growth of Premium. The trend in Industrial volumes (-6.5%) reflects in particular results in South America, which are up against a very strong 2013, especially in the first half year, the decline in the Truck Original Equipment market (-23% in 2014), and the gradual exit from conventional business.
The improvement in the price/mix (+4.2% in Tyre business, +3.9% in Consumer, +5.0% in Industrial) proves the success of the Groups' value strategy oriented towards value creation through the gradual improvement in the mix and the price increases in emerging markets.

The breakdown of **Tyre business net sales by geographical area and product category** is as follows:

GEOGRAPHICAL AREA	2014			2013
	Euro\mln	yoy		
Italy	347.6	2.0%	5.8%	5.7%
Rest of Europe	1,709.1	5.1%	28.4%	26.9%
Russia and CIS	237.9	-6.4%	4.0%	4.2%
NAFTA	707.5	4.7%	11.8%	11.2%
Central and South America	1,963.5	-9.5%	32.7%	36.0%
Asia\Pacific	558.4	16.0%	9.3%	8.0%
Middle East\Africa\India	483.5	0.2%	8.0%	8.0%
TOTAL	**6,007.5**	**-0.4%**	**100.0%**	**100.0%**

PRODUCT	2014			2013
	Euro\mln	yoy		
Car	4,224.5	3.2%	70.3%	67.9%
Motorcycle	385.8	-0.3%	6.4%	6.4%
Consumer	**4,610.3**	**2.9%**	**76.7%**	**74.3%**
Truck	1,236.0	-9.0%	20.6%	22.5%
Agriculture	161.2	-16.4%	2.7%	3.2%
Industrial	**1,397.2**	**-10.0%**	**23.3%**	**25.7%**

The **Group's operating income (EBIT)**, up 6.8% despite the volatility of exchange rates, amounted to euro 837.9 million, against euro 784.7 million in 2013. The improvement of euro 53.2 million is due for euro 36.9 million to the Tyre business and for euro 16.3 million to the other activities.
The operating income was impacted by restructuring costs for euro 31.3 million relative to continual operations to rationalize the structures. Restructuring costs at December 2013 were euro 25.5 million. Furthermore, in 2014 one-off gains occurred relative to the sale of real estate in Germany, Turkey and Brazil, giving rise to a positive net balance of euro 14.6 million, net of relative expenses; in 2013 one-off events had registered a positive net balance of about euro 22 million deriving from sale of real estate, bad debts in litigation from the 1990s and the costs related to closing an outstanding legal action in Brazil.

Specifically, the **Operating Income of Tyre business** shows the following quarterly performance:

(in millions of euro)

TYRE BUSINESS	1 Q	2 Q	3 Q	4 Q	TOTAL
2013 Operating income (loss)	**184.3**	**206.3**	**205.7**	**219.4**	**815.7**
Foreign currency translation from consolidation	(19.2)	(28.3)	(15.3)	(17.8)	(80.6)
Prices/mix	39.3	54.0	33.8	30.1	157.2
Volumes	24.0	2.0	14.7	17.6	58.3
Cost of prodution factors (commodities)	7.9	5.8	4.2	(13.4)	4.5
Cost of prodution factors (labour/energy/others)	(29.5)	(21.5)	(37.7)	(38.0)	(126.7)
Efficiency	27.6	21.3	22.1	21.4	92.4
Amortisation, depreciation and other	(27.2)	(7.0)	(23.2)	(6.0)	(63.4)
Restructuring expenses	(2.3)	(3.5)	2.0	(1.0)	(4.8)
Change	**20.6**	**22.8**	**0.6**	**(7.1)**	**36.9**
2014 Operating income (loss)	**204.9**	**229.1**	**206.3**	**212.3**	**852.6**

The **Operating Income of Tyre business** at December 31, 2014 amounted to euro 852.6 million (euro 815.7 million in 2013), with an EBIT margin of 14.2% (14.7% before restructuring costs) an improvement of 0.7 percentage points compared to 2013.
The improvement in profitability was affected by:

- the growing contribution of the price/mix component (euro +157.2 million) which, along with lower raw material costs (euro +4.5 million), more than offset the negative translation effect (euro 80.6 million) with a net profit of euro 81.1 million;
- the efficiencies for euro 92.4 million, which mitigated the inflation of production factors (euro 126.7 million of the growth in input costs);
- the positive contribution of volumes (euro +58.3 million), which helped to reduce the impact of higher depreciation and other costs (euro 63.4 million) and the increase in non-recurring expenses (euro 4.8 million).

Geographically **Europe** (34% of Tyre revenues) is one of the main areas of growth, with an organic increase in revenues of 4.2%, an improvement in profitability (EBIT margin before restructuring costs at "mid-teens" levels from "double digit") thanks to the growth in high range, especially in the Super Premium segment (tyres with rim diameter equal to or more than 18 inches) where in 2014 Pirelli gained 1 percentage point of market share - and the contribution of efficiencies. Greater presence in specialized retailer and car dealer channels also boosted Premium positioning in Europe.
NAFTA (12% of tyre revenues) recorded an organic growth of 5.3% (+4.7% including the impact of exchange rates), thanks to the strengthening of Premium and an improvement in profitability at "mid-teens" level, with an increase of more than 1 percentage point; positive customer response to the launch of 4 new product lines dedicated to the North American market.
APAC (9% of tyre revenues, +1 percentage point compared to 2013) is confirmed as the major growth area: +17.5% increase in revenues in organic terms (+16.0% including the impact of exchange rates) driven by sales in the high range (+28.3% Premium revenue growth, especially Super Premium, with an increase of over 2 percentage points of market share), a "twenties " EBIT margin, improving on 2013. The APAC market benefited particularly from the "pull-through" effect on sales that the Pirelli leadership in the local Premium original equipment is able to generate in the replacement channel.
The turnaround of the business in **Russia** (4% of revenues): +10.4% organic growth in revenues (-6.4% after the impact of exchange rates) and "mid single digit" profitability, in increase compared to 2013 ("negative" EBIT margin), is in line with the expectations thanks to the improvement of product mix and the efficiency program, despite the unfavourable conditions of the market.
MEAI (8% of tyre sales) remained among the most profitable geographic areas with "high-teens" profitability, an improvement compared to 2013 and organic revenue growth of 6.8%. The increase in prices and the improved mix offset the negative impact of exchange rates, equivalent to 6.6%.
South America (33% of tyre revenues) recorded organic revenue growth of 5.4% (-9.5% including the negative exchange rate impact), driven by good Car volumes in the replacement channel, Premium in particular (overall Premium volumes +15.1% with an increase in market share) and by price increases in response to exchange rate volatility. Profitability "low-teens" (down compared to 2013), which reflects the performance of the original equipment market car (-17%) and truck (-23%) and the decline of the tire market in Argentina (-7.5%) and Venezuela (-30%). This trend prompted actions to reduce production in order to safeguard the optimal management of stocks.
This, together with the increase in inflation of production factors, has reflected on short-term profitability. Pirelli mitigated the effects of these movements with growth in its high value segments in the car replacement market, where overall it gained over 1 percentage point of market share, thanks also to the policy of strengthening the distribution chain.

The **net income from equity investments of the Group** was negative for euro 87.0 million and mainly relates to the impact from the consolidation with the equity method of results of the associates Prelios S.p.A. (pro-rata loss of the fourth quarter 2013 and of the nine months of 2014) and Fenice S.r.l. (pro-rata loss of the entire year 2014) for a total of euro 54.4 million, plus the impairment regarding Fenice S.r.l. for a total of euro 19.0 million in order to align the value to the fair value. Additional impairments affected the equity investments in GWM Renewable Energy II S.p.A. (euro 1.4 million), Alitalia S.p.A. (euro 11.2 million) and RCS Media Group (euro 15.9 million). These negative impacts were partially offset by the effect resulting from the replacement during the year 2014 of the convertible loan with class A and B Prelios shares, which generated a positive effect of euro 13.3 million.

The **Group net income from continuing operations** at December 31, 2014 was euro 315.2 million (euro 304.5 million in 2013). This result, in addition to the dynamics highlighted in the comments on the operating result and the result from investments was significantly influenced by higher net financial expenses that went from euro 192.9 million at December 31, 2013 to euro 262.4 million at December 31, 2014, with an increase of euro 69.5 million partially offset by lower taxes for euro 35.7 million.
Financial expenses include euro 72.1 million related to foreign exchange losses on past trade payables of the Venezuelan subsidiary. Excluding this effect expenses show a decrease of euro 2.6 million mainly due to a lower level of debt in countries outside the Eurozone (about 40% of the total) in

which Pirelli operates, characterized by high interest rates, achieved primarily through share capital increases in Brazil and Mexico. The average cost of debt for the period was 6.05%.
Tax expenses amounted to euro 173.3 million, down compared to 2013 (euro 209.0 million) with a tax rate that stood at 35.5% (31.9% net of the equity consolidation of associated companies) with respect to an incidence of 40.7% in 2013.
The decrease in the item compared to the same period of the previous year is mainly attributable to the recognition of deferred tax assets in relation to the expected recoverability of tax losses by the Group's Italian companies following the improvement in future plans that allowed the recognition.

The **net income (loss) from discontinued operations** at December 31, 2014 amounted to euro 17.6 million and includes the income for the period of the steelcord business for euro 3.0 million as well as gains from the disposal of the steelcord business in Italy, Romania and Brazil, amounting to euro 17.9 million net of the related tax effect (euro 7.8 million) and net of the reversal of foreign exchange reserves to the income statement (euro 3.3 million) recorded on the date of the disposal.

Total net income amounted to euro 332.8 million compared to euro 306.5 million in 2013 (+8.6%); the **share of net income attributable to Pirelli & C. S.p.A.** was positive for euro 319.3 million (euro 0.654 per share) compared to euro 303.6 million of the previous year (equal to euro 0.622 per share).

Equity changed from euro 2,436.6 million as at December 31, 2013 to euro 2,611.5 million as at December 31, 2014.
The equity attributable to Pirelli & C. S.p.A. at December 31, 2014 amounted to euro 2,548.3 million (euro 5.222 per share) compared to euro 2,376.1 million at December 31, 2013 (euro 4.869 per share).
The change, detailed in the table, is essentially due to the net income for the year, negative currency effect linked to the conversion of equities in foreign currency into euro, dividends paid, actuarial losses relating to employee benefits partly offset by the inflation effect of the Venezuelan subsidiary.

(in millions of euro)

	GROUP	NON-CONTROLLING INTERESTS	TOTAL
Equity at 12/31/2013	**2,376.1**	**60.5**	**2,436.6**
Translation differences	(55.1)	-	(55.1)
Net income (loss)	319.3	13.5	332.8
Fair value adjustment of other financial assets/derivative instruments	50.4	-	50.4
Net investment hedge	(4.8)	-	(4.8)
Actuarial gains/(losses) on employee benefits	(29.9)	(0.4)	(30.3)
Dividends paid	(156.7)	(3.4)	(160.1)
Venezuela inflation effect	49.1	1.9	51.0
Disposal of minorities stakes	(3.0)	5.6	2.6
Acquisition through capital increase reserved to third parties	-	10.3	10.3
Steelcord disposal	-	(21.4)	(21.4)
Other changes	2.9	(3.4)	(0.5)
Total changes	**172.2**	**2.7**	**174.9**
Equity at 12/31/2014	**2,548.3**	**63.2**	**2,611.5**

The following is the reconciliation statement between the equity of the Parent Company and the consolidated equity of the Parent Company's shareholders, pursuant to Consob Communication of July 28, 2006.

(in millions of euro)

	SHARE CAPITAL	TREASURY RESERVES	NET INCOME (LOSS)	TOTAL
Equity of Pirelli & C. S.p.A. at 12/31/2014	**1,343.3**	**454.9**	**258.0**	**2,056.2**
Net income (loss) for the year of consolidated companies (before consolidation adjustments)	-	-	340.7	**340.7**
Share capital and reserves of consolidated companies (before consolidation adjustments)	-	1,297.2	-	**1,297.2**
Consolidation adjustments:				
- carrying value of equity investments in consolidated companies	-	(1,141.1)	-	**(1,141.1)**
- intercompany dividends	-	308.3	(308.3)	**-**
- others	-	(33.6)	28.9	**(4.7)**
Consolidated equity of Group at 12/31/2014	**1,343.3**	**885.7**	**319.3**	**2,548.3**

The **total net financial position** is negative for euro 979.6 million (of which cash for euro 5.8 million associated with assets held for sale) compared to euro 1,322.4 million at the end of 2013 and is detailed in the following table:

(in millions of euro)

		12/31/2014	12/31/2013
	Current borrowings from banks and other financial institutions	530.9	316.7
	Current derivative financial instruments	4.6	3.2
	Non-Current borrowings from banks and other financial institutions	1,781.7	2,014.3
	Total gross debt continuing operations	**2,317.2**	**2,334.2**
	Cash and cash equivalents	(1,166.7)	(879.9)
	Securities held for trading	(61.4)	(48.1)
	Current financial receivables	(41.5)	(17.7)
	Current derivative financial instruments	(6.1)	(6.7)
	Non-current financial receivables	(56.1)	(59.4)
	Total financial receivables and cash	**(1,331.8)**	**(1,011.8)**
A	**Net financial (liquidity)/debt position continuing operations**	**985.4**	**1,322.4**
B	**Net financial (liquidity)/debt position discontinued operations**	**(5.8)**	**-**
A+B	**Total net financial (liquidity)/debt position**	**979.6**	**1,322.4**

Excluding the effect deriving from the disposal of the steelcord business the value of the net financial position would amount to euro 1,167.5 million.

Group net debt at the end of 2014 includes the impairment of the net liquidity of Venezuela for euro 57 million due to the gradual adjustment of bolivar/dollar exchange rates:

- from 6.3 to 10.7 in the first quarter of the year (adjustment from the official exchange rate to Sicad 1) with a negative impact on the net financial position for euro 46 million;
- and from 10.7 to 12 (new value of Sicad 1) in the last quarter of the year with a further negative impact for euro 11 million.

The **structure of the gross financial debt from continuing operations** amounts to euro 2,317.2 million and is as follows:

(in millions of euro)

	FINANCIAL STATEMENTS 12/31/2014	MATURITY DATE				
		2015	2016	2017	2018	2019 and beyond
Use of committed credit facilities	75.0	75.0	-	-	-	-
Bond 5,125% - 2011/2016	500.0	-	500.0	-	-	-
Bond 1,750% - 2014/2019	600.0	-	-	-	-	600.0
EIB loans	250.0	100.0	100.0	20.0	20.0	10.0
USD private placement	123.6	-	-	12.4	-	111.2
Schuldschein	155.0	-	114.0	31.0	-	10.0
Other loans	613.6	360.5	104.2	92.8	31.8	24.3
Total gross debt operating activities	**2,317.2**	**535.5**	**818.2**	**156.2**	**51.8**	**755.5**
		23.1%	**35.4%**	**6.7%**	**2.2%**	**32.6%**

At December 31, 2014 the Group had at disposal additional not used euro 1,125 million related to a part of the committed credit facilities for euro 1.2 billion (euro 625 million available at December 31, 2013), which added to the euro 1,228.1 million related to cash and cash equivalents and securities held for trading provide the Group with a liquidity margin of euro 2,353.1 million.

The trend in cash flows for the period in terms of change in the net financial position is as follows:

(in millions of euro)

	1 Q		2 Q		3 Q		4 Q		TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Operating income (loss) before restructuring expenses	206.7	181.7	232.2	204.2	208.9	207.5	221.4	216.9	869.2	810.2
Amortisation and depreciation	70.6	71.3	73.3	72.1	76.0	70.0	78.9	71.4	298.8	284.8
Investments in property, plant and equipment and intangible assets	(65.3)	(79.7)	(78.3)	(84.3)	(101.1)	(74.3)	(133.4)	(174.8)	(378.1)	(413.1)
Change in working capital/other	(686.6)	(468.4)	77.4	(12.2)	(155.0)	(153.8)	714.6	678.3	(49.6)	43.9
Operating net cash flow	**(474.6)**	**(295.1)**	**304.6**	**179.8**	**28.8**	**49.4**	**881.5**	**791.9**	**740.3**	**725.8**
Ordinary financial income/(expenses)	(43.3)	(58.0)	(48.8)	(45.5)	(43.6)	(43.3)	(126.7)	(46.1)	(262.4)	(192.9)
Ordinary tax expenses	(53.5)	(42.2)	(61.3)	(59.0)	(49.5)	(50.3)	(9.0)	(57.5)	(173.3)	(209.0)
Ordinary net cash flow	**(571.4)**	**(395.3)**	**194.5**	**75.3**	**(64.3)**	**(44.2)**	**745.8**	**688.1**	**304.6**	**323.9**
Financial investments/disinvestments	(3.7)	-	2.8	-	(12.1)	(31.6)	(6.4)	(7.5)	(19.4)	(39.1)
Real estate disposals	-	-	-	-	-	26.5	-	-	-	26.5
Impact of consolidation of Sino Italiana Wire	-	-	-	-	-	-	-	(39.5)	-	(39.5)
Investments for Retail development	-	-	-	-	-	(4.1)	-	(7.9)	-	(12.0)
Other dividends paid to third parties	(0.5)	-	(2.9)	(3.1)	-	-	-	-	(3.4)	(3.1)
Cash Out for restructuring	(12.9)	(7.5)	(5.9)	(5.2)	(8.0)	(4.2)	(4.3)	(5.7)	(31.1)	(22.6)
Devaluation Venezuela included in financial expenses	-	-	-	-	-	-	72.1	-	72.1	-
Deferred taxes included in tax expenses	-	-	-	-	-	-	(30.2)	-	(30.2)	-
Net cash flow from discontinued operations	(8.7)	(22.6)	10.5	7.8	2.5	(4.9)	(4.3)	9.7	-	(10.0)
Differences from foreign currency translation/other	(46.0)	(49.6)	(11.9)	29.5	13.2	17.1	63.7	11.3	19.0	8.3
Net cash flow before dividends paid	**(643.2)**	**(475.0)**	**187.1**	**104.3**	**(68.7)**	**(45.4)**	**836.4**	**648.5**	**311.6**	**232.4**
Dividends paid by Parent	-	-	(156.7)	(156.7)	-	-	-	-	(156.7)	(156.7)
Impact Steelcord units disposal	-	-	-	-	-	-	187.9	-	187.9	-
Prelios: receivable conversion/share capital increase	-	-	-	-	-	(192.9)	-	-	-	(192.9)
Net cash flow	**(643.2)**	**(475.0)**	**30.4**	**(52.4)**	**(68.7)**	**(238.3)**	**1,024.3**	**648.5**	**342.8**	**(117.2)**

The **net cash flow from operations** in 2014 was positive for euro 740.3 million.
Total investments were made for approximately euro 378.1 million (euro 413.1 million in 2013), mainly for the increase of the Premium capacity in Europe, NAFTA and China and the improvement of the mix.

The **total net cash flow** in 2014, **before dividends and excluding the impact of operations already completed for partial disposal of steelcord**, was positive for euro 311.6 million (positive for euro 232.4 million in 2013), with strong cash generation in the fourth quarter related to the collections of seasonal markets and winter sales in Europe and Russia.

The **total cash flow** was positive for euro 342.8 million, in improvement over the previous year (negative for euro 117.2 million), including Parent Company dividend payments for euro 156.7 million, and the positive effect of the disposal of the steelcord business for euro 187.9 million.

The **total workforce** of the Group at December 31, 2014 was 37,561 compared to 37,979 at December 31, 2013.
The decrease includes the effect of the disposal in December of the steelcord business in Italy, Brazil and Romania for a total of 1,364 employees; net of this disposal the number of employees would grow by 946 compared to the previous year, mainly attributable to the increase in Premium production capacity in Mexico, China and Romania.
The following tables show the headcount breakdown by geographical area and by type:

GEOGRAPHICAL AREA	12/31/2014		12/31/2013	
Italy	3,162	8.4%	3,611	9.5%
Rest of Europe	11,574	30.8%	12,063	31.9%
of which Russia	*3,483*		*3,394*	
NAFTA	1,455	3.9%	1,152	3.0%
Central and South America	13,996	37.3%	14,244	37.5%
Middle Est/Africa	3,226	8.6%	3,311	8.7%
Asia/Pacific	4,148	11.0%	3,598	9.5%
Total workforce	**37,561**	**100.0%**	**37,979**	**100.0%**

TYPE	12/31/2014		12/31/2013	
Executives	313	0.8%	322	0.8%
White collar	7,024	18.7%	7,135	18.8%
Blue collar	27,776	74.0%	27,902	73.5%
Temps	2,448	6.5%	2,620	6.9%
Total workforce	**37,561**	**100.0%**	**37,979**	**100.0%**

CONSUMER BUSINESS

The table below shows the results compared with the corresponding period of 2013:

(in millions of euro)

CONSUMER	1 Q		2 Q		3 Q		4 Q		TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Net sales	**1,128.7**	**1,116.7**	**1,159.6**	**1,138.7**	**1,178.0**	**1,123.2**	**1,144.0**	**1,100.3**	**4,610.3**	**4,478.9**
yoy	*1.1%*		*1.8%*		*4.9%*		*4.0%*		*2.9%*	
Gross operating margin before restructuring expenses	219.4	194.8	245.1	203.5	228.0	211.9	242.2	229.4	934.7	839.6
% of net sales	*19.4%*	*17.4%*	*21.1%*	*17.9%*	*19.4%*	*18.9%*	*21.2%*	*20.8%*	*20.3%*	*18.7%*
Operating income (loss) before restructuring expenses	162.7	138.0	186.8	146.7	167.3	155.3	180.4	172.2	697.2	612.2
% of net sales	*14.4%*	*12.4%*	*16.1%*	*12.9%*	*14.2%*	*13.8%*	*15.8%*	*15.7%*	*15.1%*	*13.7%*
Restructuring expenses	(3.9)	(2.0)	(5.5)	(2.5)	(3.1)	(4.1)	(8.3)	(7.2)	(20.8)	(15.8)
Operating income (loss)	**158.8**	**136.0**	**181.3**	**144.2**	**164.2**	**151.2**	**172.1**	**165.0**	**676.4**	**596.4**
% of net sales	**14.1%**	**12.2%**	**15.6%**	**12.7%**	**13.9%**	**13.5%**	**15.0%**	**15.0%**	**14.7%**	**13.3%**

The table below provides a detailed breakdown of the market trend:

		1 Q	2 Q	1ST HALF 2014	3 Q	9 MONTHS 2014	4 Q	TOTAL YEAR
Europe (*)	Original Equipment	+9%	+3%	**+6%**	+2%	**+5%**	+2%	**+4%**
	Replacement	+9%	+6%	**+7%**	+1%	**+5%**	-8%	**+2%**
NAFTA	Original Equipment	+4%	+3%	**+4%**	+7%	**+5%**	+4%	**+5%**
	Replacement	+2%	+5%	**+3%**	+3%	**+3%**	+2%	**+3%**
South America	Original Equipment	-11%	-25%	**-19%**	-19%	**-19%**	-9%	**-17%**
	Replacement	+4%	+3%	**+4%**	+4%	**+4%**	+7%	**+5%**
China	Original Equipment	+10%	+12%	**+11%**	+6%	**+10%**	+9%	**+10%**

(*) including Turkey; excluding Russia

Net sales totalled euro 4,610.3 million, showing an organic growth of 8.9% (+2.9% including the impact of exchange rates) thanks to the following factors:

- the positive contribution of the volumes component +5.0% (+8.4% in mature markets, +3.7% in emerging markets, which were affected by the contracting in the Original Equipment market in South America -17%), higher than the market growth;
- the improvement of the price/mix (+3.9%) mainly due to the increasing weight of the Premium (55.0% of Consumer revenues in 2014 compared to 50.8% in 2013) and the increasing weight of sales in Europe and North America.

Premium revenues amounted to euro 2,536.0 million, a growth of 11.5% in total over the previous year (+13.2% excluding foreign exchange impact). This business segment recorded sustained growth in sales in all markets compared to 2013; in particular, the trend of strong business development in Europe (+8.1%), in APAC (+28.3%), Middle East, Africa (+17.6%) and Russia (+37.5%) is worth mentioning.

Below is the breakdown of the change in sales:

	1 Q		2 Q		3 Q		4 Q		CUMULATIVE AT 12/31	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Volume	5.9%	1.2%	4.3%	4.6%	5.3%	6.0%	4.5%	6.9%	5.0%	4.6%
of which Premium volume	*22.2%*	*4.0%*	*20.9%*	*12.9%*	*17.3%*	*19.1%*	*10.7%*	*27.5%*	*17.8%*	*15.3%*
Price/mix	4.4%	-0.5%	5.8%	5.7%	3.1%	3.1%	2.5%	5.1%	3.9%	3.2%
Change on a like-for-like basis	**10.3%**	**0.7%**	**10.1%**	**10.3%**	**8.4%**	**9.1%**	**7.0%**	**12.0%**	**8.9%**	**7.8%**
Translation effect	-9.2%	-3.7%	-8.3%	-4.7%	-3.5%	-8.5%	-3.0%	-9.4%	-6.0%	-6.5%
Total change	**1.1%**	**-3.0%**	**1.8%**	**5.6%**	**4.9%**	**0.6%**	**4.0%**	**2.6%**	**2.9%**	**1.3%**

Operating income before restructuring costs reached euro 697.2 million, with a margin of 15.1% compared to euro 612.2 million in 2013 (13.7% of sales). **Operating income** amounted to euro 676.4 million (with a margin of 14.7%), an increase of euro 80.0 million compared to euro 596.4 million in 2013 (13.3% margin).

The increase in profitability reflects:

- the improvement of the price/mix, thanks to the growing weight of Premium in all region, and to a greater weight of the Replacement channel;
- the growth in the volumes;
- the progressive achievement of internal efficiencies, the lower impact of start-up costs and better use of production capacity.

INDUSTRIAL BUSINESS

The table below shows the results compared with the corresponding period of 2013:

(in millions of euro)

INDUSTRIAL	1 Q		2 Q		3 Q		4 Q		TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Net sales	**340.8**	**388.3**	**351.7**	**429.2**	**361.2**	**366.2**	**343.5**	**368.0**	**1,397.2**	**1,551.7**
yoy	*-12.2%*		*-18.1%*		*-1.4%*		*-6.7%*		*-10.0%*	
Gross operating margin before restructuring expenses	60.9	63.0	63.6	77.3	59.2	70.4	58.5	69.6	242.2	280.3
% of net sales	*17.9%*	*16.2%*	*18.1%*	*18.0%*	*16.4%*	*19.2%*	*17.0%*	*18.9%*	*17.3%*	*18.1%*
Operating income (loss) before restructuring expenses	47.6	49.5	49.3	63.0	44.4	58.0	41.9	56.4	183.2	226.9
% of net sales	*14.0%*	*12.7%*	*14.0%*	*14.7%*	*12.3%*	*15.8%*	*12.2%*	*15.3%*	*13.1%*	*14.6%*
Restructuring expenses	(1.5)	(1.2)	(1.5)	(0.9)	(2.3)	(3.5)	(1.7)	(2.0)	(7.0)	(7.6)
Operating income (loss)	**46.1**	**48.3**	**47.8**	**62.1**	**42.1**	**54.5**	**40.2**	**54.4**	**176.2**	**219.3**
% of net sales	**13.5%**	**12.4%**	**13.6%**	**14.5%**	**11.7%**	**14.9%**	**11.7%**	**14.8%**	**12.6%**	**14.1%**

The table below provides a detailed breakdown of the market trend:

		1 Q	2 Q	1ST HALF 2014	3 Q	9 MONTHS 2014	4 Q	TOTAL YEAR
Europe (*)	Original Equipment	+7%	-4%	**+1%**	-5%	**-1%**	-12%	**-4%**
	Replacement	+14%	+2%	**+8%**	-3%	**+4%**	-1%	**+2%**
NAFTA	Original Equipment	+10%	+11%	**+10%**	+19%	**+13%**	+29%	**+16%**
	Replacement	+5%	+12%	**+8%**	+10%	**+9%**	+12%	**+10%**
South America	Original Equipment	-1%	-28%	**-16%**	-29%	**-20%**	-33%	**-23%**
	Replacement	+3%	-4%	**+0%**	-3%	**-1%**	-10%	**-3%**
China	Original Equipment	+13%	-7%	**+2%**	-11%	**-2%**	-16%	**-5%**
	Replacement	+3%	+4%	**+4%**	+5%	**+8%**	-2%	**+3%**

(*) including Turkey; excluding Russia

Net sales totalled euro 1,397.2 million, a 10% decrease compared to 2013 (euro 1,551.7 million), with the negative exchange rate component of 8.5%.
The significant improvement in the mix and the increase in prices (+5.0% growth in the price/mix) almost entirely offset the decline in volumes (-6.5%), mainly attributable to the contraction of the Latin American market from the second quarter of 2014.

Below is the breakdown of the change in sales:

	1 Q		2 Q		3 Q		4 Q		CUMULATIVE AT 12/31	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Volume	-2.2%	11.7%	-12.2%	20.6%	-3.6%	4.0%	-7.3%	-0.3%	-6.5%	8.7%
Price/mix	5.4%	1.4%	6.5%	3.6%	4.0%	0.9%	3.9%	2.5%	5.0%	2.1%
Change on a like-for-like basis	**3.2%**	**13.1%**	**-5.7%**	**24.2%**	**0.4%**	**4.9%**	**-3.4%**	**2.2%**	**-1.5%**	**10.8%**
Translation effect	-15.4%	-8.2%	-12.4%	-6.0%	-1.8%	-13.6%	-3.3%	-8.4%	-8.5%	-9.2%
Total change	**-12.2%**	**4.9%**	**-18.1%**	**18.2%**	**-1.4%**	**-8.7%**	**-6.7%**	**-6.2%**	**-10.0%**	**1.6%**

Operating income before restructuring costs amounted to euro 183.2 million, equivalent to 13.1% of sales (12.6% EBIT margin including restructuring costs of euro 7.0 million) and in reduction respect to euro 226.9 million as of 2013 (14.6% of net sales).
The **operating income**, in decrease compared to 2013, reflects the decline in volumes, the previously mentioned actions regarding the reduction of production and cost inflation of production factors in Latin America.

RESEARCH AND DEVELOPMENT ACTIVITIES

Pirelli has always placed the ability to innovate products, processes and materials at the centre of its growth strategy.
In 2014, research and development expenses totalled **euro 205.5 million** corresponding to **3.4% of sales**; those related to Premium were euro 174.5 million (6.9% of Premium revenues). Research and development focused on high-end products with significant results in terms of homologations. In 2014 Pirelli confirms its leadership in high-end Original Equipment with 266 new homologations, of which 213 regarding Premium and Prestige. Particular attention was paid to the marked products

that obtained 118 new homologations among the most prestigious and high performance cars such as, for example, Ferrari California, Porsche Macan and Land Rover Discovery Sport.
Electronics in the tyre (like the microchip contained in the Cyber Tyre that allows reading the different road conditions by sending to the vehicle information critical to the trim and driving safety) is a route of the Premium innovation strategy of Pirelli. CYBER FLEET™ is the innovative monitoring system developed by Pirelli for truck fleets. Thanks to a telematic box and special sensors applied on the inner surfaces of tyres in fact, the system transmits to the central infrastructure the values of the state of the tyres. This way, they monitor the main operating parameters such as pressure and temperature in real time reporting the situation to the fleet manager warning also in case of a puncture or other hazardous events.
The activity traditionally focused on the development of new Premium and high-end products was accompanied by increasing attention to reducing environmental impact. The leadership in green materials is developed mainly through research in biomaterials (silica from rice, natural rubber from alternative sources of tree rubber) and recycling.
Pirelli has been confirmed the sole supplier for the FIA Formula One World Championship until 2016. In July, in Silverstone, the first track test was held for the new 18-inch Pirelli tyre concept. The new tyres have been designed and built following the Pirelli Premium strategy. The 18-inch tyre looks bigger and more alike the Ultra High Performance road tyres, increasing the transfer of technology even more than today. The experience in Formula 1 allowed to develop within the R&D of Pirelli new simulation models that allow further reduction of the 'time-to-market' and improvement of the quality of designs related to road products, making them more performing and in line with the highest requirements and to improve dynamic understanding, depending on the temperature of work and the behaviour of materials.

BUSINESS OUTLOOK IN 2015

In 2015, China and mature markets will be the drivers of world economic development and will offset the volatility of the economy in South America and Russia. In particular, GDP growth is expected for Europe 1.7%, the United States +3.1% and China +6.5%. The global market for car tyres is expected to grow by 2.5% (about 1.46 billion pieces) driven by the development of the Premium segment expected to increase by 7% (+1% expected growth of non-Premium) thanks to a greater spread of high-end vehicles (9.3% Premium weight in the global fleet against 8.9% in 2014). In percentage terms, Premium in the world in 2015 will reach 25% of the global car tyre market, a growth of one percentage point over the previous year. In such a scenario Pirelli confirms the strategy of focusing on Premium with the aim to:

- improve in mature markets the positioning of the replacement channel by leveraging stronger presence in original equipment;
- seize the many Premium growth opportunities in emerging countries.

Based on the performance for the year 2014 and the market trends for the current year, for the year 2015 Pirelli expects the following results:

- EBIT of around euro 930 million after non-recurring and restructuring expenses;
- investments below euro 400 million;
- cash generation before dividends exceeding euro 300 million.

The consolidated turnover is forecast at around euro 6.4 billion due to the following drivers:

- growth of the price/mix component equal to or greater than + 4%;
- growth in Premium volumes equal to or greater than +10%;
- growth in overall volumes equal to or greater than +3%;
- negative translation effect forecast at about -1%;

- efficiencies for about euro 90 million, in line with the planned for the period 2014-2017 for a total of euro 350 million.

The target of Operating Income (EBIT) is expected to be approximately euro 930 million, after having incurred restructuring costs of approximately euro 40 million.
The 2015 targets conservatively assume the continuation of the difficult economic situation in Venezuela and Argentina, which in 2014 recorded a decline in real GDP respectively by about 3.5% and 1%, and high exchange rate volatility. The car tyre market is expected to decline year on year by 40% in Venezuela (-30% in 2014) and to be substantially stable in Argentina (-7.5% in 2014).

In particular, with reference to Venezuela, in 2015 the targets take into account a forecasted exchange rate of 20 bolivars to the US dollar which will lead to a devaluation of the net financial position in Venezuela for euro 70 million - already included in the forecast of cash generation before dividends exceeding euro 300 million - and a negative impact of approximately euro 30 million in terms of financial expenses for foreign exchange loss related to past trade payables.

In addition, the 2015 targets forecast for Venezuela temporary measures the impacts of which will be offset by efficiency actions in South America, such as reduction of production and momentary interruption of finished products import.

If the scenario were to be worse than the above, resulting in a further reduction of Venezuelan capacity up to 30%, and sales volumes in Argentina by 10%/15%, there would be a risk on the 2015 consolidated EBIT target (euro 930 million), estimated today at euro 30 million.

The contribution of Consumer and Industrial Businesses to the Group EBIT target of euro 930 million will be as follows:

CONSUMER

EBIT margin before restructuring costs expected equal to or greater than 16% of revenue in growth between +6%/+6.5% that will reach around euro 4.9 billion reflecting:

- growth in volumes of about +3% of which Premium development equal to or greater than +10%;
- growth of the price-mix equal to or greater than +4%;
- exchange rate impact -1%

INDUSTRIAL

EBIT margin of around 12% (substantially stable compared to 2014, net of the complete deconsolidation of the steelcord business) on turnover growth of +7%/+7.5% that equals to approximately euro 1.5 billion deriving from:

- increased volumes by +4.5%/+5%;
- price/mix of about +4.5%;
- exchange rate impact -2%.

It is recalled that following the sale of the steelcord business, in 2015 Industrial Business will suffer the total deconsolidation of the steelcord activities (which contribute to the Business Plan approximately euro 90 million to revenue net of "Intercompany Eliminations" and about euro 30 million to EBIT) and not just a component of activities to third parties already deconsolidated in 2014 (euro 73.5 million net of "Intercompany Eliminations" and about euro 7 million on EBIT). The investments are expected below euro 400 million and 37% will go to developing essentially Premium capacities and 35% to the improvement of mix and quality. Cash flow before dividends will exceed euro 300 million, with a ratio on turnover of about 4.7%.

HIGHLIGHTS OF OTHER ACTIVITIES

Other activities include Pirelli & C. Ambiente S.r.l. and PZero S.r.l. with the following breakdown:

(in millions of euro)

	PIRELLI AMBIENTE		PZERO		TOTAL OTHER BUSINESS	
	2014	2013	2014	2013	2014	2013
Net sales	**4.9**	**22.3**	**5.7**	**8.1**	**10.6**	**30.4**
Gross operating margin before restructuring expenses	(2.2)	(11.8)	(6.7)	(13.1)	(8.9)	(24.9)
Operating income (loss) before restructuring expenses	(3.8)	(14.9)	(7.4)	(14.0)	(11.2)	(28.9)
Restructuring expenses	(0.8)	(1.0)	(2.7)	(1.1)	(3.5)	(2.1)
Operating income (loss)	**(4.6)**	**(15.9)**	**(10.1)**	**(15.1)**	**(14.7)**	**(31.0)**

At December 31, 2014 **net sales** amounted to euro 10.6 million compared to euro 30.4 million in 2013; the decrease was due to the exit from the Gecam business in France, within Pirelli Ambiente activities. The **Operating Income (loss)** was negative for euro 14.7 million versus euro 31.0 million loss in 2013.

HIGHLIGHTS PARENT COMPANY

The table below shows the summary of key economic and financial data:

(in millions of euro)

	12/31/2014	12/31/2013
Operating income (loss)	28.6	24.3
Financial income/(expenses)	(10.0)	(3.3)
Net income (loss) from equity investments	192.7	199.2
Tax expenses	(46.7)	(28.3)
Net income (loss)	**258.0**	**191.9**
Financial assets	**1,439.6**	**1,536.1**
Equity	**2,056.2**	**1,940.0**
Net financial (liquidity)/debt position	**(389.1)**	**(227.1)**

Income from investments amounted to euro 192.7 million and mainly includes dividends for euro 312.9 million (of which euro 294 million distributed by the subsidiary Pirelli Tyre S.p.A.), the positive effect of euro 13.3 million deriving the replacement of the Prelios Bond (the "Convertendo") with the Prelios S.p.A. class A and B shares, partially offset by the impairment of equity investments in Prelios S.p.A. and Fenice S.r.l. (euro 85.2 million), in Alitalia S.p.A. for euro 11.2 million, in Pirelli & C. Ambiente S.r.l. for euro 16.2 million.
The change in **taxes**, positive for euro 74.9 million compared to 2013 is mainly attributable to the benefits deriving from the Group's Italian companies tax consolidation and the activation of deferred tax assets on previous tax losses as result of the improvement in the future plans of Italian companies.

The following table summarizes the values of the main **financial assets** at December 31, 2014:

(in millions of euro)

	12/31/2014
Equity investments in subsidiaries	
- Pirelli Tyre S.p.A.	1,085.8
- Pirelli Ltda - Brasil	9.7
- Pirelli & C. Ambiente S.r.l.	-
- Pirelli Labs S.p.A.	4.1
- Pirelli UK Ltd	21.8
- Pirelli Group Reinsurance Company S.A.	6.3
- Pzero Srl	4.9
- Pirelli Servizi Amministrazione e Tesoreria S.p.a.	3.2
- Other	5.3
Total equity investments in subsidiaries	**1,141.1**
Equity investments in associates and other financial assets	
- Eurostazioni S.p.A.	52.9
- Prelios S.p.A.	56.0
- Fenice S.r.l.	16.0
- Mediobanca S.p.A.	106.7
- RCS Mediagroup S.p.A.	21.6
- Fin. Priv. S.r.l.	14.5
- Real Estate Investment Fund - Anastasia	14.8
- Alitalia S.p.A.	5.3
- European Institute of Oncology (Istituto Europeo di Oncologia S.r.l.)	5.4
- Other	5.3
Total equity investments in associates and other financial assets	**298.5**
Total financial assets	**1,439.6**

Equity went from euro 1,940.0 million as at December 31, 2013 to euro 2,056.2 million as at December 31, 2014. The change is shown in the following table:

(in millions of euro)

Equity at 12/31/2013	**1,940.0**
Net income (loss)	258.0
Dividends paid	(156.7)
Gains/(losses) recognised directly in Equity	14.9
Equity at 12/31/2014	**2,056.2**

The following table shows the composition of equity at December 31, 2014 and the comparison with the year ended December 31, 2013.

(in millions of euro)

	12/31/2014	12/31/2013
Share capital	1,343.3	1,343.3
Legal reserve	139.2	129.6
Merger reserve	12.4	12.4
IAS reserve	57.5	42.6
Retained earnings	245.8	220.2
Net icome (loss)	258.0	191.9
	2,056.2	**1,940.0**

The **net financial position**, positive for euro 389.1 million at December 31, 2014 compared to euro 227.1 million at December 31, 2013, was affected chiefly by the following factors:

- collection of dividends for euro 312.9 million;
- capital increase in subsidiaries for euro 13 million and investments in other companies for euro 5.3 million;
- payment of dividends to shareholders for euro 156.7 million.

RISK FACTORS AND UNCERTAINTY

The volatility in the macroeconomic context, financial market instability, management processes complexity and continuous legislative and regulatory evolution entail a renewed capacity to protect and maximise tangible and intangible sources of value that characterise the corporate business model. Pirelli adopts a pro-active risk management system which, by systematically identifying, analysing and assessing risk-prone areas, provides the Board of Directors and management with decision-making tools so that they can anticipate and manage the effects of these risks, guided by the awareness that the assumption of risk is a fundamental part of business management.
The Pirelli Risk Model systematically assesses three categories of risks: external risks, strategic risks and operating risks.

1. EXTERNAL RISKS

Risks whose occurrence is outside the sphere of influence of the company. This category includes risks related to macroeconomic trends, changes in demand, competitor strategy, technological innovation, the introduction of new regulations, and country-specific risks (economic, security, political and environmental risks).

2. STRATEGIC RISKS

Risks that are typical for a specific business sector. Proper management of these risks is a source of competitive advantage or, on the contrary, a cause for failure to achieve plan targets (three-yearly and yearly). This category includes market risk, product innovation and process risk, human resources, raw material price risk, production process risk, financial risk and M&A risk.

3. OPERATIONAL RISKS

Risks generated by the organization and corporate processes, which do not bring any competitive advantage. This type of risks includes Information Technology, Business Interruption, Legal & Compliance, Health, Safety & Environment and Security risks.

Transversal to the risks mentioned above are **social, environmental and business ethics responsibility risks and reputational risks.**
Risks associated with social-environmental responsibility and business ethics are risks associated with non-compliance with local and international regulations and corporate policies regarding respect for human and labour rights, the environment, business ethics and can be generated both by the organization and as part of its value chain, as well as within the supply chain. These risks in turn can lead to reputational risks.

Reputational risks are related to actions or events that could engender a negative perception of the company by its main stakeholders. The main areas of risk in this category are, in addition to the aforementioned risks related to social-environmental responsibility and business ethics, also the inherent risks of leadership, quality and the level of product innovation.

System of risk management and internal control in relation to the financial reporting process.
The company has implemented a specific and detailed system of risk management and internal control, supported by a dedicated IT application, in relation to the process of preparing financial half-year and annual separate and consolidated statements.
In general, the internal control system implemented by the company aims to ensure the safeguarding of equity, compliance with laws and regulations, the efficiency and effectiveness of corporate operations as well as the reliability, accuracy and timeliness of financial reporting.
In particular, the process of preparing financial information is through appropriate administrative and accounting procedures, drawn up in accordance with criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of Tradeway Commission.
The administrative/accounting procedures for the preparation of Financial Statements and all other financial reports are prepared under the responsibility of the Corporate Financial Reporting Manager who, together with the Chairman of the Board of Directors, shall certify the adequacy and effective application in the Parent/consolidated Financial Statements and the Interim financial report.

To enable certification by the Responsible Officer, the companies and relevant processes that feed and generate economic, equity or financial information have been mapped. The identification of companies belonging to the Group and key processes is done annually on the basis of quantitative and qualitative criteria. The quantitative criteria involve the identification of the Group companies that, in relation to the selected processes, represent an aggregate value exceeding a certain threshold of materiality.
Qualitative criteria involve the examination of processes and of companies that, in the opinion of the Chief Executive Officer and Chief Financial Officer of the business sectors, may present potential areas of risk, though not included in the quantitative parameters described above.
For each selected process, the risk/control objectives have been identified related to the preparation of Financial Statements and related disclosures as well as the effectiveness/efficiency of the internal control system in general.
For each control objective verification activities have been implemented and specific responsibilities have been assigned.
A supervisory system was implemented on the controls performed by a mechanism of chain certifications; any problems that emerge in the evaluation process are the subject of action plans whose implementation is verified in subsequent closings.
Lastly, a quarterly release was finally scheduled by the Chief Executive Officer and Chief Financial Officer of the subsidiaries of a declaration of reliability and accuracy of the data sent for the purpose of preparing the consolidated Group Financial Statement.
Around the dates of the Board of Directors approving the consolidated data at June 30 and December 31, the results of the verification activities are discussed by the Chief Financial Officer of the Sectors with the Responsible Officer.
In summary, a system has been adopted for continuous and systematic controls that provide reasonable assurance regarding the reliability of the information and of the economic and financial reporting.
The Internal Audit Department performs regular audits aimed at verifying the adequacy of the design and operation of random controls on companies and processes, selected on the basis of materiality.
On the basis of regular reports, the Responsible Officer reported to the Board of Directors on the effectiveness of the System, through the Audit, Risks, Sustainability and Corporate Governance Committee. The same Responsible Officer, together with the Chairman of the Board of Directors, also provided the declaration pursuant to paragraph 5 of article 154-bis of the CFA.

1. EXTERNAL RISKS

Risks associated with general economic conditions and changing demand in the medium term

As described under the sections “Macroeconomic and market scenario 2014” and “Outlook 2015”, after a 2014 still marked by a high level of uncertainty, Pirelli expects a gradual, though not particularly significant, acceleration of the world economy during 2015, driven largely by the recovery in the advanced economies (mostly the USA). The performance of emerging markets (especially oil exporters) will on the other hand continue to be affected by the current weakness in commodity prices. Elements of uncertainty will remain and might derive, inter alia, from the normalization of the monetary policies in the United States, possible political tensions in the more economically fragile emerging countries and, last but not least, geopolitical tensions in the Middle East and Ukraine.

Country risk

Pirelli adopts a “local for local” strategy creating productive presences in rapidly developing countries to respond to local demand with competitive industrial and logistic costs. This strategy increases the competitiveness of the Group also allowing overcoming the phenomenon of strengthening “trading blocs” and the increase of protectionist measures (customs barriers or other measures such as technical prerequisites, product certification, administrative costs related to import procedures, etc.).
Under the strategy, Pirelli operates in countries (Argentina, Brazil, Mexico, Russia, China, Egypt, Turkey, Venezuela and Indonesia) where the general economic and political context and tax regime may prove unstable in the future.
In fact, structural elements of risk persist in Latam area, identifiable especially in the political-economic scenario of Venezuela and Argentina, and in Egypt, where, to date, the political and social instability is still dominant and has led over the past three years to an alteration of the normal market dynamics and, more generally, the operating conditions of business. To these scenarios of uncertainty, during the latter part of 2014, the current economic and political crises in the region Ukraine was then added, whose implication in the medium to long term remains to this day still very uncertain.
The Group constantly monitors the evolution of risks (political, economic / financial and security) related to the countries in which it operates in order to continue to adopt timely (and if possible in advance) measures to mitigate the potential impacts of changes in the local context. Moreover, in situations of under utilization of the capacity of some factories, shifts in production between Group plants are possible.

Risks related to changes in demand in the long term

Over the last few decades, some social and technological trends have emerged that might have a material impact over the medium-long term on the automotive sector and indirectly on the tyre market. On the one hand, these are represented by growing urbanisation (according to United Nations estimates, about 70% of the global population will live in urban areas in 2050) and, on the other hand, by changes in the values and behaviour of younger generations (increase in the average age when a driver’s license is obtained, loss of importance of owning a car, increased recourse to various types of car sharing).
These factors will be complemented by the spread of information technologies, with a concurrent expansion of e-commerce and/or telecommuting, and frequent regulatory changes in both mature and emerging economies to limit the presence of polluting vehicles within and near metropolitan areas. These dynamics might be followed by an evolution in automotive sector demand (from changes to vehicle dimensions or type of propulsion system to possible resizing of cars to satisfy the transportation preferences of citizens), with contingent impact on tyre sector dynamics.
Pirelli constantly monitors the evolutionary changes in automotive sector demand by actively participating in international working groups, such as the one engaged in the Sustainable Mobility 2.0 (SMP 2.0) project sponsored by the World Business Council for Sustainable Development (WBCSD). The principal aim of SMP 2.0 is to study the possible long-term evolution in urban mobility and promote solu-

tions that might improve the social, environmental and economic well-being of the urban population.

2. STRATEGIC RISKS

Risks related to the trend in prices and availability of raw materials

Natural rubber, synthetic rubber and raw materials related to oil (in particular chemicals and carbon black) will continue to be a factor of uncertainty in the cost structure of the Group, given the strong volatility in recent years and their impact on the cost of the finished product (approximately 35% of sales in 2014).
For the main raw materials purchased by the Group possible price scenarios are constantly simulated in relation to the historical volatility and/or the best information available on the market (ex. forward prices). Based on different scenarios, increases in selling prices and/or the different internal actions for recovery of cost efficiency (use of alternative raw materials, reduction of product weight, improvement of process quality and reduction in waste levels) are identified and which are necessary to ensure the levels of profitability expected.

Financial risks

The Group is exposed to financial risks, mainly related to the exchange rate, obtaining financial resources on the market, fluctuations in interest rates, the ability of customers to meet their obligations to the Group and the price of financial assets held in the portfolio. Financial risk management is an integral part of Group business management and is handled directly by the headquarters in accordance with guidelines issued by the Finance Department on the basis of general risk management strategies identified by the Managerial Risk Committee.

Exchange rate risk

The geographical distribution of Pirelli production and commercial activities entails exposure to "transaction" and "translation" exchange rate risk.
The currency translation risk is generated by commercial and financial transactions made in individual companies in currencies other than the functional one, due to fluctuations in exchange rates between the time when the commercial/financial relationship originates and when the transaction is completed (collection/payment).

The Group policy is to minimize the impact of transaction exchange rate risk related to volatility; consequently, Group procedures make the Operating Units responsible for collecting complete information about all positions that are subject to transaction exchange rate risk (mainly represented by receivables and payables in foreign currency). This risk is hedged with forward contracts made, where possible, with the Group Treasury.

The managed positions subject to exchange rate risk are mainly represented by receivables and payables denominated in foreign currency.

The Group Treasury is responsible for hedging the net position for each currency and, in accordance with established guidelines and restrictions, it closes all risk positions by trading derivative hedging contracts on the market, which typically take the form of forward contracts.

Furthermore, as part of the annual and three-year planning process, the Group makes exchange rate forecasts by using the best information available on the market. The fluctuation in the exchange rate between the time of planning and the time when a commercial or financial transaction originates results in a currency translation risk on future transactions with respect to the objectives communicated to the market. Each time, the Group assesses the need to engage in hedging transactions on future

transactions for which it typically uses both forward and optional purchase or sale transactions such as risk reversal (i.e., zero cost collar).
Pirelli owns controlling interests in companies that prepare their Financial Statements in currencies other than the euro, which is used to prepare the consolidated Financial Statement. This exposes the Group to currency translation risk, due to the conversion into euro of the assets and liabilities of subsidiaries operating in other currencies. The principal exposures to currency translation risk are constantly monitored and it is not currently deemed necessary to adopt specific policies to hedge this exposure.

The year 2014 saw a significant depreciation of the main currencies of emerging of interest to Pirelli against the US dollar (USD), above all the Venezuelan Bolivar, Argentine Peso, Turkish Lira and, to a lesser extent, the Brazilian Real and Egyptian Pound. This general trend of depreciation of emerging currencies, partly due to exogenous factors - such as the monetary policies of the US Central Bank - and specific internal macroeconomic conditions, combined with a euro value against the US dollar stronger than expectations in the first part of the year resulted in an overall negative effect for the Group.

As for 2015, Pirelli expects - in line with the main market operators - a continuation of the current trend of depreciation of the main currencies of emerging countries attributable, once again, to the effect of the change in monetary policies by the Federal Reserve and specific elements of country risk (with particular reference to the Venezuelan Bolivar and the Argentine Peso).
Finally, as regards the euro/US dollar exchange, Pirelli expects a weaker euro compared to the levels at the end of 2014. Also in this case, significant elements of uncertainty remain, such as, among other things, the monetary policy decisions to be taken by the Central banks on both sides of the Atlantic.

Liquidity risk

The principal instruments used by the Group to manage the risk of insufficient financial resources available to meet the financial and commercial obligations in the terms and deadlines established, are comprised by its annual and three-year financial and cash-pooling plans. These allow complete and fair detection and measurement of incoming and outgoing cash flows. The differences between plans and actual data are constantly analysed.
The Group has implemented a centralised cash pooling system for the management of collection and payment flows in compliance with various local currency and tax regulations. Banking relationships are negotiated and managed centrally, in order to ensure coverage of short and medium-term financial needs at the lowest possible cost. The procurement of medium and long-term resources on the capital market is also streamlined through centralised management.
Prudent management of the risk described above requires the maintaining of an adequate level of cash or cash equivalents and/or highly liquid short-term financial instruments, and the availability of funds through an adequate amount of committed credit facilities and/or recourse to the capital market.
In addition to the available portion of the revolving credit facility of euro 1.2 billion maturing November 30, 2015, which in December 2014 is used for euro 75 million, the Pirelli Group resorts to the capital market by diversifying products and deadlines to seize the best opportunities available each time. For example, in November 2014, a bond issue of euro 600 million with 5-year duration was placed with qualified investors as part of EMTN (Euro Medium Term Note) program - document platform for the issuance of bonds on the Euromarket - whose maximum amount was set at euro 2 billion.

Interest rate risk

Fluctuations in interest rates affect the market value of financial assets and liabilities of the Group and net financial expenses.
Group policy tends to maintain the following ratio between fixed rate and variable rate exposures: 70% fixed and 30% variable.
In order to maintain this trend ratio, the Group enters into derivative contracts, typically interest rate swaps.

Price risk associated with financial assets

The Group is exposed to price risk only regarding the volatility of financial assets such as listed and unlisted stocks and bonds, representing 3.2% of total assets of the Group. Derivatives hedges are not normally set up to limit the volatility of these assets.

Credit risk

Credit risk represents Group exposure to contingent losses resulting from default by commercial and financial counterparties.
Regarding commercial counterparties, in order to limit this risk, Pirelli has implemented procedures to evaluate its customers' potential and financial solidity, monitor expected incoming cash flows and take credit recovery action if necessary. The aim of these procedures is to define customer credit limits. Further sales are suspended when those limits are exceeded. In certain cases customers are asked to provide guarantees. These mainly consist of bank guarantees issued by parties with the highest credit standing, or personal guarantees.
Less frequently, mortgage guarantees may be requested.
Another tool used for risk management of commercial receivables are insurance policies: as of January 2012 the company signed a two-year master agreement with a leading insurance company for worldwide coverage (Egypt, Venezuela and China are excluded from the policy) of the credit risk mainly related to sales of the spare parts segment (with about 77% of acceptance rate in December 2014).
The master agreement above has also been renewed for 2014.
In the course of 2014 the general situation of trade receivables remained essentially in line with the closing of the previous year.

The Group operates only with highly rated financial counterparties for the management of its temporary cash surpluses or trading in derivative instruments.
Pirelli does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system and does not have significant concentrations of credit risk.

3. OPERATIONAL RISK

Environmental risks

Activities and products of the Pirelli Group are subject to numerous environmental regulations related to the specificity of the different countries in which the Group operates. These regulations have in common their tendency to evolve in an ever more restrictive manner, also because of the growing concern of the international community over the issue of environmental sustainability. Pirelli expects a gradual introduction of ever stricter laws in relation to the various environmental aspects on which companies may impact (atmospheric emissions, waste generation, impacts on soil, water use, etc.), by virtue of which the Group expects to have to continue to make investments and/or incur costs that could be significant.
In regard to the impacts from climate change, no significant risks have been found in relation to production processes or markets in which the Company operates. Instead, in terms of opportunities, Pirelli Green Performance tyres exhibit growth potential, given the relevant lower environmental impact and the possible regulatory evolution in many countries as it was in Europe with European labelling standards.

Employee health and safety risks

The Pirelli Group, in the exercise of its activities, incurs expenses and costs for the actions necessary to ensure full compliance with the obligations under the regulations regarding health and safety in the workplace. In Italy in particular the law relating to health and safety in the workplace (Legislative Decree 81/08) and subsequent updates (Legislative Decree 106/09) have introduced new obligations that have impacted on the management of activities at Pirelli sites and the models for allocating responsibilities. Failure to comply with current legislation involves criminal and/or civil penalties against those responsible and, in some cases of violation of the legislation on health and safety against the Companies themselves, according to a European model of objective liability of companies incorporated in Italy (Legislative Decree 231/01).

Product defect risk

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

Litigation risks

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

Risks associated with human resources

The Group is exposed to the risk of loss of resources in key positions or with "critical know how". To address this risk, the Group adopts remuneration policies periodically updated also based on changes in the general macroeconomic scenario as well as on the basis of salary benchmarks. There are also long-term incentive plans and specific non-competition agreements (also with retention effect). Finally, specific "management" policies are adopted to motivate and retain talent.

Risks related to information systems and network infrastructure

The Group's operating activities are increasingly dependent on the proper and uninterrupted operation of information systems and network infrastructure in support of business processes. Accidental human errors, access by unauthorized third parties, vulnerabilities in security systems and/or "simple" failure or malfunction of systems and network infrastructure could have negative impacts on operating activities, cause loss of critical business information, have negative repercussions on corporate image and/or determine the risk of non-compliance with laws and regulations.
Based on the main risks identified in the analyses performed in previous years, in 2014 the Group focused on the preparation of a new technical and organizational solution of Disaster Recovery to strengthen the ability to ensure continuity of the support systems of business activities.
Particular attention was paid to the implementation of policies to increase controls to ensure further strengthening of the monitoring of IT security for offices and factories, infrastructural and application, also by introducing new technologies of logical protection to mitigate the new risk scenarios detected: Mobile, Cloud, Internet Of Things. With this same focus technologies were also introduced aimed at the protection and traceability of the most critical know-how through the adoption of file classification and encryption tools.

In order to raise staff awareness on cyber risks related to Internet navigation and the use of social networks, an awareness campaign has been initiated for all staff regarding the proper use of IT tools. Also, to limit the risk of blackouts of IT services at the branch offices and factories, a type of network was designed with the increased widespread presence of redundant connectivity for each premise and the use of different providers and technologies.

Business interruption risks

The territorial fragmentation of the operating activities of the Group and their interconnection expose it to risk scenarios that could cause the interruption of business operations for more or less prolonged periods, with the consequent affect on the "operational" capabilities and results of the Group itself. Risk scenarios related to natural events or accidents (fires, floods, earthquakes, etc.), wilful misconduct (vandalism, sabotage, etc.), the failure of the auxiliary plants or interruption of the supply of utilities can, in fact, cause significant property damage, reduction and/or interruption of production, particularly if the event concerns production sites with high volumes or specific products (high-end). Pirelli monitors vulnerability to catastrophic natural events (in particular flood, hurricane and earthquake) with estimates of potential damage (given the probability of occurrence) of all the Group's production sites. The analyses confirm adequate monitoring of the Business interruption risks, thanks to a comprehensive series of security measures, prevention systems of harmful events and mitigation of potential impacts on the business, also in light of the current business continuity plans as well as insurance policies in place to cover property damage and business interruption. With reference to the earthquake risk, and specifically to the facility in Turkey, particularly significant seismic events could result in losses exceeding the limits insured resulting in negative impact on operating results.
Even the Pirelli supply chain, with particular attention to the Tier-1 suppliers is subject to assessment in relation to the potential business interruption risks. The Group has therefore implemented a series of mitigation measures to reduce the vulnerability of the supply chain; in particular extension of the portfolio of approved plants for each supplier, approval of materials/alternative suppliers, increased levels of safety stock of critical materials, etc.

REPUTATIONAL AND SOCIAL-ENVIRONMENTAL RESPONSIBILITY RISKS

Reputational risks

Since 2013 Pirelli has decided to develop an ad hoc method to identify and measure reputational risks, construed as the present or prospective risk of lost profits or lower share price resulting from negative perception of the Company by one or more stakeholders. While on the one hand reputational risk has to be construed as the contingent occurrence of a negative event tied to one of the three macro-families of risks mentioned above, on the other hand it must be managed as an independent event precisely because its scope depends on the expectations of stakeholders and the impact of the negative event.

In 2014, the chosen methodology resulted in the identification of 24 reputational risks specific to Pirelli. This mapping derives from the analysis of a series of internal and external drivers including: negative events with an impact on reputation which occurred in the sector worldwide over the last ten years; interviews with external Key Opinion Leaders on sector trends, particularly mobility and sustainability; interviews with internal Key Opinion Leaders. The identified risk events were then measured by the stakeholders general public in the five key countries for the Group and led to definition of the governance and management structures, as well as the preparation of any mitigation and/or crisis management plans.

Risks in social, environmental, business ethics responsibility and third-party audit

Risk management at Pirelli is enterprise-wide and includes the identification, analysis and monitoring of environmental, social, financial and business ethics risks that are directly or indirectly associated with the company, at Pirelli affiliates or in relations with them, such as sustainability of the supply chain.
Ad hoc assessments are also carried out before entering a specific market, in order to assess any political, financial, environmental and social risks, including those connected with human and labour rights. Together with constant co-ordination and monitoring at the corporate level, compliance with Pirelli rules on economic, social (especially human rights and labour rights), environmental and business ethics sustainability is assessed through periodic audits commissioned by Pirelli from specialised external firms, in addition to the extensive activities of the Internal Audit Department.
Particular attention is devoted to the sustainability of Pirelli sites and those of company suppliers operating in emerging countries.
Again during 2014 Pirelli commissioned third-party Audits of its suppliers, in addition to continuing internal monitoring through the activities of the Internal Audit Department.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

On **January 9, 2015** Pirelli signed a contract for a new revolving credit facility (euro 800 million) and a term loan multicurrency (euro 200 million) for a total value of euro 1 billion and five-year term. The contract replaces the existing revolving credit facility for euro 1.2 billion maturing in November 2015 which therefore is being extinguished in advance. In addition, on **February 13, 2015** an additional contract having substantially the same conditions of the abovementioned credit facility and for a total value of euro 200 million and five-year term was signed.

On **January 27, 2015** the Special Meeting of Pirelli & C. S.p.A. savings shares holders, appointed Angelo Cardarelli as common representative for the years 2015, 2016 and 2017 in place of Professor Giuseppe Niccolini.

On **February 6, 2015** Pirelli and Bekaert announced the closing of the disposal of Pirelli steelcord activities in Turkey (Izmit) to Bekaert. On March 27, 2015, with the disposal of the steelcord in China (Yanzhou), the transfer of all steelcord activities from Pirelli to Bekaert was completed. In line with what was comunicated to the market in February 2014 on the occasion of the announcement of the transaction, the total value (enterprise value) of 100% of steelcord activities is confirmed at euro 255 million.

On **February 12, 2015** the Board of Directors of Pirelli & C. S.p.A. examined the preliminary, unaudited results of 2014 operations.

On **March 22, 2015** China National Tire & Rubber Co. (CNRC), a subsidiary of ChemChina's (ChemChina), Camfin S.p.A. (Camfin) and shareholders of Camfin (Coinv S.p.A. and Long-Term Investments Luxembourg S.A.) signed a binding long-term industrial partnership agreement related to Pirelli.
The partnership has a stated objective of strengthening the development plans of Pirelli, the presence in the strategic geographical areas and the doubling of volumes in the Industrial segment (from about 6 million to about 12 million tires) through the future integration of CNRC and Pirelli's Industrial tire activities. Continuity and autonomy of the current managerial structure of Pirelli Group are the key elements of the agreement.
The transaction provides for the appointment of the President by CNRC and the permanence of Marco Tronchetti Provera as CEO of Pirelli.
Pirelli headquarter and know-how will remain in Italy: reinforced majorities are required to authorize the transfer of both the Headquarter and Pirelli know-how to third parties.
The agreement foresees:

- the purchase by an Italian company of the newly established company (Bidco), the latter being indirectly controlled by CNRC in partnership with Camfin through two newly established Italian companies (Newco and Holdco), that will represent Camfin's equity investment in Pirelli's share capital;
- the immediate reinvestment of a share of sales revenues by Camfin;
- upon completion of the purchase, a Public Mandatory Takeover Bid for the remaining ordinary share capital of Pirelli at euro 15.00 per ordinary share and a Public Voluntary Takeover Bid for all the savings capital of Pirelli at euro 15.00 per savings share, on the condition that not less than 30% of the savings capital is achieved. Both mandatory and voluntary Opa will be launched by Bidco in order to proceed to the delisting of Pirelli;
- the payment of 2014 dividends before the purchase by Bidco of Pirelli shares held by Camfin.

The completion of the transaction is subject to the conditions typical of a transaction of this type and is expected in the summer of 2015 upon the approval by antitrust and other relevant authorities. Extracts of the shareholders' agreements related to the abovementioned partnership are available on Pirelli's website.

ALTERNATIVE PERFORMANCE INDICATORS

This document, in addition to the financial figures provided by the International Financial Reporting Standards (IFRS), also includes figures derived from the latter, although not required by IFRS (Non-GAAP Measures). These measures are presented in order to allow a better assessment of the Group's operations and shall not be considered alternatives to those required by IFRS.
In particular, the Non-GAAP Measures used are as follows:

- **Gross Operating Margin (EBITDA):** EBITDA is an intermediate economic figure derived from operating income (loss), which excludes the depreciation of tangible and the amortization of intangible assets;
- **Fixed Assets:** this figure is the sum of "property, plant and equipment", "intangible assets", "investments in associates and joint ventures" and "other financial assets";
- **Provisions:** this figure is the sum of "provisions for liabilities and charges (current and non-current)", "personnel provisions" and "provisions for deferred taxes";
- **Operating Working Capital:** this figure is the sum of "inventory", "trade receivables" and "trade payables";
- **Net Working Capital:** this figure consists of the operating working capital and other receivables

and payables not included in “net financial position”;

- **Net Financial Position:** this figure is represented by gross financial debt less cash and cash equivalents and other financial receivables. The section “Explanatory Notes to the Consolidated Financial Statements” includes a table showing the balance sheet items used for the calculation.

OTHER INFORMATION

Information on ownership structures

The information referred to in article 123 bis of Legislative Decree February 24, 1998 no. 58 is included in the specific section of this report entitled “Report on Corporate Governance and Ownership Structure”, included in the Annual Report and published in the Governance section of the Company’s website (*www.pirelli.com*).

Security policy document

Although the Decree Law of February 9, 2012 no. 5 (containing the “Urgent provisions on simplification and development”) converted, with amendments, by Law April 4, 2012 no. 35, repealed the obligation to prepare/update the Security Policy Document, it is noted that Pirelli & C. S.p.A. however updated the above document for the year 2014, in order to allow effective monitoring of the adoption and compliance with the safety measures.

Foreign subsidiaries outside the European Union (non-EU companies)

Pirelli & C. S.p.A. controls, directly or indirectly, companies based in countries outside the European Union (non-EU Companies) which have particular significance in accordance with article 36 of Consob Regulation 16191/2007 concerning markets (“Markets Regulation”).
With reference to December 31, 2014, the significant non-EU Companies controlled, directly or indirectly, by Pirelli & C. S.p.A. under article 36 of the Market Regulation are Limited Liability Company Pirelli Tyre Russia (Russia); Pirelli Pneus Ltda (Brazil); Comercial e Importadora de Pneus Ltda (Brazil); Pirelli Tire LLC (USA); Pirelli Tyre Co. Ltd (China); Turk Pirelli Lastikleri A.S. (Turkey); Alexandria Tire Company S.A.E. (Egypt); Pirelli de Venezuela C.A. (Venezuela); Pirelli Neumaticos S.A.I.C. (Argentina); Pirelli Neumaticos S.A. de C.V. (Mexico).

Also under the same regulations, the Company has put in place a specific and appropriate “Group Operating Regulation” which ensures immediate, constant and full compliance with the provisions contained in the aforementioned Consob regulation. In particular, the competent corporate departments ensure a timely and periodical identification and publication of significant non-EU companies under the Market Regulation, and - with the necessary and appropriate collaboration of the companies involved - ensure the collection of data and information and the verification of the circumstances referred to in article 36, ensuring the availability of the information and data provided by the subsidiaries in the event of a request by Consob. It also requires a regular flow of information to ensure the Board of Statutory Auditors of the Company carry out the required and appropriate verifications. Finally, the above “Operating Regulation”, in line with the regulatory provisions, governs the provision to the public of Financial Statements (balance sheet and income statement) of the significant non-EU companies provided for the purpose of preparing the consolidated Financial Statements.
It shall therefore be noted that the company is fully compliant with the provisions of art. 36 of the aforementioned Consob Regulation 16191/2007 and the subsistence of the conditions required by the same.

Related Party Transactions

Under article 5 paragraph 8 of Consob Regulation no. 17221 of March 12, 2010 on Related Party Transactions, and the subsequent Consob Resolution no. 17389 of June 23, 2010, it shall be noted that in the period 1.1.2014 - 12.31.2014 no transaction of significant importance as defined by article 3 paragraph 1, letter a) of the aforementioned Regulation was submitted to the Board of Directors of Pirelli for approval.
Moreover, there are no Related Party Transactions that significantly affected the financial position or results of the group.
Lastly, there were no significant related party transactions, including non-recurring or unusual and/or atypical infra-group transactions.
The information on related party transactions required by Consob Communication no. DEM/6064293 of July 28, 2006 is presented in the Financial Statements and the Note titled "Related party transactions" in the annual Financial Statements at December 31, 2014.

Lastly, in the course of 2010, the Board approved for the first time the Procedure for Related Party Transactions also in order to implement the aforementioned Consob Regulation. In addition, during the year 2013 (November 5, 2013), also in implementation of a specific recommendation of Consob, the Board of Directors, after consulting the competent Committee, evaluated the Procedure for Related Party Transactions still valid and effective and that was implemented, without any changes, even by the Board of Directors appointed on June 12, 2014. After obtaining the opinion from the Committee for Related Party Transactions, the Board of Directors on March 31, 2015 introduced marginal modifications regarding some organizational changes in the procedure for related parties.
For more details on the procedure for Related Party Transactions, reference is made to the section Directors' Interests and Related Party Transactions of the Annual Report on Corporate Governance and the aforementioned procedure published on the company website *www.pirelli.com*.

Waiver to publish disclosure documents

The Board of Directors, taking into account the simplification of compliance procedures introduced by Consob in the Issuers' Regulations 11971/99, voted to avail itself of the faculty to derogate, in line with the provisions of art. 70, para. 8, and art. 71, para. 1-bis of said regulations, from the obligation to publish the compulsory information documents when there are significant events concerning mergers, spin-offs, capital increase through contribution in kind, acquisitions and disposals.

The Board of Directors
Milan, March 31 2015

REPORT ON VALUE CHAIN RESPONSIBLE MANAGEMENT

INTRODUCTION

This section of the report explores the management model of the relationship between Pirelli and its stakeholders, aimed at creating shared value and functional development of the financial, production, intellectual, human, natural, social and relational capitals.
From the dialogue with stakeholders comes the materiality matrix of the elements of sustainable management (shown below), to which the 2020 sustainability targets within Company Plan (described in the following section) are fully aligned.
This section addresses the analysis of the relationships and performance relating to stakeholders through three main areas, namely:

- **Economic Dimension,** which sets out the distribution of added value as well as relationships and performance relating to shareholders, customers and suppliers;
- **Environmental Dimension** which describes sustainable management throughout the entire life cycle of the product;
- **Social Dimension,** which includes sections dedicated to Human Rights Governance, Internal Community and External Community.

The quantitative data reported show the evolution in 2014 compared to 2013 and 2012, with a view to the 2015 and/or multi-annual targets.
For detailed reading about the aknowledgements received by Pirelli in 2014, whose diversity reflects the sustainable approach across the value chain and to the stakeholders as a whole, please see the specific section on the Pirelli website: www.pirelli.com/corporate/it/channel/sustainability.

STAKEHOLDER ENGAGEMENT

Pirelli's role in the economic and social context is inseparably tied to its capacity to create value with a multi-stakeholder approach, which means it pursues sustainable and lasting growth capable of achieving the fair reconciliation of the interests and expectations of all those who interact with the Company, and in particular:

- customers, since the Pirelli way of doing business is based on customer satisfaction;
- employees, who are the repository of Group know-how and the drivers of its development;
- shareholders, investors and the financial community;
- suppliers, with which it shares a responsible approach to business;
- competitors, because improved customer service and market position depend on fair competition;
- the environment, institutions, governmental and non-governmental bodies;
- the communities around the world where the Group operates with an awareness of its own global responsibilities as a Corporate Global Citizen.

Each of the stakeholders mentioned has a dedicated paragraph in this report, to which the reader is referred for in-depth qualitative and quantitative analysis.
The existing interrelationships between stakeholders are based on the AA1000 Model adopted by the Company, and are analysed for the purposes of effective management of relations with them and the creation of sustainable and shared value. Dialogue, interaction and engagement are calibrated according to the consultation needs of the different types of stakeholders, and include meetings, interviews, surveys, joint analyses, roadshows and focus groups. The feedback translates into the corporate assessment of priority actions, influencing the development strategy outlined in the Corporate Plan.
Specific operational steps aimed at continuous improvement of performance also characterise the sustainable management planning process: assessment of the context through benchmarking, dialogue with the stakeholders, requirements raised by internal functions; identification of risks and opportunities for growth; definition of projects and targets, implementation, monitoring and reporting.

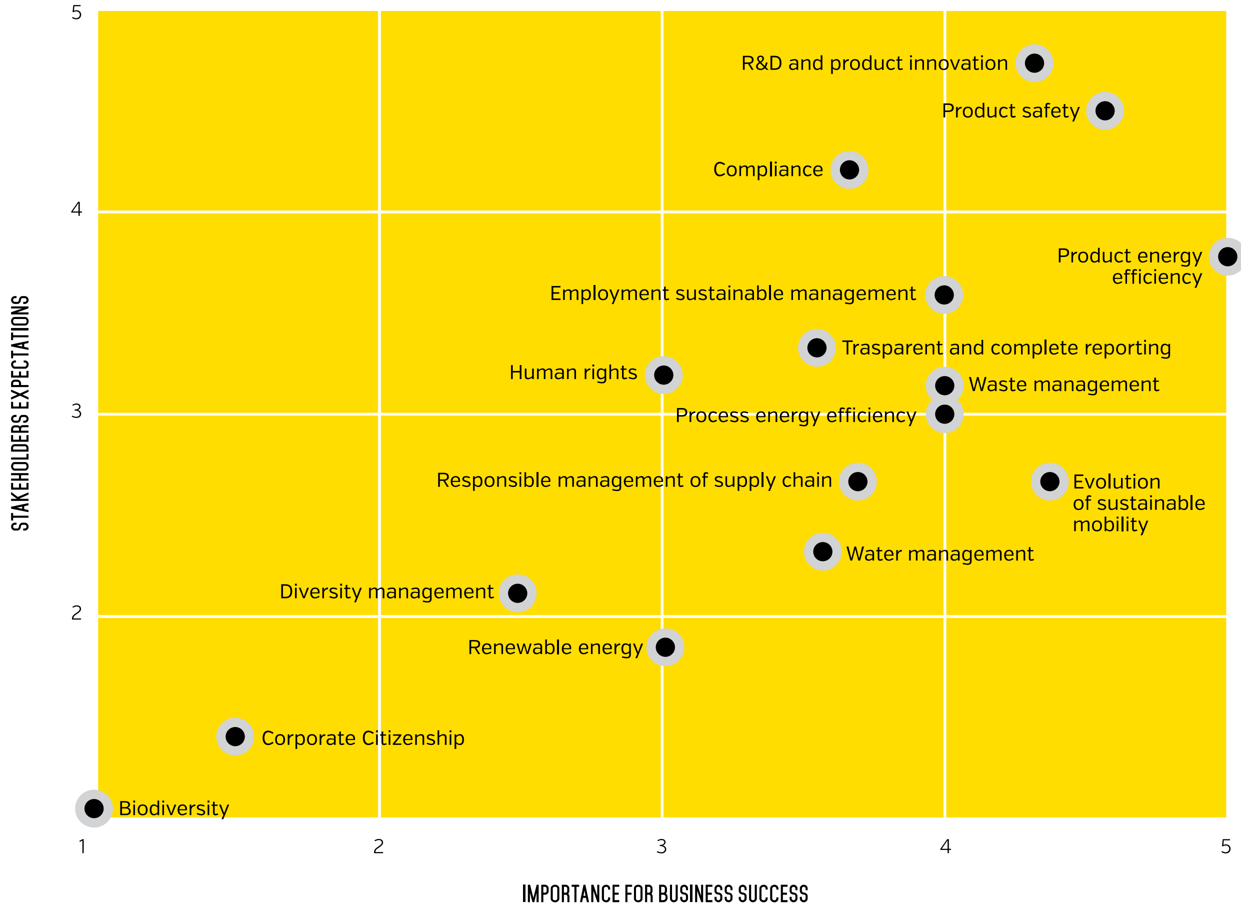
ANALYSIS OF MATERIALITY

To optimise calibration of the commitment that Pirelli dedicates to sustainable growth issues, the Company has conducted an in-depth stakeholder engagement activity, leading to a comparison of the expectations of the principal stakeholders of Pirelli on these issues with the importance they have for the success of the business.
Taking into account the complexity and international dimension of the business stakeholders, as well as the wide variety of expectations, the panel of stakeholders of the company that has been asked for feedback included:

- the biggest original equipment customers;
- hundreds of end customers for each representative market;
- the largest dealers from around the world;
- numerous employees working in the various nations where the Group has a presence;
- the biggest suppliers (in terms of sales to Pirelli) in each procurement category;
- the principal shareholders, investors and financial analysts of Pirelli;
- national and supranational institutions and public administrations;
- Journalists from domestic and international newspapers;
- NGO present in each of the countries where Pirelli has productive activities;
- Universities located in each of the countries where Pirelli has productive activities.

The stakeholders were engaged through a request made in their local language to assign action priorities to ESG (Environmental, Social, Governance) issues.
The priorities expressed by Pirelli and its stakeholders were then consolidated and displayed on a materiality matrix whose vertical axis indicates the expectations of external stakeholders, while the horizontal axis indicates the importance assigned by the Company to the elements analysed. The draft of the mapping was then subjected to critical and independent assessment part of a leading company in the field of ESG analysis. The analysts compared the Pirelli draft map results with the contents of the ten international studies they considered to be the most significant and trustworthy among those focused on the Auto Components sector, assessing the prioritisation levels of the different ESG themes in the sector. Following this comparison they made suggestions on whether to make small displacements of the positioning of the ESG issues in the draft of the Pirelli mapping.
The result of the process and the Pirelli Materiality matrix is described below: The dial at the top right identifies the elements of sustainability which have been given a high materiality (i.e. importance) by the stakeholders involved. The lower left part identifies the issues considered of low materiality. The "diagonal line" that results from the mapping of the sustainability factors is extremely important, insofar as it indicates the level of consistency between the vision of Pirelli and its stakeholders. Finally, the substantial alignment with stakeholder expectations results in the targets of the Sustainability Plan 2013-2017 with 2020 Vision that the Company has adopted.

PIRELLI MATERIALITY MATRIX



SUSTAINABLE GROWTH STRATEGY: INDUSTRIAL PLAN 2013-2017 WITH SUSTAINABILITY TARGETS 2020

The Sustainability Plan 2013-2017 includes objectives that go to 2020. It integrates, supports, accompanies and protects the Group Industrial Plan and was developed according to the "Value Driver" model developed by UN PRI (United Nations Principles for Responsible Investment) and the UN Global Compact to promote dialogue between investors and companies on sustainability issues. Growth, productivity, governance and risk management are the guidelines, also used in defining the targets for 2020.
Inter alia, the Sustainability Plan forecasts:

- Green Performance product net sales to be 48% of Tyre net sales in 2017;
- a reduction in rolling resistance, which in 2020 in the Car segment will be decreased of 40% if compared to 2007;
- further expansion of Pirelli technology to produce silica from rice husks, also applied to Premium tyres by 2017;
- the achievement of results from research into alternative sources of natural rubber from Hevea are expected by 2016, with the possible use of rubber from guayule (project conducted with Versalis, part of the ENI Group);
- the widespread use of innovative, function-enhancing polymers is expected by 2015, guaranteeing reduced environmental impact, improved driving safety and process efficiency;
- a reduction by 90% in the workplace accident frequency rate by 2020 compared to 2009 figure.

This target will be achieved by investing in increasingly safe machinery and programmes to reinforce the safety culture among Group employees;

- reduction of 15% in specific CO_2 emissions and 18% in specific energy consumption by 2020 compared to 2009: expected savings of about €20 million and 350,000 tonnes of CO_2 in the period 2015-2017;
- reduction of 58% in specific water withdrawal by 2020, with an expected water saving of 3,000,000 cubic metres during 2015-2017;
- *Towards zero waste to landfill:* 95% waste recovery rate by 2020, with an expected saving of about €60 million by 2017 due to the reuse of industrial wastes;
- keeping research and development spending for premium products at 7% of net premium products sales, with the aim to further develop and increase the safety performance and environmental compatibility;
- growing investment in risk mitigation and prevention of business interruption: CAGR +8.3% by 2017 as compared with 2013;
- new proxy to monitor equal gender remuneration, including the parameters of performance, rank and labour market seniority;
- investment in employee training equivalent to average of 7 man days by 2015 and ≥ 7 in the following years;
- adoption of increasingly advanced models for management of economic, social and environmental responsibility in the supply chain, from a perspective of shared development.

ECONOMIC DIMENSION

SHARING OF ADDED VALUE

The Pirelli Values and Ethical Code enshrine the Company's commitment to working to ensure responsible development over the long term, in full awareness of the links and interactions between the economic, social and environmental elements, considering the repercussions that a decision taken in any one of these areas could have on the others. This is to combine value creation, social progress, concern for stakeholders and higher standards of living and environmental quality.
Added value means the wealth created over a given reporting period, calculated as the difference between the revenues generated and the external costs sustained in the period. The distribution of added value between stakeholders enables the expression in monetary terms of the existing relations between Pirelli and the major stakeholders, thus focusing attention on the socio-economic system in which the Group operates.

DISTRIBUTION OF ADDED VALUE (in thousands of euros)

	2014		2013		2012	
TOTAL GROSS ADDED VALUE	2,296,127		2,218,034		2,210,834	
Remuneration of employees	(1,239,770)	54.0%	(1,210,928)	54.6%	(1,205,608)	54.5%
Remuneration of public administration	(173,309)	7.5%	(210,392)	9.5%	(200,837)	9.1%
Remuneration of borrowed capital	(262,410)	11.4%	(195,832)	8.8%	(129,471)	5.9%
Remuneration of risk capital	(156,745)	6.8%	(156,743)	7.1%	(132,382)	6.0%
Remuneration of the company	(457,278)	19.9%	(438,682)	19.8%	(537,259)	24.3%
Contributions to the external community (*)	(6,615)	0.4%	(5,457)	0.2%	(5,277)	0.2%

(*): Includes the capital contribution to the company HB Servizi S.r.l.

The added value created in 2014 grew by 3.5% compared to 2013. The changes in the items determining the total gross added value, as mentioned above, are adequately explained in the Consolidated Financial Statements section of this report, to which the reader is referred for further details.
In 2014 the incidence of costs for business initiatives in favour of the external community on Group net income amounted to 2.0% (1.8% in 2013 and 1.3% in 2012).

AMOUNT OF CONTRIBUTIONS TO THE EXTERNAL COMMUNITY (in thousands of euros)

	2014	2013	2012
Training and Research	810	819	1,050
Socio-cultural initiatives	4,541	3,839	3,523
Sport and Solidarity	1,264	799	704
Total	**6,615**	**5,457**	**5,277**

For the correct sizing and proportion of the expense in the various sectors of intervention it must be considered that the consolidated data are in euros (€) even though the sums were mainly disbursed in the local currencies in the various different countries in which Pirelli works, many of which are emerging markets/developing economies. In particular, in the case of contributions in *Training and Research* and *Sport and Solidarity*, it should be noted that although the amount is lower than the *Socio-cultural initiatives* category, such contributions are used to finance a wide array of development projects in the recipient countries.
For a description of the main initiatives involving the above disbursements, please refer to the paragraphs in this report dedicated to "Company Initiatives for the External Community".
In line with provisions of the Ethical Code, Pirelli *"does not provide contributions, advantages or other benefits to political parties or trade union organizations, this without prejudice to its compliance with any relevant legislation"*.

LOANS AND CONTRIBUTIONS RECEIVED FROM THE PUBLIC ADMINISTRATION

Romania. In March 2012 the European Investment Bank (EIB) disbursed €10 million to Pirelli Tyres Romania S.r.l. as the last tranche of a financing agreement for a total of €50 million, given as support for an investment of €263 million to be used to expand the Pirelli plant in Slatina, Romania, for the production of car tyres and light commercial vehicles. The financing is accompanied with a similar one, granted in 2007 and fully repaid at the end of 2013, received in support of the construction of the same production site.
It is also noted that:

- S.C. Pirelli Tyres Romania S.r.l. collected a sum from the State of Romania of €28.9 million by way of incentive to local investment, of which €4.4 million was in 2014;
- S.C. Cord Romania S.r.l. collected a sum from the State of Romania of €10 million also by way of incentive to local investment, of which €3.8 million was in 2014.

Italy. During 2014, Pirelli Labs (Italy) collected a grant from the Ministry of Education, University and Research of €1.4 million and collected €3.5 million by way of incentive as part of a facilitated loan for a Research & Development project.

Mexico. Starting in 2012, Pirelli Neumáticos S.A. de C.V. (Mexico) collected contribution grants from the Government of the state of Guanajuato (Mexico) for investments and generation of employment for a total of €10.8 million, of which €600,000 was collected in 2014.
The company also received from the contribution grants from the Mexican Federal Government for investments and generation of employment for the ProMexico project totalling €5.9 million (the

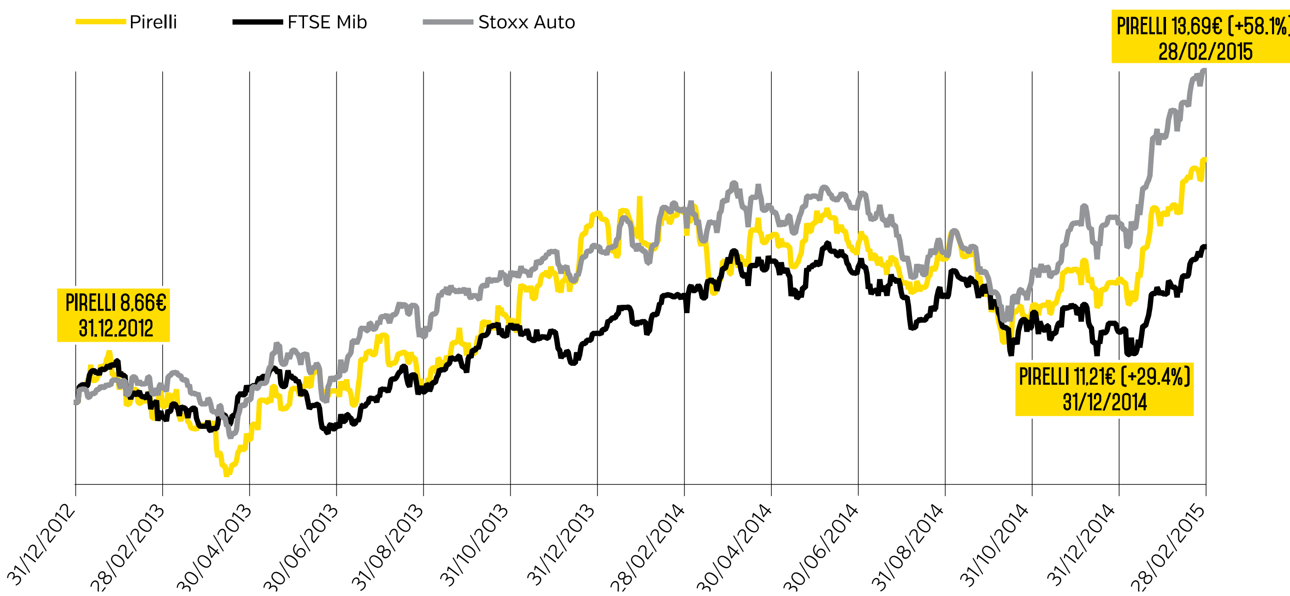
incentives were paid from 2012), of which €1.6 million was collected during 2014, and an annual incentive for the Conacyt research and development of €900,000.

United Kingdom. In the years 2013 and 2014 Pirelli Tyres Ltd (United Kingdom) received government contribution grants, as part of the RGF - –Regional Growth Fund programme for investments and generation of employment related to the introduction of the new UHP products at the Carlisle plant, for a total of €2.6 million, of which €700,000 was collected in 2014.

SHAREHOLDERS, INVESTORS AND THE FINANCIAL COMMUNITY

Pirelli attributes strategic importance to communication as a key instrument to build a relationship of trust with the financial community. In this respect, and in line with the requirements in The Values and Ethics Code of the Group, Pirelli maintains an ongoing dialogue, through the Investor Relations department and the Group's Top Management, with analysts and investors (institutional and individual), promoting fair, transparent, timely and accurate communication.
In 2014, financial communication was aimed at further strengthening dialogue with key stakeholders: institutional investors (representing more than 46% of the share capital), SRI (Socially Responsible Investing) investors, individual shareholders (11% of the share capital), bond holders and financial analysts. There are numerous opportunities to meet on the main financial markets in Europe (Milan, London, Paris, Frankfurt, Zurich, Copenhagen, Stockholm and Helsinki), in North America (New York, Boston, San Francisco, Los Angeles, Chicago, Toronto), and in Asia (Shanghai, Singapore, Hong Kong and Tokyo).
Moreover, the participation of Pirelli in Formula 1 competition as the sole supplier of tyres continues to represent a major opportunity for acquainting the financial community with the company business. In 2014, in conjunction with the main Grand Prix events, Pirelli organised meetings with financial analysts and leading local investors, with detailed sections dedicated to technology, the product, the brand and distribution. These activities, together with the growing investor interest in the specificity of the Equity Story of Pirelli in the Tyre industry, have led the shareholder base to become more and more international: at the end of 2014 foreign investors represented 43% of the ordinary share capital and are mainly concentrated in the United States, the United Kingdom and the Scandinavian countries.
In 2014 the Company has continued its dialogue with SRI investors, a sector whose weight is progressively growing and which sees Pirelli among the most appealing companies, partly due to the specific communication activities developed by the management through roadshows and dedicated webinars. The focus of the financial community in its dealings with Pirelli is confirmed by the coverage of its shares by 26 of the major national and international investment banks. The assessment (Target Price) and analysts' estimates (Consensus) are periodically published on the company website.
Pirelli closed 2014 with a stock market value of €5.4 billion (average December market capitalisation). The share price performance, especially in the last quarter of 2014, was affected however by the volatility of the South American markets and the geopolitical crisis in Russia. The preliminary results of 2014, published on 12 February, highlighted the Group solidity leading investor interest in the shares: +20% growth in the stock market in the first two months of 2015.

PIRELLI & C. STOCK PRICE PERFORMANCE VS FTSE MIB, EUROPE STOXX AUTO



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

STOCK MARKET INDICES AND ETHICAL FINANCE

The commitment to create long-term value that characterises the company's responsible management and economic, social and environmental performance, has allowed Pirelli to be ranked on some of the world's most prestigious stock market sustainability indices for years.

Pirelli has been included in the **Dow Jones Sustainability** indices since 2002. In September 2014, Pirelli for the eighth year in a row was confirmed as global sustainability leader in the ATX Auto Components segment in the Dow Jones Sustainability World and Europe indices. The Pirelli global rating 2014-2015 totalled 85 points compared to an industry average of 48. In January 2015 Pirelli was named global sustainability leader in the ATX Auto Components Sector and a Gold Class Company for the eighth year in a row in the prestigious Sustainability Yearbook 2015. Published by RobecoSAM, the Yearbook includes the Top Sustainability Scoring Companies belonging to some 59 business sectors. Pirelli has also been included in the **FTSE Global and European STOXX** indices since 2002. The 2014 rating of Pirelli in the Automobiles & Parts sector was once again 100 out of 100, for the third consecutive year.

Ability to manage the risks and opportunities related to climate change are the subject of analysis by Carbon Disclosure Project: for the third year, Pirelli is part of the ***Climate Disclosure Leadership Index* (CDLI)** with a rating of 99B (compared to 96B in 2013). In 2014 the company was awarded the top position in the *CDP Italy 100* and has the highest *disclosure score* among the largest tyre manufacturers in the world. The Carbon Disclosure Project (CDP) is an independent, non-profit organisation that offers companies and countries a system for measuring, recording, managing and sharing global information on climate change and water resource risk. Today more than 3,700 organisations present in the most economically developed countries measure their own greenhouse gas emissions and analyse the risks and opportunities related to climate change through the CDP, with the aim of establishing emission reduction objectives and improving results. The CDP is supported by 822 institutional investors that manage over USD 95,000 billion and control the largest international database containing information about the climate change management policies implemented by the most important global organisations.

For the second consecutive year, Pirelli is the only tyre manufacturer in the world among the 100 companies that make up the **Global Compact 100 index**. The index is composed of 100 companies chosen on the basis of their compliance with the ten guiding principles of the UN Global Compact, which expresses the commitment by management to issues related to sustainability and the level of profitability. These companies, whose stock market performance was monitored by UN Global Compact over the last three years, have outperformed the FTSE® All World stock index over the past two years.

Pirelli & C is included in the **Ethibel EXCELLENCE Investment Register** and in the **Ethibel Sustainability Index (ESI) Excellence Europe**. Forum ETHIBEL (www.forumethibel.org) only considers actions of companies that obtain a high CSR rating on all related issues.

For the fourth consecutive year, Pirelli is part of the **STOXX Global ESG Leaders** Indices. The indices were created in 2011 by the company STOXX Limited which selects the best companies in terms of sustainable performance from among the securities presented in the initial international basket, the STOXX Global 1800 Index.

Pirelli continues to be part of **Euronext Vigeo – Eurozone 120**, which includes the 120 listed companies with the highest sustainability rating on the Stock exchanges in the euro area, selected on the basis of 330 indicators evaluated by Vigeo within 38 sustainability drivers.

Since 2008, Pirelli has been included in the sustainable finance indices of **ECPI**, in particular in the **ECPI EMU Ethical Equity** index, in the E**CPI Global Developed ESG Best** in Class index, in the **FTSE ECPI Italia SRI Benchmark** index and **FTSE ECPI Italia SRI Leaders**.

OUR CUSTOMERS

Pirelli business operations are represented by two main segments. Consumer (tyres for cars, SUV, light commercial vehicles and motorcycles) and Industrial (tyres for buses, trucks, agricultural equipment and steelcord). These businesses are in turn pursued through two sales channels:

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

In the field of Original Equipment, Pirelli in Europe has a market share in premium products of nearly 20% in 2014 compared to the level of 14% which the Company had in 2011. In the Prestige segment, which is the highest range on offer, Pirelli is close to 50%, having grown strongly from 36% in 2011.
As part of the Replacement area, there are two broad types of Pirelli customer: Specialist Dealers and Distributors.
Specialist Dealers are tyre specialists operating on the market in the role of independent businesses, constituting a fundamental point of contact between the Group and the end user. Particular attention is devoted to specialised dealers in terms of shared development to enhance the product offering integrated with a high quality level of service, in compliance with Pirelli values and consumer expectations.
In 2014 Pirelli has about 10,000 loyal retailers globally, with a particular numerical concentration in Europe, Asia-Pacific and South America (about 80% of the total points of sale). The level of affiliation is diversified based on the specific elements of the market and the presence of Pirelli itself: it ranges from a softer type of loyalty (Fidelity Club) in which the main objective for Pirelli is territorial coverage and dealer sales support, to franchising programmes which use partnership exclusivity to work hard on business development at the points of sale as a whole, and up to a maximum level of affiliation that is represented by the presence of Pirelli with its own sales outlets (322 point of sale worldwide).
The Distributors are partners who are fundamental to guaranteeing continuity in the supply of tyres to specialist and non-specialist resellers. They do so by offering local delivery and distribution services throughout the entire territory. In addition to the core Tyre Business customers, there is a proportion of rather diverse customers associated with Pirelli & C. Ambiente, a company involved in the production of filter systems to reduce pollutant emissions and liquids, as well as waste-to-fuel renewable energy, and PZero, a fashion design project supporting the tyre business which focuses on the Premium and Prestige segment while sharing with the core Tyre Business the principles of constant commitment to research, innovation and technology.

CUSTOMER FOCUS

Customer focus is a pivotal element of the Pirelli Group's Values and Ethics Code, and is based on Pirelli's continuous commitment in terms of:

- comprehension of the market context in which the Group operates;
- consideration of the impact of the Group's actions and behaviour on the customer;
- exploitation of every opportunity offered by doing business to satisfy the customer's needs;
- anticipation of customer needs;
- top product quality, in addition to excellence of production systems and processes;
- constant focus on performance to satisfy customer performance and safety expectations;
- excellence and competitiveness on the market to offer customers quality products and services that are capable of fully satisfying their demands.

The above commitments are also set out in the General Conditions of Supply applied by Group companies In accordance with this focus on customer care, Pirelli also adopted a clear procedure to grant a feedback to any customer claim, which provides for immediate action in dealings with the interlocutor. Pirelli has received numerous accolades for the quality of its products from important and pres-

tigious clients. In 2014, it won the BMW Supplier Innovation Award 2014, the prize that the German company awards each year to those of its supplier companies which have distinguished themselves for their ability to innovate. An award was given to Pirelli for "Best Innovation in Quality" for the Real Dynamic Curing technology, applied in the process of vulcanisation of rubber. This technology, used by Pirelli at its plants, allows precise determination of the optimal degree of vulcanisation of each tyre using a thermal sensor.
Pirelli in 2014 also received the prestigious "Excellence in Logistics" award from Hyundai for its excellent performance in terms of delivery, flexibility and proven quality, and the Toyota Regional Contribution Award for excellent performance shown in terms of the ability to satisfy demand.

TRANSPARENCY IN COMMUNICATION TO THE CUSTOMER

In the field of advertising, since 2009 Pirelli has defined a traceable and transparent process for all decisions relating to advertising campaigns and their media planning, in the case of promotional activities managed either centrally or locally with central oversight. In terms of both advertising campaign production and media planning, Pirelli has defined specific auditing and certification structures that place the company at the highest levels in terms of transparency and traceability in its investment strategies. The Pirelli Group is associated with the UPA (Associated Advertising Union), where in 2014 it served once again as Vice President, devoting among other things its ongoing commitment to supporting the Advertising Code of Conduct issued by the association.
The Group is also a member of IAP (Istituto dell'Autodisciplina Pubblicitaria, or the Advertising Self-Regulation Institute) and the Consumer Forum, an organisation set up by consumer associations and companies to safeguard and protect consumers.
Through the UPA, Pirelli is also a member of the WFA (World Federation of Advertisers), which commits participating firms to pursue honest, truthful and fair competition and communication in compliance with the Code of conduct and self-regulation they adhere to. Consumer protection is also guaranteed by the Company's choice of suppliers in the communication sector (creative agencies, media centres, production companies) that in turn belong to business and professional associations governed by communications-related Codes of Ethics.

COMPLIANCE

During 2014 there were:

- no cases emerged of non-compliance with regulations or voluntary codes concerning marketing activities, including advertising, promotion and sponsorship;
- no significant final penalties were levied and/or paid relating to infringement of laws or regulations, including those relating to the supply and use of the Group's products and/or services;
- no cases emerged of non-compliance with regulations or voluntary codes concerning information and labelling of products/services;
- no cases of non-compliance with regulations or voluntary codes concerning health and safety impacts of products/services during their life cycle;
- no documented complaints concerning both privacy violation and/or the loss of consumers' data;
- no bans or challenges to the sale of any of the products sold by Pirelli.

INFORMATION AND TRAINING OF THE CUSTOMER

Pirelli provides information to customer-distributors and end customers on a continual basis. This information concerns both the product and related initiatives, and is disseminated in a variety of ways, including the main online channels, print communication activities and the range of offline and online training activities that have contributed to the success of Pirelli over the years.

Online communication has been strengthened in 2014: the revision of the websites and development on mobile devices has increased the number of views from 8 million to more than 9 million, confirming the growing trend of the use of online means as a fundamental touchpoint in the search/purchase of tyres.

The role of customer services on digital platforms is fundamental: “tyres for your car”, the product catalogue and dealer locator confirm that customers are increasingly better informed and require clear and immediate answers to their research on the web, as well as mobility through smartphones. 70% of the total number of accesses to Pirelli sites comes from search engines.

In 2014 Pirelli also continued to inform its customers with a digital newsletter, Paddock News, whose main objective is to provide an additional means of communication and contact with the trade, consisting of an international edition, coordinated centrally from headquarters, and an edition in the local language for each market where Pirelli is present. Paddock News features a gallery of new products and news from the Company and its Business Units: Car, Motorcycle, Motorsport and Truck.

In the field of paper publications, the company magazines Pirelli World and, for Brazil, Giro continue to play a key role.

A critical step in online communication of the Industrial Business Unit was the release, on the occasion of the Essen trade fair in May 2014, the new Truck & Bus section on the Pirelli website, enriched with content aimed at engaging more directly with both insiders and audience at large. One example is the interactive demonstration of the dynamic mode of CyberFleet TM (one of the Pirelli Fleet Solutions that supports fleets from the perspective of safety and in a more efficient management of fuel consumption through the control and maintenance of tyre pressure) and videos of performance tests related to fuel consumption and wet braking. The Hanover Fair was highlighted on the website and through the specialist press, including digital, in partnership with TimoCom (European leader in the “Freight Exchange” sector) with which Pirelli shares the values and objectives of sustainable and efficient mobility, protection of the environment and cost optimisation in fleet management. In 2014, the distribution of TRUCK continued, the magazine dedicated to transport professionals published in four languages, which covered all the news of the Pirelli offer (products and services), but also useful information regarding tyre regulations and markings, an example of the entire introduction of 3PMSF marking also on truck tyres.

Product training was a very big activity on all markets, to illustrate the new products of the Company and the peculiar details of Pirelli branded tyres. A series of supports have been developed for training dealers about products, in order to explain the particular details of the Pirelli line and assist the trade in making sales pitches to end users. As well as hard copy materials videos have been made for dealer waiting rooms in order to explain the concept of the most appropriate tyre for each season, the principal recommendations of Pirelli experts and the tyres that are most suitable for each need.

At local level the Tyre Campus project has been reinforced, a project with which Pirelli aspires to excellence in product training, both in terms of content and methods, from factory visits to the R&D laboratories, up to simulations on the performance of the tyre. About 4,500 dealers from 17 countries have visited the two factories of Settimo Torinese (Italy) and Izmit (Turkey) in addition to the Vizzola circuit (Italy) and the R&D Centre in Milan. Information and training are therefore conducted with a global approach.

During the year, there was continued expansion of the Tyre Campus online training platform “The Road to Success”, covering 20 markets in all. This platform aims to grow the international coverage of training activities exponentially, by means of a homogeneous approach. Product training is delivered in a highly captivating style and with the metaphor of a path that leads towards the final goal of certification. Pirelli certifies all its dealers who complete the proposed product training successfully.

The status of certified dealer is then included in the dealer locator and with a plaque to be placed in the point of sale. In this way the consumer is able to know which dealers are more knowledgeable regarding the technical features and benefits of all the products in the Pirelli range. The project for the dissemination of the platform is in a highly advanced stage and the roll-out is expected to be concluded in all markets by the end of 2015.
Also in order to support employees in trade training activities, the Tyre Campus Case tool was developed, designed to provide evidence of the characteristics of Pirelli tyres, the raw materials used for their manufacturing and the the differences in between the different treads. With this tool, Pirelli trainers around the world have specific and innovative support so that customers can personally verify the key characteristics of Pirelli products.

PIRELLI AND THE TYRE LABELLING REGULATION (EC 1222/2009)

From November 1st, 2012 all new tyres for cars, light vehicles and heavy vehicles released on the European market must have a label on the tread that informs consumers of the fuel efficiency, wet grip and exterior rolling noise of the tyres they are about to purchase. Fuel efficiency and wet grip are rated on the basis of a scale from class “A” (green class, the best) to “G” (red class, the worst). This classification system closely resembling the one already in use for domestic appliances. Tyre labelling requirements are already in force in Japan (with membership on a voluntary basis) and in South Korea.
Instead, in the United States the Uniform Tyre Quality Grading (UTQG) disclosure is required: these are requirements still under review, which are expected to include also the degree of rolling resistance. Regardless, all Pirelli products sold feature a safety warning on the tyre wall, even though this is not required by law.
In the role of Premium Tyre Company, Pirelli fully supported and continues to support the EU labelling regulation, especially because of the transparency it introduces to the benefit of the consumer, who can thus make an informed purchase in consideration of essential parameters. In 2013 Pirelli was the world’s first manufacturer on the European market with a tyre, the Cinturato P7 Blue, which in certain sizes carries the prestigious double “A” rating.
The three indicators covered by labelling, although essential, however, do not complete all the parameters that consumers must assess to gain an understanding of the effective “value” of a tyre in terms of performance and safety. Many other parameters – including dry braking, aquaplaning and road grip – are essential and distinctive features of Pirelli tyres that the Company obviously tests with the utmost attention, without detracting from its continual drive towards innovation.
Not least is the importance of informing consumers that fuel efficiency and road safety also depend greatly on the driving style of each driver, as well as on proper tyre maintenance, from checking of the level of wear consumption to correcting inflation pressure.

LISTENING AND EXCHANGING IDEAS AS SOURCES FOR CONTINUAL IMPROVEMENT

Customer relationships are principally managed by Pirelli through two channels:

- the sales organisation operating in the territory, which has direct contact with the network of customers and that, thanks to advanced information management systems, can process and respond onsite to all interlocutor information requirements; the sales structure is constantly trained on product and commercial issues thanks to the contribution of the Commercial Academy, one of the 10 Pirelli training academies dedicated to the continuous development and updating of skills of the entire sales network.
- the Pirelli Tyre Contact Centers, of which there are 32 worldwide, are staffed by more than 150 employees carrying out activities of IT support and order management (inbound), telemarketing and telesales (outbound).

As well as through traditional channels, 2014 saw Pirelli have a significant increase in user involvement on its own social media channels internationally, most notably Facebook and Twitter. The Global Page on Facebook dedicated to the brand has over 980,000 fans, while the Motorsport page has about 378,000 fans, in addition to two Twitter accounts: Pirelli Media (77,000 followers) and Pirelli Motorsport (43,000 followers). The Company is also present on Instagram where in late 2014 it proposed a successful initiative relating to the launch of the Calendar which has collected more than 4,000 fans. YouTube and Google+ have also been confirmed as fundamental assets for the activation of ad hoc special projects.
As for the Motorcycle Business Unit, the digital projects of the Metzeler and Pirelli brands deserve a mention: For Metzeler, in addition to the website present in 9 countries worldwide, a page dedicated to bikers has been active on Facebook since 2012, with 260,000 fans and content posted in 14 different countries in the relevant local languages. There has been very positive feedback over the years for the activation of the Metzeler Maps, the Ridexperience blog and the new "Answers" feature that involves the users on the site. Among other things, the Metzeler.com website, in its Italian version, features an e-commerce channel. To maintain relations with consumers, the @metzelermoto channel on Twitter and YouTube have been in place for some time.
The Pirelli Moto brand has a significant presence on Facebook with over 300,000 fans connected and content posted in many countries around the world, with particular attention to the Asian countries in which Pirelli is developing its social media presence.
The mobile application Diablo Super Biker is also of great importance, now accounting for more than 350,000 downloads and being highly appreciated by the biker community.
Finally, the Ride Passion retail project plans to include an iPad app that is available to users in the waiting lounge for the purpose of information and collection of customer information.
In general, the CRM project occupies a priority position in the Business Unit, considering the biker community as a group of product fans to be retained and to engage in the brand's activities.
In terms of surveying its own customers and the analysis of the performance and the positioning of the brand over the competitors, there is great strategic importance in the Market Research studies that Pirelli carries out with an increasing level of innovation in methodologies and content. Also in 2014 there was a significant project involving direct questioning of the end user using the Brand Tracking survey in the Top 10 Markets for Pirelli (Italy, Germany, Spain, France, United Kingdom, Brazil, China, USA, Turkey and Russia). The ongoing changes made to this study over the years have made it possible to refine and improve the precision of business insights into the brand role, image profile and characteristics of the different touchpoints that influence the end user purchase decision.
2014 also saw the continuation of the Tyre Talk project: a project for listening to trade customers, groundbreaking for the tyre industry, based on an innovative web-based research platform, which can now count on the participation of more than 500 members that form a select panel of customer-partners, capable of contributing to the understanding of the dynamics of the market, the development of new marketing tools and business opportunities.
Through constant search, contact and collection of feedback which includes the innovative and transparent involvement of our customers in various types of surveys and online forums, studies are conducted on various marketing issues such as the launch of new products, the management promotional activities or materials at points of sale, the management of activities related to F1 and the assessment of the Pirelli B2B portal.
The key issue is to collect the opinion of customers on the behaviour of end users, not only at the point of sale, but also in relation to more general dynamics related to the purchase process such as the perception of the brand and product, the use of the labels introduced by the new European legislation and the service expectations related to a change of tyres.
Customers show a good level of active participation in the various studies proposed, which recorded an average response rate greater than 55%. The principal results are then shared with the panel members through publication on the dedicated portal and transmission of monthly eDirect Mails with updates on the principal activities underway. This activates a listening and comparison process as the source for continuous improvement.
Project management, not only as an innovative research tool, but as a real lever for customer re-

lationship management, involves the definition - given by the heads of trade marketing - of a plan for recruitment and engagement of the dealers involved, represented mostly by the company's main retail networks.
The opinion of our customer-partners is bound to have more and more strategic importance in the support of our decision-making process, not only in the evaluation phase of activities already done, but also through participation in processes of co-creation of ideas, for example through involvement in testing activities of innovative marketing concepts.
Pirelli also monitors its competitive position and its brand image through detection of Key Performance Indicators such as Top of Mind, Brand Awareness and Brand Consideration, in order to support planning activities in support of brand and marketing strategies. The 2014 survey has confirmed the position of Pirelli as one of the top two best recognised tyre brands in Italy, Germany, Spain and the United Kingdom. In Italy, Pirelli also confirms its leadership in terms of Brand Consideration. Outside Europe, Pirelli shows excellent performance in Brazil, China and Russia. In Brazil it remains in first place for each brand KPI; in China it is in third place as the best known brand and in second place as brand considered for purchase. Russia recorded growth in awareness values that lead Pirelli to be third in Top of Mind. In general, in all countries, the performance of Pirelli proves to be even more positive regarding our key premium target with values of all indicators higher than the more generic target of car owners.
In order to further refine the brand positioning, Pirelli during 2014 prepared a strategic document, called Brand Pyramid, in which the values, personality and traits of the Brand are summarised.
This document subsequently gave rise to a work scheme called Brand Key, which has already been completed for the main countries, and which has the aim of giving unity to the brand communication in terms of: emotional benefits, functional benefits, reason to believe, differentiating elements and target audience.

QUALITY PROCEDURES AND POLICY

The effects of the Group Premium strategy are fully reflected in the Premium Quality Strategy of Pirelli.
Activities aimed at the analysis of quality perceived by the customer were continued in 2014, with extension of the survey scope worldwide and increase of the range of products for the various lines under observation. During the year, 1,487 visits were conducted in all continents and a total of 17 reports issued for the various product lines. For 2015, 1,600 visits in the market have been planned.
"Competence, transparency and the work of people in the team" have emerged as the three key elements underlying Quality. The world is rapidly changing, as are its habits and geographical areas, and this is represented in Pirelli's Quality Premium concept. This was reiterated in November 2014 during the *Pirelli World Quality Week*, now in its 3rd edition and promoted in all Pirelli locations in the world, with as many as 529 events organised at affiliates and 20,361 participants.

QUALITY CERTIFICATIONS

ISO 9001

Since 1970 the Group has its own Quality Management System introduced gradually in all centres of production and since 1993 Pirelli has obtained the certification of this system in accordance with ISO 9001. Today 100% of Pirelli plants are certified according to the latest edition of this standard, as well as the activities of the logistics hub of Manresa in Spain.

ISO/TS 16949

In 1999 the Group obtained certification for its Quality Management System in compliance with ISO/TS 16949 and it has since maintained compliance with the standard as currently applicable. All plants that supply the automotive sector, whether new or acquired, have obtained or maintain this quality certification.

ISO/IEC 17025

Since 1993 the Materials and Experimentation Laboratory of the Group and since 1996 the Experimentation Laboratory of Pirelli Pneus (Latin America) have obtained the Quality Management System, and have been accredited according to the ISO/IEC 17025 standard. This system is maintained in accordance with the current standard and the ability of the laboratories to perform accredited tests is evaluated annually.
The labs participate in proficiency tests organised by the International Standard Organisation, by ETRTO or by international circuits organised by auto makers.
Specifically in regard to car tyres, the quality focus is confirmed by Pirelli's supremacy in numerous product tests. It is also guaranteed by collaboration in terms of product development and experimentation with the most prestigious partners (auto makers, specialist magazines, driving schools, etc.).

Product certifications

Product certifications that allow the sale of products on various markets in compliance with the regulations in force in each country are kept regularly up to date. The main product certifications secured by the Pirelli Group concern the EMEA (Europe, Middle East and Africa) NAFTA (North America Free Trade Agreement), and Brazilian Argentine, Uruguayan, Chinese, Indian, Indonesian and Korean markets and involve all Pirelli plants. These certifications call for annual audits by ministerial institutions of the country in question or by organisations delegated by state institutions, which verify compliance of the product at the certified plant.

FOCUS ON HUMAN HEALTH AND ON ENVIRONMENT

All raw materials and auxiliary products are carefully tested before they can be used in Group operating units. These tests seek to identify potentially unacceptable risks to human health and/or the environment. This assessment is performed on a centralised basis and carried out in all countries where Pirelli operates, taking account not only of the requirements imposed by European regulations concerning the management of hazardous substances, but also know-how currently available worldwide (specifications, databases, etc.). Monitoring of producers and suppliers of raw materials used by the Group continues, particularly in regard to the registration processes of these substances by producers/distributors/importers and in compliance with Regulation CE REACH 1907/2006.

PRODUCT SAFETY, PERFORMANCE AND ECO-SUSTAINABILITY

The commitment of Pirelli to development of products that are increasingly focused on combining eco- sustainability and safety has led to renewal of its product lines. Compared with the previous generation, this guarantees significant reductions in parameters like rolling resistance.
Two specific examples are the new products to be fitted on commercial vehicles, Carrier and Carrier Winter: these products allow a reduction in fuel consumption, placing the parameters of rolling resistance in the "Green" part of the European Tyre Label for almost all the articles in the portfolio.
Moreover, Pirelli, in broadening its commercial offer, has increased the number of products by about 30% with better classes of rolling resistance and wet braking, contributing in terms of reduction of CO_2 emissions and the improvement of driving safety.
The development of innovative solutions for performance and eco-sustainability is also guided by the close collaboration of Pirelli with the world's top car makers, which are demanding ever-more stringent safety and reduced rolling resistance and fuel consumption performance. At the same time, technologies that Pirelli has been using in its products for years are growing more and more

common, with a growing number of products like the Self Supporting - or Run Flat - tyres, which guarantee mobility and vehicle control even upon sudden loss of pressure, and the Seal Inside tyres, which use a special polymer sealer to prevent the loss of air when the tyre tread is punctured.
In the Truck Business, Pirelli designs and sells high-performing products in terms of safety and fuel savings. The Serie01 tyres are on par with its best-in- class competitors as measured by energy efficiency (rolling resistance) and at the top of class in terms of wet grip.
In terms of safety, special mention should be made of the tyres in the W:01 line as well as the TR:01 II and TH:01 tyres, which, having passed the test imposed by European regulations, it has the 3PMSF mark on its sidewall. Regarding transportation of goods, the H:01 XL tyres deserve special mention that, thanks to the increased load index, can count on superior strength and integrity even in the event of heavy use. Regarding passenger transport, where safety and comfort play an absolutely primary role, in 2014 the line H:01 Coach was launched.
The range of Pirelli products offered for efficient and sustainable mobility in the freight and passenger transport sector is rounded out by a series of solutions, among which the Cyber Fleet ™ continues to stand out, in terms of technology and innovation. This system automatically measures tyre pressure and temperature under operating conditions, thereby reducing fleet operating costs and making it possible to reduce fuel consumption by simultaneously maximising efficiency in tyre maintenance and pressure control operations. All of these features offer significant advantages in terms of CO_2 emissions reduction. This consequently has beneficial effects in terms of environmental impact and improved road safety standards. Greater or lower tyre pressure than what is recommended by the manufacturer corresponds to higher rolling resistance, irregular wear and tear, difficulty in controlling the vehicle and lengthening braking distance. These factors negatively impact fuel consumption, tyre life and driving safety. Currently CyberFleet ™ is used by 180 fleets in the world, for a total of about 150 million km travelled, monitored through the dedicated application.
High-performance tyres are also manufactured with vegetable raw materials such as rice husks, essentially inedible, renewable and, above all, not removed from the food chain, from which the silica component essential for the production of a tyre is obtained. This type of silica is used in both high performance products and also low rolling resistance tyres – the product lines that reduce fuel consumption through lower heating of the tyre during operation.
In general, the use of silica impacts road safety because it provides better wet grip and guarantees high performance levels. Rice husk silica makes it possible to produce tyres that are more environmentally friendly: the silica is extracted from the waste vegetable matter by using less fossil fuel energy, resulting in significant environmental and cost benefits in a global ecological approach from the production chain through to the finished product.
For more information on the eco-sustainability of Pirelli products, please refer to the paragraphs of this report dedicated to the Environment.

ROAD SAFETY CULTURE AND INTERNATIONAL INITIATIVES

International initiatives and commitments are discussed in the paragraphs “Company Initiatives for the External Community”.

OUR SUPPLIERS

As stated in The Values and Ethics Code of Pirelli, suppliers and outside workers play a vital role in improving the overall competitiveness of the company. While seeking the keenest competitive edge, the Group bases its relations with suppliers and outside workers on fairness, impartiality, and ensuring equal opportunities for all parties concerned.
In turn, the Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment states that the sustainable development strategies of the Group entails, among other things, continuous improvement in the environmental and occupational health and safety conditions affected by its

own activities, in firm compliance with and in support of the Universal Declaration of Human Rights, the International Labour Organization's declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the United Nations Convention against Corruption. Similarly, the policy states that Pirelli is committed to establishing and maintaining appropriate procedures to evaluate and select suppliers and subcontractors based on their level of social and environmental responsibility.
The sustainable management of the supply chain is thus explicit in Pirelli's Quality Policy, as well as being the subject of the Green Sourcing Policy. The Policies mentioned are available in multiple languages on the Pirelli website, in the Sustainability section, to which the reader is referred for the full text.

SUPPLY CHAIN SUSTAINABLE MANAGEMENT SYSTEM

The procurement processes and partnership relationships with suppliers are guided by the Purchasing Department of Pirelli and by specialists present at the various subsidiaries around the world.
Responsible management that is integrated in economic, social, environmental and governance terms characterises the relations between Pirelli and its suppliers. The "quality" of firms that provide goods and services is also a fundamental element in realising the Pirelli premium strategy.
The Pirelli supply chain Sustainable Management System was audited by an independent third party in accordance with the AA1000 Assurance Standard (2008), in 2011, 2013, and 2014, as documented in the Assurance Statements accompanying the Sustainability Reports for the years mentioned.
The social and environmental responsibility and business ethics of a Pirelli outsourcer are evaluated together with the economic quality and the quality of the product or service to be provided from time that a potential supplier is assessed. Analysis of its ESG performance then continues with qualification of the future supplier that was pre-analysed during the assessment phase, and is then incorporated in the supply agreement with the Sustainability and Business Ethics Clauses included in all contracts. In the post-contractual phase, the sustainability performance of the supplier is audited by an independent third party.
In September 2014 on the corporate website of Pirelli the "Suppliers' Area" (pirelli.com/ suppliers) was released, a new section dedicated to the world of supply, accessible to current and potential suppliers of Pirelli and to anyone interested in knowing the management model adopted by the Company as part of the purchases of goods and services in the world.
The new communication channel aims for maximum clarity and sharing of the Values, Guidelines and Standards adopted by Pirelli in its relationships with Suppliers, made explicit through the publication of explanatory documentation, such as the *Supplier Handbook*.

THE ESG ELEMENTS ANALYSED DURING SUPPLIERS ASSESSMENT, SELECTION, QUALIFICATION AND AUDIT PHASES

Pirelli uses the same ESG performance approach through the entire process of interacting with the supplier, although in different ways according to the intensity of interaction that characterises each specific procedural step.
Beginning with the assessment phase, Pirelli suppliers are assessed according to their awareness, the management model and their performance with in regard to:

- human rights compliance with a focus on:
  - ban of child labour;
  - non-discrimination;
  - ban of forced or compulsory labour;
  - protection of freedom of association and free bargaining;
- respect for the rights of indigenous populations and the local community;
- rejection of corporal punishment, mental and physical coercion, and verbal abuse;
- compliance with the laws and industry standards concerning working hours and assurance that

wages are sufficient to cover the basic needs of personnel;
- monitoring occupational health and safety performance and improvement targets;
- zero tolerance for any type of corruption in any form or way, in any jurisdiction;
- assessing and reducing the environmental impact of their own products and services throughout their entire life cycle;
- responsible use of environmental resources in view of continuous improvement;
- capability to impose the foregoing principles, values and policies on any subcontractors and sub-suppliers, regularly monitoring their actual compliance with this obligation.

During initial assessment of the possible suppliers of the good or service sought on the market, the adequately informed buyer is able to get an initial impression of whether the potential supplier complies or not with the product and ESG requirements. This makes it possible to eliminate potential future suppliers that are clearly in possible violation of Pirelli expectations.
For those suppliers who access the qualification phase, Pirelli requires that they use the dedicated web portal available in their local language. By accessing it, the supplier views and simultaneously accepts the Pirelli economic, social, environment and business ethics policies.
The first step entails compilation of a questionnaire on ESG issues, where certain questions are "disqualifying". This means that an inadequate response to them will prevent a positive conclusion to the qualification process, since it involves minimum requirements that are necessary to become a Pirelli supplier.
These questions require that the potential supplier attest that its firm:

- checks workers' ages before hiring them, and it ascertains that all of its employees satisfy the minimum legal working age;
- all workers have written employment agreements and work on a voluntary basis;
- respect the workers' right to free association and participation in trade union activities;
- wages and salaries comply with minimum legal standards, if defined;
- manages disciplinary practices, if there are any, in compliance with the provisions of law;
- statutory and contractual provisions applying to working hours, overtime and rest periods are complied with and enforced.

According to the merchandise category for which the supplier has initiated the qualification procedure, a particularly detailed questionnaire must be filled out, to which the supplier must attach quality, health and safety certifications, document its own approach to responsible management by attaching policies and codes. The rate of incidence of occupational accidents is investigated, while compliance with the aforementioned labour laws and the existence of labour lawsuits must be certified.
Filling out the questionnaire is one of the essential conditions required for qualification. The rating relative to ESG elements has an incidence of 33% in the final rating of candidate suppliers.
The portal has also been designed to support the realisation of communication, awareness raising and training campaigns for suppliers, for which sustainability is an essential element.
With regard to the contractual stage, from 2008 the Sustainability Clauses and the Business Ethics have been included systematically in contracts and orders for the purchase of goods and/or services and/or works, both with private suppliers and with the Public Administration (or institutes/enterprises under public control) or NGOs, worldwide.

In particular, the clauses:

- call for awareness, on the part of our suppliers, of the principles, commitments and values set down in the Pirelli sustainability documents, namely "The Values and Ethics Code", the "Code of Conduct" (anti-corruption), and the "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment", published and accessible on the Web, which enshrine the principles on the basis of which Pirelli manages its activities and contractual or non-contractual relations with third parties;
- require that Suppliers confirm their commitment to:
  - not using or supporting the use of child labour and forced labour;

- ensuring equal opportunity, freedom of association and promotion of the development of each individual;
- opposing the use of corporal punishment, mental or physical coercion, or verbal abuse;
- complying with the laws and industry standards concerning working hours and ensuring that waves are sufficient to cover the basic needs of personnel;
- establishing and maintaining the necessary procedures to evaluate and select suppliers and sub-suppliers on the basis of their commitments to social and environmental responsibility;
- not tolerating any type or bribery in any form or manner and in any legal jurisdiction, even where such practices are effectively permitted, tolerated, or not subject to prosecution;
- assessing and reducing the environmental impact of their own products and services throughout their entire life cycle;
- using resources responsibly with the aim of achieving sustainable development in compliance with the principles of respect for the environment and the rights of future generations;
- imposing the foregoing principles, values and policies on any subcontractors and sub-suppliers, regularly monitoring the effective respect of this obligation;

- state that Pirelli reserves the right to check at any time through audits, directly or through third parties, the fulfilment of the obligations assumed by the supplier (for more detail see below, in the following paragraph).

The sustainability clauses have been translated into 24 languages in order to ensure the utmost clarity and transparency for suppliers in terms of the contractual obligations they enter into, not only in their relations with the company but also at their own facility and in their relations with their own suppliers. With a view to maximum guarantee, Group suppliers have access to the Whistleblowing Reporting Procedure (ethics@pirelli.com), expressly stated in the clauses, to report with the utmost confidentiality any breach or suspected breach identified in relations with Pirelli and with reference to the content of “the Values and Ethical Code”, “Code of Conduct” (anti-corruption) and “Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment” of the Group.
In 2014 only one Whistleblowing report was received, signed by a supplier, which appeared to be justified and was immediately resolved. It is not objectively possible to confirm that absolutely no additional reports from suppliers were received because some complaints were anonymous, as specified in the paragraph “Group Whistleblowing procedure” and to which reference is made for further information. Moreover, there is no evidence of Whistleblowing reports in regard to violations by suppliers used by the Group.
In addition, each purchase contract gives the name of the contact buyer so that the counterparty always has access to a company channel to use to transmit any feedback. According to the issue raised, the contact buyer will then forward the report to the appropriate interlocutor or function.
The supplier is monitored by using the Vendor Rating procedure, aimed at defining the quality level of supplies, the quality of the commercial relationship, the technical-scientific collaboration and performance in relation to occupational safety, the environment, and social responsibility by means of on-site audits and periodic monitoring the progress of the actions set down in any improvement plans signed with the supplier. The Vendor Rating results are annually reviewed and commented on by the Purchasing Department in the context of meetings organized with the suppliers to identify any corrective actions or to actions to improve performance.
The Vendor Rating covers all the goods and geographical purchasing areas and utilized as an integral part of commercial negotiations.

ESG MATERIALITY AND THIRD PARTY AUDITS OF SUPPLIER SUSTAINABILITY

Pirelli manages its own sustainability by using materiality analyses. In environmental terms, the materiality of the impact of the supply chain is prevalent in the category of raw materials and the use of water in the transformation processes of natural rubber. The impact of a social nature (human rights and labour rights, in particular) is found instead in all categories of purchase, with the need for the company to focus in particular on suppliers operating in countries considered more at risk than others from a point of view of compliance with national and international labour laws.
There are many activities involving suppliers put in place by the Company with the goal of creating environmental and social value, inextricably linked to the creation of shared economic value.
This is the case of the many agreements that the Company has made with strategic suppliers for the development of innovative materials and low environmental impact, as well as initiatives that aim to support social growth within the value chain. In Indonesia, for example, an initiative is underway in support of the welfare of natural rubber producers which supply to one of the main transformers, which in turn supplies to Pirelli.
Every year since 2009 and with joint activities carried out by the Group's Risk Governance, Sustainability and Purchasing functions, local buyers and local Sustainability Managers are asked to prepare a list of suppliers that, on the basis of the results of adequate Risk Assessment, may be usefully subjected to independent audits as part of the Annual Audit Campaign.

The "critical issues" of the supplier guide the choice and may be such as:

- the supplier is bound to Pirelli by multi-year contracts;
- the replacement of the supplier may be complex;
- news of ESG risk events is received;
- the economic magnitude of the purchase is material, and thus it is decided to audit the supplier's on-site compliance with the Pirelli ESG standards, as agreed by the supplier during the contractual phase, with independent audits commissioned by Pirelli;
- the supplier operates in countries with ESG risk;
- the supplier has not yet undergone an ESG audit by Pirelli or no particular issues were identified in previous audits;
- there is news, perception or doubt of any violations regarding social, environmental and/or business ethics responsibility.

The annual Audit campaign also includes ad hoc audits deemed appropriate during the year: in 2014, for example, Pirelli conducted extensive environmental Audits of Chinese suppliers of importance for the Company, in light of the increasingly stringent Chinese regulatory context on environmental issues.
At the central level, a team composed of the Group Sustainability and Purchasing Departments defines the Guidelines for the selection of suppliers to be audited, supporting the corresponding local functions that manage the process at an operational level. The Purchasing and Sustainability managers who coordinate the supplier auditing activity locally are adequately trained and made aware of the subject and method of auditing by the central functions in charge, namely Sustainability and the Purchasing Department.
The external auditors conduct audits based on a check-list of Sustainability parameters derived from the SA8000® standard (reference tool officially adopted by the Group for the management of social responsibility since 2004), the "Policy of Social Responsibility for Occupational Health, Safety and Rights and Environment" of the Pirelli Group, consistent with the areas of social, environmental and governance sustainability dictated by the Global Compact of the United Nations, and the Group's Ethical Code.
Independent audits, each lasting an average of 2-3 days on site, include extensive interviews with workers, management and trade union representatives.
Between late 2009 and early 2010, 72 audits were conducted; between late 2010 and early 2011 an additional 56 were conducted and in the second half of 2012, 62 new audits were initiated on sup-

pliers of raw materials, machinery, logistics and services which were concluded in 2013. In 2014 a further 78 audits were performed on suppliers from all the categories mentioned.

In most cases the audits in 2014 involved suppliers of Pirelli Tyre operating in countries where the Company is present at industrial level, namely: Brazil, Argentina, Egypt, China, Romania, Russia, Turkey, Venezuela, Mexico and the United States. Or countries from which Pirelli buys raw materials such as: Indonesia, India, Malaysia, Thailand, Japan, Korea and Colombia. Among the Western countries where the Group operates audits were performed on suppliers of Pirelli Tyre in: Italy, England, Germany, Poland, Spain and the Netherlands.

Based on the findings of the audit, where necessary and appropriate Pirelli drafts a recovery plan with the supplier to prevent, mitigate or remedy any non-conformities identified. The Plan envisages specific actions to be implemented by precise deadlines agreed by the parties, in addition to clear identification of the person in charge of the action at the supplier company.

This certainly contributes to a virtuous circle of continuous improvement. The Internal Audit function has been directly involved in the process of monitoring of progress on supplier compliance recovery plans since 2012. This function stands out for its independence at Pirelli insofar as, aside from the Board of Statutory Auditors, it reports to the Audit, Risks, Sustainability and Corporate Governance Committee of Pirelli & C. S.p.A., which is composed only of Independent Directors.

On the basis of the results of audits carried out from 2009 to 2014, the non-compliances recorded continue to be linked to the processes of managing health and safety, the use of overtime and the correct implementation of Environmental Management Systems. Moreover, the number and severity of non-compliances are constantly decreasing.

With particular reference to Suppliers located in Asia, it is worth mentioning the strong desire to improve, as well as the reaction rate in implementing recovery actions in generally very short times. There have been no cases where the supply relationship was terminated due to the results of the audits. In most cases, no Supply contracts have been concluded with Suppliers considered inadequate or at risk already in scouting phase.

The recovery plans as a result of 2014 audits have been completed or are under implementation.

The achieved results are attributable to the Sustainable Management System adopted by Pirelli, which is extensive and covers all phases of the relationship with the supplier. Over the years, it has allowed constant improvements in the panel of suppliers. Then, it must be considered that Pirelli suppliers perceive the importance of compliance with sustainable management factors, also in consequence of the engagement of a number of their customers, and this certainly contributes to trigger a virtuous chain of continuous improvement.

THE GROUP'S GREEN SOURCING POLICY

In December 2012 Pirelli published and issued the Green Sourcing Policy with the aim of stimulating and encouraging environmental awareness throughout the entire supply chain and promoting strategies capable of reducing the environmental impact of Pirelli goods and services procurement activities.

The Green Sourcing Policy implementation system was defined in 2013, both inside Pirelli and in supplier relationships. It is organised as follows:

- drafting of the "Pirelli Green Sourcing Manual", an internal document containing operating Guidelines, intended to guide the activities of the Pirelli functions involved in the Green Sourcing process;
- drafting of the "Pirelli Green Purchasing Guidelines", a document targeting Pirelli suppliers, and part of the Supply Agreement, based on the Green Sourcing Manual, which contains the KPI (Key Performance Indicators) for assessing the Green Performance of suppliers;
- integration of Green Performance in the traditional process of measuring supplier performance (vendor rating).

The Pirelli Green Sourcing Manual defines four areas of Green Sourcing: Materials, Capex, Opex and Logistics.

Interdepartmental working groups, comprised of Purchasing, R&D, Quality, HSE and Sustainability,

analysed the Green Sourcing process associated with the merchandise categories falling within the four areas mentioned above. Green Engineering Guidelines were defined for the Materials and Capex areas, where the design component (what is conceived in-house) is material to the Pirelli core business. Instead, in the Opex and Logistics areas, which are characterised by merchandise categories where the design component is not as material, Green Operating Guidelines were nonetheless drafted in reference to internationally recognised best practices.
So, the Green Sourcing Manual is a unique document that contains:

- the general part on Green Sourcing issues;
- the Green Engineering Guidelines (Materials, Capex);
- the Green Operating Guidelines (Opex, Logistics).

The Green Sourcing Manual will also be adopted by the Pirelli Training Academies for training of the departments involved in the Green Sourcing process.
In 2014, on the basis of the Guidelines of the Green Sourcing Manual, the Pirelli Green Purchasing Guidelines have been published on the website www.pirelli.com, making them available to Pirelli suppliers and all other Stakeholders. The document, as well as explaining the approach of the Pirelli Green Sourcing system, also contains the KPI for the Green Performance evaluation of suppliers.
In China, Mexico, the United States, Russia and Italy, at the Pirelli Offices, invitation-only seminars were held on Green Purchasing Guidelines for local suppliers in order to inform and receive direct feedback on the approach of the GPG. Also from the perspective of information and dissemination of the Pirelli Green Sourcing Policy and Green Purchasing Guidelines among stakeholders, Pirelli also contributed to the 2014 Rubber Recycling Symposium (October 22-24, 2014, Montreal, Canada), organised by the Tire and Rubber Association of Canada with the presentation “Sustainability and Green Materials Innovation in the Tire Business: a Premium Quality Perspective”.

CDP SUPPLY CHAIN

For years Pirelli has participated in the CDP Investor and in the CDP Supply Chain as requested by OE customers. Since 2014 Pirelli has also decided to extend the request for CDP assessment to its suppliers, from a perspective of full involvement and implementation of its Green Sourcing Policy.
Pirelli thus activated *climate change* performance monitoring of its key suppliers at Group level, identified according to criteria of environmental and economic materiality. CDP Supply Chain allows Pirelli to monitor Scope 3 emissions in its supply chain, in addition to ensuring adequate awareness of suppliers on *climate change* issues in order to identify and activate all possible opportunities to reduce emissions of greenhouse gases.
Already in its first year, the project had significant participation from Pirelli suppliers, which responded to the *assessment* by obtaining a *disclosure* score higher than the average of the panel of CDP companies. The analysis showed that, thanks to the actions to reduce emissions by Pirelli suppliers, in 2014 the emission of 65 million tonnes of CO_2 equivalent was avoided, also making it possible to obtain economic savings of €681 million.
Pirelli is the first company among tyre manufacturers to have officially introduced the CDP Supply Chain in its own supply chain.

CONFLICT MINERALS

The concept of Conflict Minerals was introduced by Section 1502 of the Dodd-Frank Act, federal law of the United States in 2010. “Conflict minerals” include gold, columbite-tantalite (coltan), cassiterite, olframite and their derivatives such as tantalum, tin and tungsten that come (or are extracted) from the Democratic Republic of Congo and/or from neighbouring countries.

The objective of the Conflict Minerals Rules is to discourage the use of minerals whose trade might finance violent conflicts in Central Africa, where serious human rights violations have been reported for years. In accordance with the Conflict Minerals Rules, listed United States companies are asked to conduct reasonable due diligence to trace the origin of these materials, reporting the results to the SEC and publicly on their own websites, with the first report published by 31 May 2014 (for 2013), and subsequently updated every year. The European Commission on March 5th 2014 proposed a draft Regulation setting up an EU system of self-certification for importers of tin, tantalum, tungsten and gold who choose to import responsibly into the Union.

The proposed Regulation is accompanied by a “Communication” (a proposal), a paper that presents the overall comprehensive foreign policy approach on how to tackle the link between conflict and the trade of minerals extracted in affected areas. The focus of Pirelli on issues regarding human rights and at the same time its position of Supplier falling within the supply chain of active Customers in terms of due diligence, has led the Company to conduct a full investigation on its supply chain for the years 2013 and 2014, to identify the existence of any “conflict minerals”. To give an idea of the size of the phenomenon for Pirelli, it is useful to point out that its impact is decidedly limited: the volume of minerals (3T+G) used by Pirelli Tyre in a year weighs less than a ton, an amount that is approximately one millionth of the volume of raw materials used annually by the Company and which is equally distributed among the majority of tyres produced. By way of example, a tyre weighing 10kg contains the equivalent of about 10mg (milligrams) of tin, in the very low concentration of 1 ppm (one part per million).

With a view to sourcing that only involves “conflict free” minerals, Pirelli has asked its suppliers to complete the CFSI CMRT (Conflict-Free Sourcing Initiative Conflict Minerals Reporting Template) form, developed by EICC (Electronic Industry Citizenship Coalition) and GeSI (Global e-Sustainability Initiative), in order to have full visibility on the supply chain, all the way to the mines or foundries.

In 2014, only the second year after the entry into force of the US legislation, Pirelli already had excellent results. Suppliers involved cover 100% of the “conflict minerals” risk related to the Group’s production. Over 90% of suppliers involved already provided indications of the source of the materials in question, listing the foundries as required by the procedure. The results of the investigation lead to the conclusion that these products are “Conflict-Free”. At the end of 2014, only a number of suppliers are undergoing assessment, accounting for 0.01% of Pirelli’s purchase spending, respecting in any case the transition period required by law.

TRAINING OF SUPPLIERS ON SUSTAINABILITY ISSUES

Following the training project for strategic suppliers provided via e-learning in 2012, 2013 and 2014 Pirelli extended the same training sessions to all security service providers of the Group. The activity involved elements of labour law, human rights, respect for the environment and business ethics. The tool used for training was a platform specifically developed for this purpose by the Pirelli Group. After receiving a personal ID and password, the supplier could connect with the online platform and participate in training activities at any time. The course included very practical examples to allow participants to easily check their company level of compliance with the various ESG issues. To determine the effectiveness of e-learning, a mandatory test was also included, which the participants had to pass at the end of the session.

SUPPLIER AWARD

The Supplier Award 2014 edition was held at the headquarters of Pirelli in Bicocca, in the presence of Pirelli's Chairman and CEO, who awarded nine suppliers operating in Indonesia, Germany, Poland, the Netherlands and Italy that stood out for quality, innovation, speed, sustainable performance, global presence, price, level of assistance and service.
A specific recognition is therefore dedicated to sustainable performance, thus recognising the importance of "responsible" strategies that make a real difference by bringing benefits to the entire value chain.
The Pirelli Supplier Award, awarded annually to suppliers of excellence, aims to continuously improve relationships with partners with a view to shared development.

TREND OF PURCHASES

The Pirelli Tyre core business in 2014 accounts for 98% of Group purchases (vs 97% in 2013).
The following tables show the value of purchases made by Pirelli Tyre and the percentage of the relative suppliers divided by geographical area. This data reveals that the value of purchases in OECD areas is approximately the same as the value of purchases in non-OECD areas, while the number of suppliers is slightly higher in OECD areas.

77% of suppliers (vs 78% in 2013) – excluding raw material suppliers - operate locally with respect to the supplied Pirelli Tyre affiliates, in accordance with a "local for local" supply logic.

PERCENTAGE VALUE OF PIRELLI TYRE PURCHASING BY GEOGRAPHICAL AREA

		2014	2013	2012
OECD Countries	Europe	**47%**	40%	43%
	North America	**4%**	3%	3%
	Others	**3%**	3%	3%
Non-OECD Countries	South America	**21%**	20%	27%
	Asia	**14%**	20%	15%
	Africa	**1%**	1%	1%
	Others	**10%**	13%	9%

PERCENTAGE OF PIRELLI TYRE SUPPLIERS BY GEOGRAPHICAL AREA

		2014	2013	2012
OECD Countries	Europa	**51%**	48%	52%
	North America	**4%**	3%	4%
	Others	**4%**	2%	2%
OECD Countries	South America	**27%**	28%	30%
	Asia	**3%**	9%	4%
	Africa	**4%**	2%	2%
	Others	**7%**	8%	6%

The following table shows a breakdown into percentages of the value of Pirelli Tyre purchases by type. It is clear that the most relevant and significant purchase category concerns raw materials with a weight equal to 54% of the total, down from the previous year due to lower commodity prices, particularly natural rubber.

PERCENTAGE VALUE OF PIRELLI TYRE PURCHASING BY TYPE

	2014	2013	2012
Raw materials	**54%**	61%	58%
Supplies	**5%**	5%	4%
Services	**32%**	25%	27%
Capital goods	**9%**	9%	11%

With reference to the percentages of Pirelli Tyre suppliers by type and number as at the following table, already from 2010 the consumables and services suppliers categorisation criteria had been defined. The sum of the number of operators in the two categories remains in excess of 80% of the total, even though the incidence on total purchases is significantly lower than, for example, that of raw material purchases. The fragmentation of consumables and services suppliers is clearly visible compared to the substantial concentration of raw materials purchases over a small number of operators.

PERCENTAGE OF DI PIRELLI TYRE SUPPLIERS BY TYPE OF PURCHASE

	2014	2013	2012
Raw materials	**3%**	3%	3%
Supplies	**33%**	35%	39%
Services	**53%**	54%	46%
Capital goods	**11%**	11%	12%

Finally, the following table outlines the percentage composition to value of the mix of raw materials purchased by Pirelli Tyre in 2014, 2013 and 2012. Compared to 2013, in 2014 there was a decrease of the weight of natural rubber due to the reduction in the price of the commodity. The volume of raw materials utilised for the production of tyres in 2014 amounted to approximately one million tonnes, of which approximately 5% is derived from recycled materials, in line with the previous year.

PURCHASED RAW MATERIALS PURCHASED BY PIRELLI TYRE MIX (BY VALUE)

	2014	2013	2012
Natural rubber	**20%**	24%	26%
Syntethic rubber	**28%**	29%	31%
Carbon Black	**14%**	13%	12%
Chemicals	**19%**	16%	14%
Textile	**12%**	11%	10%
Steelcord	**7%**	7%	7%

TARGETS FOR 2015

- Expansion of the training sessions to include the Group's suppliers of raw materials and machinery.
- Continuation of audit campaigns and follow-up of previous audits concluded.
- Introduction of specific sustainability audits in pre-qualification and approval phase for new suppliers and/or raw material facilities.
- Supplier Awards 2015: also this year Pirelli will award the suppliers that stood out in the course of 2014 for level of quality, innovation, speed, sustainability, global presence, price, level of assistance and service.
- Increase in the participation rate of Pirelli suppliers in the CDP Supply Chain.

ENVIRONMENTAL DIMENSION

The Values and Ethics Code of Pirelli states that "A key consideration in investment and business decisions is environmental sustainability, with the Group supporting eco-compatible growth, not least through the adoption of special technologies and production methods (where this is operationally feasible and economically viable) that allow for the reduction of the environmental impact of Group operations, in some cases even below statutory limits."
The Pirelli approach to sustainable environmental management is set forth in accordance with the Sustainability System envisaged in the United Nations Global Compact, signed in 2004, and the Rio Declaration on Environment and Development. The above principles are also reiterated in the Group Social Responsibility Policy for Occupational Health, Safety, Rights and Environment, according to which Pirelli undertakes to:

- assessing and reducing the environmental impact of its own products and services throughout their entire life cycle;
- use of the most advanced technologies to achieve excellence in environmental protection;
- manage its environmental activities in compliance with the highest international standards;
- communicate and provide material information to internal and external stakeholders;
- use material resources responsibly, in view of achieving sustainable growth that respects the environment and the rights of future generations;
- establish and maintain appropriate procedures to evaluate and select suppliers and subcontractors on the basis of their commitment to environmental accountability.

In its Group Quality Policy, Pirelli specifies that continuous innovation, product excellence and safety, and environmental protection throughout the product life cycle represent one of the principal sources of sustainable competitiveness on the global market. Through adoption of the Green Sourcing Policy, all Group employees undertake to consider environmental aspects in all of their design and sourcing choices about goods and services.

THE PIRELLI GROUP ENVIRONMENTAL STRATEGY

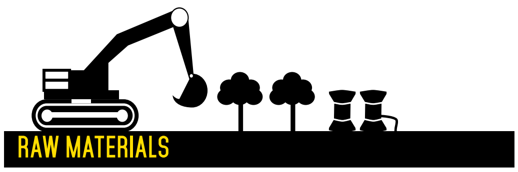
Management of environmental issues has always played a key role in business strategy at Pirelli. With a view to long-term duration and given the inherent complexity of managing the reduction of its impacts at the different stages of life of the tyre, the Pirelli Group has provided a control system that can display, analyse and manage its activities starting from a comprehensive viewpoint that allows the identification of the materiality and, therefore, the resulting action plans. Pirelli monitors the Carbon Footprint and Water Footprint of its entire organisation and is committed to their progressive reduction.
The infographic on the following pages aims to show in a single view Pirelli's approach to environmental management, aimed at reducing its impact on resources, climate and ecosystems. The diagram can be read both horizontally, following one by one the stages of tyre life cycle, or vertically, thus being able to appreciate all the qualitative and quantitative elements relevant to each phase.
The life cycle has been analysed by using the Life Cycle Assessment, as defined by the ISO 14040 family of standards. This latter method is capable of validating the results and strategic decisions related to it as objectively as possible. Moreover, the reporting of the emissions impacts also complies with the provisions of the GHG Protocol and the GRI-G4 Guidelines. All impacts listed by the

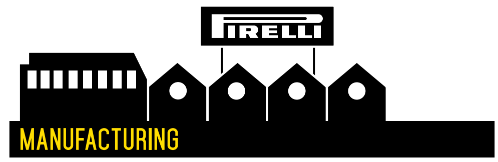
standards that are not mentioned, both *upstream* and *downstream* with respect to the industrial activity of Pirelli, do not apply or are not relevant. The values are shown as a percentage, as the objective of this infographic is to show the differences in materiality between the various life stages. To determine the Carbon and Water Footprint the calculation model used by Pirelli follows the technical specification ISO-TS 14067 and draft ISO 14046 respectively.
At the top of the infographic, the drivers that exercise pressure on the environment show the role of Customers and Suppliers as key players - along with Pirelli - in the product life cycle. The main impact is generated at every stage from different types of activity: in the case of raw materials it refers to their production and distribution. In the case of tyre manufacturing it refers to the consumption of electricity and natural gas: the production of these two is the major reason for the emissions into the atmosphere and the water consumption. In the case of the distribution of new tyres and their use by customers, the impact derives from the fuel consumption of vehicles: in the case of customers only the fuel consumption related to the power absorbed by the rolling resistance of the tyres themselves is allocated. Finally, in the last considered phase of life, the impact deriving from the preparation of end-of-life tyres for recovery in the form of energy or recycled raw material is calculated.
In regard to the Carbon Footprint, the "drivers" area of the infograph also contains the breakdown of emissions in the three scope categories in relation to the GHG Protocol principles. The central part of the infographic shows the actual quantification, in percentage terms, of the Carbon Footprint and the Water Footprint. These two aspects are summarised by four principal indicators: Primary Energy Demand (PED), Global Warming Potential (GWP), Blue Water Consumption (BWC) and Eutrophication Potential (EP). The values are managed in GJ of energy, tons of CO_2 equivalent, cubic meters of water and kilograms of phosphate equivalents. The Primary Energy Demand (PED) refers to the quantity of energy that is taken directly from the hydrosphere, the atmosphere or the geosphere, be it renewable or non-renewable energy. The Global Warming Potential (GWP) concerns the effect of human activities on the climate, and is calculated as stated in tonnes of CO_2 equivalent. This means that the potential greenhouse gases effect is given in relation to CO_2. The calculation assumed that the CO_2 would remain in the atmosphere for 100 years.

Blue Water Consumption (BWC) is given by the volume of consumed surface and underground water in consequence of the production of a good or service. Consumption refers to the fresh water used and then evaporated or incorporated in the product. The Eutrophication Potential (EP) is the enrichment of nutrients in a specific aquatic or terrestrial ecosystem. Air pollution, water emissions and agricultural fertilizers all contribute to eutrophication. The result in aquatic systems is accelerated growth of algae, which does not allow sunlight to penetrate beyond the surface of water basins. This reduces photosynthesis and thus reduces the production of oxygen. Low concentrations of oxygen may cause mass death of fish and anaerobic decomposition of organic material, seriously compromising the entire ecosystem.
Consistently with the product environmental footprint, as already shown in the sustainability reports for the previous years, the tyre use phase is the most significant one for each of the four indicators. The environmental materiality deriving from this type of analysis, which would logically lead to focusing all actions on the improvement of the product characteristics that determine the use phase impact, nevertheless is accompanied by the economic materiality. The latter is identified on the basis of different management elements such as, for example, the amount of corporate spending and thus the level of opportunity in reducing and avoiding costs, as in the case of investments in energy efficiency.
In its response strategy, which is available at the bottom of the infographic and also corresponding to what is stated in the Industrial Plan, Pirelli has adopted adequate management models for monitoring and management of environmental issues, and has voluntarily set specific targets for the reduction of impacts in each of the phases of the life cycle.

PIRELLI ENVIRONMENTAL MODEL: ANALYSIS AND STRATEGY

LIFE CYCLE STAGES





DRIVERS

SUPPLIERS

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

Scope* 3

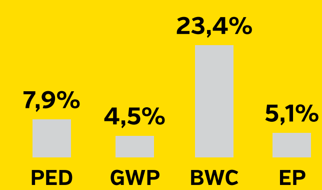
PIRELLI

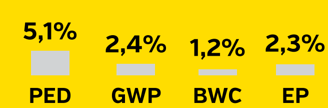
Tyre manufacturing: in Pirelli's plants the impact comes mainly from electricity and natural gas consumption

Scope 1+2+3

IMPACT: CARBON & WATER FOOTPRINT

PED > Primary Energy Demand
GWP > Global Warming Potential
BWC > Blue Water Consumption
EP > Eutrophication Potential





MATERIALITY

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

Manufacturing: Economical **High** | Environmental **Medium**

RESPONSE STRATEGY

Raw materials innovation

SILICA: expansion of the Pirelli technology to produce silica from rice husk also for Premium tyres

NATURAL RUBBER: research on alternative sources; Guayule project with Versalis (ENI Group)

FUNCTIONALIZED POLYMERS: research on innovative polymers that guarantee reduced environmental impact, greater driving safety and improved production efficiency

Green Purchasing Guidelines

Activation of CDP Supply Chain program

Specific Audits of suppliers in countries with high environmental risk

Process efficiency
Targets 2020 vs 2009

- **-18%** Energy spec. consumption
- **-58%** Water spec. withdrawal
- **-15%** CO_2 spec. emissions
- **>95%** Recovered waste

ISO 14001 in all plants

Scrap Reduction Program

DISTRIBUTION

SUPPLIERS

Production and use of fuel by trucks and ships of logistic suppliers, delivering Pirelli tyres all around the world

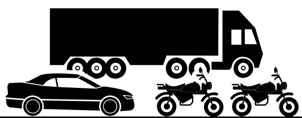
Scope 3

PED	GWP	BWC	EP
<0,1%	<0,1%	<0,1%	0,4%

Economical **Medium** | Environmental **Low**

Green Sourcing Policy

Green Logistic Procedure
Engagement to reduce supply chain carbon & water footprint



USE

CUSTOMERS

Production and use of fuel of customers' cars due to rolling resistance

Scope 3

PED	GWP	BWC	EP
86,9%	90,8%	75,3%	92%

Economical **High** | Environmental **High**

Product efficiency
Targets 2020 vs 2007

RR **-40%** Car **-20%** Truck **-10%** Moto

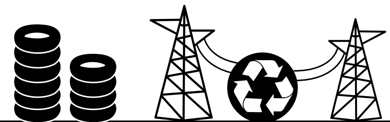
Cyber Tyre development

CAR: "Base" System to manage tyre performance through pressure

CAR: "Premium" System with management of static load, tear consumption, hydroplaning alert, road surface alert and tyre vectorial strenghts

TRUCK: System to manage the tyres of whole fleets, to minimize fuel consumption

Green Performance revenues 48% on total revenues by 2017



END OF LIFE

WASTE RECOVERING ACTORS

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

Scope 3

PED	GWP	BWC	EP
<0,1%	2,2%	<0,1%	0,2%

Economical **Low** | Environmental **Low**

Presence on the major international worktables

WBCSD
ETRMA
to spread the recovery culture

Regenerated raw materials

Study projects with universities in order to enhance the quality of regenerated materials in order to increase their presence in new compounds

*** According to GHG Protocol**

RESEARCH AND DEVELOPMENT OF RAW MATERIALS

The research and development of innovative materials are key to the design and fabrication of ever-more sustainable tyres that guarantee reduced environmental impact, greater driving safety and improved production efficiency. In this context, Pirelli has activated a Joint Development Agreement with primary suppliers for the study of new polymers that are able to further improve the characteristics of the tyres in terms of rolling resistance, low temperature performance, mileage and grip. Pirelli's Research & Development is particularly focused on:

- high-dispersion silica for wet grip, rolling resistance and durability;
- high-performance carbon black derived from racing competition applications for extreme grip;
- biomaterials, such as silica from renewable sources;
- nanofillers for more stable compounds, lighter structures and highly impermeable liners;
- new silanes to guarantee performance stability and processability.

As part of the Consortium for Research on Advanced Materials (CORIMAV) with Università degli Studi of Milan Bicocca, a new selective devulcanisation technology is being studied for the recycling of materials derived from compounds of End-of-Life Tyres, which allows a significant reduction of production costs as well as related environmental impact.

The three-year (2012-2014) Joint Labs agreement between Pirelli and Politecnico of Milan, aimed at research and training in the tyre industry, covers nanotechnology, the development of new synthetic polymers, new bifunctional chemicals and new biopolymers: Pirelli is working with universities to develop a natural rubber obtained from sources other than the rubber tree. Research is aimed at diversifying the potential supply sources, thereby reducing pressure on the biodiversity of producer countries and allowing the Company to manage the potential scarcity of raw materials with greater flexibility.

In 2013, Pirelli and Versalis (Eni) signed an important memorandum of understanding with the aim of launching a joint research project into the use of natural rubber from guayule in the production of tyres. The guayule (Parthenium argentatum) is a non-edible shrub that needs little water and no pesticides, and represents an alternative source to natural rubber thanks to its hypo-allergenic properties, unlike the more common Hevea brasiliensis rubber.

This study will engage the two firms for a period of three years. During that time, and operating on an exclusive basis between the parties, Versalis will provide innovative types of natural rubber extracted from guayule that will be tested by Pirelli for use in tyre production. On the basis of this new collaboration and, upon industrial scale production of rubber from guayule, Versalis may provide Pirelli with new products that will consolidate and round out the commercial range of synthetic rubber made by Versalis and already used by Pirelli for quite some time in tyre production.

As for biomaterials, as already mentioned Pirelli has focused on silica derived from rice husk. Rice husk is the outer shell of the rice grain and constitutes 20% of raw rice by weight; the husk, which is the main waste of this crop, is available in extremely large quantities in many areas of the world. Today, rice husk has several more or less noble uses: animal bedding, organic fertilisers, solid fuel for the production of electricity (in fact has moderate heating power, around to 14 MJ/kg). However, in the less developed areas of the world it is still not valued, and is burned in the open without exploiting its full potential. In one of these areas, in Brazil, Pirelli has developed a manufacturing process able to extract industrial silica from the husk, of whose weight 18% is constituted precisely by silica. The Pirelli industrial process for the extraction of this raw material is considered thermally autonomous thanks to the combustion of the carbonaceous part of husk: this allows a strong reduction of the quantity of CO_2 emitted per kg of silica compared to the conventional process, which instead exploits fossil energy sources. Pirelli has set itself the goal of supplying 30% of the production need in South America with silica derived from vegetable sources by 2017.

PRODUCT AND PHASE OF USE: GREEN PERFORMANCE OBJECTIVES

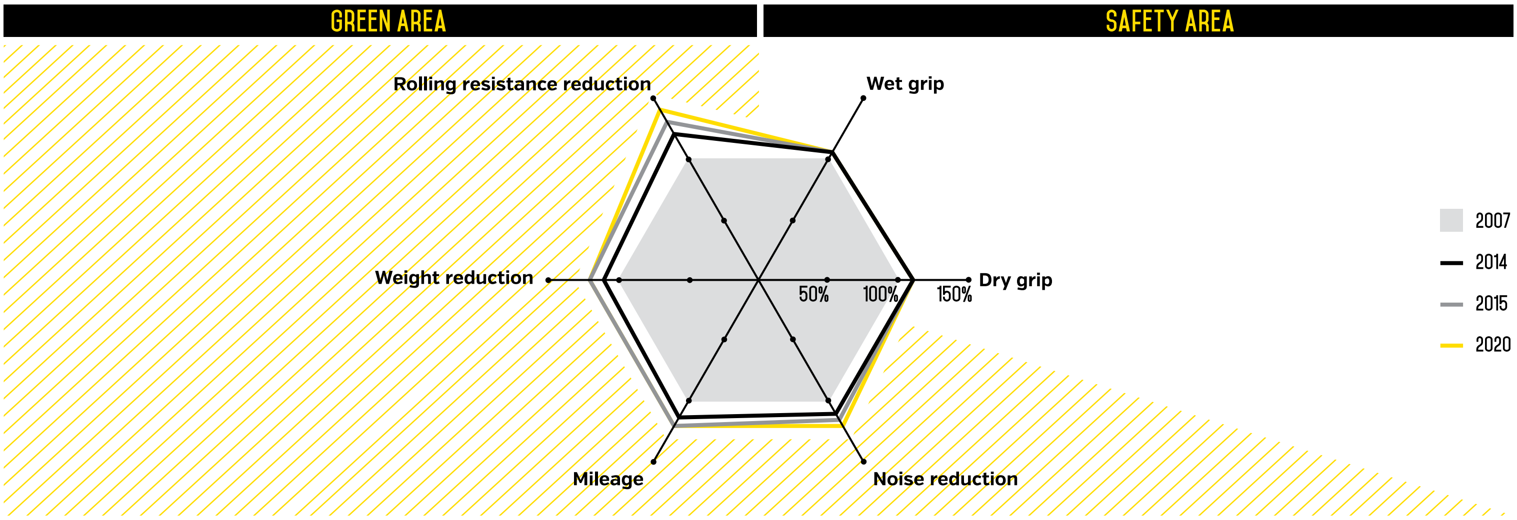
The decision to focus on the premium segment forces Pirelli to develop and introduce increasingly sophisticated products on the market in a macroeconomic scenario that is undergoing constant, rapid evolution.
The major corporate investment in research and development on ever-more innovative compounds, structures and tread patterns allows Pirelli products to achieve extremely high performance in terms of braking under dry and wet conditions and, at the same time, improved environmental performance such as:

- decreased rolling resistance - lower CO_2 emissions;
- less noise – reduced noise pollution;
- increased mileage – lengthening of tyre life and reduced exploitation of resources;
- improved retreadability – less waste to be disposed of;
- reduced weight – less use of raw materials and lower impact on natural resources.

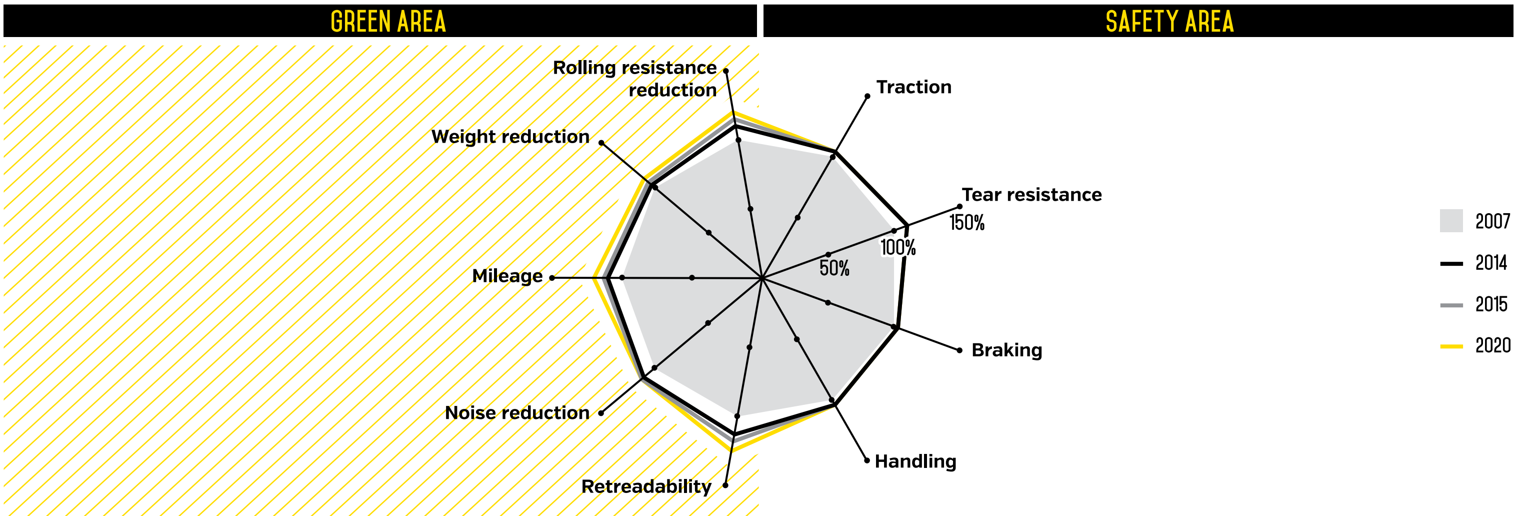
As already mentioned in the section “Pirelli and the tyre labelling regulation (EC 1222/2009)”, from 2012 in the European market an environmental and safety labelling system came into force on tyres for the replacement market. This legislation provides for the obligation on the part of tyre producers, through the application of a label (Eurolabel), to inform consumers on the important features of the product, such as rolling resistance (energy efficiency index), wet grip (safety index, wet grip) and external noise from rolling (environmental impact index).
Energy efficiency and safety are ranked by classes that run from “A” to “G”, while external noise is measured in decibels and is shown with the sound wave symbol. The Eurolabel is applied to car tyres (C1) and light and heavy commercial vehicle tyres (C2 and C3).
Accordingly, as part of the presentation of the Industrial Plan 2013 - 2017, Pirelli Research and Development adopted targets to improve the environmental performance of its own products in an objective, measurable and transparent manner. In particular, the Group focused its commitment to the parameters of the European labelling – Rolling Resistance, Wet Grip and Noise – without neglecting all the other fundamental parameters in the Green Performance strategy. With regard to the more important environmental aspect, Pirelli has committed to reduce by 2020, compared to the average in 2007, the weighted average rolling resistance of its products by 40% in car products, by 20% in truck products and by 10% in motorcycle products.

This product strategy, focused on rolling resistance, sees its highest expression in the Cinturato P7 Blue; with this solution Pirelli was the first manufacturer in the world to present a tyre to the market which, in some measurements, boasts the double A in the Eurolabel scale. This product is available, depending on the measurements, both in double A class, as mentioned, and in B class of rolling however always maintaining A for wet grip. On average the Cinturato P7 Blue guarantees: 23% less rolling resistance than the Pirelli reference (class C of rolling resistance), therefore lower fuel consumption and fewer harmful emissions. A concrete example: a sedan using Cinturato P7 Blue tyres that is driven for 15,000 km a year consumes 5.1% less fuel, equivalent to 52 litres of fuel, and reduces greenhouse gas emissions by 123.5 kilograms of CO2; it has a wet braking distance 9% lower than the Pirelli reference (class B of wet grip) in the same segment.
Comparative tests of TÜV SÜD showed that, at a speed of 80 km/h on wet surface, the P7TM Blue reduces braking by 2.6 meters compared to a tyre classified B. The Cinturato P7 Blue was developed for medium-high cylinder cars, as a further evolution of the Cinturato P7, famous Pirelli Green Performance tyre presented in 2009.

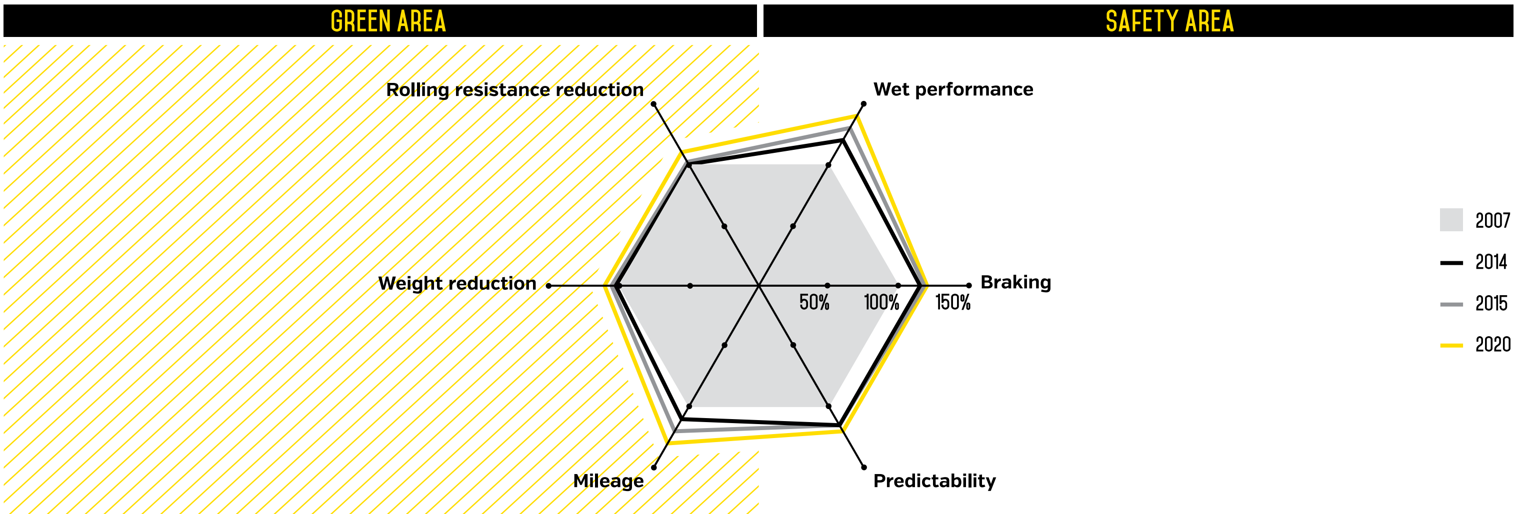
CAR



TRUCK



MOTO



END-OF-LIFE MANAGEMENT OF TYRES

In Europe, about 95% of End-of-Life Tyres (ELT) are recycled; in the United States the value is nearly 80%, while in Japan it is slightly higher (Source ETRMA – Annual Report 2013/2014). For years now, Pirelli has been involved in the management of ELT collaborating with leading national and international reference bodies. Pirelli is in fact active in the Tyre Industry Project (TIP) of the World Business Council for Sustainable Development (WBCSD), in the ELTs working group of ETRMA (European Tyres and Rubber Manufacturers' Association) and, at the national and local level, it interacts directly with leading organisations active in the recovery and recycling of ELTs. As a member of TIP, Pirelli Tyre has collaborated on the publication of a report on the management of ELTs, taking a proactive approach to raising the awareness both of emerging countries and those that do not yet have a system for recycling ELTs, and to promote their recycling and reuse according to defined management models, which have already been launched successfully. The tyre is a mixture of many valuable materials that at the end of life allow two paths of recovery: recovery of material or the energy. In terms of the recovery of material, the reclaimed rubber is already reused by Pirelli in the compounds of new tyres, contributing to the reduction of the related environmental impact. Thanks to research activities in collaboration with major universities, it will be possible in the near future to improve the quality of recovered material, in terms of affinity with the other ingredients of the compounds, thus resulting in an increase in the amount of recoveries used in compounds with an additional environmental benefit.

ENVIRONMENTAL IMPACT OF PIRELLI'S PRODUCTION SYSTEM

ENVIRONMENTAL MANAGEMENT SYSTEM AND ENVIRONMENTAL PERFORMANCE MONITORING

In 2014 all industrial facilities of Pirelli Tyre with a production system and the tyre testing field in Vizzola Ticino (Varese) pursued continuous improvement of their environmental performance by adopting Environmental Management Systems certified in accordance with the International Standard ISO 14001.
The International Standard ISO 14001 was adopted by Pirelli as a reference in 1997, and since 2014 all the certificates have been issued with international accreditation ANAB (ANSI-ASQ National Accreditation Board: accrediting entity of the United States). Group policy mandates implementationand certification in accordance with ISO 14001. As such, it is also applied to new facilities. The certification activity, together with control and maintenance of previously implemented and certified systems, is coordinated on a centralised basis by the Health, Safety and Environment Department.
The environmental, health and safety performance of every tyre production site is monitored with the web-based Health, Safety and Environment Data Management (HSE-DM) system, which is processed and managed centrally by the Health, Safety and Environment Department. Pirelli has also completed the CSR-DM (CSR Data Management) IT system for managing Group sustainability information, which is used to consolidate the economic, environmental and social performance of all Group business units worldwide. Both systems support consolidation of the performance accounted for in this report.

SCOPE OF REPORTING

The performances described concern the three years 2012-2013-2014 and consolidate the entire perimeter of the Group.
The amount of finished product in 2014 was approximately 1,060,000 tonnes. This value also in-

cludes production by the steelcord business unit for the part sold to customers outside the Pirelli Group. Since the beginning of 2014 the scope of reporting has seen the inclusion of the steelcord production facility in Yanzhou (China), which was reclassified, from the end of the year 2013, from shareholding in "associated" company to shareholding in "subsidiary" company, as also described in the Notes to the Annual Financial Report as at 31 December 2013. In line with the principles set by GRI, the historical value of the environmental indicators accounted below was recalculated integrating the data of Yanzhou in the years 2013 and 2012. In light of the foregoing, the following figures comprise the impact of all Pirelli units, from industrial units to commercial and administrative sites.

TRENDS IN ENVIRONMENTAL PERFORMANCE INDICES

2014 saw an increase in production volumes: the number of tonnes of finished product increased by approximately 2.5% compared to 2013 (increase calculated on a comparable basis). This had a positive impact on specific environmental performance indices, while also allowing adequate return of value from investments made with a view to energy efficiency. Nevertheless, the production focus is on Premium products, which are characterised by high energy intensity due to the very restrictive quality specifications, more complex processing and smaller production lots than products for the medium-low end market. The year 2014 therefore saw a general improvement of all environmental indices, including those normalized on the operating margin.

ENERGY MANAGEMENT

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

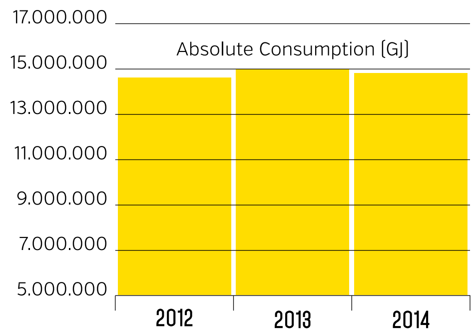
- absolute consumption, measured in GJ, which includes the total consumption of electrical energy, thermal energy, natural gas and petroleum derivatives (fuel oil, gasoline, diesel, and LPG);
- specific consumption, measured in GJ per tonne of finished product, which indicates the energy used to produce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

The Sustainability Plan 2013-2017 with Vision and Target at 2020, fully integrated in the Industrial Plan presented to the Financial Community in November 2013, provides for a reduction of the specific energy consumption of 18% by 2020 compared to 2009 values.
In the course of 2014, the energy efficiency plan continued at all Group plants, having already been initiated in recent years and characterised by actions aimed at:

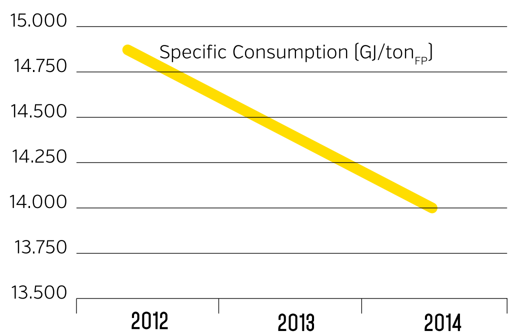
- improving energy management systems, by exactly measuring consumption and focusing daily on technical indicators;
- improving the quality of energy transformation by streamlining resource and plant use;
- improving the efficiency of distribution plants;
- improving the efficiency of production plants;
- recovering energy for other uses;
- applying targeted maintenance plans in order to reduce energy waste.

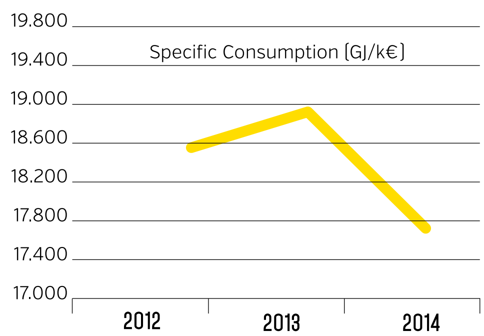
Actions and investments for energy efficiency meet the criteria of economic sustainability normally applied to Pirelli's industrial projects, accompanied by the assessment of environmental impacts. The areas for technical action both concern the traditional themes applied to each industrial area, such as modernisation of thermal insulation, maintenance of distribution plants, use of technologies using inverters, and special projects assessed according to the needs of each manufacturing site.
In the course of 2014 there have been several interventions. In Russia, the completion of the new natural gas thermal power plant in Voronezh and the revamping of the compressed air plant in Kirov. In Settimo Torinese, Italy, the new production area has been initiated, includingall of the best practices of thermal efficiency already implemented at other Pirelli plants, with particular attention to the heating and the recovery of condensate. At the same time the transformation of vulcanisation

plants is ongoing with the use of technical gases in all facilities, with particularly positive results in Germany, the UK and Argentina.
As explained in the paragraph "Trends in environmental performance indices", 2014 generated a lowering of the specific energy index (weighed on tonnes of finished product), recording -3% compared to 2013. The index weighed on the operating margin also decreased by 6% compared to 2013. Also in 2014, albeit in the face of an increase in production, absolute consumption also decreased by about half a percentage point.
The energy efficiency plan applied to factories in 2014 allowed saving about 423,600 GJ. This value was calculated on the basis of the production volumes of the reporting year and the change in efficiencies achieved in 2014 from the previous year.
The reported data were calculated by using direct measurements according to procedure and were subsequently converted into GJ by using heating values from official IPCC sources.

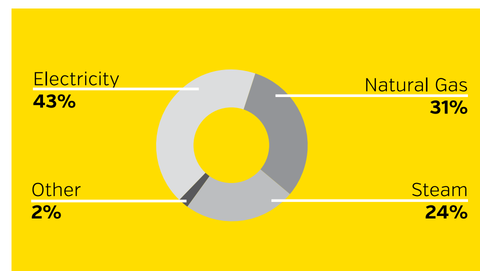


		2012	2013	2014
Absolute consumptions	GJ	14,662,864	14,923,482	**14,867,697**
Specific consumptions	GJ/ton_{FP}	14.86	14.45	**14.05**
	GJ/k€	18.50	18.87	**17.74**





DISTRIBUTION OF ENERGY SOURCES



As illustrated in the graph "Distribution of energy sources", among the direct sources, all of fossil source, natural gas can be found and in smaller quantities other liquid fuels such as oil, LPG and diesel (classified as "other"). These direct sources account for 33% of the total; the remaining 67% is formed from indirect sources such as purchased electricity and steam. As for electricity, it is estimated based on IEA (International Energy Agency) data that, taking into account the geographical distribution of Pirelli, about 37% comes from renewable sources.
Every industrial facility follows the indications of local law regarding energy consumption and management. Compared to 2013, there were no substantial changes.
Regulatory obligations in terms of energy consumption and management in countries in which Pirelli operates did not experience any significant amendments in 2014. The legislative situation affecting the Company includes the introduction of periodic audit mechanisms regarding energy management and use, as well as possible tariff incentives.
In Europe, the Energy Efficiency Directive 2012/27/EU, enacted to accelerate the achievement of the 20-20-20 objectives, introduces the obligation for all large businesses and all major consumers of energy to conduct an energy audit. At Pirelli that requirement is carried out with the optimisation of management systems already existing at the factories, ISO 14001 and ISO 50001 if necessary, with the aim of exploiting any opportunities that are offered in the various countries of the EU.

MANAGEMENT OF GREENHOUSE GAS EMISSIONS AND CARBON ACTION PLAN

Pirelli monitors and reports its emissions of greenhouse gases through the calculation of CO_2eq which takes into account the contribution of carbon dioxide as well as methane (CH_4) and nitrous oxide (N_2O). Greenhouse gases are generated by the combustion of hydrocarbons at production sites, mainly to operate heat generators that power Group plants, and particularly those that produce steam for vulcanisers, or by the consumption of electrical or thermal energy. The first are called "direct emissions" or Scope 1 emissions insofar as they are produced at company production sites, while the emissions resulting from electrical power or thermal energy consumption are defined as "indirect emissions", or Scope 2 emissions insofar as they are not produced within the perimeter of company production sites but at the plants that generate the energy and steam purchased and consumed. Performance as measured by energy and greenhouse gas emissions is calculated on the basis of coefficients obtained from the following official sources:

- IPCC: Guidelines for National Greenhouse Gas Inventories (2006);
- IEA: CO_2 Emissions from Fuel Combustion;

and reported according to the scheme proposed by:

- GHG Protocol: A Corporate Accounting and Reporting Standard.

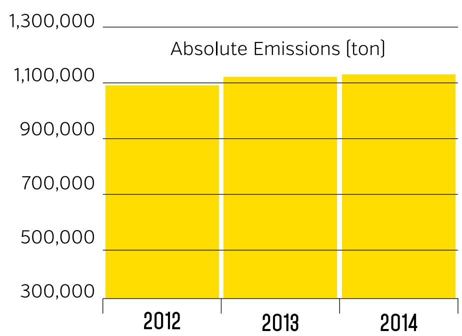
Regarding Scope 2 CO_2eq emissions, the national average coefficients are defined with respect to the last year available on the above reports and updated annually. It should be noted that the tyre production industry is not a *carbon-intensive* industry; in fact it falls in the European Emission Trading Scheme only with reference to thermal power plants above 20 MW of installed capacity. The Company is not subject to other specific regulations at the global level.
As in the case of energy, Pirelli monitors and accounts for its direct (Scope 1) and indirect (Scope 2) CO_2 emissions using two principal indicators:

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

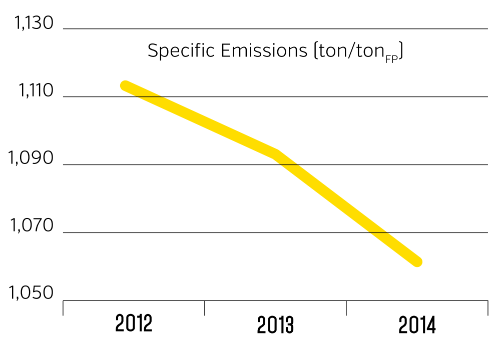
The Pirelli Industrial Plan set a reduction target of specific emissions of CO_2 equal to -15% by 2020 compared to 2009 values. The strong link between the trend of energy consumption and CO_2 emissions is also confirmed for 2014, recording a decrease of specific emissions weighed on tons of finished product of -2% over the previous year and -5.5% compared with the index weighed on the operating income. As regards biogenic CO_2 generated from the small production facility of silica from rice husk, Pirelli emitted in 2014 about 6,700 tonnes of CO_2eq.
This quantity is not counted in absolute emissions of the Group mentioned above. The Pirelli management, calculation and reporting model of emissions of greenhouse gases was certified by an independent third party according to the ISO 14064-1 Standard. The verification meets the criteria of relevance, competence, independence, terminology and methodology.

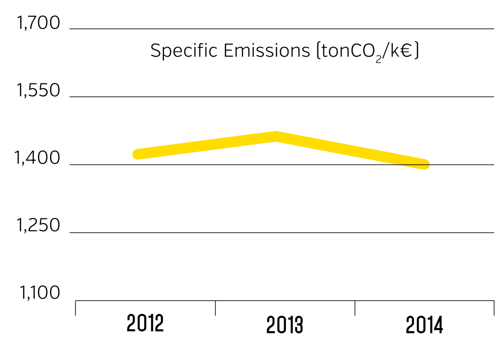
All energy efficiency actions described in the preceding paragraph contribute to reducing the environmental indicators related to greenhouse gas emissions. Parallel to this, Pirelli has developed a more specific "Carbon Action Plan", with which the Group is seeking to include the renewable energy technology in its energy structure. Among the various projects, the photovoltaic power plant with 500 kW power installed at the plant in Rome, in the USA, is noted. This project will make it possible to reduce emissions at the affected manufacturing plant by 5%. At the plant in Settimo Torinese, a cogeneration plant was initiated for the production of electricity, steam and hot water. There are two cogeneration modules, for a total of 6 MW of electricity: a 4.8 MW turbine unit powered by natural gas, and a 1 MW internal combustion engine powered by vegetable oil, which will therefore ensure 20% of energy from renewable sources. The generated electricity is used for the internal power needs of the plant. The plant is completed with a photovoltaic plant of approximately 1.2

MWe, thereby complementing the generation of renewable energy at the facility.
The benefits expected from the hitherto listed actions will have an impact on the trend in the indices in coming years. Actions completed in the past few years, in particular those related to energy efficiency, allowed the avoidance of about 25,000 tonnes of CO2eq in 2014. This value was calculated on the basis of the production volumes of the reporting year and the change in efficiencies achieved in 2014 from the previous year.
At the end of 2014, two new projects on the supply of energy from renewable sources, one in Brazil and the other in Mexico, were close to implementation. The effects of these investments will be seen as of 2015.

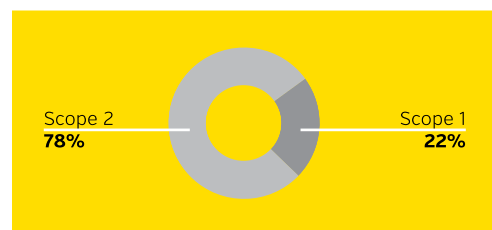


		2012	2013	2014
Absolute emissions	ton	1,092,555	1,128,313	**1,131,166**
of which SCOPE 1	ton			261,180
of which SCOPE 2	ton			869,986
Specific emissions	ton/ton_{FP}	1.107	1.093	**1.069**
	ton/k€	1.38	1.43	**1.35**





DISTRIBUTION OF GREENHOUSE GAS EMISSIONS ACCORDING TO SCOPE

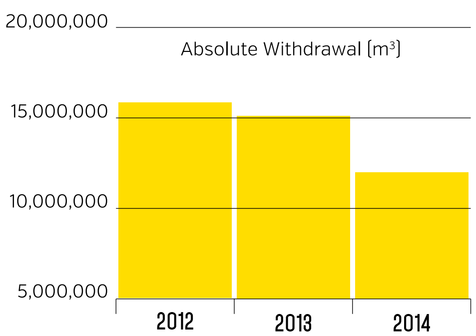


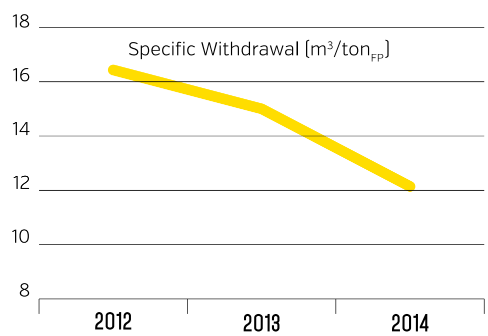
WATER MANAGEMENT

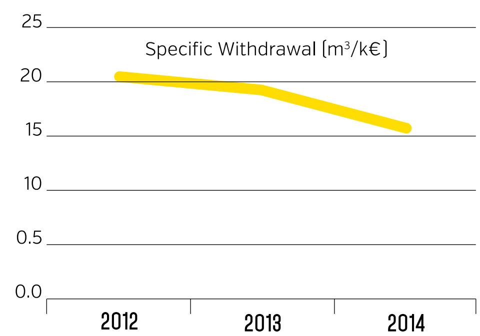
Efficient and conscious water use is one of the principal components of the Pirelli environmental strategy, which has undergone numerous improvements over the last several years. These activities have involved and still involve both the overall efficiency of production processes, from design of machinery to facility management, and the contribution which every employee can make towards reducing consumption of this precious resource. From 2009 to today, thanks to the efforts of all production facilities, more than 21 million cubic metres of water were saved, an amount slightly less than the total withdrawal in two years by the entire Pirelli Group. This figure might be the one that best expresses the commitment of the Company to protection of water sources in the communities where it operates. In fact, aside from the quantitative and global aspect, Pirelli dedicates great attention to the local context of water resources, aware that any water savings or improvement in discharges immediately and directly benefits the local community.
In quantitative terms, 2014 recorded complete withdrawal of slightly under 13 million cubic metres, with a reduction of 19% compared to 2013. To provide an overview of water withdrawal, Pirelli monitors and reports the following three indicators:

- absolute withdrawal, measured in cubic metres, which comprises the total withdrawal of water by the Group;
- specific withdrawal, measured in cubic metres per tonne of finished product, which indicates the withdrawal of water used to make one tonne of finished product;
- specific withdrawal, as measured in cubic metres per euro of Operating Income.

		2012	2013	2014
Absolute withdrawal	(m³)	16,272,000	15,381,000	**12,840,000**
Specific withdrawal	(m³/ton$_{FP}$)	16.5	14.9	**12.1**
	(m³/k€)	20.5	19.4	**15.3**

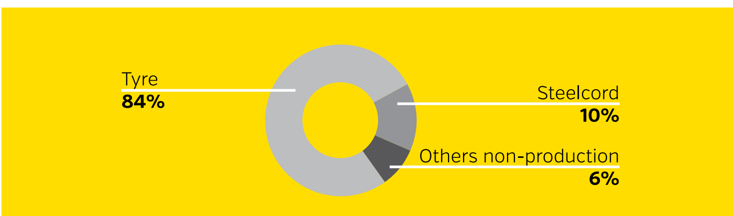




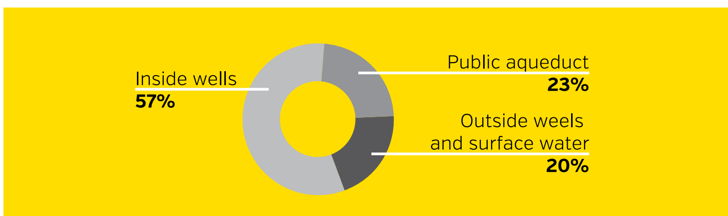


All the figures reported in this section have been collected by taking direct or indirect measurements, and are communicated by the local units.
The two graphs below show the weight of the water procurement per type of source and the distribution of absolute withdrawals per type of production business.

DISTRIBUTION OF WATER WITHDRAWAL BY USE



TYPE OF WATER SOURCES



57% of the water withdrawn is pumped from wells inside the facilities and authorised by the competent authorities. Furthermore, Pirelli obtains about one fourth of its requirements from surface water, while dedicating special care to guaranteeing that this volume is marginal in relation to the volume of the affected water bodies (always less than 5%). In particular, about 10% is withdrawn from water bodies located in Brazil and protected by national laws and regulations. Finally, about 500,000 cubic meters of water used, or approximately 4% of total withdrawal, are obtained from the waste water treatment of its production processes.
Altogether about 9.2 million cubic meters of water were discharged, of which 69% in surface water bodies, in marginal quantities compared to the receptor volumes (always less than 5%) and with no significant impacts on biodiversity. The remaining amount was discharged into sewer networks. Before being discharged into the final recipient, industrial waste water – adequately treated as necessary – is periodically subjected to analytical tests that certify compliance with locally applicable statutory limits. In particular, as regards the quality of industrial effluents of the Tyre facilities, indicative average values are: 9 mg/l of BOD5 (Biochemical Oxygen Demand), 42 mg/l of COD (Chemical Oxygen Demand) and 21 mg/l of Total Suspended Solids.

WASTE MANAGEMENT

The improvement of environmental performances deriving from the production and management of waste is achieved through:

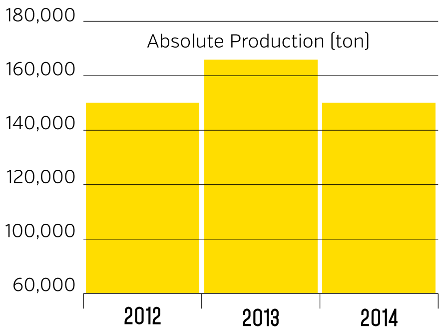
- innovation of production processes, with the aim of preventing the production of waste at the source, progressively reducing processing rejects and replacing current raw materials with other new materials that have a lower environmental impact;
- operating management of generated waste, aimed at identifying and ensuring the selection of waste treatment channels that can maximise recovery and recycling, gradually eliminating the amount sent to the landfill with the Zero Waste to Landfill vision;
- streamlining packaging management, both for the packaging of purchased products and the packaging for products made by the Group.

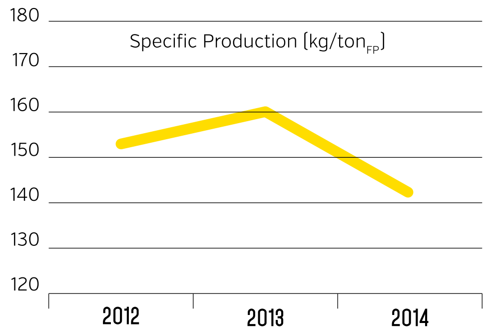
Pirelli monitors and reports on its own waste production, as measured and communicated by all operating units, using three key indicators:

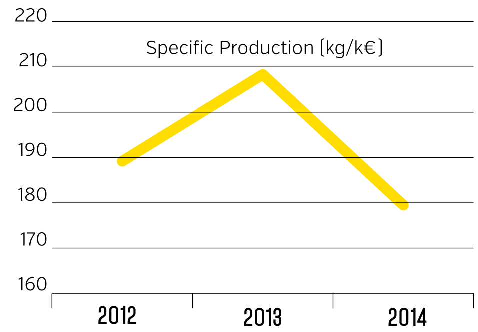
- absolute production, as measured in tonnes;
- specific production, as measured in kilograms per tonne of finished product;
- specific production, as measured in kilograms per euro of Operating Income.

The Industrial Plan provides for more than 95% of waste produced to be sent for recovery by 2020, with a Zero Waste to Landfill vision, extending to all operating affiliates the approach already adopted successfully by the factories in Breuberg (Germany) and Rome (United States).
As anticipated in the section “Performance Index Trend”, 83% of the waste was recovered in 2014, with an increase of 3% from the previous year.
The performance of specific waste production was also positive which reduced by 11% compared to 2013. Hazardous wastes represent just under 20% of total production and are sent in their entirety to plants located in the same country where they are produced.

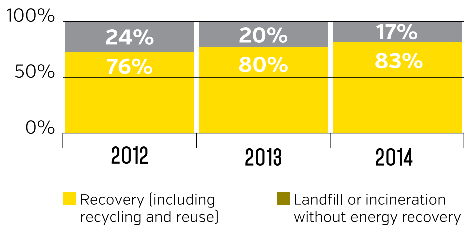
		2012	2013	2014
Absolute production	(ton)	150,000	165,000	**150,000**
Specific production	(kg/ton_{FP})	152	160	**142**
	(kg/k€)	189	209	**179**



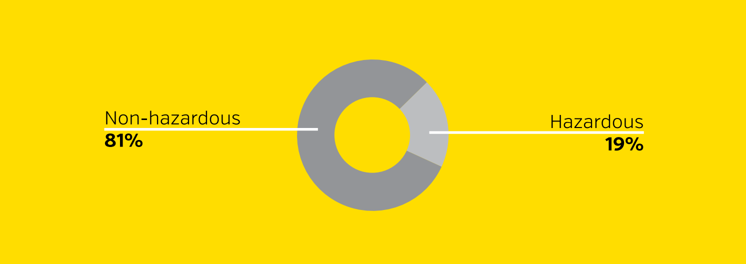




WASTE BY TYPE OF TREATMENT



WASTE BY TYPE



Handling of packaging

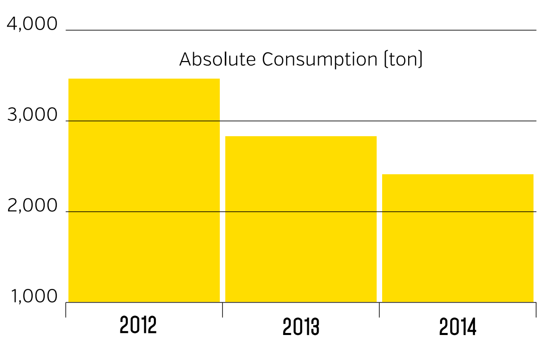
Different procedures for handling packaging materials exist for different types of products. The tyre, which accounts for over 99% of the Group's total sales in 2014, is a product that is generally sold without packaging. Steelcord (the steelcord business was sold during 2014) is instead characterised by specific packaging, on which the Steelcord Business Unit has worked with a view to reuse and replacement of components with more resistant models, less prone to wear and tear and therefore a longer useful life, such as plastic or metal instead of wood. The benefits in terms of reducing waste produced and recycling, are evident. 100% of the pallets placed in reverse logistics circuits in plastic or metal covers 95% of sales volumes. For the remaining 5% wooden pallets are used, where they are easier to reuse and recover in the areas where they are dispatched.

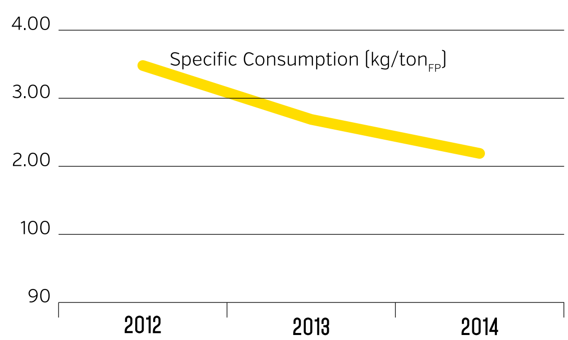
OTHER ENVIRONMENTAL ASPECTS

Solvents

Solvents are used as ingredients in processing, mainly to reactivate vulcanised rubber, during the fabrication and finishing of tyres. Pirelli is committed to the progressive reduction of these substances, both by optimizing the use of solvents, and by spreading solvent-free technologies for operations that may be performed even without the use of these substances. This resulted in a reduction in the specific consumption of solvents, as well as the related emission of volatile organic compounds, of more than 30% at the end of 2014 compared to an expected target of -15% compared to 2009, with related emissions overall slightly lower than total consumption.

		2012	2013	2014
Absolute consumption	ton	3,435	2,826	**2,416**
Specific consumption	kg/ton_{FP}	3.5	2.7	**2.3**





Biodiversity

Pirelli places the utmost attention to ensure that company activities do not interfere with the biodiversity characteristic of the contexts in which the Company operates. Currently, there are two Pirelli facilities located within protected and high value areas for biodiversity: the facility in Vizzola Ticino (Varese, Italy) and the facility in Gravataì (Brazil).
The Vizzola Ticino site, which has an area of 0.26 km^2, is part of the Parco del Ticino in Lombardy, a UNESCO MAB (Man and Biosphere, a collection of 425 biosphere reserves located in 95 countries around the world) area. It features 21 species included on the IUCN Red List, including: 15 classified as "of least concern (LC)", one as "near threatened (NT)", 3 as "vulnerable (V)", 1 as "endangered (EN)" and one as "critically endangered (CR)".
To ensure the utmost protection of the natural environment in which the Vizzola test track is located, Pirelli has implemented, in accordance with the Ticino Park, an ISO 14001 certified Environmental Management System. Environmental impacts on biodiversity of the area are not significant, however, several interventions were made, either directly by the Company or by the Park Authority, to mitigate and improve the interaction of Pirelli activity with the natural environment, as stipulated in the agreement signed in 2001.
The Gravataì site in Brazil has an area of 0.57 km^2, including 0.16 km^2 of land ecosystem protected under federal law. Here again, Pirelli has implemented an ISO 14001 certified environmental management system to guarantee that all potential impact on the environment and on biodiversity, while deemed relatively insignificant, be duly considered and managed in every case to reduce all possible interference to a minimum.
At the beginning of 2014 Pirelli intervened restoring two habitats, one in Italy and one in Brazil, as an action to offset the 2013 emissions of the Italian car fleet. The Italian project is called Forcredit and

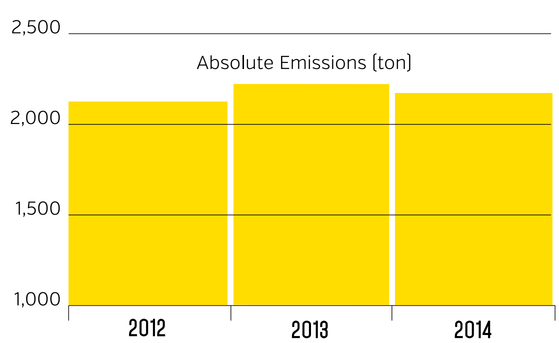
consists of a management plan for the wooded property of the Municipality of Lemie (Torino), 50 kilometres away from the Pirelli production site at Settimo Torinese. It is aimed at the promotion of sustainable forest management as a means of enhancing biodiversity and encouraging the storage of higher quantities of carbon in forest ecosystems. The planned work covers an area of 670 hectares and is part of a management plan aimed at reducing wood cutting and uptake of wood material, so that tall trees may grow. Regardless of whether these woods consist of maple and ash trees, birch or beech trees, the activities are aimed at improving the structural quality of the plants.
The Brazilian project is called Climate Protection and Acacia and as a whole is aimed at reforestation with Acacia mangium of 3,507 hectares of land in the far north of the South American country, in the region of Boa Vista. The project, aimed at the sustainable production of timber and sequestration of CO_2, involves many benefits for local communities, such as the creation of more than 200 permanent jobs, the construction of a new school and the implementation of professional courses. It also respects the rights of indigenous peoples to collect non-timber materials from the forests, improve water and soil quality and ensure safety for more than 15,000 hectares of bordering forests with strong benefits for local biodiversity. The plantings are carried out in accordance with the principles and criteria set out in the Forest Stewardship Council (FSC) certification, which guarantees appropriate environmental management of forests, social benefits and economic feasibility.

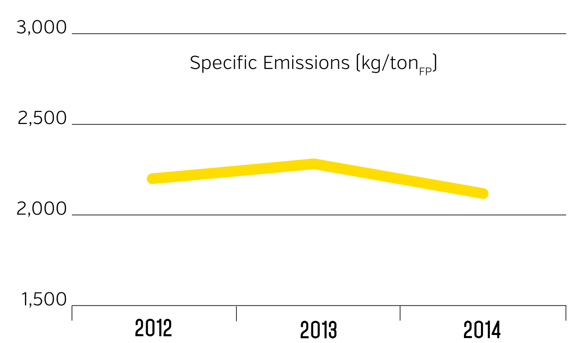
NO_x Emissions

NO_x emissions are derived directly from the energy generation processes used, and for this reason are affected, both in absolute terms and according to unit of finished product, by the trends in energy consumption, thus recording a decrease of -4% in the specific index.
The following graphic shows the 2014 weight of direct and indirect NO_x emissions out of total NO_x emissions. The emissions have been calculated by using the emission factors defined BUWAL 250 and IDEMAT 2001.

		2012	2013	**2014**
Absolute emissions	ton	2,164	2,290	**2,245**
Specific emissions	kg/ton_{FP}	2.19	2.22	**2.12**

DISTRIBUTION OF NO_X EMISSION





Other emissions and environmental aspects

The production process does not directly use substances that are harmful to the ozone layer. These are contained in certain closed circuits of the cooling and air conditioning plants. Therefore, except for accidental and unforeseeable losses, there are no free emissions into the atmosphere that can be correlated to Pirelli manufacturing activities.
In 2014 direct emissions of SOx, caused by the combustion of diesel and fuel oil, was estimated to be about 32 tonnes (U.S. EPA emissions standards).
The environmental management systems implemented at the production units have assured constant and prompt monitoring and intervention in any potential emergency situations that may arise, as well as the reports received from stakeholders.
In the course of 2014, there were no significant environmental spills and no complaints related to significant environmental reasons or related penalties. The only exception is the facility in Voronezh, Russia, where during a visit by the local authorities some non-compliances were reported, the resolution of which was agreed with the authority itself and is to be formally completed in early 2015.

Expenses and investments

In 2014, environmental expense and investments relating to the production process amounted to more than €22.7 million: about 84% covered the activities of normal management and administration of the factories, while the remaining 16% was dedicated to the preventive and improvement actions of the environmental management.
To complete the picture it should be noted that, consistent with the materiality analysis at the beginning of this section of the report, the most significant expenses that Pirelli dedicates to the environment are undoubtedly those relating to product research and development: in 2014 the Company invested €205.5 million in research and innovation of its products, with a constant focus on safety performance and reduction of environmental impacts and, at the same time, on production efficiency.

SOCIAL DIMENSION

HUMAN RIGHTS GOVERNANCE

The Pirelli Group pursues and supports the respect of human rights affirmed in international venues. These values have always been firmly anchored in corporate management. Human Rights Governance is fully integrated in the Sustainable Management System adopted by Pirelli, which is based on the United Nations Global Compact, of which the Company has been an active member since 2004 – as well as a member of the Steering Committee of Global Compact Lead – the ISO26000 guidelines and the provisions of the SA8000® Standard.

The commitment of Pirelli to Human Rights is specifically addressed in "The Pirelli Group Values and Ethical Code", approved by the Board of Directors, and in detail, in the "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment", signed by the Chairman and which provides that "The Group's sustainable development strategies pursue various objectives, including continuous improvement in the environmental and occupational health and safety conditions affected by its own activities, in firm compliance with and support of the "Universal Declaration of Human Rights," the "International Labour Organization's Declaration on Fundamental Principles and Rights at Work," the "Rio Declaration on Environment and Development" and the "United Nations Convention against Corruption. ", added to all the commitments made by Pirelli in this regard, including reference to each of the ILO Core Labour Standards and its extension to the supply chain.

The "Equal Opportunities Statement", also signed by the Chairman, is dedicated to the Group commitment to equal opportunities and non-discrimination.

Any human rights violation may be reported to the Company by using the Whistleblowing Procedure. A paragraph of this report is dedicated to the Procedure, which details the reports received and to which reference is made for further information. Of these reports, none received in 2014, in any case, involved alleged violations of human rights or the ILO Core Labour Standards, with specific reference to forced and child labour, freedom of association and collective bargaining and non-discrimination.

All of the aforementioned documents have been distributed to employees in their local language. They are also an integral part of the contract clauses on sustainability applied to Group suppliers, as well as being published on the Pirelli website in the languages spoken by Pirelli employees and principal suppliers. Continuing the theme of Human Rights Governance, Pirelli acts on the recommendations contained in the "Guiding Principles for Business and Human Rights: Implementing the United Nations Protect, Respect and Remedy Framework" of 2011, which reflect in concrete business activity the three pillars "Protect, Respect and Remedy" identified in 2008 in the "Framework for Business and Human Rights" by Professor John Ruggie, UN Special Representative for Companies and Human Rights. Moreover, human rights are included in the materiality matrix of sustainability factors for Group strategies. The matrix published in this report consolidates the opinions of all categories of Company stakeholders, including employees, suppliers, institutions and dozens of NGOs present in the countries where the Company operates. The human rights management processes are handled by the Pirelli Sustainability & Risk Governance Department, which acts in concert with the affected and responsible functions, and in reference to both the internal and external communities.

Before investing in a specific market, ad hoc assessments are conducted of any political, financial, environmental and social risks, including those related to the respect of human and labour rights. The context inside and outside the company is monitored in those countries where Pirelli does operate, in view of preventing negative impacts on human rights in the ambit of the sphere of corporate

influence, and if so, remedying them.
In terms of materiality in the corporate value chain, the respect of human rights assumes particular importance in the human resources and the supply chain areas.
The management of human rights in the context of the supply chain is outlined in the paragraph on Pirelli suppliers in this report, to which reference is made for further details.
The management of human rights in the context of the supply chain is outlined in the paragraph on Pirelli suppliers in this report, to which reference is made for further details.The management of human and labour rights in the Internal Community at Pirelli is instead outlined in the paragraph on “Compliance with statutory and contractual obligations governing overtime, time off, association and negotiation, equal opportunities and non-discrimination, bans on child and forced labour”, to which reference is made for related details. Both management areas, for suppliers and employees, are overseen using training tools and monitoring established a number of years ago. In terms of training on the Pirelli Model, the attention of new recruits is brought to the Group Policies on sustainability and on the related commitments, as expressed through the “Ethical Code”, the “Code of Conduct”, the “Equal Opportunities Statement”, the “Social Responsibility Policy for Health, Safety and Rights, and Environment”. In addition to this Pirelli complies with and upholds the contents of the “Universal Declaration of Human Rights”, the International Labour Organisation’s “Declaration on Fundamental Principles and Rights at Work”, the “Rio Declaration on Environment and Development” and the United Nations “Convention against Corruption”, as well as the provisions of Standard SA8000®, including the ban on forced labour and child labour, proceeds to free bargaining, equal opportunities and non-discrimination. All of these issues are also the subject of training courses for all Sustainability and Purchasing Group managers.
Following the training project for strategic suppliers provided via e-learning in 2012, 2013 and 2014 Pirelli extended the same sessions to all Security service providers of the Group. The training initiative was related to elements of employment law, human rights, respect for the environment and business ethics.
Together with constant coordination and monitoring at the corporate level, compliance with Pirelli human rights and labour rights requirements and environmental sustainability issues and business ethics rules is assessed in periodic audits commissioned by Pirelli to specialised independent firms, as well as through Audits performed by the Pirelli Internal Audit Department.
Audit activities conducted in 2014 both with reference to Pirelli facilities and at Suppliers are extensively covered in this report, as part of the aforementioned paragraphs “Our Suppliers” and “Compliance with statutory and contractual obligations governing overtime, time off, association and negotiation, equal opportunities and non-discrimination, bans on child and forced labour”.
Reference is made to the paragraph “Our Suppliers” of this report also with regard to Pirelli’s focus on the issue “Conflict Minerals”, in which the Company is active with in-depth due diligence.

INTERNAL COMMUNITY

The Sustainable Management System of Human Capital is inspired by the principles of the Global Compact, to which the company has adhered since 2004, in addition to being part of the Global Compact LEAD Steering Committee, the SA8000® standard, which for years has been the reference tool for the Group’s Social Responsibility Management, and the ISO 26000 Guidelines. This results in the values and specific commitments that the company carries out in the “Ethical Code”, in the Group’s Policy on “Social Responsibility for Occupational Health, Safety and Rights, and Environment” and in the “Equal Opportunities Statement”, communicated to all employees in their local language, published and made available to the External Community in the Sustainability section of the website www.pirelli.com.

PIRELLI EMPLOYEES AROUND THE WORLD

Pirelli's headcount at 31 December 2014 included 37,561 employees: net of the sale of the business of the steelcord facilities in Italy, Romania and Brazil - in December - the headcount showed a growth of 964 employees over the previous year, including 68 executives and white collar employees and 896 blue collar employees.

BREAKDOWN OF EMPLOYEES* BY CATEGORY

2014	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
TOTAL PIRELLI	**313**	**7,184**	**30,064**	**37,561**

2013	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
Total Pirelli - Perimeter 2014	**317**	**7,113**	**29,168**	**36,597**
Steelcord Activity sold	5	189	1,189	**1,382**
TOTAL PIRELLI	322	7,302	30,356	**37,979**

2012	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
Total Pirelli - Perimeter 2014	**349**	**7,022**	**28,613**	**35,984**
Steelcord Activity sold	5	188	1,162	**1,354**
TOTAL PIRELLI	**354**	**7,210**	**29,775**	**37,338**

2014 VS 2013	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
Total Pirelli - Perimeter 2014	**-4**	**71**	**897**	**964**
Steelcord Activity sold	-5	-189	-1,189	-1,382
TOTAL PIRELLI	**-9**	**-118**	**-292**	**-418**

2014 VS 2012	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
Total Pirelli - Perimeter 2014	-36	162	1,451	1,577
Steelcord Activity sold	-5	-188	-1,162	-1,354
TOTAL PIRELLI	**-41**	**-26**	**289**	**223**

* All figures in this section are expresses as Full Time Equivalents.

BREAKDOWN OF EMPLOYEES* BY GEOGRAPHICAL AREA AND GENDER

2014	MEN	WOMEN	TOTAL
Europe	12,263	2,473	**14,736**
NAFTA	1,260	195	**1,455**
South America	13,173	823	**13,996**
MEA	3,142	84	**3,226**
Asia Pacific	3,286	862	**4,148**
TOTAL PIRELLI	**33,124**	**4,437**	**37,561**

2013	MEN	WOMEN	TOTAL
Europe	12,096	2,636	**14,731**
NAFTA	994	158	**1,152**
South America	13,046	759	**13,805**
MEA	3,231	80	**3,311**
Asia Pacific	2,818	780	**3,598**
Total Pirelli - Perimeter 2014	**32,184**	**4,412**	**36,597**
Steelcord Activity sold	1,198	184	1,382
TOTAL PIRELLI	**33,383**	**4,596**	**37,979**

2012	MEN	WOMEN	TOTAL
Europe	12,096	2,792	**14,888**
NAFTA	847	147	**994**
South America	12,602	785	**13,387**
MEA	3,228	73	**3,301**
Asia Pacific	2,655	759	**3,414**
Total Pirelli - Perimeter 2014	**31,427**	**4,557**	**35,984**
Steelcord Activity sold	1,162	192	1,354
TOTAL PIRELLI	**32,589**	**4,749**	**37,338**

2014 VS 2013	MEN	WOMEN	TOTAL
Europe	167	-162	**5**
NAFTA	266	37	**303**
South America	127	64	**192**
MEA	-89	4	**-85**
Asia Pacific	468	82	**550**
Total Pirelli - Perimeter 2014	**939**	**25**	**964**
Steelcord Activity sold	-1,198	-184	-1,382
TOTAL PIRELLI	**-259**	**-159**	**-418**

2014 VS 2012	MEN	WOMEN	TOTAL
Europe	167	-319	**-152**
NAFTA	413	48	**461**
South America	572	38	**609**
MEA	-86	11	**-75**
Asia Pacific	631	103	**734**
Total Pirelli - Perimeter 2014	**1,697**	**-119**	**1,577**
Steelcord Activity sold	-1,162	-192	-1,354
TOTAL PIRELLI	**534**	**-311**	**223**

* All figures in this section are expresses as Full Time Equivalents.

Workforce flows by geographic area, gender and age groups

The overall workforce trend in 2014 was therefore characterised by substantial growth, with 964 additional employees over the previous year. The following data only relate to incoming and outgoing employees in the last three years. The disposals and acquisitions of companies or business units, and changes in work schedules from full to part-time have not been considered.

EMPLOYEE FLOWS BY GEOGRAPHIC AREA

	2014		2013		2012	
	INCOMING	OUTCOMING	INCOMING	OUTCOMING	INCOMING	OUTCOMING
Europe	1,950	1,534	1,805	1,891	1,378	1,581
NAFTA	570	626	507	355	770	247
South America	1,401	1,369	2,945	2,527	2,733	2,633
MEA	539	188	573	531	243	212
Asia Pacific	706	520	789	596	1,297	769
Total	**5,166**	**4,236**	**6,619**	**5,900**	**6,420**	**5,443**

EMPLOYEE FLOWS 2014 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: TOTAL VALUES

	INCOMING					OUTCOMING				
	<30	30-50	>50	MEN	WOMEN	<30	30-50	>50	MEN	WOMEN
Europe	1,294	531	124	1,698	252	766	534	234	1,286	248
NAFTA	363	198	9	554	16	384	226	16	612	14
South America	921	468	13	1,256	145	679	603	87	1,213	156
MEA	505	34	0	538	1	84	90	14	184	4
Asia Pacific	527	179	0	638	68	377	138	5	445	75
Total	**3,610**	**1,410**	**146**	**4,684**	**482**	**2,290**	**1,590**	**356**	**3,739**	**497**

EMPLOYEE FLOWS 2014 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: PERCENTAGE VALUES

	INCOMING					OUTCOMING				
	<30	30-50	>50	MEN	WOMEN	<30	30-50	>50	MEN	WOMEN
Europe	66%	27%	6%	87%	13%	50%	35%	15%	84%	16%
NAFTA	64%	35%	2%	97%	3%	61%	36%	3%	98%	2%
South America	66%	33%	1%	90%	10%	50%	44%	6%	89%	11%
MEA	94%	6%	0%	100%	0%	45%	48%	7%	98%	2%
Asia Pacific	75%	25%	0%	90%	10%	73%	27%	1%	86%	14%
Total	**70%**	**27%**	**3%**	**91%**	**9%**	**54%**	**38%**	**8%**	**88%**	**12%**

EMPLOYEE FLOWS 2013 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: TOTAL VALUES

	INCOMING					OUTCOMING				
	<30	30-50	>50	MEN	WOMEN	<30	30-50	>50	MEN	WOMEN
Europe	1,030	661	115	1,481	324	580	741	570	1,432	459
NAFTA	384	121	2	442	65	279	76	0	299	56
South America	1,950	974	22	2,747	199	1,399	1,019	109	2,332	195
MEA	534	38	1	567	6	417	104	10	528	3
Asia Pacific	602	187	0	667	122	471	122	3	504	92
Total	**4,500**	**1,980**	**140**	**5,903**	**716**	**3,146**	**2,062**	**692**	**5,096**	**804**

EMPLOYEE FLOWS 2013 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: PERCENTAGE VALUES

	INCOMING					OUTCOMING				
	<30	30-50	>50	MEN	WOMEN	<30	30-50	>50	MEN	WOMEN
Europe	57%	37%	6%	82%	18%	31%	39%	30%	76%	24%
NAFTA	76%	24%	0%	87%	13%	79%	21%	0%	84%	16%
South America	66%	33%	1%	93%	7%	55%	40%	4%	92%	8%
MEA	93%	7%	0%	99%	1%	79%	20%	2%	99%	1%
Asia Pacific	76%	24%	0%	85%	15%	79%	20%	1%	85%	15%
Total	**68%**	**30%**	**2%**	**89%**	**11%**	**53%**	**35%**	**12%**	**86%**	**14%**

EMPLOYEE FLOWS 2012 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: TOTAL VALUES

	INCOMING					OUTCOMING				
	<30	30-50	>50	MEN	WOMEN	<30	30-50	>50	MEN	WOMEN
Europe	697	437	35	1,025	145	439	399	173	896	114
NAFTA	589	178	3	658	112	165	77	5	217	30
South America	1,861	853	19	2,522	211	1,557	971	105	2,499	134
MEA	206	37	0	230	13	110	95	7	204	8
Asia Pacific	1,007	287	3	860	437	614	149	6	648	121
Total	**4,360**	**1,792**	**60**	**5,295**	**918**	**2,885**	**1,691**	**296**	**4,464**	**407**

EMPLOYEE FLOWS 2012 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: PERCENTAGE VALUES

	INCOMING					OUTCOMING				
	<30	30-50	>50	MEN	WOMEN	<30	30-50	>50	MEN	WOMEN
Europe	60%	37%	3%	88%	12%	43%	39%	17%	89%	11%
NAFTA	76%	23%	0%	85%	15%	67%	31%	2%	88%	12%
South America	68%	31%	1%	92%	8%	59%	37%	4%	95%	5%
MEA	85%	15%	0%	95%	5%	52%	45%	3%	96%	4%
Asia Pacific	78%	22%	0%	66%	34%	80%	19%	1%	84%	16%
Total	**70%**	**29%**	**1%**	**85%**	**15%**	**59%**	**35%**	**6%**	**92%**	**8%**

Regarding the workforce flow in countries/markets considered "mature" in which Pirelli operates, in Italy efficiency plans continued in Settimo Torinese regarding the finalisation of the technological and organisational restructuring of the New Car Centre (-22 employees) and at the facility in Bollate (-18 employees), both implemented through voluntary leaves. In Germany, however, there was a reduction of employees within the company Pneumobil following the reorganisation of the Pirelli Retail chain (-68 employees) and a reduction of blue collar employees at the facility in Breuberg (-25 employees). As for the countries/emerging markets where Pirelli operates (namely Romania, Russia, Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, Egypt, Turkey, China), the increases in production volume contributed to the increase of the workforce in China (+179), Romania (+115) and Argentina (+70), as well as in Mexico (+289) due to the expansion of the new plant in Silao. Moreover, the reorganisation in progress within the Russian facilities in Kirov and Voronezh led to a growth of 89 employees in 2014 compared to 2013 (-54 staff employees and +143 blue collar employees). In Brazil there was an increase of 270 employees within the company Pneuac due to the expansion of the Retail chain and a reduction of 142 employees due to the decline in production volumes. As for the annual changes of incoming and outgoing personnel, 2014 showed a decrease of both incoming and outgoing flows over the previous year, mainly due to a growth in production volumes slightly lower than that recorded in the period 2012-2013.

Pirelli does not employ anyone under the age of 15. There are 39 young people aged between 15 and 18 (20 in Brazil, 12 in Germany, 3 in the UK, 2 in Switzerland, 1 in Venezuela and 1 in Sweden), all of whom involved in training and integration plans, in compliance with local laws.

DIVERSITY MANAGEMENT

Pirelli is characterised by a multinational context where individuals manifest a great diversity, whose conscious management simultaneously creates a competitive advantage for the Company and a shared social value.

Pirelli's commitment to equal opportunities and the valorization of diversity in the workplace is expressed in the main Group Sustainability documents: the "Ethical Code" approved by the Board of Directors, the Group's "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment" and the "Equal Opportunities Statement", both signed by the Chairman. These documents have been distributed to all employees in their local language and published on the institutional website www.pirelli.com/Sustainability. While respecting the cultural differences of the individual countries, what necessarily unites all Pirelli affiliates in the same culture are its shared corporate values, policies and rules, which are applied everywhere with the sole difference of the language into which they are translated.

Internationality and multiculturalism are the characteristic elements of the Group: Pirelli operates in over 160 countries on five continents, and 91.6% of employees on the payroll as at 31 December 2014 worked outside of Italy.

Awareness of cultural differences that create the identity of the Company involves the utmost confidence in the Management of local origin: 71% of Senior Managers work in the country of origin, Senior Manager refers to the direct reports to the Chairman & CEO as at 31 December 2014.

In order to develop the innovative and managerial potential in multiculturalism and in various professional settings, the Company promotes the growth of its managers through international infra-group mobility (reference is made to the following paragraphs related to "Remuneration and Sustainability" and "International Mobility"). Not surprisingly, 57% of Senior Managers active in 2014 experienced at least one intra-group foreign assignment during their professional experience with the Pirelli Group. At the end of 2014, 12% of all managers on foreign assignment were women.

Pirelli is also committed to promoting maximum awareness of the positive differences that exist between the two sexes in a complex organisation like Pirelli, while giving due consideration to the fact that it is necessarily impacted by the different cultures existing in the different countries.

As for the breakdown of the workforce by gender in the three years 2012-2013-2014, expressed as a percentage weight of women out of the total components of the category, the data shown in the table below shows the current positive developments: in 2014 the percentage of female executives stood at 9% unchanged compared to 2013 and up compared to 2012, while the percentage of women in managerial positions - 19% of the reference population - grew compared to the data of the previous two years. As for the presence of women in the workers category, 2014 confirmed the data of the previous two years. Total female presence in the Group's workforce amounted to 12% in 2014, in line with respect to 2013.

PERCENTAGE OF WOMEN BY PROFESSIONAL CATEGORY

	EXECUTIVES	CADRE	EXEC+CADRE (=TOT. MANAGERS)	WHITE COLLARS	BLUE COLLARS	TOTAL
2012	8%	20%	18%	35%	8%	13%
2013	9%	19%	18%	33%	8%	12%
2014	9%	20%	19%	32%	8%	12%

Analysing the breakdown by gender in terms of employment contract shows a substantial balance between men and women. With one small difference: as a percentage more women have a permanent contract, while more men have temporary contracts.

This is an extremely positive phenomenon in view of non-discrimination, since it is a commonly held opinion in society that indefinite term jobs are held more by men, whereas definite term jobs are held more by women. Well, the Pirelli data show a positively inverted reality.

TYPE OF EMPLOYMENT CONTRACT BY GENDER

	2012			2013			2014		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Permanent	92%	96%	93%	93%	97%	93%	93%	96%	94%
Temporary	7%	3%	6%	7%	3%	7%	7%	3%	7%
Agency	1%	1%	1%	0%	0%	0%	0%	1%	0%

The rate of employee return to work after maternity/paternity leave at Pirelli in relation to its total workforce in all industrial countries where the Company operates was positive. In particular: a year following the maternity and paternity event occurred in 2013, 2014 saw 89% of women and 98% of men still employed by the company. The difference, compared to the data that is in any case extremely positive with regard to women, is to be considered physiological in light of the different socio-cultural contexts in which Pirelli female employees work.
In the context of gender diversity, Pirelli dedicates special attention to equal remuneration, constantly monitoring it and seeking out the causes tied to the differences found in pay.
The countries considered in the analysis at the end of 2014 were Brazil, China, Germany, Italy, Romania, Turkey, Mexico, Venezuela, Argentina, Egypt, the USA and Russia, representing approximately 3/4 of the total workforce subject to the remuneration policy (executives, managers and employees).
At a methodological level, it should be noted that the remuneration ratios between men and women were calculated for each country and at the same weight of positions held, crossing the grade (or the weight assigned to each position based on several factors) with elements such as performance and professional seniority. It should be noted that data calculated and/or reported only at group level would not be representative because unable to pay due attention to the structural differences of the various local markets, the different professional seniorities and the logic of remuneration markets with special features not comparable with each other.
The average pay gap between men and women detected in these countries is equal to 3% in favour of men for both white collars and cadres, compared to 6% in 2013 and 7% in 2012 for white collars and 4% in 2013 and 5% in 2012 for cadres. Some examples:

- Italy, which features a difference between average remuneration for men and average remuneration for women of around 5% in favour of women for the white collar category (vs. 2% in 2013 and 5% in 2012 in favour of men) and 2% also in favour of women (vs. 3% in 2013 and 7% in 2012 in favour of men) for the cadre category;
- Turkey, where the differential is in favour of men by 5% for the white collar category (vs. 6% in 2013 and 2012);
- Romania, where for the white collar category there was a differential of 7% (vs. 3% in 2013 and 4% in 2012) in favour of women and also for the cadre category there was a shift in favour of women of 2% (in 2013 the differential was in favour of women by 4%; in 2012 the ratio was in favour of men by 4%);
- Brazil, where for the white collar category the differential was equal to 4% (vs. 8% in 2013 and 6% in 2012) in favour of men and for the cadre category it was again 1% in favour of men, returning to the level of remuneration equity in 2012 (in 2013 the differential was 4% in favour of men);
- Germany, which showed a difference between average remuneration for men and average remuneration for women of around 5% in favour of men for the white collar category and around 2% also in favour of men for the cadre category;
- Venezuela, which showed a difference between average remuneration for men and average remuneration for women of around 4% in favour of men for the white collar category.

Finally, with reference to the population of executives, of which women account for 9% (unchanged compared to 2013 and an increase compared to the value of 8% in 2012), there is an average remuneration difference of about 6% in favour of men (in 2013 the ratio was 1% in favour of women, while in 2012 the ratio was 3% in favour of men. In general, it must be considered that on the various markets, the "professional seniority" factor, which has had a powerful impact on pay trends, still favours

men on average. On the other hand, the positive change in the international context in terms of attention to gender diversity and, especially, the numbers of women who are increasingly entering the labour market, will plausibly lead to greater gender balance over the medium term, including in terms of professional seniority, when the average seniority of women will have grown sufficiently to be comparable to that of men in most markets. It is assumed that this also gradually attenuates the remuneration difference between genders related to the factor mentioned, as evidenced by the aforementioned Pirelli trend.
In regard to the standard salary of new hires during their first year of work at Pirelli, this is greater than the minimums prescribed by local legislation And there are no differences between men, women, or any other sort of diversity.
The inclusive corporate culture cultivated by Pirelli in its way of doing business permeates corporate life even in the case of persons with different abilities. In order to standardise the corporate culture of subsidiaries and associated companies towards disabled persons, the Pirelli Equal Opportunities Statement lists disability among protected differences, as a value and operating model applicable to all affiliates.
In Italy, the Group has made and signed specific agreements with the relevant authorities to promote hiring of disabled workers by the Group. It participates in social programmes that facilitate matching the demand and supply of work for both disabled and foreign candidates).
The percentage measurement of disabled employees in the multinational context of the company clashes with the objective difficulty of measuring their number, both because in many countries where the Group is present, there are no specific laws or regulations promoting their employment and therefore disabilities are not automatically detected, and because in many countries this information is deemed confidential and protected by privacy laws. That said, about 1.2% of the total workforce in 2014 had a disability under local law. It is likely that the actual percentage of disabled persons working at Pirelli might be higher, although any estimates would be discriminatory per se.
In regard to the "age" factor, the following table illustrates how the population (including the managerial population) is evenly young between the two genders, so that the average age of men and women was substantially the same over the entire three-year period.

AVERAGE AGE BY CATEGORY AND GENDER

2012*	EXECUTIVES	CADRE	WHITE COLLARS	BLUE COLLARS	AVERAGE
Women	46	41	37	36	37
Men	48	43	38	35	36
Total	**48**	**43**	**38**	**36**	**36**

2013**	EXECUTIVES	CADRE	WHITE COLLARS	BLUE COLLARS	AVERAGE
Women	46	42	37	36	37
Men	48	44	38	36	36
Total	**48**	**43**	**38**	**36**	**36**

2014***	EXECUTIVES	CADRE	WHITE COLLARS	BLUE COLLARS	AVERAGE
Women	49	43	37	36	37
Men	49	45	38	36	37
Total	**49**	**44**	**38**	**36**	**37**

* Information applies to 98% of the workforce
** Information applies to 99.8% of the workforce
*** Information applies to 100% of the workforce

The following table represents the average length of seniority highlighted by professional category and gender: no significant differences are noted between men and women, as the data in the last two years is mainly attributable to the entry in the perimeter of a significant number of women that, of course, started their seniority in Pirelli only in 2012 and 2013. In general it is observed that, considering the average young age of employees, Pirelli retention is proportionately high, with a total average up in 2014 compared to the previous two years, confirming a high sense of loyalty.

AVERAGE JOB SENIORITY

2012*	EXECUTIVES	CADRE	WHITE COLLARS	BLUE COLLARS	AVERAGE
Women	16	14	10	4	**8**
Men	17	15	11	8	**9**
Total	**17**	**15**	**11**	**8**	**9**

2013**	EXECUTIVES	CADRE	WHITE COLLARS	BLUE COLLARS	AVERAGE
Women	12	13	8	4	6
Men	16	14	9	8	8
Total	**16**	**14**	**8**	**8**	**8**

2014***	EXECUTIVES	CADRE	WHITE COLLARS	BLUE COLLARS	AVERAGE
Women	14	14	8	4	**7**
Men	16	14	9	8	**9**
Total	**16**	**14**	**9**	**8**	**9**

* Information applies to 98% of the personnel
** Information applies to 99.8% of the workforce
*** Information applies to 100% of the workforce

The following activities have been well-established for years to promote equal opportunities:

- the use, as far as possible, of lists of candidates with significant presence of women in recruitment processes;
- use of training to drive the cultural change connected with the promotion of diversity, using specific modules dedicated to “Diversity Management,” beginning with the courses dedicated to new hires (e.g. Pirelli’s way Joining the Group);
- take positive measures for respect of cultural and religious diversity, such as different foods that are clearly marked in company canteens so that everyone may freely comply with their own religious dietary restrictions;
- “multilingual” book stores available in the factories;
- welcome kits for those joining Pirelli at a facility in a country other than their home country.

For proper management of issues relating to the theme of equal opportunities, the monitoring by the Company of the level of acceptance and appreciation of diversity as perceived by employees in their own environment is critical. The survey is conducted as part of the My Voice Survey, conducted in local languages and at Group level (reference is made to the dedicated paragraph in this report).
The results of the survey conducted at the end of 2013 and communicated to employees in the first quarter of 2014 were particularly notable with regard to the high level of acceptance in the working environment of diversity, particularly gender, culture and sexual orientation. The indices related to these aspects are in fact significantly higher than the rate of Pirelli’s Trust Index.
The results of the survey conducted at the end of 2014 will be communicated to employees in the first quarter of 2015 and reported in the next Annual Report.
The Group Whistleblowing Procedure is a tool that supports compliance and internal control activities, as well as risk prevention. It is used specifically for reports of possible cases of corruption and/or violation of the principles or precepts set out in the Ethical Code, including those relating to equal opportunities.

Also during 2014 there were no reports concerning discriminatory issues. For further information on reports received in 2014, 2013 and 2012, reference is made to the paragraph "Group Reporting Procedure - Whistleblowing".
In terms of Advocacy, Pirelli has also been active for years in the enhancement of diversity externally, whether nationally or internationally.
For years Pirelli has been Supporting Member of "Valore D", the first association of large companies created in Italy to support women's leadership in the company, with the aim of supporting and increasing the representation of female talent in top positions, through tangible and concrete actions.
The activities of "Valore D" in support of women's leadership is developed in three directions: toward women managers, Italian companies and society as a whole. The association promotes an innovative company organisation that exceeds the implicit prejudices related to gender and promotes reconciliation, provides women managers tools and knowledge for their professional growth and offers a new cultural model that involves the full participation of women in Italy's economic and social life.
Its membership in the European Alliance for CSR, CSR Europe, preparation of toolkits for management of multiculturalism and gender differences with the Sodalitas Foundation (the Group has a seat on its Management Committee), active participation in drafting the Italian Charter for Equal Opportunities and Job Equality are some of the most representative activities that have engaged the Group in sharing its good practices with other responsible companies.
Pirelli is also committed to promoting welfare programmes for its own employees. For this purpose, it has created an ad hoc organisational function, the Welfare Group Manager with group level responsibility, confirming its growing attention to this issue. The Group has historically been supporting its own employees, with numerous measures calibrated to the different socio-cultural contexts in which the affiliates operate.
Very widespread measures include: day care centres offering special discounts, vacation assistance for employees' children, scholarships, healthcare benefits, prevention campaigns, discounts arrangements with various service providers (from medical visits to car rentals). More details are found in the section "Welfare and initiatives for the internal community" in this report.

REMUNERATION AND SUSTAINABILITY

The remuneration policies adopted by Pirelli aim to ensure fair remuneration in line with the individual's contribution to the success of the Company, recognising the performance and quality of the individual's professional input, in a philosophy of sustainable remuneration. The purpose is twofold: on the one hand to attract, retain and motivate critical resources, on the other reward and incentivize conduct that is as much as possible consistent with the corporate culture and values.
Remuneration policies and processes for the executive group are managed by the central HR department, while for non-executive personnel they are handled on a country basis.
Once again in 2014, and in accordance with market best practices, the impact of the variable component on the aggregate remuneration of Group management (in the short-term and medium-term) remained very high, which means that there is a strict correlation between remuneration and performance.
Most members of the Management Group are part of the Annual Incentive Plan (MBO) linked to the achievement of annual economic/financial objectives by the Group and/or Business Unit and/or Region and the qualitative assessment resulting from the Performance Management Tool, which allows greater importance to be given to organisational behaviour ("how"), and not simply the results achieved ("how much") in a system involving sustainable pay over time.
It is recalled that in 2014 some changes and improvements were made to the annual incentive system (MBO), which over the three year period 2014-2016 will no longer be correlated to the Triennial Incentive Plan (LTI) but will include a deferred payment to the following year of a portion (25%) of the annual incentive accrued, subordinately to the accrual of the following year MBO. Payment of an additional amount equal to a variable percentage of the entire MBO accrued during the previous year will be paid according to the degree that the MBO is achieved in the following year (this mecha-

nism is envisaged to be rolling for the entire three-year period 2014-2016). This deferral mechanism means that the variable medium-long term period payment accrued will be paid in 2018, insofar as it is related to the results achieved in the financial year 2017 (and thus two years after conclusion of the three-year period covered by the LTI 2014-2016).
Once again for 2014, the Pirelli Board of Directors approved the General Remuneration Policy that establishes general principles and Guidelines followed by Pirelli to (i) determine and (ii) monitor the application of the related remuneration practices:

- Directors with special powers/offices, General Managers and Executives with strategic responsibilities;
- the senior managers and the other executives of the Group.

The General Policy on Remuneration indicates the specific remuneration guidelines for the Top Management regarding: fixed and variable remuneration - both short and medium-long term - (it is specified in this regard that currently Pirelli does not have forms of remuneration through equity); severance pay in the event of dismissal; resignation and termination of employment; clawback clauses for Top Management.
The new LTI 2014-2016 plan, in line with the mechanisms of variable remuneration adopted internationally, as in the past is totally self-funded, since the related charges are included in the economic data of the Industrial Plan. The LTI plan involves an on/off condition, represented by the creation of value over the three year period, and the following three objectives:

- Total Shareholder Return (TSR) for the Group, with an aggregate target weight of 60% of the LTI bonus;
- Return on Sales (ROS) for the Group and the Business Unit or Region according to the organizational unit of the Executive, with a weight at target of 30% of the LTI bonus;
- position of Pirelli in selected global sustainability indicators, with an aggregate target weight of 10% of the LTI bonus.

The importance of the integration of ESG objectives in the long-term incentive plan for management lies primarily in the consistency of the company both internally and externally. Internally, as regards management figures who, as part of their responsibility, dedicate their commitment every day for the company to progress in a responsible manner. Externally, to external stakeholders, including shareholders and potential investors, who can rely on a company that has adopted instruments capable of supporting solid value creation over the long term.
A pro-rata of the long-term incentive for Management is linked to the positioning of Pirelli in two Sustainability indices: the Dow Jones Sustainability World Index ATX Auto Components sector and FTSE4Good Global Index Automobile & Parts sector, where the company has held the top position for years. In particular, in relation to each index, the amount of the pro-rata of accruable incentive increases in relation to Pirelli's position in the ranking, until reaching in case of leadership a pro-rata of maximum of twice the accruable value at performance target. The two indices mentioned are complementary to each other and cover all the major ESG issues. Pirelli has set sustainability targets that concern all the macro areas of management, which is why it would be limiting to choose to include in the long-term incentive plan only some targets rather than others. The company's choice is instead to place maximum attention on all targets, from those in terms of CO_2 emissions, water or energy consumption, to those related to the product and the sphere of human resources and the sustainable management of the supply chain.
For a detailed reporting of the Remuneration Policy, please refer to the "Remuneration Report" within the present Annual Report.

INTERNATIONAL MOBILITY

The theme of international mobility, always dear to Pirelli in order to integrate cultural and value, in 2014 saw the departure of about 50 new expatriates, compared with about 70 departures in 2013

and about 100 departures in 2012. We confirm the number of departures (about one third) to major industrial countries such as China and Russia, and the mobility flow from emerging to mature countries is also ongoing. International mobility thus continues to play a key role in the Group's geographical expansion strategy, spreading Pirelli culture around the world and transferring precious technical and managerial know-how to the new start-ups.
The overall expatriate population at the end of 2014 amounted to 214 people (about 30 people less than at the end of 2013 and 40 people less than at the end of 2012) of 17 different nationalities who were transferred to 34 different destination countries on all five continents, and is composed of 73% non-Executive and around 12% of women.
It is noted that the overall expatriate population is composed for the most part (51%) by non-Italian employees, which represents real progress towards the goal of creating an increasingly international Management team.
In view of the complexity of this situation, the Group decided to introduce a new International Mobility Policy, which applies to all new international assignments from 1 January 2013.
The principal new features of this policy are the introduction of a tax equalisation policy which neutralises differences in taxation arising between the destination country and the country of origin, ensuring remuneration is fair and adequate. There has also been a review of the rules for assigning certain benefits, ensuring an increasing level of care for expatriate workers and their accompanying families.
The management of expatriation is also supported and accompanied by the expertise of specialized external providers, facilitating clear, transparent and uniform communication of the Remuneration Policy and related implementing rules.
The new Remuneration Policy is harmonised and applied worldwide (with common rules of treatment), allowing uniform management of expatriate personnel throughout the entire Group.

EMPLOYER BRANDING

For quite some time now, Pirelli has devoted specific resources to Employer Branding as it considers it crucial to present itself to the market as employer of choice, transmitting its characteristic features to the world at large. There are three drivers that distinguish the Group: Business, People and Change, within which the principles on which Pirelli bases its management approach are defined.
The Company strongly believes in the spread of the excellence of Pirelli as an instrument of attraction and, accordingly, during Employer Branding activities, particularly with young people, wants to pass on some of the Group's key principles, such as technological know-how and product innovation, technological and commercial leadership in the high-end segment of the market, the tension of our people towards the results and the meritocracy that has always ensured growth for the best resources both locally and internationally.
In addition to conveying Pirelli's business principles, the Employer Branding is also a valuable tool to give visibility to job opportunities aimed at new graduates, not only on the Italian market but also globally. Considering only the countries where Pirelli has a presence with one or more production plants in Europe, the United States, South America, the Middle East, Africa, Russia and Asia Pacific, about 180 events, projects and meeting points were organised in 2014, where the Company promoted its own employer branding initiatives.
These activities are carried out also thanks to the network of contacts and partnerships with some prestigious universities in several countries, such as the Beijing University of Chemical Technology in Beijing, the University of Munich in Germany, the Nottingham Trent University in the United Kingdom, the University Politehnic of Bucharest in Romania, the ESIC - Business Marketing School in Spain, the Universidad de Buenos Aires in Argentina, the Universidad Tecnológica del Centro in Venezuela, the Instituto Tecnológico de Estudios Superiores de México, the Keio University in Japan and The American University of Cairo in Egypt.
As for the projects developed in this area at headquarter level, Pirelli collaborates actively with its own university partners: Politecnico of Milan, Politecnico of Turin, Bocconi University, Catholic University, University of Turin. These universities are considered partners for the type of students they

attract, mainly economists and engineers, and because they are physically close to the headquarters in Italy. With these institutions, Pirelli has organised Careers Days, roundtables, Job Fairs, as well as business presentations and meetings with students directly at the company, aimed at giving them a “hands-on” experience of the reality of the Group.
Pirelli is also present on the internet with the publication of Company Profile and job ads on targeted sites including, in particular, LinkedIn and Monster. As for LinkedIn, from December 2013 to December 2014, the number of followers almost doubled from 64,000 to 113,000. Monster remains one of the principal channels for hiring new university graduates, together with Job Meeting and Job Advisor.
Visibility and promotion through universities and significant web presence allowed the Company to carry on successfully, also in 2014, the process of recruitment and selection of new graduates, which has resulted in the inclusion of about 100 young people in internships at the Group’s Italian premises.
Employer Branding in general also helped to achieve other important results in the recruiting and selection of personnel: in 2014 in fact 763 white collars were recruited in 35 different locations, mainly in Brazil, Russia, Romania and at the headquarters in Milan. Most of these resources, whose average age is 31, were included in the Sales & Marketing area and staff functions.

DEVELOPMENT

Performance Management

The term Performance Management (PM) denotes the process by which we define, observe and assess the contribution of each employee to the organisation. This assessment is given in relation to a set of predefined indicators and is critical to the success of both the company and the employee him/herself.
The PM is a unique and critical moment for the development and orientation of each employee. During the process, particular value is given to feedback, which provides a transparent and open dialogue between management and employee, first in the start-up phase in which the targets are set, and then in the closing phase, when the results achieved are assessed.
The Performance Management process involves all Pirelli staff worldwide, including Executives, Managers and White Collar Employees.
The year 2014, as regards the closure of the previous year, confirmed a redemption rate of the process, that is, complete assessment profiles with respect to the total of open profiles equal to 95%, within which 94% of women successfully completed their performance Management process.
Alongside this significant quantitative result, there is another consideration linked to the quality of the assessments: the introduction of Calibration Meetings. These are meetings organised by the managers of individual functions, Business Units and countries, with those they report to directly and the HR managers in question. During these meetings, the assessments of people who belong to that specific organisational unit are shared and pooled, with the aim of ensuring a shared and balanced distribution of the assessments, making the process more homogeneous and balanced.

Talent review

The Talent Review process aims to place “people in the right job”, namely to ensure business continuity through the coverage of strategic positions with our best talents.
Key positions are those positions that have a direct impact on the strategic success and competitive advantage of the organisation. Each of these positions also includes a vacancy risk identification in the following 12-18 months, in such a way that concrete mitigation actions can be implemented.
For Pirelli, “Talents” are employees who, in addition to having demonstrated positive performance in the previous 3 years, possess the potential to hold, immediately or within the next two years, key positions within the organization. In fact, they represent the future of the company for the coverage of strategic positions.
Pirelli’s focus on talents is also demonstrated by the numerous skills assessment projects concluded in 2014, following increasing focus on the analysis of the talent of people to support the

company strategy.
The talent management process also includes meeting and discussion sessions between managers, which aim to share and standardise the criteria for the definition of talent within the organisation. These meetings involve the active participation of all key interlocutors of the organisation, to guarantee the strong commitment of the company towards the management of people and its talents. During 2014, the Talent Review process identified 311 “key positions” and 208 “talents”. In the 25 meetings held to discuss the talents and the key positions, more than 250 managers from around the world were involved.
Coverage of key positions is solid, in fact 62% of the positions are not at risk of vacancy in the next 12 months. Pirelli is also established as a company with a strong predisposition to developing talent from within: in fact 95% of the people who hold key positions have grown and have been promoted from within.
Even Pirelli’s pipeline of talents is consolidated; in fact, they come from 20 different nationalities, 58% already hold a key position and 52% of them are ready for an assignment to another key position.
The goal in 2015 is to strengthen the pipeline of talents and develop the analysis involving more and more people from all over the world. Focus is also being maintained on the development and consolidation of career plans, with the aim of providing the means for structured growth within the organisation and mitigating the retention risk of Pirelli talents.

TRAINING

In line with the Premium positioning strategy, in 2013 Pirelli updated its Global education model with a view to aligning skills, strengthening the overall *knowledge management* system and creating permanent education processes.
The new training model, called Training@Pirelli, allowed the globalisation of the training offer among all countries, opening it to the entire corporate population and at the same time achieving economies of scale and an increase in potential users. Training@Pirelli is characterised by being a globally organised and structured system which is nevertheless equipped to meet the needs that could emerge locally at any time in each of the countries in which Pirelli operates.
Pirelli’s training system is closely related to the Performance Management system (for further information, please see the paragraph on Development): in fact, during the annual and half-year interview with their Manager, priorities and training courses to be attended are defined on the basis of the offer in Training@Pirelli, described in a catalogue distributed to all employees through the training portal called *Learning Lab*.
The three “pillars” on which Training@Pirelli is based are the *Professional Academy*, the *School of Management* and the *Local Education*. The first two are designed centrally with implementation in the countries of the Group, while the Local Education is generated and provided locally to meet the specific local needs.

Professional Academy

There are ten Pirelli Academies: Product Academy, Manufacturing Academy, Commercial Academy, Quality Academy, Supply chain Academy, Purchasing Academy, Finance Academy, Planning & Controlling Academy, Human Resources Academy, Information Technology Academy.
Sustainable Management elements run through all the Academies, with focus for example on product life cycle (LCA), environmental efficiency of the process, health and safety, sustainable management of the supply chain, risk management, SRI investor market, diversity management, etc.
The Academies are directed to the entire corporate population to provide permanent learning and ensure exchange of know-how between countries as well as the implementation of tools and procedures. The faculty of the Academy is mainly composed of internal trainers, experts in their specific functions that, according to the training needs and logistics needs, act at central, regional and local level, or through online seminars and webinar sessions.

Each Academy is led by a top representative of the function and is composed of a team of professionals from the function itself. The Group Training function closely monitors all staff members of the Academies, ensuring uniformity in the design, delivery and assessment of methods of learning, and ensuring consistency with human resources development policies.
In 2014 the Academy offered 216 courses held either at the headquarters or at foreign Affiliates of the group.

School of Management

With the aim of supporting the Pirelli Group in the development of the management culture, the *School of Management* (SOM) spreads managerial skills defined centrally to support the pursuit of the company development strategy and related targets.
The training offered is reviewed and updated annually to keep pace with the company's development and offers a web tool to support the continuing education even outside the context of a typical classroom. In turn, the on-line section *Train Your Brain* continually provides new videos and articles aimed at strengthening the skills developed in the classroom.
The SOM is divided into three major training areas or *Business, People and Change*, and targets populations of Executives, Middle Management/Senior Professionals and New Graduates/Junior.
The training dedicated to executives is preferably provided at the headquarters in Milan in order to allow participants to discuss strategies directly with Senior Management and share them cross-functionally and geographically. In 2014, seven editions of SOM were provided, 6 of which were held in Milan and one in Brazil for Executives of the Latam region (Brazil, Argentina and Venezuela).
The training activities aimed at Middle Management and Senior Professionals are designed centrally (Milan) and then offered locally. In the course of 2014 about 800 middle managers and senior professionals attended more than 50 editions of School of Management held in 9 different countries.
As for the population of new graduates, 2014 saw the consolidation of the two-year course *Warming Up@Pirelli*, launched in 2013 with the aim of providing a common view on the Pirelli universe to all new graduates recruited in the various countries. The main topics covered include: the Sustainable Management Model adopted by the Company, the strategies, the product, processes, customers, markets and all the basic skills that Pirelli considers important for a young employee who wishes to become part of the future management of the Company.
Each country is given the opportunity to break down the *warming up* path, taking account local specifications, reviewing the timing and frequency of the courses, while ensuring process homogeneity in terms of total duration and content provided, defined centrally according to priorities and business strategies.
In 2014 *Warming Up@Pirelli* involved over 180 young employees.

Local Education

The training provided locally responds to the specific training needs of the local context and culture of the country of reference. The seminars cover areas of expertise ranging from the improvement of interpersonal skills to stress management, from the development of IT, language and regulatory skills up to seminars on issues of welfare and diversity inside the Company.

In the latter area the following 2014 courses deserve mention:

- Parents at Work: dedicated to the parents of children aged 0 to 6 with the aim of teaching them to use the parenting experience as a "gym" to develop and consolidate skills and managerial behaviours to be used at the workplace as well.
- Diversity at Work: the training course explores the wealth that the individual and the Company can draw from a heterogeneous environment, in which the diversity of people and cultural contexts turn into added value and therefore of strategic interest for Company development. The course, provided in 2014 to Italian employees, will be extended to all affiliates of the Group during 2015.

Focus: training on sustainability

2014 also saw the continuation of training regarding the Pirelli Model of Sustainable Management in line with the Sustainability Plan.

Training was diversified according to the target group. In the context of the international corporate course *Pirelli's Way Joining the Group*, Pirelli presents the Group's Sustainable Management strategy to all new employees, starting from the multi-stakeholder approach in the context of integrated economic, environmental and social management. Pirelli Training Model also brings the attention of new recruits to the Group's Sustainability Policies and its related commitments, as expressed through the Ethical Code, the Code of Conduct, the Equal Opportunities Statement, the Policy on Social Responsibility for Occupational Health, Safety and Rights, and Environment, in addition to the requirements of the SA8000® Standard and internationally recognised human rights, from the prohibition of forced and child labour to freedom of contract, equal opportunities and non-discrimination.

All of these issues are also presented in training courses for all Group sustainability managers and buyers.

Also in 2014, Pirelli has held several Academies on the sustainable management of the supply chain, dedicated to the management and staff of the purchasing department, both centrally and locally.

In the course of 2015 a Convention is also expected for Sustainability Managers of the Group, to be held at the headquarters.

Pirelli training figures

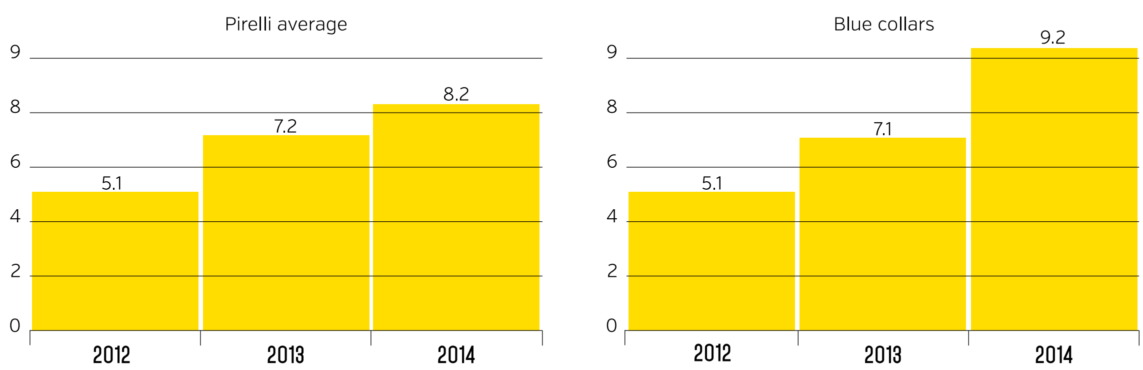
In 2014, Pirelli's training investment grew further, reaching an average of 8.2 days of training per capitaat the global level, and is constantly growing compared to the average of 7.2 days recorded in 2013 and of 5.1 recorded in 2012. For the second consecutive year the target set in the Industrial Plan that provided for the achievement of an average of 7 days per capita just in 2015 was exceeded.

Focusing on the training provided to the blue collar workers of the Group, the number of days on average per capita reach 9.2 with a growing trend in the last three years, as shown in the graph.

The figure for training of management amounted to an average of 4.4 days per capita.

Training involved 80% of the workforce with at least an average of one day per capita and recorded a substantial balance in terms of equal access to education between genders, with 80% of the population of both men and women being involved in training activities.

AVERAGE DAYS OF PER-CAPITA TRAINING



Of the total training provided by the Group in 2014, about 77% is accounted for by the Professional Academies, in which training grew significantly on issues of health, safety and environment, from 11% in 2013 to 16% in 2014. The high percentage of training hours provided within the perimeter of the Academies legitimised the investment made on the population of *internal trainers* within the plants, since 2014 dedicated full-time to providing support to colleagues with specific activities and aimed at improving skills in the industrial field.

Pirelli intends to maintain increasingly structured consistency to its training activities, continuing to deliver in the coming years a number of average days of training per capita greater than or equal to 7 and aiming at involving 90% of employees in at least one day per capita by 2017.

LISTENING: GROUP OPINION SURVEY

For years, Pirelli has consolidated the climate survey as a tool for actively listening to its employees, considering the results as a basis for defining and settingcentral and local improvement plans.
The survey is called “My Voice” and involves all employees of the Group. Questionnaire management is attributed to a third party, in respect of the anonymity of respondents. Therefore Pirelli receives the results in aggregate form.
The present report outlines the outcome of the survey conducted at the end of 2013, the results of which were announced to employees in the first quarter of 2014. The last survey was conducted at the end of 2014, the results of which will be communicated to employees in the first quarter of 2015 and will therefore be reported in the next Annual Report.
The overall response rate to My Voice in 2013 was 61.4%. The overall Trust Index of employees towards the Company stood at 62%, consisting of a Trust Index of 63% among blue collar employees and 60% among white collar employees, figures slightly higher than the trend at Italian multinationals. Results are particularly high regarding the sense of belonging and pride, trust in the management of health and safety and diversity at the company; there are however margins for improvement in the relationship between managers and employees, in terms of direct relationship and appreciation.
Starting in February 2014, the results were communicated to employees, both through dedicated communications on the company Intranet and through face-to-face meetings (approx. 400 in countries where Pirelli is present). The areas for improvement identified for each specific Country/function, both centrally and at the subsidiaries, were then analysed and 35 action plans have been defined. The plans provided for action priorities, dividing them into concrete actions, with targets and implementation timing, all communicated in full transparency to employees.
As evidence of the strategic value of the My Voice survey, the Senior Management of the Group had among its individual performance goals, within annual Performance Management profile, also the percentage improvement of the Trust Index; in particular the Group Index for senior VP of the Central Functions and the Country/Region Index for the respective CEO.
My Voice 2014 has seen strong global growth in the participation rate, 84.6% compared to 61.4% in 2013, which had a strong influence on the growth of the response rate of the blue collar employees, increasing from 56.7% in 2013 to 84.9% in 2014.
The significant growth of participation in My Voice is indicative of the willingness of employees to voice their opinions, so that the contribution of each of them can help the company to improve its performance.

WELFARE AND INITIATIVES FOR THE INTERNAL COMMUNITY

Pirelli has been historically active in its support for the welfare of its employees through a number of initiatives. Since 2011, moreover, the Company has taken on a Group Welfare Manager.
The welfare initiatives are aimed at all employees, whether they are permanent, temporary or part-time, and differ from country to country in response to the needs of the various social contexts in which the affiliates operate. These are usually tangible and efficient interventions in favour of the work-life balance, ranging from healthcare to commercial agreements, from social activities and free time to aids to support the family.
Overall welfare services follow four general areas of action in all countries:

- healthcare and related information campaigns;
- family (e.g. scholarships);
- leisure (e.g. through Open Days);
- workplace (e.g. flexible working hours, facilities, individual development training, cultural growth and group celebrations).

At all production units Pirelli has always provided infirmaries that, during working hours, provide specialist healthcare and medical professionals for all employees. These facilities provide first aid care, counselling for health problems outside work and health supervision for employees exposed to specific risks. The infirmaries also support the various health-related promotional campaigns that are launched at a local level, and prevention campaigns.
Of particular importance is the Health and lifestyle campaign developed in Brazil which in the two year period 2013-2014 involved all employees. The initiative consisted of medical examinations, blood and dignostic tests and individual interviews aimed at achieving increased awareness. On the basis of these results specific initiatives have been designed for some diseases (diabetes) or particular conditions (pregnancy) or lifestyles (nicotine addiction), with which, through qualified medical protocols, employees are guided by telephone and newsletters towards healthier lifestyles.
Once again in 2014, Pirelli offered all its employees the opportunity to be inoculated with the seasonal flu vaccine free of charge.

As mentioned, each country autonomously develops specific initiatives, designed in relation to the territory in which they are located complementary and in addition to the welfare systems in force. Below are some examples of activities developed in 2014:

- Romania: “Smile Campaign”, education campaign for oral hygiene among employees and their families in collaboration with a team of Italian dentists;
- Mexico: football courses for employees’ children;
- France: gym inside the affiliate;
- China: provision of apartments with extremely favourable conditions for employees coming from other regions of the country;
- Brazil: inclusion of a large group of disabled workers suffering from Down syndrome following a dedicated training course, with the involvement of their future Pirelli colleagues;
- Argentina: financing of a high profile technical-scientific training path for a group of worthy skilled workers;
- Russia and Turkey: financing of sports teams of employees at a competitive level;
- Turkey: establishment of a chorus of employees;
- UK: opening of a new internal training centre and training programmes for children with disabilities;
- Italy: creation of “People Care”, a website that is a showcase for all the offerings available regarding welfare (booking of housekeepers, babysitters, social care workers, household maintenance technicians, request for legal advice, car pooling, booking of summer camps for employees’ children, purchase of public transport passes and school books with payment instalments in payroll and delivery to the company etc.).

The project Bambini in Bicocca (Children at Bicocca) was particularly appreciated. It was launched in 2014 to accommodate employees' children aged between 5 and 10 at the Pirelli Foundation, co-creator of the initiative when school is closed (Carnival and the Easter long weekend, pre-school period). Children participating in the project were involved in recreational and educational initiatives and textural and experiential workshops of great interest. The Bambini in Bicocca project involved over 190 children and received a very positive consensus response.

INDUSTRIAL RELATIONS

Pirelli Group industrial relations are conducted on the basis of constructive dialogue, fairness and respect of the various roles involved. Guaranteeing and respecting free trade union activities is one of the key values on which Pirelli bases its own Human Resource Management System. Relations and negotiations with trade unions are managed locally by each affiliate in accordance with the laws, national and/or company- level collective bargaining agreements, and the prevailing customs and practices in each country. At this level, these activities are supported by the central departments, which coordinate activities and ensure that the aforementioned principles are observed throughout the Group.

In the course of 2014 the Industrial Relations activity has reached major negotiation results both in Italy and abroad. In Italy, this has been as part of the renewal of the national collective bargaining agreement and supplementary corporate contracts at the sites of Milan Bicocca, Bollate and Settimo Torinese. Abroad, as part of the renewal of collective bargaining agreements at the Group's industrial sites in various countries such as: Romania, United Kingdom, Germany, Brazil, Argentina, Mexico, Egypt and Turkey.

On 18 December 2014 the sale was finalised to the Bekaert Group of Pirelli's steelcord business in Italy (Figline), Romania (Slatina) and Brazil (Sumaré) and on 5 February 2015 that in Turkey (Izmit). As announced in February last year, the agreement for the sale also includes the transfer of the steelcord business held by Pirelli in China (Yanzhou) to Bekaert. The completion of the deal, however, remains subject to regulatory approvals from the local authorities expected by the first quarter of 2015. The decision of selling the steelcord has allowed Pirelli to phase out of an activity which, considering the company's strategy of focusing on the Premium tire higher profit margins segment, did not have adequate competitive dimension. At the same time this decision has, nonetheless, ensured a long-lasting future for the steelcord business within a group leader in technologies for the transformation and coating of steel cables.

Industrial Relations also play an active role in the Group's commitment to health and safety, characterised by the active participation in the issue by both trade unions and workers. In fact, 79% of the Group's employees are covered by representative bodies which periodically, together with the Company, monitor and confront, with the support of specialists, current issues and the awareness plans/programmes in a perspective of continuous dialogue aimed at improving the various activities carried out by Pirelli to safeguard the health and safety of employees.

During 2014 there was no corporate restructuring within the Group. In any case, in line with the Company's sustainable approach, in case of restructuring, outplacement policies have been adopted through framework agreements with leading companies concerning outplacement plans. Finally, in relation to the start of operations with substantial impact on employment with repercussions transnationally or locally, the company acts in accordance with the procedures and practices of information and consultation of employees provided by the laws.

European Works Council (EWC)

The Pirelli European Works Council (EWC), formed in 1998, holds its ordinary meeting once annually after presentation of the Group Annual Financial Report, where it is informed about the operating performance, operating and financial forecasts, investments made and planned, research progress, and other matters concerning the Group.

The agreement establishing the EWC provides for the possibility of holding other extraordinary meetings to fulfil the information requirements of delegates, in light of transnational events concerning significant changes to the organisational structure of the Company: opening, restructuring or closing of premises, important and widespread changes in work organization. EWC delegates are provided with the IT tools that they need to perform their duties and a connection with the corporate intranet system, for the real time communication of official Company press releases.
In February 2015, the Committee consisted of 13 members from the offices of the countries entitled to representation in the Committee: Italy, Germany, Spain, Sweden, Romania and the United Kingdom.

Compliance with statutory and contractual obligations governing overtime, time off, association and negotiation, equal opportunities and non-discrimination, bans on child and forced labour

Group policy has always promoted compliance with all legal and/or contractual requirements concerning working hours, the use of overtime and the right to regular days of rest.
These requirements are often the subject of agreements with trade unions, in line with the regulatory context of each country. There are no restrictions on any worker's right to use his/her total number of holidays. The holiday period is generally agreed between the worker and the Company.
Pursuant to its Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment and in accordance with the requirements of the International Standard SA8000®, adopted since 2004 as a reference tool for the management of social responsibility within its affiliates, Pirelli monitors the implementation of the requirements in terms of respect for human rights and work through periodic audits, both commissioned to specialist third party companies and performed by the Internal Audit Department. Particular attention is paid to the sustainability of Pirelli sites (and those of suppliers) operating in emerging countries.
The three year internal auditing plan covers all Pirelli sites. Normally every audit is carried out by two auditors and takes three weeks on site. The Internal Audit Team has received training on the environmental, social and ethical elements of an audit to enable them to carry out an effective, clear and structured audit, granting Pirelli an effective control over all aspects of sustainability. If compliance violations are found during these audits, an action plan is agreed between the local managers and central management, with precise implementation dates and responsibilities. The Internal Audit Department monitors the status of implementation of agreed action plans, through specific follow-up measures. All the managers of the affiliates involved in the audits have been adequately trained and made aware of the subject and audit procedures by the central functions assigned, in particular: Sustainability and Industrial Relations.
The external and internal auditors conduct audits based on a check-list of Sustainability parameters derived from the SA8000® standard, from Pirelli Policy on Social Responsibility for Occupational Health, Safety and Rights, and Environment and the Group Ethical Code. Looking at the last three years, in 2012 the Internal Audit function carried out audits in Italy, Brazil, Argentina, Venezuela and Turkey, in 2013, in Argentina, the United States, Romania and Brazil, and in 2014 in Italy, the United Kingdom and China. In 2015 audits will continue in Egypt, Russia, the United Kingdom and Mexico.
The non-compliances that emerged as a result of the audits mentioned above were the subject of the action plans agreed between the local managers and Central Management, and will be subject to follow-up in 2015 by the Internal Audit Department.
It should be noted that none of the audits revealed any breach of ILO Core Labour Standards, with specific reference to forced labour or child labour, freedom of association and bargaining, and non-discrimination.

Labour and social security lawsuits

In 2014, as in the past, the level of work and social security litigation remained low, thanks to a continuing trend of conflict avoidance, substantially in line with previous years.
Just as in previous years the level of litigation remains high in Brazil, to the point of representing about 90% of all the labour lawsuits currently pending against the entire Group. Labour lawsuits are

extremely common in this country and depend on the peculiarities of the local culture.As such, they affect not only Pirelli but also the other multinational companies operating there. Labour lawsuits are generally initiated when an employment contract is terminated, and they usually involve the interpretation of regulatory, legal and contractual issues that have long been controversial. The Company has made a major commitment both to prevent these disputes – to the extent possible within the previously mentioned cultural context – and resolve them, including use of settlement procedures.

Unionisation levels and industrial action

It is impossible to exactly measure the consolidated percentage of union membership at Group companies, since this information is not legitimately available in all countries where Pirelli has a presence (over 160 countries on five continents). However, it is estimated that about half the Group's employees are trade union members.
The percentage of workers covered by a collective bergaining agreement, in 2014 stood at 79%. This figure is associated with the historical, regulatory and cultural differences between each country.
Collective bargaining agreements were renewed without conflict or strikes.
The labour unrest in 2014 refers exclusively to Italian industrial sites supporting union actions on national issues of political/union relevance (e.g. reform of the labour market).

Occupational retirement and health-care plans

Defined benefit plans are in place in the United Kingdom (the fund was closed for all employees on the payroll as at 1 April 2010), in the United States (these plans were closed a number of years ago to employees on the payroll, in favour of defined contribution plans; since then, they only apply to retired employees but are not tied to wage increases) and in Germany (this scheme was closed to new hires in 1982). Other defined benefit plans exist in The Netherlands, but they represent a relatively insignificant liability for the Group.
Group affiliates provide supplemental company medical benefits according to local requirements. These healthcare schemes vary from country to country in terms of allocation levels and the types of coverage provided. The plans are managed by insurance companies or funds created ad hoc, in which the Company participates by paying a fixed amount as is done in Italy, or an insurance premium as is done in Brazil and the United States.
For the economic-equity measurement of the above benefits, reference is made to the Consolidated Financial Statements, Notes 23 - Employee benefit provisions and 32 - Personnel expenses.

OCCUPATIONAL HEALTH, SAFETY AND HYGIENE

Pirelli's approach to the responsible management of Occupational Health, Safety and Hygiene at Work is informed by the principles and commitments expressed in the Ethical Code, the Policy on Social Responsibility for Occupational Health, Safety and Rights, and Environment and the Quality Policy, the texts of which are communicated to all Group employees in their own languages, in addition to being published in the Sustainability section of the Pirelli website, to which the reader is referred for the text in full.

Safety management system

Pirelli adopts a Safety Management System structured and certified according to the OHSAS 18001:2007 and ISO 14001:2004 Standards.
All certificates are issued with international accreditation ANAB (*ANSI-ASQ National Accreditation Board* accrediting body of the United States).
Since 2014, RINA Services S.p.A. has been the new compliance auditor of Pirelli Tyre's Safety and Environment Management Systems. The choice of a new service provider meets the need for greater

transparency of the certification process, which requires periodic replacement both of the entity for conformity evaluation of Management Systems and the accrediting body.
As at the end of 2014 all production facilities of Pirelli Tyre have been certified according to OHSAS 18001:2007 and ISO 14001:2004 standards with the exception of the facility in Rome (United States), where a management system is operative, applied under the local regulations, which is similar to the OHSAS 18001 Standard. For this reason the certification activity is a parallel activity of relative value. Instead, the Environmental Management System is fully operative and certified pursuant to ISO 14001.
As for the Russian settlement of Kirov, which is already certified ISO 14001, in January 2015 the audit process was successfully completed for certification of the safety management system according to OHSAS 18001 Standard and is pending formal receipt of the certificate, which will be issued by the certification company RINA Services.
The Safety Management System and the Environmental Management System implemented at the Pirelli Tyre production sites have been developed on the basis of procedures and guidelines drafted at corporate headquarters. This has made it possible to adopt a "common language" within the Group, in terms of the key elements of operating that guarantee effective, uniform and shared management.
In the course of 2015 the issue of a new policy is also scheduled, exclusively dedicated to Health, Safety and Environment, currently covered in the Group Policy on Social Responsibility for Occupational Health, Safety and Rights, and Environment.

Safety culture

The Zero Injuries Target is a precise and strong corporate position.
Pirelli strongly believes that leaders play a strategic role in risk prevention. Their behaviour must therefore be an example for all employees. Management must make a clear, visible commitment to safety culture in order to achieve the ambitious aims that the Group has set itself.
From an industrial point of view, this objective is pursued through a major plan of investments for technical improvement of work conditions, while constantly insisting on the cultural and behavioural aspect of all Company players.
Safety culture is of paramount importance, and it is necessary to pursue it in accordance with the rules, while maintaining a very clear idea of everyone's responsibilities to themselves, others, and their family. This approach, together with the involvement and continuous internal dialogue between Management and workers, has proved successful, as evidenced by the continued decline of injury indices.
In 2013 the Company signed a global agreement with DuPont Sustainable Solution in support of the Management System outlined above, with a special focus on a standard approach to Behavioural Safety in the Group.
The program began in 2014, initially at the sites in the UK, Venezuela, Argentina, Mexico, Turkey, Romania. In 2015 the program will be extended to all the Group's production sites.
A specific *Steering Committee*, presided over by the Operations General Manager, was activated to monitor the progress of the program.
In 2014 the Company continued to reinforce and consolidate the behaviour-related aspects of safety culture. The Company has maintained and developed the focus on *Leading Indicators*, namely measuring what preventive measures should be implemented and how this should be done, rather than *Lagging Indicators*, namely reactive indicators such as the number or frequency of injuries.
Communication and sharing information play an important role in internal dissemination of the Safety Culture. This is accomplished with monthly newsletters like the Safety Bulletin, and the periodic publication of significant events through the traditional channels of internal communication.

As part of the collaboration with DuPont Sustainable Solutions, Pirelli is also developing the theme of prevention of *psychosocial risks and work-related stress*. Some of the most important areas of intervention of the Program "Excellence in Safety" are in fact related to the improvement of the organizational structure, the clarity of the tasks and roles, empowering workers, improving communication in the organization, the sharing of objectives, motivation with respect to a common strategy: all substantial issues for a work environment that is psycho-socially appropriate and challenging for all employees.

The management of *work-related* stress is also the subject of the campaign of the European Agency for Safety and Health at Work (EU-OSHA) for the two-year period 2014-2015, and of which Pirelli is the usual partner. Adhering to the Campaign, Pirelli confirms its commitment to promoting a healthy work environment, where employees feel valued and psychosocial risks are effectively prevented and countered.

Safety training

In addition to safety training offered locally at every Pirelli location (which is illustrated in the section of this report dedicated to employee training), special mention has to be made of Group activities and projects, which simultaneously target several countries by allowing an alignment of culture and vision, fully benefiting pursuit of the Company's own improvement targets.
The Manufacturing Academy merits special mention.This is the Pirelli Professional Academy dedicated to factories, where health, safety and environment issues are discussed in detail. In the course of 2014 the training on risk assessments related to machinery continued. By the first quarter of 2015 all production sites will have received specific training. It should be noted that 16% of the training provided by Pirelli in 2014 involved elements of Health and Safety at work.
The seventh edition of the Pirelli Health, Safety and Environment global meeting is expected in the first quarter of 2015 at Pirelli's Mexican production centre in Silao. The meeting has always had the purpose of sharing the best practices applied by the various Pirelli sites in the world as a common factor.

Monitoring of Performance

Alongside establishing specific guidelines and procedures for implementing management systems, Pirelli uses the web-based Health, Safety and Environment Data Management (HSE-DM) system, elaborated and managed at corporate headquarters by the Health, Safety and Environment Department. This system makes it possible to monitor HSE performance at every production site in the Tyre Business and prepare numerous types of reports as necessary for management or operating purposes.
In particular, the HSE-DM collects all the information on injuries occurred in the factories, fitted Units in Brazil and the UK, European Equities and the logistics units managed directly by Pirelli (accident analysis, corrective action taken, etc.).
If the dynamics of a particular case are significant, all plants are not only provided with the information via a Safety Alert system, but also urged to conduct an internal audit as to whether conditions similar to the ones that caused the injury exist at their plants too and define any corrective measures. By using this system, every site may audit the solutions adopted by other plants in order to share the best choices.

Performance

In 2014 Pirelli reached a Frequency Index of 0.51, or a reduction of 17.7% compared to 2013 and 71% compared to the reference value of 2009. The target established in the Industrial Plan 2013-2017 and 2020 vision, calls for a reduction of the Frequency Index of 90% in 2020 vs. 2009.
It is noted that the value of the Frequency Index of injuries of women is well below the average of the Group, also in view of the fact that the female population is generally engaged in activities with a lower risk than the male population.

INJURIES - FREQUENCY INDEX* (FI)

	2014	2013	2012
Frequency Index (FI)	0.51	0.62	0.77
Frequency Index Men	0.57	0.68	0.86
Frequency Index Women	0.12	0.10	0.18

* FI = number of injuries / Hours actually worked x 100,000

The most representative injuries involve events resulting in contusions, cuts and fractures to upper limbs.
Severity Index (SI) of injuries in the Group fell from 0.18 in 2013 to 0.16 in 2014.

INJURIES - SEVERITY INDEX* (SI)

	2014	2013	2012
Severity Index (SI)	**0.16**	0.18	0.26

* SI = number of days missed for injuries / hours actually worked x 1000

Severity Index (SI) was calculated by considering all calendar days (excluding the date of the accident) between the injured person's work interruption and the employee's return to the factory as "lost," i.e. the actual days necessary for complete rehabilitation.
Both in the case of the Frequency Index and the Severity Index, Europe and Latin America have a higher rate than the other geographical areas where Pirelli operates (Africa, Asia, North America and Oceania), although it has been steadily declining for years.
The calculation of the FI and SI indices mentioned above does not include in-itinere accidents and injuries of agency workers, which is separately discussed in the summary table below. In particular, in 2014 there were injuries involving temporary workers at the Group, while there were 133 in-itinere accidents.

	2014	2013	2012
In-itinere accidents*	**133**	107	136
Temporary workers injuries	**10**	7	14

* In-itinere accidents = accident occurring during the journey from home to work and vice versa.

The Frequency Index of i related to employees of external companies operating at the premises of the Group amounted to 0.52 (equivalent to the average of the Pirelli Group).
With regard to occupational diseases, its Frequency Index has been falling steadily in the last three years and in 2014 had a value of 0.04.

OCCUPATIONAL DISEASES - FREQUENCY INDEX* (FI)

	2014	2013	2012
Frequency Index of Occupational Diseases	**0.04**	0.09	0.10

* FI of Occupational Diseases = number of occupational diseases / hours actually worked x 100,000

As part of the production process, there were no workers with high incidence or high risk of diseases related to their occupation

Fatalities

- 2014: there were no fatal accidents at work among the employees of the Group or among employees of external companies operating at the Group's operating units.
- 2013: there were no fatal accidents at work among the employees of the Group or among employees of external companies operating at the Group's operating units.
- 2012: on 30 September 2012, one Group employee suffered a fatal accident at the plant in Carlisle, United Kingdom. There were no fatal accidents involving independent contractors working at the Group's operating sites.

Best Practices 2014

Six tyre manufacturing plants were "sites of excellence" in 2014, since no employees were injured there during the year:

- Camacari (Brazil);
- CMP (Italy);
- Ecosil (Brazil);
- Sao Jose (Brazil);
- Sorocaba (Brazil);
- Yanzhou Cord (China).

These results should be attributed to the constant focus on leading indicators, namely in terms of prevention.

Health and Safety Expenditure

In 2014, investment in health and safety by Pirelli Tyre reached a total amount of more than €15 million, the highest figure in the last three years as follows (in millions of euro):

- 2012: 14.7
- 2013: 14.3
- 2014: 15.2

The expenditure made targeted improvements on machines and plant and, more in general, the workplace environment as a whole (e.g. optimisation of microclimate and lighting conditions, changes in layout for ergonomic improvement of activities, measures to protect the healthfulness of infrastructure, etc.).

Health and Safety Targets

- 2020: reduction of Frequency Index injuries by 90% compared to 2009 (underway);
- 2013-2015: ongoing implementation and consolidation of the systems Behaviour Based Safety (BBS), LockOut TagOut (LOTO), and Point of Work Risk Assessment (POWRA);
- 2014-2018: global implementation of the "Excellence in Safety" programme with Dupont (underway);
- 2015-2017: completion of integration of Health, Safety and Environment KPI for the sales/commercial/equities areas;
- 2015: issue of a new Health, Safety and Environment Policy.

EXTERNAL COMMUNITY

RELATIONS WITH INSTITUTIONS AND PUBLIC AUTHORITIES

As stated in the Group's Ethical Code, Pirelli maintains relations with public authorities at local, national and supranational levels that are characterised by full and active cooperation, transparency and due recognition of their mutual independence.
In all countries where Pirelli has a presence, the aim of institutional relations is aimed primarily at the creation of structured and constant relations with institutions to assure adequate representation of Group interests, including participation in the different phases of the decision-making process. All activities are characterised by maximum transparency, legitimate authority and responsibility for all information that is released in public venues and in direct relations with institutions.
In the process of consolidating and developing institutional relations, Pirelli focuses on active monitoring and detailed analysis of the legislation and regulations in force with a view to verifying possible areas of interest as well as identifying the stakeholders in question. In view of guaranteeing more effective engagement of these stakeholders, the institutional dialogue is also enriched by means of projects and initiatives undertaken with institutions to promote and support issues of public interest.
The geographical scope of the Pirelli Group's industrial and economic interests calls for an extended network of institutional relations, thus having an effect at national, European and international level.
In Italy, the Group interacts in a system of relations involving the main institutional bodies at both national and regional level. At the parliamentary level, it analyses draft legislation affecting the Group, focusing on the initiatives taken by the standing committees of the lower house of Parliament and the Senate, and occasionally offering support to parliamentary activity in the form of technical information, studies and specialised analyses concerning the Group's activities. At the government level, Pirelli maintains constant relations with the Prime Minister's Office and the principal ministries and related governmental entities that have an impact on the Group.
Of particular relevance, among the usual activities undertaken to protect said interests, initiatives were promoted on issues relating to: support for industrial development, particularly in regard to research and development projects; promotion and reinforcement of international relations in the countries where the Group has a presence with industrial sites; analysis and study of the impact of tire regulations; warnings on highway safety issues.
Relations with the European Institutions are focused both on the institutional relationship with stakeholders and legislative monitoring. The continuous dialogue and discussion with the European Commission, the European Council and European Parliament concerns a wide range of topics of interest to the company: from transport to energy and environmental policies, industrial policy, research and innovation, technical regulations, domestic market and international trade. At different stages of processing and formation of European legislation, Pirelli represents the Group's interests with EU stakeholders, always guaranteeing an approach oriented towards maximum transparency and fairness. The Pirelli Group is registered with the European Register for Transparency, set up by an inter-institutional agreement between the European Parliament and the European Commission.
Internationally Pirelli plans several meetings with key institutional partners in the countries in which the major production facilities are located and promotes opportunities for discussion oriented at mutual understanding, in order to promote an effective strategy for institutional relations based on a correct perception of the industrial presence of the Group.
Of particular importance is the approval of the Lobbying Policy in February 2015 by the Board of Directors of Pirelli concerning principles and methods for the representation of corporate interests with public policy decision-makers, according to Legitimacy, Fairness and Transparency and as guarantee of adequate lobbying in full respect of the principles enshrined in the Ethical Code and Anti-Corruption Compliance Program of the Group, in line with international best practices (International Corporate Governance Network) as well as in accordance with the laws and regulations in force in the countries where Pirelli operates. The Lobbying Policy has been published on the Pirelli website.

PRINCIPAL INTERNATIONAL COMMITMENTS FOR SUSTAINABILITY

The focus by Pirelli on sustainability is also manifested through its membership in numerous projects and programmes promoted by international bodies and institutions in the field of social responsibility. Here are some of the main commitments made by the Group worldwide (not including the numerous activities and agreements existing at local level with subsidiaries).

UN Global Compact Lead

As already mentioned in other sections of the report, in addition to being an active member of the Global Compact since 2004, Pirelli belongs to the Global Compact Lead Companies, and since 2013 it has been a member of the Steering Committee of the Global Compact Lead. This initiative was officially launched in 2011 at the World Economic Forum in Davos by United Nations Secretary General Ban Ki-moon. Pirelli adheres to the "Blueprint for Corporate Sustainability Leadership", which offers leadership guidelines envisaged in the Global Compact that has been designed to inspire advanced sustainable and, above all, innovative performance in terms of management capacity for the creation of sustainable value. In 2014 Pirelli actively participated in the following activities of the LEAD:

- **Post-2015 Development Agenda**, in which the LEAD Companies work on the alignment between development of the Business and *Sustainable Development Goals*;
- **Realizing Long-Term Value for Companies and Investors**, a joint effort by the UN Global Compact and the United Nations Principles for Responsible Investment (UNPRI) – in which Pirelli acts as co-chair – aimed at improving communication between companies, market and investors on environmental, social and governance issues.

In 2015 the commitment of Pirelli at Lead labs will further intensify thanks to the participation of the Company in the **Roadmap laboratory for Integrated Sustainability**, which aims to create tools for full integration of sustainability in the activities of individual company functions.
From 2014 Pirelli is also Funding Participant in the **SSE Corporate Working Group**, a group of companies that provides its own assessments and directions as part of the ***Sustainable Stock Exchanges (SSE)*** promoted by **UNPRI, United Nations Conference on Trade and Development**, United Nations Environment Programme Finance Initiative and the UN Global Compact. The initiative is based on a platform for exchange of ideas and assessments that lead the world stock markets, together with investors, regulators and companies, to increase transparency on ESG business performance.

ETRMA – European Tyre and Rubber Manufacturers Association

ETRMA is the main partner of the EU institutions in the sustainable development of new European policies for the sector and for their proper implementation. With the institutional support of the Pirelli Group, in 2014 the association continued to work on incentives and monitoring of the implementation of the regulations of the European Commission on the general safety of vehicles and tyres, and on energy efficiency, as well as the labelling of tyres in European countries, including through the strengthening of the partnership with the national associations in the sector in which Pirelli is an active member.
In parallel, ETRMA is actively involved in defining the market surveillance regulations of the European Commission. Rounding out its vehicle safety regulatory objectives, ETRMA has contributed to revision of the European policy governing periodic technical inspections, approved in early 2014, in which tyre compliance plays a key role in road safety.
During 2014 ETRMA participated, together with the European Commission and car manufacturers, in the implementation of the new CARS 2020 (Competitive Automotive Regulatory System) strategy, whose challenges include access to raw materials, the need for new skills and greater work flexibility, sustainability of production processes and the need to ensure compliance with new and sophisticated product regulations focused on safety and environmental impact. The CARS 2020 strategy is part of the Europe 2020 strategy, in which ETRMA is heavily involved. It aims at defining the economic and social action of the Community over the next decade. It is continuing with its programme of activities to raise awareness of road safety and sustainable mobility.
ETRMA is also heavily involved in the implementation of the Emission Trading Scheme. This aims to reduce the economic impact of European energy policies, and just as in the European Innovation Partnership on Raw Materials, it has the goal of guaranteeing fair and unrestricted access to key raw materials for the sector.
Finally, the association is successfully promoting sustainable manufacturer responsibility practices for the management of end- of-life tyres. This has led Europe to achieve a recovery rate of over 95%, through close collaboration with the various operating partnerships existing in European countries. ETRMA and European best practices constitute an international benchmark.

IRSG – International Rubber Study Group

Pirelli is a member of the Industry Advisory Panel of the International Rubber Study Group (IRSG), an intergovernmental organisation that brings together rubber producers and consumers, acting as a valuable platform for discussion on issues regarding the supply and demand for natural and synthetic rubber. It is the principal source for information and analyses on all aspects related to the rubber industry. Under IRSG, from 2012 Pirelli is among others engaged in the Rubber Sustainability Project, which aims to create a world standard of Sustainable Management for the rubber industry. In May 2014, during the World Rubber Summit, the initiative *Sustainable Natural Rubber* was officially launched which is based on the recommendations of the Heads of Delegation and the Industry Advisory Panel, whose pilot operational phase is planned for 2015. The objective of the initiative is to apply a voluntary standard on sustainable natural rubber, valid for all stakeholders as well as complementary to economic, social and environmental programs promoted in manufacturing countries. It should be mentioned that about 85% of natural rubber is produced by small farmers owners of less than 3 hectares of land; the decision to plant trees and produce natural rubber therefore depends on cost opportunity and therefore an adequate long-term plan to ensure stable growth that must be based on sustainability.

WBCSD – World Business Council for Sustainable Development

Pirelli actively participated in the WBCSD – World Business Council for Sustainable Development again in 2014. This is an association based in Geneva-of about 200 multinational companies operating in over 30 countries that have made a voluntary commitment to link economic growth to sustainable development. Pirelli adheres in particular to two projects: Tire Industry Project and Sustainable Mobility Project 2.0.

The Tire Industry Project (TIP), whose members account for about 70% of global production capacity of tires, was launched in 2005 with the objective to seize, but especially anticipate the challenges of sustainable development through the assessment of the potential impact on health and environment of tires along the life cycle. The project extends its activity to the development of raw materials, tyre debris and to nanomaterials. Regarding the latter issue, in 2014, in collaboration with the Organization for Economic Co-Operation and Development (OECD), a specific guide was developed for the sectors containing best practices for research, development and industrialisation of new nano-materials, so as to ensure that the use of any nano-material is safe for people and the environment.

The TIP group members also continued promotion in emerging countries, particularly China, India and Russia, of best practices on the management of end-of-life tires, on enhancing the recovery and reuse of the same as a resource (secondary raw material), with the aim of reducing the exploitation of raw materials and the environmental impact that it involves.

The main objective of the Sustainable Mobility Project 2.0 (SMP 2.0), in which Pirelli has participated since 2013, is to provide a tangible contribution to the realisation of the vision (2050) linked to an idea of urban mobility that is universally accessible and has a low environmental impact, both in terms of passenger transport and the road haulage industry. This three-year project (2013-2015), which draws its origins from two previous works of the WBCSD (Sustainable Mobility Project and Mobility For Development), sees as the main player a diverse group of international companies from the automotive, auto & parts, transportation, oil & gas and information and communication technology sectors. SMP 2.0 recognises the need for city governments, private companies and non-governmental organisations to work together to achieve these ambitious, but now essential, objectives for a world in which 70% of the population will be living in urban areas by 2050. The companies participating in the project, taking into account the different geographical, economic and infrastructural contexts, have selected six pilot cities (Hamburg, Bangkok, Campinas, Chengdu, Indore and Lisbon) in which a roadmap is being developed that will involve a detailed action plan to improve each city's performance in terms of sustainable mobility. Among the six cities identified, Campinas (Brazil), the site of a major Group plant, sees Pirelli in the role of task force leader of the project.

EU-OSHA – European Agency for Safety and Health at Work

In 2014, for the sixth consecutive year, Pirelli continued its activity as official partner of the European Agency for Safety and Health at Work (EU-OSHA). Every two years the Agency tackles a different issue. The new 2014-2015campaign "Healthy Workplaces Manage Stress" is focused on the issue of stress and psycho-social risks in the workplace and is designed to encourage employers, executives, and workers and their representatives to collaborate together towards the management of these risks.

In adhering to the Campaign, Pirelli confirmed its commitment to promoting a healthy work environment, where employees feel valued and psychosocial risks are effectively prevented and countered.

CSR Europe

Since 2010, Pirelli has been a member of the Board of CSR Europe, represented by the Sustainability and Risk Governance Director. CSR Europe is a network of leading companies in Europe in the field of corporate social responsibility, and counts among its members more than 60 multinational corporations and 40 national partner organisations established in 29 European countries, allowing them to collaborate and exchange experiences to become global leaders in sustainable competitiveness and social well-being.

In addition to several collaborative projects between companies to improve the performance of company management, CSR Europe has placed the priority on the European campaigns Skills for Jobs and Sustainable Living in Cities, as well as on the "Enterprise 2020" initiative, recognized by the European Commission as a Business Leadership example of particular importance to support the achievement of the policy objectives of Europe.
Through the Enterprise 2020 initiative, in fact, CSR Europe promotes collaboration, innovation and practical action in order to shape the contribution of companies to the Europe 2020 strategy for intelligent, sustainable and inclusive growth.
The strategy outlined by CSR Europe to achieve the 2020 objectives of the European Union will be reiterated in the "*Milan Enterprise 2020 Manifesto*", a document that will be presented in Milan at the conference "*Last Call to Europe in 2020*" to be held in June 2015 in conjunction with Expo.
On the same days the annual General Assembly of CSR Europe will be held at Pirelli, as well as the meeting of the National Partners Organisations.

Corporate Leaders' Group on Climate Change Communiquè

For years Pirelli has renewed its commitment to the fight against climate change, promoting the adoption of adequate energy policies for the reduction of CO_2 emissions.
In 2014 Pirelli signed the *Trillion Tonne Communiqué*, an initiative coordinated by the Prince of Wales' Corporate Leaders Group and managed by the University of Cambridge. The document requires that global emissions over the next 30 years should remain below the trillion tonnes of greenhouse gases in order to avoid a rise in average global temperatures above 2°C and thus avoid the disruptive climate impacts that would be inevitably associated with such a rise. In 2012 Pirelli signed the *Carbon Pricing Communiqué*, in 2011 it signed the *2nd Challenge Communiqué*, while in 2010 it signed the Cancún Communiqué, in 2009 the Copenhagen Communiqué and in 2007 the Bali Communiqué, which was the first document on the development of concrete strategies through joint work by governments on a comprehensive global climate agreement.
In 2014 Pirelli declared its adherence to the "*Road to Paris 2015*" initiative in preparation for the next *UNFCCC World Summit* to be held in Paris in late 2015.
In this context, Pirelli has officially signed three initiatives that are consistent and connected with its strategy of sustainable development:

- *Responsible Corporate Engagement in Climate Policy;*
- *Put a Price on Carbon;*
- *Climate Change Information in Mainstream Filings of Companies Communication.*

COMPANY INITIATIVES FOR THE EXTERNAL COMMUNITY

As stated in the Ethical Code of the Group, Pirelli endorses and, where appropriate, gives support to educational, cultural, and social initiatives for promoting personal development and improving living standards. The Company does not provide contributions, advantages, or other benefits to political parties or trade union organizations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation.
Since its founding in 1872, Pirelli has been aware that it plays an important role in promoting civil progress in all the communities in which it operates and, capitalising on the natural strengths of the company, has identified three areas of focus: road safety, technical training and solidarity through sporting activities for youngsters.
Pirelli has adopted an internal procedure for years to regulate the distribution of gifts and contributions to the External Community by Group companies and in relation to the roles and responsibilities of the functions involved, the operational process of planning, realising and monitoring the initiatives, as well as making disclosures about these projects.
A key contribution to the initiatives which best satisfy local requirements is made by the dialogue with locally operating NGOs. Priority is given to those initiatives whose positive effects on the Ex-

ternal Community are tangible and measurable according to objective criteria.
The internal procedure also specifies that no initiatives may be taken in favour of beneficiaries for whom there is direct or indirect evidence of violation of human rights, worker rights, environmental protection or business ethics.

Road Safety

Pirelli is synonymous worldwide not only with high performance, but also safety. Together with environmental protection, road safety is the key element of the Green Performance strategy which inspires the Group's industrial and commercial choices. Pirelli's commitment to road safety takes the form of numerous training and awareness-raising activities, but above all is translated into research and the ongoing application of innovative technological solutions for sustainable transport.
Pirelli is also highly focused on the road accident reduction objectives identified by the European Commission in the European Road Safety Charter, of which the Company is a signatory with the following undertakings:

- contributing to **consumer knowledge** of the basic elements of road safety, through experience and safe driving courses;
- raising **awareness among young** drivers regarding the causes of road accidents, through specific initiatives which in 2014 involved, as an example: in France, the continuation of the pilot project in close collaboration with universities, which involved 40,000 youths attending crash test demonstrations; in Turkey, the continuation of an online training course on road safety developed by Pirelli, with a focus on the importance of tyres, which has been attended by some 12,000 students since 2012, and in China, digital marketing campaigns, which have affected 230,000 users, with a safety message related to the importance of choosing the right tyres for different uses;
- provide information materials at **points of sale** on road safety in winter, with the support of the Pirelli website (potential of reaching 9 million users worldwide in a year) and sites dedicated to information on winter ordinances;
- organise **training seminars** in collaboration with associations, on issues of road safety directly related to the tyre and to its use (Spain);
- **training of dealers** internationally on the importance of the tyre in road safety, the differences between performance of a winter tyre compared to a summer tyre etc. The activity has been running for two years and has involved most of the countries in which Pirelli has a direct presence;
- participate actively in the **national programmes on road safety**, together with associations, institutions, universities (in Turkey), car and motorcycle manufacturers, or, as in Italy, working with law enforcement for the preparation of a useful form for detecting the use status of the tyres.

In particular, in Italy Pirelli has been engaged in providing training dedicated to dealers throughout the country with a focus on safety, highlighting the differences in performance between summer, winter and all-season tyres (70 training courses aimed at all sales channels). The company was also in charge of the definition of the summer/winter tests within Assogomma and participated actively in road tests with the involvement of state agencies, journalists and specialists from the automotive sector. Lastly, Pirelli has created a dedicated website with updates on the winter ordinances in Italy (www.ordinanzeinvernali.it).
In Romania, Pirelli has launched a training programme on road safety at high schools. In Turkey it has launched, in collaboration with Dogus Automotive, a large e-learning project on road safety at college level called "Traffic is Life – Traffic Safety": the course, entitled to university credit, was introduced in ten universities and selected by about 12,000 students.
The Ciclovias Amigas programme was launched in Brazil to raise awareness about traffic and road safety regulation topics, by presenting stage plays for public school students and several more disadvantaged schools.
In Russia, Pirelli promoted a movement in favour of "gentle driving" and in Kirov, in collaboration with the local traffic police and the newspaper Autograph, organised a competition among 300 drivers based on the rules of good driving, with prizes awarded in the central city square in front of an au-

dience of over 1,000 people. In the central square of Kirov, several times in the year, Pirelli has also organised a playground with small electric cars, which engaged around 500 children and their parents in the learning of traffic rules. Also in Russia, in Voronezh Pirelli organised a seminar for driving school managers, in collaboration with the Regional Traffic Police.
In Mexico Pirelli participates in the “Pilotos por la Seguridad Vial”, a project for the dissemination of the culture of safety through education, testimonials from professional drivers, monitoring and research. In 2015, when the Formula 1 returns to Mexico, Pirelli will launch an educational program on road safety related to the use of F1 driving simulators.
In France Pirelli collaborates with the racing car driver Pascal Dragotto in a crash test initiative to teach the risks of driving to the public and in particular to students at school. The driver has taken his show to 150 schools and universities in France, with an audience of about 400 students at each show.
In China, as in other countries of the world, Pirelli has used social media channels to launch important messages on road safety and tyre maintenance.
In many countries around the world Pirelli collaborates with car manufacturers in various driver training activities.
In regard to heavy vehicle transport, in 2014 Pirelli Truck continued the activities it had already undertaken in previous years relating to sustainable mobility and road safety.
There was a major release on the website, Pirelli.com, of the CyberFleet system tutorial, which offered fleet managers the chance to quantify the benefits of correct measurement of the pressure and temperature of the tyres in terms of regularity of wear, fuel economy and road safety. During the year, meetings have also been organised at European level with fleets and dealers, aimed at raising awareness about sustainability in freight transport through the introduction of tools for tyre pressure monitoring (Cyber and FleetCheck systems).
Multiple initiatives in favour of education for road safety also by the Pirelli Motorcycle Business Unit, which in 2014 continued its collaboration with driving schools for the development of practical and safe on- and off-road experience. The following collaborations are worthy of particular mention: in Germany with Action Team, ADAC – Ressort Motorsport, BMW Motorrad Enduro Park Hechlingen, BMW Motorrad Race Academy; in the UK with BMW Motorrad Off Road Skills; in France with ZEBRA, EASYMONNERET, H2S; in Spain with BMW Motorrad Enduropark Aras Rural; in Italy with BMW Motorrad GS Academy.

Training

The promotion of technical education and training are very old values that are well-established in the history of Pirelli.
The Group continues to benefit from technical and research cooperation with various universities around the world, beginning with the Milan and Turin Polytechnic Universities, and also the Shandong University in China and the University of Craiova in Romania, among others. Technical training is particularly important for Pirelli, including but not only in terms of creating a pool of skilled labour needed to optimise productivity in its factories.
In Egypt, Pirelli has been running a major project with Al Amreya Industrial Secondary School: after having been occupied in recent years of total renovation of the structure, from the sewer to the classrooms, Pirelli has continued with the training of three classes of students specialising in motor maintenance.
In Turkey there are extensive teaching programmes by volunteer experts from Pirelli at technical schools and universities, in addition to the sponsorship of Turk Pirelli Primary School and Turk Pirelli High School with support for ad hoc maintenance initiatives.
In Brazil, Pirelli supports Educandário Imaculado Coracao de Maria Amelia Rodrigues, a school for basic education run by Italian nuns, with 1,200 children, and sponsors a social project for IT training of students after school. In Argentina, the Merlo factory hosts students for technical training projects.
In Yanzhou, China, Pirelli has an active internship programme: selected students from the universities with which Pirelli works come to participate in training activities at the factory in the areas of product quality, safety and research. Also in China, Pirelli has signed an agreement with the University of Qingdao for Science and Technology, which provides 25 scholarships for outstanding

students. Through an Italian-Chinese association, Pirelli offered its knowledge on the subject of career paths also at Shanghai Fudan University.
In Romania, Pirelli collaborates extensively with the University of Craiova, among other things on a new pilot project to create professional technical paths in various high schools in the area, actively involving students in training plans directly at the factory. Besides teaching mechanical expertise, Pirelli during the year, has set up several workshops at three different universities on: materials, manufacturing quality and computing. Also in Romania, the “Train Yourself for Success” programme involved 79 students from Alexe Marin College and 39 others from Metalurgic College in Slatina. The training was focused on the electrical and mechanical skills required in the production process at the factory, as well as modules on Health, Safety and Environment and problem-solving. 40 students finished the course and 25 were selected for a summer apprenticeship at Pirelli, which places them on the priority list for new hires.
In the UK, Pirelli continues organising apprenticeship courses, in collaboration with local technical schools, and providing sponsorship for careers fairs, while in Spain it promotes research with awards. In Russia it is involved in a collaboration with the University of Engineering Technology of Voronezh, with a programme of lectures devoted to the chemical engineering of elastomers, mechanics and ecological engineering. In 2014 the programme involved about 200 students and five talents have been selected for recruitment at the factory. At Kirov, 20 students from the Vyatka University have done internships at the Pirelli factory, which has also opened its doors to visits from school groups.

Sport and Social Responsibility

There is a close link between solidarity and sport, in a virtuous circle where commitment to sports becomes synonymous with the commitment to promoting solidarity and ethics, especially amongst young people. Getting young people involved in sport is a way to teach the notion of integration to children from different social groups, and helps prevent negative situations like isolation and solitude. Pirelli signed a global agreement not only for the sponsorship of the professional football club FC Internazionale Milano (“Inter”), but also as a partner of the global social project Inter Campus. Since 1997, Inter Campus has developed social, flexible cooperation and long-term actions in 29 countries around the world with the support of 200 local operators, using football as an educational tool to offer needy boys and girls aged between 6 and 13 each year the right to play.
Since 2008, Inter, Pirelli and Comunità Nuova have been running the Inter Campus social project in Slatina, Romania. The sporting and recreational activities are organised for the entire year, involving over 80 children from different social contexts who through football have been learning the values of teamwork, social integration and friendship for more than two years. Since 2012 Pirelli and Inter have replicated the experience of Inter Campus in Mexico: Inter Campus Silao, near the Pirelli factory, inaugurated by President Felipe Calderon, involves about 150 children from the area. In the United States, the first Inter Campus was opened in 2014 by Pirelli and Inter together with the Youri Djorkaeff Foundation. The Campus is located in the community of Inwood, an area within New York City, and involves more than 120 children. Also in 2014, Pirelli and Inter together opened an Inter Campus project in Voronezh, Russia, involving two local orphanages: in May the construction of the football field was completed and 100 team shirts were distributed to the children.
In Argentina the Company sponsored the Pirelli Cup 2014, a major national summer soccer tournament. Pirelli also sponsors baseball in Venezuela through the Pirelli Baseball School, which is attended by more than 300 children and teenagers; basketball, volleyball, soccer running and cycling in Brazil; and basketball in Spain, to mention but a few.
In the United States Pirelli sponsored the local team Rome Braves in Georgia, as well as various sporting events related to philanthropy, especially with a donation to R.A.C.E. (Racing Awareness Charity Events of Rome).
In the UK, Pirelli successfully organised a rally in Carlisle for the Richard Burns Foundation which helps medical research, as well as a charity football tournament with donations for a local hospice. It also sponsored various other sporting events linked to philanthropic fund-raising.

In Kirov, Russia, in addition to sponsoring the ice hockey club Soyuz for 50 boys of around 10-12 years, Pirelli organised an ice hockey tournament to promote "healthy living": it was attended by 6 youth teams and 4 teams of local adults, making a total of 240 people. In Kirov, Pirelli also supported a local car rally in which 140 drivers took part.
In Egypt, Pirelli began a philanthropic project of construction of a sports centre for youths on a plot of 3,000 square metres donated by the Ministry of Youth. The centre will be the site of many activities, including the "Pirelli League Cup," a semi-annual sports tournament.

Solidarity

The responsible approach taken by Pirelli to involvement and inclusion takes the form of social solidarity throughout the world.
The Company supports educational programmes that can give less fortunate children the tools to escape poverty. It contributes scholarships and research projects, firmly believing in training as a key to individual growth and the economic growth of a country.
In Brazil, for example, where Pirelli has historically been active in the local community with social projects, the Company provided an after-school programme for about 450 children in the city of Feira de Santana, near the Pirelli factory, with 15 different types of activities. There are similar projects near the factories in Gravatai and Sumaré, which are aimed at social inclusion and include music and dance activities in addition to the more traditionally didactic activities. Near Sao Paulo, in the areas of Campinas and Elias Fausto, support continued for Projeto Guri, a project for the teaching of musical instruments and singing to 477 children from more disadvantaged social classes.
Also in Brazil, Pirelli supports Dr. Klaide kindergartens in Santo André and Escadinha do Tempo in Meleiros, which provide not only educational activities but also medical, dental and psychologists' visits, in addition to food, for 200 Brazilian children. Since 2013 Pirelli has been providing support to the Centro de Convivência Santa Dorotéia in Grajaú, which organised computer courses combined with drug awareness education.
In 2014 a new sponsorship activity involved a radio and television programme hosted by a visually impaired presenter, Professor Roberto Bolonhini, which raises awareness among an audience of a million and a half people on the issues of the disabled and the rights of consumers.
Pirelli supports the Fundació Mambre in Spain, a foundation that operates as facilitator in social inclusion processes, supporting homeless people on their individual growth paths. In addition, the Company supports programmes providing food for needy families, and a warehouse for the storage of food for the poor.
In China Pirelli provides support to the poorest families in the community with donations of food and money. In Russia, the employees at the Kirov factory gave support to an orphanage, by organising activities and gifts for the children there.
In Turkey, Pirelli has continued to support the Foundation for the Training and Protection of Mentally Disabled Children (ZİÇEV), which deals with 95 children, offering a sum that covers the supply of gas to heat the building. In May 2014, following the serious accident at the mine in Soma, Turkey, Pirelli donated funds for the school fees of the children of the 301 miners who lost their lives. Also in Turkey, Pirelli supports a draft horse therapy for mentally disabled children and makes donations of clothing and food for the economically disadvantaged.

Health

Pirelli considers contributions to improving the health services of the communities where it operates to be a priority.
Since 2008 Pirelli Tyres Romania, in collaboration with the Niguarda Hospital in Milan, has supported the professional training of medical and nursing professionals and the donation of medical equipment and devices to Slatina Hospital. Over 250 professionals were trained in this programme, and specifically in oncology, paediatric care and emergency care. Pirelli Tyres Romania has also provided dental treatment to around 200 children in Slatina through the project Overland for Smile.

In the UK, Pirelli's philanthropic activities in health include sponsorships, fundraisers and donations for research and medical care, as well as the construction of a playroom in a paediatric hospital. In Spain, Pirelli made a donation for an important piece of hospital equipment, while in Turkey, the company organised training in first aid for the families of employees.
In the USA, Pirelli made a donation for research into leukaemia. In Brazil, since 2010 Pirelli has supported the Pequeno Principe Hospital in Curitiba, the biggest paediatric hospital in Brazil. In Argentina it sponsored a marathon in support of sick children, in which the last edition saw more than 1,500 entrants. In Moscow, Pirelli sponsored another marathon, also for the care of sick children.

Environmental Initiatives

Many Pirelli employees around the world participate enthusiastically every year in environmental projects.
In Egypt, Pirelli launched a competition for the best ideas on the recycling of waste materials (pieces of wood, construction materials and so on) from the factory. Six teams took part, divided between two local villages, which, by reusing the materials selected, managed to refurbish an area within a day care centre.
Factory environmental projects of this type have also been organised in Turkey. In Venezuela also in 2014, Pirelli organised a large group of volunteers to clear beaches and adjacent public areas. In Romania, more than 100 volunteers were involved in the cleaning and restoration of degraded areas of nature in the forest of Strehareti, near the Pirelli factory in Slatina, and about 100 factory employees planted 80 trees in the area.
In China, Pirelli employees committed themselves to planting trees as part of the "Friendship Forest" project. In Mexico, Pirelli continued the commitment with the government of Guanajuato for a reforestation project.
In Voronezh in Russia, as well as having participated in the world day of recycling, Pirelli bought and planted 5,000 small oaks.

Culture and Social Value

The internationality of Pirelli also emerges from the love for culture, with initiatives in many countries worldwide also in 2014. The attention to culture, and even more the commitment to preserve, spread and enhance it, are part of the DNA of the creation of social value.
Pirelli is among the sponsors of the Museum of Modern Art in San Paolo, one of the most significant facilities in Latin America which, alongside its permanent collection, every year offers important exhibitions, seminars, events and courses. Also in Brazil, Pirelli supported the "Made in Brazil" exhibition, the exhibition on the restoration of the Fonte das Nanas sculpture and the exhibition by Portuguese artist, Joana Vasconcelos. In the field of music, Pirelli sponsored the Mozarteum project, presented by major classical music orchestras in Brazil and Argentina, while in Brazil it provides sponsorship for a festival of choral music and the musical "Os Boêmios de Adoniran".
In many countries Pirelli is conducting a mission, as an Italian multinational company, to protect and disseminate Italian culture abroad. Among the projects that have taken place in 2014 are the programmes dedicated to theatre, cinema and Italian music that took place respectively in Romania, the United Kingdom and Argentina. In the latter country Pirelli is also the sponsor of the Premio Lucio Fontana, which held its third edition in 2014, sponsored by the Consulate General of Italy in Buenos Aires and reserved for emerging artists of Italian descent living in Argentina.
Pirelli is also very attentive to the preservation of local cultures. In China it supports research on Confucianism by supporting the China Confucius Website. In the USA, in Rome (Georgia), it sponsors the Rome Council for the Arts. In Turkey an important concert was sponsored at the Istanbul Culture and Art Foundation. In Russia, two Pirelli sponsorships focused respectively on a media festival in Kirov and a charity ball in Voronezh.
In Brazil, Pirelli organised the restoration of the Christ the Redeemer statue in Rio de Janeiro, the right hand of which was damaged by lightning in 2014.

Pirelli Foundation

One of the missions of the "Fondazione Pirelli", or Pirelli Foundation, established in 2009, is the preservation of the Group's historic and cultural heritage and the promotion of its corporate culture through local initiatives and projects having a strong social impact, exhibition activities, as well as collaborations with other cultural institutions.
Numerous projects were carried out again in 2014 to develop and promote the Pirelli archives. In particular, these included:

- Digital document management platform for the scientific treatment of inventory data according to international cataloguing standards. In 2015 the site will be made available in an English version.
- An exhibition path dedicated to winter tyres through photographs, advertisements and films from the 1950s and 1960s by great artists such as E. Scopinich, A. Mendini, B. Noorda, etc., and the technical drawings (recovered and reconditioned) that inspired the design of Pirelli tyres in the 1980s and 1990s.
- Participation in the "Settimana della Cultura d'Impresa" (Corporate Culture Week) promoted by Confindustria with two initiatives to enhance the historic sites of Pirelli and its cultural heritage: "A Night at the Museum" at the Foundation as well as guided tours of the Bicocca degli Arcimboldi and the former cooling tower now enclosed at the Pirelli headquarters, initiatives in which in more than 600 people have taken part.
- Volume "Una musa tra le ruote (A muse in the wheels) "Pirelli: a century of art in the service of the product" (published in 2015), which traces the history of Pirelli communications from 1872 to 1972 through 200 works by great artists, such as A. Testa, B. Munari, R. Manzi, B. Noorda and E. Bonini used to advertise Pirelli products.
- The "Fondazione Pirelli Educational" project, designed for students with the aim of bringing young people closer to the world of production and work and the values on which the Pirelli business culture is based. In 2014 the offering of educational and creative courses was greatly expanded: the different issues already covered such as the history and technology of the tyre, graphics and advertising and urban transformation, were accompanied by new ones such as photography and corporate films, the organisation of work within a factory, the journey, art. In 2014 about 55 classes formed part of the project, for a total of over 1,200 children and teens.
- "Bambini in Bicocca" project ("Children in Bicocca"). For the second consecutive year the Foundation collaborated with the Human Resources Department on the project, creating the educational and training courses aimed at employees' children welcomed into the company during school break days. The children had the opportunity to visit the their parents' workplaces, to visit the Historical Archive and enter the world of music under the guidance of the maestro, Salvatore Accardo. Over 7 days, the project involved more than 200 children aged between 6 and 10.
- Educational activities for university students (about 200) from leading universities and graduate schools, support for undergraduates in the preparation of their theses.
- "Restyling" project for the new paediatric wing at Niguarda Hospital, in which the Foundation participated by providing students from NABA (New Academy of Fine Arts in Milan) with its iconographic heritage that will be used for the redefinition of the decorative elements and signs within the new wing at the Hospital.

Moreover, since 2010 the Foundation has had a seat on the Board of Trustees of the Scuola dell'Infanzia G.B. Pirelli kindergarten in Varenna, Province of Lecco, just as it actively supports the activities of the Istituto di Istruzione Superiore Leopoldo Pirelli high school in Rome, where the annual Premio Leopoldo Pirelli prize was established in 2011, and reserved as a scholarship for particularly worthy students. Pirelli also continues its collaboration with the Fondazione Agnelli and the Fondazione Garrone in the Associazione per la Formazione d'Eccellenza.
Over 2014, approximately 5,000 researchers, students, historians and designers visited the Foundation headquarters and conducted research at the Pirelli Historic Archive. The Foundation also provided about 1,500 of its archive materials for exhibitions and publications, also internationally.
The development and promotion of the enormous artistic heritage of the Group also relies on dig-

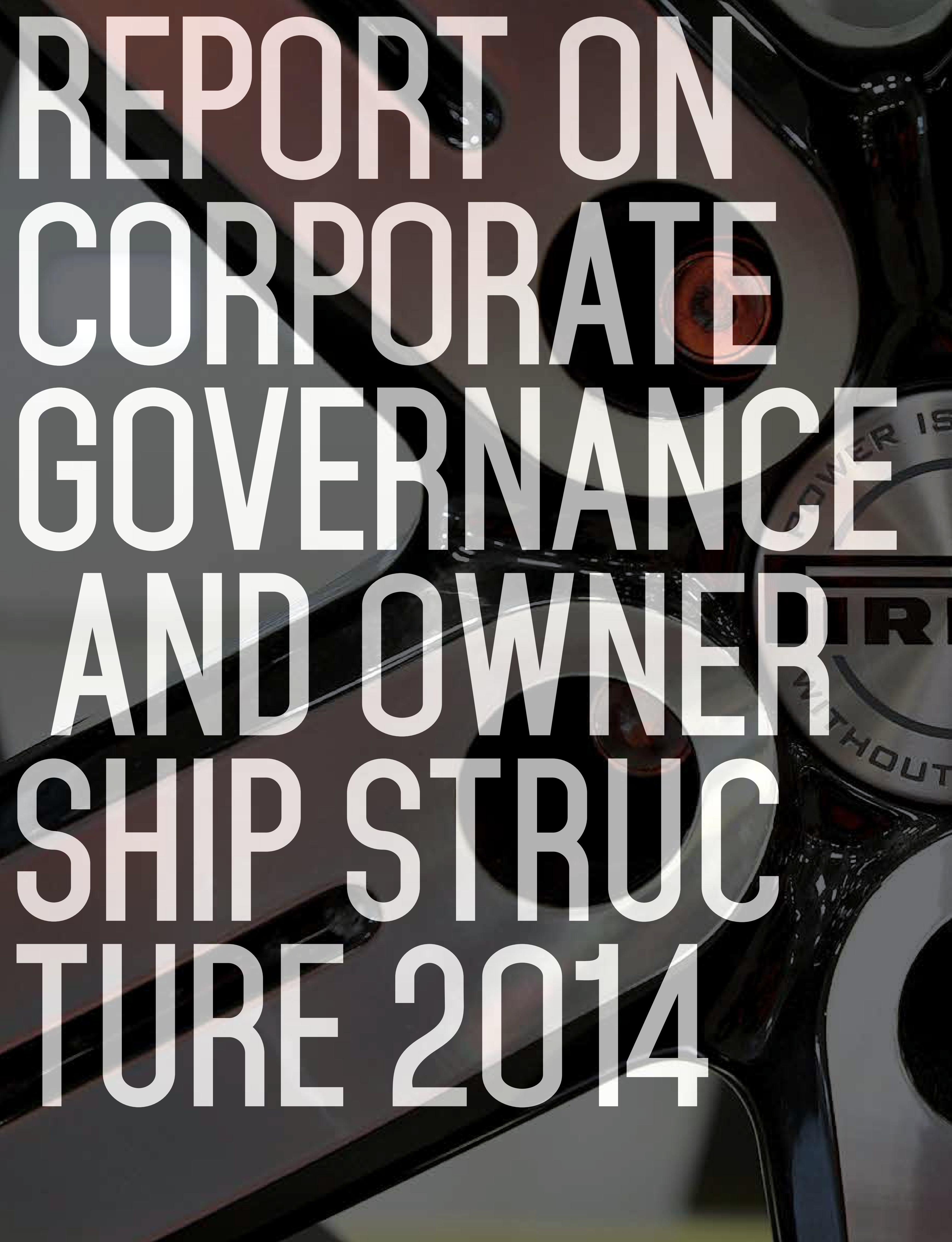
ital communication. In addition to the website www.fondazionepirelli.org, implemented with the Educational section, the Foundation constantly updates its Facebook and Pinterest pages.

HangarBicocca

HangarBicocca, which with its 15,000 square meters is one of the largest exhibition venues in Europe, is a space dedicated to the production, exhibition and promotion of contemporary art, created in 2004 from the reconversion of a vast industrial facility that belonged to Ansaldo-Breda. The programming of solo exhibitions of the most important international artists is distinguished by a character of research and experimentation and special attention to site-specific projects able to dialogue with the unique features of the space. The project was revived in 2012 with the conviction that contemporary art is a priority area for research, experimentation and critical reflection on the most important contemporary themes: values that have been part of the corporate culture of Pirelli for more than 140 years. Pirelli is Co-Founder and Promoter of HangarBicocca Foundation.
The artistic programme of 2014 - curated by Artistic Director Vicente Todolí and curator Andrea Lissoni - presented artists of great international profile in HangarBicocca, alternating exhibitions by renowned artists with those of emerging artists. The program managed to attract an Italian and international audience composed up of art experts, representatives of the most important museums, specialised journalists and the general press, as well as an equally large number of enthusiasts, families and students. During the year there was a total attendance of 200,000 visitors.
Six exhibitions were presented in 2014:

- Dieter Roth, Björn Roth. *Islands;*
- Micol Assaël. *ILIOKATAKINIOMUMASTILOPSARODIMAKOPIOTITA;*
- Cildo Meireles. *Installations;*
- Gusmão & Paiva. *Papagaio;*
- Joan Jonas. *Light Time Tales;*
- Céline Condorelli. *bau bau.*

The vocation of HangarBicocca is that of a space which is open to the city and its hinterland, of an institution that accompanies its normal exhibition activities with a range of programmes intended to attract the general public to contemporary art.
In 2014, through a full calendar of events, guided tours to the exhibitions and the district, the HB Public programme accompanied the exhibitions with projections and meetings with the key players in art and culture. During the year, there were about 70 cultural events (daytime and/or evening) that engaged more than 5,000 visitors in activities related to current exhibitions. The calendar of musical events, curated by Pedro Rocha, which accompanies the exhibitions with performances and live music by international artists which the exhibition spaces, was particularly well-received.
For young people, HangarBicocca created the HB Kids programme that offers creative activities and workshops to introduce children aged 4 to 14 to the languages of contemporary art: in 2014 the Education Department presented 150 creative paths and 40 projections attended by about 3,000 children, of whom more than half were aged between 4 and 6. For students from all types and level of schools, HangarBicocca conceived the HB School programme, which complements traditional art education with a methodology inspired by the principle of educating with art. In 2014 more than 4,800 students took part in the HB School activities.
Between 2013 and 2014 HangarBicocca further strengthened relations with major international museums and official cultural bodies of many countries. These include: MoMa in New York, Stedelijk Museum in Amsterdam, MACBA in Barcelona, Museo Reina Sofía in Madrid, Camden Arts Centre in London, Van Abbemuseum in Eindhoven, MIT in Boston and the Louvre in Paris.
The activity at HangarBicocca generates a significant amount of induced employment: in 2014 the holding of exhibitions and major initiatives involved 36 companies and generated 9,900 person-days of work.



REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE 2014


NOTHING
ELLI
CONTROL

1. ISSUER

The Company has a traditional system of administration and control. Pirelli's *Corporate Governance* is based on: (i) the centrality of the Board of Directors, which directs the strategy and oversees all the activities of the company; (ii) the central role of the independent directors (iii) an efficient system of internal controls; (iv) a proactive risk management system; (v) a system that remunerates managers, in general, and incentivises them, in particular, for medium to long term financial objectives synchronising the interests of management and shareholders, prioritising sustainable, medium-term value creation; (vi) sa robust code of conduct for transactions with related parties.
Pirelli is aware that an efficient system of corporate governance is an essential element for achieving the objective of sustainable value creation.
For a profile of the issuer see also the Pirelli website.

2. OWNERSHIP STRUCTURE (EX ARTICLE 123 BIS, PARAGRAPH 1, TUF) AS OF 31 MARCH 2015

Share capital structure:

the share capital subscribed and paid amounted to € 1,345,380,534.66, divided into a total of 487,991,493 shares with no par value and distributed as follows:

	NO. SHARES	% OF SHARE CAPITAL	LISTED
Ordinary shares*	475,740,182	97.49%	Listed on the MTA organised and managed by Borsa Italiana S.p.A. - Blue Chip Segment
Savings shares**	12,251,311	2.51%	

* ISIN IT0004623051
** ISIN IT0004623333

The share capital has not changed during the 2014 financial year.
No financial instruments with a right to subscribe to new shares had been issued at the Date of the Report.

Significant shareholdings:

Table 1 lists those who, as published by Consob, own shares with voting rights at an Ordinary General Meeting in excess of 2% of the ordinary capital.

Rights and obligations:

the shares are divided into ordinary shares and savings shares, without par value. Without prejudice to the provisions of the law, Articles 6 and 18 of the Statute establishes the rights and obligations of ordinary and savings shares. In particular, the savings shares are entitled to an increase in share in any dividend received under the terms and limits of Article 18 of the Company Statutes; they are entitled to priority in the repayment of capital within the limits and terms stated in Article 6 of the Company Statutes. The reduction of capital for losses has no effect on the savings shares except for the portion that exceeds the proportion of capital represented by other actions as provided by Article 6 of the Company Statutes.
This is discussed in more detail in the Statutes themselves available at http://www.pirelli.com/corporate/it/governance/laws/default.html.

Incentive plans:

the Company does not currently have any share incentive plans.
In the course of 2014, Pirelli approved the “launch” of a “new” LTI “Cash” Plan for 2014 to 2016, in support of the objectives outlined in the 2013-2017 Business Plan.
More information on the LTI Plan is given in the information document - prepared in accordance with Articles 114-bis of TUF and 84-bis of the Issue Regulations - and in the Remuneration Policy for the Year 2014 available on the Pirelli website.

Rules applicable to the appointment and replacement of Directors and the Board of Auditors:

Reference is made in regard to the Board of Directors and to the Board of Auditors.

Shareholder agreements:

On 24 May 2014, following the agreement in principle of 15 March 2014 (the ‘’Maximum Agreement”), published and filed under Article 122 of the TUF, there were signed:

- a co-investment agreement (the “Co-Investment Agreement”) between UniCredit S.p.A. (“UC”), Intesa Sanpaolo S.p.A. (“ISP”), Nuove Partecipazioni S.p.A. (“NP”) and Long-Term Investments Luxembourg S.A. (the “Strategic Investor”), concerning the regulation of mutual rights, liabilities and obligations of the parties within the framework of a project for implementation of a programme of *business* development, strategies and activities to support further growth at Pirelli;
- a shareholder agreement (“CF Agreement”) between the same parties, which includes the rules (a) for *governance* of Camfin S.p.A. (“Camfin”), a company identified by the parties to the agreement as a vehicle for the realisation of the *partnership* between them, (b) the presentation of the list for the election of directors of Pirelli, (c) to the extent possible and provided that they attain the *quorum* necessary in a Pirelli General Meeting, the number of directors to be appointed by the Parties to the Board of Directors of Pirelli, (d) the rules for the maintenance of *standards* of *governance* of Pirelli in line with best market practices and (e) of the rules applicable to the transfer of their holdings in Camfin and, indirectly, in Pirelli.

On 10 July 2014, having fulfilled all the activities provided by the agreements between the Parties, the Camfin Shareholders’ Agreement came fully into force.
Also on 24 May 2014, upon the signing of the Shareholders Agreement CF, UC, ISP and NP also signed a shareholders’ agreement (the “Coinv Shareholder Agreement”) that governs the relation-

ships of its signatories in relation to each other and in relation to the Co-Investment Agreement and the Camfin Shareholder Agreement.
The Coinv Shareholders' Agreement relates to, among other things, (i) the *corporate governance* of Coinv (a company holding 50% of Camfin share capital); (Ii) the composition of the list to be submitted to Camfin for the appointment of those members of the Board of Directors of Camfin who must be designated by Coinv, (iii) the possible exit from Coinv and divestment by Camfin and (iv) management for the progressive and timely liquidation of other assets and liabilities of Camfin which, under the agreements between the parties, have been transferred to Coinv.
On 10 July 2014, the Coinv Shareholders' Agreement came fully into force.
The finalisation of definitive agreements provided by the aforesaid Maximum Agreement meant that the "Lauro Shareholders Agreement" signed on 4 June 2013 between Nuove Partecipazioni S.p.A., Intesa Sanpaolo S.p.A., UniCredit S.p.A. Marco Tronchetti Provera & C. S.p.A., Marco Tronchetti Provera Partecipazioni S.p.A., Gruppo Partecipazioni Industriali S.p.A. and Lauro Cinquantaquattro S.r.l. was superseded and, therefore, terminated by mutual consent with effect from 10 July 2014.
On 22 March 2015, the following were signed:

- a sale and purchase and co-investment agreement (the "Agreement") between China National Chemical Corporation ("CC"), China National Tire & Rubber Corporation Ltd. ("CNRC"), Camfin S.p.A. ("Camfin") and Long-Term Investments Luxembourg S.A. ("LTI") and Coinv S.p.A. ("Coinv").
  The Agreement provides for (i) the purchase of the investment held by Camfin in the share capital of Pirelli, (ii) the simultaneous reinvestment by Camfin of a portion of the income from the sale, (iii) the acquisition will be made through a newly established Italian company (**Bidco**) that will be indirectly controlled by CNRC in partnership with Camfin through two newly established Italian companies (**Newco** and **Holdco**), (iv) following completion of the acquisition, a Mandatory Tender Offer (**Mandatory Opa**) - on the remaining ordinary share capital of Pirelli at a price of 15.00 euros per share - and a Voluntary Public Offer (**Voluntary Opa**) - on the totality of the savings capital of Pirelli at a price per savings share of 15.00 euros subject to the achievement of not less than 30% of the savings capital - will be launched by Bidco, with the aim of proceeding to the de-listing of Pirelli (v) the dividend related to 2014 results will be paid before the acquisition by Bidco part of the Pirelli shares held by Camfin.
  Completion of the transaction is subject to conditions typical of a transaction of this type and is expected in the summer of 2015, after approval by the antitrust authorities and other competent authorities.
  The commitment is expected of the parties to enter into a Shareholders' Agreement, subject to fulfilment of precedent conditions under the agreement,
- a restatement agreement between Nuove Partecipazioni ("NP"), Coinv, LTI, Intesa Sanpaolo SpA ("ISP") and UniCredit S.p.A. ("UC"), which governs the relations between the parties relating to and upon completion of the agreements and transactions referred to in the Sale and Purchase and Co-investment Agreement;
- a restatement agreement between Nuove Partecipazioni ("NP"), Intesa Sanpaolo S.p.A. ("ISP") and UniCredit S.p.A. ("UC"), which governs the relations between the parties relating to and upon completion of the agreements and transactions referred to in the Sale and Purchase and Co-investment Agreement.

For more information on the provisions contained in these shareholder agreements, please refer to the extracts of the agreements available on the Pirelli website.

Change of control clauses

There is no party that can exercise control over Pirelli & C., either directly or indirectly, by virtue of shareholder agreements, individually or jointly with other parties included in shareholders' agreements.
It follows that no change of control of the Company is presently foreseeable.
For the sake of completeness, the following are confirmed.
The 500 million euro bond placed on the market by Pirelli & C. provides for the right of bondholders

to request early repayment in the event of a "*Change of Material Shareholding*" that would obtain following cases: (i) Pirelli & C. ceases to hold (directly or indirectly) a percentage of at least 85% of the share capital of Pirelli Tyre (except in the event Pirelli Tyre is incorporated within, or merges with, Pirelli & C. or another company of the Pirelli Group); (ii) to the extent applicable, a person other than one or more of the shareholders belonging to the then Pirelli Shareholders Block Agreement[1] (provided Camfin continues to have the greatest Pirelli shareholding amongst the members) comes to hold more than 50% of the share capital with voting rights of Pirelli & C. or acquires the right to appoint or remove the majority of members of the Board of Directors; (iii) Camfin ceases to hold (directly or indirectly) at least 20% of the share capital with voting rights in Pirelli & C.

[1] It is recalled that the Block Agreement terminated with effect from 31 October 2013.

A similar clause is envisaged, except for the provision indicated in point (iii) above: (a) for the American issue of bonds worth 150 million US dollars by Pirelli International Limited guaranteed by Pirelli & C. and by Pirelli Tyre; (b) for the "Schuldschein" financing obtained by Pirelli International Ltd and guaranteed by Pirelli & C. and by Pirelli Tyre, totalling 155 million euros.
The latest bond issue of 600 million euros placed on the market (November 2014) by Pirelli International Plc. and guaranteed by Pirelli & C., the interval agreement between Pirelli & C., Pirelli Tyre and Pirelli International Plc. with a syndicate of banks, granting Pirelli a line of credit in mixed form of 1 billion euros (in January 2015), and the interval agreement between Pirelli & C. and Pirelli Tyre with a more restricted pool of banks granting Pirelli a line of credit in mixed form of 200 million euros (February 2015) provides for the option of the bondholders and, respectively, of the lending banks, to request early repayment in the event of a "*Change of Material Shareholding*" that would obtain in the following cases: (i) Pirelli & C. ceases to hold (directly or indirectly) a percentage higher than 50% of the share capital of Pirelli Tyre (except in the event Pirelli Tyre is incorporated within, or merges with, Pirelli & C. or another company of the Pirelli Group); (ii) within the current framework of shareholder agreements concerning, among others, Pirelli, a subject different from Camfin or from the concert of the current trust members or by those acting in concert with Camfin, either comes to hold more than 20% of the Pirelli & C. share capital with voting rights, or comes to hold a greater percentage of shares than that held by Camfin or acquires the right to appoint or remove the majority of members of the Board of Directors; (iii) after a split of Camfin S.p.A. when upon completion of the current trust, the members mentioned above are allocated *pro rata* a direct shareholding in Pirelli & C., and a third party, being their assignee or successor, or a party acting in concert with them, comes to hold a stake in the Pirelli & C. share capital with voting rights higher than that of each of them, taken individually, or the third party becomes entitled to appoint or remove the majority of members of the Board of Directors.
The *joint venture* contract between Pirelli Tyre and PT Astra Otoparts Tbk provides that in the event of a change of control of either party, the other has a right to *terminate* the *joint venture*. In particular, if the change of control concerns Pirelli Tyre, PT Astra Otoparts Tbk has a put option for the sale of its stake in Pirelli, while, in the opposite case, Pirelli Tyre would have a call option for the purchase of the participation of PT Astra Otoparts Tbk.

Statutory provisions of OPA:

Pirelli & C. Company Statutes do not provide for exemptions from the provisions on the *passivity rule* nor the application of the counteraction rule provided in Article 104-*bis* of the TUF.

Powers to increase the share capital:

there are powers granted to the Directors to increase, the share capital by one or more times, nor are they granted the right to issue bonds convertible into shares, either ordinary and savings, or warrants for the subscription of shares.

Authorisation to purchase own shares:

At the date of this Report, the Board of Directors is authorised to proceed with the purchase and disposal of own shares - ordinary and savings, up to a maximum number of shares (own) that does not exceed 10% of the share capital, also regarding treasury shares held directly or indirectly (through subsidiaries) by the Company - by virtue of a special resolution passed, on 12 June 2014 by the shareholders, which granted this authorisation for a period of 18 months.
At the date of this Report, the Company holds 351,590 ordinary own shares representing approximately 0.07% of the ordinary shares and of the entire share capital and 408,342 own savings shares representing approximately 3.33% of the savings shares and about 0.08% of the total share capital, all held before 12 June 2014. Therefore the aforementioned shareholders' authorisation has not been used by the Board of Directors of Pirelli to purchase or dispose of any own shares.
Since there are now the same opportunities that persuaded the directors to propose to the General Meeting of 12 June 2014, the above authorisation, the Board of Directors has deemed it useful to submit to the 2014 Budget Meeting a proposal to renew the authorisation to purchase and dispose of shares on the same terms as the current authorisation, in order to prevent the convening of a new meeting near the end of the 18 months of the current authorisation. For more information, please refer to the related Board of Directors Meeting, which will be made available on the Pirelli website at the latest 21 days prior to the 2014 Budget Meeting.

Directors' indemnity in case of resignation, dismissal or termination of employment following a takeover bid[2]:

[2] The information contained in this section is provided also in compliance with the requirements set out in Consob Communication DEM/11012984 dated 24 February 2011.

Pirelli's policy is not to enter into with Directors, Key Managers, *Senior Managers and Executives* agreements that regulate *ex ante* any financial issues that may arise from early termination by the Company or by an individual (so-called "Parachutes").
Indeed, the agreements entered into with Pirelli in the event the employment relationship is interrupted for reasons other than just cause do not represent "parachutes". Pirelli adopts a policy that seeks to come to agreements to reach a consensual conclusion of the employment relationship. In any event, contractual and legal obligations still obtain regarding any agreements reached concerning termination of the relationship with Pirelli, guided by the reference *benchmark* and within the limits defined by the case law and practices of the country where the agreement is made.
The Company defines the internal criteria which are also to be complied with by other Group companies when managing the agreements which govern early termination of relationships concerning Executives and/or Directors assigned special duties.
As for the directors holding particular positions at Pirelli & C., who are assigned specific functions and are not concerned with labour relations management, Pirelli does not provide for the payment of indemnities or extraordinary compensation related to termination of their mandates.
The payment of a specific indemnity (which may therefore be considered a "parachute") may be acknowledged, always subject to assessment by the competent company bodies in the following cases:

- termination on the Company's initiative not supported by a just cause
- termination by a Director for just cause, meaning, without limitation, a substantial change in their role or assignments and/or a "hostile takeover".

In such cases, the allowance is equal to 2 year of the annual gross compensation, meaning the sum of the gross annual fixed salaries for the positions held in the Group, the average annual variable remuneration (MBO) accrued during the previous three years and the severance package of the aforementioned amounts.
For more information, please refer to the Remuneration Report which will be available on the Pirelli website at the latest 21 days prior to the 2014 Budget Meeting.

Management and coordination ex Article 2497 et seq. of the Commercial Code:

there is no party which, directly or indirectly, or by virtue of shareholder agreements, either alone or jointly with the other signatories of the agreements, exercises control over Pirelli & C.
Nor is the Company subject to management and coordination by another company or body, pursuant to Article 2497 et *seq.* of the Italian Civil Code.
On the contrary, Pirelli & C., which heads the Group, exercises direction and coordination of numerous subsidiaries, as published under Article 2497-*bis* of the Italian Civil Code.

More information under Article 123 bis, Paragraph 1 of the TUF

- There are no restrictions on transfers of securities;
- There are no shares granting special rights of control;
- In the case of employee share ownership, there is no mechanism for exercising voting rights if they are not exercised directly by the employees;
- There are no restrictions on voting rights (such as limitations of the voting rights to a certain percentage or a certain number of votes, deadlines for exercising the right to vote or systems by which, with the cooperation of the Company, financial rights attached to securities are separated from ownership of the securities);
- Amendments to the Company Statutes are resolved as provided for by law.

3. COMPLIANCE

Pirelli adheres to the Self-Regulation Code approved by the Committee for Corporate Governance established by business associations (ABI, ANIA, Assonime, Confindustria), by professional investors (Assogestioni), and by the Italian Stock Exchange, since its first issue (October 1999).
Pirelli & C., as a FTSE-MIB company, applies the recommendations of the Self-Regulation Code specifically provided for such companies.
The Annual Report on Corporate Governance and Ownership Structure (the "Report") has been prepared according to the *format* of the Italian Stock Exchange.
At the date of this Report, there are no provisions of Italian law applicable to Pirelli & C. likely to influence the *corporate governance* structure of the Company.

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND REPLACEMENT OF DIRECTORS

Pursuant to the law and the Company Statutes of the Board of Directors the appointment is made on a list system which ensures to "minorities", where two or more lists are submitted, one-fifth of the Directors.
Below is a summary of the provisions contained in the Company Statutes in relation to the appointment and replacement of Directors. Please refer in each case to the Statutes (which must be considered prevalent over that which appears below) for further information.
The lists submitted by shareholders must be deposited at the registered office of the Company at least 25 days before the meeting and published at least 21 days before the same.
Each shareholder may present or participate in the presentation of a single list and each candidate

may be presented on only one list under penalty of ineligibility. Shareholders are entitled to submit lists if, alone or together with others, they hold shares representing at least 1% of the share capital entitled to vote at an ordinary general meeting, or have the minimum holding required by the Consob[3] regulations, with the further obligation to prove ownership of the number of shares required to submit lists, by the Company's list publication deadline.

[3] Cf. Consob Resolution 19109 of 28 January 2015. The percentage fixed by Consob for the presentation, by shareholders, of lists of candidates for administration and control organs of Pirelli & C. is 1% of the share capital entitled to vote in an ordinary general meeting.

Any documents required by the Statutes must be filed with each list. At the meeting, each person entitled to vote may vote for one list only. The election takes place as follows:

- from the list that received the majority of votes cast are taken four-fifths of the directors to be elected, rounded down in the event of a fractional number;
- the remaining directors are taken from other lists; using the quota method provided in the statutes.

If more than one candidate obtains the same quotient, the candidate elected is the one from the list that has not yet had a director elected or that has the lowest number of directors elected.
In the event that none of these lists has elected a director or all have elected the same number of directors, from amongst these lists, the elected candidate shall be the one who has obtained the highest number of votes. In case of equality of votes and an equal quota, there will be a new vote by the entire Shareholders' Meeting and the candidate elected will be the one who receives a simple majority of the votes.
If application of the voting list mechanism does not ensure the minimum number of independent directors required by applicable law, the non-independent candidate, i.e. the one with the higher progressive number in the list that received the most votes, will be replaced by an independent candidate from the same list, in the order of presentation and so on, list by list, until the minimum number of independent directors is completed.
For the appointment of directors for any reason not appointed pursuant to the procedure, the shareholders decide by the legal majority.
In order to ensure a balance between genres, the Statute provides that the lists for the election of the Board of Directors that contain a number of candidates equal to or greater than three, must be present a number of candidates of the less represented gender at least to the extent of the minimum required by the applicable legal and/or regulatory framework, as specified in the notice of the meeting. If application of the voting list mechanism does not produce the required minimum number of Directors belonging to the less represented gender, the Statutes provide for a progressive mechanism of automatic replacement.
Furthermore, where a General Meeting, or the Board of Directors (in the case of co-option), should provide for the appointment of Directors without following the voting list, the gender balance within Board of Directors must be respected in all cases. If, during the year, one or more directors leave, Article 2386 of the Commercial Code provides that there is no failure in the requirement for independent directors if there remain on the Board the legal minimum of directors having the legal requirements for independence.
For more information on the mechanisms for the election of members of the Board of Directors, please refer to the Articles available on the Pirelli website, and the documents which will be made available at least 40 days prior to a notice to re-elect the Board of Directors.

4.2. COMPOSITION

The Board of Directors consists of not less than seven and not more than 23 members, who serve for three years (unless a shorter period has been established by the time of appointment) and may be re-elected. The Board of Directors, at the date of this Report, is composed of 15 directors and was appointed on 12 June 2014 for three years expiring at the General Meeting convened to approve the

accounts up to 31 December 2016.
The average age of the members in office is about 58 years with an average term in office of just under 3½ years.
At the Annual Shareholders' Meeting on 12 June 2014, were presented two lists: one by Camfin, which obtained 62.14% of the votes of the capital with voting rights represented at the meeting, and by a group of asset management companies and financial intermediaries[4], who got 26.48% of the votes of the capital with voting rights represented at the meeting.

[4] AcomeA SGR S.p.A., fund manager of AcomeA Italy; Anima SGR S.p.A., fund manager: Fondo Anima Geo Italia, Anima Star Italia Alto Potenziale e Fondo Anima Italia; APG Asset Management NV fund manager Stichting Depositary APG Developed Markets Equity Pool; Arca S.G.R. S.p.A., fund manager Arca BB and Arca Azioni Italia; Ersel Asset Management SGR S.p.A.. fund manager Fondersel PMI; Eurizon Capital S.G.R. S.p.A.. Fund Manager: Eurizon Azioni Area Euro and Eurizon Azioni Italia; Eurizon Capital SA, fund manager: Eurizon Easy Fund Equity Italy, Eurizon Investment SICAV Europe Equities, Eurizon Easy Fund Equity Europe LTE, Eurizon Easy Fund Equity Euro LTE, Eurizon Easy Fund Equity Consumer Discretionary LTE, Rossini Lux Fund - Azionario Euro e Eurizon Easy Fund Equity Italy LTE; FIL Investments International, fund manager Fidelity Funds - Italy Pool; Fideuram Investment S.G.R. S.p.A. fund manager Fideuram Italia; Fideuram Asset Management (Ireland) Limited fund manager: Fideuram Fund Equity Italy, Fideuram Fund Equity Europe and Fonditalia Equity Italy; Interfund Sicav fund manager Interfund Equity Italy; Generali Investments SICAV in the name and on behalf of the following shareholders: GIS Small & Mid Cap Equity and GIS Euro Equity Italy; Mediolanum Gestione Fondi SgrpA fund manager Mediolanum Flexible Italy; Mediolanum International Funds Limited - Challenge Funds; Pioneer Asset Management SA fund manager: Pioneer Funds - Italian Equity and Pioneer Investment Management SGRpA fund manager Pioneer Italia Azionario Crescita.

On 10 July 2014 and following changes to the entire Board of Directors from 12 June 2014, C. Sposito, R. Bruno, P. Alonzo E. Nitti, L. Gobbi, E. Parazzini - all drawn from the majority list - resigned. The Board of Directors met again on 10 July 2014 and proceeded to co-opt D. Casimiro, I. Glasenberg, A. Kostin, P. Lazarev, The. Sechin and I. Soglaev to replace the directors who resigned. There was not at that time an Appointments and Successions Committee to assist the Board in replacing the independent directors who had resigned (P. Alonzo; L. Gobbi; E. Nitti), so the *whole* Board appointed 9 directors, a majority of whom were independent. The Board of Directors has determined, on the basis of available information and the statements made by the parties concerned, that the independence requirements have been met by I. Glasenberg and A. Kostin. The co-opted directors will demit at the next General Meeting.
Updated *curricula vitae* detailing the personal and professional characteristics of each Director are published on the Pirelli website.
The tables included in the end of this Report, shows the composition of the Board of Directors at the date of the Report and the changes during the year.

4.2.1 MAXIMUM NUMBER OF POSITIONS HELD IN OTHER COMPANIES

The Board of Directors has adopted the principle that it is not compatible with the duties of a director of the Company to be a director or auditor of more than five other companies, other than those subject to management and coordination by Pirelli & C. S.p.A., or its subsidiaries or affiliates, in the case of (i) companies listed on the FTSE/MIB index (or equivalent foreign indices), or (ii) companies that undertake banking or insurance; it is also not considered compatible to be an executive director of more than three companies as in (i) and (ii).
Positions held in several member companies of the same group are considered to be a single position and an executive position prevails over a non-executive position.
The Board of Directors retains the right to make a different assessment, properly motivated, and to make it public in the Corporate Governance Report.
The Board of Directors, subject to review by the Audit, Risks, Sustainability and *Corporate Governance* Committee, annually reviews the positions held by each Director (based on the same statement). At the date of this Report no director holds a number of positions higher than the number determined as excessive by the Company's policy.
An annex to the Report shows the main positions held by the Directors in companies other than those belonging to the Pirelli Group.

4.3. ROLE OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the strategic leadership and oversight of all business activity, with power to direct the business as a whole and is competent to take the most important economic and strategic decisions, or in terms of structural incidence on the management, or the functions, of the exercise of the control and direction of Pirelli.

In carrying out its duties, the Board of Directors is supported by appropriate committees, created internally, responsible for investigations, advice and/or consultation, and managerial committees, composed of *senior management*, which implement the directives and policies established by the Board and the Chief Executive and co-operate with the latter for the definition of proposals to be submitted to the Board.

The Company Statutes provide for a minimum of Board meetings quarterly. Pirelli has released a calendar on the Pirelli website providing for six Board meetings in 2015.

The Directors and the Auditors have always received notice with the appropriate and adequate documentation and information necessary for them to express an informed opinion on the matters submitted for their consideration.

In practice, documents subject to examination by the Board – drafted in several languages in order to facilitate the work of the Directors - shall be sent in ten days prior to the meeting. In limited and exceptional cases where it was not possible to send documentation this far in advance, complete information on the topic under consideration was given at the meeting, ensuring an informed decision was made.

4.3.1 FUNCTIONS OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for:

- reviewing and approving the strategic, industrial and financial plans of the Company and the Group, monitoring periodically their implementation;
- preparing and adopting the Company's *corporate governance* rules and defining the Group's *governance* guidelines;
- defining the guidelines of the internal control system, appointing a Director responsible for overseeing the internal control system and defining their tasks and powers;
- supervising the process of risk governance by defining the overall threshold of acceptable risk ("*risk appetite*");
- evaluating, once a year at least, the adequacy of the internal control system and risk management with respect to the characteristics of the risk profile, as well as its effectiveness;
- assessing the adequacy of the organisational, administrative and accounting structure of the Company and its strategic subsidiaries;
- establishing one or more internal Board committees, appointing the members, and determining its tasks, powers and remuneration;
- granting and revoking the powers of the Managing Directors and the Executive Committee - if there is one - defining the limits and procedures for their exercise; also determining the frequency, not exceeding three months, with which such bodies must report to the Board on the activities delegate to them;
- defining the general remuneration policy;
- determining, on the recommendations of the Remuneration Committee and Statutory Auditors, the remuneration of the Managing Directors and other Directors who hold special positions, and, if this has not been decided by the General Meeting, the division of the total remuneration between members of the Board;
- evaluating the general performance of management, taking into account, in particular, the information provided by other company bodies, as well as periodically comparing the results they achieve;
- reviewing and approving transactions of the Company and its subsidiaries when these transactions have a significant strategic, economic, or financial impact;

- assessing, at least once a year, the size, composition and functioning of the Board and its Committees, expressing opinions on those professionals whose presence on the Board is deemed appropriate;
- establishing a Supervisory Board pursuant to Legislative Decree 231 of 8 June 2001;
- appointing the general managers, the manager responsible for preparing corporate accounting documents, determining their responsibilities and powers, and appointing key managers;
- appointing and dismissing, on the recommendation of the Director in charge of overseeing the internal control system, the *Internal Audit* Director, determining their responsibilities and remuneration in line with company policy, after consultation with the relevant Board committee and the Board of Auditors;
- approving, at least annually, the plan prepared by the head of the *internal audit* department, in consultation with the Board of Auditors and the Director in charge of the system of internal control and risk management;
- evaluating and approving periodic reports according to applicable legislation;
- assessing, with the Statutory Auditors, the results presented by the external auditor in any letter of recommendations and report on key matters arising from the statutory audit;
- evaluating and approving transactions of major importance with related parties in accordance with the Procedure for Transactions with Related Parties;
- formulating proposals to be submitted to the shareholders;
- exercising such other powers and performing the tasks assigned to it by law and the Company Statutes.

Subject to (i) the responsibilities and powers reserved to the Board by law and the Company Statutes, (ii) the structure of the proxies and (iii) the internal corporate procedures, the Board of Directors shall approve the following operations and transactions - not intragroup - when made by the Company or by companies, included those unlisted and foreign, which are subject to the management and coordination of Pirelli & C.:

- taking and the granting of loans for a total value of over 200 million euros and lasting more than 12 months;
- issues of securities intended to be listed on regulated markets or outside Europe (and their *delisting*) for a total of more than 100 million euros;
- the granting of guarantees to or for third parties, for amounts exceeding 100 million euros;
- entering into derivative contracts that have i) a notional value in excess of 250 million euro and ii) that do not have as their exclusive purpose and/or effect to cover business risks (but not limited to: hedging interest rates, exchange rates, or raw materials);
- the acquisition or disposal of investments in subsidiaries and for values in excess of 150 million euros that would allow the entry into (or exit from) geographical and/or product markets;
- the acquisition or sale of equity investments (other than those mentioned in the previous point) for amounts exceeding 250 million euros;
- the acquisition or sale of companies or company branches that have strategic importance or, anyway, are worth more than 150 million euros;
- the acquisition or sale of assets and other activities that have strategic importance or, anyway, have a total value exceeding 150 million euros.

Also subject to prior approval by the Board of Directors of the Company are transactions included in a strategic plan or executive programme which if, taken together, exceed the quantity thresholds above. Meetings of the Board of Directors, at the invitation of the Chairman and CEO, may be attended by members of the *management* in order to facilitate timely and in-depth knowledge of the activities of the Company and the Group as well as to promote access to *senior management* in order to augment the supervision of the Board of Directors over business activities.

4.4. ACTIVITIES OF THE BOARD OF DIRECTORS

During the year 2014, there were 8 meetings of the Board of Directors, with an average duration of about 1½ hours and with an attendance of over 85% of the Directors and of the independent directors around 90%.
The *Lead Independent Director* (until 12 June 2014 Prof. Carlo Secchi and from 10 July 2014 Dr. Luigi Roth), has participated in all meetings of the Board of Directors.
The Board of Directors has devoted to items on the agenda as much time as necessary to allow a constructive debate and encouraging contributions from individual directors.

4.4.1 BOARD PERFORMANCE EVALUATION

The Board of Directors has undertaken, as from 2006, a self-assessment of its own performance – the “Board performance evaluation”.
Also for the year 2014, the Board - on a proposal of the Audit, Risks, Sustainability and *Corporate Governance* Committee and taking into account the positive experience of the previous year - has decided to confirm the self-assessment process on the basis of the approach already adopted in past. The self-assessment process took place with the support of a facilitator (Spencer Stuart), by direct interviews with individual Board members allowing those who could attend to fill in a questionnaire prepared by the Committee to be used as a guide for the interview. A final report on the process of self-evaluation was presented to the Board of Directors.
The self-assessment process has been focused on four main topics:

- Organisation and functioning of the Board of Directors;
- Organisation and functioning of the Committees;
- Composition and size of the Board of Directors;
- Participation and commitment of the Directors.

The Board of Directors confirmed its appreciation concerning the size, composition and function of the Board itself with reference to the 2014 financial year based on the outcome of the self-assessment process.
The Board of Directors of Pirelli, in the opinion of the Directors, works very effectively and acts with autonomy and authority in its corporate governance, internal control and risk management. The high, international level of professionalism and experience of the Directors is reflected in the effect of their regular participation in the meetings of the Board and Committees.
Their work is conducted under the authority of the President, the atmosphere of the Council is marked by cooperation and mutual respect; the new Directors are gradually integrating into our operating mechanisms, bringing their experience from other countries and other companies.
The current structure of the proxies is considered to be in line with the needs of the Pirelli Group.
The Board of Directors presents a mix of different and complementary skills. The arrival of the new directors has strengthened areas such as strategic vision, internationalism, analysis of the business and industrial issues.
The current size of the Board of Directors is considered adequate by the majority of the directors, as it allows proper debate, ensures the proper functioning of the Committees and allows a variety of professional experience.
The balance between executive, non-executive and independent directors is considered to be in line with the needs of the Pirelli Group.
Some suggestions have been made to further strengthen the role of the Council and the Directors’ capacity to participate in Board discussions such as the organisation of an increased number of informal meetings to deepen knowledge of the business of the Pirelli Group and create more cohesion between the Directors. It has also been recommended to expand the flow of information from management to the directors in the intervals between Board meetings.

4.4.2 ARTICLE 2390 OF THE ITALIAN CIVIL CODE

The last paragraph of Article 10 of the Company Statutes provides that, until resolution to the contrary, the directors are not bound by the competition prohibition in Article 2390 of the Civil Code.

4.5. DELEGATE BODIES

4.5.1 CHAIRMAN AND CEO

The Board of Directors appoints its Chairman, in accordance with the Company Statutes when the Shareholders' Meeting has not already done so. the Board, at its meeting on 12 June 2014, named Marco Tronchetti Provera Chairman and CEO, with the following responsibilities:

- relations with shareholders and the information provided to them;
- defining the strategies for the general policy and development policy of the Company and the Group, as well as the extraordinary transactions submitted to the Board of Directors;
- proposals to appoint General Managers and for their remuneration, after consulting the Remuneration Committee;
- all forms of communications to the market.

The Chairman ensures that the documentation relating to items on the agenda is made known to the directors and auditors appropriately in advance to enable the Directors to express their opinion on the matters under consideration.
The Chairman and CEO is conferred with full powers – to be exercised with a single signature – necessary to perform whatever concerns the Company's business, without exceptions.
The Board of Directors has identified transactions outside the Group as beyond the limits on the management powers conferred on the Chairman and Chief Executive Officer. These limits have been qualified as internal and regarding the relationship between the delegating body and the person delegated.
In particular, the Chairman and Chief Executive Officer may exercise the power to issue guarantees and collateral within the following limits: (I) a single signature for obligations of the Company and/or its subsidiaries, where the amount does not exceed 25 million euros or for third parties in respect of obligations concerning an amount not exceeding 10 million euros; (ii) with the joint signature of a General Manager (or Manager with strategic responsibilities provided with identical power) equivalent to those referred to in paragraph i) against bonds whose unit amounts are higher than those indicated above.
For internal purposes, it also falls to the Board of Directors to approve operations and transactions – outside the Group - when made by the Company or by companies, unlisted and foreign, subject to the management and coordination of Pirelli & C. as per 4.3.1 above: "Functions of the Board of Directors".

4.5.2 GENERAL MANAGERS AND KEY MANAGERS

The Pirelli General Managers are the General Manager for Technology, Maurizio Boiocchi and the General Manager for Operations, Gregorio Borgo.
The key managers with strategic responsibilities are: Chief Financial Officer Francesco Tanzi, Chief Planning and Controlling Officer Maurizio Sala, the Chief Human Resources Officer Christian Vasino and Chief Manufacturing Officer Giuliano Menassi.
Powers pertaining to their specific assigned functions have been allocated to the aforementioned General Managers and Key Managers; more limited powers, within their specific areas of competence, are granted to other *senior managers* and *managers*.

4.5.3 INFORMATION TO THE BOARD

The Board of Directors and Statutory Auditors are kept informed of the work performed, at least quarterly, on general operating performance, on the outlook and on operations with the most impact on the strategy, finances and capital of the Company or its subsidiaries and on its organisation, administration and accounting, with particular reference to the system of internal control and risk management.
The Company has developed a special procedure for the orderly organisation of the flow of information. The procedure has been in place since July 2002 and defines in detail the rules to be followed in order to comply with the information reporting obligations.
The updated version of the Procedure on information flows to Directors and Auditors is posted on the Pirelli website.

4.6. OTHER DIRECTORS

The Board of Directors has named as executive directors the Chairman of the Board of Directors and CEO, Marco Tronchetti Provera, and the Deputy Chairman, Alberto Pirelli, the latter because of his operational posts in the subsidiary Pirelli Tyre.
In line with established business practice, in order to increase the directors' and auditors' (in particular of those appointed for the first time in Pirelli) knowledge of business reality and dynamics, informal meetings were held during the year to examine in depth certain business and corporate governance issues, through a structured induction programme, also with the support of Assonime and Assogestioni.
In particular, the *induction* programme, which consisted of various sessions with Pirelli's *senior management*, dealt with:

- "Strategic and financial planning";
- "Product and operations";
- "Corporate Governance: duties and responsibilities of the directors";
- "Internal organisation. Incentive schemes." Investor Relations;
- "Analysis of Corporate Governance and Organisational Model 231".

4.7. INDEPENDENT DIRECTORS

The Board of Directors has a number of independent directors representing more than a third of its members, following a more rigorous approach to the Self-Regulation Code which, for FTSE-MIB companies, recommends that at least one third of the Board is composed of independent directors. Upon appointment and thereafter on an annual basis, the Board evaluates the requisites of independence required by the Self-Regulation Code and the TUF for non-executive directors to qualify as independent.
The Board of Directors identifies the independence of its Directors by their freedom from relationships with the Company and/or its major shareholders and managers that might affect their judgement.
In order to make this assessment, the Board referred to the recommendations of the Self-Regulation Code adopted by the Italian Stock Exchange.
In the light of a thorough assessment of the information provided by the Directors and available to the Company, the Board of Directors, at its meeting of 31 March 2015, has confirmed that the requirements of independence, and the requirements of the TUF, are met by the Directors in office at that time and qualified as such at the time of their nomination.
At the date of this Report, the average age of the independent directors in office is just over 60 years, with an average term of approximately 3 years.
The Board of Statutory Auditors verified the correct application of the criteria and procedures

adopted by the Board to evaluate the independence of its members.
During the year 2014, the Independent Directors met without the other Directors to address the issue of the *Board performance evaluation*.

4.8. LEAD INDEPENDENT DIRECTOR ("L.I.D")

In line with the recommendations of the Self-Regulation Code and, also, in order to further enhance the role of the independent directors, the Board of Directors confirmed the *LID* (this has been, since the changes in the Board, Luigi Roth[5]). He is the point of reference and coordination for requests and contributions from the independent directors.

[5] Up to 12 June 2014, the Lead Independent Director was Prof. Carlo Secchi.

In his capacity as *L.I.D.*, he:

- collaborates with the Chairman of the Board of Directors to achieve the best functioning of the Board;
- has the power to convene, independently or at the request of other directors, meetings - even informal ones - of the independent directors only on topics related to the operation of the Board of Directors, in particular, and the system of corporate governance more generally, with the further option of inviting members of *management* to discuss the organisational structure;
- works with the Chairman of the Board of Directors to ensure that the Directors receive adequate information in a timely manner.

The *LID*, in the exercise of his powers, may count on the cooperation of the Secretary of the Board of Directors.
The *L.I.D.* has been in constant contact with the Chairman of the Board of Directors in order to achieve an ongoing improvement in reporting to the Board.

5. TREATMENT OF CORPORATE INFORMATION

The Board of Directors since March 2006, has adopted a procedure for the management and market disclosure of privileged information that, taking into account the legislation on market abuses, governs the management of inside information concerning Pirelli & C., its unlisted subsidiaries and any issues of listed financial instruments.
The Procedure also applies as an instruction to all subsidiaries, in order to obtain from them, without delay, the information required for timely and correct compliance with the reporting obligations to the general public.
The procedure, which is available in its updated version on the Pirelli website, also governs the register of persons with access to inside information, in operation since 1 April 2006.
Even in the absence of regulatory obligations in this regard, the Board of Directors has decided that it should continue to monitor the issues mentioned above, with specific times in the year (so-called "*Black out periods*[6]"), when no transactions with the Company's shares or related financial instruments will be permitted. However these periods may, in exceptional cases, be extended or suspended by the Board of Directors.

[6] The procedure relating to *black out* periods can be found on the Company's website.

6. BOARD COMMITTEES

The Committees set up within the Board have fact-finding, proposing and/or advisory duties in relation to issues which particularly require in-depth examination so that there can be an effective and informed airing of opinions on these issues.
In continuity with the previous term, on 10 July 2014, the Board of Directors confirmed the establishment of four committees: the Audit, Risks, Sustainability and *Corporate Governance* Committee; the Remuneration Committee; the Appointments and Successions Committee and the Strategy Committee.
The Board formally defines the tasks and powers of each committee at the time it is established, in a *written charter* published on the Pirelli website and in this Report.
The composition of the Board Committees is given on the Pirelli website and in the tables in the bottom of the report to each committee also reported that the number of meetings held during the year 2014 and their average duration.

Operation of the Board Committees

The Board Committees are appointed by the Board of Directors (which also appoints their chairmen) and they remains in office for a full term of the Board of Directors. The Committee appoints the Secretary of the Committee and/or the individual meetings.
The Committee meets whenever its Chairman deems appropriate, or if a request is made by at least one member, the Chairman of the Board of Directors or, if appointed, the CEO may convene it, and at a frequency appropriate to the proper performance of their duties.
Committee meetings are convened by notice sent by the Secretary of the Committee on orders from the Chairman of the Committee.
The documentation and information available (and in any case, those necessary) are sent to all members of the Committee sufficiently in advance of the meeting for them to reply appropriately.
For meetings of the Committee to be valid they require the presence of a majority of the members then in office and decisions must be made by a majority of the members present. Committee meetings may also be held by means of telecommunication, and are regularly reported by the Secretary of the Committee and transcribed into a minute book.
The Committees - which in the course of their work may engage external consultants - have spending autonomy for the performance of their duties and the right to access the information and corporate functions relevant to the performance of its tasks, using their Secretary for this purpose.
The entire Board of Auditors may participate in the activities of the Audit, Risks, Sustainability and *Corporate Governance* Committee and Remuneration Committee.
The Chairman of the Board is invited to attend meetings of the Appointments and Successions Committee and of the Strategy Committee.

7. APPOINTMENTS AND SUCCESSIONS COMMITTEE

At the date of this Report, the Appointments and Successions Committee is composed of 4 members (2 independent): M. Tronchetti Provera (Chairman), A. M. Artoni, D. Casimiro and P. Pietrogrande. The Senior Human Resources Advisor (Gustavo Bracco) acts as Secretary. The Committee:

- proposes to the Board of Directors the candidates to be co-opted, when an Independent Director is to be replaced;
- proposes to the Board "emergency" top management succession plans, identifying (inside and outside of Pirelli) professionals who can ensure successions to, in particular, the Chairman and Chief Executive Officer and, if appointed, General Managers;
- identifies the criteria for succession plans for top and *senior management* in general in order to ensure continuity in *business* strategies.

8. STRATEGY COMMITTEE

At the date of this Report, the Strategy Committee is composed of seven members (three independent): M. Tronchetti Provera (Chairman), I. Sechin, D. Casimiro, A. Kostin, P. Fiorentino, L. Roth and M. Soffientini. The heads of the *Investor Relations Department* (Valeria Leone) and the Sustainability and Risk Governance Department (Filippo Bettini), act as secretaries.
The Committee has consultative and advisory functions in the definition of strategic guidelines and for the identification and definition of the terms and conditions of the individual operations of strategic importance. In particular, the Committee:

- examines in advance strategic, industrial and financial plans, also long-term plans of the Company and of the Group to be submitted to the examination of the Board of Directors;
- supports the Board to assess transactions, initiatives and activities of strategic importance and, in particular:
  - entry into new markets, both geographic and *business*;
  - industrial alliances (e.g. *joint-ventures*);
  - extraordinary transactions (merges, spin-offs, share capital increases or decreases other than decreases due to losses);
  - investment projects;
  - industrial and/or financial restructuring programmes and projects.

- periodically examines the organisational structure of the Company and the Group presenting possible suggestions and opinions to the Board in this regard.

9. REMUNERATION COMMITTEE

At the date of this Report, the Committee is composed of three independent members on the basis of the most stringent recommendations of the Self-Regulation Code: L. Roth (Chairman), I. Glasenberg and M. Soffientini. The Committee Chairman Luigi Roth has adequate experience in financial matters and remuneration; this was assessed by the Board of Directors at the time of his appointment. The Secretary of the Board, Anna Chiara Svelto, acts as Secretary.
The Committee has a consulting, advisory and oversight function to ensure the establishment and enforcement within the Group of remuneration policies aimed, firstly, to attract, motivate and retain the human resources with the professional skills necessary to successfully pursue the objectives of the Group and who, on the other hand, are able to align the interests of *management* with those of shareholders. In particular, the Committee:

- assists the Board in the definition of the General Remuneration Policy of the Group;
- periodically assesses the adequacy, overall consistency and concrete application of the Remuneration Policy;
- for Directors vested with special powers and for General Managers, it makes proposals to the Council:
  - concerning their remuneration, in line with the General Policy on Remuneration;
  - for the setting of *performance* objectives related to the variable components of the remuneration;
  - defining possible non-competition agreements;
  - for the definition of any arrangements for the closure of the relationship on the basis of the principles established in the General Remuneration Policy.

- with reference to the key management personnel, it checks the consistency of their remuneration with the General Remuneration Policy and expresses opinions thereon under the procedure for Transactions with Related Parties;
- supports the Board of Directors in examining proposals to be submitted to the Shareholders' Meeting concerning the adoption of stock option plans based on financial instruments;
- monitors the implementation of decisions taken by the Board and verifies, in particular, the actual achievement of *performance* targets set;
- considers and submits to the Board of Directors the Annual Report on Remuneration which specifies members of the Board and control organs and the General Managers and mentions the Key Managers generically:
  - provides an adequate breakdown of each item comprising the remuneration;
  - illustrates in detail the pay offered by the Company and by its subsidiaries during the reference financial year, for whatever reason and in whatever form.

The Board of Directors has assigned to the Remuneration Committee the powers of the Committee for Transactions with Related Parties required by Consob regulations for matters relating to the remuneration of directors and managers with strategic responsibilities. Pirelli has established a Remuneration Policy, submitting it to the advisory vote of the shareholders. The Remuneration Report for the Year 2015 (composed of a Policy Statement for the Year 2015 and 2014) will be made available on the Pirelli website at the latest 21 days prior to the 2014 Budget Meeting.

10. AUDIT, RISKS, SUSTAINABILITY AND CORPORATE GOVERNANCE COMMITTEE

At the date of this Report, the Committee is composed of three independent members on the basis of the most stringent recommendations of the Self-Regulation Code: A.M. Artoni (Chairman), A. Kostin and E. Magistretti. The Board Director E. Magistretti has adequate experience in accounting and finance; this was assessed by the Board of Directors at the time of his appointment. The Secretary of the Board, Anna Chiara Svelto acts as Secretary.
The Committee, in particular:

- assists the Board of Directors:
  - defining the guidelines of the system of internal control and risk management, so that the main risks facing the Company and its subsidiaries are correctly identified and adequately measured, managed and monitored;
  - determining the degree of compatibility of these risks with the management of the company, consistent with the strategic objectives identified;
  - naming an Executive Director to be in charge of overseeing the system of internal control and risk management with respect to the risk profile;
  - assessing the adequacy, efficiency and the effective operation of the internal control system, at least once a year;
  - describing, in the report on corporate governance, the essential elements of the internal control system, assessing its overall adequacy;

- expressing an opinion on proposals for the appointment and dismissal of, assignment of tasks to and remuneration of the Head of *Internal Audit* and ensuring that he receives adequate resources to perform his functions;
- assessing, jointly with the Board of Auditors, to the company's directors, the manager responsible for preparing the financial reports and responsible to the auditors, (a) the correct use of accounting principles and their consistent application within the Group for the preparation of consolidated accounts, (b) any letter from the statutory auditor with suggestions to the Executive Board and the eventual report on key matters arising from the statutory audit;
- upon request of the director in charge, expressing opinions on specific aspects of the identification of the main business risks and the design, implementation and management of the internal control system;
- examining the *audit* plan prepared by the Director of Internal Audit and his periodic reports;
- monitoring the independence, adequacy, effectiveness and efficiency of the *Internal Audit* department;
- requires the *Internal Audit* Department, when appropriate, to carry out checks on specific areas of operation;
- reporting to the Board of Directors on the work performed, at least at the same time as the annual and half-yearly report on the adequacy of the internal control system;
- monitoring the observance and periodic updating of *corporate governance* rules and compliance with the principles of conduct adopted by the Company and its subsidiaries. It is the Committee's

particular responsibility to propose the methods and timing of the annual self-assessment of the Board of Directors;

- defining and proposing to the Board of Directors the guidelines for “sustainability” and monitoring compliance with the principles of conduct adopted in respect of the Company and its subsidiaries;
- assisting the Board of Directors in the preparation and subsequent examination and approval of the financial sustainability;
- performing other duties assigned to it by the Board of Directors, including those in relation to monitoring the procedural correctness and qualitative *fairness* of transactions.

The Board of Directors has, then, allocated the responsibilities of the Committee for Transactions with Related Parties required by Consob regulations to the Audit, Risks, Sustainability and *Corporate Governance* Committee, with the exception of matters relating to the remuneration of directors and key managers which are entrusted to the Remuneration Committee.

11. SUCCESSION PLANS[7]

[7] The information included in this section is also provided in compliance with the Consob recommendations contained in Communication DEM/11012984 dated 24 February 2011.

Following its establishment in April 2011, the Appointments and Successions Committee has examined the business processes related to the identification, management and development of a reservoir of talent, guaranteeing the Group, over time, ongoing internal growth and generational change. The Committee also examined the main initiatives for developing management skills and the process for preparing the “Succession tables”.
The Committee has been able to verify the structure and implementation status of the systems which allow Pirelli (i) to monitor the key resources and to verify the existence of any persons in-house who are capable of assuming roles of greater responsibility or (ii) to define the qualifications required to fill these roles in the event of recruiting from outside the Company in the case of “emergency” changes”.
A structured succession plan for top management was then developed, with the help of a specialist international consulting firm, to be activated in case of emergency, defining the roles and responsibilities of the different agents involved in the process. It also defined the way forward in defining the plan of natural succession for top management.
With reference to the succession of top management in an emergency, and with specific regard to the role of CEO, the Plan, approved by the Board of Directors, provides that, in case of impossibility, the Board of Directors defines powers and may delegate its authority to ensure ordinary and extraordinary management during the transitional period. In particular, it is anticipated that the Board of Directors: (I) appoints an internal management committee, composed of three members of the Board with consolidated management and entrepreneurial experience; this committee will, on the one hand, play a proactive management role in any extraordinary transactions that cannot be postponed and, secondly, to ensure the ongoing management and operational decisions that are the normal responsibility of the CEO; (Ii) nominate from within *senior management* a “*spokesperson*” to cover the necessary role of liaising between the new management committee and corporate structures and for external and internal communication (iii) consider whether to define for operational *management* a temporary widening of powers for ordinary activities, within the limits of the approved *budget*. The new Management Committee, with the help of the Appointments and Successions Committee, will assess applications (internal and external) and submit to the Board a short-list for the final choice. The Board of Directors, at the end of the process, co-opts the chosen person and grants them management powers.

The Plan also provides a series of preparatory activities aimed at the natural succession of the CEO, and useful also in the event of an emergency succession:

- defining any extension of the relative powers of the Chairman and of the CEO;
- matching any existing key executives with the competence models for senior management;
- constantly observing the market.

12. INTERNAL CONTROL SYSTEM

The objectives of Pirelli's Internal Control System ("SCI") are: (i) efficiency and effectiveness of operations; (ii) reliability of information; (iii) protection of company assets and (iv) compliance with laws and regulations to ensure proper disclosure and adequate control over all activities of the Group, with particular attention to the areas considered at risk.
For an articulation of the Pirelli SCI, please see the section of the Budget text headed "*Compliance*" and the paragraph in the Budget headed "risk governance".

13. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

Since the year 2002, Pirelli has established standards of conduct for the implementation of related party transactions. Subsequently, following the adoption by Consob of a Regulation on this matter, on 3 November 2010, Pirelli approved a new procedure for transactions with related parties ("OPC Procedure").
The Board considered that its sub-committees have the features required under the Rules set by the OPC Regulations and Procedure and, therefore, has attributed the competence of the Committee for Transactions with Related Parties to the Audit, Risks, Sustainability and *Corporate Governance* Committee, with the exception of responsibilities for the remuneration of directors and key management which are assigned to the Remuneration Committee.
In line with the Consob recommendation, dated 5 November 2013 (elapsed, then, three years after the adoption of the OPC procedure), the Board of Directors - taking into account the opinion issued by the Committee for Transactions with Related Parties and of the assessment by Auditors - confirmed the system adopted in 2010, at the same time updating the procedure with some marginal changes.
For further details, please refer to the OPC Procedure published on the Pirelli website.

14. AUDITORS

The Board of Auditors is entrusted with monitoring the following aspects, in accordance with the law and the Company Statutes:

- compliance with the law and the Company Statutes and respect for the principles of good management;
- adequacy of the organisational structure for its duties, the internal control system and the accounting system and its reliability in correctly representing management;
- procedures to implement effectively the corporate governance rules envisaged by the Self-Regulation Code that Pirelli has adopted;
- adequacy of instructions given to subsidiaries in relation to mandatory disclosure of inside information;
- the financial reporting process;
- the efficiency of the internal control, internal audit and risk management systems;
- the statutory audit of the annual accounts and the consolidated accounts;
- the independence of the statutory auditor or the statutory auditing company, in particular, concerning services other than auditing services rendered to the company whose accounts are to be audited.

APPOINTMENT OF AUDITORS

At the date of this Report, the Board consists of three permanent and one alternate auditor. In order to ensure compliance with local regulations relating to gender balance, on 13 May 2013 the Shareholders' Meeting amended the Company Statutes by increasing from two to three the number of alternates, as well as joint takeover mechanisms that ensure a balance between genders. This change will be applied at the next election to the Board of Auditors.
Below is a summary of the provisions contained in the Company Statutes in relation to the appointment and replacement of members of the Board of Auditors, for further information please see, in any case, to the document (which must be considered prevalent over that which follows).
In order to allow minority shareholders to elect one permanent auditor and one alternate auditor, they will be elected using a "voting list", under which an Auditor (who will chair the College) and an Alternate Auditor are elected from the minority list. In case there are lists with the same number of votes, a new vote is held between these lists by all eligible voters present at the meeting; the candidates are elected from the list that obtains a simple majority of votes.
The remaining members of the Board of Auditors are elected from the majority slate.
Again with the aim of providing supplementary criteria to make it possible to ensure compliance with the balance between genders on the Board of Auditors, the Company Company Statutes also envisage (i) that the voting lists which indicate a number of candidates equal to or greater than three, considering both sections, must include candidates of a different gender in the section of the slate that refers to Statutory Auditors and in the section of the slate that refers to Alternate Auditors and (ii) an automatic progressive substitution mechanism if the application of the voting list mechanism does not assure the required minimum number of Permanent Auditors, or of Alternate Auditors, belonging to the gender less represented.
Shareholders have a right to present lists when they, alone or together with other shareholders, represent at least 1% of the shares entitled to vote at an ordinary General Meeting, or the minimum percentage required by the Consob regulations[8].

[8] Cf. Consob Resolution 19109 of 28 January 2015. The percentage of shares required for the submission, by shareholders, of lists of candidates for the election to the administrative and control organs of Pirelli & C., is 1% of the share capital entitled to vote at an ordinary General Meeting.

The lists are to be lodged at the Company's registered office at least 25 days prior to the date foreseen for the Shareholders' Meeting convened to resolve this point, unless there has been an extension, as envisaged by the applicable rules. In this last regard, the current regulations specify that, in the event of submission of a single list or multiple lists presented by shareholders who are inter-connected, lists may be submitted until the third day after the deadline for submission of lists (25 days before the Meeting), and the thresholds required for their presentation are reduced by half. Each shareholder may present or participate in the presentation of only one voting lists. Any documentation required by the Company Statutes or by the law must be submitted at the same time.
Each candidate may appear on only one list, under penalty of ineligibility.
The lists are divided into two sections: one for candidates for the position of Permanent Auditor and the other for candidates for the position of Alternate Auditor. The first candidate in each section must be selected from among persons entered in the Register of Auditors who have worked in the legal audits of accounts for a period of not less than three years.
Each person entitled to vote may vote for only one list.
In the case of death, waiver or forfeiture of a Permanent Auditor, then the position shall be filled by the Alternate Auditor chosen from the same voting list which included the auditor who has just left office. If the succession does not enable a Board of Auditors to be reconstituted in compliance with the applicable legislation or gender balance, then the position shall be filled by the second Alternate Auditor drawn from the same voting list. If it later proves necessary to replace an additional auditor drawn from the list that received the most votes, in each case the additional alternate member from the same list will be elected. In the event of replacement of the Chairman of the Board of Auditors, the chair is taken by the auditor on the same list as the former Chairman, following the order of the list, it being understood, however, that they possess the legal and/or regulatory requirements for the office and there is respect for the gender balance required by the laws and/or regulations currently in force; if it is not possible to proceed in the manner described above, a meeting will be convened to appoint the Board by majority vote.
When the General Meeting is required to appoint the permanent and/or alternate members needed to complete the Board of Auditors, they shall be appointed as follows: if it is necessary to replace auditors elected on the majority list, the appointment is made by majority vote on any list; however the gender balance required by the laws and/or regulations currently in force must be respected; if, however, it is necessary to replace Auditors elected from the minority list, the General Meeting replaces them with a relative majority vote, choosing where possible from among the candidates on the list which included the Auditor being replaced and in compliance with the principle of the necessary representation of minorities since the Company Statutes assure the right to participate in appointments to the Board, respecting, however, the gender balance required by the laws and/or regulations currently in force. The principle of representation of minorities Is respected in the case of appointment of auditors who had been candidates on the minority list or other lists different from the list which, in the appointment of the Permanent Auditors, had obtained the highest number of votes.
If only one list is submitted, the General Meeting shall vote on it; if the list obtains the relative majority, the Permanent Auditors and alternate candidates listed in the respective section of the list shall be elected; the chairmanship of the Board of Auditors goes to the person named in first place on that list.
For the appointment of Auditors for any reason not appointed pursuant to the procedure described above, the decision shall rest with the legal majority of shareholders, respecting, however, the gender balance required by the laws and/or regulations currently in force. Outgoing Auditors may be re-elected.

AUDITORS

The General Meeting of 10 May 2012 appointed the Board of Auditors for the financial years 2012 to 2014 (and therefore for the forthcoming Shareholders' Meeting), appointing as Permanent Auditors F. Fallacara (appointed Chairman as taken from the minority list), A. Carù and E. Laghi, and alternate auditors U.S.. Iacovino and A. Lorenzatti (taken from the minority list).
The appointment was based on the voting list system. The list presented by the members of the Shareholders' Block of Pirelli & C. received about 78% of the votes of the share capital with voting rights represented at the meeting, while the minority list presented by a group of savings management companies and financial[9] intermediaries, got about 22% of the votes of the share capital represented at the meeting.
The meeting also settled 50,000 euros as the gross annual remuneration of each auditor and 75,000 euros as the gross annual remuneration of the Chairman of the Board of Auditors.
In addition, the Auditor appointed to the Supervisory Board (Antonella Carù) shall receive an additional gross annual fee of EUR 25,000.
Following the resignation of Prof. Laghi on 12 June 2014, in accordance with law and the Company Statutes, Dr Iacovino took over the office of Permanent Auditor. At the date of the Report, there is a vacancy for the position of alternate auditor.
The tables in the end of this Report show the composition of the Board of Auditors as at the date of this Report, the changes during the year 2014, the number of meetings held and the percentages of attendance by individual members. As from the next report, the average duration of meetings of the Board of Auditors will be published.
The number of positions held by the auditors in other shareholder companies, limited liability companies and companies with unlimited responsibility is published by Consob on its website.
It should be noted that, at the date of the report, no currently serving auditor exceeds the maximum number of positions of administration and control allowed by the Issuer Regulations.
As established by the Board of Auditors, on the basis of the information provided and available to the Board of Auditors, all Auditors are considered independent based on the criteria contained in the Self-Regulation Code with regard to Directors and in relation to Consob Communication 8067632 of 17 July 2008[10].
The OPC procedure, in accordance with regulatory requirements, qualifies the auditors as related parties of the Company.
It shall be noted that the Board of Auditors will be renewed upon approval of the Financial Statements of the company as at 31 December 2014.

[9] Anima SGR S.p.A., manager of the Prima Geo Italia and Anima Italia funds; APG Algemene Pensioen Groep N.V., manager of the Strichting Depositary APG Developed Markets Equity Pool fund; Arca SGR S.p.A. manager of the Arca Azioni Italia and Arca BB funds; AZ Fund Management S.A. manager of the AZ Fund 1 Italian Trend fund; Credit Suisse Fund Management SA, manager of the Credit Suisse Portfolio Fund (LUX) Reddito (Euro) and CS Equity Fund (LUX) Italy funds; Eurizon Capital SGR S.p.A. manager of the Eurizon Azioni Italia fund; Eurizon Capital SA manager of the following funds: Eurizon Stars Fund European Small Cap Equity, Eurizon Eurizon Stars Fund – Italian Equity, Eurizon Easy Fund Equity Consumer Discretionary LTE, Eurizon Easy Fund Equity Small Cap Europe; Fideuram Investimenti SGR S.p.A., manager of the Fideuram Italia fund; Fideuram Gestions SA, manager of the following funds: Fonditalia Equity Italy, Fonditalia Euro Cyclical, Fideuram Fund Equity Italy, Fideuram Fund Equity Europe Growth and Fideuram Fund Equity Europe; Interfund Sicav manager of the Interfund Equity Italy funds; JP Morgan Asset Management (UK) Limited, manager of the following funds: JPMorgan Funds, Commingled Pension Trust Fund (International Equity Index) of JPMorgan Chase Bank N.A., Commingled Pension Trust Fund (Intrepid International) of JP Morgan Chase Bank N.A., JP Morgan European Investment Trust Plc, JP Morgan Fund Icvc-JPM Europe Dynamic (formerly UK) Fund, JPM Fund Icvc – JPM Europe Fund, JP Morgan International Equity Index Fund, JP Morgan Intrepid European Fund and JP Morgan Intrepid International Fund; Mediolanum International Funds Limited – Challenge Funds; Mediolanum Gestione Fondi SGR S.p.A., manager of the Mediolanum Flessibile Italia fund; Pioneer Investment Management SGR S.p.A., manager of the Pioneer Italia Azionario Crescita fund and Pioneer Asset Management S.A.
[10] CONSOB Communication DEM/DCL/DSG/8067632 dated 17-7-2008 concerning "Situations of incompatibility of the members of control bodies, pursuant to Article 148, Paragraph 3, Sub-section c) of the Unified Finance Law (TUF)".

15. SHAREHOLDER RELATIONS

Pirelli its tradition of transparency, pays particular attention to relations with shareholders, investors (institutional and private), with financial analysts, with other market participants, and, in general, with the financial community, in accordance with their mutual roles; Pirelli periodically organises meetings with them in Italy and abroad.
Moreover, the Investor Relations Department was set up in March 1999 in order to favour an on-going dialogue with the financial markets and placed under Valeria Leone in October 2008.
In order to have an open, immediate and transparent dialogue with all those in need of financial information on Pirelli, the Pirelli website has a section called "Investors" with all the information necessary for a first contact with Pirelli: from identifying characteristics of the Company to financial data, the *drivers* of the various Pirelli Group *businesses* to the opinions of financial analysts, from all the documentation made available to meetings with the financial community to accounting and corporate details.
For more information, see the investor section of the Pirelli website.

16. MEETINGS

General Meetings are convened pursuant to the law and the Company Statutes with a notice (containing an indication of the day, time and place of the meeting and a list of items to be discussed) published on the Pirelli website. The notice is published, usually at least thirty days before the date set for the Meeting on first call, and in the case of meetings convened for the election of members of the administrative and control organs, at least forty days before the date of the Meeting.
The meeting notice contains among other things a description of the procedures that shareholders must comply with in order to participate and exercise their right to vote in the General Meeting as well as information on (i) the right to ask questions before the Meeting; (ii) the terms and conditions for exercising the right to supplement the agenda; (iii) the procedure for the exercise of proxy voting; (iv) identification (designated by the Company for the appointment of proxies and the terms and conditions for granting proxies). A General Meeting may not vote on matters that were not specified in the agenda.
Shareholders who, individually or collectively represent at least one-fortieth of the share capital may request, within ten days of publication of the meeting notice, (unless otherwise provided by law), the inclusion of items to be discussed or submit additional proposals for decisions on matters already on the agenda, indicating the reasons.
A General Meeting, whether ordinary or extraordinary, is competent to decide, among other things: on (i) the appointment and dismissal of Directors and Auditors with their respective compensation and liability claims, (ii) approval of the budget and the allocation of income, (iii) the purchase and sale of treasury shares, (iv) amendments to the Company Statutes, (v) approval and amendment of the Regulations for the General Meeting, (vi) the issue of convertible bonds.
An ordinary General Meeting - which may be held in Italy, outside the registered office - must be called within 180 days of the close of the financial year.
Apart from specific matters for which the rules provide for a different majority, the General Meeting, in a single call: (I) when ordinary, be validly constituted regardless of the proportion of capital represented by the members participating and shall pass resolutions with an absolute majority of the capital represented; (ii) when extraordinary, be validly constituted with the presence of shareholders representing at least one-fifth of the share capital and shall pass resolutions with a favourable vote of at least two-thirds of the capital represented.

Members have the right to inspect all the documents lodged at the head office for meetings once they have been called and to obtain copies at their own expense.
The conduct of such meetings, both by law and by the Company Statutes, is governed by the General Meeting Regulations approved on 11 May 2004 and subsequently amended by the General Meeting on 23 April 2007.
A right to attend the meeting and exercise the right to vote pertains to those who, on the basis of a notice from the broker to the Company, prove entitled to attend and to exercise the right to vote at the close of business on the seventh open market day before the date set for the meeting in a single call.
Credit and debit records made on accounts after this deadline will not influence the entitlement to vote at the Shareholders' Meeting.
Shareholders with voting rights may be represented by means of a proxy issued in accordance with the procedures envisaged by the applicable law and regulations.

2014 Shareholders' General Meetings

During the year 2014, there was one General Meeting on 12 June 2014 with the participation of 66.4% of the ordinary share capital.

The Meeting of the holders of savings shares

A meeting of the holders of savings shares is called by the common representative of the savings shareholders or by the Board of Directors whenever they deem it appropriate, or when it is required to be held in accordance with the law. A special meeting of the holders of savings shares is chaired by the Common Representative of the savings shareholders or, failing that, by the person elected by an affirmative vote of the majority of the capital represented at the meeting.
Under the Company Statutes, the expenses for organising a special meeting and the remuneration of the common representative shall be borne by the Company.
The General Meeting of the savings shareholders held on 27 January 2015, appointed (by a favourable vote of 99.7% of the shares in this category at the General Meeting) for the years 2015 to 2017, as the Common Representative of the savings shareholders, on the proposal of Anima SGR S.p.A., manager of the UCI "Anima Geo Italia" and "Anima Star Italia Alto Potenziale", the lawyer Angelo Cardarelli and settled his remuneration at 15,000 euros. The General Meeting of savings shareholders also approved unanimously the establishment of a fund for any expenses necessary to safeguard the common interests of this category, as anticipated by the Company and equal to 40,000 euros.

17. CHANGES SINCE THE YEAR END

The Report takes into account changes which have occurred from the end of the 2014 financial year up to the date of the Report.

TABLES

Table 1: Significant shareholdings

Below are the individuals who, as published by Consob to the date of publication of this report, have shares with voting rights in the Ordinary General Meeting in excess of 2% of the ordinary capital.

DECLARING PARTY OR SUBJECT AT THE TOP OF THE INVESTMENT CHAIN	DIRECT SHAREHOLDER		% ON VOTING CAPITAL				% ON ORDINARY CAPITAL			
	NAME	OWNERSHIP	%	OF WHICH WITHOUT VOTE			%	OF WHICH WITHOUT VOTE		
					VOTE ENTITLED TO				VOTE ENTITLED TO	
				%	SUBJECT	%		%	SUBJECT	%
HARBOR INTERNATIONAL FUND	HARBOR INTERNATIONAL FUND	Ownership	4,544	0,000			4,544	0,000		
		Total	4,544	0,000			4,544	0,000		
	Total		**4,544**	**0,000**			**4,544**	**0,000**		
EDIZIONE S.r.l.	SCHEMATRENTAQUATTRO S.p.A.	Ownership	3,034	0,000			3,034	0,000		
		Total	3,034	0,000			3,034	0,000		
	EDIZIONE S.r.l.	Ownership	1,574	0,000			1,574	0,000		
		Total	1,574	0,000			1,574	0,000		
	Total		**4,608**	**0,000**			**4,608**	**0,000**		
MALACALZA INVESTIMENTI S.r.l.	MALACALZA INVESTIMENTI S.r.l.	Ownership	6,980	0,000			6,980	0,000		
		Total	6,980	0,000			6,980	0,000		
	Total		**6,980**	**0,000**			**6,980**	**0,000**		
CAMFIN S.p.A.	CAM 2012 S.p.A.	Ownership	5,850	0,000			5,850	0,000		
		Total	5,850	0,000			5,850	0,000		
	CAMFIN S.p.A.	Ownership	20,343	0,000			20,343	0,000		
		Total	20,343	0,000			20,343	0,000		
	Total		**26,193**	**0,000**			**26,193**	**0,000**		
MEDIOBANCA - BANCA DI CREDITO FINANZIARIO S.p.A.*	MEDIOBANCA - BANCA DI CREDITO FINANZIARIO S.p.A.	Ownership	3,954	0,000			3,954	0,000		
		Total	3,954	0,000			3,954	0,000		
	Total		**3,954**	**0,000**			**3,954**	**0,000**		

Note:
The data relating to shareholders who, directly or indirectly, hold ordinary shares representing more than 2% of the share capital with voting rights in ordinary meetings of the Company, are taken from Consob's website. In this regard, it is useful to note that the information published by Consob on its website by virtue of the communications made by the parties bound by the obligations of Article 120 of the TUF and the Issuers Regulation, could be different from the real situation, because the obligations to communicate changes in the percentages of holdings arise not from a simple variation of this percentage but only when the holdings exceed or fall below predetermined thresholds (2%, 5%, and subsequent multiples of 5% up to a 30% threshold and, beyond this threshold, 50%, 66.6%, 90% and 95%). It follows, for example, that a shareholder (I.E. declarant) who declared ownership of 2.6% of the share capital with voting rights will increase their stake up to 4.9% without thereby coming under any obligation to notify Consob under Article 120 of the TUF.

* Please note that Mediobanca S.p.A. attended the 2013 Budget Meeting holding 4.61% of the ordinary share capital.
With this participation they are listed in the register of shareholders of the Company.

Table 2:
Composition of the Board of Directors

The following is the composition of the Board of Directors at the date of the Report.

NAME	OFFICE	APPOINTED FROM	LIST	EXEC.	NON EXEC.	INDEP.	INDEP. TUF	% BOARD	DATE OF INITIAL APPOINTMENT IN PIRELLI & C. S.P.A.	YEAR OF BIRTH
Marco Tronchetti Provera	President and CEO	12/06/2014	Maj.	X				100%	07/05/2003	1948
Alberto Pirelli	Vice President	12/06/2014	Maj.	X				88%	07/05/2003	1954
Anna Maria Artoni	Adviser	12/06/2014	Maj.		X	X	X	100%	21/04/2011	1967
Didier Casimiro*	Adviser	10/07/2014	-		X			100%	10/07/2014	1966
Paolo Fiorentino	Adviser	12/06/2014	Maj.		X			50%	21/10/2013	1956
Andrey Kostin*	Adviser	10/07/2014	-		X	X	X	50%	10/07/2014	1956
Ivan Glasenberg*	Adviser	10/07/2014	-		X	X	X	100%	10/07/2014	1957
Petr Lazarev*	Adviser	10/07/2014	-		X			100%	10/07/2014	1967
Elisabetta Magistretti	Adviser	12/06/2014	Min.		X	X	X	100%	21/04/2011	1947
Gaetano Micciché	Adviser	12/06/2014	Maj.		X			50%	05/11/2013	1950
Paolo Pietrogrande	Adviser	12/06/2014	Min.		X	X	X	100%	12/06/2014	1957
Luigi Roth	LID	12/06/2014	Maj.		X	X	X	100%	23/04/2007	1940
Igor Sechin*	Adviser	10/07/2014	-		X			50%	10/07/2014	1960
Manuela Soffientini	Adviser	12/06/2014	Min.		X	X	X	100%	01/03/2012	1959
Igor Soglaev*	Adviser	10/07/2014	-		X			100%	10/07/2014	1969

Number of meetings of the Board of Directors during the year 2014: 8 (of which there were 4 before the Board elections on 12 June 2014) - Average length of meetings - about 1½ hours

* Director appointed under Article 2386 of the Commercial Code on 10/07/2014. Mandate expires with the Annual General Meeting of 2014.

Legend

List: Maj/Min according to whether the director was elected from the list voted by the majority or the minority
Exec.: if ticked indicates that the director qualifies as executive
Non exec.: if ticked indicates that the director qualifies as non-executive
Indep.: if checked indicates that the director can be considered independent according to the criteria established by the Self-Regulation Code.
Indep. TUF: if ticked indicates that the director satisfies the independence requirements established by Article 148, Paragraph 3 of the TUF
% BoD: indicates the attendance of directors, in percentage terms, at meetings of the Council. (The percentage is calculated taking into account the number of attendances compared to the number of meetings held during the term of office of the person concerned).

The following Directors who have ceased to hold office during the year:

NAME	OFFICE	IN OFFICE FROM/TO	LIST	EXEC.	NON EXEC.	INDEP.	INDEP. TUF	% BOARD
Carlo Acutis	Adviser	from 21/04/2011 to 12/06/2014	Maj.		X			75%
Piero Alonzo	Adviser	from 12/06/2014 to 10/07/2014	Maj.		X	X	X	100%
Gilberto Benetton	Adviser	from 21/04/2011 to 12/06/2014	Maj.		X			75%
Alberto Bombassei	Adviser	from 21/04/2011 to 12/06/2014	Maj.		X	X	X	25%
Franco Bruni	Adviser	from 21/04/2011 to 12/06/2014	Min.		X	X	X	100%
Riccardo Bruno	Adviser	from 12/06/2014 to 10/07/2014	Maj.		X			100%
Luigi Campiglio	Adviser	from 21/04/2011 to 12/06/2014	Maj.		X	X	X	100%
Jean Paul Fitoussi*	Adviser	from 10/05/2013 to 12/06/2014	-		X	X	X	75%
Luciano Gobbi	Adviser	from 12/06/2014 to 10/07/2014	Maj.		X	X	X	100%
Pietro Guindani	Adviser	from 21/04/2011 to 12/06/2014	Min.		X	X	X	75%
Massimo Moratti	Adviser	from 21/04/2011 to 12/06/2014	Maj.		X			75%
Emiliano Nitti	Adviser	from 12/06/2014 to 10/07/2014	Maj.		X	X	X	100%
Renato Pagliaro	Adviser	from 21/04/2011 to 12/06/2014	Maj.		X			100%
Enrico Parazzini	Adviser	from 12/06/2014 to 10/07/2014	Maj.		X			100%
Luca Rovati*	Adviser	from 10/05/2013 to 12/06/2014	-		X			75%
Carlo Secchi	Director - LID	from 10/05/2013 to 12/06/2014	Maj.		X	X	X	100%
Claudio Sposito	Adviser	from 21/10/2013 to 12/06/2014	Maj.		X			80%

* Director appointed from outside a voting list by General Meeting on 10.05.2013, to replace a director who had left the Board.

Table 3: Composition of the Board Committees

The following is the composition of the Committees formed from within the Board of Directors at the date of the Report:

AUDIT, RISKS, SUSTAINABILITY AND CORPORATE GOVERNANCE COMMITTEE

NAME	OFFICE	APPOINTED TO THE COMMITTEE FROM	LIST	EXEC.	NON EXEC.	INDEP.	% COMMITTEE
Anna Maria Artoni	President	10/07/2014	Maj.		X	X	100%
Andrey Kostin*	Member	10/07/2014	-		X	X	25%
Elisabetta Magistretti	Member	10/07/2014	Min.		X	X	100%

Number of meetings of the Committee during the year 2014: 9 (of which there were 5 before the Committee changed on 10 July 2014) - Average length of meetings about 2 hours
* Director appointed under Article 2386 of the Commercial Code on 10/07/2014. Mandate expires with the Annual General Meeting of 2014.

REMUNERATION COMMITTEE

NAME	OFFICE	APPOINTED TO THE COMMITTEE FROM	LIST	EXEC.	NON EXEC.	INDEP.	% COMMITTEE
Luigi Roth	President	10/07/2014	Maj.		X	X	100%
Ivan Glasenberg*	Member	10/07/2014	-		X	X	100%
Manuela Soffientini	Member	10/07/2014	Min.		X	X	100%

Number of meetings of the Committee during the year 2014: 5 (of which there were 3 before the Committee changed on 10 July 2014) - Average length of meetings about 1 hours
* Director appointed under Article 2386 of the Commercial Code on 10/07/2014. Mandate expires with the Annual General Meeting of 2014.

STRATEGY COMMITTEE

NAME	OFFICE	APPOINTED TO THE COMMITTEE FROM	LIST	EXEC.	NON EXEC.	INDEP.	% COMMITTEE
Marco Tronchetti Provera	President	10/07/2014	Maj.	X			-
Didier Casimiro*	Member	10/07/2014	-		X		-
Andrey Kostin*	Member	10/07/2014	-		X	X	-
Paolo Fiorentino	Member	10/07/2014	Maj.		X		-
Luigi Roth	Member	10/07/2014	Maj.		X	X	-
Igor Sechin*	Member	10/07/2014	-		X		-
Manuela Soffientini	Member	10/07/2014	Min		X	X	-

There were no meetings of the Strategy Committee in the year 2014
* Director appointed under Article 2386 of the Commercial Code on 10/07/2014. Mandate expires with the Annual General Meeting of 2014

APPOINTMENTS AND SUCCESSIONS COMMITTEE

NAME	OFFICE	APPOINTED TO THE COMMITTEE FROM	LIST	EXEC.	NON EXEC.	INDEP.	% COMMITTEE
Marco Tronchetti Provera	President	21/04/2011	Maj.	X			-
Anna Maria Artoni	Member	10/07/2014	Maj.		X	X	-
Didier Casimiro*	Member	10/07/2014	-		X		-
Paolo Pietrogrande	Member	10/07/2014	Min.		X	X	-

There were no meetings of the Appointments and Successions Committee in the year 2014
* Director appointed under Article 2386 of the Commercial Code on 10/07/2014. Mandate expires with the Annual General Meeting of 2014

There follow those members of Committees that ceased to hold office during the year:

NAME	OFFICE	IN OFFICE FROM/TO	R.C.	ARSCGC	STR. C.	APPOINT. AND SUCC. C.	% COMMITEE
Carlo Secchi	President of the Audit, Risks, Sustainability and Corporate Governance Committee	from 21/04/2011 to 12/06/2014		X	X		100% ARSCGC
Franco Bruni	Member of the Strategy Committee	from 21/04/2011 to 12/06/2014		X	X		100% ARSCGC
Luigi Roth	Member	from 21/04/2011 to 12/06/2014		X		X	100% ARSCGC
Anna Maria Artoni	Member	from 21/04/2011 to 12/06/2014	X				100% R.C.
Luigi Campiglio	Member	Appoint. and succ. c.: from 21/04/2011 to 12/06/2014 - R.C.: from 05/08/2013 to 12/06/2014	X			X	100% R.C.
Pietro Guindani	Member	From 21/04/2011 to 12/06/2014	X				67% R.C.
Alberto Bombassei	Member	From 26/07/2012 to 12/06/2014			X		-
Renato Pagliaro	Member	From 21/04/2011 to 12/06/2014			X		-
Claudio Sposito	Member	From 21/10/2013 to 12/06/2014			X		-
Gaetano Micciché	Member	From 05/11/2013 to 12/06/2014			X		-

There were no meetings of the Appointments and Successions Committee and the Strategy Committee during the year 2014

Table 4:
Composition of the Board of Auditors.

There follows the composition of the Board of Auditors as at the date of the Report:

NAME	OFFICE	APPOINTED FROM	LIST	INDEP. SELF-REGULATION CODE	% BOARD	% S.C.	% ARSCGC	% S.C.	% R.C.	% APPOINT-MENTS
Francesco Fallacara	President	10/05/2012	Min.	X	100%	100%	100%	-	100%	-
Antonella Carù	Auditor	10/05/2012	Maj.	X	100%	100%	100%	-	100%	-
Umile Sebastiano Iacovino*	Auditor	12/06/2014	Maj.	X	100%	100%	100%	-	100%	-
Andrea Lorenzatti	Alternate Auditor	10/05/2012	Min.	-	-	-	-	-	-	-

* the auditor Umile Sebastiano Iacovino, held the post of Alternate Auditor until 12 June 2014 when he succeeded Prof. Enrico Laghi as Permanent Auditor
Office: indicates whether chairman, auditor, alternate auditor.
List: Maj/min depending on whether the auditor was elected from a majority or minority voting list (Article. 144 decies of the Issuer Regulations)
Indep.: if ticked indicates that the auditor can be considered independent according to the criteria established by the Code; it is specified at the foot of the table if these criteria have been supplemented or amended
% part. CS: indicates the attendance of the auditor, in percentage terms, at meetings of the Board of Auditors.
% part. Board of Directors: shows the attendance of the auditor, in percentage terms, at meetings of the Board of Directors.
% part. Audit, Risks, Sustainability and Corporate Governance Committee: shows the attendance of the auditor, in percentage terms, at meetings of the Audit, Risks, Sustainability and Corporate Governance Committee
% C. Appointments: shows the attendance of the auditor, in percentage terms, at meetings of the Appointments and Successions Committee.
% RC: shows the attendance of the auditor, in percentage terms, at meetings of the Remuneration Committee.
The Chairman of the Board of Auditors is invited to attend the Appointments and Successions Committee, and may also be invited to the Strategy Committee. In this regard it is noted that the Chairman of the Board of Auditors did attend all the meetings of the Strategy Committee to which he was invited. In 2014 there were no meetings of the Appointments and Successions Committee or the Strategy Committee.

There follow those members of the Board who have ceased to hold office during the year:

NAME	OFFICE	IN OFFICE FROM/TO	LIST	NDEP. SELF-REGULATION CODE	% BOARD	% BOARD OF AUDITORS	% ARSCGC	% S.C.	% R.C.	% APPOINT-MENTS
Enrico Laghi	Auditor	From 10/05/2012 to 12/06/2014	Maj.	X	50%	67%	40%	-	33%	-

Legend
See the legend of the tables above.

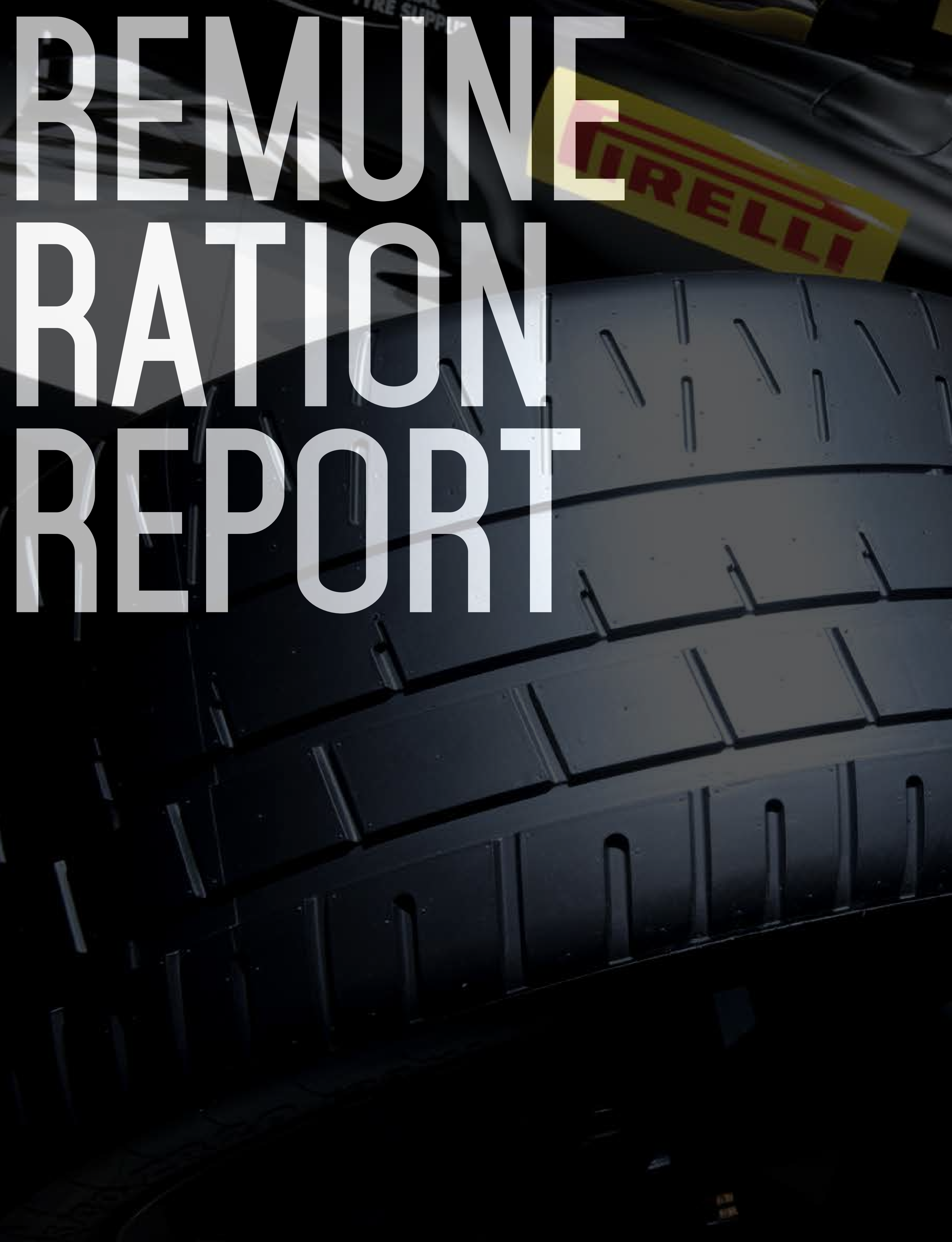
ANNEX A

List of important positions held by Directors in other companies not belonging to the Pirelli Group

Marco Tronchetti Provera	Coinv S.p.A.	Chairman
	Gruppo Partecipazioni Industriali S.p.A.	Chairman
	Marco Tronchetti Provera & C. S.p.A.	Chairman
	Nuove Partecipazioni S.p.A.	Chairman
	Mediobanca S.p.A.	Deputy Chairman
	MGPM società semplice	General Partner and Director
	Eurostazioni S.p.A.	Director
Alberto Pirelli	FIN. AP di Alberto Pirelli & C. Sapa	General Partner
	Intek Group S.p.A.	Director
	Nuove Partecipazioni S.p.A.	Director
Anna Maria Artoni	Artoni Group S.p.A.	Sole Director
	Artoni Trasporti S.p.A.	CEO
	CDA Linkiesta	Director
Didier Casimiro	ATK	Chairman
	TZS	Chairman
	RN-TSIR	Director
	TNK-BP Limited	Director
	TNK Trade Limited	Director
	TNK Trading International S.A.	Director
	Krasnoleninsk Refinery	Director
	RN-Trade	Director
	RN-Sheremetyevo	Director
	Rosneft	Member of the Management Board
Paolo Fiorentino	Unicredit Business Integrated Solutions Scpa	Chairman
	Officinae Verdi S.p.A.	Chairman
	Unicredit Credit Management Bank S.p.A.	Director and member of the Executive Committee
	Unicredit Bank Austria AG	Deputy Chairman
Ivan Glasenberg	Glencore	CEO
	United Company Rusal plc	Director
Andrey Kostin	VTB Bank	Chairman of Management Board and member of the Supervisory Council
	VTB 24	Chairman of the Supervisory Council
	VTB Bank Ukraine	Chairman of the Supervisory Council
	Bank of Moscow	Chairman
	VTB Capital	Director

Petr Lazarev	International Bank of Reconstruction and Development	Chairman of the Supervisory Board
	LLC Neftepromleasing	Chairman of the Supervisory Board
	LLC RN-Trade	Deputy Chairman
	TNK-BP Limited	Director
	TNK-BP International Limited	Director
	TNK Industrial Holdings Limited	Director
	TNK SH Investments Limited	Director
	TNK-BP Finance SA	Director
	TOC Investments Corporation	Director
	Taihu Limited	Director
	Rosneft	Member of the Management Board
Elisabetta Magistretti	Mediobanca S.p.A.	Director
	Luxottica Group S.p.A.	Director
Gaetano Micciché	Intesa Sanpaolo S.p.A.	Director
	Banca IMI S.p.A.	CEO
	Prada S.p.A.	Director
Paolo Pietrogrande	Netplan Management Consulting LLC	CEO
	Tobin Consulting Engineering	Member Advisory Board
Luigi Roth	Alba Leasing S.p.A.	Chairman
	ASTM	Director
	Eurovita Assicurazioni S.p.A.	Director
Igor Sechin	Rosneft	Chairman, Deputy Chairman of the Board of Directors and Chairman of Management Board
	Rosneftgaz	Chairman
	National Oil Consortium	Chairman
	United R&D Center (RN-CIR)	Chairman
	CSKA PHC	Chairman of the Supervisory Board
	RN Management	Chairman
	TNK-BP Limited	Director
Manuela Soffientini	Electrolux Appliances S.p.A.	Chairman and CEO
Igor Soglaev		

REMUNERATION REPORT



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INTRODUCTION

This Remuneration Report ("**Report**") is organised into two sections:

- Section I: "Policy" for the year 2015 ("**Policy 2015**") and
- Section II: "Account" of the year 2014 ("**Account 2014**").

The Report has been drafted in accordance with art. 123-ter of the Consolidated Finance Act and art. 84-*quater* of the Consob Issuers' Regulations and on the basis of Schedule 7-*bis* of Annex 3A of the Issuers' Regulations. The drafting has taken into account the European Commission's recommendations of 30 April 2009 concerning the remuneration of Directors of listed companies (2009/385/EC) as well as the remuneration recommendations of the Code of Conduct of the Italian Stock Exchange, to which Pirelli adheres.
The Report also adopts the procedures of art. 14 of the Procedure for Transactions with Related Parties, with regard to Pirelli.
Policy 2015 establishes principles and guidelines which Pirelli adheres to in order to (i) determine and (ii) monitor the application of the compensation policies, as stated below, relating to:

- Pirelli & C.'s Directors vested with special roles, General Managers, and Executives with strategic responsibility;
- the *Senior Manager* and the *Executives* of the Group.

The Account 2014, presented to inform the Shareholders' Meeting, provides a balance sheet on remuneration for the year 2014, highlighting consistency with the Policy approved by the Company for that year.
To help make the Report more readable and comprehensible, below is a glossary of some frequently used terms:

Directors vested with special roles: meaning those Directors of Pirelli & C. holding the roles of Chairman, Chief Executive Officer, and Vice Chairman. Directors vested with special roles in other Pirelli Companies, who are also executives of the Group (unless decided otherwise by the Board of Directors of Pirelli & C., which qualifies them as "Executives with strategic responsibility"), are, for the purposes of the Policy, in relation to the role held, *Executives or Senior Managers*.

Directors not vested with special roles: meaning all the Directors of Pirelli & C. other than those vested with special roles.
Directors not vested with special roles in other Pirelli Companies, who are also executives of the Group (unless decided otherwise by the Board of Directors of Pirelli & C., which qualifies them as "Executives with strategic responsibility"), are, for the purposes of the Policy, in relation to the role held, *Executives or Senior Managers*.

Annual Total Direct Compensation at Target: means the sum total of the following components, independent of whether they are disbursed by Pirelli & C. or by other Companies of the Group:

- gross annual fixed remuneration component;
- annual variable component that the beneficiary would receive if achieving their *target* objectives;
- medium/long-term variable annualisation component composed of the LTI the beneficiary would receive if achieving their three-year target objectives, and composed of the annual deferred payment *rolling* mechanism for the accrued portion of the MBO and payment of an increase of the entire accrued MBO, depending on the extent to which there is temporal continuity of achievement of the annual target objectives.

Remuneration Committee: meaning Pirelli & C..'s Remuneration Committee.

Board of Directors: means the Board of Directors of Pirelli & C..

General Managers: persons, specified by the Board of Directors of Pirelli & C., vested with broad powers for managing the company.
Persons holding the role of General Manager in other Pirelli Companies, (unless decided otherwise by the Board of Directors of Pirelli & C., qualifying them as "Executives with strategic responsibility"), are, for the purposes of the Policy, in relation to the role held, *Executives* or *Senior Managers*.

Executives with strategic responsibility: executives, identified by express decision by the Board of Directors of Pirelli & C., having power or responsibility for planning and controlling the activities of the Company, or having the power to take decisions that may affect the future development prospects of same and, more generally, of Pirelli.

Executives: executives of the Italian Pirelli Company or employees of the Group's foreign Companies, with a position or role that is equivalent to that of an Italian executive.

Pirelli Group or Pirelli: means the whole ensemble of Companies, including those within the scope of consolidation of Pirelli & C. S.p.A..

Management: means the whole ensemble of Directors vested with special roles, the General Managers, the Executives with strategic responsibility, the *Senior Managers* and the *Executives*.

MBO: means the variable annual component of the remuneration achievable with regard to achieving the predefined business objectives as illustrated in paragraph no. 5, below.

LTI Plan 2014-2016: means the *Long Term Incentive Cash* Plan illustrated in paragraph no. 5, below.

GAS: means the gross annual (salary) fixed component of remuneration for those that have employee status with a Pirelli Group Company.

Senior Manager: those in senior roles, reporting first to (i) the Directors vested with special roles, and by whom they are assigned specific functions, and to (ii) the General Managers whose activities have a significant impact on the *business* results.

Company: means Pirelli & C. S.p.A.

Top Management: means the whole ensemble of Directors vested with special roles, the General Managers, and the Executives with strategic responsibility.

REMUNERATION POLICY FOR THE YEAR 2015

1. PRINCIPLES AND EXAMINATION OF RISKS

The Policy 2015 has been prepared based on the Policy of previous years, and also takes into account the regulatory requirements adopted by Consob, including resolution no. 18049 of 23 December 2011, as well as the adoption of a new *Long Term Incentive Cash Long Term Incentive* Cash Plan for the period 2014-2016 "launched" in 2014, after approval at the Shareholders' Meeting, in "support" of the objectives for the period 2014-2016 contained in the Business Plan 2013-2017 (see paragraph 5 of Policy 2014).

* * *

The Policy aims to attract, motivate and retain resources that have the professional skills necessary to successfully pursue Pirelli's company objectives. In fact, Pirelli defines and enforces a Policy characterised by:

- Top Management and *Senior Managers*, with outstandingly attractive characteristics, achieving the third quartile in market comparisons (using commonly used *benchmarks*);
- *Executives* up to speed with market comparison practices.

The Annual Total Direct Compensation at Target constitutes the reference comparison.
The Policy is defined so as to align the interests of *Management* with those of Shareholders, pursuing the priority objective of creating sustainable value, in the medium to long term period, by creating an effective and verifiable link, via compensation, between, on the one hand, individual *performance* and, on the other hand, Pirelli.
The remuneration structure of *Management*, which is also defined based on the national and international *benchmarks* implemented by the Company, used for Executive Compensation, are composed of three principal elements:

- a fixed component;
- a variable annual component (MBO);
- a variable medium/long term (LTI) component aimed at rewarding performance for the period 2014-2016 at the Pirelli Group.

The variable MBO and LTI components are established - taking into account the benchmarks for each figure - as a percentage of the fixed component, increasing in relation to the position held by the beneficiary.
Management's variable remuneration is founded on the short, medium, and long term objectives set out in the annual and multi-year Plans communicated to the market.
Please refer to paragraph no. 5 "MBO and the LTI Plan" for a more detailed description of how the variable components work.
In this regard, it should be emphasised that the risk management process is fully integrated into the strategic planning process: this ensures that the objectives set for attaining the variable incentive do not expose Pirelli to managerial behaviour that is not consistent with acceptable level of risk (*risk appetite*) defined by the Board of Directors when approving the Plans.
Management remuneration is therefore structured in order to ensure a balance between its components.
Part of the variable remuneration accrued as MBO is deferred, supported by continuity of results over time (and therefore its disbursement is "at risk") with a possible "reward" mechanism for its increase (for a detailed description, see paragraph 5).
The definition of a *mix* of objectives, among which there are also objectives of a non-financial type, for the medium/long term part, avoids one single *performance* objective assuming too much impor-

tance. Furthermore, the existence of LTI incentivisation objectives to be achieved based on cumulative three-year economic/financial parameters (and without, therefore, any finalisation of numbers in the *meantime*) avoids the adoption of behaviours aimed solely at achieving short-term objectives in order to obtain the annual incentive.
For the other possible remuneration components (Severance Indemnities, non-competition agreements, non-monetary benefits) attributed to the various *Management* figures, please refer to the paragraphs describing the compensation structure for each category.

2. "PROCESS" FOR DEFINING AND UPDATING THE POLICY AND PERSONS INVOLVED

The definition of the Policy is the result of a clear and transparent process in which the Company's Remuneration Committee and Board of Directors play a central role. It is, in fact, adopted and approved annually - suggested by the Remuneration Committee - proposed by the Board of Directors, then subjected to the advisory vote at the Shareholders Meeting.
The Board of Statutory Auditors delivers its opinion, in particular, on the part regarding the remuneration of Directors vested with special roles.
The Remuneration Committee, the Board of Statutory Auditors, and the Board of Directors oversee its implementation. To this end, at least once a year, at the presentation of the Remuneration Account, the *Senior Advisor on Human Resources* and/or the *Chief Human Resources Officer* report on the Policy to the Remuneration Committee.
The Policy 2015 - which was proposed by the Remuneration Committee and then approved by the Board of Directors, with the favourable opinion of the Board of Statutory Auditors, in the meeting on31 March 2015 - is submitted for the consideration and advisory vote of the Shareholders' Meeting.
For completeness, we note that, in accordance with the laws in force, it is the responsibility of the Board of Directors to provide for (or, if required by law, propose to the Shareholders' Meeting) the adoption of incentivisation mechanisms through the award of financial instruments or options on financial instruments, which, if approved, shall be made public, at the latest, in the Annual Remuneration Account (without prejudice to any further transparency obligations required by applicable law).
At the date of this Report, the Company has no incentivisation plans through financial instruments.

3. REMUNERATION COMMITTEE

Composition
The Remuneration Committee is appointed by the Board of Directors (which also selects its Chairman) and remains in office for the full term of the Board of Directors.
The Committee consists of three members, all independent, and, at the date of this report, they are: Luigi Roth (Chairman); Ivan Glasenberg; Manuela Soffientini. The Committee Chairman, Luigi Roth, has suitable experience in financial and remuneration matters, which was assessed by the Board of Directors when making the appointment.
The entire Board of Statutory Auditors may participate in the activities of the Remuneration Committee.
The Secretary of the Board of Directors also serves as Secretary of the Remuneration Committee.

Tasks assigned to the Remuneration Committee
The Committee plays a consulting, advisory and oversight role in order to ensure the definition and application, within the Group, of its remuneration policies, which aim, on the one hand, to attract, motivate and retain the resources that have the professional skills necessary to successfully pursue the Group's objectives and, on the other hand, to align the interests of management with those of shareholders. In particular, the Committee:

- assists the Board in defining the Group's General Remuneration Policy;

- periodically assesses the suitability, overall consistency, and specific application of the Remuneration Policy;
- regarding the Directors vested with special roles, and the General Managers, it formulates proposals to the Board:
  - for their remuneration, in line with the General Remuneration Policy;
  - for setting *performance* objectives for the variable component of such remunerations;
  - for defining non-competition agreements;
  - for defining arrangements for ending the relationship, based on the principles established in the General Remuneration Policy;

- with reference to the Executives with strategic responsibility, it checks the consistency of their remuneration with the General Remuneration Policy and expresses an opinion on this, in accord with the procedure for Transactions with Related Parties;
- assists the Board of Directors in examining the proposals made, at the Shareholders' Meeting, for adopting compensation plans based on financial instruments;
- monitors the implementation of decisions taken by the Board, in particular by verifying the actual attainment of the *performance* targets set;
- examines and submits, to the Board of Directors, the Annual Statement on Remuneration which, for members of the administrative and control bodies, for General Managers, and for Executives with strategic responsibility as a whole:
  - provides proper representation of each of the items making up the remuneration;
  - analytically illustrates the compensation paid, during the year in question, for any reason and in any form, by the Company and its subsidiaries.

The Board of Directors has granted the Remuneration Committee competence as the Committee for Transactions with Related Parties, as required by Consob regulations, for matters relating to the remuneration of Directors and Executives with strategic responsibilities.
Regarding the Remuneration Committee's operating mode, see the Corporate Governance and Ownership Report.

4. CONTENT OF POLICY 2015

The Policy, as stated, defines principles and guidelines to which:

- the Board of Directors adheres for defining the remuneration of Directors of Pirelli & C., Particularly those Directors vested with special roles, the General Managers, and the Executives with strategic responsibility;
- Pirelli refers for defining the remuneration of *Senior Managers* and, more generally, of *Executives*.

5. MBO AND LTI PLAN

MBO

The variable annual component (MBO) remunerates the beneficiary's *performance* on an annual basis.
The MBO objectives for the Directors vested with special roles, and who are assigned specific functions, for the General Managers, and for the Executives with strategic responsibilities, are established by the Board of Directors (without the persons in question being present at such decision meetings) at the suggestion of the Remuneration Committee, and the objectives are linked to Pirelli's performance, on an annual basis.
The objectives of *Senior Management* and of *Executives* are, however, defined by their line manager, in agreement with the Group's Human Resources and Organisation Department, and with the Group's Management Control Department. For these positions, unlike those of *Top Management*,objectives may be set that are linked to the economic performance of the unit/function to which they belong, and objectives of a qualitative/quantitative nature may be set, linked to specific, individual

performance parameters.
The Group's Human Resources and Organisation Department, with the assistance of the Group's Management Control Department, proceeds, at the end of the year, and based on final *performance*, to verify the level of achievement of these objectives.
Accrual of the annual variable component is subject to the achievement of an access condition (*on/off*) of financial type, defined in relation to the specific role played by the beneficiary. The incentive is then calculated based on certain objectives also defined in relation to the specific role held by the beneficiary.
The following are the objectives for the various *Management* positions, and their weighting at target.

POSITION	OBJECTIVE	WEIGHTING AT TARGET
Chairman and Chief Executive Officer / General Managers and Executives with strategic responsibility	Group's NFP (before dividends)	*On/off* condition
	Group's EBIT (after restructuring costs)	65%
	Group's Net Cash Flow (before dividends)	35%
Senior Managers / Headquarters Executives	Group's NFP (before dividends)	*On/off* condition
	Group's EBIT (after restructuring costs)	50%
	Group's Net Cash Flow (before dividends) or a functional objective with Group "scope"	30%
	Individual qualitative/quantitative Performance	20%
Senior Managers / Executives of the *BU/Region*	Group's NFP (before dividends) if BU; Region NFP if *Region*	*On/off* condition
	BU/Region EBIT (before restructuring costs)	50%
	Functional objective typically with Group "scope"	30%
	Individual qualitative/quantitative Performance	20%

The objectives at *target* represent a performance perfectly aligned with the objectives disclosed to the market. The on/off condition is set with a "tolerance margin" with respect to the budget value (Euro 658 million).

POSITION	OBJECTIVE	TARGET OBJECTIVE
Chairman and Chief Executive Officer / General Managers and Executives with strategic responsibility	Group's NFP (before dividends)	*On/off* condition Euro 722.3 million
	Group's EBIT (after restructuring costs)	Euro 928.8 million
	Group's *Net Cash Flow* (before dividends)	Euro 321.5 million

There is an access threshold associated with award of an incentive equal to 75% of the achievable incentive at *target*; and there is also a cap on the amount attainable.
The *range* of objectives is set according to the following general rules:

- for each target the delta between the target level and the maximum level is always equal to at least 1.5 times the delta between the target level and the "access threshold" level and;
- the penalty percentage of 25% of the bonus upon achievement of the objective at "access threshold" level is always greater than the "tolerance margin" represented by the percentage difference between the "access threshold" result and "target" result.

The final calculation of the incentive between the access threshold and the *target*, and between the *target* and the maximum, is carried out using linear interpolation.

The following are the incentivisation percentages for the various positions.

	INCENTIVE ACCRUED		
POSITION	ON ACHIEVEMENT OF THE ACCESS THRESHOLD OBJECTIVES	ON ACHIEVEMENT OF THE AT TARGET OBJECTIVES	ON ACHIEVEMENT OF THE OBJECTIVES AT MAXIMUM (CAP) LEVEL
Chairman/CEO	**75% of the incentive at *target***	**100% of the compensation for the main executive role**	**250% of the incentive at *target***
General Managers	75% of the incentive at *target*	75% of the gross annual salary	200% of the incentive at *target*
Executives with strategic responsibility	75% of the incentive at *target*	50% of the gross annual salary	200% of the incentive at *target*
Senior Managers - Executives	75% of the incentive at *target*	Between 20% and 40% of the Ral according to the position	200% of the incentive at *target*

Deferred payment of the MBO

Payment of 25% of the MBO accrued is deferred for 12 months and is subject to achievement of the MBO objectives of the following year. In particular:

- if no MBO is accrued in the year following the year of the MBO's accrual, the portion of MBO that was deferred the previous year is permanently "lost";
- if the MBO's access threshold level is accrued in the year following the year of the MBO's accrual, the portion of MBO that was deferred the previous year is returned;
- if, in the following year, there is achievement of an MBO between the *target* level and the maximum level, there is disbursement - in addition to the refunding of the MBO portion deferred from the previous year - of an additional sum of between 20% and 40% of the full MBO accrued in the previous year (to obtain the results for the following year, intermediate between *target* and maximum, the increase of the MBO of the previous year is calculated using linear interpolation).

LTI Plan

The LTI Plan 2014-2016, like the previous one, applies to all Management (except in specific cases such as, for example, *Managers of Internal Auditing*) and may also be applied to those who, during these three years, become part of the Group's *Management* and/or become, for reasons of internal career development, *Executives*. In such an event, inclusion is subject to the condition of participating in the plan for at least one whole year, and the incentivisation percentages are adjusted based on the number of months of actual participation in the Plan.

The LTI Plan 2014-2016 contains an incentive ("LTI Award") that is subject to achievement of the multi-year objectives, and its percentage is determined based on the gross annual fixed component / gross annual salary received by the beneficiary at the date when their participation in the Plan is established. This incentivisation percentage grows in relation to the position held, and takes into account the reference *benchmark* for any position.

There is an access threshold for each objective - which is associated with award of a sum equal to 75% of the incentive portion achievable at target - and there is also a cap on the amount attainable. The LTI Award, in the event of achieving all of the objectives to the maximum level, cannot be greater than twice the incentive attainable in the event of achieving the objectives at *target*.

In the event of failing to achieve the access threshold for any objective, the beneficiary does not accrue any right to disbursement of the relevant portion of the incentive.

The following are the incentivisation percentages for the various positions.

	INCENTIVE ACCRUED		
POSITION	ON ACHIEVEMENT OF THE ACCESS THRESHOLD OBJECTIVES	ON ACHIEVEMENT OF THE AT TARGET OBJECTIVES	ON ACHIEVEMENT OF THE OBJECTIVES AT MAXIMUM (CAP) LEVEL
Chairman/CEO	**75% of the incentive at *target***	**250% of the compensation for the main executive role**	**200% of the incentive at *target***
General Managers	75% of the incentive at *target*	200% of the gross annual salary	200% of the incentive at *target*
Executives with strategic responsibility	75% of the incentive at *target*	167% of the gross annual salary	200% of the incentive at *target*
Senior Managers - Executives	75% of the incentive at *target*	Between 50% and 167% of the Ral according to the position	200% of the incentive at *target*

The following are the LTI Plan objectives common to all *Management* positions, and their relative weighting at *target*.

OBJECTIVE	WEIGHTING AT TARGET
Creation of value (difference between NOPAT - *Net Operating Profit After Tax* - and the weighted average cost of fixed capital plus working capital)	*On/off* condition
Group ROS (calculated as the ratio between the EBIT after cumulative restructuring costs for the three years, and cumulative sales for the three years), of the *Business Unit* or the *Region* (calculated as the ratio between the EBIT before cumulative restructuring costs for the three years, and cumulative sales for the three years) according to the organisational unit to which the *Executive* belongs	30%
“Absolute” Total Shareholder Return calculated as the ratio between: (average share value for the last half of 2016 - the average share value for the last half of 2013 + dividends paid in the three year period) and (average share value for the last half of 2013)	40%
Total Shareholder Return “relative” to a selected panel of peers (Michelin, Bridgestone, Goodyear, Hankook)	20%
Sustainability Indicator: Calculated in relation to the positioning of Pirelli on two indices, with equal weighting: (i) Dow Jones Sustainability World Index, ATX Auto Components sector (ii) FTSE4Good Global Index, Automobile & Parts sector. This objective is subject to achieving the access threshold of at least one of the above economic/financial objectives (no pro-rata portion of the three-year incentive will be paid out if only this objective is achieved).	10%

The *target* level of the economic/financial objectives is perfectly aligned with the Business Plan 2013-2017 objectives disclosed to the market at that time. Regarding the “relative” *performance* objectives, the *target* level is set to particularly challenging values.

POSITION	OBJECTIVE	TARGET OBJECTIVE
Chairman and Chief Executive Officer / General Managers and Executives with strategic responsibility	Creation of value (difference between NOPAT - *Net Operating Profit After Tax* - and the weighted average cost of fixed capital plus working capital)	*On/off* condition *Creation of positive value*
	Group ROS (calculated as the ratio between the EBIT after cumulative restructuring costs over the three years, and cumulative sales for the three years), of the *Business Unit* or the *Region* (calculated as the ratio between the EBIT before cumulative restructuring costs for the three years, and cumulative sales for the three years) according to the organisational unit to which the *Executive* belongs	13.73% (of the Group)
	"Absolute" total Shareholder Return calculated as the ratio between: (average share value for the last half of 2016 - the average share value for the last half of 2013 + dividends paid in the three year period) and (average share value for the last half of 2013)	+47%
	Total Shareholder Return “relative” to a selected panel of peers (Michelin, Bridgestone, Goodyear, Hankook)	Aligned to the performance of the panel
	Sustainability Indicator: Calculated in relation to the positioning of Pirelli on two indices, with equal weighting: (i) Dow Jones Sustainability World Index, ATX Auto Components sector (ii) FTSE4Good Global Index, Automobile & Parts sector. This objective is subject to achieving the access threshold of at least one of the above economic/financial objectives (no pro-rata portion of the three-year incentive will be disbursed if only this objective is achieved).	Positioning in the highest decile

The range of objectives is set according to the following general rules:

- for each target the delta between the target level and the maximum level is always at least 1.5 times the delta between the target level and the “threshold access” level;
- the penalty percentage of 25% of the bonus upon achievement of the target at “access threshold” level is always greater than the tolerance margin represented by the percentage difference between the “access threshold” result and “target” result.

For the TSR and ROS objectives, for intermediate results between the access threshold and the target value or between the *target* value and the maximum value, there will be a final calculation of the performance using linear interpolation.
The full cost of the LTI Plan is included in the *economics* of the Business Plan, so that its cost is “self-financed” by achieving the results.
The LTI Plan also has a *retention* purpose. In the event of termination of the mandate and/or of the employment relationship, for any reason, before the end of the three years, the recipient - including Directors vested with special roles, to whom specific functions are assigned (in the case of the Chairman and the CEO) - in fact ceases to participate in the LTI Plan and as a consequence, the award will not be disbursed, not even on a pro-rata basis.

Clawback clauses
The annual (MBO) and multiannual (LTI) incentive plans adopted by Pirelli after 1 January 2015 in favour of: Directors with special offices or who are assigned specific functions, General Managers and Executives with strategic responsibility, provide, inter alia, for mechanisms known as clawbacks.
In particular, without prejudice to a remedy by any other actions permitted by law for the protection of the interests of the Company, the signing will be expected with said parties of contractual arrangements that allow Pirelli to request as return (in whole or in part), within three years after their provision, any incentives paid to individuals who, with intent or gross negligence, have been guilty of (or have contributed to) any acts, as indicated below, related to the economic/financial indicators included in the Annual Financial Report resulting in a subsequent comparative disclosure and which have been adopted as parameters for the determination of the variable bonuses of these incentive plans:

- proven and significant errors which result in non-compliance with the accounting standards that Pirelli considers to be applicable, or
- proven fraudulent behaviour intended to achieve a specific representation of the financial position, net result or cash flows of Pirelli.

6. COMPENSATION IN THE EVENT OF RESIGNATION, DISMISSAL OR TERMINATION OF EMPLOYMENT

It is the Pirelli Group’s policy not to enter into “parachute” agreements - with Directors, General Managers, Executives with strategic responsibility, *Senior Managers and Executives* - that regulate *ex ante* the economic aspects arising from early termination, at the initiative of the Company or the individual (so-called “parachute” agreements).
Not deemed to be “parachute” agreements are those agreements made in the event of interruption of the relationship existing with the Pirelli Group for reasons other than just cause. In fact, Pirelli’s approach is to seek agreements for “closing” the relationship consensually. Notwithstanding, however, legal and/or contractual obligations, agreements for terminating relationships with the Pirelli Group are based on the reference *benchmarks* in the field and within the limits defined by case law and the practices of the country in which the agreement is made.
The Company internally defines the criteria with which itself and the other Group companies must comply in managing agreements regarding early termination of relationships with executives and/or Directors vested with special roles.
With regard to Directors vested with special roles, who are assigned specific responsibilities, and

who are not linked to executive labour relations, Pirelli does not provide for payment of compensation or extraordinary compensation related to termination of the mandate. Payment of a specific compensation may be granted, subject to prior assessment by the competent company bodies, in the following cases:

- termination at the initiative of the Company, without just cause;
- termination at the initiative of the Director for just cause, meaning, for example, a substantial change to the role or to the tasks assigned and/or cases of "hostile" takeover.

In such cases, the compensation is equal to 2 years' annual gross compensation, meaning the sum of the gross annual fixed salary for the position held in the Group, the average annual variable remuneration (MBO) accrued during the previous three years, and the TFM on said amounts.

7. NON-COMPETITION AGREEMENTS

The Group may enter into - with General Managers, Executives with strategic responsibility, and, for particularly important professional roles, *Senior Managers* and *Executives* - non-competition agreements, which provide compensation relating to the RAL and to the duration and scope of the obligation arising from the agreement.
The obligation refers to the industry in which the Group is operating at the time of the agreement, and to its area of geographical operation. The scope varies depending on the role filled at the time of making the agreement, and may come, in the case of General Managers, to have a geographical extension that covers all the main countries in which the Group operates.

8. REMUNERATION OF THE DIRECTORS OF PIRELLI & C.

Within the Board of Directors, it is possible to distinguish between:

- Directors vested with special roles, who may also be assigned specific responsibilities;
- Directors not vested with special roles.

The granting of powers to Directors, for unique, urgent situations, does not, in itself, qualify them as Directors who are assigned specific responsibilities.
The Pirelli Shareholders' Meeting of 12 June 2014, when appointing the Board of Directors, defined total compensation -*ex* art. 2389 paragraph 1 c.c. - for remuneration of Directors, granting the Board Of Directors competence to determine its allocation. In particular, the Shareholders' Meeting approved a total gross annual compensation of 1.5 million Euro subsequently allocated as follows by the Board of Directors:

BODY	ROLE	GROSS ANNUAL COMPENSATION
Board of Directors	Director	50 thousand Euro
Audit, Risks, Sustainability and Corporate Governance Committee	Chairman	40 thousand Euro
	Component	30 thousand Euro
Remuneration Committee	Chairman	25 thousand Euro
	Component	20 thousand Euro
Strategies Committee	Chairman (M. Tronchetti Provera)	No compensation
	Component	25 thousand Euro
Appointments and Successions Committee	Chairman (M. Tronchetti Provera)	No compensation
	Components	20 thousand Euro
Supervisory Board	Chairman	40 thousand Euro
	Components	25 thousand Euro

In line with *best practices*, for the Directors not vested with special roles (as defined above) there is no variable component of compensation.

Directors were also entitled to reimbursement of expenses incurred in performing their role.
Also in line with best practices, there is an insurance policy with the name of D&O (*Directors & Officers*) *Liability* for civil liability with regard to corporate third party, of General Managers, Executives with strategic responsibility, *Senior Managers* and *Executives* in the performance of their functions, designed to indemnify Pirelli from charges arising from related compensation, resulting from provisions established in the applicable national collective employment contract and from rules of mandate, excluding cases of fraud and extreme negligence.
For Directors not vested with special roles, there is no insurance cover, whether for social security or for pensions, other than that which is obligatory.

9. THE BOARD OF STATUTORY AUDITORS

Remuneration of the auditing body is determined by the Shareholders' Meeting, as a fixed annual amount. In 2012, when renewing the Board of Statutory Auditors, the gross annual fixed compensation of its Chairman was set at 75,000 Euros, and that of its members at 50,000 Euros.
For the Statutory Auditor appointed to the Supervisory Body, the Board of Directors, following its renewal, established a gross annual compensation of 25,000 Euros.
The Statutory Auditors are also entitled to reimbursement of expenses incurred in performing their role.
In line with best practices, there is an insurance policy with the name of *D&O* (*Directors & Officers*) *Liability* for civil liability with regard to corporate third party, of General Managers, Executives with strategic responsibility, *Senior Managers* and *Executives* in the performance of their functions, designed to indemnify Pirelli from charges arising from related compensation, resulting from provisions established in the applicable national collective employment contract and from rules of mandate, excluding cases of fraud and extreme negligence.

10. REMUNERATION OF DIRECTORS VESTED WITH SPECIAL ROLES

Upon appointment, or at the first subsequent meeting, the Remuneration Committee proposes, to the Board of Directors, the compensation to which the Directors vested with special roles are entitled.
Remuneration of the Directors vested with special roles, who are also assigned specific responsibilities, is determined on the basis of the following criteria.

COMPONENT	CRITERION
Fixed component for all the roles covered within Pirelli	- approved by the Board of Directors at the time of appointment and for a full term in a comprehensive annual measure, including any fixed components for other positions in the Pirelli Group; - no greater than 50% of the *Annual Total Direct Compensation at Target*.
Annual incentive (MBO)	- Access threshold: 75% of the MBO at target; - MBO at target: 100% of the compensation for the main executive role; - Max MBO (cap): 250% of the MBO at target;
Medium/long term annualised variable component at *target*	- composed of the LTI award and the rolling annual disbursement deferment mechanism for the portion of the MBO accrued, and awarded for an increase in the entire MBO accrued based on the level of MBO achieved in the following year; - not less than 60% of the total variable component.

At the date of this Report, the Chairman and CEO, Marco Tronchetti Provera, is the only Director vested with special powers and assigned specific responsibilities.
The gross annual fixed component for Chairman and CEO, Marco Tronchetti Provera, is a total of EUR 2,950,000 divided as follows:

ROLE	GROSS ANNUAL FIXED COMPENSATION
Chairman and CEO (including Director compensation) of Pirelli & C. S.p.A.	950,000 Euro
Chairman and CEO of Pirelli Tyre S.p.A. (main executive role)	2,000,000 Euro

As regards the incidence of the various components, below is the structure of the compensation package of the Chairman and CEO in the event of achievement of the annual MBO 2014, 2015 and 2016 targets and the three-year targets of the LTI Plan 2014-2016 (i) at access threshold, (ii) at target and (iii) at maximum level.

ANNUALISED STRUCTURE OF THE REMUNERATION OF THE CHAIRMAN AND CEO			
	ACHIEVEMENT OF THE ACCESS THRESHOLD OBJECTIVES	ACHIEVEMENT OF THE AT TARGET OBJECTIVES	ACHIEVEMENT OF THE OBJECTIVES AT MAXIMUM (CAP) LEVEL
Fixed component	51.8%	42.0%	22.2%
Variable annual component (MBO)	19.7%	21.4%	28.2%
Medium/long term annualised variable component at *target*	28.5%	36.6%	49.6%
Total	**100%**	**100%**	**100%**

Depending on the 12-month deferral of a portion of the MBO award, with the risks and opportunities mentioned in paragraph 1 and specified in paragraph 5, the accrual of a portion of the variable component for the medium/long period shown in the table is subject to the results achievement level for the year 2017, and may therefore be disbursed in the year 2018.
Also, for Directors vested with special roles, and to whom specific responsibilities are assigned, in the event that these are not related to management labour relations (at the date of this report, the Chairman and Chief Executive Officer, Marco Tronchetti Provera), the Board of Directors has provided, as guaranteed by law and/or the National Collective Employment Contract, to the Group's Italian executives:

- assignment of a severance indemnity (T.F.M.) ex art. 17, paragraph 1, c) of T.U.I.R. (Income Tax Consolidation Act) no. 917/1986 having characteristics similar to those typical of Employee Severance Indemnity (TFR) *ex* art. 2120 c.c. awarded in law to Italian executives of the Pirelli Group and including contributions paid by the employer, which would be due for social security Institutions or Funds in the event of executive employment;
- a policy relating to (i) accidents occurring while fulfilling the mandate and (ii) non-occupational accidents with premiums charged to the Company;
- severance indemnity for permanent disability and for death due to disease;
- further *benefits* typical for their role and currently awarded by the Pirelli Group to Executives with strategic responsibility and/or to *Senior Managers* (company car).

In the event that the Director is vested with a special role, but is not assigned specific responsibilities (at the date of this Report, the Vice Chairman Alberto Pirelli), the remuneration of the Director is composed exclusively of a gross annual fixed component.
When the Director vested with a special role is also an *Executive/Senior Manager* (this is the case for Alberto Pirelli) the remuneration as *Executive/Senior Manager* is determined based on the criteria in the Policy relating to the position held, and this is also submitted, for examination, to the Remuneration Committee and the Board of Directors.
For Directors who are vested with special roles, but to whom no specific responsibilities are assigned, there is no insurance cover, whether for social security or for pensions, other than that which is obligatory and that which is provided for Directors.
Analysis of the positioning, composition and, more generally, of the competitiveness of the remuneration of Directors vested with special roles is carried out by the Remuneration Committee and the Board of Directors, with the assistance of independent companies specialising in *Executive Compensation*, using methodological approaches that allow full assessment, albeit within the limits typical of *benchmark* analyses, of the complexity of the roles from an organisational standpoint, and of the specific functions assigned, as well as the impact of the individual on the final *business* results.
In particular, when defining the panel of annually updated reference companies, various components (sector, geography etc.) are taken into account.
The sample of reference companies used for the competitiveness analysis and for reviewing the

remuneration of the Chairman and CEO of Pirelli & C. is composed, on the one hand, of 8 Companies in the “*Car and Tyre*” sector and, on the other hand, of 28 European “*Large Cap*” companies.

The 8 companies making up the “*Car and Tyre*” panel are:

BMW	DAIMLER	MICHELIN	RENAULT & NISSAN
CONTINENTAL	FIAT	PEUGEOT	VOLKSWAGEN

The 28 companies that comprise the “*Large Cap Europe*” panel are:

BURBERRY GROUP	HEINEKEN	MAN	RENAULT & NISSAN
CARREFOUR	HENKEL	MICHELIN	REPSOL YPF
CONTINENTAL	HERMES INTL.	PERNOD-RICARD	RICHEMONT
DANONE	IBERDROLA	PEUGEOT	ROLLS-ROYCE
ELECTROLUX	IMPERIAL TOBACCO GROUP	PHILIPS ELTN	TELECOM ITALIA
E ON	LINDE	RECKITT BENCKISER GROUP	VOLVO
FIAT	LUXOTTICA	REED ELSEVIER	WPP

11. GENERAL MANAGERS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITY

At the date of the Policy's publication, those filling the roles are as follows:

- General Managers: General Manager of *Technology* Maurizio Boiocchi and General Manager of *Operations* Gregorio Borgo;
- Executives with strategic responsibility: Chief Financial Officer Francesco Tanzi; Chief Planning and Controlling Officer Maurizio Sala; Chief Human Resources Officer Christian Vasino; Chief Manufacturing Officer Giuliano Menassi.

In determining the remuneration, and its individual components, we take into account the following criteria:

POSITION	COMPONENT	CRITERION
General Managers	Fixed	- though determined at the time of taking on the role, it may periodically be revised in order to take into account performance, assumption of new responsibilities, and market trends in pay for the position filled by the individual; - no greater than 50% of the *Annual Total Direct Compensation* at *Target*.
	Annual incentive (MBO)	- Access threshold: 75% of the MBO at *target*; - MBO at *target*: 75% of the gross annual salary; - Max MBO (cap): 200% of the MBO at *target*;
	Medium/long term annualised variable component at *target*	Not less than 60% of the total fixed component
	Benefits	- benefits typically awarded to Pirelli Executives
	Other components	- supplementary pension plans that involve the Company paying into a pension fund a sum equal to 4% of the gross annual salary received, up to a maximum of 150,000 Euro gross; - supplementary health and life insurance to that of the national collective employment contract for Executives of Companies that Produce Goods and Services.
Executives with strategic responsibility	Fixed	- though determined at the time of taking on the role, it may periodically be revised in order to take into account performance, assumption of new responsibilities, and market trends in pay for the position filled by the individual; - no greater than 50% of the *Annual Total Direct Compensation* at *Target*.
	Annual incentive (MBO)	- Access threshold: 75% of the MBO at *target*; - MBO at *target*: 50% of the gross annual salary; - Max MBO (cap): 200% of the MBO at *target*.
	Medium/long term annualised variable component at target	Not less than 60% of the total fixed component
	Benefits	- benefits typically awarded to Pirelli *Executives*
	Other components	- supplementary pension plans that involve the Company paying into a pension fund a sum equal to 4% of the gross annual salary received, up to a maximum of 150,000 Euro gross; - supplementary health and life insurance to that of the national collective employment contract for Executives of Companies that Produce Goods and Services.

The process for defining the remuneration of General Managers is similar to that described for Directors vested with special roles.
Regarding the Executives with strategic responsibility, the Remuneration Committee assesses the consistency of the remuneration with the Policy.
For General Managers, the fixed component is currently:

- 675 thousand Euro for the *Operations* General Manager;
- 750 thousand Euro for the *Technology* General Manager.

As regards the incidence of the various components, below is the structure of the compensation package of the General Managers and Executives with strategic responsibility in the event of achievement of the annual MBO 2014, 2015 and 2016 targets and the three-year targets of the LTI Plan 2014-2016 (i) at access threshold, (ii) at target and (iii) at maximum level.

ANNUALISED REMUNERATION STRUCTURE FOR GENERAL MANAGERS			
	ACHIEVEMENT OF THE ACCESS THRESHOLD OBJECTIVES	ACHIEVEMENT OF THE AT TARGET OBJECTIVES	ACHIEVEMENT OF THE OBJECTIVES AT MAXIMUM (CAP) LEVEL
Fixed component	48.5%	39.0%	22.5%
Variable annual component (MBO)	20.4%	21.9%	25.4%
Medium/long term annualised variable component at *target*	31.1%	39.1%	52.1%
Total	**100%**	**100%**	**100%**

ANNUALISED REMUNERATION STRUCTURE FOR EXECUTIVES WITH STRATEGIC RESPONSIBILITY			
	ACHIEVEMENT OF THE ACCESS THRESHOLD OBJECTIVES	ACHIEVEMENT OF THE AT TARGET OBJECTIVES	ACHIEVEMENT OF THE OBJECTIVES AT MAXIMUM (CAP) LEVEL
Fixed component	55.8%	46.4%	28.5%
Variable annual component (MBO)	15.7%	17.4%	21.4%
Medium/long term annualised variable component at *target*	28.5%	36.2%	50.1%
Total	**100%**	**100%**	**100%**

Depending on the 12-month deferral of a portion of the MBO award, with the risks and opportunities mentioned in paragraph 1 and specified in paragraph 5, the accrual of a portion of the variable component for the medium/long period shown in the table is subject to the results achievement level for the year 2017, and may therefore be disbursed in the year 2018.
Analysis of the remuneration of General Managers and Executives with strategic responsibility is done with the assistance of independent companies specialising in *Executive Compensation*, and the defining of the remuneration is reviewed annually and disclosed in the annual remuneration Account. In particular, when defining the *panel* of annually updated reference companies, various components (sector, geography etc.) are taken into account.
For General Managers and the Executives with strategic responsibility, the reference market used to check the competitiveness of their remuneration includes over 200 companies from the following European countries: Belgium, France, Germany, Italy, Spain, Netherlands, UK.

12. SENIOR MANAGERS AND EXECUTIVES

The remuneration of *Senior Managers* and *Executives* is more generally composed of the following elements:

- one gross annual fixed component (RAL);
- one variable annual component (MBO);
- one variable medium/long term component (composed of the LTI award and the rolling annual disbursement deferment mechanism for the portion of the MBO accrued, and awarded for an increase in the entire MBO accrued based on the level of MBO achieved in the following year);
- *benefits* awarded from business practices (e.g. car).

Also, for *Executives* and *Senior Managers* with an Italian labour contract, there is provision of:

- supplementary pension plans that involve the company paying into a pension fund a sum equal to 4% of the gross annual salary received, up to a maximum of 150,000 Euro gross;
- supplementary health and life insurance to that of the national collective employment contract for Executives of Companies that Produce Goods and Services.

In determining the remuneration, and its individual components, of *Senior Managers* and *Executives*, the Pirelli Group takes into account the following criteria:

- the fixed component: (i) for *Senior Managers* there is a weighting generally no greater than 60% of the Annual Total Direct Compensation at Target and (ii) for *Executives* there is a weighting generally no greater than 75% of the *Annual Total Direct Compensation at Target*;
- an accrued annual incentive (MBO) which, at target, represents a percentage of the RAL that is no less than 20% of that remuneration;
- the annualised medium/long term variable component at *target* has a weighting of no less than 60% of the total variable component. For the LTI award there is a limit to the maximum attainable incentive, which is equal to 2 times the award at *target*.

Below is the remuneration structure of Senior Managers and Executives (intended together) with evidence of the incidence of the various components (annualized) of their compensation package, in the event of achievement of the annual MBO 2014, 2015 and 2016 targets and the three-year targets of the LTI Plan 2014-2016 (i) at access threshold, (ii) at target and (iii) at maximum level.

ANNUALISED STRUCTURE OF REMUNERATION FOR SENIOR MANAGERS			
	ACHIEVEMENT OF THE ACCESS THRESHOLD OBJECTIVES	ACHIEVEMENT OF THE AT TARGET OBJECTIVES	ACHIEVEMENT OF THE OBJECTIVES AT MAXIMUM (CAP) LEVEL
Fixed component	58.2%	49.1%	31%
Variable annual component (MBO)	13.1%	14.7%	18.6%
Medium/long term annualised variable component at *target*	28.7%	36.2%	50.4%
Total	**100%**	**100%**	**100%**

ANNUALISED EXECUTIVE REMUNERATION STRUCTURE			
	ACHIEVEMENT OF THE ACCESS THRESHOLD OBJECTIVES	ACHIEVEMENT OF THE AT TARGET OBJECTIVES	ACHIEVEMENT OF THE OBJECTIVES AT MAXIMUM (CAP) LEVEL
Fixed component	78.4%	71.1%	52.8%
Variable annual component (MBO)	8.8%	10.7%	15.8%
Medium/long term annualised variable component at *target*	12.8%	18.2%	31.4%
Total	**100%**	**100%**	**100%**

Depending on the 12-month deferral of a portion of the MBO award, with the risks and opportunities mentioned in paragraph 1 and specified in paragraph 5, the accrual of a portion of the variable component for the medium/long period shown in the table is subject to the results achievement level for the year 2017, and may therefore be disbursed in the year 2018.
Analysis of the remuneration of *Executives* and *Senior Managers* is also carried out with assistance from independent companies specialising in *Executive Compensation* and takes into account the position filled by the individual *Manager* and the Country in question.
For the *Internal Audit* Manager, we note that, in line with *best practices*, the Board of Directors, at the suggestion of the Committee for Internal Control, Risk and *Corporate Governance* has provided for a greater role of the fixed component than that of the variable component. The *Internal Audit* Manager (and *Internal Audit Managers* in general) is not included in the LTI Incentivisation Plan, and is only beneficiary of the annual incentivisation plan linked to the mainly qualitative objectives, assessment of which is left to the Committee for Internal Control, Risk and *Corporate Governance*, and the Board Of Directors, at the recommendation of the Director responsible for overseeing the internal control system.

13. CHANGES TO THE POLICY IN COMPARISON TO THAT OF THE PREVIOUS FINANCIAL YEAR

The Policy has been drawn up based on the Policy of previous years, on relevant experience of application, and takes into account the regulatory requirements adopted by Consob.
With respect to last year, the Policy was revised to simplify the structure without prejudice to its content and to provide further details on the remuneration structure, in particular as regards the targets of incentive systems that determine the short and medium-long term variable components for Top Management.
Lastly, it was planned that the annual (MBO) and multiannual (LTI) incentive plans adopted by Pirelli after 1 January 2015 in favour of: Directors with special offices or who are assigned specific functions, General Managers and Executives with strategic responsibility, provide, inter alia, for mechanisms known as clawbacks.

14. OTHER INFORMATION

In accordance with Consob resolution no. 18049 of 23 December 2011, we note that:

- in drawing up the Policy 2015, the Company did not use external consultants and/or experts;
- Pirelli has no plans for incentivisation via financial instruments;
- in defining Policy 2015, Pirell has not used specific payment policies of other companies as a reference. Regarding the remuneration structure for each position, *benchmark* selection criteria are provided.

Schedule no. 7-*bis*, adopted with Consob resolution no. 18049 of 23 December 2011, stipulates that the Remuneration Report, in the section provided for by art. 123-ter referring to the members of the administrative bodies, the General Managers, and other Executives with strategic responsibility, must contain at least the information required by the said schedule. Below is a table indicating the required information and stating the part of the Report in which this information is provided:

INFORMATION REQUIRED BY SCHEDULE 7-BIS	PARAGRAPHS IN WHICH - IN PARTICULAR - THE REQUIRED INFORMATION IS PROVIDED
a) bodies or persons involved in the drawing up and approval of the Remuneration Policy, specifying the respective roles and the bodies or individuals responsible for proper implementation of this Policy.	**2.** "Process" for defining and updating the Policy and persons involved **3.** Remuneration Committee
b) any intervention by the Remuneration Committee or other committee competent to do so, describing the composition (with distinction between non-executive and independent directors), the competence and mode of operation;	**2.** "Process" for defining and updating the Policy and persons involved **3.** Remuneration Committee
c) the names of any independent experts involved in drawing up the Remuneration Policy;	**14.** Other information
d) the aim of the Remuneration Policy, the principles that underlie it, and any changes made to the remuneration policy compared to that of the previous financial year;	**1.** Principles and examination of risks **13.** Changes to the Remuneration Policy in comparison to that of the previous financial year.
e) description of the policies regarding fixed and variable components of the remuneration, with particular regard to indicating relative weighting, within the overall remuneration, and distinguishing between variable components for the short term and the medium to long term;	The structure of the remuneration for various individuals is described in the paragraphs which indicate the different weightings for fixed/variable; variable short term / variable medium to long term **5.** MBO and LTI Plan **8.** Remuneration of the Directors of Pirelli & C. **9.** The Board of Statutory Auditors **10.** Remuneration of Directors vested with special roles **11.** General Managers and Executives with strategic responsibility **12.** Senior Managers and Executives The paragraph below indicates and illustrates the functioning of the variable components of the remuneration:

INFORMATION REQUIRED BY SCHEDULE 7-BIS	PARAGRAPHS IN WHICH - IN PARTICULAR - THE REQUIRED INFORMATION IS PROVIDED
f) the policy followed regarding non-monetary benefits;	Paragraphs for each position **8.** Remuneration of the Directors of Pirelli & C. **10.** Remuneration of Directors vested with special roles **11.** General Managers and Executives with strategic responsibility **12.** Senior Managers and Executives
g) with reference to the variable components, a description of the performance objectives under which they are assigned, distinguishing between the variable components of short term, and medium-long term, and information on the link between the variation in results and variation in remuneration;	**5.** MBO and LTI Plan
h) the criteria used for evaluating the performance objectives on which allocation of shares, options, other financial instruments or other variable remuneration components is based;	**5.** MBO and LTI Plan
i) information aimed at highlighting the consistency of the Remuneration Policy with the pursuit of the long-term interests of the company and with the policy of risk management, where formalised;	**1.** Principles and examination of risks **5.** MBO and LTI Plan Also for the individual position **8.** Remuneration of the Directors of Pirelli & C. **9.** The Board of Statutory Auditors **10.** Remuneration of Directors vested with special roles **11.** General Managers and Executives with strategic responsibility **12.** Senior Managers and Executives
j) the terms for accrual of rights (vesting period), any deferred payment systems, and indication of the periods of deferment and the criteria used to determine these periods and, if required, the ex post correction mechanisms;	Pirelli has no plans for incentivisation via financial instruments. Regarding the mechanisms for deferment of variable monetary components, see. Paragraph: **5.** MBO and LTI Plan
k) information on any clauses for maintaining the portfolio of financial instruments after their acquisition, indicating the periods of retention and the criteria used to determine these periods;	Pirelli has no plans for incentivisation via financial instruments.
l) the policy for the procedures provided in the event of resignation or termination of employment, specifying what circumstances lead to legal entitlement and any connections between these procedures and the company's performance;	**6.** Compensation in the event of resignation, dismissal or termination of employment **7.** Non-competition agreements
m) information on the presence of any insurance cover, whether of a social security or pension nature, other than that which is mandatory;	Paragraphs for each position **8.** Remuneration of the Directors of Pirelli & C. **9.** The Board of Statutory Auditors **10.** Remuneration of Directors vested with special roles **11.** General Managers and Executives with strategic responsibility **12.** Senior Managers and Executives
n) the remuneration policy followed with respect to: (i) independent Directors, (ii) participation committees and (iii) performance of special roles (chairman, vice president, etc.);	**8.** Remuneration of the Directors of Pirelli & C.
o) if the remuneration policy has been defined using the remuneration policies of other companies as a reference, and if so, the criteria used for selecting these companies	**14.** Other information

REPORT ON REMUNERATION FOR FINANCIAL YEAR 2014

1. GENERAL

The report on remuneration for the financial year 2014 reflects the remuneration policy implemented by the Pirelli Group during the financial year and provides a statement of remuneration paid to the different groups of interested party, having due regard to the duties of transparency imposed by the relevant laws and regulations, and evidencing adherence to our remuneration policy approved in the previous financial year.

2. THE TABLE: REMUNERATION TO HOLDERS OF DIRECTORIAL AND MANAGERIAL POSITIONS, MANAGING DIRECTORS AND DIRECTORS WITH STRATEGIC RESPONSIBILITIES.

The following tables show:

- remuneration to Directors, Auditors and Managing Directors by name;
- in aggregated form, remuneration to Directors with strategic responsibility[1]. As at 31 December 2014, *Chief Financial Officer* Francesco Tanzi, *Chief Planning and Controlling Officer* Maurizio Sala, *Chief Human Resources Officer* Christian Vasino and *Chief Manufacturing Officer* Giuliano Menassiwere all Directors with strategic responsibility.

[1] Sub-section b), section II of Section 7-bis of attachment 3 A of the Issuers' Regulations provide that the Report on Remuneration be divided into two parts:
a) remuneration to members of directorial and managerial bodies and to managing directors;
b) remuneration to any other directors with strategic responsibility who have during the course of the financial year received total remuneration (obtained by aggregating monetary remuneration and those in the form of financial instruments) greater than the highest total remuneration paid to the persons specified in paragraph a).
For directors with strategic responsibility other than those specified in paragraph b), the information is shown in the relevant tables in aggregated form, showing instead of individual names the number of persons receiving the relevant sums.".

Remuneration is shown based on responsibilities, and the notes to the tables show the responsibility for which the remuneration is paid (for example, where a board member attends several sub-committees) and the relevant subsidiary and/or associate company (except those disposed of or reverted to the Company).
Included in the tables are all those persons who have taken up their responsibilities during the financial year 2014 albeit for only part of the year.
Non-monetary payments, where present, are also shown based on areas of responsibility, and reported under the taxable income criterion of the benefit paid.
It is to be noted in particular that:

- those who were company directors during the 2014 financial year received or accrued remuneration related to their areas of responsibility and based on the criteria set out in paragraph 6 of the 2014 Policy Statement;
- those who during the 2014 financial year were Directors with special responsibilities (President, Director and Vice President) received or accrued remuneration related to their areas of responsibility and based on the criteria set out in paragraph 7 of the 2014 Policy Statement;
- the Managing Directors received or accrued remuneration during the 2014 financial year based on the criteria set out in paragraph 9 of the 2014 Policy Statement;
- Directors with strategic responsibility received or accrued remuneration during the 2014 financial year based on the criteria set out in paragraph 9 of the 2014 Policy Statement;
- each member of the Supervisory Board in office up to 12 June 2014 received or accrued remuneration for the financial year 2014 of 25 thousand euros gross per annum in line with the 2014 Policy Statement. On 10 July 2014 the Board of Directors, as set out in the 2015 Policy Statement, voted

- a remuneration of 40 thousand euros gross per annum to the President of the Supervisory Board and 25 thousand euros gross per annum to each board member;
- each member of the Board of Statutory Auditors received or accrued remuneration for the financial year 2014 in line with those specified at the shareholders' meeting at the time of their nomination (in addition to a remuneration of 25 thousand euros gross per annum voted to the permanent auditor requested to sit on the Supervisory Board);
- *Senior Managers* and *Executives* received or accrued remuneration for the financial year 2014 based on the criteria set out in paragraph 9 of the 2014 Policy Statement. There have been limited exceptions, as reported by the *Senior Advisor Human Resources* and the *Chief Human Resources Officer* to the Remuneration Committee, for organisational needs, in particular for the allocation of new responsibilities and/or expatriation.

For Managing Directors, Directors with strategic responsibility and in general for other members of *Group Senior Management* (including Vice President Alberto Pirelli but excluding the President and Managing Director), Pirelli has introduced non-competition agreements to safeguard strategic and operational *know-how*.
There follows a report in tabular form of the objectives, as required by the MBO 2014 incentive system, of Directors invested with special responsibilities and who have been given specific powers, of Managing Directors and Directors with strategic responsibility, and a summary thereof.

CHAIRMAN AND CEO				
OBJECTIVE TYPE	TARGET OBJECTIVE	WEIGHT	RESULT	% INCENTIVE
Group NFP before dividends	Euro 1,136.9 million	*On/off* condition	1,010.8 million euros	ON condition
Group EBIT (after restructuring costs)	Euro 857.8 million	65%	845.1 million euros	62.6% of the performance *target bonus*
Group's Net Cash Flow (before dividends)	Euro 271.9 million	35%	Euro 311.6 million	60.5% of performance *target bonus*

GENERAL MANAGERS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITY				
OBJECTIVE TYPE	TARGET OBJECTIVE	WEIGHT	RESULT	% INCENTIVE
Group NFP before dividends	Euro 1,136.9 million	*On/off* condition	1,010.8 million euros	ON condition
Group EBIT(after restructuring costs)	Euro 857.8 million	65%	845.1 million euros	62.6% of performance *target bonus*
Group's Net Cash Flow (before dividends)	Euro 271.9 million	35%	Euro 311.6 million	52% of performance *target bonus*

In line with the variable incentive structure described in the Policy, only 75% of the accrued MBO 2014 bonus was paid, while payment of the remaining 25% is deferred for 12 months and is subject to achievement of the MBO objectives for 2015, in particular:

- if no MBO accrues in 2015, the 2014 share of MBO accrued and deferred will definitively be lost;
- if in 2015 the MBO reaches the eligibility threshold, the proportion of the 2014 MBO that has accrued and been deferred will be paid;
- if the 2015 MBO reaches at least the performance target, a further amount will be paid, over and above the proportion of the 2014 MBO accrued and deferred, equal to a percentage of the full 2014 MBO accrued. This percentage may vary from a minimum of 20% (if the 2015 MBO reaches the performance target) to a maximum of 40% (if the 2015 MBO reaches the highest performance level), with a linear progression between the two extremes.

NAME AND SURNAME	ROLE	PERIOD DURING WHICH THE ROLE WAS PERFORMED	EXPIRY OF THE ROLE	FIXED REMUNERATION	REMUNERATION FOR COMMITTEE MEMBERSHIP
Marco Tronchetti Provera	**Chairman and CEO**	**01/01/2014 - 31/12/2014**	**Shareholders' meeting for approval of financial accounts to 31 December 2016**	**2,950,000.00**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				950,000.00 [1]	
Of which remuneration from subsidiaries and associate companies				2,000,000.00 [2]	
Alberto Pirelli	**Deputy Chairman**	**01/01/2014 - 31/12/2014**	**Shareholders' meeting for approval of financial accounts to 31 December 2016**	**952,209.94**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				350,000.00 [4]	
Of which remuneration from subsidiaries and associate companies				602,209.94 [5]	
Carlo Acutis	**Director**	**01/01/2014 - 12/06/2014**	**-**	**22,192.00**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				22,192.00 [7]	
Of which remuneration from subsidiaries and associate companies					
Pietro Alonzo	**Director**	**12/06/2014 - 10/07/2014**	**-**	**3,836.00**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				3,836.00 [7]	
Of which remuneration from subsidiaries and associate companies					
Anna Maria Artoni	**Director**	**01/01/2014 - 31/12/2014**	**Shareholders' meeting for approval of financial accounts to 31 December 2016**	**50,000.00**	**37,644.00**
Of which remuneration from Pirelli & C. S.p.A.				50,000.00 [7]	37,644.00 [8]
Of which remuneration from subsidiaries and associate companies					
Gilberto Benetton	**Director**	**01/01/2014 - 12/06/2014**	**-**	**22,192.00**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				22,192.00 [7]	
Of which remuneration from subsidiaries and associate companies					
Alberto Bombassei	**Director**	**01/01/2014 - 12/06/2014**	**-**	**22,192.00**	**11,096.00**
Of which remuneration from Pirelli & C. S.p.A.				22,192.00 [7]	11,096.00 [9]
Of which remuneration from subsidiaries and associate companies					
Franco Bruni	**Director**	**01/01/2014 - 12/06/2014**	**-**	**22,192.00**	**24,411.00**
Of which remuneration from Pirelli & C. S.p.A.				22,192.00 [7]	24,411.00 [10]
Of which remuneration from subsidiaries and associate companies					
Riccardo Bruno	**Director**	**12/06/2014 - 10/07/2014**	**-**	**3,836.00**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				3,836.00 [7] [11]	
Of which remuneration from subsidiaries and associate companies					
Luigi Campiglio	**Director**	**01/01/2014 - 12/06/2014**	**-**	**22,192.00**	**17,754.00**
Of which remuneration from Pirelli & C. S.p.A.				22,192.00 [7]	17,754.00 [12]
Of which remuneration from subsidiaries and associate companies					
Didier Casimiro	**Director**	**10/07/2014 - 31/12/2014**	**At the first regularly convened shareholders' meeting**	**23,973.00**	**21,575.00**
Of which remuneration from Pirelli & C. S.p.A.				23,973.00 [7]	21,575.00 [13]
Of which remuneration from subsidiaries and associate companies					
Paolo Fiorentino	**Director**	**01/01/2014 - 31/12/2014**	**Shareholders' meeting for approval of Financial Statements to 31 December 2016**	**50,000.00**	**23,082.00**
Of which remuneration from Pirelli & C. S.p.A.				50,000.00 [7] [14]	23,082.00 [9] [14]
Of which remuneration from subsidiaries and associate companies					
Jean Paul Fitoussi	**Director**	**01/01/2014 - 12/06/2014**	**-**	**22,192.00**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				22,192.00 [7]	
Of which remuneration from subsidiaries and associate companies					
Ivan Glasenberg	**Director**	**10/07/2014 - 31/12/2014**	**Alla prima assemblea utile**	**23,973.00**	**9,589.00**
Of which remuneration from Pirelli & C. S.p.A.				23,973.00 [7]	9,589.00
Of which remuneration from subsidiaries and associate companies					

VARIABLE NON-EQUITY FEES		NON-MONETARY BENEFITS	OTHER REMUNERATION	TOTAL	FAIR VALUE OF EQUITY REMUNERATION	END OF TERM OR SEVERANCE PAYMENTS
BONUSES AND OTHER INCENTIVES	DISCRETIONARY BENEFITS					
2,462,000.00	**0.00**	**5,763.60**	**0,00**	**5,417,763.60**	**0.00**	**0.00**
		5,763.60		955,763.60		
2,462,000.00 [3]				4,462,000.00		
210,600.00	**0.00**	**3,629.28**	**34,615.38**	**1,201,054,60**	**0.00**	**0.00**
				350,000.00		
210,600.00 [6]		3,629.28 [6]	34,615.38 [5]	851,054.60		
0.00	**0.00**	**0.00**	**0.00**	**22,192.00**	**0.00**	**0.00**
				22,192.00		
0.00	**0.00**	**0.00**	**0.00**	**3,836.00**	**0.00**	**0.00**
				3,836.00		
0.00	**0.00**	**0.00**	**0.00**	**87,644.00**	**0.00**	**0.00**
				87,644.00		
0.00	**0.00**	**0.00**	**0.00**	**22,192.00**	**0.00**	**0.00**
				22,192.00		
0.00	**0.00**	**0.00**	**0.00**	**33,288.00**	**0.00**	**0.00**
				33,288.00		
0.00	**0.00**	**0.00**	**0.00**	**46,603.00**	**0.00**	**0.00**
				46,603.00		
0.00	**0.00**	**0.00**	**0.00**	**3,836.00**	**0.00**	**0.00**
				3,836.00		
0.00	**0.00**	**0.00**	**0.00**	**39,946.00**	**0.00**	**0.00**
				39,946.00		
0.00	**0.00**	**0.00**	**0.00**	**45,548.00**	**0.00**	**0.00**
				45,548.00		
0.00	**0.00**	**0.00**	**0.00**	**73,082.00**	**0.00**	**0.00**
				73,082.00		
0.00	**0.00**	**0.00**	**0.00**	**22,192.00**	**0.00**	**0.00**
				22,192.00		
0.00	**0.00**	**0.00**	**0.00**	**33,562.00**	**0.00**	**0.00**
				33,562.00		

NAME AND SURNAME	ROLE	PERIOD DURING WHICH THE ROLE WAS PERFORMED	EXPIRY OF THE ROLE	FIXED REMUNERATION	REMUNERATION FOR COMMITTEE MEMBERSHIP
Luciano Gobbi	**Director**	**12/06/2014 - 10/07/2014**	**-**	**3,836.00**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				3,836.00 [7]	
Of which remuneration from subsidiaries and associate companies					
Pietro Guindani	**Director**	**01/01/2014 - 12/06/2014**	**-**	**22,192.00**	**8,877.00**
Of which remuneration from Pirelli & C. S.p.A.				22,192.00 [7]	8,877.00
Of which remuneration from subsidiaries and associate companies					
Andrey Kostin	**Director**	**10/07/2014 - 31/12/2014**	**At the first regularly convened shareholders' meeting**	**23,973.00**	**26,370.00**
Of which remuneration from Pirelli & C. S.p.A.				23,973.00 [7]	26,370.00
Of which remuneration from subsidiaries and associate companies					
Petr Lazarev	**Director**	**10/07/2014 - 31/12/2014**	**At the first regularly convened shareholders' meeting**	**23,973.00**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				23,973.00 [7]	
Of which remuneration from subsidiaries and associate companies					
Elisabetta Magistretti	**Director**	**01/01/2014 - 31/12/2014**	**Shareholders' meeting for approval of Financial Statements to 31 December 2016**	**50,000.00**	**39,685.00**
Di cui compensi in Pirelli & C. S.p.A.				50,000.00 [7]	39,685.00
Di cui compensi da Società controllate e collegate					
Gaetano Miccichè	**Director**	**01/01/2014 - 31/12/2014**	**Shareholders' meeting for approval of Financial Statements to 31 December 2016**	**50,000.00**	**11,096.00**
Of which remuneration from Pirelli & C. S.p.A.				50,000.00 [7] [14]	11,096.00
Of which remuneration from subsidiaries and associate companies					
Massimo Moratti	**Director**	**01/01/2014 - 12/06/2014**	**-**	**22,192.00**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				22,192.00 [7]	
Of which remuneration from subsidiaries and associate companies					
Emiliano Nitti	**Director**	**12/06/2014 - 10/07/2014**	**-**	**3,836.00**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				3,836.00 [7]	
Of which remuneration from subsidiaries and associate companies					
Renato Pagliaro	**Director**	**01/01/2014 - 12/06/2014**	**-**	**22,192.00**	**11,096.00**
Of which remuneration from Pirelli & C. S.p.A.				22,192.00 [7] [14]	11,096.00
Of which remuneration from subsidiaries and associate companies					
Enrico Parazzini	**Director**	**12/06/2014 - 10/07/2014**	**-**	**3,836.00**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				3,836.00 [7]	
Of which remuneration from subsidiaries and associate companies					
Paolo Pietrogrande	**Director**	**12/06/2014 - 31/12/2014**	**Shareholders' meeting for approval of Financial Statements to 31 December 2016**	**27,808.00**	**9.589,00**
Of which remuneration from Pirelli & C. S.p.A.				27,808.00 [7]	9.589,00
Of which remuneration from subsidiaries and associate companies					
Luigi Roth	**Director**	**01/01/2014 - 31/12/2014**	**Shareholders' meeting for approval of Financial Statements to 31 December 2016**	**50.000,00**	**57,260.00**
Of which remuneration from Pirelli & C. S.p.A.				50,000.00 [7]	57,260.00
Of which remuneration from subsidiaries and associate companies					
Luca Rovati	**Director**	**01/01/2014 - 12/06/2014**	**-**	**22,192.00**	**0,00**
Of which remuneration from Pirelli & C. S.p.A.				22,192.00 [7]	
Of which remuneration from subsidiaries and associate companies					

VARIABLE NON-EQUITY FEES		NON-MONETARY BENEFITS	OTHER REMUNERATION	TOTAL	FAIR VALUE OF EQUITY REMUNERATION	END OF TERM OR SEVERANCE PAYMENTS
BONUSES AND OTHER INCENTIVES	DISCRETIONARY BENEFITS					
0.00	0.00	0.00	0.00	3,836.00	0.00	0.00
				3,836.00		
0.00	0.00	0.00	0.00	31,069.00	0.00	0.00
				31,069.00		
0.00	0.00	0.00	0.00	50,343.00	0.00	0.00
				50,343.00		
0.00	0.00	0.00	0.00	23,973.00	0.00	0.00
				23,973.00		
0.00	0.00	0.00	0.00	89,685.00	0.00	0.00
				89,685.00		
0.00	0.00	0.00	0.00	61,096.00	0.00	0.00
				61,096.00		
0.00	0.00	0.00	0.00	22,192.00	0.00	0.00
				22,192.00		
0.00	0.00	0.00	0.00	3,836.00	0.00	0.00
				3,836.00		
0.00	0.00	0.00	0.00	33,288.00	0.00	0.00
				33,288.00		
0.00	0.00	0.00	0.00	3,836.00	0.00	0.00
				3,836.00		
0.00	0.00	0.00	0.00	37,397.00	0.00	0.00
				37,397.00		
0.00	0.00	0.00	0.00	107,260.00	0.00	0.00
				107,260.00		
0.00	0.00	0.00	0.00	22,192.00	0.00	0.00
				22,192.00		

NAME AND SURNAME	ROLE	PERIOD DURING WHICH THE ROLE WAS PERFORMED	EXPIRY OF THE ROLE	FIXED REMUNERATION	REMUNERATION FOR COMMITTEE MEMBERSHIP
Carlo Secchi	**Director**	**01/01/2014 - 12/06/2014**	**-**	**22,192.00**	**39,945.00**
Of which remuneration from Pirelli & C. S.p.A.				22,192.00 [7]	39,945.00
Of which remuneration from subsidiaries and associate companies					
Igor Sechin	**Director**	**10/07/2014 - 31/12/2014**	**At the first regularly convened shareholders' meeting**	**23,973.00**	**11,986.00**
Of which remuneration from Pirelli & C. S.p.A.				23,973.00 [7]	11,986.00
Of which remuneration from subsidiaries and associate companies					
Manuela Soffientini	**Director**	**01/01/2014 - 31/12/2014**	**Shareholders' meeting for approval of Financial Statements to 31 December 2016**	**50,000.00**	**32,671.00**
Of which remuneration from Pirelli & C. S.p.A.				50,000.00 [7]	32,671.00
Of which remuneration from subsidiaries and associate companies					
Igor Soglaev	**Director**	**10/07/2014 - 31/12/2014**	**At the first regularly convened shareholders' meeting**	**23,973.00**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				23,973.00 [7]	
Of which remuneration from subsidiaries and associate companies					
Claudio Sposito	**Director**	**01/01/2014 - 10/07/2014**	**-**	**26,027.00**	**11,096.00**
Of which remuneration from Pirelli & C. S.p.A.				26,027.00 [7] [11]	11,096.00
Of which remuneration from subsidiaries and associate companies					
Maurizio Boiocchi	**Managing Director**	**05/08/2014 -31/12/2014**	**-**	**339,304.69**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				0.00	
Of which remuneration from subsidiaries and associate companies				339,304.69 [22]	
Gregorio Borgo	**Managing Director**	**01/01/2014 - 31/12/2014**	**-**	**604,335.05**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				604,335.05	
Of which remuneration from subsidiaries and associate companies					
Executives with strategic responsibility (24)				**2,370,647.30**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				1,069,216.71	
Of which remuneration from subsidiaries and associate companies				1,301,430.59	
Francesco Fallacara	**Chairman of the Board of Statutory Auditors**	**01/01/2014 - 31/12/2014**	**Shareholders' meeting for approval of balance sheet to 31/12/2014**	**75,000.00**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				75,000.00	
Of which remuneration from subsidiaries and associate companies					
Antonella Carù	**Standing Statutory Auditor**	**01/01/2014 - 31/12/2014**	**Shareholders' meeting for approval of balance sheet to 31/12/2014**	**50,000.00**	**23,082.00**
Of which remuneration from Pirelli & C. S.p.A.				50,000.00	23,082.00
Of which remuneration from subsidiaries and associate companies					
Sebastiano Umile Iacovino	**Standing Statutory Auditor**	**12/06/2014 - 31/12/2014**	**Shareholders' meeting for approval of balance sheet to 31/12/2014**	**27,808.00**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				27,808.00	
Of which remuneration from subsidiaries and associate companies					
Enrico Laghi	**Standing Statutory Auditor**	**01/01/2014 - 12/06/2014**	**-**	**77,192.00**	**0.00**
Of which remuneration from Pirelli & C. S.p.A.				22,192.00	
Of which remuneration from subsidiaries and associate companies				55,000.00 [28]	
Total remuneration from Pirelli & C. S.p.A.				**3,909,516.76**	**427,904.00**
Total remuneration from subsidiaries and associate companies				**4,297,945.22**	**0.00**
Total				**8,207,461.98**	**427,904.00**

VARIABLE NON-EQUITY FEES		NON-MONETARY BENEFITS	OTHER REMUNERATION	TOTAL	FAIR VALUE OF EQUITY REMUNERATION	END OF TERM OR SEVERANCE PAYMENTS
BONUSES AND OTHER INCENTIVES	DISCRETIONARY BENEFITS					
0.00	**0.00**	**0.00**	**0.00**	**62,137.00**	**0.00**	**0.00**
				62,137.00		
0.00	**0.00**	**0.00**	**0.00**	**35,959.00**	**0.00**	**0.00**
				35,959.00		
0.00	**0.00**	**0.00**	**0.00**	**82,671.00**	**0.00**	**0.00**
				82,671.00		
0.00	**0.00**	**0.00**	**0.00**	**23,973.00**	**0.00**	**0.00**
				23,973.00		
0.00	**0.00**	**0.00**	**0.00**	**37,123.00**	**0.00**	**0.00**
				37,123.00		
0.00	**0.00**	**1,519.08**	**0.00**	**340,823.77**	**0.00**	**0.00**
			0.00	0.00		
		1,519.08 [22]		340,823.77		
516,000.00	**0.00**	**3,877.92**	**35,555.90**	**1,159,768.87**	**0.00**	**0.00**
516,000.00		3,877.92	35,555.90 [23]	1,159,768.87		
1,733,700.00	**0.00**	**16,638.85**	**633,806.37**	**4,754,792.52**	**0.00**	**0.00**
573,000.00		7,680.01	505,344.83 [25]	2,155,241.55		
1,160,700.00		8,958.84	128,461.54 [26]	2,599,550.97		
0.00	**0.00**	**0.00**	**0.00**	**75,000.00**	**0.00**	**0.00**
				75,000.00		
0.00	**0.00**	**0.00**	**0.00**	**73,082.00**	**0.00**	**0.00**
				73,082.00		
0.00	**0.00**	**0.00**	**0.00**	**27,808.00**	**0.00**	**0.00**
				27,808.00		
				0.00		
0.00	**0.00**	**0.00**	**0.00**	**77,192.00**	**0.00**	**0.00**
				22,192.00		
				55,000.00		
1,089,000.00	**0.00**	**17,321.53**	**540,900.73**	**5,984,643.02**		
3,833,300.00		**14,107.20**	**163,076.92**	**8,308,429.34**		
4,922,300.00		**31,428.73**	**703,977.65**	**14,293,072.36**		

[1] Of which: €50,000 as Director of Pirelli & C. S.p.A.; €900,000 as President and Managing Director of Pirelli & C. S.p.A.
[2] As President and Managing Director of Pirelli Tyre S.p.A.
[3] As President and Managing Director of Pirelli Tyre S.p.A.
[4] Of which: €50,000 as director of Pirelli & C. S.p.A.; €300,000 as Vice President of Pirelli & C. S.p.A.
[5] Of which €150,000 as Vice President of Pirelli Tyre S.p.A.; €452,209.94 as Senior Managers of Pirelli Tyre S.p.A.; €34,615.38 – equal to one month of the gross annual remuneration for Senior Managers – as a long service award for the completion of 25 years' service according to company policy applicable to all employees.
[6] As Senior Manager of Pirelli Tyre S.p.A.
[7] As Director of Pirelli & C. S.p.A.
[8] Of which €19,178,000 as President of the ARSCGC, €8,877 as a member of the Remuneration Committee and €9,589 as a member of the Committee for Appointments and Succession
[9] As a member of the Strategy Committee
[10] Of which €13,315 as a member of the ARSCGC and €11,096 as a member of the Strategy Committee
[11] Remunerations of which 2/3 were repaid to the member company.
[12] Of which €8,877 as a member of the Remuneration Committee and €8,877 as a member of the Committee for Appointments and Succession
[13] Of which €9,589 as a member of the Committee for Appointments and Succession and €11,986 as a member of the Strategy Committee
[14] Remunerations repaid to the member company
[15] As a member of the Remuneration committee
[16] Of which: €14,384 as a member of the ARSCGC and €11,986 as a member of the Strategy Committee
[17] Of which €27,699 as a member of the ARSCGC and €11,986 as a member of the 231 Supervisory Board
[18] Of which €9,589 as a member of the Committee for Appointments and Succession
[19] Of which €13,315 as a member of the ARSCGC, €23,082 as President of the Remuneration Committee, €8,877 as a member of the Committee for Appointments and Succession and €11,986 as a member of the Strategy Committee
[20] Of which €17,753 as President of the ARSCGC, €11,096 as a member of the Strategy Committee and €11,096 as President of the 231 Supervisory Board. Following the end of his period as Director, Prof. Secchi was confirmed in his role as President of the 231 Supervisory Board and from 10 July 2014 to 31 December 2014 accrued a further remuneration for this responsibility of €19,178 which is not shown in the above table.
[21] Of which €9,589 as a member of the Remuneration Committee and €23,082 as a member of the Strategy Committee
[22] Proportion of remuneration received as General Manager of Technology (position held since 5 August 2014). In 2014 Mr. Maurizio Boiocchi was also included as Chief Technical Officer (Director with strategic responsibility at Pirelli & C.) in an annual incentive (MBO) and further remunerations amounting to the aggregate sums shown in the table.
[23] Relating to repatriation from his previous role as Senior Manager in China.
[24] As at 31 December 2014 the following were Directors with strategic responsibility: Giuliano Menassi, Maurizio Sala, Francesco Tanzi and Christian Vasino. Up to 31 January 2014 Francesco Chiappetta was a Director with strategic responsibility whose work status was changed to that of parasubordinate. The associated remuneration is not shown in the table as it does not relate to a consultancy contract. A non-competition agreement is also related to the aforesaid parasubordinate position which does not provide for any payment during its operation. Up to 4 August 2014 Chief Technical Officer Maurizio Boiocchi was a Director with strategic responsibility and on 5 August 2014 was appointed General Manager of Technology.
[25] Relevant payments are: a general novation payment, an entry bonus, a retention agreement and an end of term performance payment.
[26] Relevant payments are: a retention agreement, a non-competition agreement and a long service award for the completion of 25 years' service according to a specific company policy.
[27] As a member of the 231 Supervisory Board
[28] As President of the Board of Statutory Auditors for the entire 2014 financial year for the associate company Prelios S.p.A.

As from 10 July 2014 the Committee for Internal Control, Risk and Corporate Governance was renamed the Audit, Risks, Sustainability and Corporate Governance Committee for simplicity and this name is used in all the above comments under the abbreviation ARSCGC.

3. CASH INCENTIVE PLANS FOR MEMBERS OF THE BOARD OF DIRECTORS, MANAGING DIRECTORS AND DIRECTORS WITH STRATEGIC RESPONSIBILITY

For a description of the cash incentive plans please refer to paragraph 5 of the Remuneration Policy.

Pirelli's variable incentive system provides that payment of 25% of any MBO accrued be deferred by 12 months and shall be subject to achievement of the MBO objectives for the following year. In particular:

- where no MBO accrues during the year following the accrual of the MBO, the proportion of MBO deferred from the previous year will be forfeited;
- where the MBO accruing during the year following the accrual of the MBO reaches the eligibility threshold, the proportion of MBO deferred from the previous year will be paid;
- where the MBO accruing during the following year is between the target level and the maximum level, payment of an amount between 20% and 40% of the full MBO accrued during the previous year will be made in addition to the proportion of MBO deferred from the previous year, calculated on a linear scale according to results between the target and maximum amounts.

			ANNUAL BONUS			BONUS IN PREVIOUS YEARS			
GIVEN NAME AND SURNAME	ROLE	PLAN	PAYABLE/PAID	DEFERRED	DEFERMENT PERIOD	NO LONGER PAYABLE	PAYABLE /PAID	STILL DEFERRED	OTHER BONUSES
Marco Tronchetti Provera	Chairman and CEO	MBO 2014	1,846,500.00	615,500.00	-	-	-	-	0.00
		LTI Plan 2014-2016	0.00	0.00	-	-	-	-	0.00
Alberto Pirelli	Deputy Chairman[1]	MBO 2014	157,950.00	52,650.00	-	-	-	-	0.00
		LTI Plan 2014-2016	0.00	0.00	-	-	-	-	0.00
Maurizio Boiocchi	General Manager of Technology[2]	MBO 2014	0.00	0.00	-	-	-	-	0.00
		LTI Plan 2014-2016	0.00	0.00	-	-	-	-	0.00
Gregorio Borgo	General Manager of Operations	MBO 2014	387,000.00	129,000.00	-	-	-	-	0.00
		LTI Plan 2014-2016	0.00	0.00	-	-	-	-	0.00
Executives with strategic responsibility[3]		MBO 2014	1.300,275.00	433,425.00	-	-	-	-	0.00
		LTI Plan 2014-2016	0.00	0.00	-	-	-	-	0.00
(I) Remunerations within the company compiling the balance sheet		MBO 2014	816,750.00	272,250.00	-	-	-	-	0.00
		LTI Plan 2014-2016	0.00	0.00	-	-	-	-	0.00
(II) Remunerations from subsidiaries and associate companies		MBO 2014	2,874,975.00	958,325.00	-	-	-	-	0.00
		LTI Plan 2014-2016	0.00	0.00	-	-	-	-	0.00
(III) Total			**3,691,725.00**	**1,230,575.00**	**-**	**-**	**-**	**-**	**0.00**

[1] Dr. Alberto Pirelli is included in the MBO and LTI variable incentive plans in his capacity as Senior Manager of Pirelli Tyre S.p.A.
[2] During 2014 Mr. Maurizio Boiocchi is included in the annual incentive plan (MBO) in his capacity as Chief Technical Officer (Director with strategic responsibility at Pirelli & C. S.p.A.).
[3] As at 31 December 2014 the following were directors with strategic responsibility: Mr. Giuliano Menassi, Dr. Maurizio Sala, Dr. Francesco Tanzi and Dr. Christian Vasino. Up to 4 August 2014 Mr. Maurizio Boiocchi was also a Director with strategic responsibility and on 5 August 2014 was appointed General Manager of Technology. The 2014 incentive (MBO) for Mr. Boiocchi is shown as an aggregate amount.

4. TABLE OF INFORMATION ON THE SHAREHOLDINGS OF MEMBERS OF THE BOARDS OF DIRECTORS AND MANAGEMENT BOARDS, MANAGING DIRECTORS AND DIRECTORS WITH STRATEGIC RESPONSIBILITY.

The following table shows information on any shareholdings in Pirelli & C. S.p.A. and its subsidiaries by those who, for the whole or part of the financial year, undertook the responsibilities of:

- members of the Board of Directors;
- members of the Board of Auditors;
- Managing Director;
- Director with strategic responsibility.

For individual members of the Board of Directors and the Board of Auditors, for individual Managing Directors, and cumulatively for other Directors with strategic responsibility, the table shows the number of shares per category in each relevant company:

- owned at the end of the previous financial year;
- acquired during the relevant financial year;
- sold during the relevant financial year;
- owned at the end of the relevant financial year.

The class of shares and ownership type are also specified.
All persons who performed the duties of members of directorial and managerial bodies, of Managing Director or of Director with special responsibilities for part only of the relevant financial year are included.

1) SHAREHOLDINGS OF MEMBERS OF DIRECTORIAL AND MANAGERIAL BODIES AND OF MANAGING DIRECTORS

GIVEN NAME AND SURNAME	ROLE	INVESTEE COMPANY	NO. OF SHARES HELD AS AT 12/21/2013	NO. OF SHARES ACQUIRED/ SUBSCRIBED TO	NO. OF SHARES SOLD	NO. OF SHARES HELD AS AT 12/31/2014
Tronchetti Provera Marco	Chairman and CEO	Pirelli & C.	1,251	-	-	1,251
Pirelli Alberto	Deputy Chairman	Pirelli & C.	131,629	-	-	131,629
Roth Luigi	Director	Pirelli & C. (held indirectly)	4,000 [1]	-	-	4,000 [1]
Moratti Massimo	Director	Pirelli & C. (held indirectly)	2,343,392 [2]	-	-	2,343,392 [2]
Boiocchi Maurizio	General Manager of Technology	Pirelli & C.	3,837	-	-	3,837

[1] Shares held by spouse.
[2] Shares held on the date of cessation of responsibility (12 June 2014) through CMC S.p.A., of which 1,838,459 were held in trust in the name of Cordusio, a fiduciary limited company.

2) SHAREHOLDINGS OF OTHER DIRECTORS WITH STRATEGIC RESPONSIBILITY

NUMBER OF DIRECTORS WITH STRATEGIC RESPONSIBILITY	INVESTEE COMPANY	NO. OF SHARES HELD AS AT 12/31/2013 [*]	NO. OF SHARES ACQUIRED /SUBSCRIBED TO	NO. OF SHARES SOLD	NO. OF SHARES HELD AS AT 12/31/2014
-	-	-	-	-	-

[*] the number of shares shown on the 2013 balance sheet has been reclassified in the above table following the appointment of Maurizio Boiocchi as General Manager of Technology during the 2014 financial year

COMPLIANCE


PIRELLI
RIFFEL
PARMIGIANO
REGGIANO
mxgp

LONG-TERM GOVERNANCE TOOLS

INTERNAL CONTROL SYSTEM

Pirelli's Internal Control System ("ICS") pursues the following objectives: (i) efficiency and effectiveness of operational activities; (ii) reliability of information; (iii) protection of company assets and (iv) observance of and compliance with laws and regulations designed to ensure correct informational disclosure of, and proper control over, all of the Group's activities, with particular attention paid to areas deemed to be of potential risk.

DIRECTOR IN CHARGE OF THE ICS

Responsibility for the ICS lies with the Board of Directors as a whole, which sets the guidelines and periodically checks the adequacy and effective functioning thereof. To that end, the Board works with the Audit, Risks, Sustainability and Corporate Governance Committee (ARSCGC) as well as with the Internal Audit Department, which have a suitable degree of independence as well as the resources needed to carry out their work, which typically involves checking the adequacy and effectiveness of the system and, where anomalies are found, proposing appropriate remedies.
Following its renewal, the Board of Directors identified the Chairman and Chief Executive Officer as the administrator to be in charge of the ICS, and to this role were assigned the tasks recommended by the Corporate Governance Code. Specifically, these are:

- to identify the main business risks, taking into account the characteristics of the activities carried out by the Issuer and its subsidiaries, periodically submitting these to the Board of Directors, for assessment;
- to follow the guidelines as defined by the Board of Directors, seeing to the implementation and management of the ICS and risk management, constantly checking the adequacy and effectiveness thereof;
- to adapt said system to changes in operating conditions and to the legislative and regulatory landscape;
- to require the internal audit department to perform checks on specific areas of operation and to comply with internal rules and procedures when carrying out business operations;
- to propose the appointment/removal of the person in charge of the internal audit, ensuring that same is provided with the proper resources for carrying out their role, and proposing remuneration that is in line with company policy.

The director in charge of the ICS and risk management may request the internal audit department to perform checks on specific areas of operation and to comply with internal rules and procedures when carrying out business operations. The Head of the Internal Audit department reports to the ARSCGC and to the Board of Directors with regard to problems or critical aspects emerging in the course of their work, in order to formulate suitable remedies.

INTERNAL AUDIT DEPARTMENT

An important component of the ICS is carried out by the Internal Audit Department, the main objective of which is to assess the adequacy and functionality of Pirelli's control processes, by means of independent assurance and consultancy work. The work of the Internal Audit Department is carried out in line with the mandate given to it, and is approved by the Board of Directors with assessment by the ARSCGC.
The Internal Audit Director (who is not assigned responsibility for any operational area) reports, in hierarchical terms, to the Chairman and CEO and, in functional terms, to the ARSCGC and the Board of Statutory Auditors.
The Internal Audit Department operates on the basis of an annual audit plan that is approved first by the ARSCGC and subsequently by the Board of Directors.
The Internal Audit Manager reports quarterly to the ARSCGC and to the Board of Statutory Auditors, and sends twice-yearly reports on its activities to the Board of Directors, and it expresses an opinion on the suitability of the ICS.
A Group Compliance Department, which reports to the Legal and Corporate Affairs and group Compliance Manager (separate, therefore, from the Internal Audit Department), is called upon to work with the Group's other departments in order to ensure constant alignment of internal regulations, processes and, more generally, of business activities, with the framework of applicable standards.

COMPLIANCE DEPARTMENT

The Compliance Department under the auspices of the Corporate Affairs and Compliance Department, along with the Legal departments and the other company departments, has the task of ensuring constant alignment of internal regulations, processes and business activities with the applicable regulatory framework, actively identifying non-compliance risks that may result in judicial and administrative penalties and consequent damage to reputation.

THE RISK MANAGEMENT SYSTEM

For a description of the model for monitoring and managing risk, which Pirelli adopted in July 2009, please see the Management report.

CODE OF ETHICS – GUIDELINES AND AND ORGANISATIONAL MODEL 231

Completing the ICS as described above are the: (i) Group's Code of Ethics; (ii) Group's Behavioural Guidelines; (iii) Organisational Model 231.
The Code of Ethics sets forth the general principles that inspire the development and conduct of business at Pirelli; it indicates the objectives and the values that inform its business activity. Pirelli, moreover, conducts its internal and external business activity in accordance with the Code of Ethics, in the belief that the company's success cannot be separated from ethics in conducting its business.
The Behavioural Guidelines, in particular, contain the "operational" definition of the principles of the Code of Ethics, and establish rules for the entire Group, that are designed to avoid situations that favour general criminal activity.
The Code of Ethics and the Behavioural Guidelines are translated into all of the Pirelli Group languages (22 different languages).
Organisational Model 231 - which is subject to constant revision and updating due to changes to legislation - exists to ensure the optimisation of a system responding to specific requirements derived from the entry into force of Legislative Decree no. 231/2001 concerning the administrative liability of companies for crimes committed by its employees, and it is based on a pyramidal system of principles and procedures.

A summary of the guiding principles of the organisational model is available on Pirelli's website.

THE SUPERVISORY BODY

Overseeing operations and compliance with model 231, the Supervisory Body, vested with full economic independence, is composed of Prof. Carlo Secchi (Chairman), Elisabetta Magistretti (Independent Advisor), Antonella Caru (Statutory Auditor), and Maurizio Bonzi (Internal Audit Manager).
The Supervisory Body is also responsible for providing the impetus for the Board of Directors to adapt the organisational model to changes to the legal framework, to procedures followed, and to the type of business activity. The Body, on the other hand, reports to the Board of Directors with regard to the checks carried out and the results thereof.
Each member of the Supervisory Body is paid gross annual remuneration of 25 thousand euros.
The Supervisory Body, appointed by the Board of Directors on 10 July 2014, will expire at the same time as the Board of Directors that appointed it.

INDEPENDENT AUDITORS

The legal audit is carried out by a company named, at the proposal of the Board of Statutory Auditors, at the Shareholders' Meeting, from among those auditors listed in the relevant register.
The audit of the annual Financial Statements, of the consolidated Financial Statements, and of the interim twice-yearly Financial Statements for the years 2008 - 2016 was awarded to Reconta Ernst & Young S.p.A., Italian branch of the Ernst & Young network, which was also given the role, via their branches present in the various countries where Pirelli operates, of auditing the Financial Statements of the Pirelli Group's main companies.
Head of the independent auditors for Pirelli & C. S.p.A. is Dr. Pietro Carena.
The auditing company is called upon to check preparation of the report on corporate governance and the ownership structure, and to express the so-called "opinion on the consistency" of any information reported in this Report.
The auditing company annually defines a plan of activity which is communicated to the ARSCGC.
The remuneration paid to Reconta Ernst & Young (and to the companies belonging to its network) are reported in detail in the notes of the Financial Statement and consolidated Financial Statement of Pirelli & C. as of 31 December 2014. During the meetings convened for approving the annual financial reports, there is also provision of an account of the hours worked and of the corresponding remuneration paid to the auditor in the relevant year.
The ARSCGC and the Board of Statutory Auditors also established, in 2011, a procedure for Pirelli to confer roles (particularly "non-audit" roles) to companies belonging to the Ernst & Young network, by establishing the necessary prior and express authorisation of the Chief Financial Officer who, with the help of the Internal Audit Manager, is able to check that the appointment is not among those disallowed by the Consolidated Law on Legal Auditing, and that, in any event, its characteristics do not impact upon the independence of the auditor. The Board of Directors, after assessment by the ARSCGC, has verified and approved the statement on appointments (in particular those of a "non-audit" type) made in the financial year.
Moreover, all of the appointments incurring remuneration in excess of 50 thousand euro must still be subjected to prior assessment by the Board of Statutory Auditors, notwithstanding the existence of explained and specific reasons (i.e. appointments not included in the auditing services that legislation and regulations expressly state must be carried out by the Auditor). The Internal Audit Manager provides, to the aforementioned Committee and to the Board of Statutory Auditors, at least quarterly, a list of non-auditing services conferred to the Auditor.

EXECUTIVE IN CHARGE OF DRAFTING THE COMPANY ACCOUNTS DOCUMENTS

The Articles of Association give the Board of Directors, after receiving the opinion of the Board of statutory Auditors, the power to appoint the Executive in charge, stating that the term of same, unless revoked by just cause, runs simultaneous to that of the Board of Directors that appointed him/her. The Executive in charge must be an expert in the field of management and control and satisfy the integrity requirements established for directors.
The Board of Directors, at its meeting of 12 June 2014, confirmed the Executive in charge as Chief Financial Officer Francesco Tanzi, granting him every power of an organisational and management nature necessary for carrying out the assigned duties, with full autonomy of expenditure.
The Board of Directors ensures that the Executive in charge has adequate means and powers to perform the duties assigned, as well as for compliance with the administrative and accounting procedures.
To that end, the Executive in charge reports, at least once a year, to the Board of Directors or via the ARSCGC, and, to the extent applicable, to the Board of Statutory Auditors.
The Executive in charge reports, without delay, to the delegated administrative body, to the Board of Directors on any matters he believes to be of significant relevance, and if these are not corrected, they must be declared in the report provided for by Article 154-bis of the CFA.
The Executive in charge attends meetings of the Board of Directors wherein the agenda includes the examination of economic-financial data, and has direct access to all of the information necessary for producing the accounting data, without need for any authorisation. The Executive in charge is also aware of internal flows for accounting purposes, and approves all of the company's procedures that have an impact on the economic and financial position of the Company.

COMPLIANCE AND ANTI-CORRUPTION PROGRAM

In the course of 2014 there began a process of analysis and implementation of the "Premium Integrity" anti-corruption program in the main countries in which Pirelli operates. The oversight Program is the reference for the prevention of corrupt practices, and it represents a collection of principles and rules already adopted by Pirelli, supplemented by "new" and specific provisions, aimed at preventing or reducing the risk of corruption, further strengthening the Group's anti-corruption character.
The anti-corruption program, approved by the Board of Directors, has been communicated to all employees of the Group in their local language. The document is also available on the company's website, and can be accessed by all stakeholders, in twenty-two different languages.
The program reaffirms the principles Pirelli has already outlined in the Code of Ethics and in the Behavioural Guidelines, including intolerance of *"any type of corruption, in any form or mode, in any jurisdiction, even where such activity has been, in practice, allowed, tolerated, or not prosecuted." For these reasons "it is forbidden for the Recipients of the Code to offer gifts or other benefits that could constitute a breach of rules, or such that are in conflict with the Code, or could, if made public, constitute a prejudice to the Pirelli Group, even if only to its image."* Pirelli also *"maintains and preserves the company's assets, and shall procure the means for preventing acts of embezzlement, theft, and fraud against the Group"*, and it *"condemns the pursuit of the interests of individuals and/or third parties that are to the detriment of those of the company."*
Pirelli monitors the risk of corruption and, if necessary, it updates the risk analysis in the event of a change to its sphere of operation due to the "entry" of "high risk" countries (based on the Transparency Index), establishing, where appropriate, education & awareness programs. Premium Integrity is developed via the following phases:

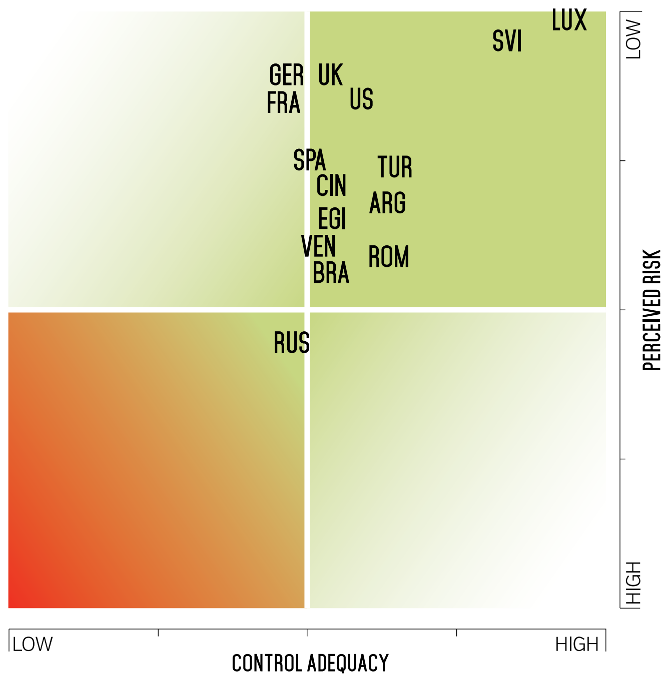
- Mapping of the national and international legal framework regarding rules on corporate responsibility for crimes of corruption;
- Analysis of Risk Profiles based on two scenarios:
  - perceived risk resulting from combining the level of perceived corruption, associated with the

Corruption Perception Index indicator calculated by *Transparency International*, with the perception of Management regarding the risk level of each country;

- suitability of the oversight provided derived from a combination of the oversight guaranteed for areas deemed to be potentially at risk of corruption, and the level of control for the country according to the indicator provided by the Internal Audit Department in the Internal Control System.

Analysis of risk profiles allows us to identify a vulnerability ranking for the countries under analysis, as can be seen in the following figure:

CORRUPTION RISK PROFILE ANALYSIS



Pirelli is working on deploying the Anti-Corruption Program in the Group, with the aim of adapting it to local conditions.
Moreover, with a view to prevention and control, internal audits carried out by the Internal Audit Department include monitoring of crime risks, including the risk of corruption and fraud.
It should be noted that, even with reference to 2014, there are no cases of corruption to be reported, as well as any legal action regarding corrupt practices.
In the course of 2014 there was completion of training and communication on the administrative responsibility of companies, as set out by Legislative Decree no. 231/2001 which covered the entire workforce (about 1,650 employees) of the Italian companies. In the course of 2014, there was implementation of the Segregation of Duties model, which aims to further strengthen the Internal Control System and prevent fraud.
With reference to contributions to the wider community, Pirelli has, for years, used an internal procedure to regulate charitable donations, contributions, and disbursement of funds to the wider community on the part of Group Companies, in regard to the roles and responsibilities of the departments involved, the operational process of planning, implementation and monitoring, and informational initiatives for the abovementioned projects.
In identifying initiatives responding to local needs, an essential contribution is made by dialogue with NGOs operating locally. Priority is given to initiatives in which the positive effects on the wider community are tangible and measurable in an objective manner.
Pirelli's procedure also states that *initiatives cannot be promoted that are in favour of beneficiaries for whom there is evidence of direct or indirect disrespect of human rights, employment rights, the*

environment, or business ethics.
"Pirelli's Values and Code of Ethics" definitively establish that Pirelli *"does not make Contributions or provide any advantages or other benefits to political parties and trade unions, or to their representatives or candidates, subject to compliance with applicable law."*
With reference to sponsorship activities, the operating procedure Pirelli uses to regulate the process of designing, planning, approval, management and control of sponsorship activities also establishes the roles and responsibilities of the departments involved, ensuring departmental segregation of activities, with a central approval role given to the *Brand and Communication Committee*, in accordance with the following principles:

- synergy with Group strategy and consistency with brand strategies and corporate communications;
- high visibility and resonance of the sponsored project;
- a measurable return, in terms of business, or as assessed according to "media equivalent" standards for measuring brand and communications initiatives;
- morality, honesty and integrity of the sponsored party, of the entities controlled by it or controlling it, or of parties otherwise related to the sponsored party;
- intended use of the Pirelli trademarks in compliance with Pirelli Group Policy.

As in the case of the abovementioned procedure which regulates Charity, sponsorship rules state that initiatives cannot be promoted that are in favour of political parties, trade unions, or their representatives or candidates, or that are in favour of beneficiaries for whom there is evidence of direct or indirect disrespect of human rights, employment rights, the environment, or business ethics.
In the course of 2014 there was continued support for the work of *Transparency International*, which Pirelli supports, in educational projects that promote an active role for civic and moral education to strengthen civil society against crime and corruption, with the belief that only through proposed and concrete action for promoting values can there be a general improvement in quality of life.

THE GROUP'S REPORTING PROCEDURE - WHISTLEBLOWING

The Group's Whistleblowing Policy completes the system of compliance and internal control. It is intended for Employees, and Stakeholders external to the Company.
The Policy - communicated to all employees in their local language and made available to the wider Community at Pirelli's website - governs the methods used to report violations, suspected violations and inducements to violations of laws and regulations, principles which are enshrined in the Code of Ethics - which include, of course, equal opportunities - principles of internal control, company standards and procedures, or any other act or omission that may directly or indirectly lead to economic or asset damage, or damage to the image of the Group and/or its subsidiaries.
The Whistleblowing Reporting channel is also expressly mentioned in the Sustainability Clauses that are inserted in every supply contract.
Reports may also be done anonymously, and it is emphasised that there is a strong guarantee of absolute protection of confidentiality as well as there being intolerance of retaliation of any kind.
Reports may relate to Directors, Auditors, Management, employees of the Company and, in general, to all those who work for Pirelli in Italy and abroad, or that have business relationships with the Group. This includes partners, customers, suppliers, consultants, collaborators, auditing firms, institutions and public bodies.

The e-mail inbox at ethics@pirelli.com is available to those wanting to make a report, and is centrally managed by the independent Internal Audit Department, and applies for all the subsidiaries of the Group as well as for the wider community.

This The Group's Internal Audit Division is responsible for analysing all of the reports received, including via involvement of the corporate departments and offices deemed competent for checking such; for scheduling specific action plans; and for reporting, at least quarterly, to Pirelli & C.'s ARSCGC with regard to reports received and actions in progress.
If it is ascertained that a report is founded, there is provision for adopting the appropriate disciplinary and/or legal action to safeguard the company.
With reference to reports received in the years 2014, 2013 and 2012, below is a table summarising these, followed by greater detail on the 2014 reports.

	2014	2013	2012
Total Reports	**23**	**11**	**8**
• Of which were anonymous	9	6	3
• Of which were shelved due to absolute vagueness	12	3	2
• Of which were founded	8	8	6
The report's country of origin	Brazil, Egypt, Romania, Poland, Argentina, Russia, Peru, Saudi Arabia, Germany, USA, South Africa	Italy, Brazil, Argentina, Venezuela	Italy, Brazil, Egypt, Poland, Mexico
Allegation made in the report	Irregular behaviour of employees, one case of poor customer service, and one case against a supplier	Irregular behaviour of employees, one case of poor after-sales service	Irregular behaviour of employees, one union claim, one case of discrimination
Outcome of the cases investigated	Review and integration of processes where deemed appropriate, measures on the part of the relevant departments and the Human Resources Department, actions to the satisfaction of the customer and the supplier	Review and integration of processes where deemed appropriate, measures on the part of the relevant departments and the Human Resources Department, actions to the satisfaction of the customer	Review and integration of processes where deemed appropriate, measures on the part of the relevant departments and the Human Resources Department, actions to the satisfaction of the customer

The increase in reports during the three-year period may be attributed to repeating the communication campaign to employees, in the local language, regarding the existence of the procedure and how to activate it.
During 2014, the Whistleblowing procedure was activated 23 times. Specifically:

- the 23 reports came from 11 different countries (Brazil, Egypt, Romania, Poland, Argentina, Russia, Peru, Saudi Arabia, Germany, USA, South Africa).
- 39% of the reports (9 cases) were submitted using the Group's appropriate electronic mail inbox for Whistleblowing ethics@pirelli.com, while 61% (14 cases) sent a letter to management which took steps to inform the Internal Audit Department in accordance with company regulations.
- 61% of the reports (14 cases) were signed while the remaining 39% (9 cases) were received anonymously.
- of the signed reports, two were made by external Stakeholders, one relating to poor service suffered by a customer, and one concerning a complaint made by a supplier. It remains objectively impossible to confirm whether there were further reports made by external Stakeholders, given that some complaints were made anonymously, as specified.

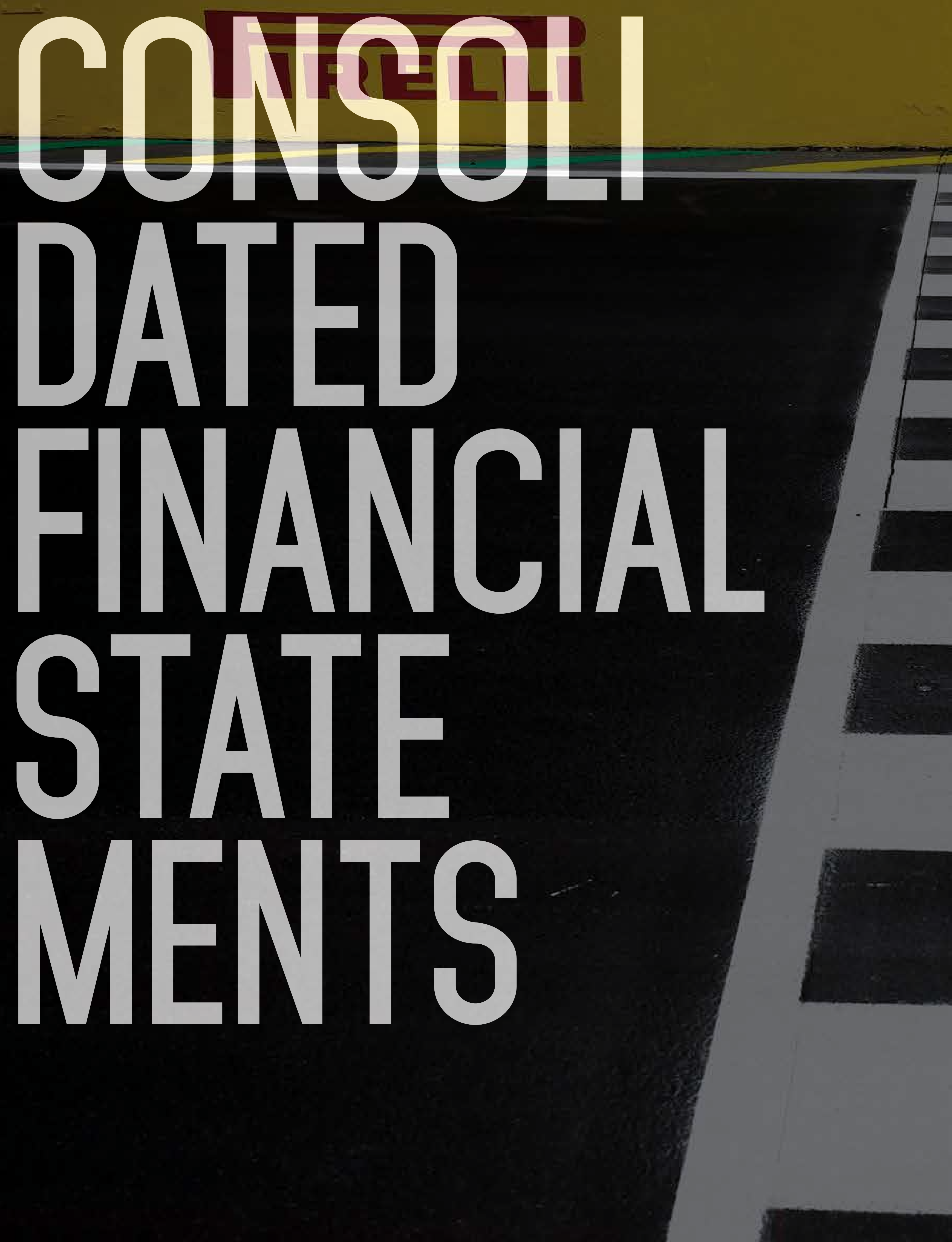
Generally, the matters reported concerned, in almost all cases, alleged irregular conduct by employees or managers and, in the remaining cases, alleged poor service to customers and suppliers.
Of the 23 reports received by the end of 2014, at the start of 2015 three are in the process of verification and analysis, while twenty have been fully dealt with. With regard to the latter group, specific checks were made, involving, where necessary, the relevant company departments.
Based on the analyses carried out, and the documentation made available, it was found that:

- in 12 cases, no objective elements with regard to such feedback were found that could confirm as true the facts alleged in the reports received;
- in the remaining 8 cases it was found that there was substantial truth to the allegations made. Specifically, these were 6 cases related to irregular conduct of employees, one case of poor after-sales service to a customer, and one case of a complaint made by a supplier. The company

then acted by implementing the necessary actions relating to:

- disciplinary sanctions;
- actions to resolve the complaints received from customers/suppliers;
- internal actions to improve the Internal Control System.

In all cases, at the outcome of the investigations, the Internal Audit Department always carried out specific audits on the company processes involved in the reports.
The Internal Audit Department has periodically reported, with regard to the reports received and the state of progress of the analyses carried out, to the ARSCGC, composed of independent shareholder directors, and to the Board of Statutory Auditors of Pirelli & C. S.p.A.



CONSOLI DATED FINANCIAL STATE MENTS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CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in thousands of euro)

		12/31/2014		12/31/2013	
			OF WHICH RELATED PARTIES		OF WHICH RELATED PARTIES
10	Property, plant and equipment	2,522,464		2,608,448	
11	Intangible assets	984,002		1,013,979	
12	Investments in associates and J.V.	186,783		131,466	
13	Other financial assets	180,741		289,096	104,087
14	Deferred tax assets	248,564		210,181	
16	Other receivables	169,145		169,463	
17	Tax receivables	12,068		7,890	
	Non-current assets	**4,303,767**		**4,430,523**	
18	Inventories	1,055,016		987,318	
15	Trade receivables	673,808	1,713	666,427	1,367
16	Other receivables	265,274	31,611	267,535	8,485
19	Securities held for trading	61,404		48,090	
20	Cash and cash equivalents	1,166,669	120,000	879,897	
17	Tax receivables	73,960		55,604	
28	Derivative financial instruments	29,104		24,818	
	Current assets	**3,325,235**		**2,929,689**	
39	**Assets held for sale**	**44,037**		-	
	Total Assets	**7,673,039**		**7,360,212**	
21.1	Equity attributable to owners of the Parent:	2,548,345		2,376,066	
	- Share capital	1,343,285		1,343,285	
	- Reserves	885,769		729,207	
	- Net income (loss)	319,291		303,574	
21.2	Equity attributable to non-controlling interests:	63,157		60,523	
	- Reserves	49,611		57,605	
	- Net income (loss)	13,546		2,918	
21	**Equity**	**2,611,502**		**2,436,589**	
24	Borrowings from banks and other financial institutions	1,781,726	3,367	2,014,406	1,674
26	Other payables	74,692		76,853	
22	Provisions for liabilities and charges	97,799		116,745	
14	Provisions for deferred tax liabilities	53,029		49,956	
23	Employee benefit obligations	458,945		439,450	
27	Tax payables	3,397		3,537	
	Non-current liabilities	**2,469,588**		**2,700,947**	
24	Borrowings from banks and other financial institutions	530,890	30,244	316,653	
25	Trade payables	1,394,312	34,544	1,244,466	41,075
26	Other payables	443,477	406	434,158	69
22	Provisions for liabilities and charges	67,030		90,089	
27	Tax payables	100,761		80,272	600
28	Derivative financial instruments	42,835		57,038	
	Current liabilities	**2,579,305**		**2,222,676**	
39	**Liabilities related to assets held for sale**	**12,644**		-	
	Total Liabilities and Equity	**7,673,039**		**7,360,212**	

For a description of the items reflecting related party transactions, please refer to note 43 of the Explanatory Notes.

CONSOLIDATED INCOME STATEMENT (in thousands of euro)

		2014		2013 (*)	
			OF WHICH RELATED PARTIES		OF WHICH RELATED PARTIES
30	Revenues from sales and services	6,018,063	158	6,060,960	1,872
31	Other income	204,076	3,547	252,309	3,126
	- of which non-recurring events	*15,626*		*44,344*	
	Changes in inventories of unfinished, semi-finished and finished products	71,634		7,804	
	Raw materials and consumables (net of change in inventories)	(2,083,896)		(2,254,539)	
32	Personnel expenses	(1,239,770)	(8,209)	(1,194,557)	(3,362)
	- of which non-recurring events	*(24,744)*		*(45,435)*	
33	Amortisation, depreciation and impairment	(304,855)		(292,392)	
	- of which non-recurring events	*(5,744)*		-	
34	Other costs	(1,829,766)	(40,621)	(1,798,378)	(70,058)
	- of which non-recurring events	*(1,800)*		*(2,716)*	
	Increase in Fixed Assets for Internal Work	2,447		3,507	
	Operating income (loss)	**837,933**		**784,714**	
35	Net income (loss) from equity investments	(87,000)		(78,298)	
	- share of net income (loss) of associates and j.v.	*(55,147)*	*(55,147)*	*(25,835)*	*(25,835)*
	- gains on equity investments	*18,989*	*13,307*	*9,551*	
	- losses on equity investments	*(54,715)*		*(63,304)*	
	- dividends	*3,873*		*1,290*	
36	Financial income	91,677	421	64,787	1,531
37	Financial expenses	(354,087)	(1,451)	(257,719)	
	Net income (loss) before tax	**488,523**		**513,484**	
38	Tax	(173,309)		(208,992)	(600)
	Net income (loss) from continuing operations	**315,214**		**304,492**	
39	Net income (loss) from discontinued operations	17,623		2,000	
	Total net income (loss)	**332,837**		**306,492**	
	Attributable to:				
	Owners of the parent	319,291		303,574	
	Non-controlling interests	13,546		2,918	
40	**Earnings (losses) per share from continuing operations (euro per shares)**	**0.619**		**0.619**	
40	**Earnings (losses) per share from discontinued operations (euro per shares)**	**0.036**		**0.004**	

(*) Steelcord business qualifies as "discontinued operation". All comparative amounts have been restated.

For a description of the items reflecting related party transactions, please refer to note 43 of the Explanatory Notes.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME (in thousands of euro)

		2014	2013
A	**Net income (loss) for the period**	**332,837**	**306,492**
Other components of other comprehensive income			
	B - Items that will not be reclassified to income statement		
	- Net actuarial gains (losses) on employee benefits	(30,263)	22,823
	- Tax effect	18,138	12,225
	Total B	**(12,125)**	**35,048**
	C - Items reclassified / that may be reclassified to income statement		
	Exchange differences from translation of foreign Financial Statements		
	- Gains / (losses) for the period	(57,232)	(230,773)
	- (Gains) / losses reclassified to income statement	2,103	-
	Fair value adjustment of other financial assets:		
	- Gains / (losses) for the period	(5,231)	37,499
	- (Gains) / losses reclassified to income statement	20,628	933
	Fair value adjustment of derivatives designated as cash flow hedges		
	- Gains / (losses) for the period	(3,497)	(4,431)
	- (Gains) / losses reclassified to income statement	19,262	16,277
	- Tax effect	(3,252)	(2,946)
	Fair value adjustment of derivatives designated as net investment hedges		
	- Gains / (losses) for the period	(4,761)	-
	Total C	**(31,979)**	**(183,441)**
	Share of other comprehensive income related to associates and joint ventures net of taxes	4,340	(2,175)
	Total D	**4,340**	**(2,175)**
E	**Total other components of other comprehensive income (B+C+D)**	**(39,764)**	**(150,568)**
A+E	**Total comprehensive income (loss) for the period**	**293,073**	**155,924**
	Attributable to:		
	- Shareholders of the Parent	279,899	157,084
	- Non-controlling interests	13,174	(1,160)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (in thousands of euro)

	ATTRIBUTABLE TO THE OWNERS OF THE PARENT					NON CONTROLLING INTERESTS	TOTAL
	SHARE CAPITAL	TRANSLATION RESERVE	TOTAL IAS RESERVES*	OTHER RESERVES/ RETAINED EARNINGS	TOTAL ATTRIBUTABLE TO THE OWNERS OF THE PARENT		
Total at 12/31/2012	**1,343,285**	**(1,606)**	**(531,447)**	**1,527,171**	**2,337,403**	**52,026**	**2,389,429**
Other components of other comprehensive income	-	(226,695)	80,205	-	(146,490)	(4,078)	(150,568)
Net income (loss)	-	-	-	303,574	303,574	2,918	306,492
Total comprehensive income	**-**	**(226,695)**	**80,205**	**303,574**	**157,084**	**(1,160)**	**155,924**
Dividends paid	-	-	-	(156,743)	(156,743)	(2,921)	(159,664)
Venezuela inflation effect	-	-	-	49,470	49,470	1,944	51,414
Other	-	-	(1,303)	(9,844)	(11,147)	10,634	(514)
Total at 12/31/2013	**1,343,285**	**(228,301)**	**(452,545)**	**1,713,628**	**2,376,066**	**60,523**	**2,436,589**
Other components of other comprehensive income	-	(55,129)	15,737	-	(39,392)	(372)	(39,764)
Net income (loss)	-	-	-	319,291	319,291	13,546	332,837
Total comprehensive income	**-**	**(55,129)**	**15,737**	**319,291**	**279,899**	**13,174**	**293,073**
Dividends paid	-	-	-	(156,743)	(156,743)	(3,358)	(160,101)
Venezuela inflation effect	-	-	-	49,090	49,090	1,929	51,019
Disposal of minorities shares	-	-	-	(3,015)	(3,015)	5,631	2,615
Acquisition through capital increase reserved to third parties	-	-	-	-	-	10,300	10,300
Disposal of Steelcord	-	-	-	-	-	(21,372)	(21,372)
Other	-	-	604	2,444	3,048	(3,669)	(621)
Total at 12/31/2014	**1,343,285**	**(283,430)**	**(436,204)**	**1,924,694**	**2,548,345**	**63,157**	**2,611,502**

(in thousands of euro)

	BREAKDOWN OF IAS RESERVES*				
	RESERVE FOR FAIR VALUE ADJUSTMENT OF AVAIBLE-FOR-SALE FINANCIAL ASSETS	RESERVE FOR CASH FLOW HEDGE	RESERVE FOR ACTUARIAL GAINS/LOSSES	TAX EFFECT	TOTAL IAS RESERVES
Balance at 12/31/2012	**2,001**	**(44,971)**	**(539,559)**	**51,082**	**(531,446)**
Other components of other comprehensive income	33,631	14,472	22,823	9,279	80,205
Other changes	-	-	(1,303)	-	(1,303)
Balance at 12/31/2013	**35,632**	**(30,499)**	**(518,039)**	**60,361**	**(452,545)**
Other components of other comprehensive income	20,488	10,252	(29,884)	14,879	15,737
Other changes	-	-	776	(172)	604
Balance at 12/31/2014	**56,120**	**(20,247)**	**(547,147)**	**75,069**	**(436,204)**

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)

		2014		2013 (*)	
			OF WHICH RELATED PARTIES		OF WHICH RELATED PARTIES
	Net income (loss) from continuing operations before taxes	488,523		513,484	
	Reversal of amortisation, depreciation, impairment and property, plant and equipment/intangible assets	304,855		292,392	
	Reversal of financial expenses	354,087		257,719	
	Reversal of financial income	(91,677)		(64,787)	
	Reversal of dividends	(3,873)		(1,290)	
	Reversal of gains/(losses) on equity investments	35,726		53,753	
	Reversal of share of net income from associates and joint ventures	55,147		25,835	
	Taxes	(173,309)		(208,992)	
	Change in inventories	(104,203)		5,359	
	Change in trade receivables	(32,621)		(15,341)	
	Change in trade payables	160,209		91,637	
	Change in other receivables/payables	(14,152)		(50)	
	Change in provisions for employee benefits and other provisions	(28,860)		(58,407)	
	Other changes	(18,487)		(13,711)	
A	**Net cash flows provided by (used in) operating activities**	**931,365**		**877,601**	
	Investments in property, plant and equipment	(367,201)		(402,281)	
	Disposal of property, plant and equipment	11,292		23,084	
	Investments in intangible assets	(10,763)		(10,818)	
	Disposals (Acquisitions) of retail investments	-		(11,173)	
	Disposals (Acquisitions) of equity investments in subsidiaries	17,886		-	-
	Disposal of Steelcoord	125,600		-	
	Disposals (Acquisitions) of associates and joint ventures	(17,458)	(17,458)	(55,257)	(55,257)
	Disposals (Acquisitions) of other financial assets	(455)	-	(9,931)	(558)
	Dividends received	3,873		1,290	
B	**Net cash flows provided by (used in) investing activities**	**(237,226)**		**(465,086)**	
	Other changes in equity	5,631		-	
	Change in financial payables	112,700		(37,772)	-
	Change in financial receivables/Securities held for trading	(40,458)		169,118	
	Financial income (expenses)	(190,325)		(192,932)	
	Dividends paid	(160,101)		(159,789)	
C	**Net cash flows provided by (used in) financing activities**	**(272,553)**		**(221,375)**	
	Net cash flows provided by (used in) operating activities	(27,500)		4,719	
	Net cash flows provided by (used in) investing activities	-		-	
	Net cash flows provided by (used in) financing activities	454		(1,568)	
D	**Total financial cash flow provided by (used in) discontinued operations**	**(27,046)**		**3,151**	
E	**Total cash flows provided (used) during the period (A+B+C+D)**	**394,541**		**194,291**	
F	**Cash and cash equivalents at beginning of year**	**806,856**		**665,004**	
G	**Exchange differences on translation of cash and cash equivalents**	**(50,792)**		**(52,439)**	
H	**Cash and cash equivalents at end of the period (E+F+G) [°]**	**1,150,605**		**806,856**	
	[°] of which:				
	cash and cash equivalents (note 19)	1,166,668		879,897	
	bank overdrafts	(16,063)		(73,041)	

[*] Steelcord business qualifies as "discontinued operation". All comparative amounts have been restated.

The Statement of Cash Flows shows transactions with related parties only if they cannot be directly derived from the other Statements. Please refer to note 43 of the Explanatory Notes for further detail.

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pirelli & C. S.p.A. is a corporation organised under the laws of the Republic of Italy.
Founded in 1872 and listed on the Italian Stock Exchange, Pirelli & C. S.p.A. is a holding company that manages, coordinates and finances the operations of its subsidiaries, which are mainly active in the tyre sector. Other activities relate to the emissions control technologies, renewable energy sources and fashion industries.

The **head office of the company is located in Milan, Italy**.

Pursuant to Article 5(2) of Italian Legislative Decree 38 of February 28, 2005, these Financial Statements have been prepared using the euro as the functional currency, and all amounts have been rounded to the nearest thousand euro unless indicated otherwise.

The audit of the consolidated Financial Statements has been entrusted to Reconta Ernst & Young S.p.A. pursuant to article 159 of Italian Legislative Decree no. 58 of February 24, 1998 and taking account of the Consob recommendation of February 20, 1997, in executing the resolution of the shareholders' general meeting of April 29, 2008, which appointed said company as the auditor for the period 2008-2016.

On March 31, 2015 the Board of Directors authorised publication of these consolidated Financial Statements.

2. BASIS FOR THE PRESENTATION

Financial Statements Formats

The Group has applied the provisions of Consob Resolution no. 15519 of July 27, 2006 in regard to the formats of Financial Statements and Consob Notice no. 6064293 of July 28, 2006 in regard to corporate disclosure.
The consolidated Financial Statements at December 31, 2014 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, and are accompanied by the Directors' Report on Operations.
The format adopted for the Statement of Financial Position classifies assets and liabilities as current and non-current.
The Group has opted to present the components of profit or loss for the year in a separate Income Statement, rather than include these components directly in the Statement of Comprehensive Income. The Income Statement adopted classifies costs by nature.
The Statement of Comprehensive Income includes the result for the period and, for homogeneous categories, the revenues and costs which, in accordance with IFRS, are recognised directly in equity.

The Group has decided to present both the tax effects and reclassifications to the Income Statement of gains/losses recognised directly in equity in previous periods directly in the Statement of Comprehensive Income and not in the Explanatory Notes.
The Statement of Changes in Equity sets forth, in addition to total gains/losses for the period, the amounts of transactions with equity holders and the changes in the period of the retained earnings.

In the Statement of Cash Flows, the cash flows deriving from operating activities are presented using the indirect method, according to which the gains or losses for the period are adjusted by the effects of non-monetary items, by any deferment or accrual of past or future operating receipts or payments, and by any revenue or cost items connected with the cash flows arising from investing activities or financing activities.

Disposal of the Steelcord Business

As a result of the signing of the sale agreement of the steelcord business signed by Pirelli and Bekaert on February 28, 2014, the steelcord business qualifies as a "discontinued operation". In accordance with IFRS 5, the assets and liabilities related the steelcord business in Turkey not yet sold as at December 31, 2014 and the value of the holding in the Chinese company Sino Italian Wire Tech. Co. Ltd. belonging to the steelcord business are shown in the Consolidated Statement of Financial Position under two separate items called "Assets held for sale" and "Liabilities related to assets held for sale". The result of the year of the discontinued operation together with the results from the sale of the steelcord business in Italy, Romania and Brazil, sold during the month of December 2014, is shown in the Income Statement separately from continuing operations, net of tax effects, under the item "Results from discontinued operations". Contextually, comparative economic data was restated.
In relation to transactions between the steelcord business that qualify as "discontinued operations" and the other activities of the Pirelli Group ("continuing business"), in the Income Statement it was decided to opt for a "post disposal" representation. It is recalled in this regard that the steelcord business provides the steelcord required for the production of tyres and that the sales agreement includes a long-term supply agreement for the supply of such material to Pirelli.
In this context, for the representation of the result of discontinued operations presented in the Income Statement, the revenues deriving from sales of steelcord from third parties were considered and the costs related to such sales were determined, consequently reporting the result that incorporates these components. The relevant details are outlined in note 39.

Scope of Consolidation

The scope of consolidation includes the subsidiaries, associates and joint arrangements.
Subsidiaries are defined as all the companies held over which the Group has at the same time:

- decision-making power, or the ability to direct the relevant activities of the investee, i.e. activities that have a significant influence on the results of the investee;
- the right to variable results (positive or negative) resulting from the shareholding in the entity;
- the ability to use its own decision-making power to determine the amount of the results arising from the shareholding in the entity.

The Financial Statements of subsidiaries are included in the consolidated Financial Statements beginning on the date when control is acquired until the time when control ceases. Non-controlling interests in equity and net income (loss) are separately indicated on the consolidated Statement of Financial Position and Income Statement.
All companies over which the Group can exercise significant influence (as defined by IAS 28 – Investments in Associates) are considered associates. This influence is normally assumed to exist if the Group holds between 20% and 50% of the voting power of the investee or – even with a smaller proportion of voting rights – it has the power to participate in determining the financial and operating policies of the investee on the basis of particular legal relationships. Such relationships may take the form

of shareholders' agreements together with other forms of significant exercise of governance rights. Joint arrangements are agreements under which two or more parties have joint control under a contract. Joint control involves the sharing, based on an arrangement, of control over an economic activity, and only exists when the unanimous agreement of all parties sharing the control is required for decisions regarding that activity. These agreements may give rise to joint ventures or joint operations. A joint venture is a joint control agreement of an entity whereby the parties that have joint control, have rights to the net assets of said entity. Joint ventures differ from joint operations that instead are agreements that grant to the parties of the agreement that have joint control of the initiative, rights on individual assets and obligations for individual liabilities relating to the agreement. In the case of joint operations, assets, liabilities, expenses and revenues of the agreement must be recognised on the basis of the applicable accounting standards. The Group does not currently have any joint operation agreements.

The principal changes in the scope of consolidation during 2014 relate to:

- the sale on November 26, 2014 of the subsidiary Pirelli Finance (Luxembourg) S.A.;
- the sale on December 18, 2014 to Bekaert of the subsidiaries Pirelli Steelcord S.r.l., S.C. Cord Romania S.r.l. e Cord Brasil – Industria e Comercio de Cordas Para Pneumaticos Ltda, as part of the sale of the Steelcord business;
- the reclassification from investments in subsidiaries to investments in associates of the Chinese company Sino Italian Wire Tech. Co. Ltd., belonging to the steelcord business. The reclassification was necessary due to the absence of the conditions that guaranteed the ability to exercise a call option in favour of Pirelli on part of the capital of the company.

Information on subsidiaries

The consolidated Financial Statements of Pirelli & C. S.p.A. includes the assets and liabilities of about 100 legal entities. The following is a list of the significant subsidiaries:

	PREMISES	12/31/2014		12/31/2013	
		% OF THE GROUP	% OF THIRD PARTIES	% OF THE GROUP	% OF THIRD PARTIES
Pirelli Tyre Co. Ltd	Yanzhou (China)	90.00%	10.00%	90.00%	10.00%
Alexandria Tire Company S.A.E.	Alexandria (Egypt)	89.11%	10.89%	89.11%	10.89%
Pirelli China Tyre N.V.	Heinenoord (The Netherlands)	100.00%		100.00%	
Pirelli Deutschland GmbH	Breuberg/Odenwald (Germany)	100.00%		100.00%	
Deutsche Pirelli Reifen Holding GmbH	Breuberg/Odenwald (Germany)	100.00%		100.00%	
E-VOLUTION Tyre B.V.	Heinenoord (The Netherlands)	65.00%	35.00%	65.00%	35.00%
Pirelli Tyre S.p.A.	Milan (Italy)	100.00%		100.00%	
Pirelli Neumaticos S.A.I.C.	Buenos Aires (Argentina)	100.00%		100.00%	
Pirelli Industrie Pneumatici S.r.l.	Settimo Torinese (Italy)	100.00%		100.00%	
Pirelli Neumaticos S.A. de C.V.	Mexico City (Mexico)	100.00%		100.00%	
Pirelli International Plc	Burton on Trent (UK)	100.00%		100.00%	
Pirelli Pneus Ltda	Santo Andrè (Brasil)	100.00%		100.00%	
Comercial e Importadora de Pneus Ltda	Sao Paulo (Brasil)	64.00%	36.00%	99.83%	0.17%
Pirelli Tyres Ltd	Burton on Trent (UK)	100.00%		100.00%	
Pirelli Tire LLC	Rome (USA)	100.00%		100.00%	
S.C. Pirelli Tyres Romania S.r.l	Slatina (Romania)	100.00%		100.00%	
Turk-Pirelli Lastikleri A.S.	Istanbul (Turkey)	100.00%		100.00%	
Pirelli de Venezuela C.A.	Valencia (Venezuela)	96.22%	3.78%	96.22%	3.78%
Limited Liability Company Pirelli Tyre Russia	Moscow (Russia)	100.00%		100.00%	
Closed Joint Stock Company "Voronezh Tyre Plant"	Voronezh (Russia)	100.00%		100.00%	

The complete list of subsidiaries is provided in the annex “Scope of consolidation: list of companies included in the consolidation using the line-by-line method”.

Minority interests in the subsidiaries of the Group are not significant either individually or in aggregate form.

Method of consolidation

The Financial Statements used for consolidation purposes are those of the companies included in the scope of consolidation, prepared at the reporting date of the parent company and adjusted as necessary, in accordance with the IAS/IFRS applied by the Group.
The Financial Statements expressed in foreign currencies have been translated into euro at the period-end rates for the Statement of Financial Position and at the average exchange rates of the period for the Income Statement, with the exception of Financial Statements of companies operating in high-inflation countries whose Income Statements are translated at the period-end exchange rates.
The differences arising from the translation of opening equity at period-end exchange rates have been recognised in the reserve for translation differences, together with the difference between the result for the period translated at the period-end rate and at the average rate for the period.
The reserve for translation differences is reclassified in the Income Statement upon disposal of the company that generated the reserve.

The consolidation policies may be summarised as follows:

- subsidiaries are consolidated on a line-by-line basis, according to which:
  - the assets, liabilities, revenues, and expenses in the Financial Statements of subsidiaries are recognised in their full amounts, regardless of the percentage of ownership;
  - the carrying amount of investments is eliminated against the underlying share of equity;
  - the financial and operating transactions between companies consolidated on a line-by-line basis, including dividends distributed within the Group, are eliminated;
  - equity and income (loss) attributable to non-controlling interests are presented separately in the Statement of Financial Position and Income Statement;
  - upon disposal of an investment with consequent loss of control, the gain or loss from that disposal takes into account the goodwill that may be allocated to the investee;
  - in the case of further interests acquired after acquisition of a controlling interest, any difference between the purchase cost and the corresponding fraction of acquired equity is recognised in equity. Likewise, the effects of disposing non-controlling interests without loss of control are also recognised in equity;

- investments in associates and joint ventures are accounted for under the equity method, on the basis of which the carrying amount of the investments is adjusted by:
  - the investor’s share of the post-acquisition results of the associate or joint venture;
  - the share of gains and losses recognised directly in the equity of the associate or joint venture, in accordance with the applied accounting standards;
  - dividends paid by the associate or joint venture;
  - when the Group’s share in the losses of the associate/joint venture exceeds the carrying amount of the investment in the Financial Statements, the carrying amount of the investment is eliminated and the share of any further losses is recognised under “Provisions for liabilities and charges,” to the extent that the Group has a contractual or implicit obligation to cover the losses;
  - the gains resulting from sales made by subsidiaries to joint ventures or associates are eliminated in proportion to the percentage of equity interest in the acquiring entity.

3. ACCOUNTING STANDARDS

3.1 ACCOUNTING STANDARDS ADOPTED

Pursuant to regulation no. 1606 issued by the European Parliament and the European Council in July 2002, the consolidated Financial Statements of the Pirelli & C. Group have been prepared in accordance with International Financial Reporting Standards in force issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, as at December 31, 2014, and the measures issued in implementation of article 9 of Italian Legislative Decree no. 38/2005. The term "IFRS" includes all the revised International Accounting Standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").
The consolidated Financial Statements have been prepared in accordance with the historical cost method, with the exception of:

- derivative financial instruments, securities held for trading, financial assets available for sale, which are measured at fair value;
- Financial Statements of companies operating in hyperinflationary economies, which are prepared according to the current cost method.

Business combinations

Corporate acquisitions are accounted for under the acquisition method.

When a controlling interest in a company is acquired, goodwill is initially recognised at cost and calculated as the difference between:

- the fair value of the consideration plus any non-controlling interests in the acquired entity, measured at fair value (if this option is chosen for the acquisition in question) or in proportion to the share of the non-controlling interest in the net assets of the acquired entity;
- the fair value of the acquired assets and liabilities.

If this difference is negative, that difference is immediately recognised as income in the Income Statement.
In case of acquisition of control of a company in which a non-controlling interest is already held (step acquisition), the investment held previously must be measured at fair value, recognizing the effects of said adjustment in the Income Statement.
The costs for the business combination are recognised in the Income Statement.
Contingent considerations, i.e. the obligations of the buyer to transfer additional assets or shares to the seller if certain future events occur or specific conditions are fulfilled, should be recognised and measured at fair value at the acquisition date as a portion of the consideration transferred in exchange for the acquisition itself. Subsequent changes in the fair value of these agreements are normally recognised in the Income Statement.

Intangible assets

Intangible assets with finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.
Amortisation is calculated on a straight-line basis and begins when the asset is available for use or operable in the opinion of management and ceases on the date when the asset is classified as held for sale or is derecognised.
Gains and losses resulting from the sale or disposal of an intangible asset are determined as the difference between the net sale proceeds and the carrying amount of the asset.

In addition to goodwill, the Group has not identified other intangible assets with an indefinite useful life.

Goodwill
Goodwill is an intangible asset with indefinite useful life, and consequently is not amortized. Goodwill is tested for impairment in order to identify any impairment losses at least annually or whenever there are indications of an impairment loss, and is allocated to cash generating units for this purpose.

Trademarks and licenses
Trademarks and licenses are measured at cost less accumulated amortisation and accumulated impairment losses. The cost is amortised over the contract period or the useful lives of the assets, whichever is shorter.

Software
Software license costs, including direct incidental costs, are capitalised and recognised net of accumulated amortisation and accumulated impairment losses. Software is amortised over its useful life.

Customer relationship
Customer relationships are intangible assets acquired in a business combination and are recognised on the Statement of Financial Position at their fair value as at the purchase date. They are amortized according to their useful life.

Research and development costs
Research costs for new products and/or processes are expensed when incurred. There are no development costs that satisfy the conditions for capitalisation under IAS 38.

Property, plant and equipment

Property, plant and equipment are recognised at their purchase or production cost, including directly attributable incidental expenses.
Subsequent expenditure and the cost of replacing certain parts of property, plant and equipment are capitalised only if they increase the future economic benefits of the related asset. All other costs are expensed as incurred. When the cost of replacing certain parts is capitalised, the carrying amount of the replaced part is recognised in the Income Statement.
Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses, except for land, which is not depreciated and is recognised at cost less accumulated impairment losses.
Depreciation is recognised starting from the month in which the asset is available for use, or is potentially capable of providing the economic benefits associated with it.
Depreciation is charged monthly on a straight-line basis at rates that allow depreciating the assets until the end of their useful life or, in the case of disposal, until the last month of use.

The applied depreciation rates are as follows:

Buldings	3% - 10%
Plant	7% - 20%
Machinery	5% - 20%
Equipment	10% - 33%
Furniture	10% - 33%
Motor vehicles	10% - 25%

Government grants related to property, plant and equipment are recognised as deferred income and credited to the Income Statement over the period of depreciation of the relevant assets.
Financial expenses directly attributable to the purchase, construction or production of a qualifying asset (defined as an asset that requires significant amount of time in order to be prepared

for use) are capitalised as part of the cost of the asset. The capitalisation of financial expenses ceases when substantially all the activities necessary to render the qualifying asset available for use have been completed.
Leasehold improvements are classified as property, plant and equipment, consistently with the nature of the cost incurred. The depreciation period corresponds to the shorter between the remaining useful life of the asset or the residual period of the lease agreement.
Spare parts of significant value are capitalised and depreciated over the estimated useful life of the assets to which they refer.
Any dismantling costs are estimated and added to the cost of property, plant and equipment with a corresponding accrual to provisions for liabilities and charges if the conditions for accruing such provisions are met. They are then depreciated over the remaining useful life of the assets to which they refer.
Assets acquired under finance lease agreements, in which substantially all the risks and rewards of ownership are transferred to the Group, are recognised as property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, with a corresponding entry for the relevant financial payable. The lease instalment payments are allocated between interest expense, recognised in the Income Statement, and principal repayment, which reduces the financial payable.
Leases in which the lessor maintains substantially all the risks and rewards associated with ownership are classified as operating leases. The costs referring to an operating lease are recognised as an expense in the Income Statement over the lease term on a straight-line basis.
Property, plant and equipment are derecognised from the Statement of Financial Position at the time of disposal or retirement from use and, consequently, when no future economic benefits are expected to derive from their sale or use.
Gains and losses resulting from the sale or disposal of property, plant and equipment are determined as the difference between the recoverable amount and the carrying amount of the asset.

Impairment of assets

Property, plant and equipment and intangible assets

Whenever there are specific indicators of impairment, and at least annually for intangible assets with indefinite useful life, including goodwill, the property, plant and equipment and intangible assets are tested for impairment.
The test consists of an estimate of the recoverable amount of the asset and a comparison with its carrying amount.
The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, where the latter is the present value of the expected future cash flows arising from the use of the asset and those deriving from its disposal at the end of its useful life, excluding income taxes and applying a discount rate, which should be the post-tax rate which reflects the current market assessments of the time value of the money and the risks specific to the asset.
There is no need to estimate both amounts because it is sufficient to verify that one of the two amounts is higher than the carrying amount to establish that no impairment has occurred.
If the recoverable amount is lower than the asset carrying amount, the latter is reduced to the recoverable amount. This reduction constitutes an impairment loss, which is recognised in the Income Statement.
In order to assess impairment, assets are allocated to the lowest level at which independent cash flows are separately identifiable (cash generating units).
Specifically, goodwill must be allocated to the cash generating unit or group of cash generating units, complying with the maximum level of aggregation allowed, which must never be greater than the operating segment.
When there is evidence that an impairment loss recognised in previous years and relating to property, plant and equipment or intangible assets other than goodwill may no longer exist or can be reduced, the recoverable amount is estimated again. If it is higher than the net carrying amount, then the net carrying amount should be increased to the revised estimate of its recoverable amount. The

reversal of an impairment loss may not exceed the carrying amount that would have been recognised (net of impairment and depreciation or amortisation) had no impairment loss been recognised in previous years.
The reversal of an impairment loss other than goodwill is recognised in the Income Statement.
An impairment loss recognised for goodwill may not be reversed in subsequent years.
An impairment loss recognised for goodwill on the interim Financial Statements may not be reversed in the subsequent annual period.

Investments in associates and joint ventures

When there are indicators of impairment, the value of investments in associates and joint ventures accounted for under the equity method must be compared with the recoverable amount (impairment test). The recoverable amount corresponds to the higher between the fair value less costs to sell and the value in use.
For the purposes of impairment testing, the fair value of an investment in an associate or joint venture with shares listed on an active market is always equivalent to its market value, irrespective of the percentage of ownership. In the case of investments in unlisted companies, the fair value is determined using estimates based on the best information available.
To determine the value in use of an associate or joint venture proportionally to the percentage of shares owned, the discounted value of future cash flows that are expected to be generated by the associate or joint venture is estimated, including cash flows deriving from the operating activities of the associate or joint venture and the consideration that will be received upon final disposal of the investment (known as the discounted cash flow – asset side method).
If there is evidence that an impairment loss recognised in previous years may no longer exist or can be reduced, the recoverable amount of the investment is estimated again, and if it is higher than the amount of the investment, then the latter amount should be increased up to the recoverable amount.
The reversal of an impairment loss may not exceed the amount of the investment that would have been recognised (net of impairment) had no impairment loss been recognised in previous years.
The reversal of an impairment loss on investments in associates and joint ventures is recognised in the Income Statement.

Financial assets available for sale

Financial assets available for sale include investments in entities other than subsidiaries, associates and joint ventures and other financial assets not held for trading. They are recognised in the Statement of Financial Position as "Other financial assets."
They are measured at fair value, if this can be reliably determined.
Gains and losses deriving from changes in fair value are recognised in a specific equity reserve.
When a reduction in fair value has been recognised directly in equity and there is objective evidence that the asset was impaired, the losses recognised up to that time in equity are reversed in the Income Statement. A prolonged (meaning more than 12 months) or significant (meaning more than 50% for securities issued by entities operating in banking sector and more than one-third for securities issued by entities operating in other sectors) reduction in the fair value of equity securities and as compared with their cost is considered an indicator of impairment. Starting from the half-year Financial Statements at June 30, 2012, the quantitative limit was raised from one-third to 50% for banking sector securities due to the exceptional increase in volatility of the sector.
This threshold revision was determined on the basis of the updated historical analysis carried out in 2008 and only reflects the adjustments in the new conditions. The significant increase in volatility of the financial markets and particularly in the banking sector has caused a series of exceptional circumstances to arise. Therefore, it became necessary to revise the quantitative threshold for assessing impairment losses with regard to the securities related to this sector. On the contrary, there has been no change in the criterion for the definition of the duration threshold of "prolonged" impairment losses (12 months).
In the event of sales, the gains and losses recognised up to that time in equity are reversed in the

Income Statement.
Any impairment losses of a financial asset available for sale recognised in the Income Statement may be reversed through the Income Statement, with the exception of those recognised for stocks classified as available for sale, which may not be reversed through the Income Statement.
Financial assets available for sale, whether debt or equity instruments for which fair value is not available, are accounted for at cost, reduced by any impairment losses based on the best market information available at the reporting date.
Purchases and sales of financial assets available for sale are accounted for at the settlement date.

Inventories

Inventories are measured at the lower of cost, determined under the FIFO method, and their estimated realisable value.
The measurement of inventories includes direct costs of materials and labour and indirect costs. Provisions are calculated for obsolete and slow-moving inventories, taking into account their expected future use and estimated realisable value. The realisable value is the estimated selling price, net of all costs estimated to complete the asset and selling and distribution costs that will be incurred.
Cost includes incremental expenses and financial expenses qualifying for capitalisation, similarly to what has been described for property, plant and equipment.

Receivables

Receivables are initially recognised at their fair value, which normally corresponds to the consideration agreed or to the present value of the amount that will be collected. They are subsequently measured at amortised cost, less provisions for impairment losses. Amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate that, when applied to future cash flows, renders the present value of such cash flows equal to the initial fair value. Impairment losses on receivables are calculated according to counterparty default risk, which is determined by considering available information on the solvency of the counterparty and historical data. The carrying amount of receivables is reduced indirectly by accruing provisions. Individual material positions that are objectively found to be partially or entirely uncollectable are impaired individually. The amount of the impairment loss reflects the estimate of future recoverable flows and the applicable date of collection, recovery costs and expenses, and the fair value of guarantees, if any. The positions that are not impaired individually are included in groups with similar characteristics in terms of credit risk, and they are impaired as a group on an increasing percentage basis as the period during which they are overdue increases. The Group impairment procedure also applies to receivables not yet due. The impairment percentages are determined on the basis of historical experience and statistical data. When the conditions that led to impairment of the receivables no longer exist, the impairment losses recognised in previous periods are reversed in the Income Statement up to the amortised cost that would have been recognised had no impairment loss been recognised. Receivables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates, with a balancing entry in the Income Statement. Receivables are derecognised when the right to receive cash flows is extinguished, when substantially all the risks and rewards connected with holding the receivable have been transferred, or when the receivable is considered definitely uncollectable after all necessary credit recovery procedures have been completed. When the receivable is derecognised, the relative provision is also derecognised, if the receivable had previously been impaired.

Payables

Payables are initially recognised at their fair value, which normally corresponds to the consideration agreed or to the present value of the amount that will be paid. They are subsequently measured at amortised cost. Amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate that, when applied to future cash flows, renders the present value of such cash flows equal to the initial fair value. Payables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates, with a balancing entry in the Income Statement. Payables are derecognised when the specific contractual obligation is extinguished.

Financial assets carried at fair value through income statement

This category includes securities mainly purchased to be sold in the short term and classified under current assets as “Securities held for trading,” financial assets that are initially recognised at fair value through Income Statement, classified as “Other financial assets,” and derivatives (except those designated as effective hedging instruments), classified as “Derivative financial instruments.”
They are measured at fair value with a balancing entry in the Income Statement. Additional costs are expensed in the Income Statement.
Purchases and sales of these financial assets are accounted for at the settlement date.

Cash and cash equivalents

Cash and cash equivalents include bank deposits, postal deposits, cash and cash equivalents on hand, and other forms of short-term investment whose original maturity is three months or less. Current account overdrafts are recognised as current liabilities under financial payables. The amounts included in cash and cash equivalents are recognised at their fair value and any changes are recognised in the Income Statement.

Provisions for liabilities and charges

Provisions for liabilities and charges include accruals for current obligations (legal or constructive) deriving from a past event, for the fulfilment of which an outflow of resources will probably be necessary and whose amount can be reliably estimated.
Changes in estimates are recognised in the Income Statement of the period when the change occurs.
If the effect of discounting is material, provisions are presented at their present value.

Employee benefit obligations

Employee benefits paid after termination of the employment relationship under defined benefit plans and other long-term benefits are subject to actuarial measurements. The liability recognised in the Financial Statements is the present value of the Group’s obligation, net of the fair value of any plan assets.
For defined benefit plans, actuarial gains and losses deriving from adjustments based on past experience and changes in actuarial assumptions are fully recognised in equity for the year in which they occur.
For other long-term benefits, actuarial gains and losses are recognised immediately in the Income Statement.
The provision for employees’ leaving indemnities (TFR) of Italian companies with at least 50 employees is considered a defined benefit plan only for the portion accrued prior to January 1, 2007 (and not yet paid at the reporting date), whereas subsequent to that date, it is considered a defined contribution plan.
The net interest calculated on net liabilities is classified under financial expenses.

The costs relating to defined contribution plans are recognised in the Income Statement when incurred.

Derivative financial instruments designated as hedging instruments

In accordance with IAS 39, hedging instruments are subject to hedge accounting only when:

- formal designation and documentation of the hedging relationship between the hedging derivative and the hedged item exist at the beginning of the hedge;
- it is expected that the hedge will be highly effective;
- its effectiveness can be measured reliably;
- the hedge is highly effective during the various accounting periods for which it is designated.

These derivative instruments are recognised at fair value.
The following accounting treatments are applied based on the type of hedge:

- *Fair value hedge* – if a derivative financial instrument is designated as a hedge against exposure to changes in the fair value of an asset or liability attributable to a specific risk, the gain or loss resulting from subsequent changes in fair value of the hedging instrument is recognised in the Income Statement. For the portion attributable to the hedged risk, the gain or loss on the hedged item modifies the carrying amount of that item (basis adjustment), and it too is recognised in the Income Statement;
- *Cash flow hedge* – if a derivative instrument is designated as a hedge against exposure to the variable cash flow of an asset or liability recognised in the Statement of Financial Position or a highly probable future transaction, the effective portion of the change in fair value of the hedging instrument is recognised directly in equity, while the ineffective portion is immediately recognised in the Income Statement. The amounts recognised directly in equity are reversed to the Income Statement in the year when the hedged item produces an effect on the Income Statement.

When a hedging instrument expires or is sold, terminated, exercised, or no longer meets the conditions to be designated as a hedge, or if designation is revoked voluntarily, hedge accounting is discontinued: fair value adjustments accumulated in equity remain in equity until the hedged item its effects on the Income Statement. Subsequently they are reversed in the Income Statement over the periods in which the acquired financial asset or assumed financial liability impact the Income Statement.

When the hedged item is no longer expected to have any impact on the Income Statement, the fair value adjustments accumulated in equity are immediately reversed in the Income Statement.
For the derivative instruments that do not satisfy the prerequisites established by IAS 39 for adoption of hedge accounting, please refer to the section “Financial assets at fair value through Income Statement”.

Purchases and sales of these derivative financial instruments are accounted for at the settlement date.

Determination of the fair value of financial instruments

The fair value of financial instruments traded on an active market is based on listed market prices at the reporting date. The listed market price used for financial assets is the bid price, while for financial liabilities it is the ask price. The fair value of instruments that are not traded on an active market is determined by using measurement techniques with a variety of methods and assumptions that are based on market conditions at the reporting date.
The fair value of interest rate swaps is calculated as the present value of expected future cash flows.
The fair value of forward exchange contracts is determined by using the forward rate at the reporting date.

Income taxes

Current taxes are determined on the basis of a realistic forecast of the charges payable under the current tax regulations of the country.
Deferred taxes are calculated according to the temporary differences existing between the asset and the liability amounts in the Statement of Financial Position and their tax basis (full liability method), and are classified under non-current assets and liabilities.
Deferred tax assets on tax loss carried forward, as well as on temporary differences, are only recognised when there is a likelihood of future recovery.
Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and when there is a legally enforceable right to offset. Deferred tax assets and liabilities are determined according to enacted tax rates that are expected to be applicable to taxable income in the years when those temporary differences are expected to be recovered or settled, with reference to the jurisdictions where the Group operates.
The deferred tax liabilities related to investments in subsidiaries, associates and joint ventures are not recognised if the participating entity can control the turnover of temporary differences and they are unlikely to arise in the foreseeable future.
Deferred taxes are not discounted.
Deferred tax assets and liabilities are credited or debited to equity if they refer to items that have been credited or debited directly in equity during the period or during previous periods.

Equity

Treasury shares

Treasury shares are recognised as a reduction in equity.
If they are sold, reissued or cancelled, the resulting gains or losses are recognised in equity.

Costs of equity transactions

Costs that are directly attributable to equity transactions of the parent are recognised as a reduction in equity.

Recognition of revenue

Revenue is measured at the fair value of the consideration received for the sale of products or provision of services.

Sales of products

Revenue from sales of products is recognised when all the following conditions are met:

- the material risks and rewards of ownership of the goods are transferred to the buyer;
- effective control over the goods and the normal continuing level of activities associated with ownership have ceased;
- the amount of revenue is reliably determined;
- it is likely that the economic benefits deriving from the sale will be enjoyed by the enterprise;
- the costs incurred or to be incurred are determined reliably.

If the nature and extent of involvement of the seller are such that the risks and rewards of ownership are not in fact transferred, then the recognition date of the revenues is deferred until the date on which this transfer can be considered to have taken place.

Provision of services

Revenue from provision of services is recognised only when the results of the transaction can be measured reliably, by reference to the state of completion of the transaction at the reporting date.

The results of a transaction can be measured reliably only when all the following conditions are met:

- the amount of revenue can be determined reliably;
- it is likely that the company will enjoy the economic benefits of the transaction;
- the stage of completion of the transaction at the reporting date can be reliably measured;
- the costs incurred for the transaction and the costs to be incurred to complete it can be determined reliably.

Interests

Interests is recognised on a time proportion basis that considers the effective return of the asset.

Royalties

Royalties are recognised on an accrual basis, according to the substance of the relevant agreement.

Dividends

Dividend income is recognised when the right to receive payment is established, which normally corresponds to the resolution approved by the Shareholders' Meeting for the distribution of dividends.

Earnings (losses) per share

Earnings (losses) per share are calculated by dividing the income (loss) attributable to the equity holders of the company by the weighted average number of outstanding shares during the year. To calculate diluted earnings per share, the weighted average number of outstanding shares is adjusted by assuming the conversion of all shares having a potentially dilutive effect.

Operating segments

The operating segment is a part of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by top management in view of making decisions about resources to be allocated to the segment and assessing its performance, and for which discrete financial information is available.

Accounting policies for hyperinflationary countries

Group companies operating in high-inflation countries recalculate the amounts of their non-monetary assets and liabilities in their individual Financial Statements to eliminate the distorting effects caused by the loss of purchasing power of the currency. The inflation rate used to implement the inflation accounting corresponds to the consumer price index.
Companies operating in countries where the cumulative inflation rate over a three-year period approximates or exceeds 100% adopt inflation accounting and discontinue it in the event that the cumulative inflation rate over a three-year period falls below 100%.
Gains or losses on the net monetary position are recognised in the Income Statement.

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount is recovered mainly through sale rather than through continuous use. This occurs if the non-current asset or disposal group are available for sale under current conditions and the sale is highly probable, or if a binding program for sale has already begun, activities to find a buyer have already commenced and it is expected that the sale will be completed within one year after the classification date.
In the consolidated Statement of Financial Position, the non-current assets held for sale and the current and non-current assets/liabilities of the disposal group are presented as a separate item from other assets and liabilities, and their totals are reflected in current assets and liabilities, respectively.
Non-current assets classified as held for sale and disposal groups are measured at the lower be-

tween carrying amount and fair value less costs to sell.
Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Discontinued operations

A discontinued operation is a component that has been disposed of or classified as held for sale and that represents an important business unit or geographical area of activity, and pertains to a single, coordinated disposal programme.
On the consolidated Income Statement for the period, the Net income (loss) of the discontinued operations, as well as the gain or loss resulting from fair value measurement net of the costs of sale or from disposal of the assets or disposal groups constituting the discontinued operation are combined in a single item at the end of the Income Statement separately from the result for continuing operations.
The cash flows for discontinued operations are shown separately in the statement of cash flows.
The above disclosure is also presented for the comparative period.

3.2 ACCOUNTING STANDARDS AND INTERPRETATIONS ENDORSED AND IN FORCE FROM JANUARY 1, 2014

In accordance with IAS 8 "Accounting Policies, changes in accounting estimates and errors" the IFRS effective from January 1, 2014 are indicated below:

- **Amendments to IAS 32** – Financial Instruments: recorded in Financial Statements - offsetting of financial assets and liabilities: no impact on the consolidated Financial Statements.
- **IFRS 10** – Consolidated Financial Statements and amendments to IFRS 10 - Transition Guide: no impact on the consolidated Financial Statements.
- **IFRS 11** – Joint Arrangements and amendments to IFRS 11 "Joint Arrangements - Transition Guide": no impact on the consolidated Financial Statements.
- **IFRS 12** – "Disclosure of interests in other entities" and amendments to IFRS 12 "Additional disclosures related to shareholdings in other entities - Transition Guide": the disclosures required by the standard are provided in Note 2 paragraph "Information on subsidiaries".
- **Amendments to IFRS 10, IFRS 12 and IAS 27** – Investment entities: not applicable to the Group, as none of the entities belonging to the group qualify as investment entity under IFRS 10.
- **Amendments to IAS 36** – Impairment of assets - Additional disclosures on the recoverable amount of non-financial assets: no impact on the disclosures provided in the notes to the consolidated Financial Statements.
- **Amendments to IAS 39** – Financial Instruments: recognition and measurement - novation of derivatives and continuation of hedge accounting: no impact on the consolidated Financial Statements.

3.3 INTERNATIONAL ACCOUNTING STANDARDS AND/OR INTERPRETATIONS THAT HAVE BEEN ISSUED BUT NOT YET IN FORCE AND/OR ENDORSED

Pursuant to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, the new standards and interpretations that have been issued but have not yet come into force or have not yet been endorsed by the European Union at December 31, 2014, and which are therefore not applicable, are listed below.
None of these standards and interpretations has been adopted in advance by the Group.

- **IFRIC 21 – Levies**
  This interpretation clarifies the accounting treatment of tax liabilities and government levies other than income taxes. In particular, it defines the time when an entity may recognise these liabilities.

The interpretation has been endorsed by the European Union and came into force on January 1, 2015. Future application of this interpretation will not have any impact.

Amendments to IAS 19 - Employee benefits - defined benefit plans: contributions from employees or third parties

These amendments apply to employee or third-party contributions to defined benefit pension funds to simplify accounting in some specific circumstances.

These amendments have been endorsed by the European Union and have been applicable since February 1, 2015. Future application of these amendments will not have any impact.

"Improvements" to IFRS between 2010 and 2012 (issued by the IASB in December 2013)

The IASB has issued a series of amendments to 7 standards that are currently in force, which refer specifically to: vesting conditions in IFRS 2 – Share-based Payment; accounting of contingent consideration in a business combination in IFRS 3 – Business Combinations; the combining of operating segments and reconciliation of the total amount of assets in the segment being reported with the total assets of the entity in IFRS 8 - Operating Segments; the proportionate recalculation of accumulated amortisation in IAS 16 – Property, plant and equipment; intangible assets in IAS 38 – Intangible assets, and the identification of some disclosures relative to key managers in IAS 24 – Related party transaction disclosure.

These amendments were endorsed by the European Union and have been applicable since February 1, 2015. The amendments to IFRS 2, IAS 16 and IAS 38 are not applicable to the Group. As concerns the amendments to the other IAS / IFRS, the future application of these amendments will not have a significant impact on Group Financial Statements or disclosures.

"Improvements" to IFRS between 2011 and 2013 (issued by the IASB in December 2013)

The IASB has issued a series of amendments to four standards that are currently in force, specifically concerning the following issues: Meaning of "IFRS in force" in IFRS 1 - First-time Adoption of International Financial Reporting Standards; the non-applicability to joint arrangements of IFRS 3 – Business Combinations; the "portfolio exception" for fair value measurement in IFRS 13 – Fair Value Measurement and clarification of the interrelationships between IFRS 3 and IAS 40 for classifying an investment as investment property or as a property for its own use in IAS 40 – Investment Property.

These amendments have been endorsed by the European Union and are applicable from January 1, 2015. Future application of these amendments will not have any impact on the Group's Financial Statements.

IFRS 9 – Financial Instruments

IFRS 9, which will replace IAS 39 – Financial Instruments: Recognition and measurement, is divided into 3 parts:

- Classification and measurement of financial instruments on the basis of the entity's business model and the features of the cash flows generated by the financial instruments themselves.
- Impairment of financial instruments based on a new and unique impairment model based on the recognition of expected losses of an entity. This model does not apply to equity instruments and provides operational simplifications for trade receivables.
- Hedge accounting based on a more flexible approach than that in IAS 39.

This principle, which was expected to come into force as of January 1, 2018, has not yet been endorsed by the European Union.

The impacts deriving from the future application of the principle are currently being analysed. The amendments relating to financial liabilities are not applicable to the Group.

IFRS 15 - Sales from contracts with customers

The new model of revenue recognition of IFRS 15 is based on the identification of the various contractual obligations ("performance obligations") contained within each individual sales contract and on revenue recognition based on the fulfilment of the individual contractual obligations. This principle, which is expected to come into force on January 1, 2017, has not yet been endorsed by the European Union and allows a choice between total or partial retrospective application. The impacts of the future application of the principle are currently being analysed.

Amendments to IFRS 11 - Joint Arrangements - accounting for the acquisition of investments in joint operations

The amendments to IFRS 11 specify the accounting treatment to be applied in case of acquisition of investments in joint operations that constitute a business as defined by IFRS 3. Said amendments, which are expected to come into force on January 1, 2016, have not yet been endorsed by the European Union. The impacts of the future application of said amendments on the Group's Financial Statements are not predictable at this time.

Amendments to IAS 16 and IAS 38 - Clarification of acceptable methods of depreciation and amortization

With these amendments, the IASB intended to clarify that the use of methods based on revenues for the calculation of depreciation is not correct because the revenues generated by an asset reflect factors other than the consumption of the future economic benefits embodied in the asset itself. This consumption must represent the base principle for the calculation of depreciation.
These amendments, which are expected to come into force January 1, 2016, have not yet been endorsed by the European Union. The future application of these amendments is not expected to have any impact on the Group's Financial Statements.

Amendments to IAS 27 - application of the equity method in the separate Financial Statements

Following these changes, the use of the equity method will be allowed as an option in accounting of investments in subsidiaries, associates and joint ventures also in the separate Financial Statements.
These amendments, which are expected to come into force January 1, 2016, have not yet been endorsed by the European Union. The impacts of the adoption of the equity method in the separate Financial Statements for the evaluation of investments are being analysed.

Amendments to IFRS 10 and IAS 28 - sale or transfer of assets between an investor and its associate or joint venture

The IASB issued said amendments to eliminate an inconsistency between IFRS 10 and IAS 28, stating that if the assets sold/transferred constitute a business as defined by IFRS 3 the possible gain or loss must be recognized fully; and conversely gain or loss shall be recognized only for the related portion.
These amendments, which are expected to come into force January 1, 2016, have not yet been endorsed by the European Union. Future application of these amendments is not expected to have any impact on the Group's Financial Statements.

"Improvements" to IFRS 2012-2014 (issued by the IASB in September 2014)

The IASB has issued a series of amendments to four standards that are currently in force, relative to the following aspects: amendment to method of disposal in IFRS 5 - Non-current assets held for sale and discontinued operations; service contracts and applicability of the amendments to IFRS 7 to interim condensed Financial Statements in IFRS 7 - Financial Instruments: disclosures; discount rate to be applied in IAS 19 - Employee Benefits; disclosure presented "in other parts of the interim Financial Statements" in IAS 34 – Interim Financial Reporting.
These amendments, which should come into force on January 1, 2016, have not yet been endorsed by the European Union. Future application of these amendments is not expected to have any impact on the Group's Financial Statements.

Amendments to IAS 1 - initiative concerning additional disclosures (disclosure initiative)

Amendments to IAS 1, related to the disclosure initiative project, aim to clarify and improve, rather than amend, the requirements of IAS 1 itself.
These amendments, which are expected to come into force January 1, 2016, have not yet been endorsed by the European Union. The impacts on the disclosures of the consolidated Financial Statements are currently being analysed.

Amendments to IFRS 10, IFRS 12 and IAS 28 - investments in investment entities - application of the exception to consolidation
These amendments introduce some clarifications about the requirements to be met in the accounting treatment required for investment entities.
These amendments, which came into force January 1, 2016, have not yet been endorsed by the European Union and have no impact on the Group, as none of the entities belonging to the group qualifies as investment entity within the meaning of IFRS 10.

4. FINANCIAL RISK MANAGEMENT POLICIES

The Group is exposed to financial risks. These are principally associated with foreign exchange rates, fluctuations in interest rates, the price of financial assets held as investments, the ability of customers to meet their obligations to the Group (credit risk), and raising funds on the market (liquidity risk).
Financial risk management is an integral part of Group business management and is handled directly by the headquarters in accordance with guidelines issued by the Finance Department on the basis of general risk management strategies defined by the Managerial Risk Committee.

4.1 TYPES OF FINANCIAL RISKS

Exchange rate risk

The geographical distribution of Group production and commercial activities entails exposure to transaction and translation exchange rate risk.

transaction exchange rate risk
This risk is generated by the commercial and financial transactions of the individual companies that are executed in currencies other than the functional currency. Exchange rate fluctuations between the time when the commercial or financial relationship is established and when the transaction is completed (collection or payment) may generate foreign exchange gains or losses.
The Group aims to minimise the impact of transaction exchange rate risk related to volatility. To do so, Group procedures make the operating units responsible for collecting complete information about the assets and liabilities that are subject to transaction exchange rate risk. This risk is hedged with forward contracts made with the Group Treasury.
The items subject to exchange rate risk are mainly represented by receivables and payables denominated in foreign currency.
The Group Treasury is responsible for hedging the net position for each currency and, in accordance with established guidelines and restrictions it closes all risk positions by trading derivative hedging contracts on the market, which typically take the form of forward contracts.
The Group has decided not to opt for hedge accounting pursuant to IAS 39, insofar as the representation of the economic and financial effects of the hedging strategy on foreign exchange rate risk is still substantially guaranteed even without adopting such option.
Furthermore, as part of the annual and three-year planning process, the Group makes exchange rate forecasts by using the best information available on the market. The fluctuation in exchange rates between the time when the forecast is made and the time when the commercial or financial transaction occur represents the exchange rate risk on future transactions.

In accordance with established policy, the Group monitors the opportunity to hedge future transactions, with each hedge being authorised by the Finance Department on a case-by-case basis. Hedge accounting in accordance with IAS 39 is used when the conditions are met.

currency translation risk

The Group owns controlling interests in companies that prepare their Financial Statements in currencies other than the euro, which is used to prepare the consolidated Financial Statements. This exposes the Group to currency translation risk, which is generated by the conversion into euro of the assets and liabilities of these subsidiaries.
The principal exposures to currency translation risk are constantly monitored, but it is not currently deemed necessary to adopt specific policies to hedge this exposure.
About 17% of total consolidated net equity at December 31, 2014 was expressed in Euros (compared to about 25% at December 31, 2013). The most important currencies for the Group other than the Euro are the Brazilian Real (17%; 16% at December 31, 2013), the Turkish Lira (7%; 7% at December 31, 2013), the Chinese Renminbi (12%; 11% at December 31, 2013), the Romanian Leu (13%; 13% at December 31, 2013), the Venezuelan Bolivar (6%; 6% at December 31, 2013), the Egyptian Pound (3%; 3% at December 31, 2013), the Pound Sterling (4%; 4% at December 31, 2013), the Argentine Peso (2%; 2% at December 31, 2013) the US Dollar (5%; 3% at December 31, 2013) and the Mexican Peso (6%; 1.7% at December 31, 2013).

The table below shows the effects on consolidated equity deriving from a hypothetical appreciation/depreciation of the above currencies against the euro, with all other conditions being equal:

(in thousands of euro)

	APPRECIATION OF 10%		DEPRECIATION OF 10%	
	12/31/2014	12/31/2013	**12/31/2014**	12/31/2013
Brazilian Real	46,756	42,233	(38,255)	(34,555)
Turkish Lira	20,311	18,744	(16,618)	(15,336)
Chinese Renminbi	34,333	28,978	(28,091)	(23,709)
Romanian Leu	35,444	34,211	(29,000)	(27,991)
Venezuelan Bolivar	17,278	16,456	(14,136)	(13,464)
Egyptian Pound	9,811	7,878	(8,027)	(6,445)
British Pound	12,344	10,822	(10,100)	(8,855)
Argentinian Pesos	5,922	6,144	(4,845)	(5,027)
US Dollar	14,600	8,933	(11,945)	(7,309)
Mexican Pesos	17,156	4,756	(14,036)	(3,891)
Total on consolidated equity	**213,956**	**179,156**	**(175,055)**	**(146,582)**

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial asset or liability will change due to fluctuations in market interest rates.
Group policy is to attempt to maintain the following ratio between fixed rate and variable rate exposures: 70% fixed and 30% variable.
In order to maintain this target ratio, the Group sets up derivative contracts, typically interest rate swaps for hedging purposes. For such derivatives, hedge accounting is adopted when the conditions set by IAS 39 are met.

The table below shows the effects on net income (loss) and direct effects on equity deriving from an increase or decrease of 0.50% in the level of interest rates of all currencies to which the Group is exposed – all other conditions being equal:

(in thousands of euro)

	+0.50%		-0.50%	
	12/31/2014	12/31/2013	**12/31/2014**	12/31/2013
Impact on net income (loss)	(1,790)	(4,488)	1,790	4,953
Total	**(1,790)**	**(4,488)**	**1,790**	**4,953**
Direct impact on equity	2,034	3,830	(3,457)	(5,404)
Total	**2,034**	**3,830**	**(3,457)**	**(5,404)**

Price risk associated with financial assets

The Group's exposure to price risk is limited to the volatility of financial assets such as listed and unlisted equities and bonds, for approximately 3.2% of the total consolidated assets at December 31, 2014 (4.6% at December 31, 2013). Such assets are classified as financial assets available for sale and securities held for trading.
No derivatives contracts are made to limit the volatility of these assets.
Financial assets available for sale consist of listed securities amounted to euro 128,404 thousand (euro 130,864 thousand at December 31, 2013) and those represented by securities indirectly associated with listed shares (Fin. Priv. S.r.l. and Emittenti Titoli) amounted to euro 18,071 thousand (euro 16,365 thousand at December 31, 2013); these financial assets represent 60.4% of total financial assets subject to price risk (43.7% at December 31, 2013); a +5% change in the above listed securities, other things being equal, would result in a positive change of euro 6,414 thousand of the Group shareholders' equity (euro 7,325 thousand at December 31, 2013), while a -5% change of these listed securities, other things being equal, would result in a decrease of euro 5,333 thousand in the Group's shareholders' equity and a decrease of euro 1,081 thousand in the Group's net income/loss (at December 31, 2013 decrease of euro 7,325 thousand in consolidated shareholders' equity).

Credit risk

Credit risk represents Group's exposure to contingent losses resulting from default by commercial and financial counterparties.
The Group is exposed to credit risk as part of its operating activities and financing activities.
To limit commercial counterparty default risk, the Group has implemented procedures to evaluate its customers' potential and financial solidity, monitor expected incoming cash flows and take credit recovery action if necessary.
The aim of these procedures is to define customer credit limits. Further sales are suspended when those limits are exceeded.
In certain cases customers are asked to provide guarantees. These mainly consist of bank guarantees issued by parties with the highest credit standing, or personal guarantees. Less frequently, mortgage guarantees may be requested.
Another instrument used by the Group to manage commercial credit risk are the insurance policies that aim to prevent the risk of non-payment through accurate selection of covered customers in collaboration with the insurance company, which undertakes to indemnify the Group in the event of customer insolvency.
The Group operates only with highly rated financial counterparties for the management of its temporary cash surpluses or trading in derivative instruments, and constantly monitors its exposure to individual counterparties. The Group does not hold public debt instruments of any European country, and constantly monitors its net credit exposure to the banking system.
The Group does not have significant concentrations of credit risk.
The disclosure related to the maximum credit exposure, which is represented by the gross receivables, is included in note 15 "Trade receivables" and note 16 "Other receivables."

Liquidity risk

Liquidity risk represents the risk that the Group's available financial resources be insufficient to meet its financial and commercial obligations pursuant to the contractual terms and conditions.
The principal instruments used by the Group to manage liquidity risk are comprised by its annual and three-year financial and cash-pooling plans. These allow complete and fair measurement and recognition of incoming and outgoing cash flows. The differences between plans and actual data are constantly analysed.
The Group has implemented a centralised cash pooling system for the management of collection and payment flows in compliance with various local currency and tax regulations. Banking relationships are negotiated and managed centrally, in order to ensure coverage of short and medium-term financial needs at the lowest possible cost. The procurement of medium and long-term resources on the capital market is also streamlined through centralised management.
Prudent management of the risk described above requires maintaining an adequate level of cash or cash equivalents and/or highly liquid short-term financial instruments, and the availability of funds through an adequate amount of committed credit facilities and/or recourse to the capital market, while diversifying the products and their maturities to seize the best available opportunities.
At December 31, 2014 the Group had, aside from cash and securities held for trading of euro 1,228,073 thousand (euro 927,987 thousand at December 31, 2013), unused committed credit facilities of euro 1,125,000 thousand (euro 625,000 thousand at December 31, 2013) maturing on November 30, 2015.

The maturities of financial liabilities at December 31, 2014 may be broken down as follows:

(in thousands of euro)

	WITHIN 1 YEAR	1 TO 2 YEARS	2 TO 5 YEARS	OVER 5 YEARS	TOTAL
Trade payables	1,394,312	-	-	-	1,394,312
Other payables	443,477	3,938	37,661	33,093	518,169
Financial instruments	42,835	-	-	-	42,835
Borrowings from banks and other financial institutions	530,890	827,414	863,048	91,264	2,312,616
	2,411,514	**831,352**	**900,709**	**124,357**	**4,267,932**

The maturities of financial liabilities at December 31, 2013 may be broken down as follows:

(in thousands of euro)

	WITHIN 1 YEAR	1 TO 2 YEARS	2 TO 5 YEARS	OVER 5 YEARS	TOTAL
Trade payables	1,244,466	-	-	-	1,244,466
Other payables	434,158	14,225	34,817	27,811	511,011
Financial instruments	57,038	-	-	-	57,038
Borrowings from banks and other financial institutions	316,653	773,844	1,107,072	133,490	2,331,059
	2,052,315	**788,069**	**1,141,889**	**161,301**	**4,143,574**

The use of the syndicated credit facility (granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Plc) of euro 75,000 thousand at December 31, 2014 has been classified under current borrowings from banks. Reference is made to note 24.

5. INFORMATION ON FAIR VALUE

5.1 FAIR VALUE MEASUREMENT

The classification of financial instruments carried at fair value on the basis of a hierarchy of levels pursuant to IFRS 13 is illustrated below. This hierarchy reflects the significance of the inputs used to determine fair value. The following levels are defined:

- **level 1** – unadjusted quotations recorded on an active market for assets or liabilities subject to valuation;
- **level 2** – inputs different from the quoted prices referred to at the preceding level, which are observable on the market either directly (as in the case of prices) or indirectly (because they are derived from prices);
- **level 3** – inputs that are not based on observable market data.

The following table shows assets and liabilities carried at fair value as at December 31, 2014, divided into three levels defined above:

(in thousands of euro)

	NOTE	CARRYING AMOUNT AT 12/31/2014	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL ASSETS					
Financial assets carried at fair value through income statement					
Securities held for trading	19	61,404	-	61,404	-
Current derivative financial instruments	28	25,634	-	25,634	-
Financial hedging instruments					
Current derivative financial instruments	28	3,470	-	3,470	-
Available-for-sale financial assets					
Other financial assets					
- Equities		165,919	128,402	18,071	19,446
- Investment funds		14,822	-	14,822	-
	13	180,741	128,402	32,893	19,446
TOTAL ASSETS		**271,249**	**128,402**	**123,401**	**19,446**
FINANCIAL LIABILITIES					
Financial liabilities carried at fair value through income statement					
Current derivative financial instruments	28	(32,824)	-	(32,824)	-
Financial hedging instruments					
Current derivative financial instruments	28	(10,011)	-	(10,011)	-
TOTAL LIABILITIES		**(42,835)**	**-**	**(42,835)**	**-**

The breakdown at December 31, 2013 was as follows:

(in thousands of euro)

	NOTE	CARRYING AMOUNT AT 12/31/2013	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL ASSETS					
Financial assets carried at fair value through income statement					
Securities held for trading	19	48,090	1,130	46,960	-
Current derivative financial instruments	28	22,268	-	22,268	-
Other financial assets	13	104,087	-	-	104,087
Financial hedging instruments					
Current derivative financial instruments	28	2,550	-	2,550	-
Available-for-sale financial assets					
Other financial assets					
- Equities		169,925	130,864	16,365	22,696
- Investment funds		15,084	-	15,084	-
	13	185,009	130,864	31,449	22,696
TOTAL ASSETS		**362,004**	**131,994**	**103,227**	**126,783**
FINANCIAL LIABILITIES					
Financial liabilities carried at fair value through income statement					
Current derivative financial instruments	28	(16,718)	-	(16,718)	-
Financial hedging instruments					
Current derivative financial instruments	28	(40,320)	-	(40,320)	-
TOTAL LIABILITIES		**(57,038)**	**-**	**(57,038)**	**-**

The following table shows the changes that occurred in level 3 during 2014:

(in thousands of euro)

	12/31/2014	12/31/2013
Opening balance	**126,783**	**20,241**
Foreign currency translation differencies	382	-
Increase / Subscription of capital	9,499	113,940
Impairment	(13,417)	(6,185)
Fair value adjustments through Equity	568	(1,250)
Reclassification	(104,087)	-
Other changes	(282)	37
Closing balance	**19,446**	**126,783**

These financial assets are mainly represented by equity investments in Alitalia S.p.A. (euro 5,349 thousand), European Institute of Oncology (euro 5,382 thousand), Equinox Two S.C.A. (euro 4,447 thousand) and TIcom I LP (euro 665 thousand).

The item **increases** refers to the capital increase related to the investment in Alitalia S.p.A. (euro 9,044 thousand) and Equinox Two S.C.A. (euro 455 thousand).

The item **impairment** refers mainly to the investments in Equinox Two S.C.A. (euro 1,764 thousand) and Alitalia S.p.A. (euro 11,229 thousand).

The item **reclassification** refers to the conversion of the Prelios bond (the “Convertendo”), which has consequently been reclassified from financial assets at fair value through Income Statement to investment in associates (refer to notes 12.1 and 13).

During the year 2014, there were no transfers from level 1 to level 2 or vice versa, nor from level 3 to other levels or vice versa.
The fair value of financial instruments traded on active markets is based on the price quotations published at the reporting date. These instruments, included in level 1, mainly consist of investments classified as financial assets available for sale.

The fair value of financial instruments not traded on active markets (e.g. derivatives) is measured by means of techniques that maximise the use of observable and available market data, using widely applied financial measurement techniques:

- market prices for similar instruments;
- the fair value of interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves;
- the fair value of foreign exchange derivatives (forward contracts) is determined by using the forward exchange rate at the reporting date.

5.2 CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The table below shows the carrying amounts for each class of financial asset and liability identified by IAS 39:

(in thousands of euro)

	NOTE	CARRYING AMOUNT AT 12/31/2014	CARRYING AMOUNT AT 12/31/2013
FINANCIAL ASSETS			
Financial assets carried at fair value through income statement			
Securities held for trading	19	61,404	48,090
Current derivative financial instruments	28	25,634	22,268
Other financial assets	13	-	104,087
		87,038	**174,445**
Loans and receivables			
Other non-current receivables	16	169,145	169,463
Current trade receivables	15	673,808	666,427
Other current receivables	16	265,274	267,535
Cash and cash equivalents	20	1,166,669	879,897
		2,274,896	**1,983,322**
Available-for-sale financial assets			
Other financial assets	13	180,741	185,009
Hedging financial instruments			
Current derivative financial instruments	28	3,470	2,550
		2,546,146	**2,345,326**
FINANCIAL LIABILITIES			
Financial liabilities carried at fair value through income statement			
Current derivative financial instruments	28	32,824	16,718
Financial liabilities carried at amortised cost			
Non-current borrowings from banks and other financial institutions	24	1,781,726	2,014,406
Other non-current payables	26	74,692	76,853
Current borrowings from banks and other financial institutions	24	530,890	316,653
Current trade payables	25	1,394,312	1,244,466
Other current payables	26	443,477	434,158
		4,225,097	**4,086,536**
Hedging financial instruments			
Current derivative financial instruments	28	10,011	40,320
		4,267,931	**4,143,575**

6. CAPITAL MANAGEMENT POLICY

The Group's objective is to maximise the return on net invested capital while maintaining the ability to operate over time, ensuring adequate returns for its shareholders and benefits for the other stakeholders, with a sustainable financial structure.
In order to achieve these objectives, as well as pursue satisfactory earnings results and generate cash flows, the Group may adjust its dividend policy and the configuration of the Company's capital.
The main indicators used by the Group to manage its capital are:

- **R.O.I.**: Ratio (%) of Operating Income (loss) over average net invested capital: the indicator represents the ability of the corporate results to remunerate net invested capital, defined as the sum of fixed assets and net working capital. The Group's objective is to have this ratio higher than the weighted average cost of capital (WACC);
- **Gearing**: this is calculated as the ratio between net debt and equity. It is an indicator of the sustainability of the ratio between debt and equity, which takes into account the market situation and trend in the cost of capital and debt at different times;
- **R.O.E.** (return on equity): this is calculated as the ratio (%) between Net income (loss) and average equity. It is an indicator representing the Group's ability to remunerate its shareholders. The objective is for this indicator to be higher than the rate of return on a risk-free investment, correlated with the nature of the operated businesses.

The figures for 2014 and 2013 are shown below:

	2014	2013
R.O.I. (operating income / average net invested capital)	**19.20%**	17.81%
Gearing (net financial position/equity)	**0.38**	0.54
R.O.E. (Return on Equity - net income / equity)	**13.19%**	12.70%

7. ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated Financial Statements entails management making estimates and assumptions which, under certain circumstances, are based on difficult and subjective assessments and estimates that are based on historical experience, and assumptions that are periodically considered reasonable and realistic in light of the circumstances. The results that actually emerge could therefore differ from such estimates. Estimates and assumptions are reviewed periodically and the effects of any changes made to them are reflected in the Income Statement in the period in which the estimate is revised. If such estimates and assumptions, based on the best evaluation currently available, should differ from actual circumstances, they will be modified accordingly in the period of the change of the circumstances. It should be noted that the situation caused by the economic and financial crisis entailed making extremely uncertain assumptions about future performance. Therefore, it cannot be ruled out that next year's results will be different from those estimated and that adjustments to the carrying value of the relevant items might be necessary, including significant adjustments, which obviously cannot be estimated or foreseen at this time. Such estimates affect the carrying amounts of certain assets and liabilities, costs and revenues, and also disclosures relating to contingent assets/liabilities at the reporting date. The estimates and assumptions relate mainly to assessment of the recoverability of intangible assets, definition of the useful lives of intangible assets, assessment of the recoverability of investments in associates, the recoverability of receivables, the recognition/measurement of provisions for liabilities and charges, pension schemes and other post-employment benefits, at the exchange rates used in relation to the Group's activities in Venezuela and are based on data that reflects the currently available knowledge.

Estimates entailing greater subjectivity and having a particularly material impact

What follows is a brief description of the accounting policies that, more than others, require management to exercise greater subjectivity in the calculation of estimates, and for which a change in the conditions underlying the assumptions used could have a material impact on the Consolidated Financial Statements, or for which there is a risk that material adjustments to the carrying amount of assets and liabilities may emerge in the year subsequent to the reference period.

Goodwill

In accordance with the accounting standards adopted for the preparation of the Financial Statements, goodwill is tested annually in order to ascertain the existence of any impairment losses to be recognised in the Income Statement. In particular, the test requires the allocation of goodwill to cash generating units and subsequent determination of their recoverable amount that is the greater between fair value and value in use.
If the recoverable amount proves to be lower than the carrying amount of the cash generating units, the goodwill allocated to them must be impaired. Determination of the recoverable value of the cash generating units entails using estimates that depend on subjective assessments and on factors that can change over time, with consequent and possibly material effects on the measurements made by management.

Impairment of property, plant and equipment and intangible assets

In accordance with the reference accounting standards, property, plant and equipment and intangible assets are tested to ascertain whether there has been an impairment loss when there are signs that difficulties are to be expected for recovery of their net carrying amount through use. Testing whether these symptoms exist requires that the directors use subjective assessments based on information available from both internal and external sources, and on historical experience.
Moreover, if it is determined that a potential impairment loss may be generated, this loss is calculated using appropriate measurement techniques.
The proper identification of elements indicating the existence of a potential impairment loss, and the estimates for calculating the amount of such losses, depend on subjective assessments and factors that may vary over time, affecting the assessments and estimates made by the management.

Impairment of investments in associates and joint ventures

After applying the equity method, where there are impairment indicators of the value of investments in associates and joint ventures is compared to the recoverable amount (so-called impairment test). The recoverable amount is the greater of the fair value, less cost to sell and value in use.
For impairment test purposes of Prelios S.p.A. the recoverable amount is equal to the value in use calculated basing on an independent professional estimate.
In particular the analyses are based on the 2015-2017 management and services platform resulting from the review of the 2015-2017 Industrial Plan as well as on the book value of the debt and investment activities at December 31, 2014, approved by the Board of Directors of Prelios S.p.A. on March 10, 2015, and communicated to the market.

In the case of Fenice S.r.l., an associate with unlisted securities, the fair value was determined on the basis of valuation prepared by an independent third-party professional, making use of estimates based on the best information available. Specifically, an income approach was used based on the options criterion. The recoverable amount relative to the investment in GWM Renewable Energy II S.p.A. was considered equal to its value in use, as shown in its Income Statement and calculated based on the assessment made by an independent third party.

Pension plans

Group companies have set up pension plans, healthcare plans and other defined benefit plans in different countries for their employees, mainly in the United States and the United Kingdom. Both funds were closed to new entries, in 2005 and 2001 respectively; consequently the actuarial risk is related only to previous deficits. Management uses different actuarial assumptions to calculate the liabilities and the future returns on plan assets. Actuarial assumptions of a financial nature regard the discount rate, the inflation rate and trends in healthcare costs.
Demographic actuarial assumptions essentially regard mortality rates.
The Group has identified discount rates deemed to be balanced, considering the context.

Exchange rate used for the conversion of commercial items in foreign currency of Pirelli de Venezuela C.A.

It shall be noted that at December 31, 2014 in Venezuela the currency system is characterized by the simultaneous presence of an official exchange rate (CENCOEX), equal to 6.3 Bolivar per Dollar, and exchange rates deriving from the auctions managed according to the SICAD 1 system (equal to 12 Bolivar per Dollar – 14.57 Bolivar per Euro, applicable to the Automotive industry considered strategic for the country). The Group, based on the most recent available documentary evidence, considered it appropriate to adjust at an exchange rate of 12 Bolivar per Dollar (SICAD 1 exchange) all business transactions in foreign currency of the subsidiary and outstanding at the reporting date, resulting in foreign exchange losses for the year totalling euro 72 million. It shall also be noted that the same SICAD 1 exchange rate (12 bolivar per dollar) was also used for conversion into euro of the balances of the Statement of Financial Position and Income Statement of the subsidiary Pirelli de Venezuela C.A., on the basis of as established by the "Convenio cambiario No. 25" enacted in Venezuela on January 22, 2014, which clarified that the official exchange rate of 6.3 Bolivar per Dollar, used until December 31, 2013 for the data consolidation of the Venezuelan subsidiary, is increasingly used for purchases of goods and services deemed "essential" by the Venezuelan government; the transition from the official exchange rate of 6.3 Bolivar per Dollar at the SICAD 1 exchange rate (12 Bolivar per Dollar) had a negative impact of euro 63 million on equity in 2014.

Deferred tax assets

Deferred tax assets are accounted for on the basis of expected future taxable earnings prospects. The measurement of prospective income to account for deferred taxes depends on factors that may change over time and materially impact the measurement of deferred tax assets.
To determine the adjustment, forecast figures and business plans consistent with those used for the impairment tests and described in the previous paragraph in relation to the recoverable amount of non-current assets have been taken into account. It is also deemed that the adjustment items are sufficient to cover the risk of a deterioration against the assumptions in the plan, considering the fact that the net deferred tax assets relate to temporary differences/tax losses that, to a significant extent, can be recovered over a very long period, and the recoverability of which is thus compatible with scenarios where actual data should prove worse than those assessed by management.

Provisions for liabilities and charges

Provisions are set aside against contingent legal and fiscal liabilities, representing the risk of losing lawsuits. The amount of provisions recognised in relation to these liabilities represents the best estimate at the reporting date made by management for lawsuits and tax claims regarding a vast range of issues which are subject to the jurisdiction of various countries. Such an estimate entails making assumptions that depend on factors that may change over time and which could therefore have a material impact with respect to the current estimates made by management for the preparation of the Consolidated Financial Statements.

8. BUSINESS COMBINATIONS

Acquisition sales network Abouchar (Brazil)

On April 30, 2014, Comercial e Importadora de Pneus Ltda, a Brazilian company controlled by Pirelli Pneus Ltda acquired the sales network Abouchar by means of a capital increase by a nominal euro 5,557 thousand, fully subscribed by the company Distribuidora Automotiva S.A. by conferring the sales network itself. Following this transaction, the investment of Distribuidora Automotiva S.A. in Comercial e Importadora de Pneus Ltda increased from 21.7% to 35.57% and then to 36% after a further capital contribution.
The operation aims to strengthen the market leadership of Pirelli in Brazil through a more direct control of the commercial network, as already defined in the strategy and objectives of the 2013-2017 Business Plan. With this initiative, Pirelli will focus on areas with the greatest growth in the premium segment, strengthening the relationship with the final consumer and increasing the number of Comercial e Importadora de Pneus Ltda points of sale from 104 to 133.

In line with the accounting standard IFRS 3 (Business Combinations), the fair value of identifiable assets and liabilities acquired at the acquisition date is shown in the following table, including the consequent determination of goodwill:

(in thousands of euro)

	FAIR VALUE RECOGNISED ON ACQUISITION
Property, plant and equipment	742
Customer relationship	758
Trademarks	5,496
Other payables	(597)
A - Total net identifiable assets acquired	**6,399**
B - Goodwill	**3,901**
A + B Total consideration - Increase of share capital subscribed through contribution of Abouchar retail network	**10,300**

The process of allocation of the amount of the fair value price of the net assets and liabilities acquired in the business combination has been completed. The subsequent calculation of goodwill must be considered final.

9. OPERATING SEGMENTS

The operating segments, for which information is separately disclosed, are the following:

- Consumer segment: includes car and motorcycle tyres made for both the original equipment and replacement channels;
- Industrial segment: includes tyres for trucks and vehicles used in agriculture, both for the original equipment and replacement channels.

The **results** for **2014** by operating segments were as follows:

(in thousands of euro)

	CONSUMER	INDUSTRIAL	OTHER BUSINESS	2014
Total net sales	**4,610,320**	**1,397,200**	**10,543**	**6,018,063**
Gross operating margin	913,925	235,200	(12,385)	1,136,740
Depreciation and amortisation	(237,515)	(59,000)	(2,292)	(298,807)
Operating income (loss)	**676,410**	**176,200**	**(14,677)**	**837,933**
Net income (loss) from equity investments				(87,000)
Financial income (expenses)				(262,410)
Net income (loss) before tax				**488,523**
Taxes				(173,309)
Net income (loss) from continuing operations				**315,214**

The **results** for **2013** by operating segments were as follows:

(in thousands of euro)

	CONSUMER	INDUSTRIAL	OTHER BUSINESS	2013
Total net sales	**4,478,886**	**1,551,700**	**30,374**	**6,060,960**
Gross operating margin	823,896	272,700	(27,049)	1,069,547
Depreciation and amortisation	(227,532)	(53,400)	(3,901)	(284,833)
Operating income (loss)	**596,364**	**219,300**	**(30,950)**	**784,714**
Net income (loss) from equity investments				(78,298)
Financial income (expenses)				(192,932)
Net income (loss) before tax				**513,484**
Taxes				(208,992)
Net income (loss) from continuing operations				**304,492**

The breakdown of **assets, liabilities and investments** by operating segment at **December 31, 2014** were as follows:

(in thousands of euro)

	CONSUMER	INDUSTRIAL	OTHER BUSINESS	OTHER	TOTAL 12/31/2014
Goodwill	577,347	309,766	-	-	887,113
Allocated assets	3,780,689	1,021,015	46,149	-	4,847,853
Unallocated assets	-	-	-	1,938,073	1,938,073
TOTAL ASSETS	**4,358,036**	**1,330,781**	**46,149**	**1,938,073**	**7,673,039**
Allocated liabilities	1,580,253	558,668	10,170	-	2,149,091
Unallocated liabilities	-	-	-	2,912,446	2,912,446
TOTAL LIABILITIES	**1,580,253**	**558,668**	**10,170**	**2,912,446**	**5,061,537**
Investments					
- property, plant and equipment	302,512	64,300	389	-	**367,201**
- intangible assets	8,860	1,903	-	-	**10,763**

The breakdown of **assets, liabilities and investments** by operating segment at December 31, 2013 was as follows:

(in thousands of euro)

	CONSUMER	INDUSTRIAL	OTHER BUSINESS	OTHER	TOTAL 12/31/2013
Goodwill	587,233	325,784	-	-	913,017
Allocated assets	3,727,388	1,060,961	61,680	-	4,850,029
Unallocated assets	-	-	-	1,597,166	1,597,166
TOTAL ASSETS	**4,314,621**	**1,386,745**	**61,680**	**1,597,166**	**7,360,212**
Allocated liabilities	1,527,130	466,688	14,881	-	2,008,699
Unallocated liabilities	-	-	-	**2,914,924**	**2,914,924**
TOTAL LIABILITIES	**1,527,130**	**466,688**	**14,881**	**2,914,924**	**4,923,623**
Investments					
- property, plant and equipment	318,400	83,100	781	-	**402,281**
- intangible assets	7,700	3,100	18	-	**10,818**

Segment assets consist mainly of property, plant and equipment and intangible assets, leased assets, inventories, trade receivables and other receivables. Financial receivables, cash and cash equivalents, other financial assets, securities held for trading and both current and deferred tax assets are excluded. Segment liabilities mainly comprise trade payables and other payables, advances from customers, provisions for liabilities and charges and employee benefits. Financial payables and both current and deferred tax liabilities are excluded.
Investments in property, plant and equipment focused on the increase in Premium capacity in Europe, NAFTA and China and the improvement in the mix.
The table below shows **sales by geographic area**. They are allocated on the basis of the country where the customer resides.

(in thousands of euro)

	2014		2013	
Italy	358,200	5.96%	371,300	6.13%
Rest of Europe	1,709,100	28.39%	1,625,500	26.82%
Russia & CSI	237,900	3.95%	254,122	4.19%
NAFTA	707,500	11.76%	675,900	11.15%
Central and South America	1,963,463	32.63%	2,169,945	35.80%
Asia/Pacific	558,400	9.28%	481,493	7.94%
Middle Est/Africa/India	483,500	8.03%	482,700	7.96%
Total	**6,018,063**	**100.00%**	**6,060,960**	**100.00%**

The following are **non-current assets by geographic area**. They are allocated on the basis of the country where the assets are located.

(in thousands of euro)

	12/31/2014		12/31/2013	
Italy	397,214	11.33%	463,064	12.78%
Rest of Europe	775,122	22.11%	695,374	19.20%
Russia & CSI	184,422	5.26%	255,637	7.06%
NAFTA	244,563	6.97%	207,927	5.74%
Central and South America	565,850	16.14%	560,349	15.47%
Asia/Pacific	384,110	10.95%	334,789	9.24%
Middle Est/Africa/India	68,072	1.94%	192,270	5.31%
Non-current unallocated assets	887,113	25.30%	913,017	25.20%
Total	**3,506,466**	**100.00%**	**3,622,427**	**100.00%**

The **allocated non-current assets** reported above consist of property, plant and equipment and intangible assets, excluding goodwill. The **unallocated non-current assets** pertain to goodwill (refer to note 11).

10. PROPERTY, PLANT AND EQUIPMENT

At December 31, 2014 the breakdown and changes of property, plant and equipment were as follows:

(in thousands of euro)

	12/31/2014			12/31/2013		
	GROSS AMOUNT	ACCUMULATED DEPRECIATION	NET AMOUNT	GROSS AMOUNT	ACCUMULATED DEPRECIATION	NET AMOUNT
Land	103,808	-	103,808	106,896	-	106,896
Buildings	1,025,895	(407,017)	618,878	1,099,434	(429,450)	669,984
Plant and machinery	3,344,879	(1,790,305)	1,554,574	3,480,584	(1,909,024)	1,571,560
Industrial and commercial equipment	671,027	(486,105)	184,922	691,235	(507,690)	183,545
Other assets	206,295	(146,013)	60,282	230,162	(153,699)	76,463
	5,351,904	**(2,829,440)**	**2,522,464**	**5,608,311**	**(2,999,863)**	**2,608,448**

GROSS VALUE (in thousands of euro)

	12/31/2013	INFLATION EFFECT	ASSETS HELD FOR SALE	BUSINESS COMBINATION	TRANSLATION DIFFER.	INCREASES	DECREASES	RECLASSIF.	OTHER	12/31/2014
Land	106,896	1,753	(8,832)	-	289	-	(1,858)	5,533	27	103,808
Buildings	1,099,434	19,373	(70,214)	-	(38,182)	32,606	(30,137)	13,484	(469)	1,025,895
Plant and machinery	3,480,584	36,549	(203,033)	742	(6,171)	256,945	(203,863)	(22,224)	5,350	3,344,879
Industrial and commercial equipment	691,235	7,636	(16,664)	-	(4,658)	40,411	(74,896)	28,153	(190)	671,027
Other assets	230,162	14,970	(8,653)	-	(14,345)	37,239	(25,543)	(24,946)	(2,588)	206,295
	5,608,311	**80,281**	**(307,396)**	**742**	**(63,067)**	**367,201**	**(336,297)**	**-**	**2,130**	**5,351,904**

ACCUMULATED DEPRECIATION (in thousands of euro)

	12/31/2013	INFLATION EFFECT	ASSETS HELD FOR SALE	BUSINESS COMBINATION	TRANSLATION DIFFER.	RECLASSIF.	DECREASES	DEPREC.	OTHER	12/31/2014
Buildings	(429,450)	(17,553)	26,410	-	16,375	(782)	29,166	(32,267)	1,085	(407,017)
Plant and machinery	(1,909,024)	(20,117)	119,883	-	(13,045)	1,917	201,873	(173,458)	1,666	(1,790,305)
Industrial and commercial equipment	(507,690)	(6,210)	10,795	-	(1,166)	1,469	71,704	(56,030)	1,023	(486,105)
Other assets	(153,699)	(3,683)	6,343	-	935	(2,604)	22,262	(16,135)	567	(146,013)
	(2,999,863)	**(47,564)**	**163,431**	**-**	**3,099**	**-**	**325,005**	**(277,890)**	**4,341**	**(2,829,440)**

NET VALUE (in thousands of euro)

	12/31/2013	INFLATION EFFECT	ASSETS HELD FOR SALE	BUSINESS COMBINATION	TRANSLA-TION DIFFER.	INCREA-SES	DECREASES	RECLASSIF.	DEPRECIATION	OTHER	12/31/2014
Land	106,896	1,753	(8,832)	-	289	-	(1,858)	5,533	-	27	103,808
Buildings	669,984	1,819	(43,804)	-	(21,807)	32,606	(971)	12,702	(32,267)	616	618,878
Plant and machinery	1,571,560	16,432	(83,150)	742	(19,216)	256,945	(1,990)	(20,307)	(173,458)	7,016	1,554,574
Industrial and commercial equipment	183,545	1,426	(5,869)	-	(5,824)	40,411	(3,192)	29,622	(56,030)	833	184,922
Other assets	76,463	11,287	(2,310)	-	(13,410)	37,239	(3,281)	(27,550)	(16,135)	(2,020)	60,282
	2,608,448	**32,717**	**(143,965)**	**742**	**(59,968)**	**367,201**	**(11,292)**	**-**	**(277,890)**	**6,472**	**2,522,464**

The changes at December 31, 2013 were as follows:

GROSS VALUE (in thousands of euro)

	12/31/2012	INFLATION EFFECT	BUSINESS COMBINATION EFFECT	TRANSLATION DIFFER.	INCREASES	DECREASES	RECLASSIF.	OTHER	12/31/2013
Land	108,399	1,581	5,025	(6,338)	18	(687)	1,703	(2,805)	106,896
Buildings	1,101,203	17,347	14,024	(80,097)	41,638	(12,143)	18,298	(836)	1,099,434
Plant and machinery	3,521,488	28,402	32,285	(296,000)	276,116	(89,061)	3,213	4,141	3,480,584
Industrial and commercial equipment	715,488	6,222	-	(66,510)	37,978	(26,108)	20,980	3,185	691,235
Other assets	260,803	17,152	2,948	(32,699)	46,531	(19,490)	(44,194)	(889)	230,162
	5,707,381	**70,705**	**54,282**	**(481,644)**	**402,281**	**(147,489)**	**-**	**2,795**	**5,608,311**

ACCUMULATED DEPRECIATION (in thousands of euro)

	12/31/2012	INFLATION EFFECT	BUSINESS COMBINATION EFFECT	TRANSLATION DIFFER.	RECLASSIF.	DECREASES	DEPREC.	OTHER	12/31/2013
Buildings	(416,187)	(15,550)	(754)	38,040	(4,142)	3,114	(35,084)	1,115	(429,450)
Plant and machinery	(1,971,572)	(16,371)	(4,431)	167,880	688	80,908	(165,202)	(924)	(1,909,024)
Industrial and commercial equipment	(524,765)	(5,279)	-	49,595	1,792	23,554	(54,634)	2,047	(507,690)
Other assets	(171,413)	(3,268)	(690)	12,662	1,662	16,829	(14,996)	5,515	(153,699)
	(3,083,937)	**(40,468)**	**(5,875)**	**268,177**	**-**	**124,405**	**(269,916)**	**7,752**	**(2,999,863)**

NET VALUE (in thousands of euro)

	12/31/2012	INFLATION EFFECT	BUSINESS COMBINATION EFFECT	TRANSLATION DIFFER.	INCREASES	DECREASES	RECLASSIF.	DEPRECIATION	OTHER	12/31/2013
Land	108,399	1,581	5,025	(6,338)	18	(687)	1,703	-	(2,805)	106,896
Buildings	685,016	1,797	13,270	(42,057)	41,638	(9,029)	14,156	(35,084)	278	669,984
Plant and machinery	1,549,916	12,032	27,854	(128,120)	276,116	(8,153)	3,901	(165,202)	3,216	1,571,560
Industrial and commercial equipment	190,723	943	-	(16,915)	37,978	(2,554)	22,772	(54,634)	5,232	183,545
Other assets	89,390	13,884	2,258	(20,037)	46,531	(2,661)	(42,532)	(14,997)	4,627	76,463
	2,623,444	**30,237**	**48,407**	**(213,467)**	**402,281**	**(23,084)**	**-**	**(269,917)**	**10,548**	**2,608,448**

Increases for the year 2014 mainly relate to investments aimed at the increase in Premium capacity in Europe, NAFTA and China and the improvement in the mix.
The ratio of additions to property, plant and equipment to depreciation in 2014 was 1.32 (1.49 at December 31, 2013).

Construction in progress at December 31, 2014, included in the individual categories of property, plant and equipment, totalled euro 183,829 thousand (euro 274,703 thousand at December 31, 2013).

Impairment during 2014, included in the column “gross value – decreases” of the table illustrated above, totalled euro 6,048 thousand (euro 7,559 thousand in 2013) and are related in particular to plant and equipment in Russia and Italy.
With regard to the restrictions on the ownership of assets, it should be noted that:

- the subsidiary Alexandria Tire Company S.A.E. (Egypt) pledged its plant and machinery for a total of euro 2,415 thousand (euro 3,561 thousand at December 31, 2013) as collateral for loans granted by the National Bank of Egypt;
- the subsidiary Pirelli Pneus Ltda. (Brazil) pledged its machinery and land as collateral for a total of euro 43,130 thousand (euro 42,452 thousand at December 31, 2013) against bank loans granted by BNDES (Banco Nacional de Desenvolvimento) and litigation with the national social security institution INSS (Instituto nacional de seguridade social);
- the subsidiary Pirelli Neumaticos SAIC (Argentina) pledged its own land and buildings for a total of euro 9,646 thousand (euro 12,248 thousand at December 31, 2013) as collateral for a loan granted by Banco de la Nacion Argentina;
- the subsidiary Pirelli Neumaticos S.A. de C.V. (Mexico) pledged its own land, buildings and plant for a total value of euro 68,230 thousand (euro 67,668 thousand at December 31, 2013) as collateral for a loan granted by Bancomext.

The value of buildings and other assets for which the Group has entered into a finance leasing agreement is included in the related categories of property, plant, and equipment.
The table below sets forth the breakdown of the item:

(in thousands of euro)

	12/31/2014			12/31/2013		
	COST	ACCUMULATED DEPRECIATION	NET VALUE	COST	ACCUMULATED DEPRECIATION	NET VALUE
Leased buldings	2,979	(1,465)	1,514	2,860	(1,292)	1,568
Other leased assets	2,396	(2,052)	344	2,635	(2,091)	544
Leased plant and machinery	101	(101)	-	94	(94)	-
	5,476	**(3,618)**	**1,858**	**5,589**	**(3,477)**	**2,112**

The payables for finance lease are included in financial payables (refer to note 24).

11. INTANGIBLE ASSETS

The breakdown and changes in intangible assets are as follows:

(in thousands of euro)

	12/31/2013	TRANSLATION DIFFERENCES	DISCONTINUED OPERATIONS	EFFECT OF BUSINESS COMBINATION	INCREASE	DECREASE	AMORTISATION	OTHER	12/31/2014
Patents and intellectual property rights	49	(9)	-	-	-	-	(23)	-	17
Concessions/licenses/ trademarks	52,683	(5,633)	(2)	5,496	858	-	(6,959)	9,405	55,848
Goodwill	913,017	(12,505)	(17,300)	3,901	-	-	-	-	887,113
Application software	18,201	(51)	(35)	-	7,111	(32)	(10,068)	550	15,676
Other intangible assets	30,029	(3,527)	-	758	2,794	(214)	(3,867)	(626)	25,348
	1,013,979	**(21,725)**	**(17,337)**	**10,155**	**10,763**	**(245)**	**(20,917)**	**9,329**	**984,002**

The changes occurred in 2013 were as follows:

(in thousands of euro)

	12/31/2012	TRANSLATION DIFFERENCES	EFFECT OF BUSINESS COMBINATION	INCREASE	DECREASE	AMORTISATION	RECLASSIF.	OTHER	12/31/2013
Patents and intellectual property rights	19	(2)	-	-	-	(31)	63	-	49
Concessions/licenses/ trademarks	52,349	(2,518)	9,770	367	-	(6,914)	(370)	-	52,683
Goodwill	918,689	(8,552)	2,880	-	-	-	-	-	913,017
Application software	18,570	(70)	-	7,583	(52)	(8,168)	307	31	18,201
Other intangible assets	32,857	(2,289)	-	2,868	-	(3,904)	-	496	30,029
	1,022,484	**(13,432)**	**12,650**	**10,818**	**(52)**	**(19,016)**	**-**	**527**	**1,013,979**

The item “Goodwill” during the year recorded an increase for a total of euro 3,901 thousand arising from the acquisition of Abouchar network (refer to preceding note 8). Also due to the signing of the steelcord disposal, the value of the goodwill attributable to discontinued operations totalling euro 17,300 thousand, of which euro 15,916 thousand attributable to the activities disposed in Italy, Romania and Brasil on December 18, 2014, was reclassified under “Assets held for sale”.

The table below sets forth the allocation of goodwill by operating segment, the cash generating units (CGU) to which it was allocated for impairment testing and the method used to measure the recoverable amount:

(in thousands of euro)

OPERATING SEGMENT	CASH GENERATING UNIT	12/31/2014	12/31/2013	RECOVERABLE AMOUNT
Consumer	Consumer	577,347	587,233	Value in use
Industrial	Industrial	309,766	325,784	Value in use
		887,113	**913,017**	

Goodwill was tested for impairment at December 31, 2014 (relying on independent appraisals). This involved estimating the recoverable value of the CGU and comparing it with the net carrying amount of the relevant assets, including goodwill.
Value in use corresponds to the discounted value of the future cash flows that are expected to be

associated with the CGU, using a discount rate that reflects the specific risks of the single CGU at the measurement date.
The key assumptions used by management are estimates of future sales increases, operating cash flows, the growth of terminal values and the weighted average cost of capital (discount rate).
The expected flows cover a period of three years (2015-2017), and refer to the budget 2015 and, for 2016 to 2017, the "Business Plan 2014-2017", announced to the financial community on November 6, 2013, corrected downwards by a percentage corresponding to the negative variance between budget 2015 and old plan 2015. The comparison was made on a restated basis or excluding from the business plan steelcord. This downward adjustment affected the only CGU Industrial. Flows of EBIT of each CGU, where higher than the agreed estimates, were also reduced by the negative difference between consent flows and Plan flows.
The calculation also included the hypothetical flow deriving from the disposal of CGUs at the end of the explicit period (assumed to be the discounted value of the perpetual return of the flow generated in the last year of the projection).

The discount rates, defined as the average cost of capital net of taxes, applied to prospective cash flows, and the used growth factors are shown in the following table:

OPERATING SEGMENT	CASH GENERATING UNIT	2014			2013		
		DISCOUNT RATE (WACC)	GROWTH RATE (G)	WACC - G	DISCOUNT RATE (WACC)	GROWTH RATE (G)	WACC - G
Consumer	Consumer	**8.00%**	-	**8.00%**	8.56%	-	8.56%
Industrial	Industrial	**8.00%**	-	**8.00%**	8.56%	-	8.56%

On the basis of these tests, no impairment loss was recognised.

A sensitivity analysis was also carried on the results of the CGU in question: in all cases the values in use remain higher than the carrying amounts even assuming a change in key parameters such as:

- a change in discount rates by 100 basis points;
- a change in the growth rate by 100 basis points;
- a change in EBITDA margin by 250 basis points.

Concessions, licenses and trademarks, amounting to euro 55,848 thousand mainly include the brands deriving from acquisition in the first six months of 2014, of 29 retail outlets belonging to the network Abouchar (euro 5,496 thousand), from the acquisitions made during 2013 of 25 outlets belonging to Wagner in Germany (euro 9,770 thousand), the 2012 acquisitions in Russia (euro 3,396 thousand), the retail chains Däckia in Sweden (euro 21,139 thousand) and Campneus in Brazil (euro 14,481 thousand).

The increase in the item application software refers to euro 5,565 thousand of IT costs sustained by the subsidiary Pirelli Tyre S.p.A. for the implementation of the following projects: Digital Room; Bcollaborative Forecasting; BPM Activities 2014; Evoluzione Piattaforma Ecrm; Sistema di Manutenzione CMMS; Geomarketing Platform Evolution and MRO Coding Harmonizati. Moreover, Pirelli & C. S.p.A. purchased licenses for euro 558 thousand.

Other intangible assets for a total of euro 25,348 thousand, include the fair value measurement of customer relationships and commercial partnerships resulting from the acquisitions of the sales network Abouchar in 2014 (euro 758 thousand) and the acquisitions made in 2012 in Russia (euro 4,648) and Sweden (Däckia – euro 4,857).

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The following table sets forth the changes in investments in associates and joint ventures during the year:

(in thousands of euro)

	12/31/2014			12/31/2013		
	ASSOCIATES	JV	TOTAL	ASSOCIATES	JV	TOTAL
Opening balance	**111,525**	**19,941**	**131,466**	**113,171**	**-**	**113,171**
Increases	118,665	12,109	130,774	66,442	10,338	76,780
Distribution of dividends	(1,211)	-	(1,211)	(1,947)	-	(1,947)
Impairment	(20,394)	-	(20,394)	-	-	-
Share of net income (loss)	(53,769)	(1,378)	(55,147)	(26,472)	637	(25,835)
Share of other components recognized in Equity	4,340	-	4,340	(3,932)	-	(3,932)
Reclassifications and other	(271)	(2,774)	(3,045)	(35,737)	8,966	(26,771)
Closing balance	**158,885**	**27,898**	**186,783**	**111,525**	**19,941**	**131,466**

Investments in associates and joint ventures are accounted for in the consolidated Financial Statements with the equity method.

12.1 INVESTMENTS IN ASSOCIATED COMPANIES

The breakdown by individual investment is as follows:

(in thousands of euro)

	12/31/2013	INCREASES	DISTRUB. OF DIVIDENDS	IMPAIRMENT	SHARE OF NET INCOME (LOSS)	SHARE OF COMPONENTS OF OTHER COMPREHENSIVE INCOME	RECLASS. AND OTHER	12/31/2014
Eurostazioni S.p.A.	57,965	-	(1,011)	-	3,587	-	-	60,541
Prelios	8,998	69,858	-	-	(23,612)	290	-	55,534
Fenice S.r.l.	18,185	42,764	-	(18,957)	(30,770)	4,801	-	16,023
GWM Renewable Energy II S.p.A.	24,501	6,043	-	(1,437)	(3,244)	(751)	-	25,112
Idea Granda Società Consortile r.l.	633	-	-	-	-	-	-	633
Other companies	1,243	-	(200)	-	270	-	(271)	1,042
Total	**111,525**	**118,665**	**(1,211)**	**(20,394)**	**(53,769)**	**4,340**	**(271)**	**158,885**

The investment in GWM Renewable Energy II S.p.A. (16.87% December 31, 2014, unchanged from the previous year) qualifies as an associate (despite an investment of less than 20%) as the Group exercises significant influence also for the presence of their managers in the Board of Directors of the company.

Increases for the year refer to investments in Prelios S.p.A. (euro 69,858 thousand), Fenice S.r.l. (euro 42,764 thousand) and GWM Renewable Energy II S.p.A. (euro 6,043 thousand).
The increase in the value of the investment in Prelios S.p.A. is associated with the conversion of the Prelios bond (the "Convertendo"); on April 14, 2014, following the occurrence of the conditions for the early request for conversion of the Convertendo at the time signed by Pirelli under the Prelios debt restructuring plan, Pirelli received, in exchange for the Prelios bonds held (Tranche A and B), with a total nominal counter value at that date amounted to euro 148,372 thousand (plus accrued interest), and a carrying amount at the date of the conversion of euro 104,087 thousand (due to the fair value adjustment of the instrument on December 31, 2013, negative for euro 44,285 thousand):

- 111,916,082 class A ordinary Prelios shares, which led to an increase in the share of the voting capital held by Pirelli from 13.06% to 29.22% after conversion, of which about 7% freely transferable and about 22% bound by the obligations of the lock-up until July 2016 (with automatic renewal for another three years subject to cancellation) provided in the shareholders' agreement of Fenice (Pirelli, Intesa SanPaolo S.p.A., Unicredit S.p.A. e Feidos 11 S.p.A); these shares were recorded at fair value, corresponding to the Stock Market share price of Prelios S.p.A. of April 14, 2014 (euro 0.62 per share), for a value of euro 69,858 thousand;
- 93,390,705 class B Prelios shares - unlisted and without voting rights, which qualified under IFRS as financial assets available for sale, and which were recorded at fair value on April 14, 2014, for a value of euro 47,536 thousand (in this regard refer to note 13 below "Other financial assets").

Therefore the replacement of the Convertendo with Prelios class A and B shares, showed a positive effect of euro 13,307 thousand, recognised in the Income Statement under the item "Gains from investments" (refer to note 35.2 below).

The increase in the value of the investment in Fenice S.r.l. is attributable to the transfer, in accordance with the agreements in place between the shareholders of Fenice S.r.l. of the class B shares of Prelios S.p.A. on June 30, 2014, for a total value of euro 42,764 thousand, equal to the fair value of 93,390,705 class B Prelios shares (euro 0.46 per share); this value was determined by applying a discount for illiquidity of 18% over the market price of Prelios S.p.A. as at June 30, 2014 (euro 0.56 per share).
Following the transfer, the percentage of ownership in Fenice rose from 32.83% to 62.56%; although the percentage of ownership is greater than 50%, Pirelli does not take control over Fenice S.r.l. on the basis of the provisions of the shareholder agreement. Reference is made to note 13 "Other financial assets" for further details.

The increase in the value of the investment in GWM Renewable Energy II S.p.A. amounted to euro 6,043 thousand is due to the conversion into the capital payment of the shareholder loan to the associate in 2011. The amount is inclusive of interest accrued at the date of conversion.

Impairments refer to investments in Fenice S.r.l. for euro 18,957 thousand and GMW Renewable Energy II S.p.A. for euro 1,437 thousand.
With reference to the investment in Fenice S.r.l. it is noted that following the increase in Pirelli's interest due to the transfer of the class B Prelios shares, the asymmetry has been accentuated in the share-out among the shareholders of any income from the sale of class B Prelios shares (pay off of the investment) under the shareholders' agreement in place between the shareholders themselves. In fact, under existing clauses, the pay off at maturity of the income attributable to each shareholder is asymmetric with respect to the interest held.
It was deemed that this asymmetry represents an indicator of impairment and therefore the investment was subject to impairment tests, with the goal of comparing the value of the investment, after the application of the equity method, with the recoverable amount of the same, represented by the fair value.
The fair value of the investment at December 31, 2014, for the determination of which Pirelli availed of the services of a professional independent third party, is lower than its carrying amount, and therefore led to an impairment of the investment amounting to euro 18,957 thousand.
An income approach was used to estimate the fair value based on the options criterion and level 2 inputs were applied in the calculation.
The estimate was made starting from the liquidation preference, i.e. the preferential/asymmetric sharing mechanism of any income that it will receive from Fenice itself following the sale of Prelios class B shares. As expected date of sale it was decided to adopt the date of first expiry of the shareholders' agreement that is July 31, 2018.
As the pay-off is asymmetrical, it was reproduced on the basis of a portfolio of long and short positions of options, valued at December 31, 2014 on the basis of the Black & Scholes formula.
With reference to the investment in GWM Renewable Energy II S.p.A., it was deemed that the negative results of the GWM Group and the trend in the share price of Greentech Energy System A/S, the

company's main asset, significantly lower than the carrying amount of the investment in GWM Renewable Energy II S.p.A. represented indicators of impairment at December 31, 2014. Consequently, an impairment test was performed, which consists of estimating the recoverable amount of the investment and subsequently comparing it to the net carrying amount, after the application of the equity method. The recoverable value is equal to the value in use, which in its turn is based primarily on the value in use of Greentech Energy Systems A/S, and derives from the assessment of Greentech Energy Systems A/S prepared by an independent third party, and which is based on the expected discounted cash flows and methodologies that use multiples, on the basis of the economic-financial information available on the market. The comparison showed an impairment of euro 1,437 thousand recognized in the Income Statement.

With reference to the equity investment in Prelios, an impairment test, that estimates the recoverable amount of the equity investment and subsequently compares it with the carrying amount, has been performed considering also the statutory Financial Statements investment value (0.62 euro per share compared to 0.37 euro per share in the consolidated Financial Statements after the equity method calculation). The recoverable amount is the higher between fair value and value in use.

For the definition of the latter, the company availed of the assistance of a professional independent third party. In particular, the analyses are based on the expected results 2015-2017 of the management and services platform resulting from the review of the 2015-2017 Industrial Plan as well as the book value of debt and investment activities at December 31, 2014, as approved by the Board of Directors of Prelios S.p.A. on March 10, 2015, and communicated to the market. The discount rate applied to cash flows used in the determination of the enterprise value of the services platform, defined as the average cost of capital net of taxes, amounted to 7.18%. The value in use calculated on the abovementioned basis was higher than the carrying amount of Prelios investment in the consolidated Financial Statements and therefore no impairment was recognized.
Fair value of the Prelios investment listed to the Milan stock exchange has been calculated using the stock value at December 31, 2014, (euro 0.2651 per share) and amounts to 39.268 thousand of euro.

The **share of net income (loss)** (negative for euro 53,769 thousand) mainly refers to Prelios S.p.A. (loss of euro 23,612 thousand), Fenice S.r.l. (loss of euro 30,770 thousand) and GWM Renewable Energy II S.p.A. (loss of euro 3,244 thousand).
As performed on December 31, 2013, the Financial Statements of Prelios S.p.A. used in applying the equity method refers to a different closing date compared to December 31, 2014; in particular the portion pertaining to 2014, amounting to euro 23,612 thousand, is composed of the sum of:

- differential, amounting to euro 13,627 thousand, including total loss of the fourth quarter of 2013 (pro rata Pirelli euro 26,465 thousand) and loss only on the sale of the German platform already included in the Financial Statements at December 31, 2013 (pro rata Pirelli euro 12,838 thousand);
- loss for the first nine months of 2014 (euro 9,985 thousand).

The associate Prelios S.p.A. published its results at December 31, 2014 on March 10, 2014, reporting a net loss of euro 61.1 million, of which euro 12.7 million referred to the fourth quarter of 2014 (pro rata Pirelli euro 2.6 million); this result will be included in the evaluation with the equity method of the associate at March 31, 2015.

The share of net income (loss) related to the Fenice S.r.l., negative for euro 30,770 thousand, refers to the pro-rata share (62.56%) of the losses resulting from the fair value adjustment of 210,988,201 class B Prelios S.p.A. shares held by Fenice itself. The fair value of the Prelios class B shares was determined based on the market value at December 31, 2014 of the Prelios S.p.A. ordinary shares.

The **share of other components recognized in equity** (positive for euro 4,340 thousand) refers for euro 4,801 thousand to the reclassification to the Income Statement following the development of objective evidence of impairment as detailed above, of losses recognized directly in equity by Fenice

S.r.l. in the year 2013, following the fair value adjustment of the Prelios S.p.A. class B shares held at the close of the previous year.

Investments in associates, measured using the equity method, are immaterial in terms of impact on total consolidated assets both individually and in aggregate form.

12.2 INVESTMENTS IN JOINT VENTURES

The Group holds an investment of 60% (% ownership unchanged from the previous year) in PT Evoluzione Tyres, a jointly controlled entity which operates in Indonesia active in the production of tyres. Although it is now owned by 60%, due to contractual agreements between shareholders it falls within the definition of a joint venture as the governance rules explicitly require unanimous consent in decisions relating to significant activities.

Investments accounted for using the net equity method are immaterial in terms of impact on the total consolidated assets.

13. OTHER FINANCIAL ASSETS

Other financial assets amounted to euro 180,741 thousand, compared to euro 289,096 thousand at December 31, 2013. The breakdown is as follows:

(in thousands of euro)

	12/31/2014	12/31/2013
Financial assets available for sale	180,741	185,009
Financial assets at fair value through income statement	-	104,087
	180,741	**289,096**

The value of financial assets at fair value through the Income Statement at December 31, 2013 referred to the “Convertendo”, an equity financial instrument subscribed as part of the restructuring plan of the financial receivable from Prelios S.p.A. finalised in August 2013. The loan, with original maturity at December 31, 2019, was converted on April 14, 2014 following the realization of the conditions for which the issuer requested the total conversion in advance. Following this conversion Pirelli obtained:

- 111,916,082 Prelios class A ordinary shares - refer to note 12.1 above;
- 93,390,705 class B Prelios shares - unlisted and without voting right - recorded at a fair value of euro 0.51 per share, for a total of euro 47,536 thousand; the fair value was determined by applying a discount for illiquidity of approximately 18% compared to the value of Prelios S.p.A. ordinary shares at April 14, 2014 (euro 0.62 per share).

The movements during the year in **financial assets available for sale** are the following:

(in thousands of euro)

	12/31/2014	12/31/2013
Opening balance	**185,009**	**118,125**
Exchange difference	378	67
Increases	57,035	9,931
Decreases	(42,894)	(29)
Impairment	(13,434)	(17,970)
Fair value adjustments recognized in Equity	(5,231)	37,499
Transfer from investments in associated companies	-	37,480
Other	(122)	(94)
Closing balance	**180,741**	**185,009**

The breakdown by individual investment is as follows:

(in thousands of euro)

	12/31/2014					12/31/2013
	HISTORICAL COST	CUMULATIVE FV ADJUSTMENTS RECOGNIZED IN EQUITY	FV ADJUSTMENTS RECOGNIZED IN INCOME STATEMENT		FAIR VALUE	FAIR VALUE
			PREVIOUS PERIODS	2014		
	A	B	C	D	A+B+C+D	
Mediobanca S.p.A.	90,247	43,637	(27,234)	-	106,650	100,191
RCS Mediagroup S.p.A.	37,480	-	-	(15,860)	21,620	30,539
Other companies	134	-	11	(11)	134	134
Listed securities	**127,861**	**43,637**	**(27,223)**	**(15,871)**	**128,404**	**130,864**
Alitalia S.p.A.	36,578	-	(20,000)	(11,229)	5,349	7,534
Fin. Priv. S.r.l.	14,458	5,577	(5,562)	-	14,473	13,732
Fondo Anastasia	13,250	1,572	-	-	14,822	15,084
European Institute of Oncology (Istituto Europeo di Oncologia S.r.l.)	4,039	1,343	-	-	5,382	5,038
F.C. Internazionale Milano S.p.A.	7,213	-	(6,655)	-	558	558
Euroqube	373	-	-	(222)	151	373
TIcom I LP	1,366	-	(619)	(82)	665	700
Emittenti Titoli	117	3,481	-	-	3,598	2,633
Equinox Two SCA	7,443	-	(1,232)	(1,764)	4,447	5,421
Other companies	3,884	220	(1,083)	(129)	2,892	3,072
Unlisted securities	**88,721**	**12,193**	**(35,151)**	**(13,426)**	**52,337**	**54,145**
Total	**216,582**	**55,830**	**(62,374)**	**(29,297)**	**180,741**	**185,009**

Increases mainly refer for euro 47,536 thousand, to the Prelios S.p.A. class B shares obtained as a result of the early conversion of the Prelios bond, as described above, the conversion of the Alitalia Convertible Bond (euro 3,695 thousand) in January 2014 and the subscription of Alitalia S.p.A. shares for euro 5,349 thousand.

Decreases mainly refer to the transfer of the above Prelios S.p.A. class B shares to the associate Fenice S.r.l., which took place on June 30, 2014.

Impairments mainly refer to the investments in Alitalia S.p.A (euro 11,229 thousand) and Equinox Two S.C.A. (euro 1,764 thousand).

The fair value adjustment recognized in equity, equal to a positive net value of euro 5,231 thousand, mainly refers to the investments in Mediobanca S.p.A. (positive for euro 6,459 thousand), RCS Mediagroup S.p.A. (negative for euro 8,920 thousand), Fin. Priv. S.r.l. (positive for euro 741 thousand), Emittenti Titoli (positive for euro 965 thousand), and Prelios S.p.A. B shares (negative for euro 4,772 thousand).

Losses recognized in shareholders' equity relating to class B shares of Prelios S.p.A. (euro 4,772 thousand) following the transfer on June 30, 2014 were reclassified to the Income Statement under "losses from investments" (refer to note 35.3). The losses accumulated in equity related to the investment in RCS Mediagroup S.p.A. (6,940 at January 1, 2014 plus an additional euro 8,920 thousand recorded during the year) were reclassified to the Income Statement under "losses from investments" (refer to note 35.3).

The fair value of listed financial instruments corresponds to the stock market price as at December 31, 2014.
The fair value of unlisted financial instruments was determined by making estimates on the basis of the best information available.

14. DEFERRED TAX ASSETS AND PROVISION FOR DEFERRED TAX LIABILITIES

This breakdown is as follows:

(in thousands of euro)

	12/31/2014	12/31/2013
Deferred tax assets	248,564	210,181
Provision for deferred tax liabilities	(53,029)	(49,956)
	195,535	**160,225**

Deferred tax assets and deferred tax liabilities are offset when a legal right exists to offset current tax receivables and current tax payables, and the deferred taxes refer to the same legal entity and the same tax authority. Their composition gross of the offsets made is as follows:

(in thousands of euro)

	12/31/2014	12/31/2013
Deferred tax assets	**354,697**	**303,911**
- of which recoverable within 12 months	76,718	72,483
- of which recoverable beyond 12 months	277,979	231,428
Provision for deferred tax liabilities	**(159,162)**	**(143,686)**
- of which recoverable within 12 months	(11,090)	(27,247)
- of which recoverable beyond 12 months	(148,072)	(116,439)
	195,535	**160,225**

The tax effect of temporary differences and of tax losses carried forward which make up the item at December 31, 2014 and at December 31, 2013 is shown in the following table:

(in thousands of euro)

	12/31/2014	12/31/2013
Deferred tax assets:		
Provisions for future liabilities and charges	22,386	17,044
Employee benefit obligations	103,966	74,694
Inventories	14,492	19,161
Tax losses carried forward	127,645	123,254
Amortisation and depreciation	4,888	4,854
Trade receivables and other receivables	15,299	10,093
Trade payables and other payables	44,099	37,227
Derivatives	2,828	6,003
Other	19,094	11,581
Total	**354,697**	**303,911**
Provision for deferred tax liabilities:		
Amortisation and depreciation	(112,011)	(92,047)
Other	(47,151)	(51,639)
Total	**(159,162)**	**(143,686)**

At December 31, 2014 the value of deferred tax assets not recognized on temporary differences amounted to euro 39,530 thousand (euro 53,132 thousand at December 31, 2013), and those relating to tax losses amounted to euro 38,276 thousand (euro 201,880 thousand at December 31, 2013): these amounts refer to situations in which recovery is not expected to occur. The decrease in tax losses for which no deferred tax assets were recognized is mainly attributable to the sale during the financial year of the company Pirelli Finance (Luxembourg) S.A.

The breakdown by maturity of the value of tax losses, for which no deferred tax assets were recognised, is shown below:

(in thousands of euro)

MATURITY IN	12/31/2014	12/31/2013
2014	-	285
2015	1,508	1,414
2016	8,191	7,881
2017	5,577	5,389
2018	7,674	7,250
2019	3,643	3,148
2020	6,010	6,018
2021	2,635	2,211
2022	5,121	18,253
2027	-	503
2028	-	12,690
2029	-	878
2030	-	890
without maturity date	123,091	655,383
	163,450	**722,193**

Of the total tax losses without maturity, euro 50,353 thousand refer to losses recognised by the Spanish subsidiary Pirelli Neumaticos and euro 44,896 thousand to losses attributable to the English subsidiary Pirelli UK Holding, in relation to which no sufficient taxable income to recover those losses is expected. The decrease in tax losses for which no deferred tax asset was recognized is primarily due to the sale in the year of the subsidiary Pirelli Finance (Luxembourg) S.A. which recorded tax losses totalling euro 462,995 thousand at December 31, 2013.
The tax effect of gains and losses recognised directly in equity was positive for euro 14,879 thousand

(positive for euro 9,279 thousand in 2013), and is disclosed in the Statement of Comprehensive Income. These changes were mainly due to the tax effects associated with actuarial gains/losses on employee benefits obligations and to the adjustment of derivatives in cash flow hedges to their fair value.

15. TRADE RECEIVABLES

The breakdown of trade receivables is set forth below:

(in thousands of euro)

	12/31/2014			12/31/2013		
	TOTAL	NON-CURRENT	CURRENT	TOTAL	NON-CURRENT	CURRENT
Trade receivables	719,000	-	719,000	708,000	-	708,000
Provision for bad debts	(45,192)	-	(45,192)	(41,573)	-	(41,573)
	673,808	**-**	**673,808**	**666,427**	**-**	**666,427**

Out of the total trade receivables amounting to euro 719,000 thousand (euro 708,000 thousand at December 31, 2013), net of invoices or credit notes to be issued, and gross of the provision for bad debts, euro 125,204 thousand are overdue (euro 89,276 thousand at December 31, 2013).
Receivables overdue and not yet due were measured in accordance with the Group accounting policies described in the section on adopted accounting standards.
Impaired receivables include both significant single positions subject to individual impairment and positions sharing similar credit risk characteristics that have been grouped together and impaired on a collective basis.

The change in the provision for bad debts is shown below:

(in thousands of euro)

	12/31/2014	12/31/2013
Opening balance	**41,573**	**51,083**
Translation differences	(1,251)	(2,017)
Increases	16,389	6,250
Decreases	(11,504)	(12,646)
Other	(15)	(1,097)
Closing balance	**45,192**	**41,573**

Accruals to the provision for bad debts are recognised in the Income Statement as “Other costs” (note 34).
For trade receivables, the carrying amount is considered to approximate the fair value.

16. OTHER RECEIVABLES

The breakdown of other receivables is as follows:

(in thousands of euro)

	12/31/2014			12/31/2013		
	TOTAL	NON-CURRENT	CURRENT	TOTAL	NON-CURRENT	CURRENT
Financial receivables	97,651	56,167	41,484	77,198	59,460	17,738
Trade accruals and deferrals	21,962	4,147	17,815	17,166	573	16,593
Receivables from employees	13,227	1,561	11,666	11,722	2,265	9,457
Receivables from social security and welfare institutions	10,643	-	10,643	11,910	-	11,910
Receivables from tax authorities not related to income taxes	102,889	12,123	90,766	135,209	7,857	127,352
Other receivables	188,364	95,147	93,217	184,415	99,308	85,107
	434,736	**169,145**	**265,591**	**437,620**	**169,463**	**268,157**
Provision for bad debts	(317)	-	(317)	(622)	-	(622)
	434,419	**169,145**	**265,274**	**436,998**	**169,463**	**267,535**

Non-current financial receivables (euro 56,167 thousand) principally include euro 49,956 thousand (euro 47,317 thousand at December 31, 2013) of guarantee deposits in connection with tax and legal disputes of the subsidiary Pirelli Pneus Ltda (Brazil), bearing interests at market rates.

Current financial receivables (euro 41,484 thousand) mainly refer for euro 31,195 thousand to loans to the associate Sino Italian Wire Technology Co. Ltd (China), for euro 1,718 thousand to the Interest Rate Swap on the unrated bond, placed by Pirelli & C. S.p.A. on the Eurobond market in February 2011 for a total nominal amount of euro 500 million with a fixed coupon of 5.125% and maturing in February 2016 and euro 2,060 thousand in deferred commissions on the committed credit facility.
The increase compared to December 31, 2013 is mainly due to the effects of the deconsolidation of the Chinese subsidiary Sino Italian Wire Technology Co Ltd, previously classified as subsidiary and as described in Note 2 classified in the Financial Statements at December 31, 2014, as investments in associated companies under “Assets held for sale”.

Other non-current receivables (euro 95,147 thousand) mainly refer to guarantee deposits in connection with lawsuits and tax litigation involving the Brazilian units (for euro 71,367 thousand), receivables for guarantees to Pirelli (for euro 9,147 thousand) that may be exercised if contingent liabilities materialise in relation to the acquisition of the company Campneus Lider de Pneumaticos Ltda (Brazil), and receivables relating to a cash contribution (for euro 8,250 thousand) in connection with the execution of a partnership agreement.

Other current receivables (euro 93,217 thousand) mainly include euro 47,053 thousand of advances paid to suppliers, euro 10,823 thousand of receivables deriving from the settlement of the Eletrobras lawsuit in Brazil, euro 3,099 thousand of receivables from the disposal of property not used for the industrial operations in Brazil, and euro 4,437 thousand of contributions for research and development to be received from the Region of Piedmont.
For other current and non-current receivables the carrying amount is considered to approximate their fair value.

17. TAX RECEIVABLES

Tax receivables relate to income taxes and total euro 86,028 thousand (of which euro 12,068 thousand included in non-current), compared to euro 63,494 thousand at December 31, 2013 (of which euro 7,890 thousand included in non-current). This amount mainly refers to receivables for tax prepayments made during the year, receivables for tax withholding paid to foreign entities during the year for euro 15,069 thousand and IRES (corporate income tax) receivables from previous years recognised in favour of Pirelli & C. S.p.A. for euro 5,058 thousand.

18. INVENTORIES

The breakdown of inventories is as follows:

(in thousands of euro)

	12/31/2014	12/31/2013
Raw and auxiliary materials and consumables	210,699	205,033
Sundry materials	7,193	7,029
Work in progress and semi-finished products	70,966	77,473
Finished products	759,387	691,781
Goods for resale	2,357	2,827
Advances to suppliers	4,414	3,175
	1,055,016	**987,318**

The growth in inventory of finished products is mainly due to an increase in inventory in terms of volume and sales mix in the United States, China and an increase of mix in Germany. This effect also includes the acquisition of the Abouchar chain in Brazil.

The recovery of inventories recognised net of impairments, amounted to euro 7,376 thousand (impairments for euro 5,337 thousand at December 31, 2013).

Inventories are not subject to any collateral pledges.

19. SECURITIES HELD FOR TRADING

Securities held for trading amounted to euro 61,404 thousand compared to euro 48,090 thousand at December 31, 2013, an increase of euro 13,314 thousand.
They include:

- unlisted floating-rate bonds for euro 57,735 thousand (euro 25,309 thousand at December 31, 2013);
- unlisted fixed-rate bonds for euro 3,631 thousand (euro 21,613 thousand at December 31, 2013);
- unlisted equities for euro 38 thousand (euro 1,168 thousand at December 31, 2013, including euro 1,130 thousand in listed stock);

The fair value of listed financial instruments corresponds to their stock market price at December 31, 2014.
The fair value of unlisted financial instruments was determined by making estimates on the basis of the best information available.
Changes in fair value are recognised in the Income Statement as “Financial income”.

20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went from euro 879,897 thousand at December 31, 2013 to euro 1,166,669 thousand at December 31, 2014, an increase of euro 286,772 thousand mainly due to income from the sale of the Steelcord business in Italy, Romania and Brazil for euro 125,581 thousand and the effect resulting from the debt refinancing through the issue of a new bond (approximately euro 75,000 thousand, which represents the part of credit facility not completely reimbursed at December 31, 2014). They are essentially invested on the market for short-term maturity deposits with major banking counterparties at interest rates in line with the prevailing market terms.
In the statement of cash flows, the balance of cash and cash equivalents is net of bank overdrafts amounting to euro 16,063 thousand at December 31, 2014 (euro 73,041 thousand at December 31, 2013).

Cash and cash equivalents and securities held for trading, held in Venezuela, totalling euro 172,838 thousand, are not currently appropriate for an immediate transferability to other Group units.

21. EQUITY

21.1 EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

The **equity attributable to owners of the Parent** rose from euro 2,376,066 thousand at December 31, 2013 to euro 2,548,345 thousand at December 31, 2014.
The change from December 31, 2013 (positive for euro 172,279 thousand) is substantially due to the net income of the year (positive for euro 319,291 thousand), the combined effect of inflation/devaluation deriving from the application of high inflation accounting in Venezuela (positive for euro 49,090 thousand), the fair value adjustment of derivative financial instruments in cash flow hedges net of its tax effect (positive for euro 15,765 thousand), the fair value adjustment of investments available for sale (positive for euro 15,397 thousand), counterbalanced by actuarial losses on pension funds net of the related tax effect (negative for euro 29,884 thousand), dividend pay-outs (euro 156,743 thousand), and exchange differences from translation of foreign Financial Statements (negative for euro 57,232 thousand).
The subscribed and paid-up **share capital** at December 31, 2014 (including treasury shares) is represented by 475,740,182 ordinary shares and 12,251,311 savings shares, without nominal value and having normal entitlements, for a total of euro 1,345,381 thousand. The share capital is presented net of the value of treasury shares (351,590 ordinary shares and 408,342 savings shares), for a net total of euro 1,343,285 thousand. Total treasury shares represent 0.16% of the share capital.

The **equity per share** was euro 5.222, compared to euro 4.869 at December 31, 2013.

21.2 EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

The equity attributable to third parties went from euro 60,523 thousand at December 31, 2013 to euro 63,157 thousand at December 31, 2014. The main changes derive from net income (positive for euro 13,546 thousand), the sale of minority shares of the Brazilian company Comercial e Importadora de Pneus Ltda (positive for euro 5,631 thousand), the purchase of the distribution network Abouchar through a share capital increase reserved to minority interests, offset by the sale of the interests of the Steelcord business (euro 21,372 thousand).

22. PROVISIONS FOR LIABILITIES AND CHARGES

The changes that occurred during the period are shown below:

PROVISIONS FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION (in thousands of euro)

	12/31/2014
Opening balance	**116,745**
Discontinued operations	(3,334)
Translation differences	(646)
Increases	12,101
Uses	(9,030)
Reversals	(20,857)
Other	2,820
Closing balance at 12/31/2014	**97,799**

The **non-current portion** of provisions for liabilities and charges mainly refers to accruals made by the Brazilian subsidiary Pirelli Pneus Ltda for lawsuits and tax litigation (euro 44,162 thousand) and labour lawsuits (euro 31,364 thousand) and by the parent company Pirelli & C. S.p.A. for tax litigation (euro 10,588 thousand) and commercial risks, site remediation and labour disputes (euro 7,444 thousand).

Increases mainly refer to accruals for labour disputes of the subsidiary Pirelli Pneus Ltda – Brazil.

Uses relate to costs incurred, mainly in labour lawsuits by the subsidiary Pirelli Pneus Ltda – Brazil and in labour lawsuits and site clean-up by the parent company Pirelli & C. S.p.A.

Reversals of excess funds mainly related to tax disputes for the parent company Pirelli & C. S.p.A. for euro 9,455 thousand as the protests became extinct as a result of the final judgment of the Appeal Court decisions, that the Revenue Agency did not appeal at the Supreme Court, and euro 10,000 thousand to the release of provisions set aside in previous years to cover contractual guarantees now expired.

PROVISIONS FOR LIABILITIES AND CHARGES - CURRENT PORTION (in thousands of euro)

	12/31/2014
Opening balance	**90,089**
Discontinued operations	(1,483)
Translation differences	1,591
Increases	14,241
Uses	(25,549)
Reversals	(9,953)
Other	(1,906)
Closing balance at 12/31/2014	**67,030**

The **current portion** of provisions for liabilities and charges mainly includes accruals for technical claims and product warranties (euro 19,440 thousand), site remediation of disused area of land (euro 4,790 thousand), reorganisation and closure of business units (euro 4,354 thousand), litigation for occupational diseases (euro 10,947 thousand), tax risks (euro 4,135 thousand), labour lawsuits (euro 3,485 thousand), industrial accident insurance (euro 4,155 thousand) and legal disputes (euro 2,217 thousand).

Increases mainly refer to provisions for product claims, labour lawsuits, occupational diseases and reorganisation/closure of activities.

Uses are mainly related to costs incurred to close pending actions against business units domiciled in Italy for occupational disease lawsuits and in Germany for corporate reorganisation, and claims received from the various Group units.

Reversals of excess provisions mainly concerned technical claims (euro 2,378 thousand), tax risks (euro 1,724 thousand), industrial accident insurance (euro 1,187 thousand) and labour lawsuits (euro 1,290 thousand).

23. EMPLOYEE BENEFIT OBLIGATIONS

This item includes:

(in thousands of euro)

	12/31/2014	12/31/2013
Pension funds:		
- funded	203,183	222,242
- unfunded	107,899	93,763
Employee leaving indemnities (TFR - Italian companies)	42,451	44,496
Healthcare plans	22,337	17,333
Other benefits	83,075	61,616
	458,945	**439,450**

Pension funds

The following table shows the breakdown of pension funds at December 31, 2014:

(in thousands of euro)

	12/31/2014						
	GERMANY	SWEDEN	TOTAL UNFUNDED PENSION FUNDS	USA	UK	OTHER COUNTRIES	TOTAL FUNDED PENSION FUNDS
Funded funds							
Present value of funded liabilities	-	-	-	158,128	1,205,203	5,985	1,369,316
Fair value of plan assets	-	-	-	(116,931)	(1,044,306)	(4,896)	(1,166,133)
Unfunded funds							
Present value of unfunded liabilities	104,008	3,891	107,899	-	-	-	-
Net liabilities recognised	**104,008**	**3,891**	**107,899**	**41,197**	**160,897**	**1,089**	**203,183**

The following table shows the breakdown of pension funds at December 31, 2013:

(in thousands of euro)

	12/31/2013						
	GERMANY	SWEDEN	TOTAL UNFUNDED PENSION FUNDS	USA	UK	OTHER COUNTRIES	TOTAL FUNDED PENSION FUNDS
Funded funds							
Present value of funded liabilities	-	-	-	124,986	973,635	4,527	1,103,148
Fair value of plan assets	-	-	-	(98,799)	(778,403)	(3,704)	(880,906)
Unfunded funds							
Present value of unfunded liabilities	90,087	3,676	93,763	-	-	-	-
Net liabilities recognised	**90,087**	**3,676**	**93,763**	**26,187**	**195,232**	**823**	**222,242**

The increase in the liabilities of the USA pension fund is mainly due to the change of the official tables of mortality, while the decrease in liabilities of the UK funds is related to the over performance of the related assets that were able to more than offset the increase in liabilities caused by the reduction in discount rates.

The characteristics of the principal pension funds in place at December 31, 2014 are summarized below:

- **Germany:** this is an unfunded defined-benefit plan based on the last salary. It provides a pension in addition to the state pension. The plan was closed in October 1982; consequently the participants to this plan are employees whose employment began prior to that date;
- **USA**: this is a funded defined-benefit plan based on the last salary. It provides a pension in addition to the state pension and is administered by a trust. The plan was closed in 2001 and frozen in 2003 for employees who were transferred to a defined-contribution scheme. All participants to this plan have retired;
- **UK**: these are funded defined-benefit plans based on the last salary. They provide a pension in addition to the state pension and are administered in trusts. These plans were closed in 2001. The Pirelli Tyres Ltd plan was frozen in 2010 for employees hired before 2001, who were transferred to a defined contribution plan. The plan operated by the subsidiary Pirelli UK Ltd, which includes the employees in the Cables and Systems segment sold in 2005, was already frozen at the date of the sale in 2005;
- **Sweden:** this involves a defined benefits plan (ITP2), which is closed to new participants, and the only participants are retired employees and recipients of deferred pensions.

In 2014, the following changes occurred in the net liabilities of defined benefits related to both funded and non-funded pension funds:

(in thousand of euro)

	PRESENT VALUE OF GROSS LIABILITIES	FAIR VALUE OF PLAN ASSETS	TOTAL NET LIABILITIES
Opening balance at January 1, 2014	**1,196,912**	**(880,907)**	**316,005**
Translation difference	92,263	(75,846)	16,416
Movements through income statement:			
- current service cost	895	-	895
- interest expense / (income)	54,973	(42,086)	12,887
	55,867	**(42,086)**	**13,781**
Remeasurements recognized in equity:			
- (gains) / losses from change in demographic assumptions	12,630	-	12,630
- (gains) / losses from change in financial assumptions	170,829	-	170,829
- experience (gains) losses	11,885	-	11,885
- return on plan assets, net of interest income	-	(187,135)	(187,135)
	195,343	**(187,135)**	**8,208**
Employer's contributions	-	(44,006)	(44,006)
Plan participants' contributions	22	(22)	-
Benefits paid	(62,668)	62,668	-
Other	(531)	1,207	675
Closing balance at December 31, 2014	**1,477,209**	**(1,166,127)**	**311,082**

The following changes occurred in the net liabilities of defined benefits in 2013:

(in thousand of euro)

	PRESENT VALUE OF GROSS LIABILITIES	FAIR VALUE OF PLAN ASSETS	TOTAL NET LIABILITIES
Opening balance at January 1, 2013	**1,223,913**	**(852,944)**	**370,969**
Translation difference	(26,077)	19,646	(6,431)
Movements through income statement:			
- current service cost	923	-	923
- interest expense / (income)	50,201	(36,347)	13,854
	51,124	**(36,347)**	**14,777**
Remeasurements recognized in equity:			
- (gain) loss from change in demographic assumptions	(13,089)	-	(13,089)
- (gain) loss from change in financial assumptions	20,009	-	20,009
- experience (gains) losses	(1,702)	-	(1,702)
- return on plan assets, net of interest income	-	(23,376)	(23,376)
	5,218	**(23,376)**	**(18,158)**
Employer's contributions	-	(45,888)	(45,888)
Plan participants' contributions	28	(28)	-
Benefits paid	(56,865)	56,865	-
Other	(429)	1,165	736
Closing balance at December 31, 2013	**1,196,912**	**(880,907)**	**316,005**

The service cost is included in the item “Personnel expense” (note 32), while the interest expense/(income) is included in the item “Financial expenses” (note 37).

The following table shows the breakdown of funded pension fund assets:

(in thousand of euro)

	12/31/2014				12/31/2013			
	LISTED	UNLISTED	TOTAL	%	LISTED	UNLISTED	TOTAL	%
Shares	74,725	269,765	344,490	30%	70,300	170,224	240,524	28%
Bonds	203,615	161,826	365,441	31%	75,664	115,653	191,317	22%
Insurances	-	4,896	4,896	0%	-	3,704	3,704	0%
Deposits	63,913	4,468	68,381	6%	102,145	43,221	145,366	17%
Balanced funds	846	187,179	188,025	16%	-	250,004	250,004	28%
Real Estate	-	73,210	73,210	6%	-	29,448	29,448	3%
Derivatives	113,151	-	113,151	10%	8,926	1,934	10,860	1%
Other	-	8,533	8,533	1%	-	9,683	9,683	1%
	456,249	**709,878**	**1,166,127**	**100%**	**257,035**	**623,871**	**880,906**	**100%**

The principal risks to which the Group is exposed in relation to the pension funds are detailed as follows:

- volatility of assets for the plans: to limit the liabilities, the investment strategy privileges assets which are expected to have relatively high and stable returns over the long-term. This implies that certain investments, such as listed shares, feature high volatility over the short term, and that this exposes the plans to risks of reduction in the value of assets in the short-term, consequently increasing liabilities. However, this risk is mitigated by the diversification of the investments into different investment classes, through different investment managers and different investment styles. Moreover, the investments are continuously revised in response to market conditions, with adjustments to maintain the overall risk at adequate levels;
- changes in bond returns and expected inflation: forecasts of falling returns on the bonds and/or rising inflation lead to an increase in the value of liabilities. The plans reduce this risk by making investments in "liability hedging" assets. In the United Kingdom, the protection assured by a portfolio of this type was built over the last several years, and from the second quarter of 2014 it reached 100% of the value of the liabilities covered by assets;
- life expectancy: growing life expectancy entails an increase in the value of plan liabilities. The plans do not protect themselves directly against this risk. The liabilities are measured by using prudent hypotheses whose adequacy is revised periodically.

In the UK the management of plan assets was delegated, under the supervision and within a precise mandate attributed by the Trustees, to a Fiduciary Manager that operates according to a model of Liability Driven Investment (LDI), or having as reference liabilities (liability benchmark), so as to minimize the volatility (and thus the risk) of the deficit, which in fact was reduced to about one third compared to the levels in place before its introduction (early 2011). The key parameters of this mandate may be summarised as follows:

- a mix of assets under dynamic management over time, rather than a fixed strategic allocation;
- hedging of about 100% of the risk related to interest and inflation rates – constructed as a percentage of the asset value – through the use of debt instruments (government bonds) and derivatives;
- management of foreign exchange risk with the goal of hedging at least 70% of the exposure to foreign currencies held in the portfolio through use of forward contracts.

In the United Kingdom, the funding arrangements and funding policies are revised once every three years. The next funding evaluation is expected in 2017. In the United States the funding evaluations are made on an annual basis.
The contributions expected to be paid into the unfunded pension funds during 2015 amount to euro 6,632 thousand, those for funded plans euro 40,731 thousand. The latter figure may be subject to adjustments, particularly as a consequence of the ongoing funding evaluation process in the UK.

Employees' leaving indemnities (TFR)

Employees' leaving indemnities (for Italian companies) changed as follows:

(in thousands of euro)

	12/31/2014	12/31/2013
Opening balance	**44,496**	**47,007**
Liabilities held for sale	(6,574)	-
Movements through income statement:		
- current service cost	146	236
- interest expense	1,254	1,446
Remeasurements recognized in equity:		
- actuarial (gains) losses arising from changes in financial assumptions	5,787	(1,230)
- experience (gains) losses	(748)	(617)
Payments/advances	(2,129)	(2,056)
Other	219	(290)
Closing balance	**42,451**	**44,496**

The current cost of employee service is included in the item "Personnel expenses" (note 32) while the interest expense is included in the item "Financial expenses" (note 37).
The contributions expected to be paid into employees' leaving indemnities during 2015 total euro 1,558 thousand.

Healthcare plans

This item refers exclusively to the healthcare plan in place in the United States subsidiary.

(in thousands of euro)

	USA
Liabilities recognised at 12/31/2014	**22,337**
Liabilities recognised at 12/31/2013	17,333

The following changes occurred during the period:

(in thousands of euro)

	12/31/2014	12/31/2013
Opening balance	**17,333**	**20,403**
Translation difference	2,585	(799)
Movements through income statement:		
- current service cost	4	5
- interest expense	773	710
Remeasurements recognized in equity:		
- actuarial (gains) losses arising from changes in financial assumptions	1,610	(968)
- actuarial (gains) losses arising from changes in demographic assumptions	854	-
- experience (gains) losses	303	(777)
Benefits paid	(1,125)	(1,241)
Closing balance	**22,337**	**17,333**

The current cost of employee service is included in the item "Personnel expenses" (note 32) while the interest expense is included in the item "Financial expenses" (note 37).

The contributions expected to be paid into the healthcare plan during 2015 total euro 1,483 thousand.

Additional information regarding post-employment benefits

Net actuarial losses accrued in 2014 and recognised directly in equity totalled euro 30,263 thousand (in 2013 net actuarial losses totalled euro 22,823 thousand).

The principal actuarial assumptions used at December 31, 2014 were as follows:

	ITALY	GERMANY	NETHERLANDS	SWEDEN	UK	USA
Discount rate	1.75%	1.75%	1.75%	2.40%	3.70%	3.75%
Inflation rate	1.50%	2.00%	2.00%	1.50%	2.98%	N/A
Expected rate of wage and salary increases	-	3.00%	2.00%	-	-	N/A
Healthcare cost trend rates - initial	-	-	-	-	-	6.00%
Healthcare cost trend rates - final	-	-	-	-	-	4.50%

The principal actuarial assumptions used at December 31, 2013 were as follows:

	ITALY	GERMANY	NETHERLANDS	SWEDEN	UK	USA
Discount rate	3.40%	3.40%	3.40%	4.00%	4.70%	4.40%
Inflation rate	2.00%	2.00%	2.00%	2.00%	3.33%	N/A
Expected rate of wage and salary increases	-	3.00%	2.00%	-	-	N/A
Healthcare cost trend rates - initial	-	-	-	-	-	7.50%
Healthcare cost trend rates - final	-	-	-	-	-	4.50%

The following table shows the maturity analysis of the benefits payment related to the post-employment benefits:

(in thousands of euro)

	WITHIN 1 YEAR	1 TO 2 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
Pension funds	65,367	66,091	202,717	352,147	686,322
Employee leaving indemnities (TFR)	1,558	1,707	5,922	12,331	21,518
Healthcare plan	1,483	1,469	4,419	7,166	14,537
	68,406	**69,269**	**213,059**	**371,643**	**722,377**

The weighted average duration of the obligations for post-employment benefits is 15.73 years (15.72 years at December 31, 2013).

The following table sets forth the sensitivity analysis for the relevant actuarial assumptions at the end of the financial year:

(in %)

	IMPACT ON POST EMPLOYMENT BENEFITS				
	CHANGE IN ASSUMPTION	INCREASE IN ASSUMPTION		DECREASE IN ASSUMPTION	
Discount rate	0.25%	decrease by	3.77%	increase by	3.96%
Inflation rate (only UK plans)	0.25%	increase by	2.48%	decrease by	1.97%

At the end of 2013 the situation was as follows:

(in %)

	IMPACT ON POST EMPLOYMENT BENEFITS				
	CHANGE IN ASSUMPTION	INCREASE IN ASSUMPTION		DECREASE IN ASSUMPTION	
Discount rate	0.25%	decrease by	3.73%	increase by	3.97%
Inflation rate (only UK plans)	0.25%	increase by	3.48%	decrease by	3.49%

The sole purpose of the analysis above consists in estimating the change in liability according to changes in the discount rates and inflation rate in the United Kingdom close to the principal assumption of the rates themselves, rather than referring to an alternative set of assumptions.

The sensitivity analysis of the liability related to post-employment benefits is based on the same method used to calculate the liability recognised in the Statement of Financial Position.

Other long-term benefits

The table below sets forth the breakdown of other long-term benefits:

(in thousands of euro)

	12/31/2014	12/31/2013
Long-term incentive plans	10,909	-
Jubilee awards	17,252	16,093
Leaving indemnities - non Italian companies	46,340	34,898
Other long-term benefits	8,574	10,625
	83,075	**61,616**

The value recognized under long-term incentive plans, amounting to euro 10,909 thousand at December 31, 2014, represents the best estimate of the three-year monetary incentive plan Long Term Incentive 2014-2016 for Management of the Pirelli Group and approved by the Board of Directors and Shareholders' Meeting of Pirelli & C., respectively, on February 27 and June 12, 2014; this incentive plan is related to the objectives of the period 2014 - 2016 contained in the Business Plan 2013-2017.

24. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The following table sets forth the amounts owed to banks and other financial institutions:

(in thousands of euro)

	12/31/2014			12/31/2013		
	TOTAL	NON-CURRENT	CURRENT	TOTAL	NON-CURRENT	CURRENT
Bonds	1,214,297	1,214,297	-	607,157	607,157	-
Borrowings from banks	1,034,380	563,735	470,645	1,659,221	1,401,490	257,731
Borrowings from other financial institutions	16,028	1,055	14,973	11,740	2,929	8,811
Finance leasing payables	1,086	903	183	1,345	1,080	265
Financial accrued expenses and deferred income	43,644	159	43,485	43,395	97	43,298
Other financial payables	3,181	1,577	1,604	8,201	1,653	6,548
	2,312,616	**1,781,726**	**530,890**	**2,331,059**	**2,014,406**	**316,653**

The item **bonds**, refers to:

- the unrated bond placed by Pirelli & C. S.p.A. in February 2011 on the Eurobond market for an aggregate nominal amount of euro 500 million, with a fixed coupon of 5.125% and maturity in February 2016;
- the private placement made by Pirelli International Plc on the American market for an aggregate nominal amount of USD 150 million (equal to euro 123.5 million based on the exchange rate at December 31, 2014), with a duration of between 5 and 12 years and an average coupon of 5.05%.
- the unrated bond, placed by Pirelli International Plc on the Eurobond market in November 2014 for a nominal amount of euro 600 million, with a fixed coupon of 1.75%.

The carrying amounts of the bonds were determined as follows:

(in thousands of euro)

	12/31/2014	12/31/2013
Nominal value	1,223,548	608,767
Transaction costs	(13,828)	(6,136)
Amortisation of effective interest rate	4,304	2,942
Adjustment for fair value hedge	273	1,584
	1,214,297	**607,157**

Borrowings from the banks, amounting to euro 1,034,380 thousand, mainly consist of:

- loans granted by the European Investment Bank (EIB) to Pirelli & C. S.p.A. and Pirelli Tyre S.p.A. for research and development projects and to S.C. Pirelli Tyres Romania S.r.l. for local industrial investments. These loans total euro 250,000 thousand (euro 250,000 thousand at December 31, 2013), were fully used, of which euro 150,000 thousand classified as non-current bank borrowings and euro 100,000 thousand classified as current bank borrowings (at December 31, 2013 classified as non-current borrowings from the bank);
- euro 75,000 thousand for utilisation of the syndicated facility (euro 575,000 thousand at December 31, 2013), granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Plc for a total amount of euro 1,200,000 thousand, subscribed on November 30, 2010 and having a duration of five years. These utilisations were classified as current borrowings from the banks. The decrease from last year was due to the partial repayment of the credit facility with an original maturity in November 2015 through the liquidity deriving from the issue of the new unrated bond, placed by Pirelli International Plc on the Eurobond market in November 2014. The credit facility was completely extinguished during 2015 and replaced with a new revolving credit facility (euro 800 million), a multicurrency term loan (euro 200 million) and a further contract (euro 200 million) respectively negotiated on January 9 and 13, 2015;
- euro 154,701 thousand for the Schuldschein, a syndicated loan by the lender on the basis of a German law debt security, granted to Pirelli International Plc and guaranteed by Pirelli & C. S.p.A. and Pirelli Tyre S.p.A., disbursed on December 14, 2012 with a duration of between 3, 5 and 7 years, classified under non-current bank borrowings;
- euro 45,300 thousand classified as non-current bank borrowings, granted by Bancomext to the Mexican subsidiaries in 1H 2013 with a duration of 7 years. The loan is guaranteed by Pirelli Tyre S.p.A. and covered by secured guarantee;
- euro 8,905 thousand, including euro 4,026 thousand classified as non-current bank borrowings, granted by Banco Nacion Argentina between October 2011 and June 2012 to Pirelli Neumaticos S.A.I.C. The duration of the loan classified as non-current borrowings is 5 years. Both loans are backed by secured guarantee;
- use of credit lines at local level, in China, Brazil and Turkey, for euro 445,300 thousand.

At December 31, 2014 the Group had, aside from cash and securities held for trading of euro 1,228,073 thousand, unused committed credit facilities of euro 1,125,000 thousand (euro 625,000 thousand at December 31, 2013) maturing in 2015.

Accrued financial expenses and deferred financial income (euro 43,644 thousand) mainly refer to the portion of interest accrued on bonds (euro 23,656 thousand; euro 21,974 thousand at December 31, 2013) and interest rate swaps (euro 18,152 thousand; euro 17,717 thousand at December 31, 2013).

The reduction compared to the previous year of **other current financial liabilities** is due in particular to the purchase of the remaining 20% of the sale option in favour of the Faria da Silva family of the company Campneus Lider de Pneumaticos Ltda.

Other non-current financial payables include euro 1,650 thousand of security deposit towards Prelios S.p.A., related to the lease of the R&D building, for the entire duration of the lease (October 15, 2012 – October 14, 2018).

Current and non-current financial payables backed by secured guarantees (pledges and mortgages) totalled euro 84,747 thousand (euro 74,503 thousand at December 31, 2013).

Current financial payables include the portion of non-current financial payables, totalling euro 278,700 thousand (euro 123,000 thousand at December 31, 2013), that will be settled within one year.

The carrying amount of current payables is considered to approximate their fair value. The table below compares the fair value of non-current financial payables with their carrying amount:

(in thousands of euro)

	12/31/2014		12/31/2013	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Bond Pirelli & C. S.p.A.	498,940	523,565	499,217	533,010
Bond Pirelli International Plc	592,483	605,184	-	-
Private placement - Pirelli International Plc	122,873	147,731	107,940	108,774
Borrowings from banks	563,735	566,125	1,401,490	1,404,240
Other financial payables	3,695	3,695	5,759	5,759
	1,781,726	**1,846,300**	**2,014,406**	**2,051,783**

The public bonds issued by Pirelli & C. S.p.A. and by Pirelli International Plc are listed and the related fair value was measured with reference to its prices at the end of the year. They are thus classified as level 1 in the hierarchy.
The fair value of the private placement in U.S. dollars issued by Pirelli International Plc and the fair value of the bank borrowings were calculated by discounting each debtor cash flow at the market swap rate for the currency and at the reference maturity date, increased by the Group credit rating. They are classified as level 2 in the hierarchy.

At December 31, 2014, the breakdown of bank borrowings and other payables to lenders by interest rate and by currency of origin of the debt is as follows:

(in thousands of euro)

	FIXED RATE		FLOATING RATE		TOTAL
EUR	124,828		119,531		244,358
BRL (Brazilian Real)	176,540		-		176,540
CNY (Chinese Renminbi)	34,333		-		34,333
RON (Romanian Leu)	106		-		106
TRY (Turkish Lira)	46,731		-		46,731
ARS (Argentinian Peso)	5,192		-		5,192
Other currencies	23,630		-		23,630
Current payables	**411,360**	**77%**	**119,530**	**23%**	**530,890**
EUR	1,193,922		151,356		1,345,278
USD	123,045		-		123,045
BRL (Brazilian Real)	130,271		44,051		174,322
CNY (Chinese Renminbi)	-		40,883		40,883
RON (Romanian Leu)	-		49,495		49,495
MXN (Mexican Pesos)	-		44,843		44,843
ARS (Argentinian Pesos)	3,861		-		3,861
Non current payables	**1,451,098**	**81%**	**330,628**	**19%**	**1,781,726**
	1,862,458	**81%**	**450,158**	**19%**	**2,312,616**

The breakdown at December 31, 2013 was as follows:

(in thousands of euro)

	FIXED RATE		FLOATING RATE		TOTAL
EUR	46,446		6,139		52,585
BRL (Brazilian Real)	125,732		-		125,732
CNY (Chinese Renminbi)	54,835		-		54,835
RON (Romanian Leu)	(205)		-		(205)
TRY (Turkish Lira)	53,608		-		53,608
Other currencies	30,078		20		30,098
Current payables	**310,494**	**98%**	**6,159**	**2%**	**316,653**
EUR	1,303,486		124,531		1,428,017
USD	29,588		80,895		110,483
BRL (Brazilian Real)	104,008		93,049		197,057
CNY (Chinese Renminbi)	-		58,878		58,878
RON (Romanian Leu)	-		49,812		49,812
MXN (Mexican Pesos)	-		160,296		160,296
ARS (Argentinian Pesos)	9,763		-		9,763
Other currencies	100		-		100
Non current payables	**1,446,945**	**72%**	**567,461**	**28%**	**2,014,406**
	1,757,439	**75%**	**573,620**	**25%**	**2,331,059**

The value of fixed-rate payables indicated above includes those established by contracts as fixed-rate payables and those established by contracts as variable-rate payables, for which hedging derivatives have been put in place.

The Group's exposure to fluctuations in interest rates on financial payables, both in terms of the type of rate and their resetting, are summarised below:

(in thousands of euro)

	12/31/2014			12/31/2013		
	TOTAL	FIXED RATE	FLOATING RATE	TOTAL	FIXED RATE	FLOATING RATE
Up to 6 months	635,162	185,003	450,158	872,224	298,604	573,620
From 6 to 12 months	130,602	130,602	-	6,589	6,589	-
From 1 to 5 years	1,459,288	1,459,288	-	1,424,426	1,424,426	-
More than 5 years	87,565	87,565	-	27,820	27,820	-
	2,312,616	**1,862,458**	**450,158**	**2,331,059**	**1,757,439**	**573,620**

The average cost of debt during 2014 was 6.05% (6.23% in 2013).
With regard to the presence of financial covenants and negative pledge clauses, it should be noted that:

- the revolving credit line granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Plc for a total of euro 1,200,000 thousand, and withdrawn for euro 75,000 thousand, is subject to one financial covenant: a certain ratio between consolidated net indebtedness and gross operating profit must be maintained. This parameter was fully satisfied at December 31, 2014. With regard to the negative pledges, the credit facility provides for a commitment not to grant secured guarantees, above a threshold defined as the greater between euro 100,000 thousand and 3% of Total Assets (as per the consolidated Financial Statements of Pirelli & C. S.p.A.), with the exception of secured guarantees on the existing debt or debt to replace it, to be granted pursuant to law, relating to trade finance, project finance and subsidised finance or on loans provided by supranational entities;
- the private placement for a total of USD 150 million with due dates falling between December 5, 2017 and December 5, 2024 envisages, aside from the commitments indicated hereinabove:
  - the respect of the ratio between non-centralised indebtedness (referred to companies other than Pirelli International Plc, Pirelli & C. S.p.A. and Pirelli Tyre S.p.A.) and total assets as reported in the consolidated Financial Statements of Pirelli & C. S.p.A. set at 25% (and the ratio between "secured" debt and total assets not exceeding 15% in any event);
  - introduction of a financial covenant whereby the ratio between gross operating profit and financial expenses as reported in the consolidated Financial Statements of Pirelli & C. S.p.A. be greater than or equal to 3.5 when the ratio between net consolidated indebtedness and gross operating profit is greater than 2.5. Both of these parameters were satisfied at December 31, 2014;
- the Schuldschein obtained by Pirelli International Plc for a nominal total amount of euro 155,000 thousand, with due dates falling between June 14, 2016 and December 14, 2019 envisages, in the case of negative pledges, the undertaking not to grant secured guarantees beyond the threshold defined as being the higher between euro 100,000 thousand and 3% of Total Assets (as per the consolidated Financial Statements of Pirelli & C. S.p.A.), with the exception of secured guarantees on existing debt or debt to replace it, to be granted pursuant to law, relating to trade finance, project finance and subsidised finance, or on loans granted by supranational entities.

The other outstanding financial payables do not contain financial covenants.

25. TRADE PAYABLES

(in thousands of euro)

	12/31/2014			12/31/2013		
	TOTAL	NON-CURRENT	CURRENT	TOTAL	NON-CURRENT	CURRENT
Suppliers	1,377,024	-	1,377,024	1,233,162	-	1,233,162
Notes payable	17,288	-	17,288	11,304	-	11,304
	1,394,312	**-**	**1,394,312**	**1,244,466**	**-**	**1,244,466**

The carrying amount of trade payables is considered to approximate their fair value.

26. OTHER PAYABLES

The following table sets forth the breakdown of other payables:

(in thousands of euro)

	12/31/2014			12/31/2013		
	TOTAL	NON-CURRENT	CURRENT	TOTAL	NON-CURRENT	CURRENT
Trade and accrued liabilities and deferred income	69,354	36,230	33,124	79,897	36,054	43,843
Tax payables not related to income taxes	121,692	4,622	117,070	93,799	5,038	88,761
Payables to employees	103,211	-	103,211	111,317	856	110,461
Payables to social security and welfare intitutions	75,356	29,098	46,258	64,027	22,781	41,246
Dividends payable	9,624	-	9,624	2,076	-	2,076
Other payables	138,932	4,742	134,190	159,895	12,124	147,771
	518,169	**74,692**	**443,477**	**511,011**	**76,853**	**434,158**

Non-current commercial accrued expenses and deferred income relate for euro 32,132 thousand to capital contributions received for investments made in Mexico and Romania, whose benefits are recognized in the Income Statement in proportion to the costs for which the contribution is disbursed.

Current commercial accrued expenses and deferred income include euro 8,224 thousand of tax incentive for the Gravatai project in Brazil, deferred for the duration of the amortization period of the investment, euro 5,902 thousand for government grants by the Piedmont Region, related to financing for plants aimed at the realization of the New Technological Centre, the benefits of which are recognized in the Income Statement in proportion to the costs for which the contribution was granted, euro 2,849 thousand for costs related to insurance coverage in some Eurozone countries, euro 2,514 thousand for various commercial initiatives, euro 1,655 thousand for the portion not yet recognized in the Income Statement of the state contributions received for the investment of Slatina in Romania and euro 1,205 thousand for payables to interims in Turkey.

Tax payables for the taxes not related to income, are mainly comprised of payables for VAT or equivalent taxes, indirect taxes not related to income and withholding tax for employees.

Current payables to employees mainly include amounts accrued during the period but not yet paid, including the estimate of incentives.

Other current payables (euro 134,190 thousand) mainly include:

- euro 76,398 thousand for the purchase of property, plant and equipment (euro 84,531 thousand at December 31, 2013);
- euro 16,839 thousand for customer advances (euro 8,835 thousand at December 31, 2013);
- euro 8,342 thousand for income withholding tax (euro 11,993 thousand at December 31, 2013);
- euro 8,061 thousand for payables to representatives, agents, professionals and consultants (euro 6,693 thousand at December 31, 2013);
- euro 2,490 thousand for the purchase of land in Argentina;
- euro 1,662 thousand for payables to directors, statutory auditors and supervisory bodies (euro 2,527 thousand at December 31, 2013).
- euro 1,476 thousand for solidarity contributions to be donated in compliance with the local regulations to beneficial-social associations in Venezuela;
- euro 985 thousand for environmental and urban planning development projects in progress in Brazil.

For other current and non-current payables, the carrying amount is considered to approximate their fair value.

27. TAX PAYABLES

The tax payables mainly relate to national and regional income taxes and total euro 104,158 thousand (of which euro 3,397 thousand recognised in non-current liabilities), compared to euro 83,809 thousand at December 31, 2013 (of which euro 3,537 thousand recognised in non-current liabilities).

28. DERIVATIVE FINANCIAL INSTRUMENTS

This item includes the fair value of derivative instruments outstanding at December 31, 2014. The following table shows the breakdown:

(in thousands of euro)

	12/31/2014		12/31/2013	
	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT ASSETS	CURRENT LIABILITIES
Hedge accounting not adopted				
Foreign currency derivatives - commercial transactions	19,765	(26,001)	17,255	(13,544)
Foreign currency derivatives - included in net financial position	5,868	(2,554)	4,438	(3,175)
Interest rate derivatives	-	(2,180)	-	-
Other derivatives - included in net financial position	-	(2,089)	575	-
Hedge accounting adopted				
- cash flow hedge:				
Foreign currency derivatives - commercial transactions	2,113	-	384	(1,482)
Interest rate derivatives	606	(10,011)	513	(38,824)
Other derivatives	545	-	-	(13)
- fair value hedge				
Interest rate derivatives - included in net financial position	207	-	1,653	-
	29,104	**(42,835)**	**24,818**	**(57,038)**
- Total derivatives included in net financial position	6,075	(4,642)	6,666	(3,175)

Derivative financial instruments without adoption of hedge accounting

The value of **foreign currency derivatives** corresponds to the fair value of forward currency purchases/sales outstanding at the closing date of the period. These involve hedges of Group commercial and financial transactions for which hedge accounting was not adopted. The fair value is determined by using the forward exchange rate at the reporting date.

The value of **derivatives on interest rates**, between current liabilities for euro 2,180 thousand refers to the fair value assessment of 12 “plain vanilla” interest rate swaps on a total notional amount of euro 575 million maturing in February 2015, which envisage the payment of a fixed interest rate and collection of a variable interest rate. These derivatives were made to hedge against the risk of change in interest rates associated with the variable rate revolving syndicated credit facility granted to Pirelli & C. S.p.A, Pirelli Tyre S.p.A. and Pirelli International Plc for a total amount of euro 1,200,000 thousand and of which euro 75,000 thousand was used at December 31, 2014. For these derivatives in November 2014 the hedge accounting was interrupted and losses previously accumulated in Equity (euro 16,739 thousand) were fully reclassified to the Income Statement (refer to note 37 “financial expenses”). Following the interruption of the hedge accounting, changes in the fair value of the derivative are recognized in the Income Statement.

Derivative financial instruments with adoption of hedge accounting

Cash flow hedge

The value **of derivatives on interest rates**, recognized as current liabilities for euro 10,011 thousand and current assets for euro 606 thousand (current liabilities amounted to euro 38,324 thousand and current assets amounted to euro 513 thousand at December 31, 2013), mainly refers to the fair value of 4 cross currency interest rate swaps negotiated in November 2012 to cover the exposure to exchange rate risk and limit exposure to interest rate risk associated with the private placement placed by Pirelli International Plc in the US market for a total nominal amount of USD 150 million, with duration between 5 and 12 years (refer to Note 24 “Borrowings from banks and other financial institutions”). The aim is to hedge against changes in the cash flows of the payable denominated in foreign currency (both principal and interest) tied to changes in foreign exchange rates. A negative amount for euro 3,297 thousand was recognised in equity for the year.

29. COMMITMENTS AND CONTINGENCIES

Commitments to purchase property, plant and equipment

The commitments to purchase property, plant and equipment amount to euro 167,122 thousand (euro 109,535 thousand at December 31, 2013), and mostly relate to companies in Russia, Romania, Brazil, Italy, Mexico and China.

Commitments for the purchase of equity interests/fund units

These refer to commitments to subscribe units of the company Equinox Two S.C.A., a private equity company specialised in investments in listed and unlisted companies with high growth potential, for a maximum counter-value of euro 2,358 thousand.

Other contingencies

At the beginning of **April 2014** the European Commission communicated to Pirelli, and other parties involved (including Prysmian Cavi e Sistemi, a subsidiary of Pirelli until July 2005), the decision taken at the conclusion of the antitrust investigation initiated for the energy cables business, which provides for a penalty against Prysmian of approximately euro 104 million for a portion of which,

amounting to euro 67 million, Pirelli is jointly liable with Prysmian. This decision confirms that there was no direct involvement by Pirelli in the alleged cartel. The alleged antitrust violation is attributable solely to the principle of "parental liability", because, during part of the period of the alleged cartel, Prysmian was controlled by Pirelli. Pirelli appealed to the European Court of Justice against the decision of the European Commission alleging the application of the principle of "parental liability". In fact, Pirelli believes that the principle of parental liability is not applicable to it.
The European Commission also ordered Pirelli to deposit a bank guarantee to cover the payment, if and when due, of 50% of the penalty levied on Prysmian and Pirelli jointly. In consequence of the above on December 17, 2014, Pirelli provided the Commission with the guarantees requested.
Pirelli took action before the Court of Milan for the obligation of Prysmian to hold Pirelli harmless from any claim by the European Commission in relation to the aforementioned penalty to be ascertained and declared.
Pirelli, on the basis of careful legal analysis supported by professional opinions of external legal advisers, believes it is not involved in the alleged irregularities of its former subsidiary, and that the ultimate full liability for any violation (and the payment of the related penalty) shall be the exclusive responsibility of the company directly involved.
In consequence of the above, the risk assessment is such as not to have to request the allocation of any specific provision in the annual Financial Statements at December 31, 2014.

30. REVENUE FROM SALES AND SERVICES

The breakdown of revenue from sales and services is as follows:

(in thousands of euro)

	2014	2013
Revenue from sales of goods	5,913,216	5,951,568
Revenue from services	104,847	109,392
	6,018,063	**6,060,960**

31. OTHER INCOME

The breakdown of this item is as follows:

(in thousands of euro)

	2014	2013
Gains on disposal of property, plant and equipment	18,279	37,862
Rent income	7,887	9,831
Insurance indemnities and other refunds	17,277	8,485
Recoveries and reimbursements	58,467	63,000
Government grants	6,981	6,483
Other income	95,185	126,648
	204,076	**252,309**

Gains on disposal of property, plant and equipment mainly derive for euro 6,261 thousand from the sale of the land in the Sumaré area in Brazil and for a total of euro 9,365 thousand from the sale of land and buildings in Germany and Turkey. In 2013 the value in particular referred to the gain of euro 31,142 thousand obtained from the sale of real estate not used for industrial activity in Brazil.

The item **recoveries and reimbursements**, mainly includes:

- refunds of taxes and duties for euro 21,157 thousand received in Italy, Brazil and Germany in particular in the form of contributions for tyre disposal;
- contributions for the purchase of gas and energy, reimbursements of various taxes and tax refunds for a total of euro 12,836 thousand arising from tax facilitations obtained in Argentina, Egypt, and in the state of Bahia in Brazil.

The item **other** mainly includes income from sports activities for euro 36,676 thousand, income from the release of provisions for liabilities and charges (euro 22,040 thousand) and provisions for bad debts (euro 4,549 thousand).

The reduction in the item other compared to 2013, amounting to about euro 31,464 thousand, is mainly due to release during the financial year 2013 of the provision in relation to the three-year incentive plan 2012-2014 for euro 12,371 thousand, income that had been achieved following the sale of certain rights held in Brazil for euro 13,092 thousand and greater releases of provisions for liabilities and charges recorded in 2013 for euro 4,846 thousand.

Other income includes **non-recurring events** amounted to euro 15,626 thousand (7.7% of the total) related to real estate capital gains realized in Brazil, Germany and Turkey for the sale of land and buildings. In 2013, the item included gains resulting from disposal of properties not used for the industrial activity in Brazil (euro 31,142 thousand) and the income resulting from sale of receivables under litigation (euro 13,202 thousand) and represented 17.6% of the item.

32. PERSONNEL EXPENSES

The breakdown of this item is as follows:

(in thousands of euro)

	2014	2013
Wages and salaries	960,867	920,356
Social security and welfare contributions	174,268	168,049
Expenses for employees' leaving indemnity and similar costs (*)	31,539	29,498
Expenses for defined contribution pension funds	21,390	20,577
Expenses for defined benefit pension funds	895	923
Expenses for jubilee awards	5,865	888
Expenses for defined contribution healthcare plans	38,742	36,140
Other costs	6,204	18,126
	1,239,770	**1,194,557**

* Includes Italian and foreign companies

Personnel expenses include **non-recurring events** for a total of euro 24,744 thousand (2.0% of the total) for restructuring costs.
In 2013 the item included euro 45,435 thousand of which euro 25,447 thousand related to restructuring costs and euro 19,988 thousand related to expenses for the definition of a legal dispute in Brazil. They represented 3.8% of the total.

33. AMORTISATION, DEPRECIATION AND IMPAIRMENT

The breakdown of this item is as follows:

(in thousands of euro)

	2014	2013
Amortisation	20,917	19,016
Depreciation	277,890	265,817
Impairment of property, plant and equipment	6,048	7,559
	304,855	**292,392**

The **impairments** mainly relate to plants and equipment located in Russia and Italy. Of these impairments, euro 5,744 thousand qualify as **non-recurring events** (1.9% of the total of the item).

34. OTHER COSTS

The breakdown of this item is as follows:

(in thousands of euro)

	2014	2013
Selling costs	305,041	293,627
Purchases of goods for resale	306,783	302,857
Fluids and power	223,611	235,476
Advertising	219,051	200,189
Professional advice	53,968	47,197
Maintenance	66,276	66,223
Warehouse operating costs	53,578	44,908
Leases, rental and lease installments	113,253	101,619
Outsourcing	44,961	36,276
Travel expenses	49,241	47,852
IT expenses	27,435	27,060
Key managers compensations	10,058	7,724
Other provisions	26,341	32,542
Duty stamps, duties and local taxes	37,916	37,263
Canteen	24,052	18,047
Bad debts	16,389	6,250
Insurance	28,587	29,579
Cleaning expenses	21,031	19,533
Waste disposal	21,111	23,295
Security expenses	12,081	12,286
Telephone expenses	12,181	11,109
Other	156,823	197,467
	1,829,766	**1,798,378**

The item "other" includes **non-recurring events** for euro 1,800 thousand (0.1% of the total of the item) related to the accessory charges deriving from the sale of land and buildings in Brazil, Germany and Turkey. In 2013, the item included euro 2,716 thousand (0.1% of the total of the item) of costs related to the real estate gains made in Brazil.

35. INCOME (LOSS) FROM EQUITY INVESTMENTS

35.1 SHARE OF NET INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES

The share of net income (loss) of associates and joint ventures accounted for under the equity method was negative for euro 55,147 thousand, compared to the negative result of euro 25,835 thousand in 2013.
It basically comprises the transposition of the share of net income (loss) for the investment in Prelios S.p.A. (negative for euro 23,612 thousand, compared to euro 12,838 thousand at December 31, 2013) in Fenice S.r.l. (negative for euro 30,770 thousand), in GWM Renewable Energy II S.p.A. (negative for euro 3,244 thousand, compared to euro 191 thousand at December 31, 2013) in Eurostazioni S.p.A. (positive for euro 3,587 thousand) and in PT Evoluzione Tyre (negative for euro 1,378 thousand compared to a positive value of euro 637 thousand in 2013). In 2013 the share also included the share of the investment in RCS Mediagroup S.p.A. (negative for euro 13,573 thousand), reclassified at the end of 2013 in available-for-sale financial assets.

To this regard, reference should be also made to the previous note 12 "Investments in associates and joint ventures".

35.2 GAINS ON EQUITY INVESTMENTS

The breakdown is as follows:

(in thousands of euro)

	2014	2013
Prelios S.p.A. bond conversion effect	13,307	-
Gains on disposal of investments in subsidiaries	4,781	-
RCS MediaGroup S.p.A. fair value adjustment effect	-	8,638
Other gains	901	913
	18,989	**9,551**

Regarding **the effect of the conversion of the Prelios S.p.A. bond** (the "Convertendo"), reference should be made to the previous note 12 "Investments in associates and joint ventures".

The **gains on sale of subsidiaries** exclusively relates to the sale of the investment in Pirelli Finance (Luxembourg) S.A.

35.3 LOSSES ON EQUITY INVESTMENTS

The breakdown of this item is as follows:

(in thousands of euro)

	2014	2013
Prelios S.p.A. class B shares fair value adjustment	4,772	-
Impairment of investments in associates	20,393	-
Impairment of available-for-sale financial assets	29,294	19,018
Valuation of financial assets designated at fair value through income statement	-	44,286
Other losses on equity investments	256	-
	54,715	**63,304**

In relation to the **fair value adjustment of the Prelios S.p.A. class B shares** refer to note 13 above “Other financial assets”.

The item **impairment of investments in associated companies** refers to investments in Fenice S.r.l. for euro 18,956 thousand and GWM Renewable Energy II S.p.A. for euro 1,437 thousand. In this regard, reference should be made to note 12 above “Investments in associates and joint ventures”.

Impairment of financial assets available for sale mainly refer to investments in Alitalia S.p.A. (euro 11,229 thousand), in RCS Mediagroup S.p.A. (euro 15,860 thousand) and Equinox Two S.C.A. (euro 1,764 thousand). In 2013 the item referred mainly to investments in Mediobanca S.p.A. (euro 10,429 thousand), Alitalia S.p.A. (euro 4,925 thousand), Equinox Two S.C.A (euro 1,232 thousand), Fin. Priv. S.r.l. (euro 1,345 thousand) and S.In.T S.p.A. (euro 917 thousand).

In 2013 the item **valuation of financial assets designated at fair value through Income Statement** referred to the impairment of the equity instrument of Prelios S.p.A. (the “Convertendo”) held by Pirelli & C. S.p.A. following the financial reorganization of Prelios S.p.A. itself, and converted in 2014 in advance into Prelios class A and class B ordinary shares, as described in note 12.

35.4 DIVIDENDS

Dividends in 2014 amounted to euro 3,873 thousand compared to euro 1,290 thousand in 2013. They are mainly related for euro 2,363 thousand to the investment in Mediobanca S.p.A., for euro 680 thousand in income from mutual funds (euro 610 thousand in 2013), for euro 308 thousand to Fin. Priv. S.r.l. (euro 103 thousand in 2013) and for euro 256 thousand to Euroqube S.A.

36. FINANCIAL INCOME

The breakdown of this item is as follows:

(in thousands of euro)

	2014	2013
Interest	40,100	31,170
Other financial income	8,595	10,180
Valuation at fair value of securities held for trading	-	353
Valuation at fair value of currency derivatives	42,982	23,084
	91,677	**64,787**

Interest includes euro 15,405 thousand for interest income with financial institutions (euro 5,219 thousand in 2013), euro 10,475 thousand for interest on fixed income securities (euro 8,622 thousand at December 31, 2013), euro 8,337 thousand for interest on interest rate swaps (euro 9,551 thousand in 2013), euro 2,620 thousand for interest on trade receivables (euro 2,234 thousand in 2013) and euro 2,058 thousand for interest on government bonds.

Other financial income includes interest income on receivables claimed from the Brazilian tax authorities for euro 998 thousand and income for euro 1,446 thousand from the basis adjustment of the financial liabilities that were hedged against interest rate risk, for which fair value hedge accounting has been applied.
This adjustment is offset by the negative change in fair value of the hedging instruments included in the financial expenses recognised as "Valuation at fair value of other derivative instruments" (refer to note 37).

Valuation at fair value of currency derivatives relates to forward purchases/sales of foreign currencies to hedge commercial and financial transactions, in accordance with the Group foreign exchange risk management policy. For transactions outstanding at the end of the year, the fair value is determined using the forward exchange rate at the reporting date. The fair value assessment includes two elements: the interest component linked to the interest rate spread between the two currencies subject to the individual hedges, a net hedging cost of euro 33,178 thousand, and the exchange rate component, a net gain of euro 76,160 thousand.

37. FINANCIAL EXPENSES

The breakdown of this item is as follows:

(in thousands of euro)

	2014	2013
Interest	124,757	116,205
Commissions	17,100	19,987
High inflation effect Venezuela	28,974	18,680
Other financial expenses	9,736	1,870
Net losses on exchange rates	147,973	73,576
Net interest costs on employee benefit obligations	19,453	19,374
Valuation at fair value of securities held for trading	477	-
Valuation at fair value of other derivatives	5,617	8,027
	354,087	**257,719**

Interest includes euro 26,730 thousand on the bond issued by Pirelli & C. S.p.A. in 2011 (euro 26,673 thousand in 2013), euro 5,805 thousand for the private placement made by Pirelli International Plc on the American market at the end of 2012 (euro 5,894 thousand in 2013), euro 1,237 thousand for the bond placed by Pirelli International Plc on the Eurobond market in November 2014 and euro 22,996 thousand for interest on interest rate swaps (euro 18,262 thousand in 2013).

Net losses on exchange rates of euro 147,973 thousand (losses from exchange rate of euro 1,015,947 thousand and gains from exchange rate of euro 867,974 thousand) refer to adjustment to year-end exchange rates of items expressed in currencies other than the functional currency outstanding at the reporting date and the net losses realised on items closed during the financial year.
The increase recorded in the item compared to the previous year is mainly due, as previously indicated in note 7, to the effect of the adjustment to a currency exchange of 12 bolivar per dollar (14.57 bolivar per euro) of commercial transactions in foreign currency recorded by the subsidiary Pirelli

de Venezuela C.A. outstanding at the reporting date, which resulted in the recognition of foreign exchange losses in the year for a total of euro 72,085 thousand.

The comparison of the value of foreign exchange losses net of the share of Venezuela (euro 75,888 thousand) with the fair value measurement of the foreign exchange component of currency hedges negotiated as part of the Group's currency risk management strategy (net gain of euro 76,160 thousand, as previously indicated in the item "financial income") shows that the management of foreign exchange risk is substantially balanced.

The item **net interest on employee benefit obligations** mainly consists of euro 12,887 thousand for pension funds, euro 1,254 thousand for employees' leaving indemnities (TFR), and euro 773 thousand for healthcare plans (refer to note 23 "Employee benefit obligations").

Valuation at fair value of other derivative instruments (refer to note 28 "Derivative financial instruments") mainly consists of:

- negative amount for euro 2,680 thousand related to the reclassification in the Income Statement of losses that were previously accumulated in equity and referred to interest rate derivatives for which hedge accounting was interrupted (negative for euro 4,399 thousand in 2013);
- euro 1,446 thousand of fair value adjustment on interest rate swaps made to hedge the interest rate associated with financial liabilities, for which hedge accounting (fair value hedge) has been implemented (euro 3,211 thousand in 2013).

38. TAXES

The breakdown of the income taxes for the period is as follows:

(in thousands of euro)

	2014	2013
Current taxes	194,949	207,907
Deferred taxes	(21,640)	1,085
	173,309	**208,992**

The Group's actual tax burden for 2014 is attributable to taxes payable by the Tyre Business (euro 231,709 thousand) on the positive taxable income of its subsidiaries partially offset by the recognition in Pirelli & C. S.p.A. of the positive effects deriving from opting for domestic tax consolidation and of deferred taxes in relation to the foreseeable recovery of domestic tax losses within 4 years. The decrease in the item compared to the same period of the previous year is mainly due to the recognition of deferred tax assets on previous tax losses in relation to the expected recoverability of tax losses by the Group's Italian companies following the improvement of future plans that thus allow the recognition.

The reconciliation between theoretical and actual taxes is as follows:

(in thousands of euro)

	2014	2013
Net income (loss) before taxes	488,523	513,484
Reversal of share of net income (loss) of associates and joint ventures	55,147	25,835
A) Total taxable income	**543,670**	**539,319**
B) Theoretical taxes	**176,327**	**173,477**
Main causes for changes between theoretical and effective taxes:		
Income not subject to taxation	(65,539)	(59,012)
Non-deductible costs	91,402	43,579
Use of tax losses carried forward	(5,961)	(2,894)
Unrecognised deferred tax assets and/or release of deferred tax assets previously recognised	9,259	36,829
Taxes not related to income and costs for tax assessment	806	42,792
Oher	(32,986)	(25,779)
C) Effective taxes	**173,309**	**208,992**
Theoretical tax rate (B/A)	32%	32%
Effective tax rate (C/A)	32%	39%

The Group's theoretical tax burden is calculated taking into account the nominal tax rates of the countries where the Group's principal companies operate, as shown below:

	2014	2013
Europa		
Italy	31.40%	31.40%
Germany	29.58%	29.55%
Romania	16.00%	16.00%
Great Britain	21.50%	23.25%
Turkey	20.00%	20.00%
Russia	20.00%	20.00%
NAFTA		
USA	40.00%	40.00%
Mexico	30.00%	30.00%
Central and South America		
Argentina	35.00%	35.00%
Brazil	34.00%	34.00%
Venezuela	34.00%	34.00%
Asia / Pacific		
China	25.00%	25.00%
Middle East / Africa		
Egypt	30.00%	25.00%

The nominal tax rate in Great Britain fell from 23.25% in 2013 to 21.50% in 2014, in accordance with local tax laws (Finance Act 2012).
The nominal tax rate in Egypt increased from 25% in 2013 to 30% in 2014 as a result of a change in legislation (Act 44/2014).

39. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

As a result of the signing of the steelcord business sale agreement by Pirelli and Bekaert on February 28, 2014, the steelcord business qualifies as a "discontinued operation".
On December 18, 2014 the sale was finalized of the steelcord business in Italy (Figline), Romania (Slatina) and Brazil (Sumaré) for a counter-value of about euro 150 million in term of enterprise value (about euro 134 million in terms of equity value) consistent - in pro-rata terms - with about euro 255 million of the total value of the agreement, that led to the recognition of a gain for a total of euro 17,878 thousand, net of related taxes (euro 7,820 thousand; also following this disposal, the foreign exchange reserve (negative for euro 3,298 thousand) was reclassified in Income Statement at disposal date.

Assets and liabilities held for sale in the following table refer to business in Turkey (closing announced on February 6, 2015) and China (closing announced on March 27, 2015):

STATEMENT OF FINANCIAL POSITION ASSETS HELD FOR SALE (in thousands of euro)

	12/31/2014
Property, plant and equipment	12,289
Intangible assets	1,422
Investments in associates and J.V.	11,406
Deferred tax assets	1,108
Inventories	7,600
Trade receivables	2,088
Other receivables	2,033
Cash and cash equivalents	5,938
Derivative financial instruments	153
Total Assets	**44,037**
Employee benefit obligations	3,212
Borrowings from banks and other financial institutions	224
Trade payables	3,945
Other payables	3,244
Provisions for liabilities and charges	1,954
Tax payable	65
Total Liabilities	**12,644**

In particular, it is noted that the item Investments in Associates and Joint Ventures refers to the investment held in the company Sino Italian Wire Tech. Co. Ltd. (China). The Group shareholding is 49% and the company is fully consolidated by virtue of a call option in favour of Pirelli on a portion of 26% of the share capital. It was reclassified in the item "investments in associates" because on December 15, 2014 this option was no more exercisable following the signing of the sale agreement to Bekaert. In accordance with the requirements of IFRS 10, the value of the non-controlling interest during deconsolidation was measured at fair value resulting in an impairment of euro 784 thousand recognized under "discontinued operations". It is also noted that the foreign exchange reserve recorded on the steelcord business in Turkey, negative for euro 13,949 thousand at December 31, 2014, will be reclassified in the Income Statement at the time of the disposal.

The net income (loss) from discontinued operations is as follows:

INCOME STATEMENT DISCONTINUED OPERATIONS (in thousands of euro)

		2014	2013
Revenues from sales and services		73,500	85,200
Raw materials and consumables (net of change in inventories)		(24,358)	(28,424)
Personnel expenses		(15,611)	(17,204)
Amortisation,depreciation and impairment		(2,200)	(4,100)
Other costs		(24,999)	(29,172)
Operating income		**6,332**	**6,300**
Net income (loss) from equity investments		411	-
Financial expenses		(1,700)	(2,900)
Net income before tax		**5,043**	**3,400**
Tax		(2,000)	(1,400)
A Net income		**3,043**	**2,000**
Gains on disposal of production units in Italy+Romania+Brazil	*25,698*		-
Disposal tax effect	*(7,820)*		
B Net gains on disposal		**17,878**	
C Reversal of Romanian reserve on foreign currency translation		**(3,298)**	**-**
Net income from discontinued operations (A+B+C)		**17,623**	**2,000**

The net income (loss) from discontinued operations, positive for euro 3,043 thousand shown in the table above, as described in the "Disposal of the Steelcord Business" of note 2, includes revenues from the sales of the steelcord business realized with third parties outside the Pirelli group (euro 73,500 thousand) and the costs related to these revenues (total of euro 70,457 thousand, also considering the income from investments, interest expense and taxes). It should be noted that the total amount of costs to third parties of the steelcord business, including financial expenses and taxes, amounted in FY 2014 to euro 255,464 thousand. The result of discontinued operations that would have been determined considering the revenues from third parties and the total cost of the business to third parties (including costs related to the revenues earned from the business to the Pirelli group) in FY 2014 would be negative for euro 181,964 thousand.

40. EARNINGS (LOSSES) PER SHARE

Basic earnings (losses) per share are given by the ratio between net income (loss) attributable to the owners of the parent (adjusted to take into account the minimum dividend allocated to savings shares) and the weighted average of the number of ordinary shares outstanding during the period, with the exclusion of treasury shares.

(in thousands of euro)

	2014	2013
Net income (loss) attributable to the Parent from continuing operations	301,668	301,574
Net income (loss) attributable to savings shares reflecting 2% increase	(7,476)	(7,473)
Adjusted net income (loss) attributable to the Parent from continuing operations	294,192	294,101
Basic earning (loss) per ordinary share from continuing operations (in euro per share)	**0.619**	**0.619**

	2014	2013
Net income (loss) attributable to the Parent from discontinued operations	17,623	2,000
Net income (loss) attributable to savings shares reflecting 2% increase	(437)	(50)
Adjusted net income (loss) attributable to the Parent from discontinued operations	17,186	1,950
Basic earning (loss) per share from discontinued operations (in euro per share)	**0.036**	**0.004**

The diluted earnings (losses) per share have not been calculated because following expiration of the stock option plans, the prerequisites for such calculation are not met.

41. DIVIDENDS PER SHARE

In H1 2014, Pirelli & C. S.p.A. paid to its shareholders dividends based on 2013 earnings equal to euro 0.32 per each of the 475,388,592 ordinary shares (excluding treasury shares) and euro 0.39 per each of the 11,842,969 savings shares (excluding treasury shares). The total dividends paid out amounted to euro 156,743 thousand.
In 2013 Pirelli & C. S.p.A. paid to its shareholders dividends based on 2012 earnings equal to euro 0.32 per ordinary share (excluding treasury shares) and euro 0.39 per savings share (excluding treasury shares). The total dividends paid out amounted to euro 156,743 thousand.

42. HYPERINFLATION

In accordance with Group accounting policies regarding the criteria for introducing/ending inflation accounting, the subsidiary Pirelli de Venezuela C.A. adopted inflation accounting since the preparation of the consolidated Financial Statements at December 31, 2009. It is the only Group company operating in a high-inflation country. The price index used for this purpose is a mixed index: a consumer price index (CPI) covering only the cities of Caracas and Maracaibo was used until December 31, 2007; beginning in 2008 the Banco Central de Venezuela and the National Institute for Statistics started to publish a national consumer price index (Indice Nacional de precios al consumidor - INPC) that uses December 2007 as its basis for calculation. For the year ended December 31, 2014 an inflation index estimated at 66.84% was used as the official one disclosed by the Banco Central de Venezuela was not available. The official inflation index was equal to 68.54% with a difference of 1.02% compared to the estimate and therefore not significant.

	INDEX	CONVERSION FACTOR
December 31, 2012	318.9	1.5619
December 31, 2013	498.1	1.6684
December 31, 2014	831.0	1.0000

The losses on the net monetary position are recognised in the Income Statement as "Financial expenses" (note 37) for an amount of euro 28,974 thousand (euro 18,680 thousand in 2013).

43. RELATED PARTY TRANSACTIONS

Related party transactions, including intercompany transactions, are neither unusual nor exceptional, but are part of the ordinary course of business of Group companies. Such transactions, when not carried out at standard conditions or dictated by specific regulations, are settled on an arm's length basis and executed in compliance with the rules set out in the Group Procedure for Related Party Transactions.

The statement below shows a summary of the Consolidated Statement of Financial Position, Consolidated Income Statement and Consolidated Statement of Cash Flows that include transactions with related parties and their percentage impact:

(in millions of euro)

	TOTAL REPORTED AT 12/31/2014	OF WHICH RELATED PARTIES	% INCIDENCE	TOTAL REPORTED AT 12/31/2013	OF WHICH RELATED PARTIES	% INCIDENCE
STATEMENT OF FINANCIAL POSITION						
Non-current assets						
Other financial assets	180.7	-	-	289.1	104.1	36.00%
Current assets						
Trade receivables	673.8	1.7	0.25%	666.4	1.4	0.21%
Other receivables	265.3	31.6	11.92%	267.5	8.5	3.17%
Non-current liabilities						
Borrowings from banks and other financial institutions	1,781.7	3.4	0.19%	2,014.4	1.7	0.08%
Current liabilities						
Borrowings from banks and other financial institutions	530.9	30.2	5.70%	316.7	-	-
Trade payables	1,394.3	34.5	2.48%	1,244.5	41.1	3.30%
Other payables	443.5	0.4	0.09%	434.2	0.1	0.02%
Cash	1,166.7	120.0	10.3%	879.9	-	-
Tax payables	100.8	-	-	80.3	0.6	0.75%

(in millions of euro)

	TOTAL 2014	OF WHICH RELATED PARTIES	% INCIDENCE	TOTAL 2013	OF WHICH RELATED PARTIES	% INCIDENCE
INCOME STATEMENT						
Revenue from sales and services	6,018.1	0.2	-	6,061.0	1.9	0.03%
Other income	204.1	3.5	1.74%	252.3	3.1	1.24%
Personnel expenses	(1,239.8)	(8.2)	0.66%	(1,194.6)	(3.4)	0.28%
Other costs	(1,829.8)	(40.6)	2.22%	(1,798.4)	(70.1)	3.90%
Financial income	91.7	0.4	0.46%	64.8	1.5	2.36%
Financial expenses	(354.1)	(1.5)	0.4%	(257.7)	-	-
Net income (loss) from equity investments	(87.0)	(41.8)	48.1%	(78.3)	(25.8)	33.00%
Taxes	(173.3)	-	-	(209.0)	(0.6)	0.29%

The effects of related party transactions on the Consolidated Income Statement, Statement of Financial Position, and Statement of Cash Flows of the Pirelli & C. Group at December 31, 2014 are shown below.

TRANSACTIONS WITH ASSOCIATES AND J.V. (in millions of euro)

Other income	3.5	The amount mainly refers to rental income and operating expenses refunds from Prelios Group (euro 2.1 million), to recoveries of lease payments from GWM Renewable Energy S.p.A. (euro 0.3 million), to income for services rendered by Poliambulatorio Bicocca S.r.l. to Prelios S.p.A. (euro 0.2 million) and royalties due by Idea Granda Società Consortile S.r.l. to Pirelli & C. Ambiente S.r.l. (euro 0.5 million).
Other costs	24.0	The amount mainly concerns Pirelli Deutschland GmbH energy purchases and machinery rental from Industriekraftwerk Breuberg GmbH (euro 23.6 milion) and services provided by consortium Corimav to Pirelli & C. S.p.A. (euro 0.2 million).
Net income (loss) from equity investments	13.3	Effect resulting from the conversion of Prelios bond in Prelios share.
Financial income	0.4	The amount relates to accrued interest income from the loan granted by Pirelli & C. Ambiente S.r.l. to GWM Renewable Energy II Group.
Current trade receivables	1.7	The amount mainly concerns receivables for services provided by Pirelli Tyre S.p.A. and Poliambulatorio S.r.l. to Prelios Group S.p.A. (euro 0.2 million), by Pirelli & C. Ambiente S.r.l. to Idea Granda Società Consortile S.r.l. (euro 0.4 million) and to GWM Renewable Energy S.p.A. (euro 0.3 million), by Pirelli Tyre S.p.A. to PT Evoluzione Tyres (euro 0.2 million) and to Sino Italian Wire Technology Co. Ltd. (euro 0.5 million)
Other current receivables	31.6	The amount in particular includes receivables for the disposal of Pirelli & C. Ambiente S.p.A. plant to GWM Renewable Energy II S.p.A. (euro 0.1 million), Pirelli Tyre Co. Ltd receivables from Sino Italian Wire Technology Co. Ltd. for (euro 0.1 million) and financial receivables of Pirelli International Ltd for (euro 8.3 million) and Pirelli Tyre Co. Ltd for (euro 22.9 million) from Sino Italian Wire Technology Co. Ltd, as well as of Pirelli & C. S.p.A. from Fenice S.r.l. for (euro 0.1 million).
Non-current borrowings from banks and other financial institutions	1.7	Guarantee deposit to Prelios S.p.A. for R&D building rental.
Current trade payables	34.5	The amount mainly consists of Pirelli Deutschland GmbH payables for the purchase of energy from Industriekraftwerk Breuberg GmbH (euro 22.0 million), as well as of Pirelli Tyre Co. Ltd and Pirelli Tyre S.p.A. payables to Sino Italian Wire Technology Co. Ltd for (euro 12.4 million) and of Pirelli & C. S.p.A. to CORIMAV consortium for (euro 0.1 million).
Other current payables	0.4	The amount refers to payables of Pirelli & C. Ambiente S.r.l. to GWM Renewable Energy II for (euro 0.3 million) and the prepayment for R&D building rental made by Pirelli & C. S.p.A. to Prelios S.p.A. for (euro 0.1 million).

TRANSACTIONS WITH RELATED PARTIES THROUGH DIRECTORS (in millions of euro)

Other costs	6.6	This cost is related to FC Internazionale Milano S.p.A. sponsorship contracts.

RELATED PARTY TRANSACTIONS (in milllions of euro)

Revenue from sales and services	0.2	Revenues generated from services rendered by Pirelli Sistemi Informativi S.p.A. and Pirelli & C. S.p.A. to Camfin Group.
Other income	0.1	The amount mainly refers to rental income and related operating expenses charged to Camfin Group.
Financial expenses	1.5	The expenses are related to interests accrued on a loan and payable by Pirelli & C. S.p.A. to groups Intesa-San Paolo (euro 0.1 million) and Unicredit (euro 0.1 million), by Pirelli International Pls to groups Intesa- San Paolo (euro 0.3 million) and Unicredit (euro 0.3 million), and by Pirelli Tyre Co. Ltd to Intesa-San Paolo (euro 0.6 million)
Non-current borrowings from banks and other financial institutions	1.7	The amount refers to loans granted to Pirelli Tyre S.p.A. by groups Intesa-San Paolo (euro 0.6 million) and Unicredit (euro 1.1 million).
Current borrowings from banks and other financial institutions	12.5	The amount refers to payables of Pirelli International Pls (euro 12.5 million) for the use of the syndicated credit line of euro 1.200 million granted by Intesa San Paolo and Unicredit groups.
Current borrowings from banks and other financial institutions	17.7	Payables for loans received by Pirelli Tyre Co. Ltd from Intesa-San Paolo (euro 16.9 million) and by Pirelli Tyre S.p.A. from groups Intesa-San Paolo (euro 0.3 million) and Unicredit (euro 0.2 million).
Cash	120.0	Deposits placed by Pirelli International Plc in groups Intesa-San Paolo (euro 90.0 million) and Unicredit (euro 30.0 million)

Benefits for key managers of the Company

The remuneration payable to key managers totalled euro 18,268 thousand at December 31, 2014 (euro 11,086 thousand at December 31, 2013). The portion relating to employee benefits was recognised in the Income Statement as “personnel expenses” for euro 8,209 thousand (euro 3,362 thousand at December 31, 2013) and euro 10,058 thousand in the Income Statement as “other costs” (euro 7,724 thousand at December 31, 2013). The remuneration also includes euro 1,835 thousand for employees’ leaving indemnities (TFR) and retirement benefits (euro 960 thousand at December 31, 2013).

44. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

On **January 9, 2015** Pirelli signed a contract for a new revolving credit facility (euro 800 million) and a term loan multicurrency (euro 200 million) for a total value of euro 1 billion and five-year term. The contract replaces the existing revolving credit facility for euro 1.2 billion maturing in November 2015 which therefore is being extinguished in advance. In addition, on **February 13, 2015** an additional contract having substantially the same conditions of the abovementioned credit facility and for a total value of euro 200 million and five-year term was signed.

On **January 27, 2015** the Special Meeting of the holders of savings shares of Pirelli & C. S.p.A., appointed Angelo Cardarelli as common representative for the years 2015, 2016 and 2017 in place of Professor Giuseppe Niccolini.

On **February 6, 2015** Pirelli and Bekaert announced the closing of the disposal of Pirelli steelcord activities in Turkey (Izmit) to Bekaert. On **March 27, 2015**, with the disposal of the steelcord in China (Yanzhou), the transfer of all steelcord activities from Pirelli to Bekaert was completed. In line with what was communicated to the market in February 2014 on the occasion of the announcement of the transaction, the total value (enterprise value) of 100% of steelcord activities is confirmed at euro 255 million. The closing took place at a value (enterprise value) of around euro 30 million, with a substantially equivalent impact on the consolidated net financial position. As previously announced, the economic and financial impact resulting from the sale was not included in the estimates of the Pirelli Business Plan presented to investors in November 2013.

On **February 12, 2015** the Board of Directors of Pirelli & C. S.p.A. examined the preliminary, unaudited results of 2014 operations.

On **March 22, 2015** China National Tire & Rubber Co. (CNRC), a subsidiary of ChemChina's (ChemChina), Camfin S.p.A. (Camfin) and shareholders of Camfin (Coinv S.p.A. and Long-Term Investments Luxembourg S.A.) signed a binding long-term industrial partnership agreement related to Pirelli.
The partnership has a stated objective of strengthening the development plans of Pirelli, the presence in the strategic geographical areas and the doubling of volumes in the Industrial segment (from about 6 million to about 12 million tires) through the future integration of CNRC and Pirelli's Industrial tire activities. Continuity and autonomy of the current managerial structure of Pirelli Group are the key elements of the agreement.
The transaction provides for the appointment of the President by CNRC and the permanence of Marco Tronchetti Provera as CEO of Pirelli.
Pirelli headquarter and know-how will remain in Italy: reinforced majorities are required to authorize the transfer of both the Headquarter and Pirelli know-how to third parties.

The agreement foresees:

- the purchase by a newly established Italian company (Bidco), the latter being indirectly controlled by CNRC in partnership with Camfin through two newly established Italian companies (Newco and Holdco), of Camfin's equity investment in Pirelli's share capital.
- the immediate reinvestment of a share of the consideration received by Camfin;
- upon completion of the purchase, a Mandatory Public Offer for the remaining ordinary share capital of Pirelli at euro 15.00 per ordinary share and a Voluntary Public Offer for all the savings capital of Pirelli at euro 15.00 per savings share, on the condition that not less than 30% of the savings capital is achieved. Both mandatory and voluntary public offer will be launched by Bidco in order to proceed to the delisting of Pirelli;
- the payment of 2014 dividends before the purchase by Bidco of Pirelli shares held by Camfin.

The completion of the transaction is subject to the conditions typical of a transaction of this type and is expected in the summer of 2015 upon the approval by antitrust and other relevant authorities. Extracts of the shareholders' agreements related to the abovementioned partnership are available on Pirelli's website.

45. OTHER INFORMATION

Research and development expenses

Research expenses rose from euro 199.2 million in 2013 (3.3% of sales) to euro 205.5 million in 2014 (3.4% of sales). They were recognised in Income Statement as incurred as they did not meet IFRS requirements for capitalisation.

Compensation of directors and statutory auditors

(in thousands of euro)

	2014	2013
Directors	8,553	6,928
Statutory Auditors	198	200
	8,751	**7,128**

Employees

The breakdown by category of the average consolidated headcount of employees is as follows:

(in thousands of euro)

	2014	2013
Executives and white collar staff	7,536	7,461
Blue collar staff	28,546	27,593
Temporary workers	2,750	2,701
	38,832	**37,755**

Compensation of independent auditors

The following statement, prepared pursuant to Article 149-duodecies of the Consob Issuers Regulation, shows the fees accruing to financial year 2014 for auditing services and for services other than auditing, rendered by the accounting firm Reconta Ernst & Young S.p.A. and by entities belonging to its network:

(in thousands of euro)

	COMPANY THAT PROVIDED THE SERVICE	COMPANY THAT RECEIVED THE SERVICE	PARTIAL FEES	TOTAL FEES	
Independent auditing services and certification services [1]	Reconta Ernst & Young S.p.A.	Pirelli & C. S.p.A.	311		
	Reconta Ernst & Young S.p.A.	Subsidiaries	657		
	Network Ernst & Young	Subsidiaries	2,202	3,170	77.9%
Services other than auditing	Reconta Ernst & Young S.p.A.	Pirelli & C. S.p.A.	-		
	Reconta Ernst & Young S.p.A.	Subsidiaries	-		
	Network Ernst & Young	Subsidiaries	900 [2]	900	22.1%
				4,070	**100.0%**

[1] the item "independent auditing and certification services" includes amounts paid for auditing services and other services that envisage the issuance of an auditor's report as well as amounts paid for the so called certification services since they create synergies with the auditing services.
[2] support for the analysis of the distribution network and go-to-market activities in Brazil concerning a multiyear project.

Transactions resulting from unusual and/or exceptional operations

Pursuant to Consob Notice of July 28, 2006, the Group certifies that no usual and/or exceptional transaction was carried out in 2014, as defined in the Notice itself.

Exchange rates

The main exchange rates used for consolidation purposes are as follows:

(local currency against euro)

	PERIOD-END			AVERAGE		
	12/31/2014	12/31/2013	CHANGE IN %	**2014**	2013	CHANGE IN %
Venezuelan Bolivar Fuerte	14.5692	8.6883	67.69%	14.5692	8.6883	67.69%
Swedish Krona	9.3930	8.8591	6.03%	9.0986	8.6513	5.17%
Australian Dollar	1.4829	1.5423	(3.85%)	1.4726	1.3769	6.95%
Canadian Dollar	1.4063	1.4671	(4.14%)	1.4672	1.3681	7.24%
Singaporean Dollar	1.6058	1.7414	(7.79%)	1.6833	1.6615	1.31%
U.S. Dollar	1.2141	1.3791	(11.96%)	1.3295	1.3279	0.12%
Taiwan Dollar	38.4336	41.0572	(6.39%)	40.2949	39.4096	2.25%
Swiss Franc	1.2024	1.2276	(2.05%)	1.2146	1.2308	(1.32%)
Egyptian Pound	8.6840	9.5821	(9.37%)	9.4226	9.1343	3.16%
Turkish Lira (new)	2.8207	2.9418	(4.12%)	2.9042	2.5345	14.59%
New Romanian Leu	4.4821	4.4710	0.25%	4.4442	4.4191	0.57%
Argentinian Peso	10.3818	8.9931	15.44%	10.7954	7.2835	48.22%
Mexican Peso	17.8808	18.0291	(0.82%)	17.6321	16.9666	3.92%
South African Rand	14.0353	14.5660	(3.64%)	14.4062	12.8251	12.33%
Brazilian Real	3.2270	3.2265	0.02%	3.1206	2.8716	8.67%
Chinese Renminbi	7.4291	8.4082	(11.65%)	8.1669	8.2243	(0.70%)
Russian Ruble	68.3427	44.9699	51.97%	50.9928	42.4001	20.27%
British Pound	0.7789	0.8337	(6.57%)	0.8066	0.8490	(4.99%)
Japanese Yen	145.2300	144.7200	0.35%	140.3142	129.6245	8.25%

For the purpose of data consolidation of the Venezuelan subsidiary at December 31, 2014, the exchange rate fixed at SICAD I auction at end of December 2014 of 12.0 bolivars per dollar (14.57 bolivars per euro) substituted the official exchange rate of 6.3 bolivars per dollar (8.68 bolivars per euro), on the basis of the provisions of the "Convenio cambiario N. 25" issued in Venezuela on January 22, 2014 which clarifies that the official exchange rate of 6.3 bolivars per US dollar is increasingly reserved for the purchases of goods and services deemed "essential" by the Venezuelan government.

Net financial (liquidity)/debt position
(Alternative performance measure not envisaged by the accounting standards)

(in thousands of euro)

		NOTE	12/31/2014		12/31/2013	
				OF WHICH RELATED PARTIES		OF WHICH RELATED PARTIES
	Current borrowings from banks and other financial institutions	24	530,890	30,244	316,653	-
	Current derivative financial instruments (liabilities)	27	4,642	-	3,175	-
	Non-current borrowings from banks and other financial institutions	24	1,781,726	3,367	2,014,406	1,674
	Total gross debt continuing operations		**2,317,258**	**-**	**2,334,234**	**-**
	Cash and cash equivalents	20	(1,166,669)	-	(879,897)	-
	Securities held for trading	19	(61,404)	-	(48,090)	-
	Current financial receivables	16	(41,484)	-	(17,738)	(8,234)
	Current derivative financial instruments (assets)	27	(6,075)	-	(6,666)	-
	Net financial debt *		**1,041,626**	**-**	**1,381,843**	**-**
	Non-current financial receivables	16	(56,167)	-	(59,460)	-
A	**Total net financial (liquidity)/debt position from continuing operations**		**985,459**	**-**	**1,322,383**	**-**
B	**Total net financial (liquidity)/debt position from discontinued operations**		**(5,801)**	**-**	**-**	**-**
A+B	**Total net financial (liquidity)/debt position**		**979,658**	**-**	**1,322,383**	**-**

* Pursuant to Consob Notice of July 28, 2006 and in compliance with CESR recommendation of February 10, 2005 "Recommendations fot the consistent implementation of the European Commission regulation on Prospectuses".

Gross debt decreased compared to December 2013, falling from euro 2,334.2 million to euro 2,317.3 million.

The increase in cash and cash equivalents was mainly due to income from the sale of the Steelcord business in Italy, Romania and Brazil for about euro 125,581 thousand and the effect (approximately euro 75,000 thousand) resulting from the debt refinancing through the issue of a new bond.

The increase in current financial receivables is mainly due to the deconsolidation of the company Sino Italian Wire Technology Co. Ltd (China) – active in the steelcord business – with consequent recognition of the Group receivables towards the company for euro 31,195 thousand.

SCOPE OF CONSOLIDATION

COMPANIES CONSOLIDATED LINE-BY-LINE

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
EUROPE						
Austria						
Pirelli GmbH	Tyre	Wien	Euro	726,728	100.00%	Pirelli Tyre (Suisse) SA
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	100.00%	Pirelli Tyre (Suisse) SA
France						
Pneus Pirelli S.A.S	Tyre	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre S.p.A.
Germany						
Deutsche Pirelli Reifen Holding GmbH	Tyre	Breuberg / Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre S.p.A.
Drahtcord Saar Geschaeftsfuehrungs GmbH I.L in liquidation	Tyre	Merzig	Euro	60,000	50.00%	Pirelli Deutschland GmbH
Drahtcord Saar GmbH & Co. KG I.L. in liquidation	Tyre	Merzig	Euro	30,000,000	50.00%	Pirelli Deutschland GmbH
Driver Handelssysteme GmbH	Tyre	Breuberg / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland GmbH	Tyre	Breuberg / Odenwald	Euro	26,334,100	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Personal Service GmbH	Tyre	Breuberg / Odenwald	Euro	25,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
PK Grundstuecksverwaltungs GmbH	Tyre	Hoechst / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pneumobil GmbH	Tyre	Breuberg / Odenwald	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding GmbH
Greece						
Elastika Pirelli C.S.A.	Tyre	Kallithea (Athens)	Euro	11,630,000	99.90%	Pirelli Tyre S.p.A.
					0.10%	Pirelli Tyre (Suisse) SA
Pirelli Hellas S.A. (in liquidation)	Tyre	Athens	US $	22,050,000	79.86%	Pirelli Tyre S.p.A.
The Experts in Wheels – Driver Hellas S.A.	Tyre	Kallithea (Athens)	Euro	100,000	72.80%	Elastika Pirelli C.S.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre S.p.A.

COMPANIES CONSOLIDATED LINE-BY-LINE

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
EUROPE						
Italy						
Driver Italia S.p.A.	Commercial	Milan	Euro	350,000	71.30%	Pirelli Tyre S.p.A.
Driver Servizi Retail S.p.A.	Commercial	Milan	Euro	120,000	100.00%	Pirelli Tyre S.p.A.
HB Servizi S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
Maristel S.p.A.	Services	Milan	Euro	1,020,000	100.00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente S.r.l.	Sustainable mobility	Milan	Euro	5,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Design S.r.l.	Sundry	Milan	Euro	20,000	100.00%	PZero S.r.l.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	40,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Labs S.p.A.	Services	Milan	Euro	5,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Services	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Services	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	756,820,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre Commerciale Italia S.r.l.	Services	Milan	Euro	10	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
PZero S.r.l.	Sundry	Milan	Euro	4,000,000	100.00%	Pirelli & C. S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	92.25%	Pirelli & C. S.p.A.
					2.00%	Pirelli Tyre S.p.A.
					1.95%	Pirelli & C. Ambiente S.r.l.
					0.95%	Pirelli Servizi Amministrazione e Tesoreria S.p.A.
					0.95%	Pirelli Labs S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	PZero S.r.l.
Poland						
Driver Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	100,000	70.00%	Pirelli Polska Sp.ZO.O.
Pirelli Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre S.p.A.
Romania						
S.C. Pirelli & C. Eco Technology RO S.r.l.	Sustainable mobility	Oras Bumbesti-Jiu	Rom. Leu	74,001,000	100.00%	Pirelli & C. Ambiente S.r.l.
S.C. Pirelli Tyres Romania S.r.l.	Tyre	Slatina	Rom. Leu	853,912,300	100.00%	Pirelli Tyre S.p.A.
Syro Consumer S.r.l.	Sustainable mobility	Bumbesti-Jiu	Rom. Leu	10,000	95.00%	Pirelli & C. Ambiente S.r.l.
					5,0%	Pirelli Tyre S.p.A.
Russia						
Closed Joint Stock Company "Voronezh Tyre Plant"	Tyre	Voronezh	Russian Rouble	1,520,000,000	100.00%	Limited Liability Company Pirelli Tyre Russia
OOO Pirelli Tyre Services	Tyre	Moscow	Russian Rouble	54,685,259	95.00%	Pirelli Tyre (Suisse) SA
					5.00%	Pirelli Tyre S.p.A.
Limited Liability Company "AMTEL-Russian Tyres"	Tyre	Moscow	Russian Rouble	10,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Russia	Tyre	Moscow	Russian Rouble	4,000,000	99.91%	E-VOLUTION Tyre B.V.
					0.09%	OOO Pirelli Tyre Services
Limited Liability Company "Vyatskaya Shina"	Tyre	Kirov	Russian Rouble	4,912,000	100.00%	Open Joint Stock Company "Kirov Tyre Plant"
Open Joint Stock Company "Kirov Tyre Plant"	Tyre	Kirov	Russian Rouble	354,088,639	100.00%	Limited Liability Company Pirelli Tyre Russia
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6,638.78	100.00%	Pirelli Tyre S.p.A.

COMPANIES CONSOLIDATED LINE-BY-LINE

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
EUROPE						
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	951,000	56.15%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
					0.32%	Omnia Motor S.A. - Sociedad Unipersonal
Omnia Motor S.A. - Sociedad Unipersonal	Tyre	Barcelona	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli Neumaticos S.A. - Sociedad Unipersonal	Tyre	Barcelona	Euro	25,075,907	100.00%	Pirelli Tyre S.p.A.
Tyre & Fleet S.L. - Sociedad Unipersonal	Tyre	Barcelona	Euro	20,000	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Sweden						
Dackia Aktiebolag	Tyre	Taby	Swed. Krona	31,000,000	100.00%	Pirelli Tyre S.p.A.
Inter Wheel Sweden Aktiebolag	Tyre	Karlstad	Swed. Krona	1,000,000	100.00%	Dackia Aktiebolag
Pirelli Tyre Nordic Aktiebolag	Tyre	Bromma	Swed. Krona	950,000	100.00%	Pirelli Tyre S.p.A.
Switzerland						
Pirelli Group Reinsurance Company SA	Reinsurance	Lugano	Swiss Franc	8,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) SA	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre S.p.A.
The Netherlands						
E-VOLUTION Tyre B.V.	Tyre	Heinenoord	Euro	261,700,000	65.00%	Pirelli Tyre S.p.A.
Pirelli China Tyre N.V.	Tyre	Rotterdam	Euro	38,045,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Rotterdam	Euro	18,152	100.00%	Pirelli Tyre (Suisse) SA
Turkey						
Celikord A.S.	Tyre	Istanbul	Turkey Lira	44,000,000	100.00%	Pirelli Tyre S.p.A.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turkey Lira	204,500,000	100.00%	Pirelli Tyre S.p.A.
United Kingdom						
CTC 2008 Ltd	Tyre	Burton on Trent	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Cif Trustees Ltd	Financial	Burton on Trent	British Pound	4	25.00%	Pirelli General Executive Pension Trustees LTD
					25.00%	Pirelli General & Overseas Pension Trustees LTD
					25.00%	Pirelli Tyres Executive Pension Trustees LTD
					25.00%	Pirelli Tyres Pension Trustees LTD
Pirelli International plc (ex-Pirelli International Ltd)	Financial	Burton on Trent	Euro	250,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Motorsport Services Ltd	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli Tyre S.p.A.
Pirelli General Executive Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli General & Overseas Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli Tyres Executive Pension Trustees Ltd	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli Tyres Ltd	Tyre	Burton on Trent	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Tyres Pension Trustees Ltd	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli UK Ltd	Finance Holding Company	Burton on Trent	British Pound	163,991,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd	Tyre	Burton on Trent	British Pound	85,000,000	100.00%	Pirelli Tyre S.p.A.

COMPANIES CONSOLIDATED LINE-BY-LINE

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
NORTH AMERICA						
Canada						
Pirelli Tire Inc.	Tyre	St-Laurent (Quebec)	Can. $	6,000,000	100.00%	Pirelli Tyre (Suisse) SA
U.S.A.						
Pirelli North America Inc.	Tyre	New York (New York)	US $	10	100.00%	Pirelli Tyre S.p.A.
Pirelli Tire LLC	Tyre	Rome (Georgia)	US $	1	100.00%	Pirelli North America Inc.
CENTRAL/SOUTH AMERICA						
Argentina						
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	101,325,176	95.00%	Pirelli Tyre S.p.A.
					5.00%	Pirelli Pneus Ltda
Brazil						
Comercial e Importadora de Pneus Ltda	Tyre	Sao Paulo	Bra. Real	101,427,384	64.00%	Pirelli Pneus Ltda
Ecosil - Industria Quimica do Brasil Ltda	Tyre	Meleiro	Bra. Real	9,099,055	97.74%	Pirelli Pneus Ltda
Pirelli Ltda	Financial	Sao Paulo	Bra. Real	14,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda	Tyre	Santo Andrè	Bra. Real	495,781,721	100.00%	Pirelli Tyre S.p.A.
RF Centro de Testes de Produtos Automotivos Ltda	Tyre	Elias Fausto (Sao Paulo)	Bra. Real	6,812,000	100.00%	Pirelli Pneus Ltda
TLM - Total Logistic Management Serviços de Logistica Ltda	Tyre	Santo Andrè	Bra. Real	1,006,000	99.98%	Pirelli Pneus Ltda
					0.02%	Pirelli Ltda
Chile						
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	Chile Peso/000	1,918,451	99.98%	Pirelli Pneus Ltda
					0.02%	Pirelli Ltda
Colombia						
Pirelli de Colombia SAS (ex-Pirelli de Colombia SA)	Tyre	Santa Fe De Bogota	Col. Peso/000	3,315,069	96.12%	Pirelli Pneus Ltda
					2.28%	Pirelli de Venezuela C.A.
					1.60%	TLM - Total Logistic Management Serviços de Logistica Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Silao	Mex. Peso	35,098,400	99.98%	Pirelli Pneus Ltda
					0.02%	Pirelli Ltda
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	3,249,016,500	99.40%	Pirelli Tyre S.p.A.
					0.60%	Pirelli Pneus Ltda
Pirelli Servicios S.A. de C.V.	Tyre	Silao	Mex. Peso	50,000	99.00%	Pirelli Tyre S.p.A.
					1.00%	Servicios Pirelli Mexico S.A. de C.V.
Servicios Pirelli Mexico S.A. de C.V.	Tyre	Silao	Mex. Peso	50,000	99.00%	Pirelli Pneus Ltda
					1.00%	Pirelli Ltda
Perù						
Pirelli de Peru S.A.C.	Tyre	Lima	Nuevos Soles	837,745	100.00%	Pirelli Pneus Ltda
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	20,062,679	96.22%	Pirelli Tyre S.p.A.

COMPANIES CONSOLIDATED LINE-BY-LINE

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
AFRICA						
Egypt						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	393,000,000	89.08%	Pirelli Tyre S.p.A.
					0.03%	Pirelli Tyre (Suisse) SA
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50,000	99.80%	Alexandria Tire Company S.A.E.
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Centurion	S.A. Rand	1	100.00%	Pirelli Tyre (Suisse) SA
OCEANIA						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. $	150,000	100.00%	Pirelli Tyre (Suisse) SA
New Zealand						
Pirelli Tyres (NZ) Ltd	Tyre	Auckland	N.Z. $	100	100.00%	Pirelli Tyres Australia Pty Ltd
ASIA						
China						
Pirelli Tyre Co., Ltd	Tyre	Yanzhou	Ch. Renminbi	1,721,150,000	90.00%	Pirelli China Tyre N.V.
Pirelli Tyre Trading (Shanghai) Co., Ltd	Tyre	Shangai	US $	700,000	100.00%	Pirelli China Tyre N.V.
Yanzhou HIXIH Ecotech Environment CO., Ltd.	Sustainable mobility	Yanzhou	Ch. Renminbi	130,000,000	100.00%	Pirelli Tyre Co. Ltd
Korea						
Pirelli Korea Ltd	Tyre	Seoul	Korean Won	100,000,000	100.00%	Pirelli Asia Pte Ltd
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2,200,000,000	100.00%	Pirelli Tyre S.p.A.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. $	2	100.00%	Pirelli Tyre (Suisse) SA
Taiwan						
Pirelli Taiwan Co. Ltd	Tyre	New Taipei City	N.T. $	10,000,000	100.00%	Pirelli Tyre (Suisse) SA

INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
EUROPE						
Germany						
Industriekraftwerk Breuberg GmbH	Cogeneration	Hoechst / Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland GmbH
Greece						
Eco Elastika S.A.	Tyre	Athens	Euro	60,000	20.00%	Elastika Pirelli C.S.A.
Italy						
Consorzio per la Ricerca di Materiali Avanzati (CORIMAV)	Financial	Milan	Euro	103,500	100.00%	Pirelli & C. S.p.A.
Eurostazioni S.p.A.	Financial	Rome	Euro	160,000,000	32.71%	Pirelli & C. S.p.A.
Fenice S.r.l.	Financial	Milan	Euro	41,885,034	62.56%	Pirelli & C. S.p.A.
GWM Renewable Energy II S.p.A.	Enviroment	Rome	Euro	15,063,016	16.87%	Pirelli & C. Ambiente S.r.l.
Idea Granda Società Consortile r.l.	Enviroment	Cuneo	Euro	1,292,500	49.00%	Pirelli & C. Ambiente S.r.l.
Prelios S.p.A.	Financial	Milan	Euro	426,441,257	29.22%	Pirelli & C. S.p.A.
						of the voting shares
Serenergy S.r.l.	Enviroment	Milan	Euro	25,500	50.00%	Pirelli & C. Ambiente S.r.l.
Romania						
S.C. Eco Anvelope S.A.	Tyre	Bucarest	Rom. Leu	160,000	20.00%	S.C. Pirelli Tyres Romania S.r.l.
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200,000	20.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
ASIA						
China						
Sino Italian Wire Technology Co. Ltd	Tyre	Yanzhou	Renminbi	227,500,000	49.00%	Pirelli Tyre S.p.A.
Indonesia						
PT Evoluzione Tyres	Tyre	Subang	$ USA	68,000,000	60.00%	Pirelli Tyre S.p.A.

OTHER INVESTMENTS CONSIDERED SIGNIFICANT AS PER CONSOB RESOLUTION NO. 11971 OF MAY 14, 1999

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
Belgium						
Euroqube S.A. (in liquidation)	Services	Brussels	Euro	84,861,116	17.79%	Pirelli & C. S.p.A.
France						
Aliapur S.A.	Tyre	Lion	Euro	262,500	14.29%	Pirelli Tyre S.p.A.
Italy						
Fin. Priv. S.r.l.	Financial	Milan	Euro	20,000	14.29%	Pirelli & C. S.p.A.
Poland						
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsaw	Pol. Zloty	1,008,000	14.29%	Pirelli Polska Sp. ZO.O.
Tunisia						
Société Tunisienne des Industries de Pnéumatiques S.A.	Tyre	Tunis	Tun. Dinar	12,623,469	15.83%	Pirelli Tyre S.p.A.
United Kingdom						
Tlcom I Ltd Partnership	Financial	London	Euro	1,154	10.83%	Pirelli UK Ltd

PARENT FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION (in euro)

		12/31/2014		12/31/2013	
			OF WHICH RELATED PARTIES		OF WHICH RELATED PARTIES
7	Property plant and equipment	98,475,019		102,631,700	
8	Intangible assets	6,004,723		4,126,856	
9	Investments in subsidiaries	1,141,058,670		1,162,188,115	
10	Investments in associates	125,099,440		93,062,007	
11	Other financial assets	173,459,081		280,850,569	*104,086,795*
12	Deferred tax assets	119,085,130		101,312,131	
13	Other receivables	509,063,077	*500,000,000*	15,402,098	
	Non-current assets	**2,172,245,140**		**1,759,573,476**	
14	Trade receivables	32,745,336	*30,389,437*	33,696,449	*29,884,534*
13	Other receivables	422,632,944	*408,443,595*	770,358,601	*741,069,571*
15	Cash and cash equivalents	7,883		14,843	
16	Tax receivables	91,003,635	*39,111,994*	43,213,125	*18,719,195*
17	Derivative financial instruments	208,573		1,654,650	
	Current assets	**546,598,371**		**848,937,668**	
	Total assets	**2,718,843,511**		**2,608,511,144**	
	Equity:				
	- Share capital	1,343,285,421		1,343,285,421	
	- Other reserves	209,191,418		184,663,134	
	- Retained earnings reserve	245,738,903		220,185,053	
	- Net income (loss)	257,963,959		191,891,145	
18	**Equity**	**2,056,179,701**		**1,940,024,753**	
19	Borrowings from banks and other financial institutions	500,590,378	*1,650,000*	500,866,521	*1,650,000*
23	Other payables	-		8,809	
20	Provisions for liabilities and charges	17,055,654		37,166,924	
21	Employee benefit obligations	4,194,187		1,622,888	
	Non-current liabilities	**521,840,219**		**539,665,142**	
19	Borrowings from banks and other financial institutions	21,997,360		23,200,347	
22	Trade payables	27,302,326	*1,204,719*	27,775,728	*3,758,562*
23	Other payables	24,571,419	*8,350,139*	39,228,696	*18,300,143*
20	Provisions for liabilities and charges	2,656,657		-	
24	Tax payables	64,295,829	*18,612,759*	38,616,478	*22,523,677*
	Current liabilities	**140,823,591**		**128,821,249**	
	Total Liabilities and Equity	**2,718,843,511**		**2,608,511,144**	

For a description of the items reflecting related party transactions, please refer to note 35 of the Explanatory Notes.

INCOME STATEMENT (in euro)

		2014		2013	
			OF WHICH RELATED PARTIES		OF WHICH RELATED PARTIES
25	Revenues from sales and services	19,321,622	*18,706,933*	11,043,874	*10,343,807*
26	Other income	123,892,638	*104,439,243*	122,809,365	*104,955,975*
27	Raw materials and consumables	(233,230)		(258,928)	-
28	Personnel expenses	(28,236,505)	(3,638,250)	(18,081,780)	(2,088,037)
	- of which non-recurring events	*(3,770,000)*		-	
29	Amortisation, depreciation and impairment	(5,870,715)		(5,223,585)	
30	Other costs	(80,274,818)	*(16,027,490)*	(85,976,534)	*(22,847,586)*
	Operating income (loss)	**28,598,992**		**24,312,412**	
31	Net income (loss) from equity investments	192,741,651		199,283,817	
	- gains on equity investments	18,941,099	*13,307,092*	293,031	*278,392*
	- losses on equity investments	(139,120,559)		(126,730,957)	
	- dividends	312,921,111	*309,281,288*	325,721,743	*324,477,254*
32	Financial income	19,619,201	*18,568,988*	23,816,605	*19,818,935*
33	Financial expenses	(29,615,039)	*(297,863)*	(27,175,404)	
	Net income (loss) before taxes	**211,344,805**		**220,237,430**	
34	Taxes	46,619,154	*35,688,825*	(28,346,285)	*(7,727,805)*
	Net income (loss)	**257,963,959**		**191,891,145**	

For a description of the items reflecting related party transactions, please refer to note 35 of the Explanatory Notes.

STATEMENT OF OTHER COMPREHENSIVE INCOME (in thousands of euro)

		2014	2013
A	**Net income (loss)**	**257,964**	**191,891**
B	**Items that will not be reclassified to income statement:**		
	- Net actuarial gains (losses) on employee benefits	(156)	88
	Total B	**(156)**	**88**
C	**Items reclassified / that may be reclassified to income statement:**		
	Fair value adjustment of other financial assets:		
	- Gains (losses) for the period	5,542	37,499
	- (Gains) / losses reclassified to income statement	20,632	1,048
	Total C	**15,090**	**38,547**
B+C	**Total other components of other comprehensive income**	**14,934**	**38,635**
A+B+C	**Total comprehensive income (loss)**	**272,898**	**230,526**

STATEMENT OF CHANGES IN EQUITY (in thousands of euro)

	SHARE CAPITAL	LEGAL RESERVE	MERGER RESERVE	*IAS RESERVES	RETAINED EARNINGS RESERVE	NET INCOME (LOSS)	TOTAL
Total at 12/31/2012	**1,343,285**	**117,899**	**12,467**	**3,941**	**154,233**	**234,416**	**1,866,241**
Profit Allocation as per resolution of May 13, 2013:							
- Dividends	-	-	-	-	-	(156,743)	(156,743)
- Legal Reserve	-	11,721	-	-	-	(11,721)	-
- Reatined Earnings	-	-	-	-	65,952	(65,952)	-
Other components of other comprehensive income	-	-	-	38,635	-	-	38,635
Net income (loss)	-	-	-	-	-	191,891	191,891
Total at 12/31/2013	**1,343,285**	**129,620**	**12,467**	**42,576**	**220,185**	**191,891**	**1,940,024**
Profit Allocation as per resolution of June 12, 2014:							
- Dividends	-	-	-	-	-	(156,743)	(156,743)
- Legal Reserve	-	9,595	-	-	-	(9,595)	-
- Retained Earnings	-	-	-	-	25,554	(25,554)	-
Other components of other comprehensive income	-	-	-	14,934	-	-	14,934
Net income (loss)	-	-	-	-	-	257,964	257,964
Total at 12/31/2014	**1,343,285**	**139,215**	**12,467**	**57,510**	**245,739**	**257,964**	**2,056,180**

IAS RESERVE (in thousands of euro)

	(*) IAS RESERVES		
	RESERVE FOR FAIR VALUE ADJUSTMENT OF FINANCIAL ASSETS AVAILABLE-FOR-SALE	RESERVE FOR ACTUARIAL GAINS/LOSSES	TOTAL
Balance at 12/31/2012	**1,875**	**2,066**	**3,941**
Other components of other comprehensive income	38,547	88	38,635
Balance at 12/31/2013	**40,422**	**2,154**	**42,576**
Other components of other comprehensive income	15,090	(156)	14,934
Balance at 12/31/2014	**55,512**	**1,998**	**57,510**

STATEMENT OF CASH FLOWS (in thousands of euro)

		2014		2013	
			OF WHICH RELATED PARTIES		OF WHICH RELATED PARTIES
	Net income (loss) before taxes	211,345	-	220,237	-
	Amortisation, depreciation, impairment losses and reversals of impaired property, plant and equipment and intangible assets	5,871	-	5,224	-
	Gains/(losses) on equity investments	(192,742)	-	(199,284)	-
	Reversal of financial income	(19,619)	-	(23,817)	-
	Reversal of financial expenses	29,615	-	27,175	-
	Taxes	46,619	-	(28,346)	-
	Change in trade receivables/payables	478	-	(720)	-
	Change in other receivables/payables and other provisions	(61,937)	-	38,763	-
	Change in employee benefit obligations	2,571	-	(2,198)	-
	Capital (gains)/losses on sales of plant, property and equipment and intangible assets	(91)	-	(10)	-
A	**Net cash flows provided by (used in) operating activities**	**22,110**	**-**	**37,024**	**-**
	Investments in property, plant and equipment	(553)	-	(814)	-
	Disposal of property, plant and equipment	458	-	13	-
	Investments in intangible assets	(3,135)	-	(2,971)	-
	Investments in subsidiaries	(13,030)	(13,030)	(37,500)	(37,500)
	Investments in associates	-	-	(44,318)	(44,318)
	Investments in other financial assets	(5,349)	-	(8,193)	(558)
	Disinvestments in subsidiaries	15,271	-	110	110
	Dividends received	312,921	-	325,241	-
B	**Net cash flow provided by (used in) investing activities**	**306,583**	**-**	**231,568**	**-**
	Dividends paid	(156,743)	-	(156,743)	-
	Change in financial receivables	(161,927)	-	(93,013)	-
	Interests receivable and other financial income	19,619	-	23,817	-
	Change in financial payables	(34)	-	(15,472)	-
	Interests payable and other financial expenses	(29,615)	-	(27,175)	-
C	**Net cash flow provided by (used in) financing activities**	**(328,700)**	**-**	**(268,586)**	**-**
D	**Total cash flow provided by (used in) financial year (A+B+C)**	**(7)**	**-**	**6**	**-**
E	**Net cash and cash equivalents at beginning of year**	**15**	**-**	**9**	**-**
F	**Net cash and cash equivalents at end of year (D+E)**	**8**	**-**	**15**	**-**

The Statement of Cash Flows shows transactions with related parties only if they cannot be directly deduced from the other statements.

The Statement of Financial Position items relating to Related Party Transactions are described in 35 to which reference is made.

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pirelli & C. S.p.A. (hereinafter the "Company" or "Parent Company") is a company with legal status organised under the laws of the Italian Republic.
Founded in 1872 and listed on the Italian Stock Exchange, it is a holding company that manages, coordinates and finances the operations of its subsidiaries.

At the reporting date, the Company has as its main investment its shareholding in Pirelli Tyre S.p.A. - company active in the tyre sector - owning 100% of its share capital; other assets are represented by investments in Pirelli & C. Ambiente S.r.l., owning 100% of its share capital, active in the renewable energy field and in technologies for reducing atmospheric emissions; and PZero S.r.l., a company active in the fashion industry, owning 100% of its share capital.

The registered head office of the Company is located in Milan, Italy.

The audit of the Financial Statements has been entrusted to Reconta Ernst & Young S.p.A. pursuant to article 159 of Italian Legislative Decree no. 58 of February 24, 1998 and taking into account the Consob recommendation of February 20, 1997, in executing the resolution of the shareholders' general meeting of April 29, 2008, which appointed said company as the auditor for the closing of each of the nine years between December 31, 2008 and December 31, 2016.

The publication of the separate Financial Statements of Pirelli & C. S.p.A. for the year ended December 31, 2014 was authorized by resolution of the Board of Directors' meeting of March 31, 2015.

2. BASIS FOR THE PRESENTATION

FINANCIAL STATEMENT FORMATS

The Company has applied the provisions of Consob Resolution no. 15519 of 27 July 2006 on the formats of Financial Statements and Consob Communication no. 6064293 of 28 July 2006 on corporate disclosure.
The separate Financial Statements as at December 31, 2014 consist of the Statement of Financial Position, the Income Statement, the Statement of Other Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, and are accompanied by the Directors' Report on Operations.
The format adopted for the Statement of Financial Position classifies assets and liabilities as current and non-current.
The components of gain/loss for the year are presented in a separate statement of income statement, instead of being included directly in the Statement of Other Comprehensive Income. The format adopted for the Income Statement classifies costs by nature.
The Statement of Other Comprehensive Income includes the net income (loss) for the period and, for homogeneous categories, the income and expenses which, in accordance with IFRS, are recognised directly in equity. The Company has decided to present both the tax effects and reclassifications in the Income Statement recognised directly in equity in previous periods directly in the Statement of Other Comprehensive Income and not in the Explanatory Notes.
The Statement of Changes in Equity includes the amounts of transactions with equity holders and

the movements in the period of the retained earnings.
In the Statement of Cash Flows, the cash flows deriving from operating activities are presented using the indirect method, according to which the gains or losses for the period are adjusted by the effects of non-monetary items, by any deferment or accrual of past or future operating receipts or payments, and by any revenue or cost items connected with the cash flows arising from investing or financial activities.
In accordance with the content of article 5, paragraph 2, of Legislative Decree no. 38 of February 28, 2005, this Financial Statement has been drafted using the euro as its accounting currency.
The Statement of Financial Position and Income Statement are presented in euro, while the Statement of Comprehensive Income, the Cash Flow Statement, Statement of Changes in Equity and the values stated in the notes are presented in thousands of euros.

3. ACCOUNTING STANDARDS

Pursuant to Italian Legislative Decree no. 38 of February 28, 2005, the separate Financial Statements of Pirelli & C. S.p.A. have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, in force as at December 31, 2014, and the measures issued in implementation of Article 9 of Italian Legislative Decree no. 38/2005. The term "IFRS" includes all the revised International Accounting Standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").
The separate Financial Statements have been prepared using the historical cost basis except for derivative financial instruments and financial assets available for sale that are valued at fair value.
The separate Financial Statements have been prepared on the going concern basis.
The information on principal risks and uncertainties is summarised in the directors' report on operations.
The accounting policies used in preparing the separate Financial Statements are the same used for the preparation of the consolidated Financial Statements, where applicable, except in relation to the valuation of investments in subsidiaries and associates and dividends, as indicated below.

INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates are stated at cost, adjusted for any impairment losses according to the criteria of IAS 36.
In the event that the loss pertaining to the Company exceeds the carrying amount of the investment and the company is obliged to fulfil legal or implicit obligations of the subsidiary or however to cover its losses, any excess with respect to the carrying amount is recognized in a specific provision under the provisions for liabilities and charges.
In the presence of specific impairment indicators, the value of investments is subjected to impairment tests. For impairment test purposes, the carrying amount of the investment is compared with the recoverable amount, defined as the higher of fair value less costs to sell and value in use.
If the recoverable amount of an investment is lower than the carrying amount, the latter is reduced to the recoverable amount. This reduction constitutes an impairment loss, which is recognised in the Income Statement.
For impairment test purposes, in the case of investments in listed companies, the fair value is determined with reference to the market value of the investment regardless of the percentage of ownership. In the case of investments in unlisted companies, the fair value is determined using estimates based on the best information available.
The value in use is determined by applying the "Discounted Cash Flow - asset side", accepted by the relevant accounting standards, which consists in calculating the present value of the future cash flows estimated to be generated by the investee, including cash flows arising from operating activ-

ities and the final payment from the sale of the investment.
If the reason for impairment ceases to exist, the carrying amount of the investment is recognised in the Income Statement, up to the original cost.

DIVIDENDS

Dividends income is recognised in Income Statement when the right to receive payment is established, which normally corresponds to the resolution approved by the Shareholders' Meeting for the distribution of dividends.

4. FINANCIAL RISK MANAGEMENT POLICY

The Group is exposed to financial risks. These are principally associated with foreign exchange rates, fluctuations in interest rates, the price of financial assets held as investments, the ability of customers to meet their obligations to the Group (credit risk), and raising funds on the market (liquidity risk).
Financial risk management is an integral part of Group business management and is handled directly by the headquarters in accordance with guidelines issued by the Finance Department on the basis of general risk management strategies defined by the Managerial Risk Committee.

4.1 TYPES OF FINANCIAL RISKS

Exchange rate risk

This risk is generated by the commercial and financial transactions that are executed in currencies other than the euro. Exchange rate fluctuations between the time when the commercial or financial relationship is established and when the transaction is completed (collection or payment) may generate foreign exchange gains or losses.
The Group's objective is to minimise the effects on the Income Statement of foreign exchange rate risk. To do so, Group procedures make the operating units responsible for collecting complete information about the assets and liabilities that are subject to transaction exchange rate risk. This risk is hedged with forward contracts made with the Group Treasury.
The items subject to exchange rate risk are mainly represented by receivables and payables denominated in foreign currency.
The Group Treasury is responsible for hedging the net position for each currency and in accordance with established guidelines and restrictions it closes all risk positions by trading derivative hedging contracts on the market, which typically take the form of forward contracts.
The Group has decided not to opt for hedge accounting pursuant to IAS 39, insofar as the representation of the economic and financial effects of the hedging strategy on foreign exchange rate risk is still substantially guaranteed even without adopting such option.
Furthermore, it shall be noted that as part of the annual and three-year planning process, exchange rate forecasts are made using the best information available on the market. The fluctuation in exchange rates between the time when the forecast is made and the time when the commercial or financial transaction occurs represents the exchange rate risk on future transactions.
The opportunity to hedge future transactions, with each hedge being authorised by the Finance Department on a case-by-case basis, is monitored continuously. When the conditions are met, hedge accounting in accordance with IAS 39 is used.

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial asset or liability will change due to fluctuations in market interest rates.
The Group policy is to attempt to maintain the following ratio between fixed and floating rates exposures: 70% fixed and 30% floating.
In order to maintain this target ratio, the Group sets up derivative contracts, typically interest rate swaps for hedging purposes. For such derivatives, hedge accounting is adopted when the conditions set by IAS 39 are met.
As part of this policy the individual Group companies may present situations of greater or lesser exposure to changes in interest rates; in detail, as at December 31, 2014, the Company had a positive net financial position where the debts had an allocation of 88% fixed 12% floating, gross of interest rate swaps for hedging purposes, while loans were entirely at a floating rate.
As at December 31, 2013, the Company had a positive net financial position where the financial debts had an allocation of 78% fixed 22% floating rate, gross of interest rate swaps for hedging purposes, while financial loans were entirely at a floating rate.
All other conditions being equal, a hypothetical increase or decrease of 0.50% in the level of interest rates on an annual basis would have a positive net impact on the Income Statement of euro 1,351 thousand, in the case of increase, and a negative net impact of euro 1,351 thousand in the event of a decrease.

Price risk associated with financial assets

The company is exposed to price risk, which is limited to the volatility of financial assets such as listed and unlisted equities and bonds; these assets are classified as financial assets available for sale. Derivatives hedges are not normally set up to limit the volatility of these assets.
An increase of 5% in the share price, all other things being equal, would entail an increase of euro 7,244 thousand of the net equity (euro 7,318 thousand as at December 31, 2013), a decrease of 5% in the equities, all other things being equal, would entail a decrease of euro 6,163 thousand of the net equity (euro 7,318 thousand as at December 31, 2013) and euro 1,081 thousand of expenses in the Income Statement of the Company.

Credit risk

Credit risk represents the Company's exposure to contingent losses resulting from default by commercial and financial counterparties. The Company's exposure for commercial obligations is mainly towards Group companies, for financial obligations totally towards Group companies.
To limit the risk for commercial obligations towards third parties, the Company has implemented procedures to evaluate its customers' potential and financial solidity, for the monitoring of expected cash flows and taking credit recovery action if necessary.
The Company operates only with highly rated financial counterparties for the management of its temporary cash surpluses and constantly monitors its exposure to individual counterparties.
The Company does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system.

Liquidity risk

Liquidity risk represents the risk that the available financial resources could be insufficient to meet its financial and commercial obligations pursuant to the contractual terms and conditions.
The principal instruments used by the Group to manage liquidity risk are comprised by its annual and three-year financial and cash-pooling plans. These allow complete and fair detection and measurement of incoming and outgoing cash flows. The differences between plans and actual data are constantly analysed.
Prudent management of the risk described above requires the maintaining of an adequate level of cash or cash equivalents and/or highly liquid short-term financial instruments, and the availability of funds through an adequate amount of committed credit facilities and/or recourse to the capital market.
The Parent Company has implemented a centralised cash pooling system for the management of collection and payment flows in compliance with various local currency and tax regulations. The negotiation and management of bank credit facilities in the short and long term takes place centrally, partly in order to maximise the economic benefits.
At December 31, 2014 the Group has a five-year term revolving committed credit facility of euro 1,200 million, of which the Italian tranche of euro 525 million is usable by Pirelli & C. S.p.A and Pirelli Tyre S.p.A., and the international tranche, amounting to euro 675 million, can only be used by Pirelli International Plc. As at December 31, 2014, the credit facility has not been used by the Company.

The maturities of financial liabilities as at December 31, 2014 can be broken down as follows:

(in thousands of euro)

	UP TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL 12/31/2014
Borrowings from banks and other financial institutions	21,997	498,940	1,650	522,587
Trade payables	27,302	-	-	27,302
Other payables	24,571	-	-	24,571
	73,870	**498,940**	**1,650**	**574,460**

The maturities of financial liabilities as at December 31, 2013 can be broken down as follows:

(in thousands of euro)

	UP TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL 12/31/2013
Borrowings from banks and other financial institutions	23,200	-	500,867	524,067
Trade payables	27,776	-	-	27,776
Other payables	39,228	9	-	39,237
	90,204	**9**	**500,867**	**591,080**

5. INFORMATION RELATED TO FAIR VALUE

5.1 FAIR VALUE MEASUREMENT

The classification of financial instruments carried at fair value on the basis of a hierarchy of levels pursuant to IFRS 7 is illustrated below. This hierarchy reflects the significance of the inputs used to determine the fair value. The following levels are defined:

- Level 1 – unadjusted quotations recorded on an active market for assets or liabilities subject to valuation;
- Level 2 – inputs different from the quoted prices referred to at the preceding level, which are observable on the market either directly (as in the case of prices) or indirectly (because they are derived from prices);
- Level 3 – inputs that are not based on observable market data

The following table shows assets and liabilities measured at *fair value* as at December 31, 2014, divided into the three levels defined above:

(in thousands of euro)

	NOTE	CARRYING AMOUNT AT 12/31/2014	LEVEL 1	LEVEL 2	LEVEL 3
Available-for-sale financial assets:					
Other financial assets					
- equities and shares	11	158,637	128,271	18,071	12,295
- investment funds	11	14,822	-	14,822	-
Derivative hedging instruments					
Current derivative financial instruments	17	209	-	209	-
Total		**173,668**	**128,271**	**33,102**	**12,295**

At December 31, 2013 the breakdown was as follows

(in thousands of euro)

	NOTE	CARRYING AMOUNT AT 12/31/2013	LEVEL 1	LEVEL 2	LEVEL 3
Available-for-sale financial assets:					
Other financial assets					
- equities and shares	11	265,767	130,730	16,365	118,671
- investment funds	11	15,084	-	15,084	-
Derivative hedging instruments					
Derivative hedging instruments	17	1,655	-	1,655	-
Total		**282,506**	**130,730**	**33,104**	**118,671**

During 2014, there were no transfers from level 1 to level 2 or vice versa.

The following table shows the changes that occurred in level 3:

(in thousands of euro)

	12/31/2014	12/31/2013
Opening balance	**118,671**	**12,086**
Increases	9,043	112,761
Reclassification	(104,087)	-
Valuation adjustment	(11,641)	(4,926)
Fair value adjustments recognized in Equity	309	(1,250)
Closing balance	**12,295**	**118,671**

During the year, there were no transfers from level 3 to other levels or vice versa (refer to note 11).

The fair value of financial instruments traded on active markets is based on the price quotations published at the reporting date. These instruments, included in level 1, mainly consist of investments classified as financial assets available for sale.

The fair value of financial instruments not traded on active markets (e.g. derivatives) is measured by means of techniques that maximise the use of observable and available market data, using widely applied financial measurement techniques:

- market prices for similar instruments;
- the fair value of interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves;
- the fair value of foreign exchange derivatives (forward contracts) is determined by using the forward exchange rate at the reporting date.

5.2 CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The table below shows the carrying amounts for each class of financial asset and liability identified by IAS 39:

(in thousands of euro)

	NOTE	CARRYING AMOUNT AT 12/31/2014	CARRYING AMOUNT AT 12/31/2013
FINANCIAL ASSETS			
Loans and receivables			
Other non-current receivables	13	509,063	15,402
Current trade receivabels	14	32,745	33,696
Other receivables	13	422,633	770,359
Cash	15	8	15
Available-for-sale financial assets:			
Other financial assets	11	173,459	280,851
Derivative hedging instruments			
Derivative financial instruments	17	209	1,655
Total financial assets		**1,138,117**	**1,101,977**
FINANCIAL LIABILITIES			
Financial liabilities at amortized cost			
Non-current borrowings from banks and other financial institutions	19	500,590	500,867
Current borrowings from banks and other financial institutions	19	21,997	23,200
Current trade payables	22	27,302	27,776
Other non-current payables	23	-	9
Other current payables	23	24,571	39,229
Total financial liabilities		**574,460**	**591,080**

6. CAPITAL MANAGEMENT POLICY

The Company's objective is to maximise the return on net invested capital while maintaining the ability to operate over time, ensuring adequate returns for its shareholders and benefits for the other stakeholders, with a sustainable financial structure.
In order to achieve these objectives and in addition to pursuing satisfactory earnings results and generating cash flows, the Company may adjust its policy regarding dividends and the configuration of the Company's capital.

The main indicators used by the Company to manage its capital are as follows:

1) **R.O.I. (Return on investments):** is calculated as the ratio in percentage terms of operating income (loss), including income (loss) from equity investments, and average net invested capital: the indicator represents the ability of the corporate results to remunerate net invested capital, defined as the sum of fixed assets and net working capital. The result of investments is included in the calculation as the main representative size of the performance of an investment holding company. The Group's objective is for this ratio to be higher than the weighted average cost of capital (WACC);

2) **Gearing:** This is calculated as the ratio between net debt and equity. It is an indicator of the sustainability of the ratio between debt and equity, which takes into account the market situation and trend in the cost of capital and debt at different times;

3) **R.O.E (Return on equity):** This is calculated as the ratio in percentage terms between net income (loss) and average equity. It is an indicator representing the Company's ability to remunerate its shareholders. The objective is for this indicator to be higher than the rate of return on a risk-free investment, correlated with the nature of the operated businesses.

The figures for 2014 and 2013 are shown below:

	2014	2013
R.O.I. Ratio between operating income (loss) and average net invested capital	12.86%	13.20%
Gearing*	N/A	N/A
R.O.E. (Return on Equity)	12.91%	10.10%

* this index is not applicable in view of positive net financial (liquidity) debt position in FY 2013 and 2012

7. PROPERTY, PLANT AND EQUIPMENT

The movements during the period 2013-2014 are summarised in the following table:

(in thousands of euro)

GROSS VALUE	BALANCE AT 12/31/2012	INCREASES	DECREASES	BALANCE AT 12/31/2013	INCREASES	DECREASES	BALANCE AT 12/31/2014
Land	21,212	-	(3)	21,209	-	(97)	21,112
Buildings	110,641	211	-	110,852	-	-	110,852
Plant and machinery	4,969	14	-	4,983	-	-	4,983
Industrial and commercial equipment	1,181	-	-	1,181	-	-	1,181
Other assets	13,593	589	(123)	14,059	553	(362)	14,250
	151,596	**814**	**(126)**	**152,284**	**553**	**(459)**	**152,378**

ACCUMULATED DEPRECIATION	BALANCE AT 12/31/2012	DEPRECIATION	DECREASES	BALANCE AT 12/31/2013	DEPRECIATION	DECREASES	BALANCE AT 12/31/2014
Buildings	(31,342)	(3,988)	-	(35,330)	(4,018)	-	(39,348)
Plant and machinery	(4,644)	(111)	-	(4,755)	(51)	-	(4,806)
Industrial and commercial equipment	(1,124)	(23)	-	(1,147)	(11)	-	(1,158)
Other assets	(8,048)	(495)	123	(8,420)	(533)	362	(8,591)
	(45,158)	**(4,617)**	**123**	**(49,652)**	**(4,613)**	**362**	**(53,903)**

NET VALUE	BALANCE AT 12/31/2012	INCREASES/ (DECREASES)	DEPRECIATION	BALANCE AT 12/31/2013	INCREASES/ (DECREASES)	DEPRECIATION	BALANCE AT 12/31/2014
Land	21,212	(3)	-	21,209	(97)	-	21,112
Buildings	79,299	211	(3,988)	75,522	-	(4,018)	71,504
Plant and machinery	325	14	(111)	228	-	(51)	177
Industrial and commercial equipment	57	-	(23)	34	-	(11)	23
Other assets	5,545	589	(495)	5,639	553	(533)	5,659
	106,438	**811**	**(4,617)**	**102,632**	**456**	**(4,613)**	**98,475**

No financial expenses were capitalised on property, plant and equipment.
No impairment was carried out during 2014.

8. INTANGIBLE ASSETS

The movements during the period 2013-2014 were as follows:

(in thousands of euro)

	12/31/2012	INCREASES	DEPRECIATION	12/31/2013	INCREASES	DEPRECIATION	12/31/2014
Software licenses	414	284	(183)	515	558	(217)	856
Other:				-			-
- software expenses	508	-	(165)	343	183	(163)	**363**
- expenses for other projects	841	2,687	(259)	3,269	2,394	(877)	**4,786**
TOTAL	**1,763**	**2,971**	**(607)**	**4,127**	**3,135**	**(1,257)**	**6,005**

Increases in the year consist mainly of charges incurred for implementing staff management systems (euro 2,394 thousand for a project in development) and for the purchase of licenses (euro 558 thousand).
No impairment was carried out during the 2014 financial year

9. EQUITY INVESTMENTS IN SUBSIDIARIES

This amounted to euro 1,141,058 thousand (euro 1,162,188 thousand at December 31, 2013), a decrease over the previous year of euro 21,130 thousand.

Below are the details:

(in thousands of euro)

	12/31/2014	12/31/2013
Pirelli Servizi Amministrazioni e Tesoreria S.p.A.	3,238	3,238
Maristel S.p.A.	1,315	1,315
Pirelli Labs S.p.A.	4,079	4,079
Pirelli Sistemi Informativi S.r.l.	1,655	1,655
Pirelli & C. Ambiente S.r.l.	-	13,500
Pirelli Tyre S.p.A.	1,085,861	1,085,861
Pirelli Tyre Commerciale S.r.l.	20	-
PZero Srl	4,894	4,064
Servizi Aziendali Pirelli S.C.p.A.	103	103
HB Servizi S.r.l.	2,010	-
Pirelli Ltda	9,666	9,666
Pirelli Finance (Luxembourg) S.A.	-	10,490
Pirelli UK Ltd.	21,871	21,871
Pirelli Group Reinsurance Company S.A.	6,346	6,346
TOTAL	**1,141,058**	**1,162,188**

The table pursuant to Article 2427 of the Italian Civil Code is provided in the attachments.

The changes are outlined below:

(in thousands of euro)

	12/31/2014	12/31/2013
Opening balance	**1,162,188**	**1,160,949**
Subscriptions, increases and replenishment of capital	13,030	37,500
Impairment	(23,670)	(36,166)
Liquidated companies	(10,490)	(95)
Closing balance	**1,141,058**	**1,162,188**

Increases mainly refer to the capital increase in favour of PZero S.r.l. for euro 11,000 thousand and the capital increase for euro 2,000 thousand in HB Servizi S.r.l.

Impairments refer to the equity investment in PZero S.r.l. (euro 10,170 thousand) and in Pirelli & C. Ambiente S.r.l. (euro 13,500 thousand).
With reference to the investment in Pirelli & C. Ambiente S.r.l., the negative result for the period is an indicator of impairment. Therefore an impairment test was carried outwith the estimation of the equity investment recoverable amount which further was compared to its carrying amount. The recoverable amount is the higher of the fair value and value in use.
For the definition of the latter, an independent third party carried out an evaluation of the equity investment held by GWM Renewable Energy II S.p.A, which is the main asset of Pirelli & C. Ambiente S.r.l., in Greentech Energy System listed on the stock exchange in Denmark.
The evaluation is based on the discounted cash flows and on methods that use multiples based on the economic-financial information available to the market.
The comparison showed an impairment of euro 16,156 thousand recognised in the Income Statement, the surplus with respect to the carrying amount was recognized in a specific provision for liabilities and charges.

Decreases refer to the disposal, to third parties, of the subsidiary Pirelli Finance (Luxembourg) S.A., which led to a positive economic effect of euro 4,781 thousand.

10. EQUITY INVESTMENTS IN ASSOCIATES

This amounted to euro 125,100 thousand (euro 93,062 thousand at December 31, 2013).
The breakdown of this item is as follows:

(in thousands of euro)

	12/31/2014	12/31/2013
Listed securities		
Prelios S.p.A.	56,037	21,836
Unlisted securities		
Consortium for the Research into Advanced Materials (CORIMAV)	104	104
Eurostazioni S.p.A. - Rome	52,937	52,937
Fenice S.r.l.	16,022	18,185
TOTAL	**125,100**	**93,062**

The following table shows the movements:

(in thousands of euro)

	12/31/2014	12/31/2013
Opening balance	**93,062**	**92,910**
Subscriptions, increases and replenishment of capital	112,622	66,119
Impairment	(80,584)	(4,801)
Reclassification and other	-	(61,166)
Closing balance	**125,100**	**93,062**

Increases for the year refer to the investment in Prelios S.p.A. (euro 69,858 thousand) and in Fenice S.r.l. (euro 42,764 thousand).

The increase in the value of the investment in Prelios S.p.A. is associated with the conversion of the Prelios bond (the "Convertendo"); on April 14, 2014, following the occurrence of the conditions for requesting early conversion of the Convertendo, signed at the time by Pirelli under the Prelios debt restructuring plan, Pirelli received, in exchange for Prelios bonds (Tranche A and B), with a carrying amount at that date of euro 104,087 thousand (plus accrued interest):

- 111,916,082 Prelios S.p.A. class A ordinary shares, which led to an increase in the share of the voting shares held by Pirelli, from 13.06% to 29.22%, after conversion, of which about 7% were freely transferable and about 22% bound to the obligations of the lock up to July 2016 (with automatic renewal for another three years unless cancelled) provided there is agreement among the Fenice shareholders (Pirelli, Intesa Sanpaolo S.p.A., Unicredit S.p.A. and Feidos 11 S.p.A.); these shares were registered at fair value, corresponding to the market share price for Prelios S.p.A. on April 14, 2014 (euro 0.62 per share), for an amount of euro 69,858 thousand;
- 93,390,705 Prelios class B shares - unlisted and without voting rights, which qualify under IFRS as financial assets available for sale, and which were registered at fair value on April 14, 2014, for an amount of euro 47,536 thousand (in regard to this, refer to note 10 below "Other financial assets").

Therefore, by replacing the Convertendo with the Prelios class A and B shares, there was a positive effect of euro 13,307 thousand shown in the Income Statement as the item "Gains from equity investments" (refer to note 31.1 below).

The increase in the value of the equity investment in Fenice S.r.l. is attributable to the contribution, in accordance with the agreements in place between the shareholders of Fenice S.r.l., of Prelios S.p.A. class B shares on June 30, 2014, for a total value of euro 42,764 thousand, equal to the fair value of 93,390,705 Prelios S.p.A. class B shares (euro 0.46 per share); this value was determined by applying a discount for illiquidity of 18% with respect to the market price for Prelios S.p.A. on June 30, 2014 (euro 0.56 per share).

Following the contribution, the percentage of ownership in Fenice S.r.l. increased from 32.83% to 62.56%; although the percentage of ownership is greater than 50%, Pirelli does not take control over Fenice S.r.l. on the basis of the provisions of the shareholders' agreements.

Impairments relate to Fenice S.r.l. (euro 44,927 thousand) and Prelios S.p.A. (euro 35,657 thousand).

With reference to the investment in Fenice S.r.l., it is noted that following the increase of the interest of Pirelli in Fenice S.r.l. (due to the transfer of the Prelios S.p.A. class B shares), the asymmetry of allocation between the shareholders, of any proceeds from the transfer of the Prelios S.p.A. class B shares (refer to the shareholding pay-off) has accentuated in accordance with the shareholders' agreements in place between the shareholders themselves. Under the clauses in place, the pay off at maturity of the income attributable to each shareholder is asymmetric with respect to the interest held.

It was felt that this asymmetry would represent an indicator of impairment and therefore the equity investment was subjected to impairment tests in order to compare the carrying amount of the equity investment with the recoverable amount of same, with the latter being its fair value.

The fair value of the shareholding at December 31, 2014, for the determination of which Pirelli used the assistance of a professional independent third party, is lower than its carrying amount, and therefore led to an impairment of the equity investment, amounting to euro 44,927 thousand.

In order to estimate the fair value an income approach was used based on the options criterion, and recourse was made to the level 2 input.
The estimate was made starting from the liquidation preference, i.e. the preferential/asymmetric sharing mechanism of any income from the Fenice itself following the sale of Prelios class B shares.
As expected date of sale it was decided to adopt the date of first expiry of the shareholders' agreements that is July 31, 2018.
As the pay-off is asymmetrical, it was recalculated based on a portfolio of long and short positions in options and evaluated on December 31, 2014 using the Black & Scholes formulas.

With reference to the equity investments in Prelios S.p.A., the listing of the stock on December 31, 2014 at euro 0.265 per share, significantly lower than the carrying amount of euro 0.62 per share, represents an objective evidence of impairment. An impairment test was therefore carried out that consists of estimating the recoverable amount of the investment and the subsequent comparison with the carrying amount. The recoverable amount is the higher of fair value and value in use.
For the definition of the latter, the company availed of the assistance of an independent third-party professional. In particular, the analyses are based on the expectations of the outcome of 2015-2017 management and services platform resulting from the updated outlook of the Industrial Plan 2015-2017 as well as the carrying amount of the debt and the investment activities at December 31, 2014, as approved by the Board of Directors of Prelios S.p.A. on March 10, 2015 and communicated to the market.
The discount rate applied to prospective cash flows used in the determination of the enterprise value of the services platform, defined as the average cost of capital net of tax, is 7.18%.
In order to align the carrying amount to the value in use equal to euro 0.3783 per share, an impairment of the equity investment value totalling euro 35,657 thousand was recorded.

Fair value of the Prelios investment listed to the Milan stock exchange has been calculated using the stock value at December 31, 2014, (euro 0.2651 per share) and amounts to 39.268 thousand of euro.

11. OTHER FINANCIAL ASSETS

This item amounted to euro 173,459 (euro 280,851 thousand on December 31, 2013) and is broken down as follows:

(in thousands of euro)

	12/31/2014	12/31/2013
Financial assets designated at fair value through income statement	-	104,087
Available-for-sale financial assets	173,459	176,764
Total	**173,459**	**280,851**

Below are the details:

(in thousands of euro)

	12/31/2014	12/31/2013
Financial assets designated at fair value through income statement		
Equity for debt financial instrument 2013-2019 Prelios "A"	-	56,740
Equity for debt financial instrument 2013-2019 Prelios "B"	-	47,347
Available-for-sale financial assets		
Listed securities		
Mediobanca S.p.A. - Milan	106,650	100,191
RCS Mediagroup S.p.A. - Milan	21,621	30,539
Unlisted securities		
Fin. Priv. S.r.l.	14,473	13,732
Real Estate Investment Fund - Anastasia	14,822	15,084
Alitalia S.p.A.	5,349	7,534
European Institute of Oncology (Istituto Europeo di Oncologia S.r.l.)	5,382	5,038
F.C. Internazionale Milano S.p.A.	558	558
Other companies	4,604	4,088
Total	**173,459**	**280,851**

The value of **financial assets designated at fair value through income statement** at December 31, 2013 referred to the Convertendo subscribed as part of the restructuring of the financial credit with Prelios S.p.A. finalized in August 2013.
The bond, with original maturity at December 31, 2019, was converted on April 14, 2014 following the realization of the conditions for which the issuer requested total conversion in advance. Following this conversion Pirelli obtained:

- 111, 916, 082 Prelios class A ordinary shares;
- 93,390,705 Prelios class B shares – unlisted and without voting rights –recorded at fair value at euro 0.51 per share, for a total of euro 47,536 thousand; the fair value was determined by applying a discount for illiquidity of approximately 18% compared to the value of the Prelios S.p.A. ordinary shares at April 14, 2014 (euro 0.62 per share) - refer to note 10.

Class B shares are classified as financial assets available for sale, and were measured at fair value, with changes in fair value recorded in equity. On June 30, 2014, pursuant to the agreement between the shareholders of the associate Fenice S.r.l., said shares were transferred to Fenice S.r.l. itself, which continues to hold all of the class B shares also post conversion. Losses recognized in equity in the period from the first entry (April 14, 2014) to June 30, 2014 (euro 4,772 thousand) were therefore reclassified to the income statement under "losses from equity investments" (refer to note 31.2).

The table below shows the changes in the item **available-for-sale financial assets**:

(in thousands of euro)

	12/31/2014	12/31/2013
Opening balance	**176,764**	**109,854**
Increases	56,579	52,959
Decreases	(42,764)	-
Valuation at fair value through Equity	(5,542)	37,499
Impairment	(11,578)	(60,993)
Reclassification	-	37,480
Other	-	(35)
Closing balance	**173,459**	**176,764**

Increases in the year mainly refer to Prelios S.p.A. class B shares obtained following the early conversion of the Prelios bond for euro 47,536 thousand and transactions relating to the investment in Alitalia: in February conversion of the bond for euro 2,842 thousand with a conversion premium of euro 853 thousand; from October, following the announced corporate restructuring of Alitalia Group and of the new Industrial Plan, the subscription of 49,387,729 shares in Alitalia – Compagnia Aerea Italiana S.p.A. for euro 5,349 thousand, equal to 2.7% of the share capital (two payment tranches).

Decreases mainly refer to the transfer of the above Prelios S.p.A. class B shares to the associate Fenice S.r.l on June 30, 2014.

The **fair value adjustments in equity** mainly relate to the investments in Mediobanca S.p.A. (positive for euro 6,459 thousand), Fin.Priv. S.r.l. (positive for euro 741 thousand), Emittente Titoli (positive for euro 965 thousand), IEO (positive for euro 344 thousand), Movincom Servizi S.p.A. (negative for euro 100 thousand) and Fondo Anastasia (negative for euro 262 thousand), Prelios S.p.A. class B share (negative for euro 4,772 thousand) and RCS Mediagroup S.p.A. (negative euro 8,922 thousand).

The item **impairments** refers primarily to the equity investment in Alitalia S.p.A. (euro 11,229 thousand) for the share held in the company before the corporate restructuring.

The fair value of listed securities corresponds to their stock market price as at December 31, 2014. For non-listed securities and real estate funds, the fair value was estimated on the basis of available information.

Further details are set out in the Attachments to the explanatory notes.

12. DEFERRED TAX ASSETS

Amounted to euro 119,085 thousand (euro 101,312 thousand in 2013), referring to deferred tax assets on residual tax losses deemed recoverable based on projections of future taxable income under the Italian tax consolidation in the time period envisaged in the Pirelli Business Plan 2013-2017.
The total deferred tax assets in question also reflect use of tax losses in the year in respect of taxable income and adjustment resulting from the sustainability evaluation of deferred tax assets themselves according to the indications of the future plans of the Italian companies (refer to note 34).

13. OTHER RECEIVABLES

Other receivables are broken down as follows:

(in thousands of euro)

	12/31/2014			12/31/2013		
	TOTAL	NON CURRENT	CURRENT	TOTAL	NON CURRENT	CURRENT
Other receivables from subsidiaries	3,039	-	3,039	75	-	75
Financial receivables from subsidiaries	901,917	500,000	401,917	735,458	-	735,458
Guarantee deposits	2,244	637	1,607	643	643	-
Other receivables	9,726	8,426	1,300	16,977	14,459	2,518
Financial receivables from other companies	-	-	-	2,872	-	2,872
Receivables from tax authorities not related to income taxes	7,425	-	7,425	19,129	-	19,129
Accrued interest income	5,286	-	5,286	9,919	-	9,919
Financial deferrals	2,059	-	2,059	688	300	388
	931,696	**509,063**	**422,633**	**785,761**	**15,402**	**770,359**

Non-current financial receivables from subsidiaries mainly include loans disbursed as of December 31, 2014 in favour of Pirelli Tyre S.p.A. (euro 350,000 thousand between February 24, 2014 and February 24, 2016) and Pirelli Industrie Pneumatici S.r.l. (euro 150,000 thousand between February 2, 2014 and April 4, 2016).

Other non-current receivables from third-parties refer mainly to a contribution made in cash upon signing a shareholding partnership contract.

Current financial receivables from subsidiaries consist mainly of loans disbursed to Pirelli Tyre S.p.A. at a floating rate (Euribor + 1.40%), maturing on March 2, 2015 and used for euro 363,000 thousand, the loans disbursed to Pirelli & C. Ambiente S.r.l. amounting to euro 33,000 thousand at a floating rate (Euribor 1 year + 2%) between October 17, 2014 and October 19, 2015 and interest-bearing current accounts, regulated at market rates with Pirelli Servizi Amministrativi e Tesoreria S.p.A. for euro 5,188 thousand, and with Pirelli International Plc for euro 630 thousand.

Current accrued interest income is mostly related to interest accrued but not yet received on financial loans from the subsidiary Pirelli Tyre S.p.A. for euro 2,669 thousand, Pirelli Industrie Pneumatici S.r.l. for euro 738 thousand, and euro 1,718 thousand related to the Interest Rate Swap on the bond (refer to note 18).

Financial deferred expenses mainly refer to commissions on the committed credit facility.

For other receivables it is considered that the carrying amount approximates fair value.

14. TRADE RECEIVABLES

Amounted to euro 32,745 thousand, compared to euro 33,696 thousand in the previous financial year.

This breakdown is as follows:

(in thousands of euro)

	12/31/2014	12/31/2013
Receivables from subsidiaries	30,389	29,388
Receivables from associates	-	110
Receivables from other companies	5,458	7,240
Total gross receivables	**35,847**	**36,738**
Provision for bad debts	(3,102)	(3,042)
Total receivables	**32,745**	**33,696**

Of the total gross trade receivables amounting to euro 35,847 thousand (euro 36,738 thousand at December 31, 2013), euro 5,510 thousand were overdue on December 31, 2014 (euro 6,113 thousand at December 31, 2013).
Receivables due and past due have been impaired based on the Group's policies described in the paragraph of the management of credit risk within the "financial risk management policy".
The impaired receivables include both significant individual positions impaired separately, and positions with similar characteristics in terms of credit risk, grouped and impaired on a collective basis.

The analysis of trade receivables by geographical area is as follows:

	12/31/2014		12/31/2013	
	RECEIVABLES FROM SUBSIDIARIES	RECEIVABLES FROM OTHER COMPANIES	RECEIVABLES FROM SUBSIDIARIES	RECEIVABLES FROM OTHER COMPANIES
Italy	94.38%	35.00%	95.90%	42.80%
Rest of Europe	5.46%	28.13%	3.61%	27.50%
Africa	-	-	0.01%	29.39%
Other	0.16%	36.87%	0.48%	0.31%
	100.00%	**100.00%**	**100.00%**	**100.00%**

The movements in the provision for bad debts are shown below:

(in thousands of euro)

	12/31/2014	12/31/2013
Opening balance	**3,042**	**3,732**
Increases/(Decreases)	60	(690)
	3,102	**3,042**

For trade receivables, the carrying amount is considered to approximate fair value.

15. CASH AND CASH EQUIVALENTS

They amounted to euro 8 thousand (euro 15 thousand at December 31, 2013).

16. TAX RECEIVABLES

Amounted to euro 91,004 thousand (euro 43,213 thousand at December 31, 2013). The amount mainly includes:

- receivables from tax authorities for withholding tax (euro 43,146 thousand);
- receivables from Group companies participating in tax consolidation, for euro 39,112 thousand (euro 18,719 thousand at December 31, 2013), the increase over the previous year is largely due to the greater contribution of Pirelli Tyre S.p.A. positive taxable income;
- receivables from tax authorities for IRES for 2008/2014 of euro 5,058 thousand (euro 4,959 thousand at December 31, 2013) and for VAT litigation in 2004 (euro 1,102 thousand).

17. DERIVATIVE FINANCIAL INSTRUMENTS

This item, amounting to euro 209 thousand (euro 1,655 thousand at December 31, 2013), includes the fair value evaluation of 2 interest rate swaps on a notional amount of euro 50 million, stipulated in order to hedge for variations in the fair value of a part of the bond issued by Pirelli & C. S.p.A. in February 2011 for euro 500 million (refer to note 19). These derivatives provide for the collection of a fixed rate of 5.125% on an annual basis with the same frequency as the interest payments on the bond which is also equal to 5.125% and the payment of a 6-month EURIBOR floating rate with an average spread of 2.38%. With reference to these derivatives fair value hedge accounting was adopted, whereby the increase in the fair value of the derivative is recognised in Income Statement and is offset by a loss on the bond attributable to the hedged risk of the same amount, recorded in the Income Statement under financial expenses and which adjusted the carrying amount of the bond ("basis adjustment").

18. EQUITY

Equity amounted to euro 2,056,180 thousand (euro 1,940,025 thousand at December 31, 2013). The analyses of its changes and their composition are provided in the main Financial Statements.

18.1 SHARE CAPITAL

The **share capital** as at December 31, 2014 amounted to euro 1,345,381 thousand, and was represented by 475,740,182 ordinary shares and 12,251,311 savings shares without par value and with a regular dividend.
The share capital is presented net of treasury shares, amounting to euro 969 thousand for ordinary shares (351,590 shares, representing 0.07% of ordinary shares only) and euro 1,126 thousand for the savings shares (408,342 shares, representing 3.33% of savings shares only) and therefore amounts to euro 1,343,285 thousand. Total treasury shares represent 0.16% of the share capital.

The table below shows an analysis of the availability and distribution of individual equity items.

(in thousands of euro)

	AMOUNT	POSSIBLE USE	AVAILABLE SHARE	SUMMARY OF RESERVES USE IN 2012-2014
Share capital [1]	1,343,285		-	-
Legal reserve	139,215	B	139,215	-
Other reserves				
- Merger Reserve	12,467	A, B, C	12,467	-
- IAS Reserve	57,509		-	-
Retained earnings	245,739	A, B, C	245,739	-
Total	**1,798,215**		**397,421**	
Non available share [2]			(6,005)	
Residual available share			**391,416**	

A - increase the share capital; **B** - cover losses; **C** - distribute to the shareholders.

[1] Total value of euro 2.095 thousand net of nr. 351.590 ordinary shares and nr.408.342 savings shares without nominal value

[2] Represents the total amount of the non distributable share due to cover multi-year unamortized deferred costs in accordance with ex-Article 2426 of the Italian Civil Code

19. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The item borrowings from banks and other financial institutions, is broken down as follows:

(in thousands of euro)

	12/31/2014			12/31/2013		
	TOTAL	NON CURRENT	CURRENT	TOTAL	NON CURRENT	CURRENT
Bonds	498,940	498,940	-	499,217	499,217	-
Borrowings from other financial institutions	1,650	1,650	-	1,650	1,650	-
Accrued liabilities	21,997	-	21,997	23,200	-	23,200
	522,587	**500,590**	**21,997**	**524,067**	**500,867**	**23,200**

The unrated bond was placed by Pirelli & C. S.p.A. on the eurobond market in February 2011 for a nominal total amount of 500 million euro, with a fixed coupon rate of 5.125% and expiring in February 2016.

The carrying amount of the bond at December 31, 2014 was determined as follows:

(in thousands of euro)

	12/31/2014	12/31/2013
Nominal value	500,000	500,000
Transaction costs	(5,296)	(5,296)
Amortisation of effective interest rate	3,964	2,860
Adjustment for fair value hedge	272	1,653
	498,940	**499,217**

The **accrued expenses** essentially refer to interest accrued on the bond but not yet paid, for euro 21,974 thousand.

Below is the fair value of borrowings from banks and other financial institutions, compared with the relevant carrying amount:

(in thousands of euro)

	CARRYING AMOUNT		FAIR VALUE	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Bonds	498,940	499,217	523,565	533,010
Other non-current borrowings	1,650	1,650	1,650	1,650
	500,590	**500,867**	**525,215**	**534,660**

Borrowings from banks and other financial institutions are denominated in euro.

20. PROVISIONS FOR LIABILITIES AND CHARGES

The following table shows the movements for the period:

PROVISIONS FOR LIABILITIES AND CHANGES NON CURRENT (in thousands of euro)

	12/31/2014	12/31/2013
Opening balance	**37,167**	**50,486**
Increases	1,012	361
Reversal	(19,455)	(11,743)
Uses	(1,668)	(1,937)
Closing balance	**17,056**	**37,167**

They refer to provisions mainly for:

- remediation works for euro 4,671 thousand;
- tax risks for euro 10,588 thousand relating to the VAT case 2004 (euro 1,100 thousand) pending last instance proceedings, IRES/IRAP case (euro 150 thousand) with two instances of proceedings in favour of the company and IRPEG case 2002 related to FOS S.p.A. (guarantees remained contractually with Pirelli in the disposal of the investment FOS S.p.A.) pending the judgment of the Supreme Court (euro 7,400 thousand).

Increases are mainly due to adjusting the provision to the current demand for legal and tax disputes.

Reversal of excess provisions mainly refer to disputes regarding IRPEG and ILOR for the 1982 and 1983 financial years and IRPEG corporate income tax for the 1983/1984 financial years, which were extinguished due to the handing down of the final decision in the 2nd degree, with positive effect for the company for euro 9,455 thousand, that the Inland Revenue has not challenged in the Court of Cassation within the applicable time limit and to the release of provisions allocated in previous years to cover contractual guarantees now expired for euro 10,000 thousand.

Uses are for costs incurred for remediation works and legal transactions.

Provisions for liabilities and charges – current portion, amount to euro 2,657 thousand and refer to the allocation of the excess over the carrying amount, of the impairment loss of the investment in Pirelli & C. Ambiente S.r.l.

21. EMPLOYEE BENEFIT OBLIGATIONS

The provisions for personnel amount to euro 4,194 thousand (euro 1,623 thousand at December 31, 2013). This item includes provision for leaving indemnities which amounts to euro 1,489 thousand (euro 1,114 thousand at December 31, 2013) and other employee benefits of euro 2,705 thousand (euro 509 thousand at December 31, 2013).

Employee leaving indemnities

The changes during the year 2014 for the provision for severance pay are as follows:

(in thousands of euro)	
Balance at 12/31/2012	**1,020**
Movements through income statement	96
Actuarial (gains)/losses recognized in Equity	(88)
Indemnities, advance payments, relocations	86
Balance at 12/31/2013	**1,114**
Movements through income statement	92
Actuarial (gains)/losses recognized in Equity	156
Indemnities, advance payments, relocations	127
Balance at 12/31/2014	**1,489**

The amounts shown in the Income Statement have been included in the item “Personnel Expenses” (note 28).

The net actuarial losses accrued in 2014, attributed directly to net equity, amount to euro 156 thousand. The cumulative amount at December 31, 2014, of net income attributed directly to net equity amounts to euro 1,998 thousand (euro 2,154 thousand at December 31, 2013).

The principal actuarial assumptions used at December 31, 2014 are as follows:

2014	
Discount rate	**1.8%**
Inflation rate	**1.5%**

The principal actuarial assumptions used at December 31, 2013 are as follows:

2013	
Discount rate	**3.4%**
Inflation rate	**2.0%**

The employees in service as at December 31, 2014 came to 125 units (103 units as at December 31, 2013).

A hypothetical increase or a decrease of 0.25% in the discount rate, other conditions being equal, would result in a positive change of 2.37%, in case of increase (2.36% at December 31, 2013), and in a negative change of 2.43%, in case of a decrease (2.49% at December 31, 2013).

Other employee benefits

Other employee benefits include the best estimate of the three-year incentive plan, the Long Term Incentive 2014-2016, designed for the Management of the Pirelli Group and approved by the Board of Directors and by the Shareholders' Meeting of Pirelli & C. on February 27, and June 12, 2014, respectively; this incentive plan is related to the targets of the period 2014–2016 contained in the Industrial Plan 2013–2017.

22. TRADE PAYABLES

The breakdown of trade payables is as follows:

(in thousands of euro)

	12/31/2014	12/31/2013
Payables to subsidiaries	1,149	282
Payables to associates	56	160
Payables to other companies	26,097	27,334
	27,302	**27,776**

The carrying amount of trade payables is considered to approximate their *fair value.*

23. OTHER PAYABLES

The breakdown is as follows:

(in thousands of euro)

	12/31//2014			12/31/2013		
	TOTAL	NON-CURRENT	CURRENT	TOTAL	NON CURRENT	CURRENT
Payables to welfare institutions	-	-	-	8	8	-
Payables to subsidiaries	8,119	-	8,119	18,068	-	18,068
Payables to social security and welfare institutions	1,989	-	1,989	1,665	-	1,665
Payables to employees	3,989	-	3,989	3,537	-	3,537
Other payables	9,884	-	9,884	14,584	-	14,584
Accrued liabilities	590	-	590	1,375	-	1,375
	24,571	**-**	**24,571**	**39,237**	**8**	**39,229**

Payables to subsidiaries refer to VAT consolidation.
Payables to social security and welfare institutions mainly include contributions payable to INPS and INAIL.
Payables to employees refer to salaries and wages owed to employees.
Other payables include liabilities for compensation to be paid to directors and auditors, for withholding taxes on income from self-employed and employed work and other minor items.
For other payables it is considered that the carrying amount approximates their fair value.

24. TAX PAYABLES

Amounted to euro 64,296 thousand (euro 38,616 thousand at December 31, 2013). The change is mainly due to the increase in payables for consolidated IRES tax.

25. REVENUE FROM SALES AND SERVICES

They mainly refer to:

(in thousands of euro)

	2014	2013
Sales of services to subsidiaries	18,707	10,222
Sales of services to other companies	615	822
	19,322	**11,044**

The increase is mainly due to reorganization of the structures with the consequent extension of services provided to the Group's Italian affiliates.

26. OTHER INCOME

Amounted to euro 123,892 thousand, compared to euro 122,809 thousand in the previous financial year, structured as follows:

(in thousands of euro)

	2014	2013
Other income from subsidiaries	104,357	103,728
Other income from other companies	19,535	19,081
	123,892	**122,809**

Other income from subsidiaries include royalties paid by the Group's companies in order to use the trademark (euro 80,087 thousand in 2014 – euro 80,013 thousand in 2013), recovery of expenses and other incomes (euro 14,450 thousand in 2014 – euro 14,925 thousand in 2013), rents and recoveries of management fees on rents (euro 9,820 thousand in 2014 – euro 8,790 thousand in 2013).

Other income from other companies mainly consists of royalties paid by other companies in order to use the Pirelli trademark (euro 2,109 thousand in 2014 – euro 2,413 thousand in 2013), the reversal of excess provisions (euro 10,000 thousand in 2014 – euro 5,396 thousand in 2013), recovery of expenses and other incomes (euro 3,287 thousand in 2014 – euro 5,073 thousand in 2013), rents and recoveries of management fees on rents (euro 4,638 thousand in 2014 – euro 6,153 thousand in 2013).

27. USED RAW MATERIALS AND CONSUMABLES

Amounted to euro 233 thousand (euro 259 thousand in 2013) and included purchases of advertising materials, lubricants, fuels and other materials.

28. PERSONNEL EXPENSES

Amounted to euro 28,237 thousand (euro 18,082 thousand in 2013) broken down as follows:

(in thousands of euro)

	2014	2013
Wages and salaries	22,301	13,404
Social security and welfare contributions	4,473	3,564
Employees leaving indemnities (TFR)	62	62
Retirement indemnities and similar obbligations	1,030	851
Other costs	371	201
	28,237	**18,082**

The staff in service on average is as follows:

- Executives: 37
- White-collars: 88
- Blue-collars: 1

The change over the previous year is substantially due to greater provisions made for the variable annual and medium-term incentive (three-year plan LTI 2014/2016), as previously described in note 20. Personnel expenses include **non-recurring events** for a total of euro 3,770 thousand (13.4% of the total) for restructuring costs.

29. AMORTISATION AND DEPRECIATION

The breakdown is as follows:

(in thousands of euro)

	2014	2013
Depreciation - property, plant and equipment	4,613	4,617
Amortisation - intangible assets	1,258	607
	5,871	**5,224**

30. OTHER COSTS

The breakdown of other costs is the following:

(in thousands of euro)

	2014	2013
Services rendered by subsidiaries	6,473	6,784
Advertising	25,076	25,309
Consultancy and collaboration services	8,917	6,611
Accruals for the provision of future liabilities and charges	1,071	361
Legal and notarial expenses	1,564	1,991
Travel expenses	3,442	5,008
Compensation of Board members and Supervisory Board	2,928	3,243
Membership fees and contributions	3,516	5,128
Rental and lease instalments	9,808	9,211
IT expenses	2,445	2,265
Power, gas and water expenses	1,836	2,301
Security service	1,839	1,924
Insurance premiums	1,228	1,016
Patents and trademarks expenses	764	1,458
Cleaning and property ordinary maintenance expenses	551	950
Property maintenance	985	1,550
Other	7,832	10,867
	80,275	**85,977**

31. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

31.1 GAINS ON EQUITY INVESTMENTS

They amounted to euro 18,941 thousand (euro 293 thousand in 2013) and mainly refer to the income from conversion of Prelios S.p.A. Convertendo (euro 13,307 thousand) and to the gain derived from disposal to third parties of the subsidiary Pirelli Finance (Luxembourg) S.A. (euro 4,781 thousand).

31.2. LOSSES FROM EQUITY INVESTMENTS

Amounted to euro 139,121 thousand (euro 126,731 thousand in 2013), in detail:

(in thousands of euro)

	2014	2013
Impairment losses on equity investments in subsidiaries:		
- PZero S.r.l.	10,169	15,220
- Pirelli & C.Ambiente S.r.l.	16,156	20,137
- Pirelli Finance (Luxembourg) S.A.	-	809
Impairment losses on equity investments in associates:		
- Prelios S.p.A.	35,657	10
- Fenice S.r.l.	44,927	4,801
Impairment losses on other financial assets:		
- Prelios S.p.A. category B shares	4,772	-
- Convertendo Prelios S.p.A.	-	44,286
- Mediobanca S.p.A.	-	10,429
- Alitalia S.p.A.	11,229	4,925
- Fin.Priv. S.r.l.	-	1,345
- RCS Mediagroup S.p.A.	15,860	23,721
- Others	351	1,048
	139,121	**126,731**

The **impairment of investments in subsidiaries** refers to the adjustment of Pirelli & C. Ambiente S.r.l. at its value in use and to PZero S.r.l. at its fair value, which is estimated to be its net equity value (refer to note 9).

The **impairment of investments in associates** refers to the adjustment of Prelios S.p.A. at its value in use and of Fenice S.r.l. at its fair value (refer to note 10).

The **impairment of other financial assets** refers to the impairments of available for sale financial assets, recognised in the income statement for exceeding the thresholds of significance or durability. For Alitalia S.p.A. (euro 11,229 thousand) and Euroqube S.A. (in liquidation) (euro 222 thousand) it represents the alignment to the fair value based on the best information available; for RCS Mediagroup S.p.A. (euro 15,860 thousand) it represents the alignment to the fair value equal to the stock market listing, for Prelios S.p.A. class B shares it represents the difference between the initial recognition amount (euro 47,536 thousand) and the fair value at the date of the transfer (euro 42,764 thousand), equal to the stock market listing of A shares at June 30, 2014 (euro 0.56 per share) less the discount for illiquidity of 18.45% (euro 0.46 per share), first recognized as a decrease of equity in a special reserve and immediately after, following the transfer (treated as a sale), the negative reserve is reversed to the income statement.

31.3. DIVIDENDS

Amounted to euro 312,921 thousand compared to euro 325,722 thousand in 2013. The breakdown is as follows:

(in thousands of euro)

	2014	2013
From subsidiaries:		
- Pirelli Tyre S.p.A. - Italy	294,000	310,000
- Pirelli Ltda - Brasil	7,671	10,530
- Pirelli Sistemi Informativi S.r.l. - Italy	500	1,000
- Pirelli Servizi Amministrazione e Tesoreria S.p.A. - Italy	800	1,000
- Maristel S.p.A. - Italy	1,000	-
- Pirelli Group Reinsurance Company SA	4,299	-
	308,270	**322,530**
From associates:		
- Eurostazioni S.p.A. - Italy	1,011	1,947
	1,011	**1,947**
From other companies:		
- Mediobanca S.p.A. - Italy	2,363	-
- ECA Ltd - Great Britain	-	21
- Sint S.p.A. - Italy	-	481
- Fin. Priv. S.r.l. - Italy	308	103
- Emittente Titoli S.p.A. - Italy	33	30
- Fondo Anastasia - Italy	680	610
- Euroqube S.A. (in liquidation)	256	-
	3,640	**1,245**
	312,921	**325,722**

32. FINANCIAL INCOME

Amounted to euro 19,619 thousand (euro 23,817 thousand in 2013).
It mainly includes interest on loans granted to the subsidiary Pirelli Tyre S.p.A. (euro 13,964 thousand in 2014, euro 14,605 thousand in 2013) and to Pirelli Industrie Pneumatici S.r.l. (euro 3,791 thousand in 2014, euro 4,420 thousand in 2013).
The decrease compared to 2013 is essentially due to the conversion in 2014 of the financial receivable from Prelios S.p.A. in an equity investment as part of the company's financial restructuring process.

33. FINANCIAL EXPENSES

Amounted to euro 29,615 thousand (euro 27,175 thousand in 2013 and essentially include euro 26,730 thousand for interest accrued on the Bond (euro 26,673 thousand in 2013) and euro 2,440 thousand related to interest on borrowings (euro 306 thousand in 2013).

34. TAXES

The taxes are analysed in the following table:

(in thousands of euro)

	2014	2013
Current income taxes		
Foreign WHT	18,373	(6,702)
Regional tax on production (IRAP)	(2,257)	(1,487)
Taxes previous years	(1,503)	(6,007)
Consolidated corporate income tax (IRES)	5,669	7,304
Other taxes	9,331	6,438
Total Current income taxes	**29,613**	**(454)**
Deferred taxes		
Through tax consolidation	(767)	(1,726)
For previous years losses	17,773	(26,166)
Total Deferred taxes	**17,006**	**(27,892)**
Total Taxes	**46,619**	**(28,346)**

Current income taxes include the recognition as income of previous years withholding taxes, as well as the benefits of tax consolidation of the Italian group, and release of funds previously set aside. The total taxes also reflect the recording of deferred tax assets in relation to the expected recoverability of tax losses by the Group's Italian companies following the improvement in future plans that allowed the recognition.

The reconciliation between theoretical and actual tax for the year 2014 is analysed in the following table:

(in thousands of euro)

		IRES	IRAP	
Net Income (loss) before tax	**A**	**211,345**	**211,345**	**211,345**
Net income (loss) from discontinued operations	B	-	-	-
Net income (loss) before tax including income from discontinued operations	**C=A-B**	**211,345**	**211,345**	**211,345**
Tax rate	D	27.5%	5.57%	
Theoretical tax	**E = C*D**	**(58,120)**	**(11,772)**	**(69,892)**
Decrease				
- Detaxation of dividends	F	81,417	18,484	99,901
- Gains on disposal of share investments	G	1,315	-	1,315
- Reserves	H	3,209	-	3,209
- Other decrease	I	10,265	961	11,226
- Deferred tax	L	35,465	-	35,465
- Income from WHT previous years	M	18,373	-	18,373
Increase				**-**
- Impairment	N	(40,379)	-	(40,379)
- Taxes previous years	O	(1,852)	-	(1,852)
- Not recovered WHT	P			-
- Deferred tax	Q	-	(9,931)	-
- Other increase	R	(3,923)	-	(3,923)
Effective tax burden	**S=E+F+G+H+I+L+M+N+O+P+Q+R**	**45,770**	**(2,258)**	**43,512**
Net income from tax consolidation		3,106	-	3,106
Total tax		**48,876**	**(2,258)**	**46,618**
Net income (loss)				**257,963**

The reconciliation between theoretical and actual tax for the year 2013 is analysed in the following table:

(in thousands of euro)

		IRES	IRAP	
Net Income (loss) before tax	**A**	**220,237**	**220,237**	**220,237**
Net income (loss) from discontiuned operations	B		-	-
Net income (loss) before tax including income from discontiuned operations	**C=A-B**	**220,237**	**220,237**	**220,237**
Tax rate	D	27.5%	5.57%	
Theoretical tax	**E = C*D**	**(60,565)**	**(12,267)**	**(72,832)**
Decrease				
- Detaxation of dividends	F	85,087	18,143	103,230
- Tax previous years	G	-	498	498
- Reserves	H	9,480	-	9,480
- Other decrease	I	116	2,294	2,410
- Income from WHT previous years	L	-	-	-
Increase				
- Impairment	M	(22,672)	-	(22,672)
- Taxes previous years	N	(6,007)	-	(6,007)
- Not recovered WHT	O	(4,564)	-	(4,564)
- Deferred tax	P	(26,166)	-	(26,166)
- Other increase	Q	(6,387)	(10,155)	(16,542)
Effective tax burden	**R=E+F+G+H+I+L+M+N+O+P+Q**	**(31,678)**	**(1,487)**	**(33,165)**
Net income from tax consolidation		4,819	-	4,819
Total tax		(26,859)	(1,487)	(28,346)
Net income (loss)				**191,891**

TAX CONSOLIDATION

It shall be noted that starting from 2004, the Company exercised the option for tax consolidation as consolidating entity, pursuant to article 117 and following of the TUIR. Relations arising from adhesion to consolidation are governed by a special “Regulation”, which involves a common procedure for the application of laws and regulations.
Said regulation was updated in subsequent years as a result of amendments made within the companies participating in the agreement and the related shareholding structure, as well as in light of the corrective and supplementary interventions of the relevant legislation.
The above amendments particularly concerned the remuneration of the tax losses used by the companies adhering to the tax consolidation. The adoption of the consolidation allows the Parent Company Pirelli & C. S.p.A. to compensate the taxable income or loss of the Parent Company with those of its resident subsidiaries that exercised the option, considering that the tax losses accrued during periods prior to the introduction of group taxation may only be used by companies concerned.

35. RELATED PARTY TRANSACTIONS

The statement below shows the items of the Statement of Financial Position and the Income Statement that include transactions with related parties and their percentage impact:

BALANCE SHEET (in million of euro)

	TOTAL AT 12/31/2014	OF WHICH RELATED PARTIES	% SHARE	TOTAL AT 12/31/2013	OF WHICH RELATED PARTIES	% SHARE
Non-current assets						
Other receivables	509.1	500.0	98.2%	15.4	-	-
Other financial assets	173.5	-	-	280.9	104.1	37.1%
Current assets						
Trade receivables	32.7	30.4	92.8%	33.7	29.8	88.4%
Other receivables	422.6	408.5	96.7%	770.4	741.1	96.2%
Tax receivables	91.0	39.1	43.0%	43.2	18.7	43.3%
Non-current liabilities						
Financial payables	500.6	1.7	0.3%	500.9	1.7	0.3%
Current liabilities						
Trade payables	27.3	1.2	4.4%	27.8	3.8	13.5%
Other payables	24.6	8.3	33.8%	39.2	18.3	46.7%
Tax payables	64.3	18.6	28.9%	38.6	22.5	58.3%

INCOME STATEMENT (in million of euro)

	TOTAL 2014	OF WHICH RELATED PARTIES	% SHARE	TOTAL 2013	OF WHICH RELATED PARTIES	% SHARE
Items of income statement						
Revenues from sales and services	19.3	18.7	97.0%	11.0	10.3	93.7%
Other income	123.9	104.4	84.3%	122.8	105.0	85.5%
Personnel expenses	(28.2)	(3.6)	12.7%	(18.1)	(2.0)	11.1%
Other costs	(80.3)	(16.0)	19.9%	(86.0)	(22.8)	26.5%
Net income (loss) from equity investments - Gains on equity investments	18.9	13.3	70.3%	0.3	0.3	100.0%
Net income (loss) from equity investments - Dividends	312.9	309.3	98.8%	325.7	324.5	99.6%
Financial expenses	(29.6)	(0.2)	0.7%	(27.2)	-	-
Financial income	19.6	18.6	94.6%	23.8	19.8	83.2%
Income tax	46.6	35.7	76.6%	(28.3)	(7.8)	N.S.

The following table shows the items of the Statement of Cash Flows that include related party transactions:

(in million of euro)

	TOTAL AT 12/31/2014	OF WHICH RELATED PARTIES	% SHARE	TOTAL AT 12/31/2013	OF WHICH RELATED PARTIES	% SHARE
Cash flow statement						
Investments in subsidiaries	(13.0)	(13.0)	100%	(37.5)	(37.5)	100%
Investments in associates	-	-	-	(44.3)	(44.3)	100%
Investments in other financial assets	-	-	-	(8.2)	(0.6)	7%

Related party transactions, including intra-group transactions, are not classified as unusual and occur in the ordinary course of business of the Group companies. Such transactions, when not concluded at standard conditions or dictated by specific regulations, are in any case conducted under

market conditions (at arm's length).
The tables below shows the main transactions with related parties for the years ended December 31, 2014 and December 31, 2013 (amounts are expressed in euro millions).

YEAR 2014 - TRANSACTIONS WITH SUBSIDIARIES

(in millions of euro)

ITEMS OF BALANCE SHEET		
Non-current assets		
Other receivables	500.0	Refer to loans granted to Pirelli Tyre S.p.A. (euro 350,0 million) to Pirelli Industrie Pneumatici S.r.l. (euro 150,0 million)
Current assets		
Trade receivables	30.4	Refers mainly to receivables for services/provisions (euro 27,9 million Pirelli Tyre S.p.A., euro 1,6 million Pirelli Tyre Russia, euro 0,3 million Pirelli Sistemi Informativi S.r.l., euro 0,2 million PZero S.r.l.)
Other receivables	408.4	Refers mainly: for euro 365,7 million to loans granted and related interest accrued and not paid with Pirelli Tyre SpA; euro 33,2 million to a loan granted and related interest accrued but not paid with Pirelli Ambiente S.r.l.; euro 5,2 million to the intra-group current account with Pirelli Servizi Amministratizione e Tesoreria S.p.A
Tax receivables	39.1	The amount refers to receivables from Group companies that adhere to tax consolidation (mainly euro 38,7 million Pirelli Tyre S.p.A., euro 0,2 million Pirelli Sistemi Informativi S.r.l., euro 0,1 million Pirelli Servizi Amministrazione e Tesoreria S.p.A.)
Currents liabilities		
Trade payables	1.1	Refer mainly to payables for the provision of services (the main ones are: euro 0,5 million Pirelli Tyre Ltd., euro 0,3 million Pirelli Amministrazione e Tesoreria S.p.A., euro 0,1 million Servizi Aziendali Pirelli S.c.p.a., euro 0,1 million Pirelli Sistemi Informativi S.r.l.).
Other payables	8.2	Refer mainly to payables to Group companies that adhere to VAT consolidation, the main ones are: euro 7,8 million Pirelli Tyre S.p.A., euro 0,1 million PZero S.r.l..
Tax payables	18.6	Refers to payables to subsidiaries that adhere to tax consolidation, mainly euro 18,4 million Pirelli Tyre, euro 0,1 million Pirelli Ambiente S.r.l.

ITEMS OF INCOME STATEMENT		
Revenues from sales and services	18.7	The amount mainly refers to service agreements. The main relations are: euro 17,3 million Pirelli Tyre S.p.A., euro 0,4 million Pirelli Ambiente S.r.l., euro 0,3 million Pirelli Sistemi Informativi S.r.l., euro 0,4 million PZero S.r.l.)
Other income	102.6	The amount mainly refers to: brand license agreements (euro 78,7 million Pirelli Tyre S.p.A., euro 1,2 million Pirelli Tyre Russia); other recoveries (euro 13,7 million Pirelli Tyre S.p.A., euro 0,1 million Pirelli International Ltd); lease agreements (euro 1,1 million Pirelli Sistemi Informativi S.r.l., euro 6,5 million Pirelli Tyre S.p.A., euro 0,3 million Pirelli Servizi Amministrazione e Tesoreria S.p.A.)
Other costs	6.3	The amount mainly refers to charges for various services and expenses (euro 2,1 million PZero S.r.l., euro 1,1 million Pirelli Servizi Amministrazione e Tesoreria S.p.A., euro 1,1 million Pirelli Sistemi Informativi S.r.l., euro 0,6 million Pirelli Tyre S.p.A., euro 0,5 million Pirelli Tyre Russia, euro 0,2 million Pirelli Tyres Limited, euro 0,3 million Servizi Aziendali Pirelli S.c.p.a.).
Net income (loss) from equity investments - Dividends	308.3	They refer to: euro 294,0 million Pirelli Tyre S.p.A., euro 7,7 million Pirelli Ltda, euro 4,3 million Pirelli Group Reinsurance Company S.r.l., euro 1,0 million Servizi Aziendali Pirelli S.c.p.a., euro 0,8 million Pirelli Servizi Amministrazioni e Tesoreria S.p.A., euro 0,5 million Pirelli Sistemi Informativi S.r.l..
Financial income	18.6	Income deriving from loans granted (euro 13,9 million Pirelli Tyre S.p.A, euro 3,8 million Pirelli Industrie Pneumatici S.r.l., euro 0,7 million Pirelli Ambiente S.r.l.).
Taxes	35.7	Refer to income and expenses with Group companies that adhere to tax consolidation. Tax income - the main items are: Pirelli Tyre S.p.A. euro 36,3 million, Pirelli Sistemi Informativi S.r.l. euro 0,2 million; Tax charges - the main items are: Pirelli Tyre S.p.A. euro 1,2 million

CASH FLOW STATEMENT		
Investments in subsidiaries	13.0	The amount refers for euro 11,0 million to the capital increase in PZero S.r.l., for euro 2,0 million for the acquisition and capital payments in HB Servizi S.r.l.

TRANSACTIONS WITH ASSOCIATES

(in million of euro)

ITEMS OF BALANCE SHEET		
Current assets		
Other receivables	0.1	The amount refers to the loan and its applicable interests provided to Fenice S.r.l.
Current liabilities		
Trade payables	0.1	Refers to payables for services received from Corimav
Other payables	0.1	Refers to deferred liabilities to Prelios S.p.A. for rent of the R&D building
Non-current liabilities		
Financial payables	1.7	Refers to the Prelios S.p.A. security deposit for rent of the R&D building

ITEMS OF INCOME STATEMENT		
Other income	1.7	The amount refers to the rent of the R&D building by Prelios S.p.A.
Other costs	0.2	Refers to relations with the Consortium for Research on Advanced Materials - Corimav (euro 0,2 million)
Net income (loss) from equity investments - Dividends	1.0	The amount refers to dividends distributed by Eurostazioni S.p.A.
Gains from equity investments	13.3	Refers to the gain following the conversion of the Prelios S.p.A. bond.

TRANSACTIONS WITH RELATED PARTIES THROUGH DIRECTORS

(in millions of euro)

ITEMS OF INCOME STATEMENT		
Other costs	6.6	The amount refers to FC Internazionale Milano S.p.A. sponsorship costs

TRANSACTIONS WITH OTHER RELATED PARTIES

(in millions of euro)

ITEMS OF INCOME STATEMENT		
Other income	0.1	The amount refers to the leasing agreement with Camfin S.p.A.
Financial expenses	0.2	Interests on credit facility to Banca IMI Banca Intesa (euro 0,1 million) and Unicredit (euro 0,1 million)

YEAR 2013 - TRANSACTIONS WITH SUBSIDIARIES

(in millions of euro)

ITEMS OF BALANCE SHEET		
Current assets		
Trade receivables	29.5	The amount mainly consists of receivables for services (Pirelli Tyre S.p.A. for euro 27.4 million, Pirellil Tyre Russia for euro 0.9 million, Pirelli Sistemi Informativi S.r.l. for euro 0,3 million, Pirelli Ambiente S.r.l. for euro 0.2 million).
Other receivables	741.1	Mainly refer to: granted loans and related accrued and unpaid interest to Pirelli Tyre S.p.A. for euro 584.6 million; a granted loan and related accrued and unpaid interest to Pirelli Industrie Pneumatici S.r.l. for euro 130.9 million; a granted loan and related accrued and unpaid interest to Pirelli Ambiente S.r.l. for euro 20.0 million; transfer to Pirelli Servizi Amministratizione e Tesoreria S.p.A. intercompany current account for euro 4.2 million.
Tax receivables	18.7	The amount relates to receivables from the group companies that are part of the tax consolidation (mainly euro 17.4 million from Pirelli Tyre S.p.A., euro 0.4 million from Pirelli Steelcord S.r.l., euro 0.2 million from Pirelli Servizi Amministrazione e Tesoreria S.p.A.)
Current liabilities		
Trade payables	0.3	The amount mainly consists of payables for services (the main ones are: euro 0.1 million Pirelli Tyre Ltd., euro 0.1 million Servizi Aziendali Pirelli Scpa).
Other payables	18.2	Refer to accounts payable to the group companies that are part of the consolidated VAT, the main ones are: euro 16.1 million to Pirelli Tyre S.p.A., euro 1.1 million to Pirelli Industrie Pneumatici S.r.l., euro 0.5 million to Pzero S.r.l..
Tax payables	21.9	Refer to tax payables to the subsidiaries that are part of the tax consolidation, mainly Pirelli Tyre for euro 21.4 million, Pirelli Industrie Pneumatici S.r.l. for euro 0.3 million and Driver S.r.l. For euro 0.1 million

ITEMS OF INCOME STATEMENT		
Revenues from sales and services	10.1	The amount mainly refers to service contracts. The major revenues come from: Pirelli Tyre S.p.A. for euro 8.9 million, Pirelli Ambiente S.r.l. for euro 0.3 million, Pirelli Sistemi Informativi S.r.l. for euro 0.2 million, PZero S.r.l. for euro 0.2 million, Pirelli Servizi Amministrazione e Tesoreria S.p.A. for euro 0.2 million
Other income	103.0	The amount mainly refers to: license agreements for the use of the trademark (euro 79.2 million - Pirelli Tyre S.p.A., euro 0.6 million - Pirelli Tyre Russia, euro 0.1 million - PZero s.r.l.); other income (euro 13.6 million - Pirelli Tyre S.p.A., euro 0.1 million - Pirelli International Ltd); leases (euro 1.1 million - Pirelli Sistemi Informativi S.r.l., euro 6.5 million - Pirelli Tyre S.p.A., euro 0.2 million - Pirelli Servizi Amministrazione e Tesoreria S.p.A.)
Other costs	6.4	The amount mainly refers to expenses for services and other costs (euro 2.4 million to Pzero S.r.l., euro 1.6 million to Pirelli Tyre S.p.A., euro 0.9 million to Pirelli Servizi Amministrazione e Tesoreria S.p.A., euro 0.8 million to Pirelli Sistemi Informativi S.r.l., euro 0.2 million to Pirelli Tyres Limited, euro 0.2 million to Servizi Aziendali Pirelli S.c.p.a.).
Net income (loss) from equity investments - Dividends	322.5	Refer to: Pirelli Tyre S.p.A. for euro 310.0 million, Pirelli Ltda for euro 10.5 million, Pirelli Sistemi Informativi S.r.l. for euro 1.0 million, Pirelli Servizi Amministrazione e Tesoreria S.p.A. for euro 1.0 million
Financial income	19.8	Income from loans (euro 14.6 million Pirelli Tyre S.p.A, euro 4.4 million Pirelli Industrie Pneumatici S.r.l., euro 0.6 million Pirelli Servizi Amministrazione e Tesoreria S.p.A., euro 0.2 million Pirelli Ambiente S.r.l.).
Taxes	(8.3)	Refers to income and expenses towards the group companies that take part in the tax consolidation. Income - the major ones come from: Pirelli Tyre S.p.A. for euro 7.3 million, Pirelli Steelcord S.r.l. for euro 0.4 million, Pirelli Sistemi Informativi S.r.l. for euro 0.2 million

CASH FLOW STATEMENT		
Investments in subsidiaries	37.5	The amount refers to the increase in the capital of PZero srl for euro 17.0 million, the capital contribution in Maristel S.r.l. for euro 0.5 million, the increase in the share capital of Pirelli Ambiente S.r.l. for euro 20.0 million

TRANSACTIONS WITH ASSOCIATES

(in millions of euro)

ITEMS OF BALANCE SHEET		
Current assets		
Trade receivables	0.1	For services to Fenice Srl
Other financial assets	104.1	The amount concerns the convertible loan of Prelios S.p.A.
Current liabilities		
Trade payables	0.2	The amount mainly consists of payables for services (euro 0.1 million Prelios S.p.A., euro 0.1 million Corimav).
Financial payables	1.7	Guarantee deposit payables to Prelios S.p.A. for R&D building lease.
Other payables	0.1	Deferral to Prelios S.p.A. for R&D building lease.
Tax payables	0.6	Payables towards Prelios S.p.A. group companies that take part in the tax consolidation.
ITEMS OF INCOME STATEMENT		
Revenues from sales and services	0.1	Related mainly to the cost recovery from Fenice S.r.l.
Other income	1.7	Related to the lease of R&D building by Prelios S.p.A.
Other costs	0.3	Related to the relations with Consortium for the Reserach into Advanced Materials (CORIMAV) (euro 0.2 million), and Prelios S.p.A. group (euro 0.1 million)
Net income (loss) from equity investments - Dividends	2.0	The amount is related to the dividends paid by Eurostazioni S.p.A. (euro 1.9 million)
Taxes	0.6	Refers to expenses towards the companies of Prelios S.p.A. group that take part in the tax consolidation.
CASH FLOW STATEMENT		
Investments in associates	44.3	The amount refers to the subscription of the share capital of Fenice S.r.l. for euro 23.0 million and the capital increase of RCS S.p.A. for euro 21,3 milllion.

TRANSACTIONS WITH RELATED PARTIES THROUGH DIRECTORS

(in millions of euro)

ITEMS OF BALANCE SHEET		
Current assets		
Trade receivables	0.2	The amount refers to receivables for services rendered to Camfin S.p.A. (euro 0.2 million)
Current liabilities		
Trade payables	3.3	The amount refers to payables for sponsorship activities with FC Internazionale Milano S.p.A.
ITEMS OF INCOME STATEMENT		
Revenues from sales and services	0.1	The amount refers to service contracts rendered to Camfin S.p.A.
Other income	0.3	The amount mainly refers to rental income and realting operating expenses to Camfin S.p.A.(euro 0.2 million)
Other costs	13.0	The amount refers to FC Internazionale Milano S.p.A. sponsorship costs.
CASH FLOW STATEMENT		
Investments in other financial assets	0.6	The amount refers to the share capital increase of F.C. Internazionale Milano S.p.A..

BENEFITS FOR KEY MANAGERS OF THE COMPANY

The remuneration payable to key managers amounted to euro 6,582 thousand at December 31, 2014 (euro 5,214 thousand at December 31, 2013) of which euro 3,638 thousand (euro 2,088 thousand in 2013) recognised in the Income Statement as “personnel expenses” and euro 2,944 thousand (euro 3,127 thousand at December 31, 2013) as “other costs”. The remuneration also includes euro 353 thousand for employees’ leaving indemnity (TFR) and retirement benefits (euro 348 thousand at December 31, 2013).

36. OTHER INFORMATION

COMPENSATION OF INDEPENDENT AUDITORS

The table below, prepared in compliance with article 149-duodecies of the Consob Issuers Regulation, shows the fees paid in FY 2014 for the audit service and those paid for other non-audit services carried out by the audit firm Reconta Ernst & Young S.p.A.

(in thousands of euro)

	COMPANY THAT PROVIDED THE SERVICE	COMPANY THAT RECEIVED THE SERVICE	PARTIAL FEES	TOTAL FEES
Independent auditing services and certification services[1]	Reconta Ernst & Young S.p.A.	Pirelli & C. S.p.A.	311	311
Services other than auditing	Reconta Ernst & Young S.p.A.	Pirelli & C. S.p.A.	-	-
				311

[1] the item "independent auditing services and certification services" includes amounts paid for legal accounting auditing services and other services that envisage the issuance of an auditor's report as well as amounts paid for certification services linked with legal auditing activities

TRANSACTIONS RESULTING FROM UNUSUAL AND/OR EXCEPTIONAL OPERATIONS

Pursuant to the Consob Communication of July 28, 2006, the Group certifies that no unusual and/or exceptional transactions as defined in the Communication were carried out in 2014.

37. NET FINANCIAL POSITION (ALTERNATIVE PERFORMANCE INDICATOR NOT REQUIRED BY IFRS ACCOUNTING STANDARDS)

(in thousands of euro)

	NOTES	12/31/2014		12/31/2013	
			OF WHICH RELATED PARTIES		OF WHICH RELATED PARTIES
Current borrowings from banks and other financial institutions	19	21,997		23,200	
Non-current borrowings from banks and other financial institutions	19	500,383		499,214	
Total gross debt		**522,380**		**522,414**	
Cash	15	(8)		(15)	
Current financial receivables	13	(410,871)	(405,486)	(748,637)	(740,995)
(Liquidity)/Net financial (liquidity)/debt position*		**111,501**		**(226,238)**	
Non-current financial receivables	13	(500,636)	(500,000)	(943)	
Total net financial (liquidity) debt position		**(389,135)**		**(227,181)**	

* Pursuant to Consob Communication of July 28, 2006 and in compliance with the CESR recommendation of February 10, 2005 "Recommendation for the consistent implementation of the European Commission's Regulation on Financial Statements".

Below are the main movements that affected the net financial position in 2014:

- collection of dividends for euro 312,921 thousand, of which euro 294,000 thousand paid by Pirelli Tyre S.p.A., euro 7,671 thousand paid by Pirelli Ltda and euro 4,299 thousand paid by Pirelli Group Reinsurance Company S.A.;
- capital increase in subsidiaries for euro 13,030 thousand, and to other financial assets for euro 9,043 thousand;
- payment of dividends to shareholders euro 156,745.

38. COMMITMENTS AND CONTINGENCIES

GUARANTEES ISSUED IN THE INTERESTS OF SUBSIDIARIES AND OTHER COMPANIES

Guarantees were released for borrowings and contractual commercial obligations of subsidiaries for euro 106,668 thousand and of the other companies for euro 83 thousand.

OTHER CONTINGENCIES

At the beginning of April 2014 the European Commission communicated to Pirelli, and other parties involved (including Prysmian Cavi e Sistemi, a subsidiary of Pirelli until July 2005), the decision taken at the conclusion of the antitrust investigation initiated for the energy cables business, which provides for a penalty against Prysmian of approximately euro 104 million for a portion of which, amounting to euro 67 million, Pirelli is jointly liable with Prysmian. This decision confirms that there was no direct involvement by Pirelli in the alleged cartel. The alleged antitrust violation is attributable solely to the principle of "parental liability", because, during part of the period of the alleged cartel, Prysmian was controlled by Pirelli. Pirelli appealed to the European Court of Justice against the decision of the European Commission alleging the application of the principle of "parental liability". In fact, Pirelli believes that the principle of "parental liability" is not applicable to it.
The European Commission also ordered Pirelli to deposit bank guarantee to cover the payment, if and when due, of 50% of the penalty levied on Prysmian and Pirelli jointly. In consequence of the above on 17 December 2014, Pirelli provided the Commission with the guarantees requested.
Pirelli took action before the Court of Milan for the obligation of Prysmian to hold Pirelli harmless from any claim by the European Commission in relation to the mentioned penalty to be ascertained and declared.
Pirelli, on the basis of careful legal analysis supported by professional opinions of external legal advisors, believes it is not involved in the alleged irregularities of its former subsidiary, and that the ultimate full liability for any violation (and the payment of the related penalty) shall be the exclusive responsibility of the company directly involved.
In consequence of the above, the risk assessment is such as not to have to request the allocation of any specific provision in the annual Financial Statements at December 31, 2014.

39. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

On **January 9, 2015** Pirelli signed a contract for a new revolving credit facility (euro 800 million) and a multicurrency term loan (euro 200 million) for a total value of euro 1 billion and five-year term. The contract replaces the existing revolving credit facility for euro 1.2 billion maturing in November 2015 which therefore is being extinguished in advance. In addition, on **February 13, 2015**, an additional contract having substantially the same conditions of the abovementioned credit facility and for a total value of euro 200 million and five-year was signed.

On **January 27, 2015** the special meeting of the holders of savings shares of Pirelli & C. S.p.A., appointed Angelo Cardarelli as common representative for the years 2015, 2016 and 2017 in place of Professor Giuseppe Niccolini.

On **February 6, 2015** Pirelli and Bekaert announced the closing of the disposal of Pirelli steelcord activities in Turkey (Izmit) to Bekaert. On **March 27, 2015**, with the disposal of the steelcord in China (Yanzhou), the transfer of all steelcord activities from Pirelli to Bekaert was completed. In line with what was communicated to the market in February 2014 on the occasion of the announcement of the transaction, the total value (enterprise value) of 100% of steelcord activities is confirmed at euro 255 million.

On **February 12, 2015** the Board of Directors of Pirelli & C. S.p.A. examined the preliminary unaudited results of 2014 operations.

On **March 22, 2015** China National Tire & Rubber Co. (CNRC), a subsidiary of ChemChina's (ChemChina), Camfin S.p.A. (Camfin) and shareholders of Camfin (Coinv S.p.A. and Long-Term Investments Luxembourg S.A.) signed a binding long-term industrial partnership agreement related to Pirelli.
The partnership has a stated objective of strengthening the development plans of Pirelli, the presence in the strategic geographical areas and the doubling of volumes in the Industrial segment (from about 6 million to about 12 million tires) through the future integration of CNRC and Pirelli's Industrial tire activities. Continuity and autonomy of the current managerial structure of Pirelli Group are the key elements of the agreement.
The transaction provides for the appointment of the President by CNRC and the permanence of Marco Tronchetti Provera as CEO of Pirelli.
Pirelli headquarter and know-how will remain in Italy: reinforced majorities are required to authorize the transfer of both the Headquarter and Pirelli know-how to third parties.

The agreement foresees:

- the purchase by a newly established Italian company (Bidco), the latter being indirectly controlled by CNRC in partnership with Camfin through two newly established Italian companies (Newco and Holdco), of Camfin's equity investment in Pirelli's share capital.
- the immediate reinvestment of a share of the consideration received by Camfin;
- upon completion of the purchase, a Mandatory Public Offer for the remaining ordinary share capital of Pirelli at euro 15.00 per ordinary share and a Voluntary Public Offer for all the savings capital of Pirelli at euro 15.00 per savings share, on the condition that not less than 30% of the savings capital is achieved. Both mandatory and voluntary public offer will be launched by Bidco in order to proceed to the delisting of Pirelli;
- the payment of 2014 dividends before the purchase by Bidco of Pirelli shares held by Camfin.

The completion of the transaction is subject to the conditions typical of a transaction of this type and is expected in the summer of 2015 upon the approval by antitrust and other relevant authorities. Extracts of the shareholders' agreements related to the abovementioned partnership are available on Pirelli's website.

ATTACHMENTS TO THE EXPLANATORY NOTES

MOVEMENTS OF INVESTMENTS FROM 12/31/2013 TO 12/31/2014

	12/31/2013			
	NUMBER OF SHARES	CARRYING AMOUNT (EURO/THOUSAND)	% OF TOTAL INVESTMENTS	% OF WHICH DIRECT
INVESTMENTS IN SUBSIDIARIES				
ITALY				
Unlisted:				
Pirelli Servizi Amministrazioni e Tesoreria S.p.A.	2,047,000	3,237.5	100.0	100.0
Maristel S.p.A. - Milan	1,020,000	1,315.2	100.0	100.0
Pirelli Labs S.p.A. - Milan	5,000,000	4,079,1	100.0	100.0
Pirelli Sistemi Informativi S.r.l. - Milan	1 quota	1,655,4	100.0	100.0
Pirelli & C. Ambiente S.r.l.	1 quota	13,500,0	100.0	100.0
Pirelli Tyre S.p.A. - Milan	756,820,000	1,085,860,9	100.0	100.0
Pirelli Tyre Commerciale Italy S.r.l.	-	-	-	-
PZero Srl - Milano	1 quota	4,064,0	100.0	100.0
Servizi Aziendali Pirelli S.C.p.A. - Milan	95,940	103.3	100.0	92.3
HB Servizi Srl	-	-	-	-
Total investments in subsidiaries - Italy		**1,113,815.4**		
FOREIGN COMPANIES				
Brasil				
Pirelli Ltda - Sao Paulo	27,999,991	9,665.9	100.0	100.0
Luxemburg				
Pirelli Finance (Luxembourg) S.A.	26,245	10,489.9	100.0	100.0
UK				
Pirelli UK ltd. - Londra - ordinarie	143,991,278	21,871.1	100.0	100.0
Switzerland				
Pirelli Group Reinsurance Company S.A.	800,000	6,345.8	100.0	100.0
Total investments in subsidiaries - foreign companies		**48,372.7**		
TOTAL INVESTMENTS IN SUBSIDIARIES		**1,162,188.1**		
INVESTMENTS IN ASSOCIATES				
ITALY				
Listed				
Prelios S.p.A. - Milan	-	21,836.0	13.1	13.1
Total listed companies		**21,836.0**		
Unlisted				
Fenice Srl	1 quota	18,185.3	32.8	32.8
Consorzio per le Ricerche sui Materiali Avanzati (CORIMAV)	1 quota	103.5	100.0	100.0
Eurostazioni S.p.A. - Rome	52,333,333	52,937.1	32.7	32.7
Total unlisted companies		**71,225.9**		
TOTAL INVESTMENTS IN ASSOCIATES		**93,062.0**		

CHANGES		12/31/2014			
NUMBER OF SHARES	(EURO/THOUSAND)	NUMBER OF SHARES	CARRYING AMOUNT (EURO/THOUSAND)	% OF TOTAL INVESTMENTS	% OF WHICH DIRECT
-	-	2,047,000	3,237.5	100.0	100.0
-	-	1,020,000	1,315.2	100.0	100.0
-	-	5,000,000	4,079.1	100.0	100.0
-	-	1 quota	1,655 .4	100.0	100.0
-	(13,500.0)	1 quota	-	100.0	100.0
-	-	756,820,000	1,085,8610.9	100.0	100.0
-	20.0	-	20.0	100.0	100.0
-	830.3	1 quota	4,894.3	100.0	100.0
-	-	95,940	103.3	100.0	92.3
-	2,010.2	-	2,010.2	100.0	100.0
	(10,639.5)		**1,103,175.9**		
-	-	27,999,991	9,665.9	100.0	100.0
(26,245)	(10,489.9)	-	-	-	100.0
-	-	143,991,278	21,87.1	100.0	100.0
-	-	800,000	6,345.8	100.0	100.0
	(10,489.9)		**37,882.8**		
	(21,129.4)		**1,141,058.7**		
148,127,621	34,200.6	148,127,621	56,036.7	29.2	29.2
	34,200.6		**56,036.7**		
1 quota	(2,163.2)	1 quota	16,022.1	62.6	62.6
-	-	1 quota	104.5	100.0	100.0
-	-	52,333,333	52,937.1	32.7	32.7
	(2,163.2)		**69,062.7**		
	32,037.4		**125,099.4**		

MOVEMENTS OF OTHER FINANCIA ASSETS

		12/31/2013			FAIR VALUE VALUATION AT 12/31/2014
	NUMBER OF SHARES	CARRYING AMOUNT (EURO/THOUSAND)	% OF TOTAL EQUITY INV.	% OF WHICH DIRECT	
INVESTMENTS IN OTHER COMPANIES					
ITALIAN LISTED COMPANIES					
Mediobanca S.p.A. - Milan	15,753,367	100,191.4	1.8	1.8	6,458.9
RCS Mediagroup S.p.A. - Milan	23,135,668	30,539.1	5.5	5.5	-
Total other listed companies A		**130,730.5**			**6,458.9**
ITALIAN UNLISTED COMPANIES					
Aree Urbane S.r.l. (in liquidation) - Milan	1 quota	4.1	0.3	0.3	-
C.I.R.A. - Centro Italiano di Ricerche Aerospaziali S.c.p.A. - Capua (CE)	30	-	0.1	0.1	-
Alitalia - Compagnia Aerea Italiana S.p.A. - Rome	11,838,402	7,534.4	1.8	1.8	-
CEFRIEL - Società Consortile a Responsabilità limitata	1 quota	-	5.5	5.5	-
Consorzio DIXIT (in liquidation) - Milan	1 quota	-	14.3	14.3	-
MIP Politecnico di Milano - Graduate School of Business società consortile per azioni già Consorzio per L'Innovazione nella Gestione di Azienda -Mip -(Master Imprese Politecnico) Milano	1 quota	-	2.4	2.4	-
Consorzio Milano Ricerche - Milan	1 quota	-	7.1	7.1	-
Fin Breda S.p.A. (in liquidazione) - Milan	1,561,000	-	0.4	0.4	-
Società Generale per la Progettazione Consulenze e Partecipazioni (ex Italconsult) S.p.A. - Roma	1,100	-	3.7	3.7	-
Emittenti Titoli S.p.A. - Milan	229,000	2,633.3	2.8	2.8	964.2
F.C. Internazionale Milano S.p.A. - Milan	49,423,463	558.1	1.6	1.6	-
Fin. Priv. S.r.l. - Milan	1 quota	13,732.0	14.3	14.3	741.3
Istituto Europeo di Oncologia S.r.l. - Milan	1 quota	5,037.5	6.0	6.0	344.3
Nomisma - Società di Studi Economici S.p.A. - Bologna	650,100	272.8	5.1	5.1	-
Redaelli Sidas S.p.A. (in liquidazione) - Milan	750,000	-	4.6	4.6	-
S.In.T S.p.A. - Torin	90,000	91.3	10.0	10.0	1.4
Consorzio Movincom scrl	-	9.0	-	-	3.2
Movincom Servizi S.p.A.	-	472.3	-	-	(99.6)
Tiglio I S.r.l. - Milan	1 quota	200.6	0.6	0.6	-
Total other Italian unlisted companies B		**30,545.4**			**1,954.8**
FOREIGN COMPANIES					
Libia					
Libyan-Italian Joint Company - azioni ordinarie di tipo B	300	31.5	1,0	1.0	-
Belgium					
Euroqube S.A. (in liquidazione)	67.570	372.7	18,0	18.0	-
U.S.A.					
Gws Photonics Inc - Wilmington - Az. Priv tipo B	1.724.138	-	-	-	-
Gws Photonics Inc - Wilmington - Az. Priv tipo C	194.248	-	-	-	-
UK					
Eca International	100	-	2,8	2.8	-
Total other foreign companies C		**404.2**			**-**
OTHER PORTFOLIO SECURITIES					
Fondo Comune di Investimento Immobiliare - Anastasia - nr quote 53	53	15,083.8			(261.8)
Convertendo 2013-2019 Prelios "A"		56,739.6			-
Convertendo 2013-2019 Prelios "B"		47,347.2			-
Total other portfolio securities D		**119,170.6**			**(261.8)**
TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS A+B+C+D		**280,850.6**			**8,151.9**

OTHER CHANGES		12/31/2014			
NUMBER OF SHARES	(EURO/THOUSAND)	NUMBER OF SHARES	CARRYING AMOUNT (EURO/THOUSAND)	% OF TOTAL EQUITY INV.	% OF WHICH DIRECT
-	-	15,753,367	106,650.3	1.8	1.8
-	(8,918.8)	23,135,668	21,620.3	5.5	5.5
	(8,918.8)		**128,270.6**		
-	(4.1)	1 quota	-	-	-
-	-	30	-	0.1	0.1
48,387,729	(2,185.8)	60,226,131	5,348.6	2.7	2.7
-	-	1 quota	-	5.8	5.8
-	-	1 quota	-	14.3	14.3
-	-	1 quota	-	2.4	2.4
-	-	1 quota	-	7.1	7.1
-	-	1,561,000	-	0.4	0.4
-	-	1,100	-	3.7	3.7
-	-	229,000	3,597.5	2.8	2.8
-	-	49,423,463	558.1	0.5	0.5
-	-	1 quota	14,473.3	14.3	14.3
-	-	1 quota	5,381.8	6.0	6.0
-	(29.3)	959,429	243.5	5.1	5.1
-	-	750,000	-	4.6	4.6
-	-	90,000	92.7	10.0	10.0
-	(6.2)	-	6,0	10.0	10.0
-	-	-	372.7	10.0	10.0
	(90.9)	1 quota	109.7	0.6	0.6
	(2,316.3)		**30,183.9**		
-	-	300	31.5	1.0	1.0
-	(221.5)	67,570	151,2	18.0	18.0
-	-	1,724,138	-	-	-
-	-	194,248	-	-	-
-	-	100	-	2.8	2.8
	(221.5)		**182,7**		
-	-	53	14,822.0		
-	(56,739.6)		-		
-	(47,347.2)		-		
	(104,086.8)		**14,822.0**		
	(115,543.4)		**173,459.2**		

INVENTORY AT 12/31/2014

LIST OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (PURSUANT TO ART. 2427 OF THE CIVIL CODE)

(in thousands of euro)

	LEGAL ADDRESS	CARRYING AMOUNT	SHARE %	SHARE CAPITAL	ATTRIBUTABLE EQUITY	ATTRIBUTABLE NET INCOME (LOSS)
INVESTMENTS IN SUBSIDIARIES - ITALY						
Pirelli Servizi Amministrazioni e Tesoreria S.p.A.	Milan	3,238	100%	2,047	3,811	159
Maristel S.p.A.	Milan	1,315	100%	1,020	2,126	(6)
Pirelli & C. Ambiente S.r.l.	Milan	0	100%	5,000	(4,405)	(18,582)
Pirelli Sistemi Informativi S.r.l.	Milan	1,655	100%	1,010	1,445	(770)
Pirelli Labs S.p.A.	Milan	4,079	100%	5,000	6,561	1,311
Pirelli Tyre S.p.A.	Milan	1,085,861	100%	756,820	1,168,123	326,402
PZero S.r.l.	Milan	4,894	100%	4,000	4,894	(10,170)
Servizi Aziendali Pirelli S.c.p.a.	Milan	103	92.3%	104	253	6
HB Servizi Srl	Milan	2,010	100.0%	10	193	(1,817)
Pirelli Tyre Commerciale Italia S.r.l.	Milan	20	100.0%	10	17	(3)
Total investments in subsidiaries - Italy		**1,103,175**				
INVESTMENTS IN FOREIGN SUBSIDIARIES						
Switzerland						
Pirelli Group Reinsurance Company S.A.	Lugano	6,346	100%	6,653	11,827	3,506
Brasil						
Pirelli Ltda	Sao Paulo	9,666	100%	4,338	4,968	(1,686)
UK						
Pirelli UK ltd.	London	21,871	100%	210,542	46,255	(2,070)
Total investments in foreign subsidiaries		**37,883**				
Total investments in subsidiaries		**1,141,058**				
INVESTMENTS IN ASSOCIATES - ITALY						
Consorzio per le Ricerche sui Materiali Avanzati (CORIMAV)	Milan	104	100%	104	104	0.0
Eurostazioni S.p.A.	Rome	52,937	32.7%	165,233	54,853	2,437
Fenice S.r.l.	Milan	16,022	62.6%	23,345	*	*
Prelios S.p.A.	MIlan	56,037	29.2%	426,432	30,623	(17,855)
Total investments in associates		**125,100**				

* Data not yet available

REPORT OF THE BOARD OF AUDITORS TO THE SHAREHOLDERS' MEETING

Dear Shareholders,

the Board of Auditors, pursuant to art. 153 of Legislative Decree 58/1998 ("TUF Consolidated Finance Act"), is required to report to the Shareholders' Meeting on the approval of the Financial Statements on the supervisory activities performed in the year and any omissions and reprehensible facts identified. The Board of Auditors may also make proposals regarding the Financial Statements and their approval and matters within its competence.
During the year, the Board of Auditors carried out their duties of supervision in terms of the current legislation and taking into account principles of conduct recommended by the National Council of Chartered Accountants and Accounting Experts, and Consob regulations regarding corporate audits and activities of the Board of Auditors.

* * *

The 2014 financial statements show revenues for Euro 6,018.1 million, an operating result (EBIT) for Euro 837.9 million with an EBIT margin of 13.9%.
The total consolidated net income, which includes discontinued operations (Steel cord business) amounted to Euro 332.8 million.
The income from investments at 31 December 2014 was negative for Euro 87.0 million and mainly reflects: the negative impact for Euro 54.4 million from the consolidation with the equity method of the equity of the results of the associates Prelios S.p.A. (fourth quarter 2013 and nine months of 2014) and Fenice S.r.l. (FY 2014); write-downs for Euro 19 million detected on Fenice in order to align the value of the investment at fair value; further write-downs totalling Euro 29.3 million primarily related to investments in Compagnia Aerea Italiana S.p.A. (already Alitalia) and RCS Media Group.
The positive effect of Euro 13.3 million from the replacement during the year 2014 of the convertible loan with class A and B Prelios shares.
The consolidated net financial position was negative for Euro 979.6 million (Euro 1,322.4 million at year-end 2013).
The parent company Pirelli & C. SpA closed the year with a net profit of Euro 258.0 million (Euro 191.9 million in 2013).
As a result of the signing of the sale contract of 100% of the steel cord business, in the 2014 financial statements this business was classified as "discontinued operations" and the result reclassified in the income statement under "result from discontinued operations".

* * *

We note that the Financial Statements of Pirelli & C. S.p.A. have been prepared in accordance with IAS/IFRS International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, in force as at 31 December 2014, and in accordance with the measures issued in implementation of article 9 of Legislative Decree 38/2005.
The Directors' Report on Operations summarizes the main risks and uncertainties and outlines the outlook.
The Financial Statements of the Company consist of the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes.
The Financial Statements are accompanied by the Directors' Report on Operations and the Annual Report includes the Report on Corporate Governance and Ownership Structure, prepared pursuant to article 123-bis of the CFA.

APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS

The Board of Auditors in office at the date of this report was appointed by the Shareholders' Meeting on 10 May 2012 and is composed by Francesco Fallacara (Chairman), Antonella Carù and Umile Sebastiano Iacovino, who succeeded, on 12 June 2014, Enrico Laghi, who resigned from the office of Statutory Auditor of the Company.
Andrea Lorenzatti is Alternate Auditor.
The Board of Auditors expires from office for completing its mandate with the next Shareholders' Meeting called to approve the financial statements at 31 December 2014.

PARTICULARLY SIGNIFICANT TRANSACTION

The significant transactions are reported in the Directors' Report on Operations. In particular:

- On 28 February 2014, Pirelli Tyre S.p.A. and Bekaert signed an agreement for the sale of the steelcord business of Pirelli to Bekaert for a total value (enterprise value relative to 100% of assets) of about Euro 255 million. As part of the agreement, a long-term supply and joint product development agreement was also defined. On 18 December 2014, the sale of the steelcord business was finalized in Italy (Figline), Romania (Slatina) and Brazil (Sumaré) for a value (enterprise value) of around Euro 150 million, consistent – in pro-quota terms – with approximately Euro 255 million of the total value of the agreement. The closing for the sale of the steelcord business in Turkey (Izmit) was announced on 6 February 2015, while the closing for the sale of the business in China (Yanzhou) was on 27 March 2015.
- At the beginning of April 2014, the European Commission communicated to Pirelli, and other parties involved (including Prysmian Cavi e Sistemi, a subsidiary of Pirelli until July 2005) the decision taken at the conclusion of the antitrust investigation initiated for the energy cables business, which provides for a penalty against Prysmian of approximately Euro 104 million for a portion of which, amounting to Euro 67 million, Pirelli is jointly liable with Prysmian.
  Pirelli took action before the Court of Milan for the obligation of Prysmian to hold Pirelli harmless from any claim by the European Commission in relation to the aforementioned penalty to be ascertained and declared. Pirelli, on the basis of legal analysis supported by opinions of external legal advisers, believed it is not involved in the alleged irregularities of its former subsidiary, and that the ultimate full liability for any violation (and the payment of the related penalty) shall be the exclusive responsibility of the company directly involved. In consequence of the above, the risk assessment was such as not to have to request the allocation of any specific provision in the annual Financial Statements at 31 December 2014.
- On 14 April 2014, following the occurrence of the conditions for the anticipation of the conversion of the Prelios bond ("Converting") at the time subscribed by Pirelli & C. S.p.A. under the debt restructuring plan of Prelios S.p.A., Pirelli & C. S.p.A. received, in exchange for the Prelios S.p.A. bonds held by it (Tranche A and B), with a total nominal value of Euro 148.4 million (plus accrued interest):

- approximately 112 million Prelios S.p.A. class A ordinary shares, which led to an increase in the portion of the voting capital held by Pirelli from 13.06% to 29.22%, of which about 7% is freely transferable and about 22% is bound by lock-up obligations until July 2016;
- approximately 93 million class B ordinary shares – unlisted and without voting rights – which, according to the agreements between the shareholders of Fenice S.r.l., were transferred on 30 June 2014 to Fenice. Following this transfer, Fenice S.r.l., vehicle established in 2013 following the restructuring of the financial credit to Prelios S.p.A. and held by Pirelli, Feidos 11 S.p.A., Unicredit S.p.A. and Intesa Sanpaolo S.p.A., holds all the class B shares with the purpose to proceed with the sale on the market.

- On 24 May 2014, the transaction was completed that led Long-Term Investments Luxembourg S.A. – a company controlled by Fondo Pensioni Neftegarant – to hold 50% of Camfin S.p.A. (company that holds 26.19% of Pirelli & C. S.p.A.). The remaining part is owned by Coinv S.p.A. held 76% by Nuove Partecipazioni S.p.A. and 12% each by Intesa Sanpaolo S.p.A. and Unicredit S.p.A.
- On 12 June 2014 the Shareholders' Meeting of Pirelli & C. S.p.A. renewed for three years the Board of Directors (until approval of the Financial Statements at 31 December 2016) resulting in 15 members, of which 8 independent. The new Board of Directors appointed Marco Tronchetti Provera as Chairman and CEO, and Alberto Pirelli as Deputy Chairman. The Board of Directors also confirmed Francesco Tanzi as Chief Financial Officer of the Group.
- On 13 November 2014, Pirelli completed the placement with international institutional investors of an unrated bond, on the Euromarket for a nominal amount of Euro 600 million. The transaction obtained the lowest coupon – 1.75% – ever obtained by the Pirelli Group, as well as an Italian unrated corporate Eurobond.

As also shown by the directors in their report under significant events after the end of the year, we note that on 22 March 2015, China National Tire & Rubber Co., subsidiary of ChemChina's, Camfin S.p.A. and the shareholders of Camfin signed a binding agreement for a long-term industrial partnership related to Pirelli and a proposed mandatory bid for all the Pirelli shares. Completion of the transaction is subject to the typical conditions of a transaction of this type and is expected in the summer of 2015, after approval by the antitrust authorities and other competent authorities.

ATYPICAL OR UNUSUAL TRANSACTIONS

Significant transaction in 2014 are set out in detail in the Directors' Report on Operations. There were no atypical or unusual transactions.

INFRA-GROUP TRANSACTIONS WITH RELATED PARTIES

Pursuant to article 2391-bis of the Italian Civil Code and Consob Resolution 17221 of 12 March 2010 on the "Regulation of related party transactions", as amended by Consob resolution no. 17389 of 23 June 2010, on 3 November 2010, the Board of Directors of Pirelli & C., with the approval of the competent Committee composed solely of independent directors (assigned for the purpose pursuant to article 4 of the above Regulation with a special resolution of the Board of Directors) unanimously approved the "Procedure for transactions with related parties".
Also in implementation of a specific recommendation of Consob in regard, and as three years have elapsed after the adoption, the Board of Directors, subject to approval of the Committee for transactions with related parties, at its meeting on 5 November 2013, evaluated as valid and effective the Procedure for Transactions with Related Parties as a whole, with some slight amendments.
At its meeting of 31 March 2015, the Board of Directors, after consulting with the Committee for Transactions with Related Parties, made some marginal amendments to the procedure for related parties to take account of some organizational changes within the Group.
Following its renewal, the Board of Directors resolved to grant to the Audit, Risks, Sustainability and

Corporate Governance Committee the task of also operating as the "Committee for related party transactions", with the exception of remuneration issues entrusted to the Remuneration Committee.
According to article 4, paragraph 6 of the said Regulations, we note that the Procedure adopted by the Company also as last amended (i) is consistent with the principles contained in the Regulation itself, (ii) is published on the Company's website (www.pirelli.com).
During the year 2014, transactions were entered into with related parties both infra-group and with third parties.
The infra-group transactions examined by us are of an ordinary nature, as essentially consisting of reciprocal provision of administrative, financial and organizational services. They were regulated by applying normal conditions determined in accordance with standard parameters, which reflect the actual use of the services and were carried out in the interest of the Company, as aimed at rationalizing the use of resources of the Group.
Transactions with related parties outside the Group examined by us are also of an ordinary nature (as they fall in the ordinary course of business or financial activities related to it) and/or concluded on terms equivalent to standard or market terms and respond to the interest of the Company. These transactions were regularly reported to us by the Company.
We participated in the meetings of the Audit, Risks, Sustainability and Corporate Governance Committee (also met as the Committee for Related Party Transactions) during which the same expressed a favourable opinion on some related party transactions of "minor importance", since the Committee evaluated the Company's interest in the transaction and the convenience and substantial fairness of its conditions.
Transactions with related parties are set out in the notes to the Financial Statements and the consolidated Financial Statements of the Company, which also show the resulting economic and financial effects.
We monitored compliance with the Procedure adopted by the Company in regard and the fairness of the process followed by the Board and the competent Committee regarding the qualification of related parties and we have nothing to report.

PROCEDURE FOR IMPAIRMENT TEST

We report that the Board of Directors at its meeting of 24 March 2015, as suggested by the joint document of the Bank of Italy / Consob / ISVAP of 3 March 2010, approved, autonomously and prior to the approval of the Financial Statements by the Board of Directors (which took place at the meeting of 31 March 2015), compliance of the impairment test procedure with the requirements of IAS 36 after sharing the same by the Audit, Risks, Sustainability and Corporate Governance Committee and the Board of Auditors.
In particular, the procedures for impairment tests were conducted by the Company on the goodwill allocated to the Consumer and Industrial CGUs, as well as on investments held by the Company in Prelios S.p.A. and Fenice S.r.l. at 31 December 2014.
The notes to the Financial Statements provide information and results of the evaluation process conducted with the help of a highly qualified expert.

SUPERVISORY ACTIVITIES PURSUANT TO LEGISLATIVE DECREE 39/2010 "STATUTORY AUDITORS"

The Board of Auditors together with the Audit, Risks, Sustainability and Corporate Governance Committee supervised:

- financial reporting process;
- effectiveness of internal control, internal audit and risk management systems;
- statutory audit of annual accounts and consolidated accounts;
- independence of the independent auditors, in particular as regards the provision of non-audit services.

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Supervisory activities on the financial reporting process

The Board of Auditors verified the existence of appropriate standards and processes to oversee the process of "formation" and "spread" of financial information and therefore expresses an evaluation of the adequacy of the process of preparing financial reporting and believes there are no findings to be submitted to the Shareholders' Meeting.

Oversight of the effectiveness of internal control, internal audit and risk management systems and the statutory audit of annual and consolidated accounts

The Board of Auditors, together with the Audit, Risks, Sustainability and Corporate Governance Committee, met the Internal Audit Director quarterly being informed as to the results of audits aimed at verifying the adequacy and the effectiveness of the Internal Audit System, compliance with the law, procedures and business processes as well as the activities of implementation of related plans for improvement. It also received the Audit Plan for the year and the related accounts as well as the Annual Risk Assessment and Annual Risk Management Plan.
In addition, every six months it received from the Audit, Risks, Sustainability and Corporate Governance Committee and the Supervisory Body the respective report on the activities carried out.
The Board of Auditors also acknowledged as reported by the Executive in charge that, upon approval of the draft Financial Statements, confirmed the adequacy and suitability of the powers and means conferred upon it by the Board of Directors of the Company, also confirming to have had direct access to all the information necessary for the preparation of the accounting data, without the need for any authorization; the Board of Auditors also noted that the Executive in charge reported to have participated in the internal information flows for accounting purposes and to have approved all the company procedures that had an impact on the economic and financial position of the Company.
The Board therefore expresses an evaluation of the adequacy of the internal audit system and risk governance as a whole and there are no findings to be submitted to the Shareholders' Meeting.
The Board of Auditors met at least quarterly with the independent auditors and the meetings did not reveal fundamental issues in the review or significant deficiencies in the internal audit system relating to the financial reporting process also pursuant to the provisions of article 19 paragraph 3 of the Legislative Decree 39/2010.

Supervisory activities on the independence of the independent auditors, in particular as regards the provision of non-audit services

The Board of Auditors monitored the independence of the Independent Auditors and in particular received periodic evidence of tasks other than audit services to be assigned (or allocated on the basis of specific regulations) to the Statutory Auditor.

With reference to the independence of the Independent Auditors, at Group level an articulated procedure in regard has been defined and issued that establishes the prohibition for all companies of the Pirelli Group to assign tasks to companies belonging to the network of the Statutory Auditor in charge without prior and express authorization of the Chief Financial Officer who, with the help of the Internal Audit Director, has the task of verifying that the appointment is not among those not allowed by article 17 of the aforementioned Legislative Decree 39/2010 and that, in any case, given its characteristics, does not affect the independence of the auditor.
All assignments other than statutory audit or required by law that involve an annual fee of more than Euro 50,000 are subjected to the examination of the Board of Auditors of Pirelli & C., subject to specific and justified reasons. The Internal Audit Director provided a list of non-audit services assigned to the Auditor quarterly to the Board of Auditors.
During the year 2014, Reconta Ernst&Young S.p.A. carried out in favour of the Group the activities summarized below:

(in thousands of euro)

	COMPANY THAT PROVIDED THE SERVICE	COMPANY THAT RECEIVED THE SERVICE	PARTIAL FEES	TOTAL FEES	
Independent auditing services and certification services [1]	Reconta Ernst & Young S.p.A.	Pirelli & C. S.p.A.	311		
	Reconta Ernst & Young S.p.A.	Subsidiaries	657		
	Network Ernst & Young	Subsidiaries	2,202	3,170	77.9%
Services other than auditing	Reconta Ernst & Young S.p.A.	Pirelli & C. S.p.A.	-		
	Reconta Ernst & Young S.p.A.	Subsidiaries	-		
	Network Ernst & Young	Subsidiaries	900 [2]	900	22.1%
				4,070	**100.0%**

[1] the item "independent auditing and certification services" includes amounts paid for auditing services and other services that envisage the issuance of an auditor's report as well as amounts paid for the so called certification services since they create synergies with the auditing services.
[2] support for the analysis of the distribution network and go-to-market activities in Brazil concerning a multiyear project.

The activities in note (2) refer to two separate projects, one in continuation of the other, relating respectively to the analysis of the distribution network in Brazil, concluded in 2014, and the go-to-market activities also in Brazil, which will end in 2015; the above table shows the portion of 2014, added to that of the first project, for a total of about Euro 900,000 accrued in 2014.

The Board of Auditors considers that the above fees are adequate to the size, complexity and characteristics of the work performed and also considers that the tasks (and related fees) other than audit services are not such to affect the independence of the Statutory Auditor.
In this latter regard, it is noted that the Board of Directors, after evaluation of the Audit, Risks, Sustainability and Corporate Governance Committee, shared said assessment.

ORGANIZATIONAL STRUCTURE

The Board of Auditors evaluated the Company's organizational structure as adequate to the needs of the same and appropriate to ensure compliance with the principles of proper management.

REMUNERATION OF DIRECTORS AND KEY EXECUTIVES

In the course of the year, the Board of Auditors expressed the opinions required by law on the remuneration of directors holding particular positions, expressing the opinions provided by article 2389 of the Civil Code.
The Board of Auditors found that the remuneration system in place provides for the allocation of fees broken down into a fixed component and an additional bonus (variable) linked to the economic performance in the long term at Group level and related to the achievement of specific objectives set by the Board of Directors, upon the proposal of the Remuneration Committee.

At its meeting of 27 February 2014, the Board of Directors, upon the proposal of the Remuneration Committee and the favourable opinion of the Board, approved a three-year incentive plan from 2014 to 2016 related to the fulfilment of the objectives contained in the business plan 2014-2017.
Said three-year incentive plan is extended, as in the past, to the whole Pirelli management and was submitted to the Shareholders' Meeting on 12 June 2014, which approved it, to the extent that it is expected that a portion of the incentive is determined on the basis of an objective of Total shareholder return.
Moreover, the LTI Plan involves a rolling mechanism of deferment of part of the MBO accrued and increase of the same MBO accrued upon achievement of certain objectives the following year.

ADDITIONAL ACTIVITIES OF THE BOARD OF AUDITORS AND DISCLOSURE REQUIRED BY CONSOB

In the exercise of its functions, the Board of Auditors, as required by article 149 of the CFA, monitored:

- compliance with the law and the By-laws;
- compliance with the principles of good management;
- adequacy, for the aspects of it competence, of the organizational structure of the Company;
- the procedures for effective implementation of corporate governance rules in codes of conduct which the Company, in public disclosures, declares to follow. In this regard, we note that the Company prepared in accordance with article 123-*bis* of the Consolidated Finance Act, the Annual Report on Corporate Governance and Ownership Structure which provides information about (i) the corporate governance practices actually applied by the Company beyond the obligations under the laws or regulations, (ii) the main characteristics of the risk management and internal audit systems in relation to the financial reporting process, even consolidated, (iii) the operating mechanisms of the Shareholders' Meeting, its main powers, shareholder rights and procedures to exercise them, (iv) the composition and operation of the administrative and control bodies and their committees as well as the other information required by article 123-*bis* CFA;
- the adequacy of instructions given to subsidiaries pursuant to article 114, paragraph 2 of Legislative Decree 58/1998, after finding that the Company is able to promptly and regularly fulfil the communication obligations under the law, as required by article 114, paragraph 2 of the Legislative Decree 58/1998. This also through the collection of information from the heads of the organizational functions and regular meetings with the independent auditors, for the mutual exchange of relevant data and information. In this regard, there are no particular observations to report.

We also note that in the Directors' Report on Operations a paragraph was included containing the description of the main characteristics of the risk management and internal audit systems in relation to the financial reporting process, even consolidated.
The Board of Auditors acknowledges:

- that the Directors' Report on Operations complies with current standards, consistent with the decisions of the administrative body and with the results of the Financial Statements and contains adequate information on the activities of the year and infra-group transactions. The section containing the information on transactions with related parties was included, in accordance with IFRS standard, in the notes to the Financial Statements;
- that the notes comply with current standards with indication of the criteria used in the assessment of the items of the financial statements and the value adjustments and that the consolidated financial statements of the Company were prepared in accordance with the structure and the formats imposed by law. Pursuant to Consob Resolution no. 15519/2006 the financial statements expressly state the effects of related party transactions on the statement of financial position and the income statement;
- that the Boards of Directors of the main subsidiaries include directors and/or executives of the parent company that provide coordinated direction and adequate flow of information, also supported by appropriate accounting information.

We also report that the Board of Auditors:

- received from the Directors, at least quarterly, also in compliance with the specific procedure approved by the Board of Directors, information about the activities and transactions of major strategic, economic, financial importance carried out by the Company. The Board of Statutory Auditors can reasonably ensure that the transactions approved and implemented comply with the law and the By-laws and were not manifestly imprudent or reckless, or in conflict of interest, or in contrast with the resolutions passed by the Shareholders' Meeting, or such to affect the integrity of corporate assets;
- received from the Supervisory Board, established pursuant to Legislative Decree 8 June 2001, no. 231 and to which, as a member, is attended by the Auditor Antonella Carù, information about the results of their audit work, which shows that there were no anomalies or reprehensible facts;
- held periodic meetings with representatives of the independent auditors in order to be able to exchange with it, as required by article 150, paragraph 3 of the CFA, data and information relevant to the performance of its task. In this regard it is noted that no significant data and information arose that should be reported in this report;
- obtained information from the corresponding bodies of the main subsidiaries regarding the administration and control systems and general business performance (pursuant to paragraphs 1 and 2 of article 151 of Legislative Decree no. 58/1998);
- did not receive complaints or claims under article 2408 of the Civil Code;
- issued during the year 2014, opinions pursuant to article 2386 of the Civil Code and opinions in accordance with article 2389 of the Civil Code.

In relation to the independent auditors, the Board of Auditors noted that Reconta Ernst&Young S.p.A.:

- issued today, the report containing its opinion on the compliance of the financial statements and consolidated financial statements with the legislative framework and the applicable accounting standards., with positive opinion. The one relating to the consolidated financial statements also include a recall of information related to the sale of the "steel cord business" and the related accounting in the context of IFRS 5 provisions (non-current assets held for sale and discontinued operations).
- verified the actual preparation, by the Company, the Report on Corporate Governance and Ownership Structure;
- confirmed the statement of the Company in relation to the fact that there were no other assignments to parties connected by continuing relationships with the independent auditors.

Moreover, regarding the corporate bodies, the Board of Auditors noted that:

- the Board of Directors if office - appointed 12 June 2014, expiring at the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2016 - at the date of this report consists of 15 Directors, including 13 non-executive directors and, among the latter, 7 in possession of the independence requirements of the Code of Conduct and the CFA. During the year 2014, following renewal of the Board, the Board of Auditors structure underwent the following changes:
  - On 10 July 2014 the Directors Claudio Sposito, Riccardo Bruno, Piero Alonzo, Emiliano Nitti, Luciano Gobbi and Enrico Parazzini (all taken from the majority list and of which three are independent) resigned from office. On the same date, The Board of Directors - with favourable opinion of the Board of Auditors - co-opted Igor Sechin, Didier Casimiro, Andrey Kostin (independent), Ivan Glasenberg (independent), Petr Lazarev and Igor Soglaev in replacement of the Directors who resigned.

- in 2014, the Board of Directors met 8 times;
- the Audit, Risks, Sustainability and Corporate Governance Committee, at the date of the Report, is composed of three Directors, all independent, and, during the year 2014, met 9 times;
- at the date of the Report, The Remuneration Committee consists of three directors, all independent and, in 2014, met 5 times;
- at the date of the Report, the Appointments and Successions Committee is composed of four Directors, the majority of whom are non-executive - of which two are independent - and, during

the year 2014, did not meet;

- at the date of the Report, The Strategies Committee consists of seven directors, three of whom are independent and, in the course of 2014 did not meet.

The Board of Auditors was present at all meetings of the Board of Directors and Board Committees. The Report on Corporate Governance and Ownership Structure provides evidence of the percentage of participation of individual members of the Board of Auditors in meetings of the Board of Directors and its Committees. The Board of Auditors intervened in the above meetings also as the Committee for Internal Control and Audit, pursuant to article 19 of Legislative Decree no. 39/2010.
All members of the Board of Auditors also attended the Ordinary Shareholders' Meeting of 12 June 2014. The Board also attended the Savings Shareholders' Meeting of 27 January 2015 which appointed the new Common Representative.

Finally, the Board acknowledged:

- to have monitored the fulfilment of obligations related to "Market Abuse" and "Protection of savings" regulations regarding corporate disclosure and "internal dealing", with particular reference to the handling of confidential information and the procedure for the distribution of press releases and information to the public;
- to have verified, as recommended by the Code of Conduct of the Italian Stock Exchange, the possession by its members, of the same independence requirements for directors of said Code;
- to have found the correct application of the criteria and procedures for verification of the independence requirements adopted by the Board of Directors to annually assess the independence of its members and does not have any comments in this regard;
- to have noted that the Directors' report, annexed to the Financial Statements of the Company, describes the main risks and uncertainties to which the Company is exposed;
- with reference to the provisions of article 36 of the Market Regulations, approved by Consob resolution 16191/2007, to have verified that the company organization and procedures implemented allow Pirelli & C. to ensure that its subsidiaries established and governed by the laws of non-EU countries subject to compliance with the provisions of Consob, have an accounting system appropriate for regular reporting to the management and auditor of the Company of the income statement, statement of financial position and financial data necessary for preparation of the consolidated Financial Statements. We point out that at 31 December 2014, the non-EU companies controlled, directly or indirectly, by Pirelli & C. relevant under article 36 of the Market Regulation are: Pirelli de Venezuela C.A. (Venezuela), Pirelli Neumaticos S.A. de C.V. (Mexico), Pirelli Neumaticos S.A.I.C. (Argentina), Pirelli Pneus Ltda (Brazil), Pirelli Tire LLC (USA), Pirelli Tyre Co. Ltd (China), Turk Pirelli Lastikleri A.S. (Turkey), Limited LiabilityCompany Pirelli Tyre Russia (Russia), Comercial e Importadora De Pneus LTDA (Brazil), Alexandria Tire Company S.A.E. (Egypt).

In the course of the supervisory activities and on the basis of information obtained by the independent auditors, there were no omissions or reprehensible facts, or irregularities or however significant facts that require reporting or mention in this report.
The activities described above, which took place in either individual or collegiate form, were recorded in the minutes of the 9 meetings of the Board of Auditors held during 2014.

PROPOSAL OF THE SHAREHOLDERS' MEETING

Financial statements at 31 December 2014

The Board expresses its opinion in favour of approval of the Financial Statements at 31 December 2014 and has no objections to make regarding the proposed resolutions submitted by the Board of Directors on the allocation of profits and the amount of dividend to be distributed.

Group Remuneration Policy

We inform you that the Board of Auditors expressed a favourable opinion on the 2015 Remuneration Policy submitted to the consultation of the Shareholders' Meeting.

Treasury shares

The Board of Auditors has no comments on the request by the Board of Directors - under articles 2357 and 2357-*ter* of the Civil Code, of article 132 of Legislative Decree 58/98 and article 144-*bis* of the Issuers' Regulations - to authorize the purchase and disposal of shares of the Company, also taking into account that the purchase submitted for your approval concerns shares fully paid, within the limits of the distributable profits and reserves available as resulting from the last Financial Statements and 10% of the share capital pro-tempore of Pirelli (taking into account shares already held by the Company and those held by subsidiaries), with the exception of the procedure under article 144-*bis* letter c) of the Issuers' Regulation. The right is therefore excluded to make purchases of treasury shares through purchase and sale of derivative instruments traded on regulated markets that provide for the physical delivery of the underlying shares and the conditions laid down by Borsa Italiana S.p.A. (Italian Stock Exchange).

Appointment of the Board of Statutory Auditors

The Board of Auditors is expiring for having completed its mandate.
We thank you for the trust you have bestowed, and we remind you that shareholders are kindly requested to provide for the appointment of the Board for the next three years with the voting list.

Other matters proposed

Regarding other matters submitted for your approval, the Board has no comments.

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Under article 144-*quinquiesdecies* of the Issuers' Regulations, approved by Consob resolution 11971/99 and subsequent amendments and additions, the list of positions held by members of the Board of Auditors in the companies referred to in Book V, Title V, Chapters V, VI and VII of the Civil Code, is published by Consob on its website (www.consob.it).
It is noted that article 144-*quaterdecies* (disclosure obligations to Consob) provides that whoever holds the position of member of the control body of a single issuer is not subject to the disclosure requirements laid down in said article and in this case, therefore, is not present in the lists published by Consob.
In this last regard, it is noted that the Board of Statutory Auditors in office at the date of this Report does not have other offices in the control bodies in listed issuers and therefore the following table shows the main positions they hold:
Chairman of the Board of Auditors Francesco Fallacara: Statutory Auditor in Innova S.p.A.; Statutory Auditor in Skiller Italia S.p.A., auditor in Hirafilm srl.
Auditor Antonella Carù: no office in companies pursuant to Book V, Title V, Chapters V, VI and VII of the Civil Code.
Auditor Sebastiano Umile Iacovino: Statutory Auditor in Pirelli Tyre S.p.A., Arianna 2001 S.p.A. and Servizi in rete 2001 S.r.l.

Milan, 20 April 2015

Francesco Fallacara
Antonella Carù
Sebastiano Umile Iacovino

RESOLUTIONS

MOTION FOR APPROVAL OF THE ANNUAL FINANCIAL REPORT AND ALLOCATION OF NET INCOME

To the Shareholders,

The financial year ending 31 December 2014 closed with net income of euro 257,963,959.

The Board of Directors proposes to distribute a dividend, net of the statutory allocation to the legal reserve and gross of statutory withholding tax, of:

- euro 0.367 for each ordinary share;
- euro 0.431 for each savings share.

If you agree to our proposal, we invite you to adopt the following resolutions

RESOLUTIONS

"The Meeting of the Shareholders,

- having examined the Annual Financial Report at 31 December 2014;
- having taken note of the report by the Board of Statutory Auditors;
- have taken note of the report by the Independent Auditors;

ADOPTS THE RESOLUTIONS AS BELOW

a) to approve the Company's Financial Statements for the financial year ending 31 December 2014, such as they are submitted by the Board of Directors, in their entirety, with regard to each entry, and with the provisions proposed, and showing a net income of euro 257,963,959:

b) to allocate the net income for financial year 2014 of euro 257,963,959, as follows:

5% to the legal reserve	**12,898,198**
to the shareholders:	
- euro 0.367 (*) to each of the 475,388,592 (**) ordinary shares, for a total of	**174,467,613**
- euro 0.431 (*) to each of the 11,842,969 (***) savings shares, for a total of	**5,104,320**
the residual net income to retained earnings	**65,493,828**

(*) Before deducting statutory withholding taxes.
(**) Net of the 351,590 ordinary shares currently held by the Company.
(***) Net of the 408,342 savings shares currently held by the Company.

c) to authorise the directors, if transactions in treasury shares are executed prior to payment of the dividend as in point b), to allocate to and/or draw from retained earnings the amount of the dividends relating to such shares, and to allocate to the same item the net amount of any roundings as may arise through dividend payment.

The dividend for financial year 2014 shall be available for collection as from May 20, 2015, with coupon detachment on May 18, 2015 (the "record date" shall be May 19, 2015)."

APPOINTMENT OF SIX MEMBERS OF THE BOARD OF DIRECTORS. RELATED AND CONSEQUENT RESOLUTIONS.

Dear Shareholders,

The ordinary general Meeting held on 12 June 2014 began re-electing the company's Board of Directors, by determining the number of its members as fifteen and setting a three year term of office for their relevant mandate (expiring therefore with the Meeting convened for the approval of the company's Financial Statements as at 31 December 2016).
By implementing the voting slate process, the so-called minorities were able, pursuant to the articles of association, to appoint three Directors out of a total of fifteen.
After the last shareholders' meeting of the 12 June 2014:

- on the 10 July 2014, Directors Claudio Sposito, Riccardo Bruno, Piero Alonzo, Emiliano Nitti, Luciano Gobbi and Enrico Parazzini, all taken from the so-called majority slate, resigned from the Company's Board of Directors;
- also on the 10 July 2014 the Board of Directors met and appointed, pursuant to article 10 of the articles of association and article 2386, paragraph 1 of the civil code, with a resolution approved by the Board of Statutory Auditors, Directors Igor Sechin, Didier Casimiro, Andrey Kostin, Ivan Glasenberg, Petr Lazarev and Igor Soglaev in replacement of the resigning Directors.
  At the time of their appointment, the Board of Directors ascertained that the new directors had the requirements set by current law to assume the position, as well as being in possession in the case of Ivan Glasenberg and Andrey Kostin, of the requirements of independence as envisaged by the [Italian] Consolidated Law on Finance (article 147-ter paragraph 4 and article 148, paragraph 3 Legislative Decree 58/1998) and by the Code of Conduct of the Italian Stock Exchange.
  Pursuant to article 2386, paragraph 1 of the civil code, the newly appointed Directors cease to hold office with today's Meeting, which, therefore, must resolve thereon.

It should be noted that, for the purposes of adopting the required shareholder resolutions, the voting list procedure does not apply, as this is not a case of complete re-election of the Board of Directors. Therefore, as envisaged by article 10 of the Articles of Association, to appoint any Directors who for any reason are not appointed according to the voting list procedure, the Meeting shall resolve with the majority votes prescribed by law.
The mandate of the Directors thus appointed shall expire together with those currently in office[1] and, therefore, at the time of the General Meeting convened to approve the Financial Statements as at 31 December 2016. It should be noted that pursuant to the Articles of Association, the Board of Directors is composed of a minimum of seven up to a maximum of twenty three members, at least one-third of whom, pursuant to the Code of Conduct to which Pirelli adheres, are independent, in compliance likewise with the regulations pro-tempore in force in the matter of gender balance.
Finally it should be noted that each member of the Board of Directors receives a gross annual remuneration for the role of euro 50 thousand, plus any additional remuneration fixed by the Board of Directors in the event of participation in board committees.

[1] It should be noted that at the date of this report, the Board of Directors of Pirelli & C. S.p.a., is composed of fifteen Directors, seven of whom are in possession of the requirements of independence, both pursuant to legislative decree 58/1998 and to the Code of Conduct of listed companies.

Proposal of the Board of Directors

By reason of the above, the Board of Directors invites you to present, subject to confirmation of the number of members of the Board of Directors, your proposals for the appointment of 6 Directors to replace the Directors ceasing to hold office with today's Meeting.

BOARD OF STATUTORY AUDITORS:

- **appointment of standing and alternate auditors;**
- **appointment of Chairman;**
- **determination of remuneration of auditors.**

Dear Shareholders,

with the approval of the annual financial report as at December 31, 2014, the mandate of the Board of Auditors of Pirelli & C. S.p.A., appointed by the Shareholders' Meeting May 10, 2012 for the period 2012-2014 will hereby expire.
Currently the Standing Auditors are Mr. Francesco Fallacara (Chairman of the Board of Auditors), Prof. Antonella Carù and Mr. Umile Sebastiano Iacovino, already Alternate Auditor, who replaced pursuant to the By-laws prof. Enrico Laghi, who resigned on June 12, 2014; however, Mr. Andrea Lorenzatti holds the office of Alternate auditor.
The Shareholders' Meeting is therefore called pursuant to the laws and regulations applicable and art. 16 of the By-laws (fully outlined below in this report) to:

- appoint three Standing Auditors and three Alternate Auditors;
- appoint the Chairman of the Board, if unidentifiable following the application of the voting slate mechanism;
- determine the remuneration of the members of the Board of Auditors.

The appointment of standing and alternate Auditors will be by voting slate.
In this regard it is noted that shareholders who, alone or together with other shareholders, represent at least 1% of the share capital entitled to vote at the ordinary Shareholders' Meeting are entitled to submit slates (minimum threshold set by the By-laws, identical to that established by Consob Resolution no. 19109 of January 28, 2015).
The slates of candidates - signed by the shareholders who submit them, with details of their identity and the percentage of shares they hold overall in the ordinary share capital of the Company - must be filed at the registered office of the Company at least twenty-five days before the date fixed for the Shareholders' Meeting.
Shareholders may also submit slates of candidates by sending them along with supporting documentation to the following certified e-mail: assemblea@pec.pirelli.it.
If within the above term only one slates is submitted, or only slates submitted by shareholders who are inter-connected, under the laws and regulations applicable, additional slates may be submitted until the third day after the deadline for submission of slates (twenty-five days before the Shareholders' Meeting). In this case, the thresholds required for their submission are reduced by half, equal, therefore, to 0.5% of the share capital entitled to vote at the ordinary Shareholders' Meeting.
Ownership of the total shareholding is attested, under the current regulatory provisions, even after the filing of slates, provided at least 21 days prior to the Shareholders' Meeting.
The slates of candidates must be divided into two distinct sections: the first section provides an indication of the candidates (marked with a progressive number) for the office of Standing Auditor, while the second section contains the indication of the candidates (marked with a progressive number) for the office of Alternate Auditor. The first candidate in each section must be selected from among those registered in the Register of Statutory Auditors who have exercised statutory audits for a period not less than three years. In compliance with the By-laws and regulations in force concerning gender balance, the slates that, considering both sections, have a number of candidates equal to or greater than three, must include candidates of different genders in both the section of the slate relative to the Standing Auditors, and in that relating to Alternate Auditors.
Each slate must also be accompanied by the documentation required by art. 16 of the By-laws and the laws and regulations applicable. In particular, together with each slate, acceptances of candidacy must be filed by the individual candidates and declarations in which the same attest, under their

own responsibility, the absence of reasons for ineligibility and incompatibility, and the existence of requirements to take office. The declarations must be filed for each candidate with a curriculum vitae containing detailed information on the personal and professional characteristics with the indication - including as an attachment - of the positions of administration and control held at other companies.
It should be noted that - according to the Code of Conduct for Listed Companies, to which the Company has adhered - statutory auditors must be chosen from among persons who also qualify as independent based on the criteria provided by this Code for Directors and, therefore, those who are entitled and wish to submit slates are invited to take this into account when identifying the candidates to be proposed.
Each shareholder may submit or participate in the submission of only one slate and each candidate may appear on one slate only under penalty of ineligibility.
Slates submitted without complying with the provisions of article 16 of the By-laws will be disregarded.
If only one slate is submitted, the Shareholders' Meeting shall vote on it and, if the slate obtains the relative majority, candidates indicated in the respective sections of the slate shall be elected Standing and Alternate Auditors; the chairmanship of the Board of Auditors, in this case, shall be entitled to the first person indicated in the slate.
However, if two or more slates are submitted, the election of members of the Board of Auditors shall be as follows:

- two standing and two alternate members are taken from the slate that received the most votes (majority slate) in the progressive order in which they appear in the slate;
- the remaining standing auditor and the other alternate auditor are taken from the slate that received at the Shareholders' Meeting the most votes after the first (minority slate) in the progressive order in which they appear in the slate; In case more slates have obtained the same number of votes, a new vote is held between these slates by all eligible voters present at the meeting and the candidates are elected from the slate that will get a simple majority of votes.

In case of submission of two slates the Chairmanship of the Board of Auditors shall be entitled to the standing member listed as the first candidate in the minority slate.
If no slates of candidates have been submitted the Shareholders' Meeting will appoint the Board of Auditors with the legal majority, without prejudice, however, to compliance with the rules on gender balance.
In this regard, it should be recalled that the law no. 120 of July 12, 2011 introduced gender quotas for the composition of the administrative and control bodies of listed companies, establishing that such companies must ensure, for at least three consecutive mandates, compliance with an allocation criteria between genders in the corporate bodies. In fact, at least one third of the Directors and Standing Auditors elected must belong to the least represented gender.
However, the Legislature established that the first renewal of the administrative and control body one year from the date of entry into force of the aforementioned law (therefore starting from August 12, 2012), the portion of the less represented gender within the newly-appointed body shall be at least one-fifth of the Directors and Standing Auditors elected.
Therefore, in order to ensure gender balance, art. 16 of the By-laws states that the slates that, considering both sections, have a number of candidates equal to or greater than three, must include candidates of different genders in both the section of the slate relative to the Standing Auditors, and in that relating to Alternate Auditors. It should also be recalled that as it is the first renewal of the Board of Statutory Auditors from the entry into force of said law, the portion of the less represented gender must be at least equal to one-fifth of the Auditors elected. The By-laws also provides that if the application of the voting slates mechanism does not ensure, separately considering Standing Auditors and Alternate Auditors, the minimum number of Auditors belonging to the less represented gender provided by legislation and/or regulations currently in force, the candidate belonging to the most represented gender and elected, indicated with the highest progressive number of each section in the slate that received the most votes will be replaced by the candidate belonging to the less represented gender and not elected, taken from the same section of the same slate in the order of presentation.
By reason of the foregoing, the Board of Directors invites shareholders who intend to submit slates for

the election of members of the Board of Auditors to comply with the aforementioned provisions recommending in this regard that the first two candidates in each section of the list are of different gender. The Company will provide the public with the slates of candidates submitted, together with the information required by applicable regulation, at its headquarters, at Borsa Italiana S.p.A (Italian Stock Exchange) and the authorized storage mechanism and by publication on the website www.pirelli.com.
Finally, we invite shareholders who wish to submit slates for the appointment of members of the Board of Auditors to read the appropriate documentation published on the Company's website www.pirelli.com and, in particular, the recommendations contained in Consob communication no. DEM/9017893 of February 26, 2009.
In addition to the appointment of the Board of Auditors, it is also necessary to resolve on the allocation of the gross annual remuneration to members of the Board of Auditors, currently set at 75 thousand euros for the Chairman of the Board and 50 thousand euros for each of the Statutory Auditors (for the Statutory Auditor called to be part of the Company's Supervisory Body today an additional 25 thousand euros is attributed).
In determining the remuneration of the members of the Board of Auditors, we invite you, however, as was done on the occasion of the appointment of 2012, to also take into account the other duties entrusted to this body by legislative decree January 27, 2010 no. 39 on "Implementation of Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts and the fact that pursuant to art. 6, paragraph 4-bis of Legislative Decree June 8, 2011 no. 231 on "Discipline of administrative liability of legal persons, companies and associations also without legal attribution, in accordance with article 11 of the Law of September 29, 2000 no. 300" the Board of Auditors can be assigned the functions of Supervisory Body provided by the said legislative decree.
Given the above, the Board of Directors, pursuant to and in compliance with the By-laws and the rules and regulations applicable in this regard invites you to submit slates of candidates for the appointment of members of the Board of Auditors as well as proposals for the determination of their compensation and resolve on:

- the appointment of members of the Board of Auditors (three Standing and three Alternate Auditors) for the years 2015, 2016 and 2017, by means of voting of the slates of candidates submitted;
- the appointment of the Chairman of the Board of Auditors, unless identification cannot be feasible in accordance with the By-laws;
- the determination of the remuneration entitled to the members of the Board of Auditors.

By-laws - Article 16

16.1 The Board of Statutory Auditors shall be composed of three standing and three Alternate Auditors, who must be in possession of the requisites established under applicable laws and regulations; to this end, it shall be borne in mind that the fields and sectors of business closely connected with those of the company are those stated in the company's purpose, with particular reference to companies or corporations operating in the financial, industrial, banking, insurance and real estate sectors and in the services field in general.

16.2 The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its remuneration. The minority shareholders shall be entitled to appoint one standing auditor and one alternate auditor.

16.3 The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of paragraph 17 of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.

16.4 Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

16.5 Shareholders who, alone or together with other shareholders, represent at least 1 percent of the shares with voting rights in the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa for the submission of slates for the appointment of the Board of Directors shall be entitled to submit slates.

16.6 Each shareholder may present or take part in the presentation of only one slate.

16.7 The slates of candidates, which must be undersigned by the parties submitting them, shall be filed in the Company's registered office at least twentyfive days prior to the date set for the shareholders' meeting that is required to decide upon the appointment of the members of the Board of Statutory Auditors, except for those cases in which the law and/or the regulation provide an extension of the deadline They are made available to the public at the registered office, on the Company website and in the other ways specified by Commissione Nazionale per la Società e la Borsa regulations at least 21 days before the date of the general meeting.
Without limitation to any further documentation required by applicable rules, including any regulatory provisions, a personal and professional curriculum including also the offices held in management and supervisory bodies of other companies, of the individuals standing for election must accompany the slates together with the statements in which the individual candidates agree to:

- their nomination
- declare, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet the requisites prescribed by law, by these By-laws and by regulation for the position.

Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.

16.8 Any slates submitted without complying with the foregoing provisions shall be disregarded.

16.9 Each candidate may appear on only one slate, on pain of ineligibility.

16.10 The slates shall be divided into two sections: one for candidates for the position of standing Auditor and one for candidates for the position of Alternate Auditor. The first candidate listed in each section must be selected from among the persons enrolled in the Register of Auditors who have worked on statutory audits for a period of no less than three years. In compliance with the current provisions relating to gender balance, slates that – taking account of both sections - present a number of candidates equal to or exceeding three, must include candidates of each gender both in the section for standing statutory auditors and in the section for alternates.

16.11 Each person entitled to vote may vote for only one slate.

16.12 The Board of Statutory Auditors shall be elected as specified below:

a) two standing members and two alternate members shall be chosen from the slate which obtains the highest number of votes (known as the majority slate), in the consecutive order in which they are listed thereon;

b) the remaining standing member and the other alternate member shall be chosen from the slate which obtains the highest number of votes cast by the shareholders after the first slate (known as the minority slate), in the consecutive order in which they are listed thereon; if several slates obtain the same number of votes, a new vote between said slates will be cast by all those entitled to vote attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

16.13 The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the minority slate.

16.14 If, considering the standing statutory auditor and the alternates statutory auditors separately, the application of the slate voting procedure fails to secure the minimum number of statutory auditors of the less represented gender as required by law and/or regulation in force at the time, the appointed candidate of the more represented gender indicated with the higher progressive number in each section of the slate that attracts most votes shall be substituted by the non-appointed candidate of the less represented gender drawn from the same section of the same slate on the basis of their progressive order of presentation.

16.15 The position of a standing auditor which falls vacant due to his/her death, forfeiture or resignation shall be filled by the first alternate auditor chosen from the same slate as the former. If filling the position in this way fails produce a composition of the Board of Statutory Auditors that complies with the rules in force even on gender balance, the position will be filled by the second alternate auditor drawn from the same slate. If, subsequently, there is a need to substitute another statutory auditor from the same slate that obtained most votes, the other alternate auditor drawn from the same slate shall fill the position, whatever the outcome. In the event of the replacement of the Chairman of the Board of Statutory Auditors, the Chair shall pertain to the statutory auditor of the same slate as the outgoing Chairman, following the order contained in the slate, subject in all cases to observance of the requirements in law and/or in the Company By-laws for holding that office and to compliance with gender balance as provided by law and/or regulation currently in force; if it proves impossible to effect substitutions and replacements under the foregoing procedures, a shareholders' meeting shall be called to complete the Board of Statutory Auditors which shall adopt resolutions by relative majority vote.

16.16 When the Shareholders' Meeting is required, pursuant to the provisions of the foregoing paragraph or to the law, to appoint the standing and/or alternate members needed to complete the Board of Statutory Auditors, it shall proceed as follows: if auditors elected from the majority slate have to be replaced, the appointment shall be made by relative majority vote without slate constraints, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time; if, however, auditors elected from the minority slate have to be replaced, the shareholders' meeting shall replace them by relative majority vote, selecting them where possible from amongst the candidates listed on the slate on which the auditor to be replaced appeared and in any event in accordance with the principle of necessary representation of minorities to which this By-laws ensure the right to take part to the appointment of the Board of Statutory Auditors, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time.

The principle of necessary representation of minorities shall be considered complied with in the event of the appointment of Statutory Auditors nominated before in the minority slate or in slates different other than the one which obtained the highest number of votes in the context of the appointment of the Board of Statutory Auditors.

16.17 In case only one slate has been presented, the Shareholders' Meeting shall vote on it; if the slate obtains the relative majority of the share capital, the candidates listed in the respective section shall be appointed to the office of standing auditors and Alternate Auditors; the candidate listed at the first place in the slate shall be appointed as Chairman of the Board of Statutory Auditors.

16.18 When appointing auditors who, for whatsoever reason, were not appointed under the procedures established herein, the shareholders' meeting shall vote on the basis of the majorities required by law, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time.

16.19 Outgoing members of the Board of Statutory auditors may be re-elected to office.

16.20 meetings of the Board of Statutory Auditors may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

REMUNERATION POLICY: CONSULTATION

Dear Shareholders,

in accordance with art. 123-ter paragraphs 3 and 6 of the Consolidated Finance Act ("TUF"), we invite you to submit your advisory vote on the first section of the Remuneration Report which illustrates the Policy on remuneration of members of the administrative bodies, the General Managers, the Executives with strategic responsibility, the *Senior Manager* and the *Executives* of the Pirelli Group.
The Policy submitted to you for your vote this year has been prepared based on the Policy of previous years, on relevant experience of application, and takes into account the regulatory requirements adopted by Consob, as well as the adoption in 2014 of a new *Long Term Incentive Cash Plan* for the period 2014-2016 ("LTI Plan") in support of the new Business Plan 2013-2017.
With respect to last year, the Policy was revised to simplify the structure without prejudice to its content and to provide further details on the remuneration structure, in particular as regards the targets of incentive systems that determine the short and medium-long term variable components for Top Management. Moreover, it was planned that the annual (MBO) and multiannual (LTI) incentive plans adopted by Pirelli after 1 January 2015 in favour of: Directors with special offices or who are assigned specific functions, General Managers and Executives with strategic responsibility, provide, inter alia, for mechanisms known as clawbacks.
As set out by art. 123-ter of the TUF, the Remuneration Report submitted to you is organised into two distinct sections:

- the first section illustrates:
  - the remuneration Policy for Directors, General Managers, and Executives with strategic responsibility, as well as, more generally, the remuneration Policy for *Management* as a whole;
  - the procedure adopted for updating the Policy;

- the second section, designated for the members of the administrative and control bodies, the General Managers and, in aggregated form, for those Executives with strategic responsibility illustrates:
  - the items making up the remuneration, including the procedures envisaged in the event of resignation or termination of employment, highlighting consistency with the policy adopted in the previous financial year;
  - the compensation paid in 2014 for any reason, and in any form, by the Company and by subsidiaries or associates, indicating any components of these fees that are related to activities carried out in years previous to the year in question, and also highlighting the fees to be paid in one or more subsequent years against activities carried out in the year in question, and indicating an estimated value for the components that are not objectively quantifiable in the year in question.

As required by the Consolidated Finance Act, we ask you to provide your advisory vote on the first section of the Remuneration Report.

INSURANCE POLICY DESIGNATED D&O (DIRECTORS' AND OFFICERS' LIABILITY INSURANCE). RELATED AND CONSEQUENT RESOLUTIONS.

Dear Shareholders,

We propose the introduction of an insurance coverage instrument against civil liability of corporate officers and management for the risks that these parties, in execution of their duties, should cause extensive property damage to third parties or anyone with an interest in the company, called "*Directors' and Officers' Liability Insurance*" (hereinafter *D&O*).

The use of the insurance coverage instrument against civil liability of corporate officers and executives known as *D&O* currently represents a widespread international practice in financial markets, in order to provide a safeguard of members of boards of management and control, allowing them to perform with confidence and in the interest of the Company the tasks assigned mitigating risks associated with the performance of the functions.
The members of the corporate bodies (and group executives) are held harmless from the burden of compensation of financial damage resulting from civil liability, as well as legal expenses related to possible liability claims brought by third parties adversely affected by acts by members of the aforementioned bodies in the exercise of their functions.
The insurance policy protects the property of the members of corporate bodies and the assets of Group companies.
There are only a few exclusions to the proposed policy.
With the objective to evaluate the positioning of Pirelli compared to the major companies that have already adopted similar coverage, a benchmarking activity was carried out with companies with characteristics comparable with Pirelli.
The main terms and conditions of the proposed policy are specified below:

- Duration: 12 months;
- Yearly premium: €2-2.5 million.
- Limit of liability: €120-150 million.

There are deductibles for the different associated risks

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For all the foregoing considerations, we believe, therefore, that it is beneficial to propose you to authorize the Board of Directors, and on its behalf the Chairman and Chief Executive Officer, to stipulate a *D&O* insurance policy according to the terms and conditions described above.

We therefore invite you to approve the following

RESOLUTION

"The Shareholders' Meeting, noting the Directors' proposal

APPROVES

- to authorize the Board of Directors to stipulate a *Directors & Officers Liability* insurance policy, under the terms and conditions described above;
- to grant the Board of Directors and, for it, the Chairman and Chief Executive Officer, the broadest possible powers to stipulate the D&O policy and, in any case, to also implement the aforesaid resolution through attorneys."

PURCHASE AND DISPOSAL OF TREASURY SHARES. RESOLUTIONS RELATING AND CONSEQUENT.

Dear Shareholders,

with the resolution passed on June 12, 2014 you authorised the purchase of treasury shares up to a maximum number of shares that does not exceed 10% of the *pro-tempore* share capital, and for a maximum period of 18 months from the date of the resolution.
At the date of this report no shares have been purchased under that authorisation, which the Board of Directors has so far not used, and which will expire on 12 December 2015.
Since the same opportunities still exist that led the Directors to propose to you the resolution of June 2014, we believe that it will be useful to propose, at today's meeting and in order to prevent the convening of another meeting towards the end of the abovementioned expiry date, a renewal of the authorisation to purchase and dispose of treasury shares, in light of the reasons and in the manner and terms as set out below.

1. Reasons why the authorisation is being requested

The conditions of the request, and the main objectives that the Board of Directors of Pirelli & C. S.p.A. (hereinafter referred to as "**Pirelli**" or the "**Company**") intends to pursue by means of the actions which it proposes in order to renew the authorisation are as follows:

- purchase treasury shares with a view to investment in the medium and long term;
- intervene, in compliance with the current provisions, directly or through intermediaries, in order to contain anomalous movements in share prices and to regularise trends in trading and prices, in the event of temporary distorting phenomena connected to excess volatility or low trading liquidity;
- acquire a portfolio of treasury shares which can be disposed of in the context of extraordinary financial transactions, or for other purposes deemed to be in the financial, operational and/or strategic interests of the Company;
- offer shareholders an additional means of monetising their investment.

With particular reference to the request for authorisation to purchase treasury shares, it should be noted that, at present, such a request is not intended as a means to reduce the share capital via cancellation of the treasury shares purchased.

2. Maximum number, class and nominal value of shares to which the authorisation applies

The proposal is to authorise the Board of Directors to purchase (fully paid-up) shares in the Company, which can be both ordinary and savings shares, on one or more occasions, to an extent freely determined by the Board of Directors up to a maximum number of (treasury) shares not exceeding 10% of the share capital, with this applying to treasury shares held both directly and by subsidiaries (currently, therefore, this amounts to approximately 48.7 million shares).
In any event, the purchases will be carried out - in accordance with the provisions of Article 2357, paragraph 1 of the Civil Code - within the limits of distributable profits and available reserves according to the Company's latest properly approved Financial Statement.
Please note that, in the event of purchase, disposal, exchange or transfer of treasury shares, the Company, in compliance with the provisions of applicable law and accounting principles, will carry out the proper accounting entries. In the event of sale, exchange, transfer or depreciation, it will be possible to proceed to further purchase transactions up to the expiration of the authorisation provided by the shareholders' meeting, subject to the legal limits on quantities, and with regard to the number of shares that, from time to time, may be held by the Company or by its subsidiaries, as well as the conditions established by Shareholders' Meeting.

3. Useful information for assessing compliance with art. 2357, Paragraph 3, C.C.

The Company's subscribed and paid-up share capital amounts to 487,991,493 shares, without nominal value, of which 475,740,182 are ordinary shares and 12,251,311 are savings shares, amounting to a total value of 1,345,380,534.66 euros.
As of today, the Company directly holds 351,590 ordinary treasury shares, representing 0.07% of that share class and of the entire share capital, and 408,342 treasury savings shares, amounting to 3.3% of that share class and 0.084% of the entire share capital, while there are no Pirelli & C. shares held by its subsidiaries.
It is noted that in the Company's draft Financial Statement for the year ending 31 December 2014 - approved by the Board of Directors at its meeting on 31 March 2015 and submitted for the approval of shareholders at today's Shareholders' Meeting, as well as the vote on this proposal to authorise the purchase and disposal of treasury shares - reports the following reserves as available and freely distributable:

- Reserves and retained earnings of euro 245.739 thousand
- Concentration Reserves of euro 12.467 thousand

And finally there is registration of legal Reserves, of euro 139.215 thousand, and management IAS Reserves of euro 57.510 thousand.

4. Term of the authorisation

The Board of Directors proposes that the authorisation to purchase treasury shares be granted for a period of 18 months from the date on which the Shareholders' Meeting adopts said resolution. The Board may proceed with the authorised transactions on one or more occasions, and at any time.
The aforementioned time limit of 18 months does not apply to any disposal transactions of treasury shares acquired under the shareholders' meeting's authorisation.

5. Established minimum and maximum

The shares' purchase price will be identified from time to time, and will consider the chosen mode for carrying out the transaction and will be in compliance with any applicable regulations or accepted market practices, but, in any event, shall not be more than 15% lower or higher than the weighted average price of the shares as registered by the Italian Stock Exchange in the three days prior to each transaction.
Regarding the sale of treasury shares, this may be done at the price, or at least according to the criteria and conditions, as determined by the Board of Directors, with consideration being given to the methods employed, the trend of stock prices in the period preceding the transaction, and the best interests of the Company.

6. Method used for carrying out transactions

In view of the different objectives pursuable via the progressive refinement of treasury share transactions, the Board of Directors proposes that authorisation be granted for carrying out purchases of treasury shares according to any of the methods allowed by current law, to be identified, from time to time, at the Board's discretion, and these are therefore currently:

- via public offer for purchase or exchange;
- via purchases made on regulated markets, according to the transactional procedures established by the Italian Stock Exchange and fulfilling the provisions of Art. 144-*bis* of the Issuers' Regulations;
- via proportional allocation, to shareholders, of put options to be exercised within the term of the authorisation mentioned in paragraph 4 above.

Excluded from the authorisation proposed at the Shareholders' Meeting is the ability to make purchases of treasury shares via the purchase and sale of derivative instruments traded on regulated markets that provide for the physical delivery of the underlying shares, even though such is covered by Article 144-bis, letter c), of the Issuers' Regulations.
As for disposal transactions, the Board of Directors proposes that the authorisation should allow for the adoption of any method deemed appropriate to meet the objectives pursued - including the use of treasury shares to service stock incentive plans - to be executed either directly or through intermediaries, and that are in compliance with the laws and regulations in force, both nationally and in the European Union (EU).
The purchase and sale transactions of treasury shares for which authorisation is requested will be carried out in compliance with applicable law and, in particular, in compliance with the legal and regulatory provisions that exist at both the national and EU levels, with regard to market abuse.
Purchase and sale transactions of treasury shares will be done with adequate notice, in compliance with the applicable disclosure requirements.

7. Cancellation of purchased treasury shares

As mentioned above, the purchase of treasury shares is not intended as a means to reduce the share capital via cancellation of the treasury shares purchased.

* * *

In view of the above, we believe it would be beneficial for you to renew the proposed authorisation. We therefore invite you to approve the following

RESOLUTION

"The Shareholders' Meeting:

- notes the Directors' proposal;
- taking into account the provisions of Articles 2357 and 2357-ter of the Civil Code, of Article 132 of the Legislative Decree of 24 February 1998 no. 58 and of Article 144-*bis* of the Issuers' Regulations adopted by Consob with resolution no. 11971 of 14 May 1999, as amended;
- notes that, as of today, the Company directly holds 351,590 ordinary treasury shares, amounting to 0.07% of that share class and of the entire share capital, and 408,342 treasury savings shares, amounting to 3.3% of that share class and 0.084% of the entire share capital, while there are no Pirelli & C. shares held by its subsidiaries;
- pursuant to the Financial Statement ending 31 December 2014;
- there is an opportunity to renew the authorisation to carry out purchase and disposal transactions for treasury shares, for the objectives and in the manner described above

RESOLUTION

a) to authorise the Board of Directors to purchase treasury shares, both of ordinary and savings type, within the maximum limit provided for in Article 2357, paragraph 3 of the Civil Code and, more specifically, up to a maximum number of such shares that does not exceed 10% of the *pro-tempore* share capital of Pirelli, taking into account the shares already held by the Company and those held by subsidiaries, establishing that:

- the purchase can be made in one or more tranches, within 18 months from the date of this resolution, using any of the methods set out in the combined provisions of Articles 132 of the Legislative Decree of 24 February 1998 no. 58 and 144-*bis*, letters a), b) and d) of the Issuers' Regulations adopted by Consob with resolution no. 11971 of 14 May 1999, as subsequently amended, taking into account the specific exemption provided by paragraph 3 of said Article 132 of the Legislative

Decree of 24 February 1998 no. 58 and, in any event, using any other method authorised by the laws and regulations in force, both at the national and EU levels, and in compliance with all other applicable regulations, including laws and regulations, at the national and EU levels, with regard to market abuse, with the sole exception of the purchase methods provided for in Article. 144-*bis*, letter c), of the abovementioned Issuers' Regulations;

- purchase transactions of treasury shares will be done with adequate notice, in compliance with the applicable disclosure requirements;
- the purchase price of each share must not be more than 15% lower or higher than the weighted average price of the shares as registered by the Italian Stock Exchange in the three days prior to each transaction;
- purchases of treasury shares must be made by using distributable profits and retained earnings and available reserves from the last properly approved Financial Statement at the time of carrying out the transaction, constituting treasury shares reserve, and this being accompanied by the accounting entries such as are necessary within the law, as above, and, in any event, in accordance with and subject to the other provisions of any law and regulations in force *pro-tempore* on such matters;

b) to authorise, in whole or in part, and without time limits, the disposal, either directly or through intermediaries, of the treasury shares purchased pursuant to the resolution under section a), including before having fully exercised the authorisation to purchase treasury shares, establishing that:

- the disposal can be carried out according to the objectives, and using any of the methods permitted by law, including the use of treasury shares to service stock incentive plans, and that are in compliance with all other applicable regulations, including legal and regulatory provisions at national and EU levels, with regard to market abuse;
- sale transactions of treasury shares will be done with adequate notice, in compliance with the applicable disclosure requirements;
- assignment of treasury shares may take place on one or more occasions, and at any time, including public offer, to shareholders, on the market or in the context of any extraordinary transactions. The shares may also be transferred in combination with bonds or warrants for the exercise of same and, in any event, according to the methods permitted by the laws and regulations in force, at the discretion of the Board of Directors;
- disposal of treasury shares may be done at the price, or at least according to the conditions and criteria, determined by the Board of Directors, with consideration being given to the methods employed, the trend of stock prices in the period preceding the transaction, and the best interests of the Company.
- disposal may, in any event, be carried out according to the methods permitted by the laws and regulations in force, at the discretion of the Board of Directors;

c) to carry out, in accordance with Art. 2357-*ter*, third paragraph of the Civil Code, all accounting entries that are necessary or appropriate in connection with treasury shares transactions, observing the provisions of applicable laws and accounting standards;

d) to grant to the Board of Directors - and thereby to the Chairman and/or the CEO - the broadest powers necessary to carry out transactions for the purchase and disposal of treasury shares, including via subsequent transactions between them and, in any case, to implement the aforementioned resolutions, including via agents, in a manner that complies with any requests from the competent authorities.

CERTIFICATIONS

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS OF LEGISLATIVE DECREE 58 OF FEBRUARY 24, 1998, AND PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF MAY 14, 1999, AS AMENDED

The undersigned Marco Tronchetti Provera, in his capacity as Chairman of the Board of Directors and Chief Executive Officer, and Francesco Tanzi, in his capacity as Corporate Financial Reporting Manager of Pirelli & C. S.p.A. hereby certify pursuant to, inter alia, Article 154-*bis*, clauses 3 and 4, of Legislative Decree 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application of the administrative and accounting procedures for preparation of the consolidated Financial Statements, during the period January 1, 2014 – December 31, 2014.

In this regard it should be noted that the adequacy of the administrative and accounting procedures for preparation of the consolidated Financial Statements for the year ended December 31, 2014 was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the "Internal Control – Integrated Framework" guidelines issued by the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO), which is a reference framework generally accepted at the international level.

We also certify that:

- the consolidated Financial Statements:
  - were prepared in accordance with the applicable international accounting standards recognised in the European Union under the terms of Regulation (EC) 1606/2002 of the European Parliament and Council, of July 19, 2002;
  - correspond to the information in the account ledgers and books;
  - give a true and fair view of the assets, liabilities, income, expenses and financial position of the reporting entity and of the Group of companies included in the scope of consolidation.
- The report on operations includes a reliable analysis of the performance and results of operations, and of the situation of the reporting entity and of the Group of companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

March 31, 2015

The Chairman of the Board of Directors and Chief Executive Officer	The Corporate Financial Reporting Manager
(Marco Tronchetti Provera)	(Francesco Tanzi)

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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders
of Pirelli & C. S.p.A.

1. We have audited the consolidated financial statements of Pirelli & C. S.p.A. and its subsidiaries, (the "Pirelli Group") as of December 31, 2014 and for the year then ended, comprising the statement of financial position, the income statement, the statement of other comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these consolidated financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Pirelli & C. S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such consolidated financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   The consolidated financial statements present, for comparative purposes, the consolidated financial statements for the prior year. As described in the explanatory notes, the Directors have restated certain comparative data related to the consolidated financial statements for the prior year. The data previously presented have been audited and reviewed and we issued our related auditor's report on April 10, 2014. We have examined the methods used to restate the comparative financial data and the information presented in the explanatory notes in this respect for the purposes of issuing this review report.

3. In our opinion, the consolidated financial statements of the Pirelli Group at December 31, 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Pirelli Group for the year then ended.

4. As a matter of emphasis, we draw your attention to the fact that as a result of the sale agreement signed on February 28, 2014, the steelcord business is qualified as discontinued operation in accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations). As illustrated in the explanatory notes n. 2 (Basis for the presentation - disposal of the Steelcord Business) and n. 39 (Assets and liabilities held for sale and discontinued operations), the consolidated financial statements as of December 31, 2014 reflect the effects of the application of IFRS 5 in presenting and evaluating assets and liabilities and results related to the discontinued operation. In the absence of a specific IFRS 5 guidance, with respect to the transactions between the steelcord business and other continuing operations the company has chosen to present in the income statement the post disposal effects, including in the net income from discontinued operation the revenues from third party sales and the related expenses.

5. The Directors of Pirelli & C. S.p.A. are responsible for the preparation of the Directors' Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Directors' Report on Operations and the specific section on Corporate Governance and Ownership Structure, regarding the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Directors' Report on Operations and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) included in the specific section of the report, are consistent with the consolidated financial statements of the Pirelli Group at December 31, 2014.

Milan, April 20, 2015

Reconta Ernst & Young S.p.A.
Signed by: Pietro Carena, partner

This report has been translated into the English language solely for the convenience of international readers.

CERTIFICATION OF THE PARENT FINANCIAL STATEMENTS

CERTIFICATION OF THE PARENT FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS OF LEGISLATIVE DECREE 58 OF FEBRUARY 24, 1998, AND PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF MAY 14, 1999, AS AMENDED

The undersigned Marco Tronchetti Provera, in his capacity as Chairman of the Board of Directors and Chief Executive Officer, and Francesco Tanzi, in his capacity as Corporate Financial Reporting Manager of Pirelli & C. S.p.A. hereby certify pursuant to, inter alia, Article 154-*bis*, clauses 3 and 4, of Legislative Decree 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application of the administrative and accounting procedures for preparation of the parent Financial Statements, during the period January 1, 2014 – December 31, 2014.

In this regard it should be noted that the adequacy of the administrative and accounting procedures for preparation of the parent Financial Statements for the year ended December 31, 2014 was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the "Internal Control – Integrated Framework" guidelines issued by the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO), which is a reference framework generally accepted at the international level.

We also certify that:

- the parent Financial Statements:
  - were prepared in accordance with the applicable international accounting standards recognised in the European Union under the terms of Regulation (EC) 1606/2002 of the European Parliament and Council, of July 19, 2002;
  - correspond to the information in the account ledgers and books;
  - give a true and fair view of the assets, liabilities, income, expenses and financial position of the reporting entity.
- The report on operations includes a reliable analysis of the performance and results of operations, and of the situation of the reporting entity, together with a description of the principal risks and uncertainties to which it is exposed.

March 31, 2015

The Chairman of the Board of Directors and Chief Executive Officer	The Corporate Financial Reporting Manager
(Marco Tronchetti Provera)	(Francesco Tanzi)

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Building a better working world

Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders
of Pirelli & C. S.p.A.

1. We have audited the financial statements of Pirelli & C. S.p.A. as of December 31, 2014 and for the year then ended, comprising the statement of financial position, the income statement, the statement of other comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Pirelli & C. S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 10, 2014.
3. In our opinion, the financial statements of Pirelli & C. S.p.A. at December 31, 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Pirelli & C. S.p.A. for the year then ended.
4. The Directors of Pirelli & C. S.p.A. are responsible for the preparation of the Directors' Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Directors' Report on Operations and the specific section on Corporate Governance and Ownership Structure, regarding the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Directors' Report on Operations and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) included in the specific section of the report, are consistent with the financial statements of Pirelli & C. S.p.A. at December 31, 2014.

Milan, April 20, 2015

Reconta Ernst & Young S.p.A.
Signed by: Pietro Carena, partner

This report has been translated into the English language solely for the convenience of international readers.

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SUMMARY TABLES GRI G4 + UNGC

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Material Aspect: Compliance	G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	91
Material Aspect: Transport	G4-DMA	Generic Disclosures on Management Approach	74-77
	G4-EN30	Environmental impacts of transport	75
Material Aspect: Overall	G4-EN31	Environmental protection expenditures and investments	91
Material Aspect: Supplier Environmental Assessment	G4-DMA	Generic Disclosures on Management Approach	41; 64-74
	G4-EN32	Suppliers screened using environmental criteria	64-68
	G4-EN33	Actual and potential negative environmental impacts in the supply chain and actions taken	41; 65-68; 70
Material Aspect: Environmental Grievance Mechanisms	G4-DMA	Generic Disclosures on Management Approach	74-77
	G4-EN34	Grievances about environmental impacts filed, addressed, and resolved	91
Category: Social Sub-category: Labor Practices and Decent Work Material Aspect: Employment	G4-DMA	Generic Disclosures on Management Approach	94-97
Material Aspect: Employment	G4-LA1	Number and rates of new employee hires and employee turnover	94-97
	G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	110-111
	G4-LA3	Return to work and retention rates after parental leave	99
Material Aspect: Labor/Management relations	G4-LA4	Minimum notice periods regarding operational changes	111-112
Material Aspect: Occupational Health and Safety	G4-DMA	Generic Disclosures on Management Approach	111; 114-115
	G4-LA5	Workforce represented in health and safety committees	111
	G4-LA6	Injuries, occupational diseases, lost days, absenteeism and total number of work-related fatalities	115-116
	G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	115-116
	G4-LA8	Health and safety topics covered in formal agreements with trade unions	111
Material Aspect: Training and Education	G4-DMA	Generic Disclosures on Management Approach	105-109
	G4-LA9	Training per employee	106-109
	G4-LA10	Programs for skills management and lifelong learning of employees	105-106; 43*
	G4-LA11	Employees receiving regular performance and career development reviews	105-106; 20-21*

KPI CATEGORY	KPI NUMBER	KPI DESCRIPTION	DETAILS AND PAGE REFERENCES TO THE MANAGEMENT REPORT (*PAGE REFERENCES TO THE COMPANY PROFILE)
Material Aspect: Diversity and Equal Opportunities	G4-DMA	Generic Disclosures on Management Approach	98-102
	G4-LA12	Composition of governance bodies and breakdown of employees per indicators of diversity	94-102
Material Aspect: Diversity and Equal Remuneration for women and men	G4-DMA	Generic Disclosures on Management Approach	98-102
	G4-LA13	Ratio of basic salary and remuneration of women to men	98-102
Material Aspect: Supplier Assessment for Labor Practices	G4-DMA	Generic Disclosures on Management Approach	42; 63-71
	G4-LA14	Suppliers screened using labor practices criteria	64-69
	G4-LA15	Actual and potential negative impacts for labor practices in the supply chain and actions taken	42; 67-68
Material Aspect: Labor Practices and Grievance Mechanisms	G4-DMA	Generic Disclosures on Management Approach	203-205
	G4-LA16	Grievances about labor practices filed, addressed, and resolved	203-205
Sub-category: Human Rights Material Aspect: Investment	G4-DMA	Generic Disclosures on Management Approach	63-71; 92-93
Material Aspect: Investment	G4-HR1	Investment agreements and contracts that include human rights clauses or that underwent human rights screening	64-66
	G4-HR2	Employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations	92-93; 108
Material Aspect: Non-Discrimination	G4-DMA	Generic Disclosures on Management Approach	203-205
	G4-HR3	Incidents of discrimination and corrective actions taken	203-205
Material Aspect: Freedom of Association and Collective Bargaining	G4-DMA	Generic Disclosures on Management Approach	92-93; 111-113
	G4-HR4	Risks to the right to exercise freedom of association and collective bargaining	41; 92-93; 111-113
Material Aspect: Child Labor	G4-DMA	Generic Disclosures on Management Approach	64-68; 71; 92-93; 112-113
	G4-HR5	Operations identified as having significant risk for incidents of child labor	64-68; 71; 92-93; 112-113
Material Aspect: Forced or Compulsory Labor	G4-DMA	Generic Disclosures on Management Approach	64-68; 71; 92-93; 112-113
	G4-HR6	Operations identified as having significant risk for incidents of forced or compulsory labor	64-68; 71; 92-93; 112-113
Material Aspect: Security Practices	G4-DMA	Generic Disclosures on Management Approach	64-68; 71; 92-93; 112-113
	G4-HR7	Security personnel trained on human rights policies	64-68; 71; 92-93; 112-113
Material Aspect: Indigenous Rights	G4-DMA	Generic Disclosures on Management Approach	203-205
	G4-HR8	Violations of the rights of indigenous peoples	203-205
Material Aspect: Assessment	G4-DMA	Generic Disclosures on Management Approach	64-68; 71; 92-93; 112-113
	G4-HR9	Operations subject to human rights reviews or impact assessments	64-68; 71; 92-93; 112-113
Material Aspect: Supplier Human Rights Assessment	G4-DMA	Generic Disclosures on Management Approach	41; 64-68; 70
	G4-HR10	Suppliers screened using human rights criteria	64-68
	G4-HR11	Actual and potential negative human rights impacts in the supply chain and actions taken	41; 64-68; 70
Material Aspect: Human Rights Grievance Mechanisms	G4-DMA	Generic Disclosures on Management Approach	203-205
	G4-HR12	Grievances about human rights impacts filed, addressed, and resolved	203-205
Sub-Category: Society Material Aspect: Local Communities	G4-DMA	Generic Disclosures on Management Approach	48; 89-90; 122-129

KPI CATEGORY	KPI NUMBER	KPI DESCRIPTION	DETAILS AND PAGE REFERENCES TO THE MANAGEMENT REPORT (*PAGE REFERENCES TO THE COMPANY PROFILE)
Material Aspect: Local Communities	G4-SO1	Operations with implemented local community engagement, impact assessments, and development programs	48; 89-90; 122-129
	G4-SO2	Operations with significant actual and potential negative impacts on local communities	48; 89-90; 122-129
Material Aspect: Anti-Corruption	G4-DMA	Generic Disclosures on Management Approach	203-205
	G4-SO3	Operations assessed for risks related to corruption	41; 201-203
	G4-SO4	Communication and training on anti-corruption policies and procedures	64-66; 71; 199; 201-203
	G4-SO5	Confirmed incidents of corruption and actions taken	202-205
Material Aspect: Public Policy	G4-DMA	Generic Disclosures on Management Approach	122; 203
	G4-SO6	Value of political contributions	122; 203
Material Aspect: Anti-Competitive Behavior	G4-DMA	Generic Disclosures on Management Approach	272-273; 338
	G4-SO7	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	272-273; 338
Material Aspect: Compliance	G4-DMA	Generic Disclosures on Management Approach	57
	G4-SO8	Fines and sanctions for non-compliance with laws and regulations	57
Material Aspect: Supplier Assessment for Impacts on Society	G4-DMA	Generic Disclosures on Management Approach	41; 64-68
	G4-SO9	Suppliers screened using criteria for impacts on society	64-68
	G4-SO10	Actual and potential negative impacts on society in the supply chain and actions taken	41; 67-68
Material Aspect: Grievance Mechanisms for Impacts on Society	G4-DMA	Generic Disclosures on Management Approach	203-205
	G4-SO11	Grievances about impacts on society filed, addressed, and resolved	203-205
Sub-Category: Product Responsibility Material Aspect: Customer Health and Safety	G4-DMA	Generic Disclosures on Management Approach	61-63
Material Aspect: Customer Health and Safety	G4-PR1	Product and service categories for which health and safety impacts are assessed for improvement	61-63
	G4-PR2	Incidents of non-compliance with regulations concerning the health and safety impacts of products and services during their life cycle	57
Material Aspect: Product and Service Labeling	G4-DMA	Generic Disclosures on Management Approach	58-61
	G4-PR3	Product and service information	58-59
	G4-PR4	Incidents of non-compliance with regulations concerning product and service information and labeling	57
	G4-PR5	Results of surveys measuring customer satisfaction	59-61
Material Aspect: Marketing Communications	G4-DMA	Generic Disclosures on Management Approach	57
	G4-PR6	Sale of banned or disputed products	57
	G4-PR7	Incidents of non-compliance with regulations concerning marketing communications	57
	G4-DMA	Generic Disclosures on Management Approach	57
	G4-PR8	Substantiated complaints regarding breaches of customer privacy and losses of customer data	57
	G4-DMA	Generic Disclosures on Management Approach	57
	G4-PR9	Fines for non-compliance with laws and regulations concerning the provision and use of products and services	57

AREAS OF THE GLOBAL COMPACT	GLOBAL COMPACT PRINCIPLES	DIRECTLY RELEVANT GRI INDICATORS	INDIRECTLY RELEVANT GRI INDICATORS
Human Rights	Principle 1 – Business should promote and respect internationally proclaimed human rights in their respective spheres of influence.	HUMAN RIGHTS Aspect: Investment G4 - HR1, G4 - HR2 Aspect: Freedom of Association and Collective Bargaining G4 - HR4 Aspect: Child Labor G4 - HR5 Aspect: Forced or Compulsory Labor G4 - HR6 Aspect: Security Practices G4 - HR7 Aspect: Indigenous Rights G4 - HR8 Aspect: Assessment G4 - HR9 Aspect: Supplier Human Rights Assessment G4 - HR10 Aspect: Human Rights Grievance Mechanisms G4 - HR12	SOCIETY Aspect: Local Communities G4 - SO1, G4 - SO2
	Principle 2 – Business should ensure that they are not, albeit indirectly, complicit in human rights abuses.	HUMAN RIGHTS Aspect: Investment G4 - HR1 Aspect: Security Practices G4 - HR7 Aspect: Supplier Human Rights Assessment G4 - HR10, G4 - HR11	
Labour Standards	Principle 3 – Businesses should uphold the freedom of association of workers and recognise the right to collective bargaining.	General Standard Disclosure Organizational Profile G4 -11 HUMAN RIGHTS Aspect: Freedom of Association and Collective Bargaining G4 - HR4 Aspect: Security Practices G4 - HR7 LABOR PRACTICES AND DECENT WORK Aspect: Labor/Management relations G4 - LA4 Aspect: Occupational Health & Safety G4 - LA8	
	Principle 4 – Business should uphold the elimination of all forms of forced and compulsory labour.	HUMAN RIGHTS Aspect: Forced or Compulsory Labor G4 - HR6 Aspect: Security Practices G4 - HR7	HUMAN RIGHTS Aspect: Investment G4 - HR1, G4 - HR2
	Principle 5 – Business should uphold the effective elimination of child labour.	HUMAN RIGHTS Aspect: Child Labor G4 - HR5 Aspect: Security Practices G4 - HR7	HUMAN RIGHTS Aspect: Investment G4 - HR1, G4 - HR2
	Principle 6 – Business should uphold the elimination of discrimination in respect of employment and occupation.	General Standard Disclosure Organizational Profile G4 - 10 LABOR PRACTICES AND DECENT WORK Aspect: Employment G4 - LA1, G4 - LA3 Aspect: Training and Education G4 - LA9 G4 - LA11 Aspect: Diversity and Equal Opportunity G4 - LA12 Aspect: Equal Remuneration for Women and Men G4 - LA13 HUMAN RIGHTS Aspect: Non-discrimination G4 - HR3 Aspect: Security Practices G4 - HR7	General Standard Disclosure Organizational Profile G4 - 11 ECONOMIC Aspect: Market Presence G4 - EC5, G4 - EC6 Aspect: Employment G4 - LA2 HUMAN RIGHTS Aspect: Investment G4 - HR1 Aspect: Supplier Human Rights Assessment G4 - HR10

AREAS OF THE GLOBAL COMPACT	GLOBAL COMPACT PRINCIPLES	DIRECTLY RELEVANT GRI INDICATORS	INDIRECTLY RELEVANT GRI INDICATORS
Environment	Principle 7 – Businesses should support a precautionary approach to environmental challenges.	G4 - 14 ECONOMIC Aspect: Economic Performance G4 - EC2 Aspect: Overall G4 - EN31	ENVIRONMENTAL Aspect: Materials G4 - EN1, G4 - EN2 Aspect: Energy G4 - EN3, G4 - EN6, G4 - EN7 Aspect: Water G4 - EN8 Aspect: Biodiversity G4 - EN11, G4 - EN12 Aspect: Emissions G4 - EN15, G4 - EN16, G4 - EN17, G4 - EN19 G4 - EN20, G4 - EN21 Aspect: Effluents and Waste G4 - EN22, G4 - EN23 G4 - EN24, G4 - EN25 Aspect: Product and Services G4 - EN27, G4 - EN28 Aspect: Compliance G4 - EN29 Aspect: Transport G4 - EN30
	Principle 8 – Business should undertake initiatives to promote greater environmental responsibility.	ENVIRONMENTAL Aspect: Materials G4 - EN1 Aspect: Energy G4 - EN3 Aspect: Water G4 - EN8 Aspect: Biodiversity G4 - EN11, G4 - EN12, G4 - EN13 Aspect: Emissions G4 - EN15, G4 - EN16, G4 - EN17, G4 - EN19, G4 - EN20, G4 - EN21 Aspect: Effluents and Waste G4 - EN22, G4 - EN23, G4 - EN24, G4 - EN25 Aspect: Product and Services G4 - EN28 Aspect: Compliance G4 -EN29 Aspect: Transport G4 - EN30 Aspect: Overall G4 - EN31 Aspect: Supplier Environmental Assessment G4 - EN32, G4 - EN33 Aspect: Environmental Grievance Mechanisms G4 - EN34	Aspect: Economic Performance G4 - EC2
	Principle 9 – Businesses should encourage the development and diffusion of environmentally friendly technologies.	ENVIRONMENTAL Aspect: Materials G4 - EN2 Aspect: Energy G4 - EN6, G4 - EN7 Aspect: Water G4 - EN10 Aspect: Emissions G4 - EN19 Aspect: Product and Services G4 - EN27	
Anti-Corruption	Principle 10 – Businesses should work against corruption in all its forms, including extortion and bribery.	General Standard Disclosure ETHICS AND INTEGRITY G4 - 56, G4 - 57, G4 - 58 SOCIETY Aspect: Anti-corruption G4 - SO3, G4 - SO4, G4 - SO5 Aspect: Compliance G4 - SO8	Aspect: Public Policy G4 - SO6 Aspect: Anti-competitive Behavior G4 - SO7

ASSURANCE STATEMENT

STATEMENT OF PIRELLI & C. S.p.A. 2014 INTEGRATED REPORT

SGS Italia S.p.A. (SGS) was commissioned to conduct an independent assurance of sustainability indicators disclosed in Pirelli & C. S.p.A. (Pirelli) 2014 Integrated Report.

The disclosure boundaries for the sustainability indicators coincide with that adopted for the reporting of economic data.

The information in the document is the exclusive responsibility of Pirelli.

SGS expressly disclaims any liability or co-responsibility in the preparation of any of the material included in this document or in the process of collection and treatment of the data therein.

Pirelli is responsible for identification of stakeholders and material issues and for defining objectives with respect to sustainability performance.

SGS affirms its independence from Pirelli, being free from bias and conflict of interests with the Organization, its subsidiaries and stakeholders.

Responsibilities and Scope of Assurance

The responsibility of SGS is to express an opinion concerning the text, the qualitative and quantitative information, the graphs, the tables and the statements related to the sustainability issues included in the 2014 Integrated Report, within the below mentioned assurance scope and with the purpose to inform all the Interested Parties.

The scope of assurance agreed with Pirelli includes the verification of the following aspects:

- review of the Group approach to materiality analysis and stakeholder engagement processes and initiatives;
- evaluation of the Sustainability elements of the Integrated Report 2014 against the Global Reporting Initiative Guidelines (GRI-G4), with reference to the option 'in accordance' *Comprehensive*;
- evaluation, through a Type 1 and Type 2 assurance, of the application of the AA1000 Assurance Standard 2008, and reliability of the information reported;
- completion of an high level assurance review of the information related to ESG[1] risks and of the information within the section "Our suppliers" chapter, with reference to the GRIG4 set of indicators related to supply-chain processes and monitoring of environmental, social and governance impacts;
- compliance verification of greenhouse gases (GHG) emissions inventory according to UNI EN ISO 14064-1:2012 requirements.

SGS was also commissioned by the Organization to confirm that the sustainability model adopted by Pirelli is in line with the requirements of the UNI ISO 26000 Guidance on Social Responsibility.

Assurance methodology and limitations

The verification process started from materiality analysis and stakeholder engagement methodology validation activities and was performed through examination of records and documents, interviews with personnel and management and analysis of policies, procedures and practices adopted by the Company. The texts, graphs and tables included in the 2014 Integrated

[1] ESG: Environmental, Social, Governance

Report were verified by selecting, on a sample basis, qualitative and/or quantitative information to confirm the accuracy and verify the process of data elaboration and synthesis.

Audit activities were carried out during January and February 2015 at Pirelli Head Quarters in Milan (Italy) and at sites of the Group in Rome (USA), Carlisle (Great Britain) and Merlo (Argentina) and they refer to data and performance of the whole Group.

The audit team was assembled based on their technical know-how, experience and the qualifications of each member in relation to the various dimensions assessed.

Statement of conclusion

On the basis of the auditing activities performed, SGS confirms with a reasonable level of guarantee that the information contained in the Pirelli 2014 Integrated Report, which represents a significant summary of the activities carried out by Pirelli, as well as an essential tool of communication with stakeholders, are complete, reliable and accurate.

The Pirelli 2014 Integrated Report outlines how Pirelli business strategy, governance, performance and prospects of allow value creation in the short, medium and long term, with the aim to increase transparency in respect of the whole community and all stakeholders.

With reference to the Group approach to the materiality analysis and to the stakeholder engagement process, the audit team provides the following opinion:

- the 2014 Materiality analysis, the Group Multi-Stakeholder Engagement and the 2013-2017 Industrial Plan objectives, with 2020 Sustainability Targets, are tangible signs of Sustainability issues integration in the Group's strategy. The constantly maintained dialogue with stakeholders appears to be of fundamental support for the identification, prioritization, and continuous improvement of the economic, environmental and social issues as well as their related impacts.

With reference to the GRI-G4, the Audit Team confirms the completeness and accuracy of KPIs reported, with particular reference to the set of KPIs added in the new version of the guidelines.

Therefore, SGS confirms the adherence of the Pirelli 2014 Integrated Report to the GRI-G4 requirements according to the option 'in accordance' *Comprehensive.*

Concerning the evaluation of the specific information detailed in the Scope of Assurance, the Audit Team confirms the relevant compliance with the principles of AA1000 (Inclusivity, Materiality and Correspondence) ,with a reasonable level of completeness, reliability and accuracy.

Regarding the "high level assurance" of the information related to ESG risks, and information within the chapter "Our suppliers", the audit team confirms that:

- risk management is perceived by Pirelli in a broad economic, social and environmental framework, in order to prove the connection between financial assets and non-financial performance, with the aim of value creation;
- the governance of human rights, as developed by the Group, is strongly integrated into business strategy. Pirelli perceives the governance of human rights as a strategic business priority and exercises due diligence by implementing policies aimed at preventing and mitigating any actual or potential risk. The governance of human rights as a strategic business priority is extensively applied to the responsible management of the supply chain, which is considered as a important component of Risk Governance;
- the third party audits on suppliers on sustainability issues, also this year have continued, as a concrete example of the actions that have been carried out in accordance with the principles of the "Group Values and Ethical Code", the "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment", the Group Code of Conduct, the SA8000 prescriptions and the UN Global Compact Principles, to which the Group adheres since 2004. The Audit Team notes that good results arose from the extensive verification conducted by Pirelli to ascertain the absence of "conflict minerals" along its supply chain. The consulted suppliers cover 100% of the "conflict minerals" risk related to the Group's products;
- the economic, social, environmental and governance integrated management characterizes the relations between Pirelli and its suppliers also through the decision to extend the request for CDP assessment, within the process of implementing the Company Green Sourcing Policy.

Moreover, the Audit Team especially appreciated the initiatives undertaken by Pirelli towards a more effective and transparent communication with its suppliers and potential suppliers, through a dedicated web platform that allows the maximum sharing of information and supports the suppliers' alignment to the Group Sustainability Model;

- the methodology specifically developed for the identification and measurement of reputational risk (defined as current or future risk of a profit loss or equivalent security value loss, resulting from a negative perception of the Organization by one or more stakeholders) in 2014 has led to the identification of reputational risks specific for Pirelli, also through consultations with internal and external stakeholders. Understanding the mechanisms of reputational risks formation enables the Organization not only to constantly monitor the status of its reputation, but also allows the review and development of corporate culture, and supports the implementation of management policies and mitigation of the risk itself.

The Audit Team notes the thorough work carried out by the Organization in response to the indicators requests related to the sets Energy and Emissions. Detailed information regarding the quantification of greenhouse gas (GHG) emissions was provided, and it is recognized the effort that has made the Group to develop and prepare its inventory of GHG emissions with reference to internationally recognized Standards. For this purpose, specific audit activities for the assessment of conformity with the requirements of the GHG inventory UNI EN ISO 14064-1:2012 was also carried out by the Audit Team, and the verification had a successful response with a reasonable level of assurance.

Furthermore, it is confirmed that the sustainability model adopted by Pirelli is in line with the requirements of the UNI ISO 26000 Social Responsibility Guidelines; the performed analysis considered all Specific Aspects, the Actions and the Expectations related to the Seven Core Subjects mentioned in Clause 6 of the Guidance, confirming that Pirelli has already in place mechanisms, initiatives and policies to comply, in a satisfactory way, to the above mentioned core subjects.

The Audit Team appreciates the activity performed by the Group to be in line with the Integrated Reporting principles contained in the Framework of the International Integrated Reporting Council (IIRC), and with the new European Directive 2013/34/EU regarding the disclosure of non-financial information: the Pirelli 2014 Integrated Report shows the logical connections between the components of economic and financial factors that impact on the value creation of the Organization, taking into account the different forms of capital employed on which the Organization does have influence.

Milano, April 20th, 2015

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