2015 ANNUAL REPORT

EVERY MARK IS UNIQUE

PIRELLI

*"For more than 140 years Pirelli
has been anticipating
customer needs,
bringing to the market high-end
products on the pillars of innovation
and technical excellence.
It starts with the inspiration,
ambition and sense of belonging
of our people, who each leave their
unique mark by turning innovative
ideas into reality.
Today Pirelli delivers complete
solutions to its customers
– a combination of premium tyres
and related services.
And now that new changes
and challenges are on the horizon,
such as new mobility
and digital technology,
we are ready to seize
these new opportunities
with the same passion,
imagination and commitment."*

In cover: **Pokras Lampas (3x3.30 m)**

2015 ANNUAL REPORT

EVERY MARK IS UNIQUE

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

PIRELLI

CONTENTS

LETTER FROM CHAIRMAN

Dear Stakeholders,

This is the first time that I am speaking to you in my role as Chairman of Pirelli and it is something I take great pride in.

It is the pride of someone who, together with you, will be part of the future of a company that represents Italian excellence in the world thanks to those elements that have always distinguished it: the quality of its people, its capacity to innovate and its technology. From the beginning, the Vice Chairman and CEO, Marco Tronchetti Provera, and I were united in the conviction that the sustainable growth of a company is based on product innovation, attention to one's clients and team work. Pirelli will continue to focus on these values, now also able to count a strong industrial partner in ChemChina, alongside Camfin and Lti, in its shareholder structure, it will in fact give additional impetus to the company, which is already a leader, enabling it to strengthen its overall position in a strategic market like Asia and, in the Industrial segment, to become one of world leaders through the union of its assets with those of Cnrc, ChemChina's tyre unit. In China alone, there were 279 million vehicles at the end of last year and it is foreseen that the 107 people per thousand who today own a vehicle will rise to 257 per thousand by 2024. The country aims to meet this growth by encouraging demand for alternative energy vehicles and therefore also stimulating demand for "green" tyres. It is a great opportunity for a company like Pirelli, whose *Green Performance* tyres last year accounted for 48% of tyre sales.

Pirelli remains entrusted to the ability demonstrated over the years by its management, whose values I share. These include passion, multi-culture and care for employees, all of which I fervently believe in and which each year, among other things, bring me to personally visit the BlueStar International Summer Camps, a gathering of employees' children from around the world. Working together also means each of us learning from the strengths of the others, contributing not only to the development of Pirelli, but to the responsible growth of the global economy in a world which is becoming ever bigger. ChemChina's international alliances are based on a strategic, long term vision. This is what has made them success stories and which will enable us to build Pirelli's future.

The Chairman

Ren Jianxin

LETTER FROM CEO

Dear Stakeholders,

in 2015 we laid the foundations to guarantee further growth for Pirelli.

The agreement signed by our shareholders in Marco Polo Industrial Holding reconfigured the group's profile, reinforcing the company structure, further enlarging its international footprint and also offering new and significant perspectives for growth. The partnership will allow us to make the Industrial segment stronger, following a long search for a partner of the right international and production scale to enable us to tackle the challenges of the market. As well, even the Consumer segment will benefit from the new industrial link, which brings Pirelli the full potential of a fast growing market like Asia. We will devote 2016 to taking advantage of all the opportunities offered by the new alliance, after managing in 2015 to meet all the operational targets we had set, notwithstanding global economic instability.

Our widespread international presence enabled us to offset the economic weakness of areas like Latin America with positive performances in the Nafta, Apac and European markets, where the demand for tyres, above all high end and very high end, was sustained. The profitability of the Consumer business grew to 16.2%, above target, while Premium revenues climbed above 60% of total Consumer revenues, exceeding the goals set in the Industrial Plan presented in London in 2013.

The performance of the Industrial business, despite the difficult macro-economic conditions, above all in South America, achieved profitability in line with our expectations, with an Ebit margin of 8.8%. We will set off from these positive results to tackle a new year full of opportunities. We will continue to rely on our people, technology, innovation and the sustainable management of our products and processes to ensure our company a solid future. Facing and overcoming challenges with passion, as we do every day in the many sporting competitions in which we take part, beginning with Formula 1 where we will continue to be the exclusive supplier for the next three years.

Thank you again to all our Stakeholders.

The Chairman and CEO
Marco Tronchetti Provera

PRESENTATION OF 2015 INTEGRATED REPORT

The Pirelli 2015 integrated report (Annual Report 2015) aims to provide a comprehensive overview of the process of creating value for the Company's Stakeholders, as resulting from the integrated management of the financial, productive, intellectual, human, natural, social and relational capitals. Reporting reflects the business model adopted by Pirelli, which is inspired by the United Nations' Global Compact, the principles of Stakeholder Engagement set forth by the AA1000, and the Guidelines of ISO 26000[1].

The financial capital, which comprises the company's financial resources, drives the sustainable management of the other capitals and is in turn influenced by the value created by the latter. In 2015, the management of the business produced an EBIT before non-recurring and restructuring expenses equal to euro 918.5 million (14.6% the EBIT Margin), with a growth of 6% as compared to the previous year and a return on investment (ROI) excluding financial assets and before restructuring costs equal to 24%, which represents an increase of two percentage points as compared to 2014.

In turn, the Company's productive capital, which includes 20 tyre factories in four continents, is managed in a perspective of reducing environmental impacts, with targets by 2020 in terms of an increase in waste recovery and a reduction of the specific indices of energy consumption, emissions and water withdrawal. In this regard, the Company's efforts in 2015 made it possible to contain the energy and emission inefficiency stemming primarily from the drop in volumes in Brazil. At the same time, investment in renewable resources continued through projects employing biomass for the production of steam (Brazil) and the use of wind energy (Mexico). A reduction in the specific water withdrawal was then recorded, alongside an increase in the rate of waste recovery. All this has helped to achieve efficiencies on costs amounting to 94.4 million euro in total.

The research and development activities, which have always been at the heart of Pirelli's strategy, contribute substantially to the improvement of environmental efficiency along the entire product life-cycle, from the innovative raw materials to the process, distribution, use and up to the end of life of tyres. In 2015, Pirelli invested 214.4 million euro in research and development, i.e. 5.8% of premium revenues and 3.4% of total revenues. In turn,

Pirelli's *Green Performance* products, which combine performance and respect for the environment, at the end of 2015 represent 48%[2] of total tyre turnover (46% in 2014 and 43% in 2013). The strong investment in innovation also supplies Pirelli's intellectual capital, which comprise a total portfolio of approximately 5,000 patents concerning innovations of product, process and materials, as well as copyright, software, and a brand recognised worldwide.
The evolution of the cited capitals is closely related to human capital, at the heart of the Company's growth. Merit, rules, ethics and sharing of strong values and clear policies, attention to welfare and diversity are accompanied by advanced instruments to attract and retain the best talents. The investment in the "culture of health and safety at work" and in training is fundamental, with an injury frequency index that in 2015 decreased by 6% compared to 2014 and an investment in training that reached 8.3 average days per employee, thus surpassing for the third consecutive year the target of 7 average-per-capita days as envisaged by the Industrial Plan only as from 2015.
Pirelli's 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 mapping of the Company's materiality, which is being upgraded during 2016 and analyses the expectations of Pirelli's main stakeholder on issues related to sustainable growth (see Section "Report on Value Chain Responsible Management").
In methodological terms, the drafting of the Annual Report 2015 took into consideration the Integrated Reporting principles contained in the framework of the International Integrated Reporting Council (IIRC), the Financial Statements and Consolidated Financial Statements were drawn up according to IFRS international accounting standards, and socio-environmental performance meets the Sustainability Reporting Guidelines of the Global Reporting Initiative (version GRI-G4 - Comprehensive option). The Summary Tables, found at the end of the report, link the specific GRI-G4 indicators with the principles of the Global Compact and the topics discussed in the Annual Report.

---

[1] Compliance of the Pirelli Sustainability Model with the AA1000 Principles and ISO26000 Guidelines was audited by a third party once again in 2015, as certified by the SGS Assurance Statement at the end of this report. The application of the requirements of Standard SA8000® by Pirelli and the Group's Suppliers is subjected to external and internal audits.

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

BOARD OF DIRECTORS [1]	
Chairman	Ren Jianxin
Executive Vice Chairman and CEO	Marco Tronchetti Provera
Director:	Yang Xingqiang
	Carlo Acutis
	Bai Xinping
	Gustavo Bracco
	Giorgio Luca Bruno
	Ze'ev Goldberg
	Andrey Kostin
	Jiao Chonggao
	Emerson Milenski
	Luca Rovati
	Igor Sechin
	Yang Xun
	Wang Dan
	Zhang Haitao

Secretary of the Board	Anna Chiara Svelto

BOARD OF STATUTORY AUDITORS [2]	
Chairman	Francesco Fallacara
Statutory Auditor:	Fabrizio Acerbis
	Fabio Artoni
	Giovanni Bandera
	David Reali
Deputy Auditor:	Fabio Facchini
	Giovanna Oddo

INDEPENDENT AUDITING FIRM	
	Reconta Ernst & Young S.p.A.

GENERAL MANAGER	
	Maurizio Boiocchi (Technology)
	Gregorio Borgo (Operations)

[1] Appointment: March 15, 2016. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2018.
[2] Appointment: May 14, 2015. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2017 (David Reali, Giovanni Bandera e Fabrizio Acerbis appointed on March 15, 2016)

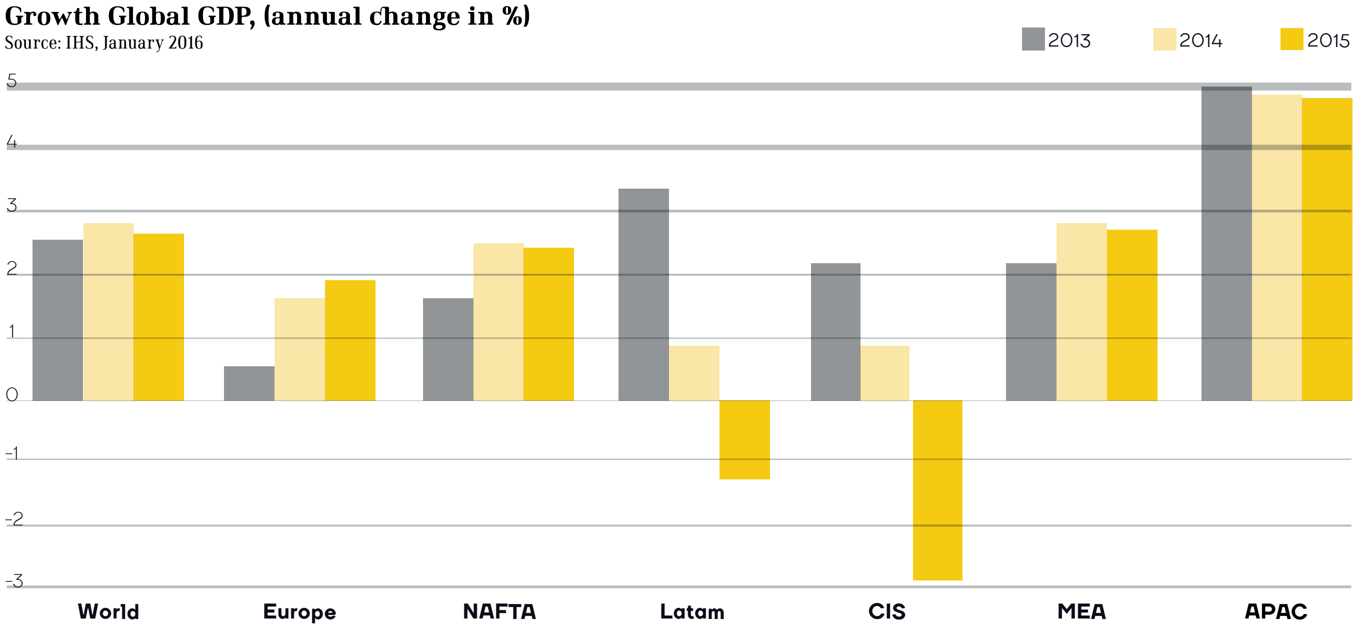
01. DIRECTORS' REPORT ON OPERATIONS

MACROECONOMIC AND MARKET SCENARIO

The international economy

Global economic activity continued to show signs of weakness in 2015, with 2.5% GDP growth, a slowdown compared to the previous two years. The good performances of Europe and North America only partially offset the lower than expected growth in emerging markets, which were impacted by a sharp drop in the prices of raw materials, the high volatility of financial markets and a reduction in capital flows and trade.

Growth Global GDP, (annual change in %)
Source: IHS, January 2016



The analysis of the dynamics of the various geographical areas, revealed that the recovery in economic activity in Europe had continued and had resulted in a GDP growth that for 2015 was expected to attain +1.8% (+1.4 in 2014), thanks to the positive performances of the United Kingdom, Spain and Germany.
Economic activity was driven primarily by private consumption, which benefited both from the reduction in energy prices and from an improvement in the conditions of the financial markets - followed by the introduction in January 2015 of the quantitative easing program of the ECB. The weakening of the Euro against the US Dollar finally had the effect of improving the competitiveness of exports of goods and services.
Inflation continues to be a reason of concern; in fact, the reduction in raw material prices continued in the last quarter of 2015 contributing to an inflation rate of zero in the Eurozone for 2015. In this context, the European Central Bank cut interest rates twice during the year bringing the interest rate on deposits with the ECB to -0.30% in December 2015, and also extended the government

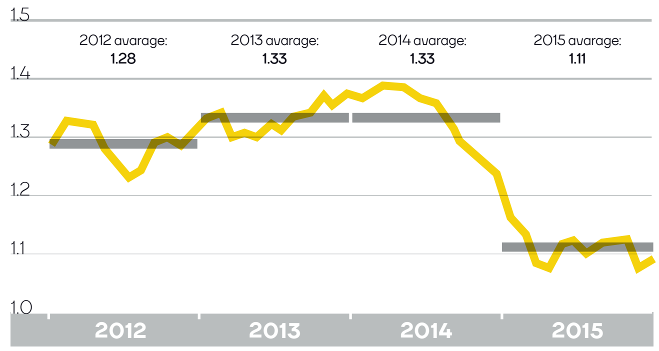
securities purchase program by six months, until March 2017.
In the USA, GDP growth continues apace with +2.5% in 2015, supported by improved labour market conditions and despite the negative impact of the US Dollar appreciation on foreign demand. The reduction in the unemployment rate (5% in December 2015 compared to 5.6% in the same month of 2014) and signs of increases in wages provided the elements to the Federal Reserve to start an upward cycle of interest rates with an increase of 25 basis points in December 2015 (first increase since 2006).
The economic crisis that hit Brazil and whose economy is expected to decline by more than 3% in 2015 was inevitably reflected in the other countries of Latin America by contributing to an overall decline in GDP in the area. In addition to the sharp depreciation of raw materials, Brazilian economic activity was affected by the political crisis and the downgrade of the rating of government securities, together with the slowdown in China, its first export market outlet. Argentina's economy has responded better (+1.6% GDP in 2015 - IHS estimate), thanks to the containment of public spending implemented before the autumn elections. Venezuela also closed the year in recession, hit hard by the fall in oil prices, resulting in greater difficulty for economic operators in obtaining "strong" currency for importing the industrial goods required for production.
In China, the volatility of financial markets in the summer and the devaluation of the Renminbi have highlighted the risks of an excessive economic slowdown linked to a retreat from the high levels of investment and borrowing that characterised the years of strong growth and the transition towards the greater importance of domestic consumption. The year 2015 closed with a growth of 6.9%, in line with expectations although lower than the 7.3% in 2014, confirming the soft landing scenario.

Exchange rates

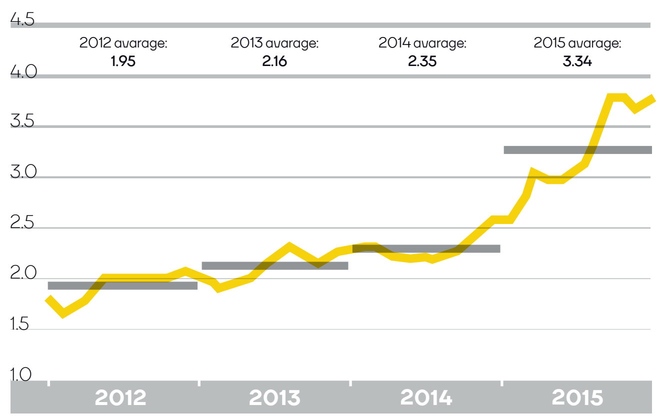
Currency markets in 2015 were characterized by the strengthening of the US Dollar, also as a result of expectations of a rise in interest rates that materialized only in December. The appreciation of the US Dollar against the Euro was more pronounced in the first half of 2015, coinciding with the beginning of the program to purchase sovereign bonds by the ECB; overall, the Euro/US Dollar listing recorded an average of 1.11 US Dollars per Euro in 2015 as compared to 1.33 in the previous year, representing a depreciation of the Euro of 16%.

Even the Japanese currency was affected by the continuation of the expansionary monetary policy of the Central Bank in 2015, reaching an average of 121 Yen per US Dollar, down 13% as compared to the 2014 average.
Also in decline as compared to the US Dollar in 2015 were the currencies of the main emerging countries, especially countries exporting raw materials.
The Brazilian Real stood at an average of 3.34 Real per US Dollar in 2015, -30% over the previous year, affected by the downgrade by rating agencies of political uncertainties.
Despite the volatility recorded in August, linked to the expansion of the trading band, the average price of the Renminbi in 2015 amounted to 6.23 against the US Dollar, down 1.4% compared to the average of the previous year.

Exchange rate: US Dollar per Euro
Source: European Central Bank, monthly data up to 31 December 2015



Exchange rate: Brazilian Real per USD
Source: European Central Bank, monthly data up to 31 December 2015



AUTOMOTIVE MARKETS

The global **auto market** recorded an increase in registrations of around 2% in 2015; the good trend in demand in the United States, in Western Europe and in China more than offset the weakness of the Brazilian and Russian markets, which were affected by a general decline in economic activity and in particular a propensity towards purchasing durable goods. According to IHS, the Premium segment, which includes the cars of the most prestigious brands and is the most interesting segment for Pirelli, confirmed a growth rate higher than the market representing up to 10% of cars sold. This trend, which results in continuous improvement of the vehicle fleet in circulation, has been supported both by the markets with high incidence of traditionally high range vehicles, in particular Europe and North America, and by emerging countries like China where growth in the Premium segment is among the highest in the world.

The car market in Europe recorded growth in registrations of 9% as compared to 2014, in response to strong demand for renewal of the car fleet in Portugal, Spain, Ireland and Italy, which recorded double-digit growth; Germany, France and the UK recorded growth rates above 5%.
In Latin America, the performance of the sector was strongly affected by a slowdown in economic activity and which led to a drop in registrations in almost all markets. In Brazil, for example, which is the main market of the region, registrations were down by 24%. Instead, the trend in the automotive market in China was favourable and where the pace of sales accelerated in the fourth quarter due to a reduction in taxation.
Comparing the very favourable trend of 2014, in anticipation of the increase in consumption tax, penalized the trend of car registrations in Japan, which closed 2015 with a -10%.
Global demand for **commercial vehicles** declined by about 7% in 2015 (IHS estimates): the upward trend in the NAFTA region (+13% growth in registrations, in line with 2014) and the recovery of the European market (+16% of the segment > 3.5 tons) mitigated the decline in Russian markets (-40%), and Brazil (-48%); the drop in sales in Russia and Latin America relates to the slowdown in economic activity. Sales of commercial vehicles in China decreased by approximately 25% in 2015.

TYRE MARKETS

In 2015, the Car tyre market recorded a growth in volumes of 1.5%, which was slower than the +3.7% growth recorded for 2014. The Premium segment (tyres with a rim diameter of 17-inch or more) was confirmed as increasing at a much higher rate, equal to 9%, which in 2015 represented approximately a quarter of the total Car tyre market; growth in the Premium segment was stable for the main markets of Europe, North America and Asia Pacific. As far as the radial segment of the Industrial tyre market is concerned (Truck and Bus), 2015 recorded a decline of 1.0% as compared to 2014.

TYRE SALES, CONSUMER MARKET (annual change in %)

		2011	2012	2013	2014	2015
Europe*	Original Equipment	3	-9	0	4	7
	Replacement	3	-12	0	2	4
NAFTA	Original Equipment	10	17	5	5	2
	Replacement	-1	-5	-1	3	4
Latam**	Original Equipment	2	0	6	-17	-20
	Replacement	7	1	9	5	3
China	Original equipment	2	7	17	9	7
Japan	Original Equipment	-13	19	-4	2	-6
	Replacement	8	-1	4	4	-4

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

TYRE SALES, INDUSTRIAL MARKET (annual change in %)

		2011	2012	2013	2014	2015
Europe*	Original Equipment	32	-8	6	-4	11
	Replacement	-1	-17	7	2	5
NAFTA	Original Equipment	55	5	-4	16	7
	Replacement	3	-11	2	10	1
Latam**	Original Equipment	11	-29	29	-23	-48
	Replacement	2	-4	9	-3	-10
China	Original Equipment	-15	-19	17	-5	-23
Japan	Original Equipment	-2	15	1	4	-3
	Replacement	7	-4	6	6	-3

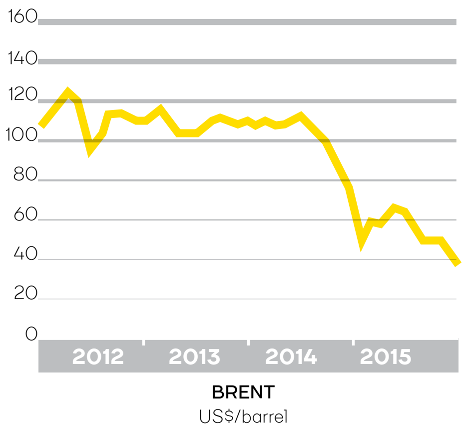
* Including Turkey, excluding Russia. ** Argentina, Brazil and Venezuela.
Note: the data excludes imports except Latin America where the spare parts segment includes imports. Source: Pirelli estimates

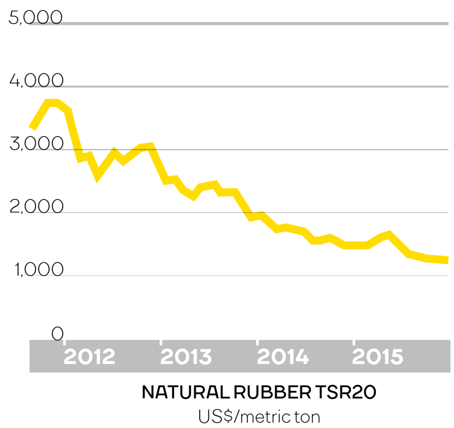
The positive trend in economic activity in Europe and North America and continued growth of the economy in China, albeit at lower rates, supported tyre market performance in 2015. The decline of the original equipment tyre market in Latin America can be related to the difficult macroeconomic environment and led to a significant drop in vehicle production; the trend in the replacement channel of the Consumer segment in Latin America was positive due to the growth and improvement of the mix of vehicles in circulation which occurred in recent years.
In Russia, sales of tyres were affected by the general economic slowdown, which was adversely impacted by the collapse in oil prices and the impact of the geopolitical tensions in the area on economic activity.

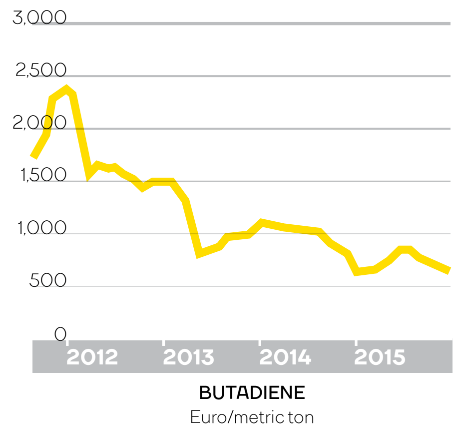
Raw Materials

In the course of 2015, the prices of the main raw materials declined further through being affected by the oil price. During the year, Brent ranged from values of less than $ 50 per barrel in January to as high as $ 65 per barrel in May, before falling back in autumn and ending the year below $ 40 per barrel; the average price of Brent in 2015 ($ 54 per barrel) represents a decrease of 46% as compared to the average for the previous year ($ 99 per barrel). This trend was due to the increase in supply, supported by the production of shale oil in the US and by the failure by OPEC to agree production cuts and weakening global demand.
The reduction in oil prices and uncertainties about the prospects of global demand also weighed on prices of natural rubber, which continued the decline begun in 2011. Purchase prices (reference TRS20 Sicom) stood at an average of $ 1,369 per ton in 2015, down 20% as compared to the average price of 2014 ($ 1,711 per ton). Volatility in prices of butadiene, the main raw material for the production of synthetic rubber was high: the rise in prices during the summer due to reduced supply, was followed by a decline in September that helped bring the annual average of euro 656 per tonne in 2015, down 31% as compared to 2014 (euro 944 per ton).

Prices of Raw Materials
Source: IHS







SIGNIFICANT EVENTS IN 2015

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 a five-year term. The contract replaced the previous revolving credit facility for euro 1.2 billion maturing in November 2015, which was thus terminated in advance. On **February 13, 2015**, an additional contract was signed for a new credit line for a total value of euro 200 million for a five-year term, with conditions essentially in line with those of the credit line above.

On **January 27, 2015**, a special Meeting of Shareholders of Pirelli & C. S.p.A. savings shares appointed Angelo Cardarelli as common representative for the years 2015, 2016 and 2017.

On **February 6, 2015**, the sale was completed of the steelcord activities of Pirelli in Turkey (Izmit) to Bekaert and on March 27, 2015, with the sale of the steelcord activities in China (Yanzhou), the transfer was completed to Bekaert of all the Pirelli steelcord activities. In line with what had already been disclosed to the market in February 2014, along with the announcement of the transaction, the total value (Enterprise value) for 100% of the steelcord business was confirmed as euro 255 million.

On **February 12, 2015**, the Pirelli & C. S.p.A. Board of Directors examined the preliminary results of 2014 operations. On **March 31, 2015**, the Board of Directors of Pirelli & C. S.p.A. approved the financial statements for the year 2014, which closed with a total net profit of euro 332.8 million (+8.6% as compared to the corresponding period in 2013) and a net profit for the parent company of euro 258.0 million, up 34.4% as compared to the corresponding period in 2013.
The Board of Directors proposed to the Shareholders' Meeting of May 14, 2015, distributing a dividend of Euro 0.367 per ordinary share (0.32 in the previous year) and euro 0.431 per savings share (0.39 in the previous year). On **May 13, 2015**, the Pirelli & C. S.p.A. Board of Directors approved the results at March 31, 2015, which closed with a further evident strengthening of the Premium segment.

On **March 22, 2015**, China National Tire & Rubber Co. Ltd (CNRC), a subsidiary of ChemChina (ChemChina), Camfin S.p.A. (Camfin) and the shareholders of Camfin (Coinv S.p.A. and Long-Term Investments Luxembourg S.A.) signed a binding agreement for a long-term industrial partnership related to Pirelli. The objective of the partnership is to strengthen the development plans of Pirelli, its presence in geographically strategic areas and a substantial doubling of volumes in the Industrial segment through the future integration of the Industrial segment of CNRC and Pirelli assets. The centrepiece of the agreement is the continuity and independence of the current management structure of the Pirelli Group. Pirelli HQ and know-how will be kept in Italy: reinforced majorities are required to authorise any move of the Headquarters and transfer to third parties of Pirelli know-how.

On **April 16, 2015**, Under a Memorandum of Understanding signed in 2014, Pirelli and Rosneft, identified Synthos, a company based in Poland and which is a leading manufacturer of chemical raw materials, as the technology partner with which to develop research, production and supply of synthetic rubber in Nakhodka, in the context of the FEPCO (Far East Petrochemical Company) petrochemical hub. Pirelli, Rosneft and Synthos therefore signed a Memorandum of Understanding to conduct feasibility studies related to activities concerning the requirements of the engineering and operational design of plants, as well as market studies, investments and estimates of operating costs.
The three groups also intend to use the FEPCO petrochemical centre to produce synthetic rubber with the aim, inter alia, of

supplying Pirelli factories located in the APAC region. On **October 22, 2015**, the three companies signed a further memorandum of understanding related to the positive results of the feasibility study begun in April and future cooperation in the development of a project for the construction of a synthetic rubber plant in Nakhodka. On **June 19, 2015**, Pirelli and Rosneft signed a cooperation agreement that extends the existing partnership between the two companies in commercial and marketing areas.

On **April 20, 2015**, Pirelli announced that - in connection with the Ordinary Shareholders' Meeting of Pirelli & C. S.p.A. - two lists of candidates have been filed for the appointment of statutory auditors by Camfin S.p.A. and its subsidiary Cam 2012 S.p.A., as well as by a group of asset management companies and financial intermediaries. The company also announced that Camfin S.p.A., concerning the agenda of the Shareholders' Meeting on the appointment of the six members of the Board of Directors, would move that the Shareholders' Meeting confirm the appointment of the directors Igor Sechin, Didier Casimiro, Andrey Kostin (independent), Ivan Glasenberg (independent), Petr Lazarev and Igor Soglaev - already co-opted on July 10, 2014 - thus leaving the number of members of the Board of Directors unchanged at fifteen.

On **May 14, 2015**, the Shareholders' Meeting of Pirelli & C. S.p.A., approved the 2014 financial statements that closed with a consolidated net profit of euro 332.8 million and a net profit of the parent company of euro 258.0 million, resolving distribution of a dividend of euro 0.367 per ordinary share and euro 0.431 per savings share.
Furthermore, the Shareholders' Meeting approved the proposal of Camfin S.p.A. regarding confirmation in office of directors already co-opted in July 2014 and appointed a new Board of Auditors composed of Francesco Fallacara, who was appointed Chairman (taken from the minority list), Antonella Carù and Fabio Artoni as Regular Auditors and Andrea Lorenzatti (taken from the minority list), Fabio Facchini and Giovanna Oddo as Alternate Auditors. Lastly, the Meeting authorized the Board of Directors to purchase and dispose of treasury shares, not exceeding 10% of capital, for a maximum period of eighteen months thus renewing the previous authorisation resolved on June 12, 2014.

On **June 23, 2015**, the Board of Directors of Pirelli & C. S.p.A. entrusted the role of financial advisors to support the evaluations of the Board of Directors will be called upon to express in relation to the transaction between Camfin S.p.A., China National Chemical Co. and China National Tire & Rubber Co. Ltd announced by Camfin on March 22, 2015 to Deutsche Bank and Goldman Sachs International. The independent directors of Pirelli also informed the Board of Directors of the appointment of Citigroup Global Markets Ltd as independent expert related to the opinion required under article 39-bis, paragraph 2, Issuers Regulations.

On **August 6, 2015**, the Board of Directors of Pirelli & C. S.p.A. approved the results at June 30, 2015 showing a growth in Premium volume of 10.4%

On **August 11, 2015** - after the acquisition by Marco Polo Industrial Holding S.p.A., of subsidiary of CNRC and the associate Camfin, of 20.34% of Pirelli & C. S.p.A. by Camfin S.p.A. and the signing of the Pirelli shareholder agreement concerning, in addition to share purchased, also the 5.85% stake held indirectly by Camfin S.p.A. in Pirelli through Cam S.p.A. 2012 - Marco Polo Industrial Holding S.p.A. launched a mandatory public purchase offer for all the ordinary shares of Pirelli of euro 15 per share and a voluntary public purchase offer on all the savings shares of euro 15 per share. On **October 13, 2015**, at the end of the acceptance period of the public purchase offer begun on September 9, 2015, Marco Polo Industrial Holding S.p.A. announced it held 413,807,381 ordinary shares of Pirelli, being 86.982% of the ordinary share capital and 84.798% of the entire share capital. Marco Polo Industrial Holding also announced a reopening of the terms of the offer between October 21 and 27, at the conclusion of which, on **October 30, 2015**, it announced that it held in total - also including treasury shares - 96.043% of the ordinary share capital of Pirelli. On **November 6, 2015**, the offerer launched the joint procedure for the acquisition of the remaining shares, after which it held the remaining 3.957% of the ordinary share capital. On the same date the shares were delisted. Extracts of the shareholder agreements relating to the partnership are available on the Pirelli website.

Also on **August 11, 2015**, as a result of changes in the shareholding structure of Pirelli, the directors Paolo Fiorentino and Gaetano Micciché resigned from the Board of Directors of the Company, in replacement of whom - on **September 2, 2015** - the Board of Directors co-opted Ze'ev Goldberg and Bai Xinping, qualified by the Board as "non-independent".

On **September 10, 2015**, the Bondholder meeting of Pirelli International Plc related to the bond issued by the company for a total of euro 600 million guaranteed by Pirelli Tyre S.p.A. and maturing in 2019, did not reach the quorum and therefore, the Extraordinary Resolution in order to make some amendments to the change of material shareholding clause of the bond regulation was not approved, and the latter therefore remains not amended.
On **September 24, 2015**, the Bondholder meeting of Pirelli & C. S.p.A. related to the bond issued by the company for a total of euro 500 million, guaranteed by Pirelli Tyre S.p.A.

and maturing in 2016 approved the extraordinary resolution, which provides for the amendment of the Bond Regulations, in particular with reference to the provisions relating to the change of material shareholding determined following the transfer of approximately 20.34% of the ordinary share capital of Pirelli & C. S.p.A. by Camfin S.p.A. to Marco Polo Industrial Holding S.p.A. The amendments to the Regulations will allow reimbursement by Pirelli & C. S.p.A. at the natural expiry in February 2016, through financial resources already available.

On **October 11, 2015**, Pirelli announced that it had reached a commercial agreement to remain in Formula 1 until 2019. Details will follow in accordance with the procedure established by the FIA.

On **October 13, 2015**, following an overrun of the threshold of 50% of the ordinary share capital of Pirelli & C. S.p.A. by Marco Polo Industrial Holding S.p.A., Pirelli announced that with payment of the shares by the Bidder (October 20, 2015), there was a "Change of Control" under two loans of Pirelli International Plc that were guaranteed by Pirelli & C. S.p.A. and Pirelli Tyre S.p.A.. Following this event, the lenders of the "USD Private Placement" loans, amounting to 150 million US Dollars, and a "Schuldschein", for a residual amount of euro 37 million, will have the right to request early redemption for a total amount equal to the nominal value at the time of redemption and any other ancillary costs related to the nature of the contracts.

On **October 14, 2015** - with effect October 19, 2015 - the directors Anna Maria Artoni, Didier Casimiro, Ivan Glasenberg, Petr Lazarev and Igor Soglaev have resigned from the Board of Directors of the company.

On **October 20, 2015**, the Board of Directors of Pirelli & C. S.p.A. co-opted Ren Jianxin, Yang Xingqiang, Wang Dan, Tao Haisu and Zhang Junfang in replacement of the Directors who resigned on October 14, 2015. Following the resignations of Marco Tronchetti Provera as Chairman and Alberto Pirelli as Vice Chairman, the Board of Directors appointed Ren Jianxin as Chairman, granting him legal representation of the company as well as all other powers conferred upon the Chairman under the current by-laws, without prejudice to the powers and prerogatives of the Board of Directors, and Marco Tronchetti Provera, already CEO, to Executive Vice Chairman, confirming the allocation of powers for the operational management of Pirelli, already delegated to him. Given its new composition, the Board of Directors, which established the new Related-Party Committee, proceeded to a reorganization of the members of the Board Committees responsible for fact finding, advice and proposals.

On **November 11, 2015**, the Board of Directors of Pirelli & C. S.p.A. approved the results as at September 30, 2015, with revenues of euro 4,711.9 million, an increase of 4.0% as compared to euro 4,528.7 million at September 30, 2014 and a strengthening in the Premium segment, which increased by 17.0% over the previous year.

On **November 23, 2015**, the Pirelli Board of Directors decided to convene 2016 an extraordinary meeting for February 15, to resolve on the mandatory conversion of savings shares into unlisted shares of a newly issued special category without voting rights, adoption of new Articles of Association and merger with the parent company Marco Polo Industrial Holding S.p.A..

On **December 22, 2015**, the Board of Directors of Pirelli & C. S.p.A. and Marco Polo Industrial Holding S.p.A. approved the proposed merger. The merger between the two companies will take place through the incorporation of Marco Polo Industrial Holding S.p.A. into Pirelli & C. S.p.A.. It is also noted that, the Board of Directors also approved early closure of the 2014-2016 Long-Term Incentive Plan in view of the delisting of the ordinary shares.

GROUP PERFORMANCE AND RESULTS

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, Provisions, Operating Working Capital, Net Working Capital and Net Financial Position. Reference is made to the paragraph "Alternative Performance Indicators" for a more detailed description of these indicators.

It is to be noted that as at December 31, 2015, Pirelli proceeded with the accounting deconsolidation of the Venezuelan subsidiary (which is 96.22% owned), and with the recognition of the investment at fair value (equal to 18.9 million euro). The increasing and permanent restrictions on foreign currency conversion and the continued reduction in the availability of the US Dollar in Venezuela impeded, with an evident trend that could not be considered temporary, the payment of dividends, royalties and trade payables to other companies of the Group. To these restrictions further regulatory restrictions were added, (for example, the control of sales margins and particularly stringent labour regulations), which were also permanent, and which in fact did not permit the Group to implement their business decisions onto the subsidiary's business activities or to govern the subsidiary's relative assets. Based on this scenario, which is expected to endure for the near future, as confirmed as well by the latest official statement made by President Maduro on February 17, 2016 according to which the SIMADI exchange rate currently at approximately 200 Bolivares per US dollar will replace the SICAD exchange rate of 13.5 Bolivares per US dollar, and consistent with what other multinationals had already done, it was decided that the requisite conditions had not been met in order for an accounting control to be carried out on the subsidiary. The financial results of the Venezuelan subsidiary were consolidated for the entire financial year of 2015. The deconsolidation of the subsidiary resulted in the recognition of a negative impact on the Income Statement to the amount of euro 559.5 million, which includes the derecognition of the Net Financial Position of the company, which as at December 31, 2015 was positive to the amount of euro 277.7 million.

As a consequence of the deconsolidation, the group's results will no longer include the results of the Venezuelan unit, and therefore will no longer bear the impact of the recurring devaluations which we have seen in recent years, both at the level of results and the net financial position. In addition, no further losses are foreseen linked to new supplies to the country; Pirelli could eventually recoup part of the value which was almost totally devalued on December 31, 2015.

Pirelli closed 2015 with results in line with operational targets:

- **Net sales** amounting to euro 6,309.6 million, with an annual growth of 4.8% (> euro 6.25 bln target 2015 ~ +4% as compared to 2014), supported by a strong improvement in the price/mix component (+7.1% as compared to the target of ≥ 5.5%) resulting from price increases, higher sales in the Replacement segment and different geographical and product mix. This trend more than offset the decline in volumes (-1.6%, mainly in emerging markets and in Industrial business) and the volatility of exchange rates (-0.6%);
- the **Premium** trend was higher than expected with a growth of +12.7% volume (≥ +10% target) and an incidence on Consumer revenues up to 60% (55% in 2014).
- profitability was up 5.7% as compared to 2014 with an **EBIT before non-recurring and restructuring expenses** amounted to euro 918.5 million (euro 925 million 2015 target) and a margin of 14.6% (14.4 % in 2014). This result benefited from the achievement of efficiencies for euro 94.4 million as a continuation of the four-year plan (2014-2017) and from euro 350 million announced in November 2013 (euro 92,4 million efficiencies achieved in 2014);
- **net financial position** negative for euro 1,199.1 million, euro 921.4 million excluding the impact of the deconsolidation of the Venezuelan subsidiary. Compared to the target of euro 850 million, the net financial position at December 31, 2015 was affected by the postponement of the sale of certain financial investments totalling approximately euro 120 million which were included in the annual target.

The **consolidated financial statements of the Group** can be summarised as follows:

(in millions of euro)

	12/31/2015	12/31/2014
Net sales	**6,309.6**	**6,018.1**
Gross operating margin before non-recurring and restructuring expenses	1,242.7	1,168.0
% of net sales	*19.7%*	*19.4%*
Operating income before non-recurring and restructuring expenses	918.5	869.2
% of net sales	*14.6%*	*14.4%*
Non-recurring and restructuring expenses	(68.2)	(31.3)
Operating income (loss)	**850.3**	**837.9**
% of net sales	*13.5%*	*13.9%*
Net income (loss) from equity investments	(41.4)	(87.0)
Financial income/(expenses)	(328.2)	(262.4)
Net income (loss) before tax adjusted (*)	**480.7**	**488.5**
Loss from deconsolidation of Venezuela	(559.5)	-
Total net income (loss) before tax	**(78.8)**	**488.5**
Tax expenses	(182.5)	(173.3)
Tax rate % on net income (loss) before tax adjusted	(38.0%)	(35.5%)
Impairment of deferred tax assets	(107.6)	-
Net income (loss) from continuing operations	**(368.9)**	**315.2**
Net income (loss) from discontinued operations	**(14.6)**	**17.6**
Total net income (loss)	**(383.5)**	**332.8**
Net income (loss) adjusted (**)	**298.2**	**315.2**
Net income attributable to Pirelli & C. S.p.A.	(391.4)	319.3
Total net earnings per share attributable to Pirelli & C. S.p.A. (in euro)	(0.802)	0.654
Operating fixed assets	**3,780.5**	**3,874.0**
Inventories	1,053.9	1,055.0
Trade receivables	676.2	673.8
Trade payables	(1,313.1)	(1,394.4)
Operating Net working capital related to continuing operations	**417.0**	**334.4**
% of net sales	*6.6%*	*5.6%*
Other receivables/other payables	(107.6)	33.9
Total Net working capital related to continuing operations	**309.4**	**368.3**
% of net sales	*4.9%*	*6.1%*
Net invested capital held for sale	**-**	**30.8**
Total Net invested capital	**4,089.9**	**4,273.1**
Equity	**2,343.5**	**2,611.5**
Total Provisions	**547.3**	**682.0**
of which provisions held for sale	*-*	*5.2*
Total Net financial (liquidity)/debt position	**1,199.1**	**979.6**
of which Net Financial (liquidity)/debt position held for sale	*-*	*(5.8)*
Equity attributable to Pirelli & C. S.p.A.	2,280.1	2,548.3
Equity per share attributable to Pirelli & C. S.p.A. (in euro)	4.672	5.222
Investments in property, plant and equipment and intangible assets	391.4	378.1
Research and development expenses	214.4	205.5
% of net sales	*3.4%*	*3.4%*
Research and development expenses - Premium	176.5	174.5
% on sales Premium	*5.8%*	*6.9%*
Headcount (number at end of period)	36,753	37,561
Industrial sites (number)	19	19

(*) excluding the impact from deconsolidation of the Venezuelan subsidiary
(**) excluding the impact from deconsolidation of the Venezuelan subsidiary, impairment of deferred tax assets and net income (loss) from discontinued operations

For a better understanding of the performance of the Group, here below is the **economic data broken down by business segment**.

(in millions of euro)

	A		B		A+B = C		D		C+D = E	
	CONSUMER		INDUSTRIAL		TOTAL TYRE		OTHER BUSINESS		TOTAL GROUP	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net sales	5,048.2	4,610.3	1,252.6	1,397.2	6,300.8	6,007.5	8.8	10.6	6,309.6	6,018.1
Gross operating margin before non-recurring and restructuring expenses	1,084.4	934.7	165.1	242.2	1,249.5	1,176.9	(6.8)	(8.9)	1,242.7	1,168.0
Operating income (loss) before non-recurring and restructuring expenses	816.2	697.2	110.6	183.2	926.8	880.4	(8.3)	(11.2)	918.5	869.2
Non-recurring and restructuring expenses	(53.3)	(20.8)	(13.0)	(7.0)	(66.3)	(27.8)	(1.9)	(3.5)	(68.2)	(31.3)
Operating income (loss)	762.9	676.4	97.6	176.2	860.5	852.6	(10.2)	(14.7)	850.3	837.9

Group net sales at December 31, 2015 amounted to euro 6,309.6 million, up 4.8% as compared to the euro 6,018.1 million for the 2014 financial year. Sales performance was supported by Consumer business (+9.5% overall growth, +7.9% organic change) while the Industrial business (-2.6% organic change) was affected by a significant deterioration in the market in South America and the adverse impact of exchange rates which were accentuated especially in the second half (-0.6% impact of exchange rates on Group revenues, +1.6% on Consumer revenues, -7.7% on Industrial revenues).

Tyre business net sales amounted to euro 6,300.8 million, with organic growth of 5.5% over the previous year (+4.9% including the impact of exchange rates).

Net sales of the Premium segment (tyres with a rim diameter equal to or greater than 17 inches for the car business, and radial tyres, X-ply custom touring tyres, off-road and Sport Touring tyres with a speed rating of ≥H for the motorcycle business) totalled euro 3,017.1 million (+19.0% as compared to euro 2,536.0 million in 2014), with an impact on turnover for Consumer business, increasing to 60% (55% in 2014) and with volumes up by 12.7%.

The following table outlines the **drivers of the Tyre sales performance**:

	1 Q		2 Q		3 Q		4 Q		CUMULATIVE AT 12/31	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Volume	-1.3%	3.8%	0.6%	-0.2%	-3.3%	3.1%	-2.5%	1.6%	-1.6%	2.0%
of which Premium volume	*10.0%*	*22.2%*	*11.0%*	*20.9%*	*12.2%*	*17.3%*	*18.3%*	*10.7%*	*12.7%*	*17.8%*
Price/mix	3.7%	4.6%	3.4%	6.0%	7.0%	3.3%	14.4%	2.8%	7.1%	4.2%
Change on a like-for-like basis	2.4%	8.4%	4.0%	5.8%	3.7%	6.4%	11.9%	4.4%	5.5%	6.2%
Translation effect	4.1%	-10.8%	2.4%	-9.4%	-4.2%	-3.1%	-4.6%	-3.1%	-0.6%	-6.6%
Total change	6.5%	-2.4%	6.4%	-3.6%	-0.5%	3.3%	7.3%	1.3%	4.9%	-0.4%

The total **volumes** were down 1.6% for the full year 2015, but with opposing trends between Consumer (+0.3%) and Industrial (-7.9%) and between mature markets (+5.7%) and emerging ones (-4.8%).
The volume trend in the Consumer segment was supported by Premium growth in all markets (+12.7% overall growth as compared to 2014, +18.3% in the fourth quarter) while Non-Premium (-6.7% volumes) was affected by weak demand in Latam and Russia, in particular in the Original Equipment channel (car market in Latam -20%; car market in Russia -28%).

The trend in Industrial volumes (-7.9%) reflects worsening demand in South America (truck market down 48% in Original Equipment and 10% in the replacement channel) and a slowdown in the Original Equipment channel in China (market -23%).
An improvement in the **price/mix** (+7.1% in 2015, +14.1% in the fourth quarter) affected both the Consumer business (+7.6% in 2015, +14.1% in the fourth quarter) and the Industrial business (+5.3% in 2015, +15.4% in the fourth quarter) thanks to:

- price increases, especially in South America in the face of the high volatility in exchange rates;
- higher sales in the Replacement channel;
- a different geographic mix with sales in markets with the highest average price (APAC and mature markets in Consumer business; Europe for Industrial business);
- an improvement of the product mix (Premium over Consumer, increased sales of the 01 Series in Truck, especially in South America).

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

GEOGRAPHICAL AREA	2015			2014
	Euro\mln	yoy		
Europe	2,200.2	7.0%	34.9%	34.2%
Russia and CIS	192.5	-19.1%	3.1%	4.0%
NAFTA	861.1	21.7%	13.7%	11.8%
South America	1,808.2	-7.9%	28.6%	32.7%
Asia\Pacific (APAC)	706.0	26.4%	11.2%	9.3%
Middle East\Africa\India (MEAI)	532.8	10.2%	8.5%	8.0%
TOTAL	**6,300.8**	**4.9%**	**100.0%**	**100.0%**

PRODUCT	2015			2014
	Euro\mln	yoy		
Car	4,658.0	10.3%	73.9%	70.3%
Motorcycle	390.2	1.1%	6.2%	6.4%
Consumer	**5,048.2**	**9.5%**	**80.1%**	**76.7%**
Truck	1,123.0	-9.1%	17.8%	20.6%
Agriculture	129.6	-19.6%	2.1%	2.7%
Industrial	**1,252.6**	**-10.3%**	**19.9%**	**23.3%**
TOTAL	**6,300.8**	**4.9%**	**100.0%**	**100.0%**

The **operating income (loss) (EBIT) of the Group**, amounted to euro 850.3 million, up 1.5% as compared to euro 837.9 million in 2014. The improvement by euro 12.4 million is due to euro 7.9 million in tyre business and euro 4.5 million to the other businesses.

Operating profit was affected by **non-recurring and restructuring expenses** totalling euro 68.2 million related primarily to:

- a continuation also in 2015 of actions to rationalize facilities (euro 23.5 million)
- the project for Business Industrial separation (euro 17.3 million) for future integration with CNRC tyre assets
- the early termination of the management Long Term Incentive Plan 2014 - 2016 (higher charges of euro 24.1 million) as a result of the delisting of ordinary shares.

Specifically, the trend in the **operating income from the Tyre business** shows the following trend:

(in millions of euro)

	1 Q	2 Q	3 Q	4 Q	CUMULATIVE AT 12/31
2014 Operating income (loss)	**204.9**	**229.1**	**206.3**	**212.3**	**852.6**
Foreign currency translation from consolidation	9.4	4.8	(10.9)	(11.0)	(7.7)
Price/mix	31.0	25.2	48.4	112.6	217.2
Volumes	(7.6)	3.1	(16.7)	(13.0)	(34.2)
Cost of prodution factors (commodities)	16.4	8.5	(0.2)	(7.2)	17.5
Cost of prodution factors (labour/energy/others)	(34.6)	(34.3)	(25.0)	(54.2)	(148.1)
Efficiencies	21.1	24.7	26.8	21.8	94.4
Amortisation, depreciation and other	(30.6)	(28.4)	(25.7)	(8.0)	(92.7)
Non-recurring and restructuring expenses	3.3	5.5	1.0	(48.3)	(38.5)
Change	**8.4**	**9.1**	**(2.3)**	**(7.3)**	**7.9**
2015 Operating income (loss)	**213.3**	**238.2**	**204.0**	**205.0**	**860.5**

Operating income of the Tyre business in 2015 amounted to euro 860.5 million (euro 852.6 million in 2014), with an EBIT margin of 13.7% (14.7% before non-recurring charges and restructuring costs) which was a slight decrease over the previous year due to higher non-recurring and restructuring expenses.
Overall, the trend in Consumer business more than offset the decline in Industrial business profitability that was affected by a difficult macroeconomic environment in Latin America.

The **improvement in operating income** was affected by:
- a positive contribution of the price/mix component (euro +217.2 million) and efficiencies (euro +94.4 million), which more than offset a decline in volumes in emerging markets (euro -34.2 million the impact on Ebit) and an increase in depreciation and other costs (euro -92.7 million, of which 31.0 million for higher depreciation, 31.5 million of higher costs partly related to the development of the Premium segment, euro 28.6 million related to the different procurement methods of steelcord and euro 1.6 million for other costs);
- a lower cost of raw materials (euro +17.5 million);
- inflation increases in other factors of production which had a negative impact of euro 148.1 million and the negative impact of foreign exchange (euro -7.7 million in the total year, euro -21.9 million in the second half);
- the aforementioned higher non-recurring and restructuring expenses of euro 38.5 million.

Geographically, **APAC** (11.2% of tyre revenues, +1.9 percentage points over 2014) is confirmed as the area of greatest growth (+26.4% revenues, +12.9% net of exchange rates) and among the most profitable with an EBIT margin before non-recurring and restructuring expenses of over 20%, which was an increase over the previous year. The Premium segment is the main development driver with an increase in revenues of 33.7% and an increase in market share in particular in Replacement and in the Super Premium segment (tyres with rim diameter ≥18 inches). This result reflects how much Pirelli is positioned in the first equipment of Premium car manufacturers produced in the area and the subsequent pull-through effect on the replacement channel, which are supported by progressive growth in the distribution network in the geographical areas with the greatest market potential.

NAFTA (13.7% of revenues from tyre) recorded an increase in revenues of 21.7% in 2015 (+4.1% growth, net of exchange rates), which was particularly marked in the fourth quarter with +28.3% (+11.9% organic growth). Revenue performance reflects the positive trend in volume growth in excess of market trends, an improvement in the product mix thanks to the successful launch of new lines specifically developed for customers in the area, such as the PZero AS+, and a greater weight of sales in the replacement channel. The present scenario of foreign exchange and the downward trend in raw material prices have led to a partial price adjustment, while maintaining placement in segments of greater value unchanged.
Pirelli growth has been higher than the market trend in the Premium and Super Premium segments (+24.3% overall Premium reve-

nues), which benefited from an expansion of the FasTrack network, growth in the sales channel of car dealers and geo-marketing tools capable of optimising management of customer inventory. Profitability (EBIT margin before restructuring expenses) was significantly higher, being in the "low-twenties" ("mid-teens" profitability of 2014).

MEAI (8.5% of tyre revenues) recorded revenue growth of 10.2% (8.8% net of exchange rates) with profitability before restructuring expenses in the "high-teens" and so stable as compared to 2014 which was a confirmation of it being one of the areas of highest profitability. This performance was supported by the development in the Premium segment growing above the market trend, especially in the Super Premium segment and in countries of the Gulf area.

Europe (34.9% of revenues from the tyre business) ended 2015 with a growth in revenues of 7.0% (+5.7% net of exchange rates) thanks to the good performance of the Premium segment (+11%) especially in the second quarter (+11.9% sales in the third quarter, +22.1% in the fourth quarter) and a gradual improvement in the price/mix component. The positive trend was supported by the greater weight of the Car Dealer channel and better retail coverage. Profitability, net of restructuring expenses, was in the "mid-teens" and so stable as compared to 2014.

Russia (3.1% of tyre revenues, -0.9 percentage points compared to 2014), despite an unfavourable scenario, displayed organic growth in sales of 5.6% (-19.1% after the impact of exchange rates). In a market in sharp decline (Replacement -20%, Original Equipment -28%), Pirelli volumes were in limited decline (-4.1%) with a resulting improved market share. Profitability before restructuring expenses was in the low single-digits, which represented a decrease as compared to the 2014 financial year (high single-digits), and was affected by a deterioration in exchange rates and the trend in volumes which was mitigated by a significant improvement in the mix, the efficiencies program and the increase in exports.

South America (28.6% of tyre revenues, -4.1 percentage points as compared to 2014) recorded a reduction in revenues of 7.9% (+2.9% excluding the impact of exchange rates). The continuation of the difficult market situation in the area, especially in Original Equipment (market volume car -20% and truck -48%), was reflected in the trend in sales volumes which were down overall by 12.5%.
The negative trend in Original Equipment volumes was mitigated by a slight increase in the Car Replacement channel, thanks to continued growth in the fleet and a good Premium trend (volumes +12%, higher than the market trend). The trend in revenues was supported by continued growth in the product mix, price increases in Consumer (as of the first quarter) and Industrial (from the second quarter) counteracting volatility of exchange rates.
Profitability, before restructuring expenses, was "double-digit", a decrease as compared to 2014 due to the market downturn and consequently higher costs of saturation, as well as high volatility of exchange rates.
To deal with this scenario, Pirelli is activating new efficiency and restructuring plans and further price increases, and progressive growth in exports from the area.

The **net income (loss) from Group equity investment**s was unfavourable for euro 41.4 million (euro -87 million in 2014) and relates mainly to:

- the negative impact deriving from consolidation, using the equity method, of results of the associated company Prelios S.p.A. of twelve months (Euro 6 million relative to the pro-rata loss of the fourth quarter 2014 and the first nine months of 2015), and Indonesian Joint Venture PT Evolution Tyres (euro 4.8 million related to the pro-rata loss for the year 2015);
- the negative impact of impairments on equity investments in Prelios S.p.A. (euro 7 million), GWM Renewable Energy II S.p.A. (euro 14.1 million), RCS MediaGroup S.p.A. (euro 7.3 million) and Alitalia - Compagnia Aerea Italiana S.p.A. (euro 7.2 million), in order to align the carry value to the fair value;
- the positive impact deriving from the collection of dividends for euro 6 million.

The balance for **net financial income** (expenses) is negative for euro 328.2 million at December 31, 2015 and shows an increase of euro 65.8 million as compared to the 2014 financial year (negative for euro 262.4 million) essentially attributable to accounting for rising inflation in Venezuela. The strong increase recorded in the price index in Venezuela (estimated at +189.9% at the end of December 2015) in fact generated a loss of implicit value in monetary assets to the amount of euro 143.4 million (an impact of euro 28.9 million in 2014) which is representative of the reduction in purchasing power. These greater costs were partially offset by lower financial charges relating to losses on exchange rates on trade payables for the Venezuelan subsidiary (costs of euro 24.0 million for the 2015 financial year as compared to costs of euro 72.1 million, for 2014 financial year).

Excluding this effect, net financial expenses were essentially stable as compared to the previous year and the **average cost of debt** for the period was 5.90% (6.05% in 2014).

As described at the beginning of this section, the Group considered that at December 31, 2015 the requisite conditions of

IFRS 10 for implementing an accounting control on the Venezuelan subsidiary had no longer been met. The deconsolidation of the Venezuelan subsidiary was therefore proceeded with, effective as of December 31, 2015, which simultaneously revealed **a loss for the deconsolidation of the Venezuelan subsidiary** to the amount of euro 559.5 million, mainly due to the Net Financial Position which was positive for euro 277.7 million and the impairment of receivables which the Group held towards the Venezuelan subsidiary to the amount of euro 225.5 million.

The **tax expenses** for the 2015 financial year amounted to euro 182.5 million (euro 173.3 million in 2014) with a tax rate on the income adjusted by the impact of the deconsolidation of the Venezuelan company of 38.0% (37.3% net of the consolidation into shareholder equity of the associated companies) as compared to 35.5% in 2014. The increase was mainly due to higher non-deductible expenses incurred by the subsidiary in Venezuela, attributable to the effect of the high inflation recorded in the country and the impairment of trade items (euro 66.3 million higher costs compared to 2014), which had impacted on the tax rate by an amount equivalent to 4.6 percentage points (a tax rate of 33.4% excluding this effect);

Of final note, the **impairment of deferred tax assets** on tax losses mainly carried out by the Parent company (euro 103.0 million) was attributable to the revision of the medium term time-frame forecasts for the future taxable income of the companies participating in the Italian Tax Grouping (tax consolidation), for which a significant reduction, over the course of this period, was expected due to the effect of the new financial structure that the Group will assume as a consequence of the merger with Marco Polo Industrial Holding S.p.A. and which will come into effect in the first half of 2016. Also of note is that the tax losses attributable to the Italian companies of the Group can be carried forward without limit.

The **net income (loss) from continuing operations** was negative for euro 368.9 million (positive for euro 315.2 million in 2014). The downturn, as compared to 2014 for euro 684.1 million, can be attributed to the non-recurring impacts mentioned (deconsolidation of the Venezuelan subsidiary, impairment of the deferred tax assets related to tax losses)

The **net income (loss) from discontinued operations** for 2015 was negative for euro 14.6 million. This result was mainly due to exchange rate losses from the translation into Euro of the financial statements of the Turkish subsidiary accrued in previous financial years, recorded in equity and reclassified to the Income Statement for the first quarter of 2015 following the sale of the steelcord business in Turkey in February 2015.

Total net income was negative to the amount of euro 383,5 million as compared to the 2014 financial year which was positive for euro 332.8 million; the **share of net income attributable to Pirelli & C. S.p.A.** was negative at euro 391.4 million (euro 0.802 per share) as compared to the positive result of euro 319.3 million for the previous financial year (euro 0.654 per share).

The **adjusted net income**, would have been positive for euro 298.2 million as compared to the positive outcome for 2014, to the amount of euro 315.2 million , excepting the impact deriving from the deconsolidation of the Venezuelan subsidiary, the impairment of the deferred tax assets and the results from discontinued operations.

Equity went from euro 2,611.5 million as at December 31, 2014 to euro 2,343.5 million as at December 31, 2015.

Equity attributable to Pirelli & C. S.p.A. as at December 31, 2015 amounted to euro 2,280.1 million (euro 4.672 per share) compared to euro 2,548.3 million as at December 31, 2014 (euro 5.222 per share).

The change, which is analytically represented in the table below, relates essentially to, the loss for the financial year, to the positive effect of high inflation on the Venezuelan subsidiary, to the positive fair value adjustment of financial assets which were offset by the negative exchange rate effect related to the translation of assets in foreign currency into Euros, and to dividends paid.

(in millions of euro)

	GROUP	NON-CONTROLLING INTERESTS	TOTAL
Equity at 12/31/2014	**2,548.3**	**63.2**	**2,611.5**
Translation differences	(14.0)	(2.7)	(16.7)
Net income (loss)	(391.3)	7.8	(383.5)
Fair value adjustment of other financial assets/derivative instruments	24.9	-	24.9
Actuarial gains/(losses) on employee benefits	12.5	-	12.5
Dividends paid	(179.6)	(6.7)	(186.3)
Venezuela inflation effect	280.3	11.0	291.3
Deconsolidation of Venezuelan subsidiary	-	(8.5)	(8.5)
Other changes	(1.0)	(0.7)	(1.7)
Total changes	**(268.2)**	**0.2**	**(268.0)**
Equity at 12/31/2015	**2,280.1**	**63.4**	**2,343.5**

The following is the **reconciliation statement between the equity of the Parent Company and the consolidated equity** of the Parent Company shareholders.

(in millions of euro)

	SHARE CAPITAL	TREASURY RESERVES	NET INCOME (LOSS)	TOTAL
Equity of Pirelli & C. S.p.A. at 12/31/2015	**1,343.3**	**572.3**	**(1.7)**	**1,913.9**
Net income (loss) of consolidated companies (before consolidation adjustments)	-	-	(244.5)	(244.5)
Share capital and reserves of consolidated companies (before consolidation adjustments)	-	1,759.7	-	1,759.7
Consolidation adjustments:				
– carrying amount of equity investments in consolidated companies	-	(1,141.9)	-	(1,141.9)
– intercompany dividends	-	167.3	(167.3)	-
– others	-	(29.2)	22.1	(7.1)
Consolidated equity of Group at 12/31/2015	**1,343.3**	**1,328.2**	**(391.4)**	**2,280.1**

29

As at December 31, 2015, the **net financial position of the Group** was negative for euro 1,199.1 million as compared to euro 979.6 million as at December 31, 2014, and was as follows:

(in millions of euro)

		12/31/2015	12/31/2014
	Current borrowings from banks and other financial institutions	1,138.6	530.9
	Current derivative financial instruments	15.1	4.6
	Non-Current borrowings from banks and other financial institutions	1,275.7	1,781.7
	Total gross debt continuing operations	**2,429.4**	**2,317.2**
	Cash and cash equivalents	(1,082.7)	(1,166.7)
	Securities held for trading	(78.2)	(61.4)
	Current financial receivables	(11.9)	(41.5)
	Current derivative financial instruments	(6.8)	(6.1)
	Non-current financial receivables	(50.7)	(56.1)
	Total financial receivables and cash	**(1,230.3)**	**(1,331.8)**
A	**Net financial (liquidity)/debt position continuing operations**	**1,199.1**	**985.4**
B	**Net financial (liquidity)/debt position discontinued operations**	**-**	**(5.8)**
A+B	**Total net financial (liquidity)/debt position**	**1,199.1**	**979.6**

The **structure of the gross financial debt**, which amounted to euro 2,429.4 million, was as follows:

(in millions of euro)

	FINANCIAL STATEMENTS 12/31/2015	MATURITY DATE				
		2016	2017	2018	2019	2020 AND BEYOND
Use of committed credit facilities	379.5	-	-	-	-	379.5
Bond 5,125% - 2011/2016	500.0	500.0	-	-	-	-
Bond 1,750% - 2014/2019	600.0	-	-	-	600.0	-
EIB loans	150.0	100.0	20.0	20.0	10.0	-
USD private placement	137.8	-	13.8	-	27.6	96.4
Schuldschein	37.0	37.0	-	-	-	-
Other loans	625.1	511.3	79.9	25.3	1.5	7.1
Total gross debt continuing operations	**2,429.4**	**1,148.3**	**113.7**	**45.3**	**639.1**	**483.0**
		47.3%	4.7%	1.9%	26.3%	19.9%

At December 31, 2015, the Group had a liquidity margin of euro 1,981.4 million made up of euro 820.5 million of unused credit facilities (euro 1.2 billion of committed lines) and euro 1,160.9 million of cash, cash equivalents and securities held for trading.

As also reported in the section on significant events of the year, it is reported that on October 13, 2015, as a result of exceeding the threshold of 50%, by reason of the Public Offer, there was a "change of control" event on the "USD Private Placement" loans and "Schuldschein". In respect of the "USD Private Placement" for an aggregate of USD 150 million, it is here pointed out that the "change of control" event, in accordance with contract provisions, led to the making of an offer for redemption from underwriters by Pirelli International Plc, to which no sign-ups were received. Therefore, the original maturity date of the loan has been kept unchanged in preparing the financial statements as at December 31, 2015. In respect of the "Schuldschein", for a residual amount of euro 37 million, it is here mentioned that only one investor holding euro 7 million of the security at December 31, 2015 had the right to request early redemption for an amount equal to the nominal outstanding and interest accruing at the time of redemption and any other ancillary costs related to the nature of the contract.

The trend in **cash flows for the financial year** was as follows:

(in millions of euro)

	1 Q		2 Q		3 Q		4 Q		TOTAL	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Operating income (loss) before non-recurring and restructuring expenses	213.4	206.7	238.0	232.2	205.8	208.9	261.3	221.4	918.5	869.2
Amortisation and depreciation	78.5	70.6	79.7	73.3	78.0	76.0	88.0	78.9	324.2	298.8
Investments in property, plant and equipment and intangible assets	(85.6)	(65.3)	(103.2)	(78.3)	(73.0)	(101.1)	(129.6)	(133.4)	(391.4)	(378.1)
Change in working capital/other	(895.2)	(686.6)	151.6	77.4	(113.7)	(155.0)	707.4	714.6	(149.9)	(49.6)
Operating net cash flow	**(688.9)**	**(474.6)**	**366.1**	**304.6**	**97.1**	**28.8**	**927.1**	**881.5**	**701.4**	**740.3**
Ordinary financial income/(expenses)	(52.1)	(43.3)	(61.3)	(48.8)	(67.1)	(43.6)	(147.7)	(126.7)	(328.2)	(262.4)
Ordinary tax expenses	(54.1)	(53.5)	(63.7)	(61.3)	(52.4)	(49.5)	(119.9)	(9.1)	(290.1)	(173.3)
Ordinary net cash flow	**(795.1)**	**(571.4)**	**241.1**	**194.5**	**(22.4)**	**(64.3)**	**659.5**	**745.9**	**83.1**	**304.6**
Financial investments/disinvestments	(14.4)	(3.7)	(0.4)	2.8	-	(12.1)	6.6	(6.4)	(8.2)	(19.4)
Other dividends paid to third parties	(7.6)	(0.5)	(2.5)	(2.9)	-	-	-	-	(10.1)	(3.4)
Cash Out for restructuring	(6.4)	(12.9)	(2.6)	(5.9)	(3.7)	(8.0)	(15.4)	(4.3)	(28.1)	(31.1)
Reversal of impairment in Venezuela included in financial expenses	-	-	14.2	-	9.1	-	0.7	72.1	24.0	72.1
Deferred taxes included in financial expenses	-	-	-	-	-	-	107.6	(30.2)	107.6	(30.2)
Exercise of Fenice share options	-	-	-	-	(12.2)	-	-	-	(12.2)	-
Net cash flow from discontinued operations	-	(8.7)	-	10.5	-	2.5	-	(4.3)	-	-
Differences from foreign currency translation/other	45.8	(46.0)	(37.4)	(11.9)	22.5	13.2	5.1	63.7	36.0	19.0
Net cash flow before dividends paid	**(777.7)**	**(643.2)**	**212.4**	**187.2**	**(6.7)**	**(68.7)**	**764.1**	**836.5**	**192.1**	**311.6**
Dividends paid by Parent Company	-	-	(179.5)	(156.7)	-	-	-	-	(179.5)	(156.7)
Deconsolidation of Venezuelan subsidiary	-	-	-	-	-	-	(277.7)	-	(277.7)	-
Impact Steelcord units disposal	24.4	-	35.6	-	(14.4)	-	-	187.9	45.6	187.9
Total net cash flow	**(753.3)**	**(643.2)**	**68.5**	**30.4**	**(21.1)**	**(68.7)**	**486.4**	**1,024.3**	**(219.5)**	**342.8**

The **operating net cash flow** for the year was positive at euro 701.4 million, from euro 740.3 million in 2014. In the last quarter, operating net cash flow was positive at euro 927.1 million (euro 881.5 million in 2014) for the seasonality of working capital.

Total **investments** were made for euro 391.4 million (euro 378.1 million in 2014), mainly for an increase in Premium capacity in Europe, NAFTA and China and an improvement in the mix.

Net cash flow (before dividends paid, deconsolidation of the Venezuelan subsidiary, and steelcord disposal) was positive for euro 192.1 million (euro 311.6 million for 2014). As regards cash flow for the year, the partial divestiture of financial investments had been expected, but which have been postponed until 2016 in view of the aforementioned transactions involving the Group in 2015.

Total net cash flow was negative for euro 219.5 million which included the payment of Parent Company dividends to the amount of euro 179.5 million, and the deconsolidation of the net financial liquidity position of the Venezuelan subsidiary to the amount of euro 277.7 million, which was partially offset by the positive effect deriving from the sale of the steelcord business for euro 45.6 million.

Employees of the Group at December 31, 2015 totalled 36,753 as compared to 37,561 at December 31, 2014 due to the effect of efficiencies especially in South America.

GEOGRAPHICAL AREA	12/31/2015		12/31/2014	
Europe	11,498	31.3%	11,253	30.0%
Russia and CIS	3,319	9.0%	3,483	9.4%
NAFTA	1,720	4.7%	1,455	3.9%
South America	13,041	35.5%	13,996	37.3%
Middle Est/Africa/India (MEAI)	3,319	9.0%	3,226	8.6%
Asia/Pacific (APAC)	3,856	10.5%	4,148	11.0%
	36,753	**100.0%**	**37,561**	**100.0%**

TYPE	12/31/2015		12/31/2014	
Executives	319	0.9%	313	0.8%
White collar	6,783	18.5%	7,024	18.7%
Blue collar	27,885	75.9%	27,776	74.0%
Temps	1,766	4.8%	2,448	6.5%
	36,753	**100.0%**	**37,561**	**100.0%**

The total at December 31, 2015 includes employees of the subsidiary Pirelli de Venezuela C.A..

CONSUMER BUSINESS

The table below shows the results compared with the corresponding period of 2014:

(in millions of euro)

	1 Q		2 Q		3 Q		4 Q		TOTAL	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net sales	**1,237.4**	**1,128.7**	**1,284.3**	**1,159.6**	**1,239.9**	**1,178.0**	**1,286.6**	**1,144.0**	**5,048.2**	**4,610.3**
yoy	*9.6%*		*10.8%*		*5.3%*	-	*12.5%*	-	*9.5%*	-
Gross operating margin before non-recurring and restructuring expenses	246.3	219.4	276.8	245.1	255.9	228.0	305.4	242.2	1,084.4	934.7
% of net sales	*19.9%*	*19.4%*	*21.6%*	*21.1%*	*20.6%*	*19.4%*	*23.7%*	*21.2%*	*21.5%*	*20.3%*
Operating income (loss) before non-recurring and restructuring expenses	182.0	162.7	210.0	186.8	190.4	167.3	233.8	180.4	816.2	697.2
% of net sales	*14.7%*	*14.4%*	*16.4%*	*16.1%*	*15.4%*	*14.2%*	*18.2%*	*15.8%*	*16.2%*	*15.1%*
Non-recurring and restructuring expenses	(1.6)	(3.9)	(1.5)	(5.5)	(3.2)	(3.1)	(47.0)	(8.3)	(53.3)	(20.8)
Operating income (loss)	**180.4**	**158.8**	**208.5**	**181.3**	**187.2**	**164.2**	**186.8**	**172.1**	**762.9**	**676.4**
% of net sales	*14.6%*	*14.1%*	*16.2%*	*15.6%*	*15.1%*	*13.9%*	*14.5%*	*15.0%*	*15.1%*	*14.7%*

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

		1 Q	2 Q	CUMULATIVE AT JUNE	3 Q	CUMULATIVE AT SEPTEMBER	4 Q	TOTAL YEAR
Europe (*)	Original Equipment	+6.7%	+6.6%	+6.7%	+9.9%	+7.6%	+5.8%	+7.3%
	Replacement	+2.5%	+3.4%	+3.0%	-0.8%	+1.6%	+11.2%	+3.6%
NAFTA (**)	Original Equipment	+1.6%	+2.5%	+2.1%	+3.8%	+2.6%	+1.8%	+2.4%
	Replacement	+2.0%	+5.0%	+3.6%	+5.7%	+4.4%	+3.3%	+4.1%
South America	Original Equipment	-14.9%	-15.5%	-15.2%	-21.0%	-17.2%	-28.6%	-20.0%
	Replacement	+2.4%	+1.7%	+2.1%	+5.3%	+3.2%	+2.0%	+2.8%
China	Original Equipment	+9.8%	+4.0%	+6.9%	-6.0%	+2.7%	+16.4%	+6.6%

The figures exclude import except for South America
(*) including Turkey; excluding Russia
(**) the figures for NAFTA exclude Mexico

Net sales in 2015 totalled euro 5,048.2 million (annual target of euro > 5.0 billion, ~+4% as compared to 2014), with an organic growth of 7.9% (+9.5% including the foreign exchange impact, which was higher than the target of > +8%) thanks to:
- an improvement in the price/mix (+7.6%) due to the increasing impact of the Premium segment (60% of Consumer revenues in 2015 as compared to 55.0% for 2014), higher sales in the Replacement channel, and price increases in South America and Russia which offset the trend in exchange rates;
- the positive contribution of the volume component of +0.3%, with growth in APAC, NAFTA, Europe and MEAI which offset the decline in South America and Russia (Original Equipment market -20% in Latam; -28% in Russia).

Premium net sales totalled Euro 3,017.1 million, which represented a total growth of 19.0% over the previous year (+11.7% excluding the exchange rate impact), with growth in emerging markets of 29.4% and 15.0% in mature markets.

Organic growth in revenues in the fourth quarter was higher than in previous quarters (+14%) with the following dynamics:
- +14.1% price/mix, which reflects the aforementioned price increases and a greater weight in Premium and also a different geographical mix (higher sales in APAC, NAFTA and Europe) and channel mix (higher sales in the Replacement channel);
- -0.1% in volumes were affected by the continuation of the market downturn in Latin America and Russia.

Below is the analysis of the change in sales:

	1 Q		2 Q		3 Q		4 Q		CUMULATIVE AT 12/31	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Volume	0.4%	5.9%	2.2%	4.3%	-1.4%	5.3%	-0.1%	4.5%	0.3%	5.0%
of which Premium volume	*10.0%*	*22.2%*	*11.0%*	*20.9%*	*12.2%*	*17.3%*	*18.3%*	*10.7%*	*12.7%*	*17.8%*
Price/mix	4.7%	4.4%	4.1%	5.8%	7.8%	3.1%	14.1%	2.5%	7.6%	3.9%
Change on a like-for-like basis	5.1%	10.3%	6.3%	10.1%	6.4%	8.4%	14.0%	7.0%	7.9%	8.9%
Translation effect	4.5%	-9.2%	4.5%	-8.3%	-1.1%	-3.5%	-1.5%	-3.0%	1.6%	-6.0%
Total change	9.6%	1.1%	10.8%	1.8%	5.3%	4.9%	12.5%	4.0%	9.5%	2.9%

Profitability improved during 2015 with an **operating income before non-recurring and restructuring expenses** of euro 816.2 million (+17.1% as compared to 2014) and a margin of 16.2% (15.1% in 2014) and in line with the 2015 target (~16%). In the fourth quarter, profitability recorded a growth of 29.6% and a margin of 18.2% (+2.4 percentage points as compared to the same period of 2014) thanks to the strong contribution of the price/mix component..

Operating income amounted to euro 762.9 million (with a marginality of 15.1%), an increase of euro 86.5 million as compared to euro 676.4 million in 2014 (14.7% marginality) thanks to the aforementioned dynamics and progressive achievement of internal efficiencies.

INDUSTRIAL BUSINESS

The table below shows the results compared with the corresponding period of 2014:

(in millions of euro)

	1 Q		2 Q		3 Q		4 Q		TOTAL	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net sales	**327.9**	**340.8**	**324.1**	**351.7**	**291.4**	**361.2**	**309.2**	**343.5**	**1,252.6**	**1,397.2**
yoy	*-3.8%*		*-7.8%*		*-19.3%*	-	*-10.0%*	-	*-10.3%*	-
Gross operating margin before non-recurring and restructuring expenses	47.2	60.9	42.3	63.6	29.5	59.2	46.1	58.5	165.1	242.2
% of net sales	*14.4%*	*17.9%*	*13.1%*	*18.1%*	*10.1%*	*16.4%*	*14.9%*	*17.0%*	*13.2%*	*17.3%*
Operating income (loss) before non-recurring and restructuring expenses	33.3	47.6	29.7	49.3	17.4	44.4	30.2	41.9	110.6	183.2
% of net sales	*10.2%*	*14.0%*	*9.2%*	*14.0%*	*6.0%*	*12.3%*	*9.8%*	*12.2%*	*8.8%*	*13.1%*
Non-recurring and restructuring expenses	(0.4)	(1.5)	–	(1.5)	(0.6)	(2.3)	(12.0)	(1.7)	(13.0)	(7.0)
Operating income (loss)	**32.9**	**46.1**	**29.7**	**47.8**	**16.8**	**42.1**	**18.2**	**40.2**	**97.6**	**176.2**
% of net sales	*10.0%*	*13.5%*	*9.2%*	*13.6%*	*5.8%*	*11.7%*	*5.9%*	*11.7%*	*7.8%*	*12.6%*

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

		1 Q	2 Q	CUMULATIVE AT JUNE	3 Q	CUMULATIVE AT SEPTEMBER	4 Q	TOTAL YEAR
Europe (*)	Original Equipment	+5.0%	+13.0%	+9.0%	+10.0%	+10.0%	+17.0%	+11.0%
	Replacement	-1.0%	+6.0%	+3.0%	+9.0%	+5.0%	+4.0%	+5.0%
NAFTA (**)	Original Equipment	+21.0%	+12.0%	+16.0%	+3.0%	+12.0%	-6.0%	+7.0%
	Replacement	+5.0%	+4.0%	+4.0%	-2.0%	+2.0%	+0.0%	+1.0%
South America	Original Equipment	-39.0%	-42.0%	-43.0%	-53.0%	-46.0%	-58.0%	-48.0%
	Replacement	-8.0%	-12.0%	-10.0%	-7.0%	-9.0%	-14.0%	-10.0%
China	Original Equipment	-29.0%	-31.0%	-30.0%	-23.0%	-28.0%	-6.0%	-23.0%

The figures exclude import except for South America
(*) including Turkey; excluding Russia
(**) the figures for NAFTA exclude Mexico

The performance of the business has been affected by a negative economic situation in South America (50% weight of the regions on business sales) characterized by a drop in Brazilian GDP of over 3% in 2015, a decline in industrial production and rising unemployment. In this context, the truck and agro market demand declined sharply with volumes respectively down by 48% in truck Original Equipment and 10% in truck Replacement.

Net sales totalled euro 1,252.6 million (euro ~1.25 billion target), a decrease of 10.3% as compared with 2014 (euro 1,397.2 million), -2.6% excluding foreign exchange. The decline in volumes (-7.9%) was affected by the aforementioned decline in the market in Latin America and a slowdown of the truck original equipment market channel in China (-23%). The trend in the price/mix component (+5.3%) was positive thanks to an improved product and channel mix and progressive price increases in South America. These increases only partially offset the foreign exchange impairment, considering high volatility in currencies, particularly the Brazilian real.

In the fourth quarter, the trend in organic sales was positive by 4.9% (-10.0% including the exchange rate effect) with volumes down 10.5% due to deterioration in demand in emerging markets (South America truck Original Equipment -58%, Replacement -14%, China Original Equipment -6%) and a price/mix improvement of 15.4% due to increased prices and an improved channel mix.

Below is a breakdown of the change in sales:

	1 Q		2 Q		3 Q		4 Q		CUMULATIVE AT 12/31	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Volume	-6.7%	-2.2%	-4.7%	-12.2%	-9.7%	-3.6%	-10.5%	-7.3%	-7.9%	-6.5%
Price/mix	-0.1%	5.4%	1.3%	6.5%	4.8%	4.0%	15.4%	3.9%	5.3%	5.0%
Change on a like-for-like basis	-6.8%	3.2%	-3.4%	-5.7%	-4.9%	0.4%	4.9%	-3.4%	-2.6%	-1.5%
Translation effect	3.0%	-15.4%	-4.4%	-12.4%	-14.4%	-1.8%	-14.9%	-3.3%	-7.7%	-8.5%
Total change	-3.8%	-12.2%	-7.8%	-18.1%	-19.3%	-1.4%	-10.0%	-6.7%	-10.3%	-10.0%

Operating income before non-recurring and restructuring expenses attained euro 110.6 million, amounting to 8.8% of sales (>+8% target) and a decrease as compared to euro 183.2 million in 2014 (13.1% of sales).

The **operating income** amounted to euro 97.6 million (euro 176.2 million in 2014), with a margin of 7.8% as compared to 12.6% in 2014 (11.2% 2014 result excluding the total steelcord business and not just those relating to supplies to third parties).

The trend in profitability was affected by:
- a decline in volumes;
- the negativity of exchange rates, which worsened further in the third and fourth quarter (respectively -14.4% and -14.9%);
- the impact from the different source of procurement for steelcord;
- inflation of cost factors for production in Latin America and costs associated with the lower utilization of the production capacity in the area. In this regard, new efficiencies and restructuring plans have been implemented to mitigate current impacts, while further price increases were planned for the last quarter of the financial year.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Pirelli Group has always placed the ability to innovate products, processes and materials at the centre of its growth strategy. **In 2015, expenses on research and development totalled euro 214.4 million corresponding to 3.4% of sales, of which euro 176.5 million related to Premium (5.8% of Premium revenues).**
Research and development focused on high-end products with significant results in terms of approvals. In 2015, Pirelli confirmed its leadership in Original Equipment for high range, bringing approvals achieved to over 2,000. Special attention was paid to the products

marked with obtaining new P Zero approvals on new models of the most technologically advanced vehicles, such as the Porsche 911, Lamborghini Aventador, McLaren MP4-12C, the result of a joint development between Pirelli researchers and engineers of manufacturers. Since 2007, P Zero approvals have been 250 in number. In particular, the P Zero Corsa System is in original equipment on the most prestigious super sports cars: Aston Martin, Audi, BMW-M, Ferrari, Lamborghini, Lotus, Maserati, McLaren, AMG-Mercedes and Porsche GT.
Electronics in the tyre (like the microchip contained in the Cyber Tyre, which allows reading of different road conditions by sending information critical to trim and driving safety to the vehicle) is a strategic guideline of Premium innovation by Pirelli. CYBER FLEET™ is the innovative monitoring system developed by Pirelli for truck fleets. Indeed, thanks to a telematic box and special sensors applied to the inner surfaces of tyres the system transmits values of the state of the tyres to the central infrastructure. This way, they monitor the main operating parameters such as pressure and temperature in real time and report the situation to the fleet manager, while also giving an alert in the event of a puncture or other hazardous event, which might impact mobility and road safety.
The activity traditionally focused on the development of new Premium and high-end products has now been accompanied by increasing attention paid to reducing environmental impact. Leadership in green materials is developed mainly through research in biomaterials (silica from rice, natural rubber from sources that are alternative to tree rubber) and recycling.
In particular, Guayule, a tree belonging to the Asteraceae family, has also been introduced into the south of Europe, where its cultivation is being tested, and has unique properties. The natural rubber of Guayule is, in fact, a valid alternative to the one extracted from Hevea Brasilianensis but it has never been used for the production of high performance tyres.
This has happened thanks to Versalis (ENI), which in 2013 signed an agreement with Pirelli for the exclusive supply of natural rubber from guayule in the production of tyres. Pirelli, with its center for research and experimentation, has created a prototype tyre which has been tested on a Maserati Ghibli, a car with extremely high performance, which has darted along the testing circuits of Vizzola and Balocco.
After only two years of laboratory experimentation, which allowed their behaviour on the road to be predicted, the new prototype containing Guayule was tested in all the most extreme conditions and recorded the same level of performance as apply to approvals achieved with synthetic polymers from petroleum sources: replacing these polymers with alternative and renewable raw materials is the objective of the research and development of Pirelli, which for years has been a leader in solutions for more sustainable mobility.
Patents, nearly a hundred a year for a total portfolio of 5000, are the subject of the "Pirelli Invention Prize". Award-winning inventions are not all those covered by a patent (granted with a merit exam), but only those that have been shown to be associated with a competitive advantage for the company.
At the end of the last edition of the gold plates, the updated figures witnessed 177 award-winning inventions, 376 Gold Plates given and 135 inventors awarded over the years.
Pirelli's presence in the racing world involves more than 300 championships in 40 countries.
Pirelli has been confirmed as sole supplier for the FIA Formula One World Championship, a position it held from 2011 until 2016, and is now working for the 2017-2019 three-year period. The experience in Formula 1 has allowed development within Pirelli R&D of new simulation models that allow a further reduction of the 'time-to-market' and an improvement in the quality of designs related to road products to be achieved, so making them more highly performing and in line with the highest requirements set, and improving dynamic understanding based on working temperature and the behaviour of materials.
In the area of car tyres, Pirelli also launched the new Cinturato All Season tyre in 2015.
The new product is a fine addition to the Pirelli range offering a viable year round solution, in full compliance with local ordinances and the highest standards of safety in all road conditions: perfect in the summer, without the loss of performance typical of winter tyres with heat; optimal for non-extreme winter conditions, so typical of an urban context, making it possible to avoid the traditional seasonal changeover of tyres and, especially, even in the event of a puncture, so allowing a trip to continue without any need to stop and replace it, thanks to the unique Seal Inside self-sealing technology.
The new Pirelli tyre is intended for medium or small capacity recently registered cars and is available in 15, 16 and 17 inch diameters.
The great challenge that Pirelli technicians had to face in developing this new tyre was to submit a product that included the best of a summer tyre and the best of a winter tyre. To obtain this result, Pirelli engineers started from a directional tread pattern, which allows optimization of water expulsion capacity, through two wide longitudinal and lateral channels, so greatly reducing the phenomenon of aquaplaning.
Thanks to its innovative design, noise has been reduced, both outside the vehicle, in full compliance with the increasingly stringent European regulations on noise pollution, and within, to the benefit of the pleasure of driving.
A further distinctive feature of the new Cinturato All Season is represented by 3D siping technology: the tread pattern of the All Season is, in fact, designed in such a way that on dry or wet surfaces the 3D sipes, by optimizing the movement of the dowel, ensure the best braking and cornering performance possible, so evening out the tyre wear profile and lengthening its life. In cases of snowy roads, however, opening up, by the dowels allows snow crystals to be captured, offering excellent

road holding. Not surprisingly, the All Season is characterized by winter certification 3PMSF (three-peak-mountain with snowflake), which is the symbol with a mountain with 3 peaks and a snowflake applied on the side of the tyre and also the symbol M+S, that certifies absolute safety in winter conditions. The final development step on which the work of the Pirelli technicians focused, involved the tread compound. Thanks to Full Silica technology, they were able to obtain a compound capable of performing at its best under a wide range of temperatures and weather conditions: the optimum dispersion of silica within the compound and the use of the latest generation functionalized polymers has in fact, allowed heat capacity of the type to be greatly enhanced. All these technological innovations earned the victory of the new Pirelli Cinturato All Season victory, at its first outing in one of the most prestigious tests of the international specialist press. The new All Season indeed tookfirst place in the authoritative German magazine Autobild tests, earning a mark of "Exemplary", thanks to "stable lateral grip and excellent road-holding in the wet". The new Cinturato is also the only All Season tyre with Seal Inside technology available on the replacement market. In the most important measurements, the Cinturato All Season is equipped with this new construction technology which allows driving to continue without air leakage even in cases of punctures of up to 4 mm. In such cases, in fact, the sealant mastic present inside the tyre forms a sheath that wraps around the foreign body from the moment it penetrates, thus preventing leakage of air and consequent loss of pressure. When the object is extracted, the mastic itself seals the exit hole. The mastic is itself covered by an exclusive film which serves to protect it even before mounting the tyre on the rim.
The Seal Inside technology represents an additional benefit for the consumer while ensure greater safety and peace of mind: just think that about 85% of accidental causes of pressure loss is due precisely to puncture by external objects. Moreover, this technology can be used on any type of vehicle and does not require a dedicated rim or pressure monitoring systems.

HIGHLIGHTS OF OTHER ACTIVITIES

Other activities include Pirelli Ambiente, PZero and Pirelli Design with the following breakdown:

(in millions of euro)

	PIRELLI AMBIENTE		PZERO/PIRELLI DESIGN		TOTAL OTHER BUSINESS	
	2015	2014	2015	2014	2015	2014
Net sales	**5.3**	**4.9**	**3.5**	**5.7**	**8.8**	**10.6**
Gross operating margin before non-recurring and restructuring expenses	(0.4)	(2.2)	(6.4)	(6.7)	(6.8)	(8.9)
Operating income (loss) before non-recurring and restructuring expenses	(1.4)	(3.8)	(6.9)	(7.4)	(8.3)	(11.2)
Non-recurring and restructuring expenses	-	(0.8)	(1.9)	(2.7)	(1.9)	(3.5)
Operating income (loss)	**(1.4)**	**(4.6)**	**(8.8)**	**(10.1)**	**(10.2)**	**(14.7)**

Net sales in 2015 amounted to euro 8.8 million as compared to euro 10.6 million in the same period of 2014.

The **operating income (loss)** shows a loss of euro 10.2 million, reflecting restructuring expenses of euro 1.9 million and a decrease as compared to the loss of euro 14.7 million in 2014.

HIGHLIGHTS PARENT COMPANY

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

(in millions of euro)

	12/31/2015	12/31/2014
Operating income (loss)	(2.4)	28.6
Financial income/(expenses)	(13.9)	(10.0)
Net income (loss) from equity investments	122.3	192.7
Tax expenses	(107.7)	46.7
Net income (loss)	**(1.7)**	**258.0**
Financial assets	1,475.3	1,439.6
Equity	1,913.9	2,056.2
Net financial (liquidity)/debt position	**(346.7)**	**(389.1)**

The **operating income (loss)** was negative for euro 2.4 million due to higher non-recurring and restructuring expenses compared to the previous financial, and mainly due to costs in connection with the separation of Industrial Business costs tied to the early closure of the Long-Term Incentive plan following the delisting of ordinary shares.

The **net income (loss) from equity investments** was positive for euro 122.3 million as compared to euro 192.7 million for 2014; and mainly includes dividends of euro 174.7 million, which were partially offset by the impairment of investments to the amount of euro 52.3 million attributable mainly to Pirelli & C. Ambiente S.r.l. (euro 18.8 million), to Prelios S.p.A. (euro 14.1 million), to Alitalia – Compagnia Aerea Italiana S.p.A. (euro 7.1 million) and to the RCS MediaGroup S.p.A. (euro 7.3 million).

Tax expenses include euro 103.0 million relating to impairment of deferred taxes directly attributable to the revision of forecasts of the future taxable income of the companies participating in the Italian Tax Grouping (tax consolidation) for which a significant reduction is expected due to the effect of the new financial structure that the Group will assume as a consequence of the merger with Marco Polo Industrial Holding S.p.A. and which will come into effect in the first half of 2016.

The following table summarizes the values of the main **financial assets** at December 31, 2015:

(in millions of euro)

	12/31/2015
Equity investments in subsidiaries	
_ Pirelli Tyre S.p.A.	1,090.8
_ Pirelli Ltda - Brasil	9.7
_ Pirelli & C. Ambiente S.r.l.	2.9
_ Pirelli Labs S.p.A.	4.1
_ Pirelli UK Ltd	21.8
_ Pirelli Group Reinsurance Company S.A.	6.3
_ Pirelli Servizi Amministrazione e Tesoreria S.p.A.	3.2
_ Other	3.1
Total equity investments in subsidiaries	**1,141.9**
Equity investments in associates and other financial assets	
_ Eurostazioni S.p.A.	52.9
_ Prelios S.p.A.	41.9
_ Fenice S.r.l.	28.2
_ GWM Renewable Energy II	11.2
_ Mediobanca S.p.A.	140.0
_ RCS Mediagroup S.p.A.	14.4
_ Fin. Priv. S.r.l.	18.8
_ Real Estate Investment Fund - Anastasia	14.5
_ European Institute of Oncology (Istituto Europeo di Oncologia S.r.l.)	5.8
_ Other	5.7
Total equity investments in associates and other financial assets	**333.4**
Total financial assets	**1,475.3**

Equity went from euro 2,056.2 million to euro 1,913.9 million especially for the distribution of dividends to shareholders. The change is shown in the following table:

(in millions of euro)

Equity at 12/31/2014	**2,056.2**
Net income (loss)	(1.7)
Dividends paid	(179.6)
Gains/(losses) recognised directly in Equity	39.0
Equity at 12/31/2015	**1,913.9**

The following table shows the composition of equity at December 31, 2015 and the comparison with the previous year:

(in millions of euro)

	12/31/2015	12/31/2014
Share capital	1,343.3	1,343.3
Legal reserve	152.1	139.2
Merger reserve	12.4	12.4
IAS reserve	96.5	57.5
Retained earnings	311.3	245.8
Net icome (loss)	(1.7)	258.0
	1,913.9	**2,056.2**

RISK FACTORS AND UNCERTAINTY

Volatility in the macroeconomic context, financial market instability, complexity management processes and continuous legislative and regulatory developments demand renewed capacity to protect and maximise the 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 an awareness that an assumption of risk is a fundamental part of business management and which allows the proactive reporting of possible risks or factors of opportunity that are generated during the financial year and from a standpoint of continuous improvement in risk management practices.
The Pirelli Risk Model systematically assesses three categories of risk: the risks of the external environment, strategic risks and operational risks, and which periodically are submitted to the Audit, Risks, Sustainability and Corporate Governance Committee.

1. EXTERNAL CONTEXT RISKS

Risks whose occurrences are 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 by business processes, which do not involve any competitive advantage. This type of risk includes Information Technology, Business Interruption, Legal & Compliance, Health, Safety & Environment and Security risks.

Cutting across 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, for the environment and for business ethics and can be generated both by the organization and as part of its value chain, and even within the supply chain. These risks can in turn lead to reputational risks. Reputational risks relate 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, in addition to the aforementioned risks related to social-environmental responsibility and business ethics, are also the inherent risks of leadership, quality and the level of product innovation.

System of risk management and internal control relative 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 connection with 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 business operations as well as the reliability, accuracy and timeliness of financial reporting.
In particular, the process of preparing financial information takes place via appropriate administrative and accounting procedures that have been 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 Chief Financial Officer, who periodically attests to (in any case in the annual/consolidated Financial Statements) their adequacy and effective application.
To enable certification by the Chief Financial Officer, the companies and relevant processes that feed and generate economic, equity or financial information have been mapped. Identification of the Group companies and relevant processes is done annually on the basis of quantitative and qualitative criteria. The quantitative criteria involve identifying Group companies that, in connection with 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 Financial Officer, may present potential areas of risk, even if not included in the quantitative parameters described above.
For each selected process, the risk / control objectives have been identified related to preparing 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 has been implemented on controls performed by a mechanism of chain certifications; any problems that come to light in the evaluation process are the subject of action plans whose implementation is verified in subsequent closings.
Lastly, a quarterly release has been scheduled by the Chief Executive Officer and Chief Financial Officer of 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 meetings for approving consolidated data at 30 June and 31 December, the results of the verification activities are discussed by the Sectors Chief Financial Officers with the Chief Financial Officer
In summary, a system has been adopted for continuous and systematic control that provides a reasonable assurance regarding the reliability of the information and economic and financial reporting.
The Internal Audit Department performs regular audits aimed at verifying the adequacy of the design and operation controls by sample on companies and processes, selected on the basis of materiality.
On the basis of regular reports, the Chief Financial Officer has reported to the Board of Directors on the effectiveness of the System, through the Audit, Risks, Sustainability and Corporate Governance Committee.

1. EXTERNAL CONTEXT RISKS

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

Pirelli expects the recovery in global economic activity to continue gradually, driven by perspectives related to robust growth in the US economy and, to a lesser extent, the European and Japanese economies. This recovery will still be uneven because emerging markets (particularly those of oil exporters) will continue to represent a real risk factor for the world economy, due to a geopolitical scenario that is still highly uncertain, especially in the Middle East area. Further elements of uncertainty may arise not only from a worsening of the current phase of Chinese economic slowdown (and subsequent repercussions on the financial markets), but also from a significant worsening of the current recession that is characterizing the Latin American continent.

— EUROPE: IMPROVING OUTLOOK

The economic recovery should not only continue, but also accelerate in 2016, while remaining at historically modest levels. This growth forecast is supported by four main factors: the current bearish trend in raw materials, the continuation of expansionary monetary policy by the ECB, a weak Euro and a reduction in the fiscal austerity measures. While on one hand, the risks related to a Greek exit from the Eurozone have decreased considerably in recent months there is, on the other, always the uncertainty linked to the Middle East crisis and possible social, political and economic repercussions for Europe.

— UNITED STATES: EXPECTATIONS FOR SUSTAINED GROWTH

Even with respect to a change in monetary policy, the fundamentals underlying the US economy remain solid and 2016 should confirm the economic recovery glimpsed during 2015. Household consumption (which is expected to grow by about 3%) and the housing market, will remain the key drivers of economic recovery, which will include, last, but not least, government spending, which after being a deductive factor for two consecutive years, will return to making an important contribution in 2016. The current trend in the US Dollar, combined with increasing geopolitical uncertainty could limit the contribution made by foreign demand.

— CHINA: FURTHER SLOWDOWN IN GDP

In line with the main market operators, Pirelli expects economic growth of the People's Republic of China to slow further in 2016, probably slightly below the government target (6.5% -6.6% average growth in 2016-2020). A now endemic oversupply, combined with high levels of debt and low rates of return in key sectors such as heavy manufacturing, utilities and the mining sector, will continue to be one of the main obstacles to growth in the short to medium term. This structural slowdown is not without risks, however, as demonstrated by the recent increase in volatility in the Chinese financial market.

— SOUTH AMERICA: OUTLOOK STILL UNCERTAIN

The outlook for the Latin American continent also remains negative in 2016 (-1.3% in 2015), in line with market expectations for a growth rate substantially at zero and increasing risks for a second year of recession. The Brazilian economy, which significantly influences the regional average, is about to experience another year of decline, coupled with a crisis of confidence among consumers and businesses caused by strong political uncertainty, high interest rates and inflationary pressure (linked to the current trend of the BRL). The current difficulty in implementing the fiscal/structural policies the country needs, provide a glimpse of additional significant risks in the short to medium term. As for the other two major economies of the Latin American area (Argentina and Venezuela), the latter deconsolidated as of December 31, 2015, the macroeconomic scenario continues to be highly uncertain both in terms of growth rates and currency profile.

— RUSSIA: A SCENARIO OF ONGOING RECESSION

The year 2016 should confirm, although to a slightly lesser extent, the recessionary forces that led the Russian Federation growth rate into negative territory during 2015. The Russian economy will face not only a highly critical exogenous setting (low raw material prices/rising geopolitical tensions), but also the unfavourable domestic content given by a fall of the index of business confidence, growing inflationary pressure and high interest rates. To this can then be added virtual isolation of Russia in Western capital markets because of international sanctions.

Country risk

Pirelli has adopted a "local for local" strategy creating productive presences in rapidly developing countries to respond to the local demand with competitive industrial and logistics costs. This strategy increases the competitiveness of the Group by also allowing an overcoming of the phenomenon of strengthening "trading blocs" and the increasing protectionist measures (customs barriers or other measures such as technical prerequisites, product certification, administrative costs related to import procedures, etc.).

In the context of this 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 the LatAm area, identifiable especially in the political-economic scenario of Venezuela, and in Egypt, where, to date, political and social instability is still high, and has led over the past few years, to an alteration in normal market dynamics and, more generally, in the operating conditions of business which brought about the deconsolidation of the Venezuelan company Pirelli de Venezuela C.A. as of December 31, 2015. To these scenarios of uncertainty, 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) connected with 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 underutilization 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, by changes in the values and behaviour of younger generations (increase in the average age when a driver's license is obtained, loss of the 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 may 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 taking place 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 solutions that may 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 their strong volatility in recent years and their impact on the cost of the finished product.
For the main raw materials purchased by the Group, possible price scenarios are constantly simulated based on historical volatility and/or the best information available on the market (e.g. 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 in product weight, improvement in process quality and reduction in waste levels) are identified and 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 in 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 portfolio. Financial risk management is an integral part of Group business management and is handled directly by 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 transaction exchange 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 policy of the Group is to minimize the impact of transaction exchange rate risk related to volatility; for this, Group procedures make Operating Units responsible for collecting

complete information about the assets and liabilities 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 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 in the market. Any fluctuation in the exchange rate between the time of planning and the time when a commercial or financial transaction originates results in an exchange risk on future transactions with respect to the objectives communicated to the market.
From time to time, the Group assesses the need to engage in hedging transactions on future transactions for which it typically uses both forward and optional purchase or sale transactions such as risk reversal (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 **2015** saw a significant depreciation of the main currencies of emerging countries of interest to Pirelli against the US Dollar (USD), especially the Argentine Peso, the Turkish Lira, the Brazilian Real and the Egyptian Pound. This general trend of depreciation of emerging currencies, partly due to exogenous factors - such as the monetary policy of the US Federal Reserve - and specific internal macroeconomic conditions, resulted in an overall negative effect for the Group.

As for **2016**, Pirelli - in line with the main market operators - expects 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 policy by the Federal Reserve and specific elements of country risk. In particular, the Group expects strong volatility in the foreign exchange market and a persistence of situations of weakness or further devaluation of the currencies of emerging countries where Pirelli operates, both against the Euro and the US Dollar.

Finally, as regards the Euro/US Dollar exchange, Pirelli expects a weaker Euro as compared to the levels at the end of 2015. Also in this case, significant elements of uncertainty remain such as, among other things, the timing at which the Federal Reserve will implement a rise in future interest rates and any measures that the European Central Bank will adopt to fine tune the Quantitative Easing program launched this year.

Liquidity risk

The principal instruments used by the Group to manage the risk of insufficient financial resources being available to meet financial and commercial obligations in the terms and deadlines established, comprise 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. Differences between plans and actual data are constantly analysed.
The Group has implemented a centralised cash pooling system for the management of collection and payment flows in compliance with various local currency and tax laws. Banking relationships are negotiated and managed centrally, in order to ensure coverage of short and medium-term financial needs at the lowest possible cost. The procurement of medium and long-term resources in capital markets 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 capital markets.
In addition to the available portion of the two committed credit facilities of Euro 1.2 billion in the aggregate, which in December 2015 had been used for Euro 379.5 million in the aggregate, the Pirelli Group resorts to capital markets diversifying products and deadlines to seize the best opportunities available each time.
It is hereby additionally mentioned that an extraordinary general meeting of Pirelli shareholders on 15 February 2016 approved the project for merging by incorporation of the controlling company Marco Polo Industrial Holding S.p.A. into Pirelli. The effect of this merger will be that Pirelli will hold the debt of Marco Polo Industrial Holding S.p.A. subscribed to for the acquisition of Pirelli and amounting to about 4.2 billion. On 16 February 2016, the Board of Directors of Pirelli & C. S.p.A. approved the essential outlines of the of refinancing plan in respect of a counter value of up to a maximum of euro 7 billion, being the gross indebtedness of Pirelli as at 30 September 2015 (euro 2.67 billion) including the effects foreseen in respect of the merger with Marco Polo Industrial Holding

S.p.A. (debt amounting to about euro 4.2 billion).

This outline for financing aims to extend the maturity of the debt and optimise its structure thanks to recourse to bond and banking markets. The terms and conditions of the refinancing, including any guarantees required, will be defined in the light of market conditions and practices of reference, also taking into account the rights incorporated into the Terms and Conditions for the benefit of holders of bond loans issued by Pirelli International plc and guaranteed by Pirelli Tyre S.p.A. for an aggregate of euro 600 million maturing in 2019 and which, as already stated, will remain in force until its natural maturity.

The plan of refinancing approved today leaves the right for Pirelli to activate as an alternative, if worthwhile, the Mergeco Facility loan, already made available to the company by a pool of banks in the area of the purchase offer made by Marco Polo Industrial Holding S.p.A. in respect of Pirelli unchanged.

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 aims 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, 3.7% 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 the potential and financial solidity of its customers, monitor expected incoming cash flows and take credit recovery action if necessary. The aim of these procedures is to define customer credit limits, which if exceed blocking of supplies is applied. In certain cases, customers are asked to provide guarantees, mainly bank sureties issued by parties with the highest credit or personal standing,
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 has signed a master agreement expiring in December 2016 with a leading insurance company for worldwide coverage (Egypt and Venezuela are excluded from the policy) of the credit risk mainly related to sales of the spare parts segment (with about 70% of acceptance rate in December 2015).
In the course of 2015, 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 RISKS

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 stricter laws to occur in connection with 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 plans to have to continue to make investments and/or incur costs that could be significant.
In regard to impacts from Climate Change, no significant risks have been found in relation to production processes or markets in which the Company operates in the short to medium term. In the long run, the uncertainties related to Climate Change will be considered also in light of the possible evolution of the regulatory profile in both mature and emerging markets, in any case monitored by the company through sensitivity analyses. Instead, in terms of opportunities, Pirelli Green Performance tyres exhibit growth potential, given their 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

In carrying on its activities, the Pirelli Group incurs expenses and costs for the actions necessary to ensure full compliance with its obligations under 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 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 strict liability of companies implemented in Italy (Legislative Decree 231/01).

Product defect risk

Like all manufacturers of goods for sale to the public, Pirelli may suffer liability claims related to alleged defects in 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 standpoint, 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 being constantly raised.

Litigation risks

In carrying on its activities, Pirelli may become involved in legal, fiscal, trade or labour law disputes. The Group adopts the measures necessary 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 that are periodically updated and are also based on changes occurring in the general macroeconomic scenario, as well as on the basis of salary benchmarks. There will also be long-term incentive plans and specific non-competition agreements (also with retention effect) with respect among other things, to the risk profiles of the activities related to the business. Finally, specific "management" policies are adopted to motivate and retain talent.

Risks related to information systems and network infrastructure

The information systems and ICT infrastructures are a fundamental support for the proper and continuous performance of Group operations as they now cover almost all of business processes. Unauthorized access, vulnerabilities in security systems or failures and malfunctions of information systems or the technical infrastructure supporting them, can thus cause serious repercussions to both company results and its image.
For these reasons, actions were taken in 2015 to mitigate risks related to unauthorized access and improper use of the systems, with special attention being paid to Internet access. Actions were also taken to improve the continuity of ICT services by replacing the infrastructure components characterized by greater obsolescence and move increasingly towards the use of redundant technical architectures both locally and centrally.
As for the risk mitigation deriving from the loss of information, the technical solution of data backup was implemented, based on distinct geographic hubs, and preparation of the new Disaster Recovery solution was completed. Particular attention was given to the review activity of Hardware and Software environments to activate the migration projects necessary from architecture that will soon no longer be supported by suppliers.
A project is underway that will lead to the release of a new centralized architecture for storage of documents with fiscal and operational importance in compliance with regulations.
In view of the new service delivery methods via the Internet (ex. Cloud and Mobile), it was decided to take action to fully abide by Group Security standards specifically defined for the use of such services. The architecture of perimeter security devices (such as Internet Firewall and Web Filtering systems) was also revised to enhance the control against threats via the Internet, introducing where appropriate, firewalling application tools.

At Laboratories and Plants, re-engineering of application systems to overcome obsolescence issues of application platforms began. Also at plant, a worksite was started together with IT Security to manage the increasing complexity dictated by an increasing need for integration and interoperability between the information systems of the company and the solutions of industrial suppliers that do not always respect the evolution of the compliance of IT platforms with their product.

Business interruption risks

The territorial fragmentation of the operating activities of the Group and their interconnection exposes to risk scenarios that could cause the interruption of business operations for more or less prolonged periods, with consequent effects 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.), failure of the auxiliary plants or interruption of the supply of utilities can, in fact, cause significant property damage, reduction and/or interruption in production, particularly if the event concerns production sites with high volumes or specific products (high-end). Pirelli monitors its vulnerability to catastrophic natural events (in particular flood, hurricane and earthquake) with estimates of potential damage (given the probability of occurrence) of all Group production sites. Analyses confirm adequate monitoring of the Business interruption risks is in place, thanks to a comprehensive series of security measures, systems of prevention from harmful events and mitigation of potential impacts on the business, also in view of the current business continuity plans and 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 special attention being given to the Tier-1 suppliers, is subject to assessment in connection with the potential risk of business interruption. The Group is performing audits at the above suppliers to define a series of mitigation measures to reduce the vulnerability of its supply chain; in particular, extension of the portfolio of approved plants for each supplier, approval of materials/qualification of alternative suppliers, increased levels of safety stock of critical materials, etc.

REPUTATIONAL AND SOCIAL-ENVIRONMENTAL RESPONSIBILITY RISKS

Reputational risks

As of 2013, Pirelli has developed an ad hoc methodology for the identification, measurement and management of reputational risk, which is measured in terms of probability of occurrence and impact on reputation. Reputational risk is a current or prospective risk that might result in a loss of profits and affect propensity to buy due to a negative perception of the Company by one or more stakeholders. While on the one hand, reputational risk has to be construed as a 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 methodology chosen resulted in the identification of 24 reputational risks specific to Pirelli, which will be periodically verified and updated. This mapping derives from an analysis of a series of internal and external drivers including: negative events with an impact on reputation which have occurred in the sector worldwide over the last ten years; interviews with external Key Opinion Leaders on sector trends, especially mobility and sustainability; interviews with internal Key Opinion Leaders with particular reference to the analysis of the probability of occurrence of the risks identified.

The risk events identified were then subjected to qualitative-quantitative assessments by a sample representative of the general public in the five key Pirelli countries and led to the definition of governance and management structures, and preparation of 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 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 the 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 a corporate level, compliance with Pirelli economic, social (especially human rights and labour rights) and environmental sustainability rules is assessed in periodic audits commissioned by Pirelli from specialised independent firms, and by extensive Internal Audit activities.
Particular attention is dedicated to the sustainability of Pirelli sites and the company supplier sites operating in emerging countries.
Also during 2015, Pirelli commissioned third-party Audits of its suppliers, in addition to continuing monitoring internally through the activities of the Internal Audit Department.

Pokras Lampas

Giovanni Allevi

Composer

*"After years of concerts,
of music written and lived, what really
matters is to have loved.
Love is the only mysterious force capable
of leaving an indelible
and unreachable trace in our life."*

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

On **February 9, 2016** Pirelli and the Lombardy Region signed a competitiveness agreement for a regional grant of euro 1.9 million to the R&D project "Total Safety System" conducted at the research center of Milan Bicocca. The project, which will last for 24 months and have a total cost of euro 5.35 million, is part of activities related to the development of a new generation of tyres based on the concept of "total safety". The project will allow Pirelli to study new product mixes oriented towards higher value-added segments, and to achieve positive results in environmental and social issues in terms of road safety, by reducing the fuel consumption of vehicles and increasing tyre mileage.

On **February 15, 2016**, Ren Jianxin, Yang Xingqiang, Bai Xinping, Ze'ev Goldberg, Tao Haisu, Wang Dan and Zhang Junfang, previously co-opted by the Board, were reappointed as directors by the ordinary general meeting of Pirelli & C. S.p.A.. The Extraordinary General Meeting also approved a proposal of mandatory conversion of savings shares into newly issued special category unlisted shares without voting rights, as well as a proposal to adopt new Articles of Association. The mandatory conversion and adoption of the new Articles of Association were also approved, to the extent applicable, by a special savings general meeting of Pirelli & C. S.p.A.. The extraordinary general meeting of Pirelli & C. S.p.A. also approved the merger by incorporation of the controlling Parent company Marco Polo Industrial Holding S.p.A. into Pirelli & C. S.p.A, for 6.30 Pirelli shares to be allotted after the merger to Marco Polo International Holding Italy S.p.A. (Holdco) - the sole partner of Marco Polo Industrial Holding S.p.A. - for every 1 share held before the merger by Marco Polo International Holding Italy S.p.A. (Holdco) in Marco Polo Industrial Holding S.p.A.. The merger is expected to be finalised within the first half of 2016.
Following the mandatory conversion of savings shares into special category unlisted shares, the savings shares ceased to be listed on regulated markets as of February 26, 2016.

On **February 16, 2016**, the Board of Directors of Pirelli & C. S.p.A. approved the essential lines of a refinancing plan for an amount up to a maximum of euro 7 billion aimed at extending debt maturities and optimizing their structure thanks to the use of bond and banking markets.
The terms and conditions of the refinancing, including any guarantees, will be defined in light of market conditions and practices of reference, also taking into account the rights incorporated in the Terms and Conditions in favour of bond holders for euro 600 million maturing in 2019 and that will remain in place until maturity. The refinancing plan leaves the right to activate the loan Mergeco Facility alternatively unchanged for Pirelli, if appropriate, and already made available to the company by a syndicate of banks as part of the public purchase offer of Marco Polo Industrial Holding S.p.A. on Pirelli.
Following the confirmation by the General Meeting of the directors co-opted on September 2 and October 20, 2015, the Board of Directors confirmed Ren Jianxin Chairman of the Board of Directors and the governance structure approved on October 20, 2015.

ALTERNATIVE PERFORMANCE INDICATORS

This document, in addition to the financial figures foreseen under International Financial Reporting Standards (IFRS), also includes figures derived from the latter, although not actually required by IFRS (Non-GAAP Measures). These measures are presented in order to allow a better assessment to be made of Group 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:** is an intermediate economic figure derived from operating income, which excludes amortization of tangible and 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.

OTHER INFORMATION

Role of the Board of Directors

The Board of Directors is responsible for strategic guidance and supervision of the overall business activities, with authority over the administration as a whole and is responsible for taking decisions that are the most important in economic/strategic terms, in terms of structural impact on operations, or functional to exercising control and guidance of Pirelli.
The Chairman has the legal representation of the Company also in suit as well as all other powers granted according to the Articles of Association
The Vice Chairman and CEO are granted exclusively powers for the ordinary management of the Company and the Group as well as power to propose the Business Plan and Budget and any resolutions concerning strategic industrial partnerships or joint venture of which Pirelli is a part to the Board of Directors.

Information on ownership structures

Share capital structure: the share capital subscribed and paid at the date of approval of the present financial report amounts to euro 1,345,381 thousand and is represented by 487,991,493 registered shares without par value, subdivided as follows:

	NO. SHARES	% WITH RESPECT TO SHARE CAPITAL
Ordinary shares	475,740,182	97.49%
Special shares	12,251,311	2.51%

The ordinary shares include 351,590 Pirelli & C. S.p.A Treasury shares owned by the sole shareholder Marco Polo Industrial Holding S.p.A., which also owns 93.268% of the Special Shares, including the special Treasury shares (408,342 shares) owned by Pirelli & C. S.p.A.

The company is subject to management and coordination of Marco Polo International Italy S.p.A., which through Marco Polo International Holding S.p.A. is the sole shareholder of Marco Polo Industrial Holding S.p.A..

On the website of the Company, agreements between the shareholders of Marco Polo International Italy S.p.A. are available that contain provisions relating to the governance of Pirelli.

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 2015 in order to allow effective monitoring of the adoption and compliance with the safety measures.

The Board of Directors
Milan, March 15, 2016

02. REPORT ON VALUE CHAIN RESPONSIBLE MANAGEMENT

INTRODUCTION

This section of the report explores the sustainable management model adopted by Pirelli and the tools for governing and supporting the maintenance and creation of value, relations with Stakeholders and connections related to the development of financial, intellectual, human, social and relational capital.
The analysis has been performed through three macro chapters:
- The Economic Dimension, which provides details of the distribution of added value, along with relations and performances relating to Shareholders, Customers and Suppliers;
- The Environmental Dimension, which describes sustainable development throughout the product lifecycle;
- The Social Dimension, which brings together the paragraphs dedicated to the Governance of Human Rights, the Internal Community and the External Community.

The quantitative data reported highlight the development during 2015 as compared to 2014 and 2013, with an overview of the targets for 2016 and for the years to come.
For a detailed account of the awards Pirelli has received in 2015, please see the "Sustainability" section of the Pirelli website, where a constant update of the "Sustainability Channel" is also available.
Sustainable performances set forth in the Annual Report for 2015 have been subject to attestation by third parties (SGS Italia S.p.A.).

SUSTAINABLE GOVERNANCE MODEL

The Pirelli Sustainability Model draws inspiration from the United Nations Global Compact (which Pirelli has been a member of since 2004, in addition to sitting on the Steering Committee of the Global Compact LEAD since 2013) and the principles of Stakeholder Engagement dictated by the AA1000 and ISO 26000 Guidelines.
Pirelli's responsible management runs through the entire value chain. Each management area integrates its economic, social and environmental responsibility into its activity by constantly communicating with other functions and stakeholders so as to implement the strategic Guidelines of the Group.
The main management systems adopted include ISO 9001, ISO/TS 16949, ISO/IEC 17025, ISO 14001, ISO 14064, OHSAS 18001 certifications. Moreover, from 2004 the company is inspired by the requirements of Standard SA8000® as a reference tool for managing Social Responsibility at its Affiliates and along the supply chain. Details on the coverage of these certifications and reference tools have been given in the "Customers", "Supplier", "Environmental Dimension", "Industrial Relations" and "Occupational Health, Safety and Hygiene" sections of this report.
The Board of Directors approves the objectives and targets of sustainable management integrated into the plan of the company alongside its annual financial statements.
Sustainable Governance finds its organisational foundations in the Sustainability Steering Committee, body appointed in 2004 and composed of the Top Management of the company, representing all businesses and all functional responsibilities. The Committee meets ordinarily at least once a year and guides the development of Sustainability within the Firm.
The organisational structure is then composed of Sustainability and Group Risk Governance Department which has oversight of the management at Group level and proposes plans for sustainable development to the Sustainability Steering Committee. The Sustainability Department receives support from the Country Sustainability Managers for overseeing activities covering all affiliates of the Group. The role of the Country Sustainability Manager is currently held directly by country CEOs, who are supported by their direct subordinates in the operational management of local plans.
All countries where the Group is present with commercial and industrial affiliates have an annual Sustainability Plan with specific local targets identified in alignment with the sustainability targets defined in the Plan of the company. On a quarterly basis countries report to the Sustainability and Group Risk Governance Department the state of progress against the targets.

STAKEHOLDER ENGAGEMENT

The role of Pirelli in an economic and social context is tied to its capacity to create value through a multi-stakeholder approach, i.e. by sustainable and lasting growth that can reconcile the interests and expectations of all those with whom the company interacts and especially:
- customers, since the Pirelli way of doing business is based on customer satisfaction;
- employees, at the basis of the wealth of knowledge and driving force of the Group;
- shareholders, investors and the financial community;
- suppliers, with whom 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 of the various countries where the Group operates on a stable basis, while being aware of its global responsibilities as a Corporate Global Citizen.

In this report there is a paragraph dedicated to each stakeholder mentioned above, to which reference is made for further qualitative and quantitative study.
The interactions between stakeholders conform to the AA1000 Model adopted by the company and are analysed in detail in order to effectively manage relations with them and to create sustainable and shared value.
Dialogue, interaction and involvement are calibrated to meet the needs for consultation with the various types of stakeholder and include meetings, interviews, surveys, joint analyses, roadshows and focus groups. Feedback received translates into a corporate evaluation of the priorities of action and influences the development strategy set out in the Plan of the company.
The process of planning sustainable management is characterised by specific operational steps aimed at continuous improvement in performance: evaluation of the context through benchmarks, dialogue with stakeholders, needs raised by internal functions, identification of risks and opportunities for growth, defining projects and targets, implementing, monitoring and reporting.

MATERIALITY ANALYSIS

In 2016, starting with the "Global Stakeholder Dialogue" Pirelli will hold in Brussels in February, the company will update the sustainability materiality matrix and will give account of it in its next report. Reviews of the map will also provide input to update the current Group Sustainability Plan with targets to 2020, as specified later in this report.
The current materiality matrix comes from an in-depth activity of Stakeholder Engagement, which has led to dealing with the expectations of the main stakeholders on these matters and the importance they are recognized for the success of the business. Given the complexity and the international extent of the company's stakeholders and the variety of their expectations, the panel of stakeholders of the Company from which feedback was asked included:

- the biggest original equipment customers;
- hundreds of end customers for each representative market;
- the most important dealers around the world;
- numerous employees in the various countries where the Group is present;
- 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;
- NGOs present in each of the countries where Pirelli has productive activities;
- universities located in each of the countries where Pirelli has productive activities.

Stakeholders were engaged through a request made in their local language to assign action priorities to a wide range of ESG (Environmental, Social, Governance) issues. The priorities expressed by Pirelli and stakeholders have been consolidated and displayed in a materiality matrix whose vertical axis indicates the expectations of external stakeholders and horizontal axis indicates the importance assigned by the Company to the elements analysed in terms of business success. The draft matrix was then subjected to critical, independent evaluation by a leading company in ESG analysis. The experts compared the Pirelli matrix with the content of ten international studies considered the most reliable and significant, focusing on sustainability elements impacting on the Auto Components sector, and assessed the levels of prioritising of ESG issues on the sector. Following this comparison, they suggested the opportunity of making small changes in the positioning of ESG issues in Pirelli's draft matrix. The outcome of the process is the Pirelli materiality matrix shown below. The upper right quadrant identifies the elements of sustainability to which high materiality (i.e. importance) has been attributed by the stakeholders involved.
The Sustainability Plan targets for 2013-2017 with vision to 2020 that the Company gave itself, take into account the expectations expressed by Stakeholders and integrate them considering the development expected by the firm in the various matters.
It is right and adequate to underline that consolidation of the materiality matrix at group level tends by its very nature to vary strongly from the materiality matrices consolidated at single country level. Sustainability elements positioned in an area of low materiality in the matrix at group level may be result to be highly material for a number of countries and specific stakeholders who are more directly involved. So, independently of the positioning of expectations in the group matrix, all the elements of sustainability positioned in the different areas of the matrix are material for the company and are met and managed in accordance with best international practices.

Pirelli Materiality Matrix

MAIN POLICIES

The management Model adopted mirrors the main Group Policies, among which we can recall the "Values and Ethical Code", the "Code of Conduct" and the "Premium Integrity" Programme (to which an update paragraph is dedicated later in this report), the "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment", the "Equal Opportunities Statement", the "Green Sourcing Policy", the "Global Tax Policy", the "Corporate Lobbying Policy", the Group Whistleblowing procedure (to which an update paragraph is dedicated later in this report).
In 2015, the new Quality Policy, the "Global Personal Data Protection Policy" and the "Global Antitrust and Fair Competition Policy" were issued. Additionally, in 2016, current provisions regarding Health, Safety, Environment and Human Rights contained in many of the above-mentioned Policies will be updated and concentrated into two new dedicated Documents.
The Policies mentioned above have been communicated to all employees and are available on the website of the company in multiple languages.
The Principles and provisions contained in the "Code of Ethics", "Code of Conduct" and in the "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment" have been extended to suppliers and sub-suppliers through sustainability clauses included in contracts; these clauses will be examined in depth in the Paragraph "Our Suppliers" of this report.

Premium Integrity Programme

In 2015 the process of analysing and implementing the "Premium Integrity" Programme continued in the main countries where the Group operates. In the same way, during the year, the activity of training and communication on administrative liability of enterprises (foreseen under Legislative Decree 231/2001) was completed for the entire population of the Italian companies.
The Programme, which is available in twenty-two different languages on the company's website, is the corporate reference for preventing corruptive practices and represents a collection of principles and rules aimed at preventing or reducing the risk of corruption. In the document, the Pirelli principles already set out in the Code of Ethics and the Code of Conduct, including zero

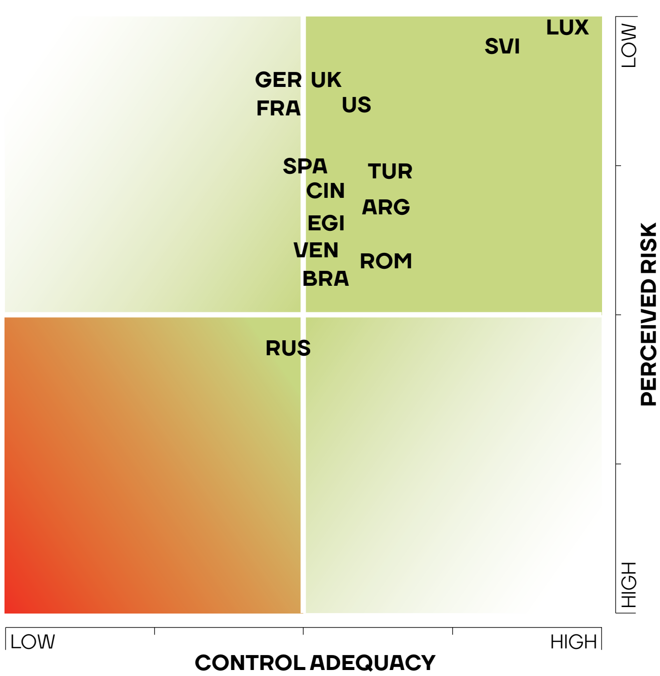
tolerance of *"any guise or form, or in any jurisdiction, or even in places where such activity is admissible in practice, tolerated, or not challenged in the courts"* are restated. Among the provisions of the Programme there is the prohibition, addressed to the recipients of the Code, of offering gifts and other utilities that might constitute a breach of rules, or which are in conflict with the Code, or may, if made public, constitute prejudice if only to the image of Pirelli. Additionally, Pirelli *"defend and protect its corporate assets, and shall procure the means for preventing acts of embezzlement, theft, and fraud against the Group" and "condemns the pursuit of personal interest and/or that of third parties to the detriment of social interests"*.

Pirelli analyses profiles of corruption risk in the various countries where it is present, assessing the adequacy of corporate oversight and updating the risk analysis where there is a change in the perimeter with the "entry" into countries of "high risks" (on the basis of the Transparency index), defining training and awareness programmes, where adequate.

More especially, the analysis of Risk Profiles is implemented considering:

- the perceived risks deriving from a combination of a level of perceived corruption (associated to the Corruption Perception Index calculated by Transparency International) with the management perception of the country risk;
- adequacy of oversight provided derived from the combination of the guaranteed protection in areas deemed to be exposed to contingent corruption risks associated with the benchmark provided by the Internal Audit Function on the Internal Control System.

A map has emerged showing the vulnerability ranking for the countries subjected to analysis, as shown in the following figure:



Referring to the contribution in favour of the External Community and sponsoring activities, Pirelli has for many years adopted internal procedures defining roles and responsibilities of the functions involved, the operational planning process, the realisation, and the monitoring of the results.

The Pirelli procedure specifies that initiatives may not be promoted in favour of beneficiaries that violate, directly or indirectly, human rights, workers' rights, the environment, or business ethics.

The "Pirelli Values and Code of Ethics" also provide that the firm *"does not provide contributions, advantages, or other benefits to political parties or trade union organizations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation"*.

Concerning the Group's institutional relations, and especially corporate lobbying activities, the Company has adopted a policy for ensuring said activities are performed in abidance with the principles ratified by the Code of Ethics and the Group Anti-corruption Program, in line with International Corporate Governance Network principles and in compliance with laws and regulations effective in countries where Pirelli operates.

In terms of prevention and control, the audits carried out by Internal Audit Department at Group affiliates include monitoring crime risks, including corruption and fraud. In this regard it is specified that, also in respect of 2015, there have been no cases of corruption to report nor public legal actions concerning corruption activities.

Additionally, in 2015 the implementation of the Functional Segregation model (so-called *Segregation of Duties*) continued, aimed at strengthening the system of internal controls and preventing fraud.

Finally, in 2015 Pirelli continued to support Transparency International's activities, to which Pirelli adheres as supporter for projects regarding education aimed at promoting an active role of civic and moral education in strengthening civil society against crime and corruption, believing that it is only through proactive and concrete actions of values promotion that general improvement in the quality of life can be achieved.

Reporting Procedure – Whistleblowing

The Group's Whistleblowing Policy supports the Group's internal compliance and control systems.

It is directed at Employees and external Stakeholders. Communicated to all employees in local language and made available to the eternal Community on the Pirelli Internet website, the Policy governs the modalities of reporting breaches, suspected breaches and inducement to breaches in the matter of law and regulations, principles ratified by the Code of Ethics, including, obviously, equal opportunities, principles of internal auditing, corporate rules and procedures, and any other behaviour of commission or omission that might directly or

indirectly give rise to economic, financial or reputational damage for the Group and/or its companies.
The Whistleblowing channel is additionally incorporated expressly into the Sustainability Clauses included in every supplier contract.
Reports may also be anonymously and protection of utmost confidentiality is at all times restated, as is zero tolerance in respect of acts of reprisal of any kind.
Reports may concern the firm's Directors, Auditors, Management or employees and, in general, anyone operating in Italy or abroad for Pirelli or engaging in business relations with the Group. This includes partners, customers, suppliers, consultants, independent contractors, accounting firms, and public institutions and entities.
The e-mail address ethics@pirelli.com has been made available for those who might wish to proceed with a report and is managed centrally by the Independent Internal Audit Function. It applies to all the Group's affiliates and to the External Community.
Internal Audit Department has the task of analysing all reports received, involving corporate functions required for the necessary verification activities and scheduling a specific action plan.
If it is ascertained that a report is founded, there is a provision for adopting appropriate disciplinary and/or legal actions to safeguard the Company.
In respect of reports received in 2015, 2014 and 2103, the following is a summary table, together with a further study of reports from 2015.

	2015	2014	2013
Total reports	**18**	**23**	**11**
— Of which anonymous	4	9	6
— Of which filed closed, being absolutely generic	1	12	3
— Of which founded	4	8	8
Report country of origin	Brazil, Egypt, Romania, Argentina, Russia, Peru, Mexico, Germany, USA, UK	Brazil, Egypt, Romania, Poland, Argentina, Russia, Peru, Saudi Arabia, Germany, USA, South Africa	Italy, Brazil, Argentina, Venezuela
Allegation made in the report	Irregular behaviour of employees, one case of inefficiency towards customers	Irregular behaviour of employees, one case of inefficiency towards customers and one towards a supplier	Irregular behaviour of employees, one case of poor after-sales service
Outcome of cases investigated	Review and integration of processes where deemed appropriate, orders by the functions concerned and Human Resources Management, actions to satisfy customers.	Review and integration of processes where deemed appropriate, orders by the functions concerned and Human Resources Management, actions to satisfy the customer and the supplier	Review and integration of processes where deemed appropriate, orders by the functions concerned and Human Resources Management, actions to satisfy the customer

60

In 2015 the Whistleblowing procedure was activated 18 times. In particular:
- 18 reports were received from 10 different countries (Brazil, Egypt, Romania, Argentina, Russia, Peru, Mexico, Germany, USA, UK);
- 33% of the reports (6 cases) were forwarded using the Group Whistleblowing email address ethics@pirelli.com, whereas 67% (12 cases) involved a letter to management to inform Internal Audit Department as per corporate rules;
- 78% of the reports (14 cases) were signed whereas the remaining 22% (4 cases) were received anonymously;
- of the signed reports, three were activated by external Stakeholders, two in respect of inefficiencies suffered by customers and one pertaining to a complaint made by a consumer; it is objectively impossible to confirm that there were, in absolute terms, no further reports from external stakeholders received as a number of reports were, as specified, anonymous.

In general, the topics reported concerned, almost entirely, alleged irregular conduct by employees or managers and, in the remaining cases, alleged inefficiencies towards customers and cases of *non-compliance* with group procedures.
Of the 18 reports received in 2015, at the beginning of 2016 three were found to be at verification and in-depth investigation stage, whereas thirteen were found to have been concluded. In respect of the latter, specific verification activities involving, where necessary, the corporate functions concerned were conducted.
On the basis of the analyses performed and the documentation made available, it was found that:

- in 11 cases objective corroborating evidence was not detected such as to hold the facts contended in the reports received to be true;
- in the remaining 4 cases substantial truthfulness of the facts attributed was detected, and in particular, 3 cases concerned irregular conduct of employees and a case of inefficiency towards customers; the company then took steps to implement the necessary actions, which concerned:
  - disciplinary sanctions;
  - actions aimed at removing the challenges received from customers;
  - internal actions to improve the internal control system.

In all cases, at the outcome of inquiries, Internal Audit Department additionally carried out at all times specific audit actions on the corporate processes involved in the reports.
Internal Audit Department has periodically given account of the reports received and the state of progress in the analyses performed to the Control, Risks, Sustainability and Corporate Governance Committee made up only of independent directors and the Board of Auditors of Pirelli & C. S.p.A.

INDUSTRIAL PLAN 2013-2017 WITH SUSTAINABILITY TARGETS FOR 2020

The 2013-2017 Sustainability Plan includes objectives that go to 2020. It integrates, supports, accompanies and protects the Group's Industrial Plan and has been developed in accordance with the "Value Driver" model drawn up by the UN PRI (Unite Nations Principles for Responsible Investment) and UN Global Compact to encourage dialogue between investors and firms on sustainability issues. Growth, productivity, governance and risk management also constitute the guidelines used in defining targets up to 2020. The Sustainability Plan foresees, among other things:

- Green Performance product net sales to be 48% of net tyre sales in 2017;
- improvement in rolling resistance, which by 2020 in the car segment will be reduced by 40% as compared to 2007;
- further expansion of Pirelli technology for producing silica from rice husk applied to Premium tyres by 2017;
- achieving results from activities in the search for alternative sources of natural rubber to Hevea and possible use of guayule (a project with Versalis) by 2016;
- dissemination of the use of innovative functionalised polymers that will achieve a reduced environmental impact, greater process safety and efficiency by 2015;
- reducing the accident frequency index by 90% by 2020 as compared to 2009; the objective will be achieved thanks to investments in machinery that are ever safer and programmes which strengthen a safety culture among the Group's employees:
- reducing specific emissions of CO_2 by 15% and specific energy consumption by 18% by 2020 as compared to the 2009 figure, with an expected saving of about 20 €/mln and 350,000 tons of CO_2 during the period 2015-2017;
- reducing the specific drawing-off of water by 58% by 2020 with expected savings of water of more than 3,000,000 cubic metres during the period 2015-2017;
- towards *zero waste to landfill*: a rate of waste recovery of 95% by 2020, with expected savings of about 60 €/mln by 2017 thanks to the reuse of industrial wastes;
- maintaining investment in Research and Development on Premium products amounting to 7% of revenues in this segment, with the aim of ever improving performance in safety and environmental compatibility;
- increasing investment to mitigate risk and the prevention of Business Interruption CAGR -8.3% by 2017 as compared with 2013;
- a new proxy for monitoring fairness in compensation between genders, including elements of: performance, paygrade and seniority;
- investment in employee training equivalent to an average of 7 man days by 2015 and ≥ 7 in the following years;
- adopting models that are ever more advanced for managing the economic, social and environmental responsibility of the supply chain from a shared standpoint.

Evidence of progress is given as at the end of 2015 in the areas specifically dealt with in the report, which may be referred to.

Giacomo Agostini

15 times Motorcycle World Champion

*“Beyond the numerous successes obtained,
to me leaving a mark in my business means, above all,
to have left good memories for all the fans who,
still today when I meet them in the street,
thank me for the emotions I was able transmit to them
during my career as a motorcycle racer.
My greatest satisfaction is, certainly,
to have been able to leave good and clean memories
of myself on and off the track.„*

Pokras Lampas

ECONOMIC DIMENSION

SHARING OF ADDED VALUE

The Values and Ethical Code of Pirelli ratify the undertaking of the Firm to operate to ensure responsible development over the long term, while being aware of the bonds and interactions that apply between economic, social and environmental dimensions. This is to combine the creation of value, company progress, the attention given to stakeholders and the raising standards of living and environment 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. Distribution of added value among stakeholders allows the relations between Pirelli and its main stakeholders to be expressed by focusing attention on the socio-economic system in which the Group operates.

DISTRIBUTION OF ADDED VALUE (in thousands of euros)

		2015 (*)		2014		2013	
	TOTAL GROSS ADDED VALUE	2,435,873		2,296,127		2,218,034	
A	Remuneration of employees	(1,295,130)	53.2%	(1,239,770)	54.0%	(1,210,928)	54.6%
B	Remuneration of public administration	(290,137)	11.9%	(173,309)	7.5%	(210,392)	9.5%
C	Remuneration of borrowed capital	(328,216)	13.5%	(262,410)	11.4%	(195,832)	8.8%
D	Remuneration of risk capital	(179,572)	7.4%	(156,745)	6.8%	(156,743)	7.1%
E	Remuneration of the company	(335,202)	13.8%	(457,278)	19.9%	(438,682)	19.8%
F	Contributions to the external community	(7,616)	0.3%	(6,615)	0.3%	(5,457)	0.2%

(*) Excluding Pirelli de Venezuela deconsolidated as of 31.12.2015

The added value created in 2015 recorded an increase of 6.1% over 2014. Trends in the items determining gross global added value as shown above, are set out in the Consolidated Financial statements of this report, to which reference is made for further study.

Contributions to the External Community

In 2015 the impact of expenses for corporate initiatives for the external community on the net result of the Group amounted to 4.4% (2.0% in 2014, 1.8% in 2013).
As shown in the following table, over the three-year period 2013-2015, expenditure records a progressive increase, with 2015 witnessing growth in all the macro-areas of intervention (Training and Research, socio-cultural initiatives, Sport and Solidarity).

CONTRIBUTIONS TO THE EXTERNAL COMMUNITY (in thousands of euros)

	2015	2014	2013
Training and Research	876	810	819
Socio-cultural initiatives	4,864	4,541	3,839
Sport and Solidarity	1,876	1,264	799
Total	**7,616**	**6,615**	**5,457**

For further study of the main initiatives supported by the contributions indicated above and relating to the governance model , please refer to the sections in this report on “Company Initiatives for the External Community”.
In line with the Code of Ethics, Pirelli *“does not provide contributions, advantages, or other benefits to political parties or trade union organizations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation”*.

LOANS AND CONTRIBUTIONS RECEIVED FROM THE PUBLIC ADMINISTRATION

Romania. In the month of March 2012, the European Investment Bank (EIB) granted a sum of 10 million euros for the benefit of Pirelli Tyres Romania S.r.l. as the final tranche of a loan contract for a total of 50 million euros granted to support an investment of 263 million euros in respect of extending the Pirelli plant in Slatina, in Romania, intended for producing tyres for cars and light commercial vehicles. The financing sits alongside a similar one granted in 2007 and fully reimbursed at the end of the 2013 tax year and received to support the construction of the same production site.
Also reported is: S.C. Pirelli Tyres Romania S.r.l. received 38.3 million euros in the aggregate from the Romanian state by way of incentive for local investment, 9.3 million of which was in 2015.

Italy. During the 2015 accounting period Pirelli Labs received a contribution of 637 thousand euros from the Ministry of Instruction, University and Research by way of incentive in the areas of eased financing in respect of a Research and Development project and Pirelli Tyre S.p.A. collected a contribution by way of a non-refundable grant from the Piemonte Region of 2,836 thousand euros, again concerning a number of Research & Development projects.

Mexico. Since 2012 Pirelli Neumaticos S.A. de C.V. (Mexico) has received subsidies from the Government of the State of Guanajuato (Mexico) for investments and the creation of employment for an aggregate amount of 10.8 million euros.
The company has also received subsidies from the Mexican Federal Government for investments and the creation of employment concerning the ProMexico project for an aggregate figure of 5.9 million euros, 0.9 million of which was collected in 2015 (the incentives have been paid since 2012).

United Kingdom. In the 2013 and 2014 tax years, Pirelli Tyres Ltd. (United Kingdom) received government subsidies under the RGF-Regional Growth Fund for investments and the creation of employment tied to introducing new UHP products at the Carlisle factory for an aggregate figure of 2.6 million euros. In 2015 no further government contributions were received.

FINANCIAL COMMUNITY

Pirelli considers financial communication to be of strategic importance as a fundamental tool for consolidating relations of trust with the financial community. In accordance with the Values and Code of Ethics of the Group, Pirelli keeps a constant dialogue going with analysts and investors (both institutional and individual) and *bondholders* via the investor relations function and the Group’s Top Management, promoting communication that is between equals transparent, timely and accurate.
In 2015 the attention of financial markets focused on the sales/purchase and joint investment agreement between ChemChina, CNRC and Camfin with the launch of a public tender offer of Pirelli’s share capital and which concluded successfully in October with the subsequent delisting of the title. The agreements between shareholders of Pirelli foresee a return of the company to the stock market within 4 years, at the end of the completion of the industrial project that will witness the strengthening of consumer business in the areas of greatest growth, such as China, and the integration of tyre activities in the industrial segment of CNRC and

Pirelli, thus creating the fourth player in industrial business by size (revenues and turnover).
In 2016 and up until its return to the stock market, the company intends to keep the dialogue with the financial community open and ongoing with its usual transparency towards the market and drawing inspiration from best market practices for *delisted* companies.

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 steel cord). 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.

Within Original Equipment, in Europe Pirelli can count on a market share of Premium products of nearly 20% in 2015 compared to 14%, at which the company stood in 2011. In the Prestige segment, which is the highest of the range, Pirelli approaches 40%, with an increase compared to 36% in 2011.
Within Replacement, there are two broad types of Pirelli customers: Specialised Resellers and Distributors. Specialised Resellers are tyre specialists operating on the market in the role of independent businesses; specialised dealers constitute a fundamental point of contact between the Group and the end consumer. Particular attention is devoted to specialised dealers in terms of shared development to enhance the product offering integrated with a high quality level of service, in compliance with Pirelli values and consumer expectations. In 2015, Pirelli can count on about 11,000 loyal resellers globally, with a particular concentration in Europe, Asia-Pacific and South America (about 80% of the total points of sale). The degree of affiliation is diversified according to the market and the very presence of Pirelli, ranging from a softer loyalty (fidelity Club), which has as main objective for Pirelli territorial coverage and for the dealer sales support; to franchise programmes, in which through the exclusive of the partnership there is strong focus on business development point of sale overall; up to the maximum degree of affiliation, represented by points of sale owned by Pirelli (311 points of sale worldwide). "Distributors" are partners who are fundamental to guaranteeing continuity in the supply of tyres to other specialised and non-specialised resellers. They do so by offering local delivery and distribution services throughout the entire territory.

Customer Focus

Customer orientation is a central element of the Group "Values" and "Ethical Code", and the "Group Quality Policy", updated in autumn 2015, communicated to all employees on the occasion of the Pirelli World Quality Day held on November 12, 2015 and available on the Pirelli website.
Among the essential elements of the Pirelli approach to the Customer:
- consideration of the impact of its actions and behaviour on the customer;
- exploitation of every opportunity offered by doing business to satisfy the customer's needs;
- anticipation of customer needs;
- safety, reliability, high performance of products and services offered, in accordance with local regulations and more developed national and international standards applicable, as well as excellence of production systems and processes.

These commitments are outlined in the "General Purchase Conditions" applied by the Group companies. In accordance with the mentioned focus on customer care, Pirelli also adopted a clear procedure to grant a feedback to any customer claim, which involves immediate intervention with respect to the interlocutor. Pirelli has received numerous awards for the quality of its products from important and prestigious customers.

Transparency in Communication to the Customer

In the context of advertising communication, since 2009, Pirelli has defined a traceable and transparent process for all decisions relating to advertising campaigns and related media planning, both in the case of promotional activities managed centrally and locally with central supervision. In terms of production of advertising campaigns and media planning, Pirelli uses specific auditing and certification structures that place the Company at the highest levels in terms of transparency and traceability in its advertising investment strategies. The Pirelli Group endorses the IAB (Interactive Advertising Bureau) and is associated with the UPA (Associated Advertising Users), where Pirelli sits on the Steering Committee, among other things dedicating ongoing commitment to support the Advertising Code of Corporate Governance of the association. Through the UPA, Pirelli is a member of the WFA (World Federation of Advertisers), which commits participating firms to pursue honest, truthful and fair competition and communication in compliance with the Code of conduct and self-regulation which they adopt. Consumer protection is also guaranteed by the 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 Codes of Ethics regarding communication.

Compliance

Also in 2015:
- 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;
- there were no documented complaints concerning both violation of privacy and/or the loss of consumers' data;
- no sales of any of the products sold by Pirelli were not banned or disputed.

Customer Information and Training

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 online communication, and this is complemented by information distributed in hard copy format, as well as the range of off-line and online training activities. Online communication was strengthened in 2015: the revision of the websites and development on mobile devices increased the number of hits to more than 9 million, confirming the growing trend of the use of online 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 well-informed and need clear and immediate responses to their search on the web, as well as in mobility through smartphones. 70% of total access to Pirelli websites comes from search engines. In 2015, 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, and which consists of an international edition, coordinated centrally from headquarters, and local-language edition for each market in which Pirelli operates. Paddock News features a gallery of new products and news from the Company and its Business Units: Car, Motorcycle, Motorsport and Truck. In terms of paper publications, the company magazines "Pirelli World" and, for Brazil, "Giro", continue to play a key role.
As for online communication related to Industrial Tyres, in 2015, FleetApp was launched, the application for transport professionals, available in Italian, English, German and Turkish free for Android and iOS, on Google Play and Apple Store. In just a few steps you can get all the information on the intended use, available sizes and labelling values, technical specifications, tread design and peculiarities of each tyre in the Pirelli range as well as the Formula range, for the transport of persons and/or goods. The application also includes an integrated simulation tool that allows measuring of the possible fuel savings through using tyres providing higher performance from an energy point of view.
Numerous exhibitions, events and initiatives in 2015 in which Pirelli took part include:
- the Commercial Vehicle Show, the largest exhibition on transport of goods by road ever held at the National Exhibition Centre in Birmingham.
- Autopromotec 2015, the event dedicated to the world of automotive equipment and after market, now in its 26th edition, where Pirelli was present with a large stand featuring tyres for car, motorcycle and truck lines.
- The "Driving Innovation 2015" event held at the suggestive museum setting of Ca' la Ghironda, near Bologna, and during which new products were presented for commercial transport: the new tyre for city buses MC:01 and XL range in various lines of the 01 series.
- the TRUCK DAYS event held between Stresa and Vizzola, two days dedicated to tyres for industrial vehicles with the participation of TEAM, purchasing group of German resellers, and Pirelli Deutschland. A hundred resellers and their fleet customers were invited to the event. On Pirelli's testing circuit, wet braking, noise, comfort and wet handling tests were conducted. A space for in-depth study was dedicated to the Cyberfleet functionalities. A unique opportunity to learn the latest news about products, innovations to improve performance, in addition to solutions for fleets.

The training of Customers on the product even in 2015 was intense in all markets, both at the points of sale and at the Pirelli sites with visits to the factory, R&D laboratories, and simulations of tyre performance. About 4,500 dealers from 17 countries visited the two plants in Settimo Torinese (Italy) and Izmit (Turkey) in addition to the circuit in Vizzola (Italy) and the R&D Centre in Milan. Information and training are therefore conducted with a 360° approach.
During the year, expansion continued of the online training platform Tyre Campus "The Road to Success", covering a total of 23 markets in 16 different languages. 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 engaging style and with a path leading towards the final goal of certification. Pirelli certifies all its dealers who complete the proposed product train-

ing successfully. The certified dealer status is then indicated in the dealer locator and on a plaque placed at the point of sale. This way, consumers can be aware of which dealers are the most knowledgeable and qualified on the technical features and benefits of all the products of the Pirelli range. The platform dissemination project is well advanced; in 2016, it is expected to complete its extension to other markets, introducing new technical and commercial topics.
Also in order to support the product trainers in the markets in classroom training to the trade, a library of technical content was developed for classroom courses and the instrument "Tyre Campus Houses", which aims to concretely demonstrate the characteristics of Pirelli tyres, the raw materials used for their manufacturing and the differences between the different tread. With these tools, Pirelli trainers around the world have concrete and innovative support that allows customers to personally understand and verify the key characteristics and advanced technology of Pirelli products.

Listening and Exchanging Ideas as Sources for Continuous Improvement

Customer relationships are managed by Pirelli principally through two channels:

- the sales organisation operating in the territory, which has direct contact with the network of customers and which, thanks to advanced information management systems, can process and respond onsite to all the information requirements of the interlocutor; the sales structure is receives ongoing training on product and commercial issues through 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, 32 worldwide with more than 150 employees, performing business operations in IT support and order management (inbound), telemarketing and teleselling (outbound).

In addition to traditional channels, 2015 saw Pirelli achieve a significant rise internationally in user engagement through Social Media channels, most notably Facebook and Twitter. The Global Facebook Page dedicated to the brand reached more than 1,143,297 followers and the Motorsport page about 362,500 in addition to another two Twitter accounts: Pirelli (94,400 followers) and Pirelli Motorsport (65,700 followers). The Company is also present on Instagram where, at the end of 2015, it proposed a successful initiative related to the launch of the Calendar, which collected more than 33,800 followers. YouTube and Google Plus have also been confirmed as fundamental assets for the activation of special ad hoc projects. As for the Motorcycle Business Unit, we reserve a mention for the digital projects of the Metzeler and Pirelli brands. For Metzeler, in addition to the web page present in 10 countries worldwide, a page dedicated to bikers has been active on Facebook since 2012, with 270,000 fans and content posted in 14 different countries in the relevant local languages. There has been very positive feedback, over the years, from the activation of the Metzeler Maps, the Ridexperience blog and "Answers" feature that involves the users on the site. To maintain active relationships with consumers, the @metzelermoto channel on Twitter and YouTube was also created some time ago. For the Pirelli Moto brand, a presence on Facebook is important, with more than 300,000 fans connected and content posted in many countries in the world, and special attention is dedicated to Asian countries where Pirelli is developing its social media presence. The Diablo Super Biker mobile application is also of great importance, currently accounting for more than 350,000 downloads, and is greatly appreciated by the biker community. For this App, there will be an update in early 2016 with additional improvements (greater precision in calculating data thanks to new algorithms, detection of weather and road surface conditions, direct links to social media and the possibility of sharing sessions). In general, the CRM project occupies a priority position in the Business Unit, considering the biker community as a group of product enthusiasts.
Also in 2015, the end customer direct listening activity continued through the Brand Tracking survey in the Top Ten Markets of Pirelli (Italy, Germany, Spain, France, United Kingdom, Brazil, China, United States, 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 customer's purchase decision.
Pirelli also monitors its competitive position and its brand image among end users through the detection of Key Performance Indicators (KPI) such as Top of Mind, Brand Awareness and Brand Consideration. The 2015 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 has also confirmed its leadership in terms of Brand Consideration. Outside Europe, Pirelli in Brazil was confirmed in first place for each brand KPI; in China, Pirelli was confirmed in third place as the best-known brand and in second place as a brand considered for purchase; Russia recorded increasing values of brand consideration, which have moved Pirelli up to fourth place. In general, in all countries, the performance of Pirelli proves to be even more positive regarding the key target premium with the values of all indicators being higher than the more general targets of car owners: in China in particular, we are in first place for brand consideration for this target. There are two reference documents for brand positioning. One is the Brand Pyramid, which summarises the values, personality and distinctive features of the Brand. The

other is the Brand Key, a work scheme created with the aim of giving unity to product communication in terms of emotional benefits, functional benefits, reason to believe, differential elements, target of reference.
In 2015, the Tyre Talk project also continued: a listening project for trade customers, truly innovative for the tyre industry, based on an innovative web-based research platform, which can now count on the participation of more than 850 members in seven markets that form a select panel of partners-customers, able to contribute to the understanding of the market dynamics, the development of new marketing levers and business opportunities. Through constant search, contact and collection of feedback which includes the innovative and transparent involvement of 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 F1-related activities, the evaluation of the Pirelli B2B portal and the knowledge of approved tyres. The key issue is to collect the opinion of customers on the behaviour of end consumers, not only at the points of sale, but also in relation to the purchase process, the perception of the brand and product, the use of the labels introduced by the new European legislation, service expectations related to tyre change.
In 2015, Pirelli also conducted the biennial survey on satisfaction of its trade customers in the car tyre business. As in previous years, the Dealer Satisfaction Survey aims to detect the level of satisfaction of its customer base during the various stages of company-customer interaction and to promote action plans to improve customers' perception of the performance of Pirelli with respect to its main competitors in the various areas investigated (Product, Quality, Logistics, Sales & Marketing, Customer Service). The 2015 survey focused on 7 countries (Italy, Germany, UK, China, Brazil, USA, Turkey) with a total of about 2,500 interviews. In the UK, the US and Brazil, the interviews conducted at each point of sale in blind form (i.e. on behalf of the research institute and not of Pirelli) included in-depth interviews conducted with the main Key Customers on behalf of Pirelli. This has made it possible to obtain timely and wholly transparent feedback, which is useful for defining targeted action plans for our principal partners. In terms of overall satisfaction, on a scale of 0-100 (Completely satisfied = 100; Very satisfied = 75; Somewhat satisfied = 50; Not very satisfied = 25; Not at all satisfied = 0), Pirelli is the best player in Italy, UK and USA, and shows a performance comparable with that of its main competitors in Germany while in Brazil, China and Turkey, the scores on the direct distributors are > 75 up to the maximum of 85 in Brazil. The percentage of completely/very satisfied customers is on average above 75%.

Quality and Product Certification

ISO 9001: since 1970, the Group has had its own Quality Management System introduced gradually at all production centres and, since 1993, Pirelli has obtained certification of its quality system under the ISO 9001 standard. Today 100% of Pirelli facilities are certified with ISO 9001:2008, as are the activities at the logistics hub in Manresa, Spain. In 2015, the new Motorcycle Plant in Indonesia also obtained the ISO 9001:2008 certification.

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, whether new or acquired, that are suppliers of the automotive sector have obtained or continue to 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) hold the Quality Management System, and have been accredited under the ISO/IEC 17025 standard. This system is maintained in accordance with the standard in force and the ability of the laboratories to perform accredited tests is evaluated annually. The labs participate in proficiency tests organised by the International Standard Organisation, by ETRTO or by international circuits organised by auto manufacturers. Specifically in regard to car tyres, the focus on quality is confirmed by Pirelli's supremacy in numerous product tests. It is also guaranteed by its collaboration on product development and experimentation with the most prestigious partners (auto manufacturers, specialised magazines, driving schools, etc.).

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 markets of EMEA (Europe, Middle East and Africa), NAFTA (North America Free Trade Agreement), Brazil, Argentina, Uruguay, China, Taiwan, India, Indonesia and South Korea and involve all Pirelli plants. These certifications call for annual audits by ministerial bodies in the countries in question or organisations delegated by them, which verify the compliance of the product at the certified plant.

Focus on Human Health and the 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.). There is ongoing monitoring of producers and suppliers of raw materials used by the Group, particularly with 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 the 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, braking on surfaces with low grip and the use of increasingly innovative materials.
In 2015, the Pirelli product range for the Car, SUV and Van segment recorded a further improvement in the average level of grading concerning the performance of increasingly innovative materials designed to reduce rolling resistance, and therefore the reduction of CO_2 emissions, as well as increasingly effective wet braking which contributes to road safety.
At the beginning of 2015, Cinturato AllSeason was launched for the European market, the first "Total Mobility" product by Pirelli, capable of guaranteeing safe mobility during all seasons of the year even on snow-covered road surfaces, combined with the innovative Seal Inside technology, a key contribution to driving safety thanks to the technology of sealing the holes generated by foreign bodies that allows avoiding risky stoppages for a possible tyre change and potentially dangerous situations due to rapid tyre deflation.
For the Nordic markets, the Pirelli Ice Zero FR was introduced on the market, a new generation of studless winter tyres for extreme climates, suitable for driving even on icy surfaces. Ice Zero FR is particularly attentive to environmental and safety issues not only with regard to the improvements in terms of reducing rolling resistance, braking distances on wet, snowy or icy surfaces, but also as an innovative solution for urban mobility, where the studded tyre is increasingly being banned as it is a source of deterioration of the road surface.
For South American markets, a new product line was launched dedicated to changeover and tuning called Cinturato P1 plus. This product has been designed to combine a high level of performance on both dry and wet roads, as requested by consumers who want to customise their vehicles, with the adoption of new construction solutions capable of reducing the weight of the tyre to reduce rolling resistance and CO_2 emissions.
In the Truck Business, Pirelli designs and sells high-performance products in terms of safety and fuel savings. The Serie01 tyres are comparable to best of our competitors in energy efficiency (rolling resistance) and best-in-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, feature the 3PMSF mark on their sidewall. Regarding transportation of goods, a special mention is deserved by H:01 XL tyres which, thanks to the increased load index, can count on superior strength and integrity even in the event of heavy use. In passenger transport, where safety and comfort play a key role, 2014 saw the launch of the H:01 Coach line, aimed at equipping long-haul passenger vehicles on motorways or trunk roads, and 2015 saw the launch of the MC:01 line, aimed at equipping passenger vehicles on urban and suburban routes. The range of Pirelli products offered for efficient and sustainable mobility in the freight and passenger transport sector is rounded off by a series of solutions, among which the CyberFleet™. This system automatically measures tyre pressure and temperature under operating conditions, thereby reducing fleet operating costs and making it possible to reduce fuel consumption costs by simultaneously maximising efficiency in tyre maintenance and pressure control operations. All of these features offer significant advantages in terms of a reduction in CO_2 emissions and therefore beneficial effects from a reduced environmental impact and improved road safety standards. Greater or lower tyre pressure than what is recommended by the manufacturer leads to a higher rolling resistance, irregular wear and tear, difficulty in controlling the vehicle and lengthening of the braking distance, all factors which have a negative impact fuel consumption, tyre life and driving safety. To date, CyberFleetTM is used by 180 fleets in the world, with a total of about 150 million km travelled, using through the dedicated application.
High-performance tyres are also manufactured with vegetable raw materials such as rice husks, an inedible substance which is renewable and, above all, not taken from the food chain, from which silica, the essential component in making 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 in tyres has an impact on 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 with a lower use of fossil fuel energy, resulting in significant environmental and cost benefits in a global ecological approach from the production chain through to the finished product. Further information on the eco-sustainability of Pirelli products can be seen in the paragraphs of this report dedicated to the Environment.

For long-term reduction of CO_2 emissions, Pirelli is committed to using products with low environmental impact developing the first high-performance UHP tyre with innovative materials that contain natural rubber from the guayule tree. This set of tyres was mounted on no less than a latest generation Maserati Ghibli that put this new compound to the test on the tracks of Vizzola and Balocco. It was a result of the agreement between Pirelli and Versalis (Eni) signed in 2013 for the exclusive supply of natural guayule rubber to manufacture these tyres. Two years later, Pirelli researchers were able to study the characteristics of this new rubber in order to adapt the project to road use.

Awards

In 2015, Pirelli received several awards from its customers that acknowledged not only the high quality and performance of Pirelli brand products, but also the high level of attention that the Group pays to product sustainability.
In April, for the second consecutive year, Pirelli won the "JD Power Original Equipment Award" in the Performance Sport category; Pirelli was thus confirmed as the first choice for North American car manufacturers operating in the premium sector; also significant was the second place obtained in the Luxury category.
In June, Ford gave the "Green Pillar Award" to Pirelli, recognising not only the company's commitment to sustainability but also its ability to supply high-performance and quality tyres.
In July CNH Industrial awarded Pirelli the "2015 Supplier of the Year Award". Two projects led Pirelli to this success: the construction of a biomass plant in Brazil able to ensure not only energy savings but also a reduction in CO2 emissions and the project in collaboration with the natural rubber processor Kirana Megatara aimed at supporting farmers and their families through lessons on responsible cultivation practices with rubber trees and scholarships.
In November 2015, Pirelli received the "Quality Through Excellence Award" from Volvo for the Chinese factory in Yangzhou; this award is given to the best supplier of tyres based on the high quality and performance of the product.
In December, the Pirelli plant in Voronezh, Russia, received the "Ford Q1 Award", the prestigious certification given by Ford to suppliers that succeed in reaching high quality product standards.

Road Safety Culture and International Initiatives

International initiatives and commitments are discussed in the paragraphs "Company initiatives for the External Community".

OUR SUPPLIERS

As provided in the Values and Code of Ethics of Pirelli, suppliers and external collaborators play a fundamental role in improving the firm's overall competitiveness. 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 its turn, the "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment" specifies that the Group's sustainable development strategies require, among other things, a commitment to continuous improvement in issues of the environment, occupational health and safety connected with its activities, abiding firmly by and supporting the content of the Declaration of Universal Human Rights, the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work, the Rio Declaration on the Environment and Development and the United Nations Convention against Corruption. Likewise, the Policy lays down that Pirelli is committed to establishing and maintaining active the procedures necessary for assessing and selecting suppliers and sub-suppliers on the basis of their level of social and environmental responsibility. Sustainable management of the supply chain is thus set out in the Pirelli Quality Policy, in addition to being the subject of the Green Sourcing Policy. The Policies mentioned are available in many languages on the Pirelli website (Sustainability Section), to which the reader is referred for more details and full text.

Supply Chain Sustainable Management System

Provisioning processes and partnership relations with suppliers are guided by Pirelli's Purchase Department and by specialists present in the various affiliates worldwide. 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 Pirelli premium strategy. The Model of Sustainable Management of the Pirelli supply chain was verified by a third party through a high-level method of verification, in accordance with the AA1000 Assurance Standard (2008) in 2011, in 2013, in 2014 and in 2015, as can be seen in the letter of attestation of the Sustainability Reports for the years mentioned. The social, environmental and business ethics that are the responsibilities of a Pirelli supplier are assessed together with the economic and product or service quality to be supplied, right from the assessment at potential supplier stage. Analysis of ESG performance (Environment, Social Governance) then continues through the qualification stage of the future supplier pre-analysed at the assessment phase, and then is "contractualised" though the Sustainability Clauses included in every contract. Verification of the supplier's sustainability performance at the post-contract stage is achieved through third-party audits. In September 2014 on the institutional Pirelli website a "Suppliers Areas" (Pirelli.com/suppliers) was released, a new section dedicated to the world of supply. It is accessible to current and potential Pirelli suppliers, as well as anyone with an interest in knowing the management model adopted by the Firm in the areas of purchases of goods and services around the world. This new channel of communication aims at the utmost clarity and sharing of Values, Guidelines and standards adopted by Pirelli in relations with suppliers and set out via the publication of support documentation such as, for example, the Supplier Handbook. In 2015 the initiative was also promoted at a single industrial country level and the release is underway.

The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases

Pirelli uses the same ESG performance approach throughout the entire process of interactions with the supplier, although in different ways among them, consistently with the intensity of the interactions characterising the specific procedural steps. Beginning with the assessment stage, Pirelli suppliers are evaluated against the management model and performances, based on their awareness, in matters of:

- 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;
- abidance by laws and industrial standards on working hours and insurance that wages are sufficient to meet workers' basic needs;
- monitoring performances in occupational health and safety and targets of improvement;
- 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 of imposing the foregoing principles, values and policies to any subcontractors and sub-suppliers, regularly monitoring their actual compliance with this obligation.

During a first assessment of possible offers for goods or services in the marketplace, a buyer who has been adequately trained is able to gain a first impression of possible abidance or violation by/of the requirements of the product and ESG aspects by the potential supplier. This allows any who are clearly in possible breach of Pirelli expectations to be eliminated from the roster of potential suppliers. Pirelli asks suppliers who gain access to the qualification stage to use the portal available in their local language. By accessing it, the supplier views and simultaneously accepts the Pirelli economic, social, environment and business ethics policies. This first step foresees filling out a questionnaire concerning evidence of ESG wherein a number of questions are "invalidating", i.e. an inadequate response will prevent the qualification from being processed favourably, since these are minimum requirements for becoming a Pirelli supplier. These questions require the potential supplier to attest that its firm:

- checks workers' ages before hiring them, and it ascertains that all of its employees satisfy the minimum legal working age;
- uses workers provided with a written labour contract and who work on a voluntary basis exclusively;
- abides by workers' rights of freedom of association and participation in trade-union activities;
- pays wages that meet the minimum legal standards;
- manages disciplinary practices, if any, abiding by the law;
- abides by and applies legislative/contract provisions in the matter of work schedules, overtime and rest periods.

Depending on the goods categories in respect of which the supplier has initiated the qualification procedure, a particularly detailed questionnaire has to be filled out in which the supplier is asked: to attach quality, environmental and health and safety certifications; to document their approach to responsible management by attaching their Policies and Codes; to provide data disclosing the rate of accidents at work; to attest the compliance with labour laws as set forth above and to disclose the existence of any pending lawsuit. 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 additionally been developed to support communications, awareness and training campaigns being carried out for suppliers where sustainability is an essential part. With regard to the contractual stage, from 2008 the Sustainability Clauses have been included systematically in contracts and orders for purchases of goods and/or services and/or works, both with private suppliers and the public administration (or bodies/companies controlled by the latter) or NGOs all over the world.

In particular, the clauses:

- call for awareness, on the part of suppliers, of the principles, commitments and values contained in Pirelli's Sustainability documents, i.e. "Values and the Code of Ethics", 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 Suppliers to confirm their commitment to:
  - not using or supporting the use of child 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 wages are sufficient to cover workers' basic needs;
  - establishing and maintaining appropriate procedures to evaluate and select suppliers and sub-suppliers based on their commitments to social and environmental responsibility;
  - not tolerating any type or corruption in any form or legal jurisdiction, even where such practices are allowed, 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 growth that respect the environment and the rights of future generations;
  - imposing the aforesaid principles, values and polices upon any subcontractors and sub-suppliers and overseeing on a regular basis their actual abidance by these obligations;
- specifying that Pirelli reserves the right to verify at any time through audits, either directly or through third parties, that fulfilment of the obligations assumed by the supplier (more details see below, in the following paragraph).

The Sustainability Clauses have been translated into 24 languages so as to ensure maximum clarity and transparency towards suppliers in terms of the contractual obligations they assume, not only in relations with the company itself, but also in relations with their own suppliers. With a view of utmost assurance, suppliers of the Pirelli Group have the Whistleblowing Reporting Procedure (ethics@pirelli.com) at their disposal, expressly indicated in the Clauses and by means of which any breach or suspected breach they discern in relations with Pirelli referring to the contents of the "Values and Code of Ethics", "Code of Conduct" (anti-corruption) and the "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment" of the Group can be reported in total confidentiality. In 2015 no Whistleblowing report was received signed by a supplier. It is objectively impossible to confirm that there were, in absolute terms, no further reports from external stakeholders received, as a number of reports were anonymous, as specified in the section "Group Procedure for reporting – Whistleblowing", which can be referred to for further details. Moreover, there is no evidence of Whistleblowing reports in regard to violations by suppliers used by the Group.

Each contract for purchase bears the name of the contact buyer so that the person in question has at all times a corporate channel available for any feedback. According to the matter concerned, a contact buyer will then deal with the right person/function.

The supplier is monitored by using the Vendor Rating procedure, aimed at defining the quality level of suppliers, the quality of the commercial relationship, the technical-scientific collaboration and performance in relation to occupational safety, the environment, and social responsibility through on-site audits and the periodic monitoring of the progress of the actions set down in any improvement plans signed with the supplier. The Vendor rating results are reviewed annually and commented by Purchase Department at meetings organised with suppliers so as to identify any corrective actions or improvements needed in performance. The Vendor Rating covers all the goods and geographical purchasing areas and is utilized as an integral part of commercial negotiations.

Materiality of ESG Impacts along the Supply Chain

Pirelli governs its sustainability by using a materiality analysis. In environmental terms, the materiality of supply chain impacts is prevalent in the category of raw materials and the use of water in natural rubber transformation processes.

Social impacts (human and labour rights in particular) are evidenced on the other hand in all categories of purchases with reference to suppliers operating in countries considered more at risk as compared to others from the standpoint of compliance with domestic and international labour legislation.

There are many activities involving suppliers put in place by the Company from the viewpoint of creating environmental and social value that are inseparably tied to the creation of shared economic value. This is the case of numerous agreements the firm has reached with strategic suppliers for the development of innovative materials with low environmental impact which are described in detail in the section on "Research and Development of Raw materials" in this report. Equally, Pirelli supports initiatives in support of social development within the value chain extending to the second and third tier of the supply chain. This latter is the case of the partnership between Pirelli

and one of its natural rubber suppliers in Indonesia aimed at supporting the welfare of smallholders of plantations who are the second or third tier in Pirelli Supply chain (Pirelli does not purchase from plantations but from Transformers or dealers who in turn purchase from plantations).
Both the sustainability of natural rubber and the management of criticalities that may arise beyond a direct relationship with a Supplier (second/third tier of the chain) represent one of the main challenges for responsible management of the supply chain. For this purpose, sector cooperation is an essential element for meeting this responsibility effectively.

Audits by Third Parties

Since 2009, every year and with joint activities by the Group's Risk, Governance, Sustainability and Purchases functions, buyers and local Sustainability Mangers are asked to identify a list of suppliers who, on the basis of the findings of proper Risk Assessment, are felt to be in need of an audit by a third party at the time of the Annual Audit Campaign.
The "criticality" of the supplier guides the choice, and this may be so since:

- 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 burden of the purchase is significant and for this reason an on-site verification of the supplier's compliance with Pirelli ESG expectations, signed by the supplier at the contractual stage, is advised, via a third party audit commissioned by Pirelli;
- the supplier operates in a country at ESG risk;
- the supplier has not yet undergone an ESG audit by Pirelli or special criticalities have been detected in previous audits;
- there is information, a perception or doubt concerning possible breaches regarding social, environmental and/or business ethics responsibilities.

In 2015 a preliminary sustainability Audit was introduced, that is at the quality/approval stage, for all potential new suppliers and/or implantation of raw material. Through these Audits, which are carried out by third parties, the level of compliance of the potential supplier is checked against the main domestic and international regulations in Labour, Environment and business ethics.
Methodologically, a team made up of Sustainability Department and Purchases Department of the Group defines Guidelines for selecting suppliers to undergo auditing, supporting the corresponding local functions who operationally manage the process. Purchasing Directors and Sustainability Managers who coordinate the auditing activity locally are adequately trained and made aware of the audit subject and method by the corresponding central functions, i.e. Sustainability and Purchases.

The external auditors carry out the verification on the basis of a checklist of parameters of sustainability deriving from the Pirelli Code of Ethics, the SA8000® standard (a tool of reference officially adopted by the Group for managing social responsibility since 2004) and the "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment" of the Pirelli Group (consistent with the areas of social, environmental and governance sustainability dictated by the United Nations Global Compact). Third-party audits, each of which lasts on average 2-3 days in the field, include interviews with workers, management and trade-union representatives.
Between the end of 2009 and the start of 2010, 72 audits were carried out; between the end of 2010 and the start of 2011, a further 56 were completed; in the second half of 2012, 62 new audits were commenced on suppliers of raw materials, machinery, logistics and services which concluded in 2013. In 2014, 78 audits were performed and in 2015 a further 93 audits were begun on suppliers in all the categories mentioned, including potential suppliers of raw materials. In most cases the 2015 audits involved Pirelli Tyre suppliers operating in countries where the Company is present with industrial plan, i.e. Brazil, Argentina, Egypt, China, Romania, Russia, Turkey, Mexico and the United States, or countries from which Pirelli purchases raw materials, such as Indonesia, Malaysia, Thailand, South Korea and Taiwan. Among the western countries where the Group operates, audits were carried out on Pirelli Tyre suppliers in Italy, UK, Germany, France, Sweden, the Czech Republic and the Netherlands.
On the basis of audit findings, where deemed necessary and adequate, and given also the specific corrective actions suggested by the independent Auditor, the supplier signs a recovery plan aimed at preventing, mitigating or remedying any non-compliances found. The plan foresees specific actions to be implemented by precise deadlines in addition to clear identification of the responsible for the actions at the supplier site and the follow-up method (documentary or *in situ*) that will be followed by the Auditor to verify resolution of the non-compliances detected during the Audit. The process of monitoring the implementation status of suppliers' recovery plans is dual: on the one hand the third-party Auditor verifies the status of implementation of the recovery plan, and on the other Internal Audit Department of the Group verifies the adequacy of management and alignment of the corresponding local functions (Sustainability and Purchases).
On the basis of the results of the audits carried out in 2015 and as compared to 2014, the number of non-compliances recorded in absolute terms fell by approximately 40%, whereas the average number of non-compliances per supplier dropped by around 45%. The non-compliances recorded are linked to processes of health and safety management, the use of overtime, the improper implementation of Environmental Management Systems and the lack of adequate oversight by the Supplier of

the sustainability of its own supply chain.
There were no cases of supplier relations being terminated due to the findings from audits. In rare cases, agreements with suppliers considered inadequate or at risk during the scouting stage were not concluded.

Group "Green Sourcing" Policy

As at December 2012 Pirelli drew up and issued the "Green Sourcing" Policy with the aim of stimulating and incentivising environmental awareness along the entire supply chain and encouraging choices that might reduce the impact on the environment of the goods and services supplied to Pirelli. The Green Sourcing Policy implementation system was defined in 2013, both inside Pirelli and in relationships with the suppliers. It is organised as follows:

- publication of a Green Sourcing Manual, an internal document containing operational Guidelines aimed at directing the activities of Pirelli functions involved in the Green Sourcing process;
- publication of the Green Purchasing Guidelines, a document intended for Pirelli suppliers as part of the supply agreement and based on the Green Sourcing Manual containing the KPIs (Key Performance Indicators) for assessing the Green Performance of these 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 parties 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 (conceived in-house) is material to the Pirelli core business. For the Opex and Logistic areas characterised by goods categories in respect of which the design component is not equally significant, Green Operating Guidelines have been defined by referring 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 Academy for training purposes by the functions involved in the Green Sourcing process.
In 2014 and on the basis of the Guidelines of the Green Sourcing Manual, the Pirelli Green Purchasing Guidelines were published on the website www.pirelli.com, thus making them available to Pirelli suppliers and to other stakeholders. In addition to explaining the arrangements of the Pirelli Green Sourcing system, it also contains the KPIs for assessing these suppliers' Green Performance. In China, Mexico, the United States, Russia and Italy, by-invitation seminars have been held at Pirelli offices on the Green Sourcing Guidelines for local suppliers so as to inform and receive direct feedback on the way they work. Again from the standpoint of informing and disseminating the Pirelli Green Sourcing Policy and the Green Purchasing Guidelines among stakeholders, in 2015 Pirelli additionally accepted to contribute to activities of the Luigi Bocconi Business University (Milan, Italy) concerning Circular Economy models through a Degree Thesis using Pirelli as a "case-study" and aimed at bringing out the potential or the Circular Economy in the tyre industry.
Additionally, in 2015 Pirelli developed an IT platform to support the launch of a campaign to measure the Green Performance of Pirelli Suppliers through an electronic questionnaire to be filled out online, a campaign whose implementation is planned for 2016.
Pirelli has also been invited to share its "Green" approach at the Future Tire Conference 2016 (May 24 - 25, 2016, Essen, Germany) during the "Future Factories and Supply Chain Forum" session with a presentation titled "Green sourcing in the tire supply chain".

CDP Supply Chain

For years Pirelli has participated in CDP Investor and, at the request of customers, in the CDP Supply Chain. Implementing its Green Sourcing Policy since 2014, Pirelli has in turn decided to extend the request for CDP assessment to its own key suppliers at Group level, identified in accordance with criteria of environmental and economic materiality. The CDP Supply Chain allows Pirelli to monitor Scope 3 emissions from its supply chain and ensures adequate awareness of supplier firms in terms of climate change to identify and activate all possible opportunities for reducing emissions of climate-altering gases. In 2015, which was the second year of programme reporting, the excellent participation of Pirelli's suppliers was confirmed; they responded to the assessment earning a disclosure score higher than the global average of the panel of suppliers responding to the CDP. This analysis has shown that, thanks to actions taken to reduce emissions by Pirelli suppliers, in 2015 atmospheric emissions of more than 51 million tons of equivalent CO_2 were avoided, thus allowing economic savings estimated at 149 million dollars.
Pirelli was the first firm among tyre producers to introduce the CDP Supply Chain officially to its supply chain.

Conflict Minerals

The concept of Conflict Minerals was introduced by Section 1502 of the Dodd-Frank Act, a United Sates federal law, in 2010. The term "conflict minerals" refers to gold, columbite-tantalite (conltan) cassiterite, wolframite and their derivatives, such as tantalum, tin and tungsten, which come from (or are extracted in) the Democratic Republic of Congo and/or bordering countries. The objective of the rules in respect of Conflict Minerals (Conflict Mineral Rules) is to discourage the use of minerals whose sale might finance violent conflicts in Central Africa, where serious violations of human rights have been recorded for many years. Under Conflict Mineral Rules, listed companies in the United States are required to perform reasonable due diligence to trace the source of these materials, report the findings to the SEC and publish them on their website, with the first report to be published by May 3, 2014 (on 2013 operations) and updated each year thereafter. On March 5, 2014, the European Commission 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.

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

The attention paid by Pirelli to human rights issues and, at the same time, its position as supplier in the supply chain of customers who are active in terms of due diligence, have led the Firm to carry out a full inquiry into its supply chain to identify any possible "conflict minerals".

From a provisioning standpoint that contemplates only minerals that are "conflict-free", Pirelli has asked its suppliers to fill out the CFSI-CMRT (Conflict-Free Sourcing Initiative - Conflict Minerals Reporting Template) form developed by the EICC (Electronic Industry Citizenship Coalition) and by GeSI (Global and e-Sustainability Initiative) so as to give full visibility to the supply chain as far back as the mines or foundries. The suppliers polled cover 100% of the "conflict minerals" risk tied to Group products. More than 90% of suppliers polled have already given precise indications concerning the source of the materials in question and listing foundries as required by the procedure. The findings of the inquiry lead to the conclusion that these products are "conflict-free". At the end of 2015, a minimum number of suppliers, amounting to 0.01% of Pirelli purchase spending, were unable to trace back to smelters for all their supply chain.

Training of Suppliers on Sustainability

Following the training project aimed at strategic suppliers and provided by an e-learning method in 2012, 2013 and 2014, Pirelli extended these training sessions for suppliers in 2015 to strategic suppliers of "auxiliary materials", off-takes and moulds. This activity involved labour rights, 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 many practical examples and allowed participants to verify the levels of compliance by their own organisations with the various elements of ESG. In order to clarify the effectiveness of e-learning, a self-assessment questionnaire was prepared that participants filled out at the end of the training session.

Supplier Award

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

The 2015 edition of the Supplier Award was held at the Pirelli headquarters at Bicocca with the Pirelli CEO in attendance, who gave the awards to nine suppliers operating in Indonesia, Germany, Italy, Japan, China, the United Kingdom and San Marino. The suppliers had distinguished themselves in quality, innovation, speed, sustainable performance, global presence, price and level of assistance and service. A specific award was dedicated to sustainable performance, acknowledging the importance of "responsibility" strategies which really make a difference by bringing benefits to the entire value chain.

Trend of Purchases

The Pirelli Tyre core business in 2015 accounts for 97% of Group purchases (98% in 2014). The following tables show the value of purchases made by Pirelli Tyre and the percentage of the relative suppliers divided by geographical area. The data provided 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. 78% of suppliers (vs 77% in 2014 and 78% in 2013) (excluding raw material suppliers since they generally don't operate in countries where Pirelli has plants) operate locally with respect to the supplied Pirelli Tyre affiliates, in

accordance with a "local for local" supply logic.
The following data also include those of the Venezuelan subsidiary, deconsolidated as of 31 December 2015.

PERCENTAGE VALUE OF PIRELLI TYRE PURCHASING BY GEOGRAPHICAL AREA

		2015	2014	2013
OECD Countries	Europe	47%	47%	40%
	North America	4%	4%	3%
	Others (1)	4%	3%	3%
Non-OECD Countries	South America	19%	21%	20%
	Asia	15%	14%	20%
	Africa	1%	1%	1%
	Others	10%	10%	13%

PERCENTAGE OF PIRELLI TYRE SUPPLIERS BY GEOGRAPHICAL AREA

		2015	2014	2013
OECD Countries	Europe	48%	51%	48%
	North America	5%	4%	3%
	Others	3%	4%	2%
Non-OECD Countries	South America	29%	27%	28%
	Asia	4%	3%	9%
	Africa	4%	4%	2%
	Others	7%	7%	8%

The following table shows the breakdown in percentage 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 50% of the total, down from the previous year due to lower commodity prices.

VALUE OF PURCHASES BY TYPE

	2015	2014	2013
Raw materials	50%	54%	61%
Supplies	5%	5%	5%
Services	35%	32%	25%
Capital goods	10%	9%	9%

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 SUPPLIER BY TYPE OF PURCHASE

	2015	2014	2013
Raw materials	3%	3%	3%
Supplies	35%	33%	35%
Services	48%	53%	51%
Capital goods	14%	11%	11%

The following table represents the percentage composition in the value of the mix of raw materials purchased by Pirelli Tyre in 2015, 2014 and 2013. In 2015, there was a decrease in the weight of natural rubber compared to 2014 due to the reduction of the price of the commodity. The volume of raw materials utilised for the production of tyres in 2015 amounted to approximately 1 million tonnes, of which approximately 5% derives from recycled materials, in line with the previous year.

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

	2015	2014	2013
Natural rubber	18%	20%	24%
Syntethic rubber	25%	28%	29%
Carbon Black	10%	14%	13%
Chemicals	20%	19%	16%
Textile	13%	12%	11%
Steelcord	14%	7%	7%

Targets for 2016

The following are the main objectives for the year 2016:
- In-depth study of the most effective sustainable management methods of the second/third tier of the supply chain and the context of natural rubber, through a dedicated table during Pirelli Global Stakeholder Dialogue to be held in Brussels in February 2016;
- new training session on ESG issues dedicated to the Group's strategic suppliers belonging to different product categories;
- increase in the participation rate of Pirelli suppliers in the CDP Supply Chain.

ENVIRONMENTAL DIMENSION

The Pirelli Values and Ethical Code 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 environmental management is also inspired by the United Nations Global Compact, in which Pirelli has participated since 2004 (in addition to having a seat on the Steering Committee of the LEAD Global Compact), and the Rio Declaration on Environment and Development. The above principles are also illustrated in the "Social Responsibility Policy for Occupational Health, Safety, Rights and Environment", according to which Pirelli undertakes to:

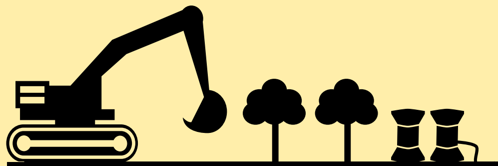
- assess and reduce the environmental impact of its own products and services throughout their entire life cycle;
- promote use of the most advanced technologies to achieve excellence in environmental protection;
- manage its environmental activities in compliance with the highest international standards;
- communicate and provide material information to internal and external stakeholders;
- use material resources responsibly, with an aim to 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.

Moreover, in the Group Quality Policy, updated at the end of 2015, Pirelli reiterates the safeguarding of the environment throughout the product life cycle as a basic element of its Premium Strategy understood as cutting edge technology and product excellence.
In fact, through the Green Sourcing Policy, all the Group's employees undertake to always consider the environmental impacts of goods and services, whether designed or purchased.

THE PIRELLI GROUP ENVIRONMENTAL STRATEGY

Management of environmental issues has always played a key role in Pirelli business strategy. With a view to long-term management, Pirelli monitors the Carbon Footprint and Water Footprint of its entire organisation and is committed to their progressive reduction.
The Group has adopted a control and monitoring system that allows the identification of the materiality of environmental impacts throughout the product life cycle, allowing the identification of appropriate action plans.
The infographic on the following pages offers a single-image overview of the Pirelli approach to environmental management, aimed at reducing its impact on resources, climate and ecosystems. As instantly evident, the materiality of environmental impacts is highly concentrated in the use phase of the tyre.
The graph can be read either horizontally, following the stages of life of a tyre one by one, or vertically, thus being able to appreciate the objectives of reducing the impacts that the Company has defined for each of the different stages of life, which will be explored later in this chapter.
From a methodological point of view, these life cycle phases have been analysed using the Life Cycle Assessment, as defined by the ISO 14040 family of standards. This method is capable of validating the results and strategic decisions related to it as objectively as possible. Moreover, reporting of the emissions impacts also complies with the provisions of the GHG Protocol and GRI-G4 Guidelines.

LIFE CYCLE STAGES



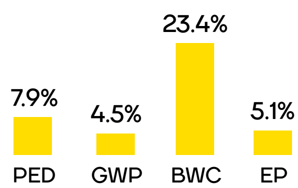
RAW MATERIALS

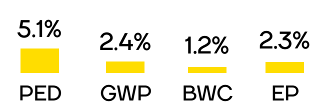
MANUFACTURING

DRIVERS

	RAW MATERIALS	MANUFACTURING
DRIVERS	SUPPLIERS Raw materials production and transport; the impact is due to resources use by suppliers' plants	PIRELLI Tyre manufacturing: in Pirelli's plants the impact comes mainly from electricity and natural gas consumption
IMPACT: CARBON & WATER FOOTPRINT	Scope* 3	Scope 1+2+3

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





MATERIALITY

	RAW MATERIALS	MANUFACTURING
Economical	High	High
Environmental	Medium	Medium

RESPONSE STRATEGY

Raw materials (Suppliers)

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

Manufacturing (Pirelli)

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

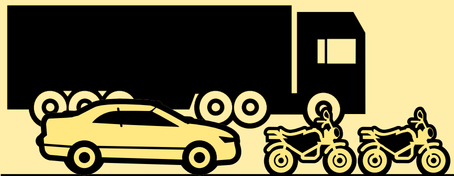
Production and use of fuel by trucks and ships of logistic suppliers, delivering Pirelli tyres all around the world

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

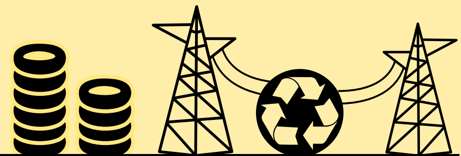
Cyber Tyre development

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

All impacts listed by the standards that are not mentioned, both upstream and downstream of the industrial activity of Pirelli, either do not apply or are not significant. The values are shown as a percentage, as the objective of this infographic is to show the difference in materiality between the various life stages. To determine the Carbon Footprint and Water Footprint, Pirelli's calculation model respectively follows the technical specification ISO-TS 14067 and ISO 14046.
The main environmental impacts are generated by various activities related to the different stages of the lifecycle. In the case of raw materials procurement, the main impact derives from their production and distribution. In the case of tyre manufacturing it derives from the consumption of electricity and natural gas: in particular the main pressure in terms of emissions into the atmosphere and water consumption related to the production process is attributed to the production of the latter. In the case of the distribution of new tyres and their use by customers, the impact derives from the fuel consumption of vehicles (in the case of customers, only the fuel consumption related to the power absorbed by the rolling resistance of the tyres is allocated). Finally, in the last phase of lifecycle considered, the impact derives from the preparation activity of end-of-life tyres for their recovery, in the form of energy or recycled raw material.
With regard to the carbon footprint, the infographic (see "drivers" area) also contains the breakdown of emissions in the three Scope categories from the GHG Protocol principles. The central part of the infographic shows the actual quantification, in percentage terms, of the Carbon Footprint and Water Footprint. These two aspects are summarised by four principal indicators: Primary Energy Demand (PED), Global Warming Potential (GWP), Blue Water Consumption (BWC) and Eutrophication Potential (EP).
The values are managed in terms of GJ of energy, tons of CO_2 equivalent, cubic metres of water and kilograms of equivalent phosphates.
Primary Energy Demand (PED) refers to the quantity of renewable or non-renewable energy that is taken directly from the hydrosphere, the atmosphere or the geosphere.
The Global Warming Potential (GWP) refers to the effect of human activities on the climate, and is calculated in tonnes of CO_2 equivalent. The potential greenhouse effect is calculated in relation to CO_2, assuming that it would stay in the atmosphere for 100 years.
Blue Water Consumption (BWC) is given by the volume of surface and underground water consumed as a result 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 fertilisers all contribute to eutrophication. The result in aquatic systems is accelerated growth of algae, which does not allow sunlight to penetrate the surface of the water basins. This reduces photosynthesis and thus reduces the production of oxygen. Low concentrations of oxygen may cause mass death of fish and anaerobic decomposition of organic material, seriously compromising the entire ecosystem.
In terms of environmental materiality, the use phase of the tyre appears to be the most dominant phase in each of the four indicators mentioned above. In terms of economic materiality, the amount of corporate spending in the manufacturing phase is the most relevant, thus creating the opportunity of reducing these impacts through investments in energy efficiency.
In its response strategy, which may be consulted in the lower part of the infographic and corresponding to what is also stated in the Industrial Plan, Pirelli has adopted adequate management models for the monitoring and managing of environmental issues, and has also voluntarily adopted specific targets to reduce its impact in each phase of the product life cycle.

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, during the use and end-of-life phases, greater driving safety and production efficiency.
Pirelli has activated Joint Development Agreements with leading suppliers for the study of new polymers that are able to further improve the characteristics of tyres for rolling resistance, low temperature performance, mileage and road grip. In this regard, Pirelli Research & Development focuses, among other things, 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, lignin and plasticisers of plant origin;
- nanofillers for more stable compounds, lighter structures and highly impermeable liners;
- new silanes to guarantee performance stability and processability;
- vulcanisation agents and stabilisers with reduced environmental impact.

The Joint Labs agreement (2012-2017) 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 the University to develop a natural rubber obtained from sources other than the rubber tree. Research is aimed at diversifying the potential supply sources, to reduce pressure on biodiversity in producer countries and allow the Company to manage the potential scarcity of raw materials with greater flexibility.
In turn, a joint research project is underway between Pirelli and Versalis (Eni) on the use of natural guayule rubber in the manufacturing 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 also to its hypo-allergenic properties, unlike the more common Hevea brasiliensis rubber. The first test of a tyre with compounds using guayule rubber as an alternative to synthetic rubber (from oil sources) was successfully conducted in December 2015 on ultra-high-performance tyres (UHP) installed on a Maserati Ghibli.
The innovation of raw materials also entails the improvement of the environmental impact of end-of-life tyres. In this regard, in collaboration with Università degli Studi of Milan Bicocca, as part of the Consortium for Research on Advanced Materials (CORIMAV) and through the Fondazione Silvio Tronchetti Provera, 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 the related environmental impact.
As part of new nano-fillers, Pirelli has started to industrially introduce materials of mineral origin in partial replacement of precipitated Silica and Carbon Black, with a reduced environmental impact associated to the production of more than 75% raw materials in terms of CO_2 and water consumption, "saving" in 2015 respectively 1,400 tonnes of CO_2 and 7,500 tonnes of water. In addition, in collaboration with Università degli Studi of Milan Bicocca and Politecnico of Milan, Pirelli is developing silica particles with an elongated shape that will allow further reductions in fuel consumption.
As for biomaterials, as already mentioned Pirelli has focused on silica resulting from rice husk. Rice husk is the outer shell of the grain and constitutes 20% of raw rice by weight, which is the main waste of this crop and is available in extremely large quantities in many areas of the world. Today, rice husk has several uses of varying types: animal bedding, organic fertilisers and solid fuel for the production of electricity (in fact, rice husk has a discrete calorific value of about 14 MJ/kg). However, in the less developed areas of the world it is still not valued, and is burned in the open air without exploiting its full potential. In one of these areas, in Brazil, Pirelli has developed a production process capable of obtaining industrial silica from rice husk, 18% of the weight of which consists precisely of 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 the rice husk: this allows a reduction of more than 90% 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 requirement in South America with silica derived from plant sources by 2017.

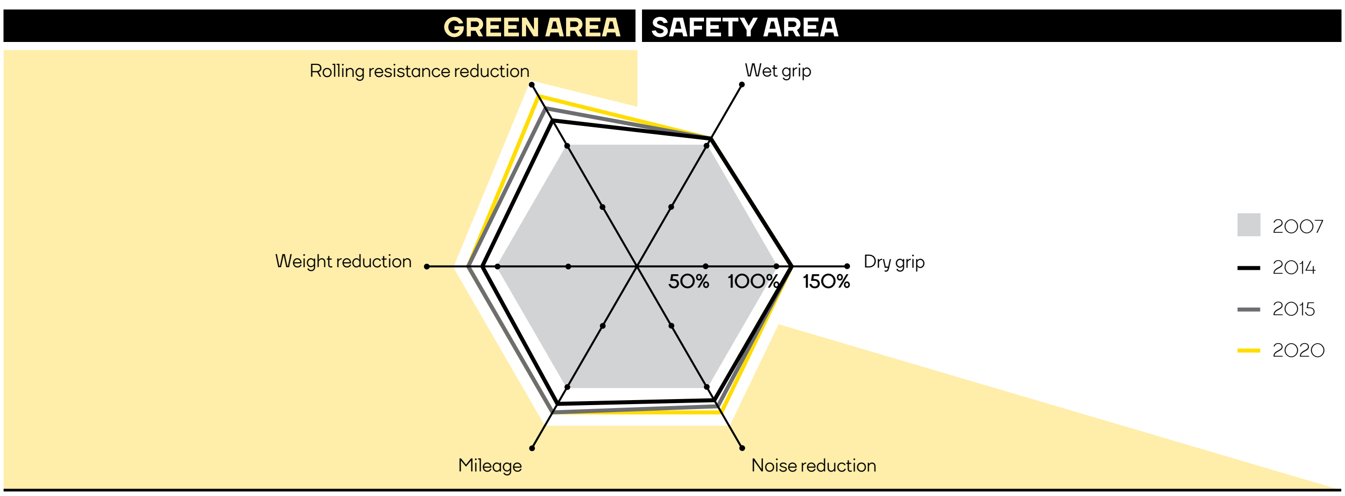
PRODUCT AND USE PHASE: GREEN PERFORMANCE TARGETS

Also in line with its position in the Premium and Prestige Segment, Pirelli develops and introduces increasingly sophisticated products on the market, responding to a macroeconomic scenario in constant and 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 in dry and wet conditions and, at the same time, improved environmental performance such as:

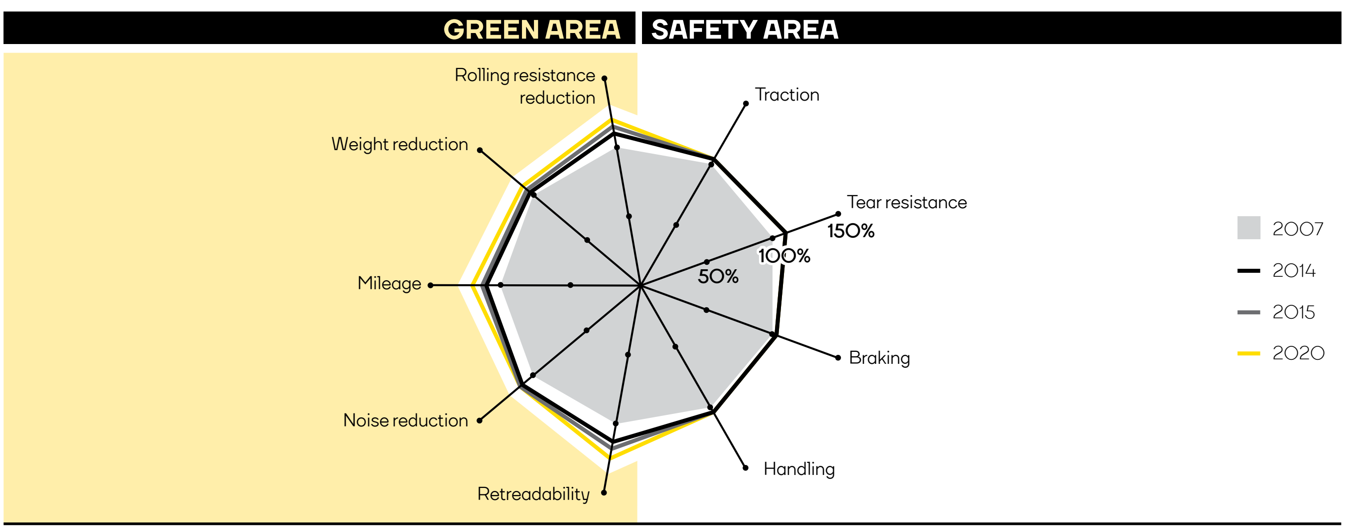
- less rolling resistance - lower CO_2 emissions;
- less noise - reduced noise pollution;
- increased mileage - lengthening of tyre life and reduced exploitation of resources;
- improved retreadability - less waste needing disposal;
- reduced weight - less use of raw materials and lower impact on natural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

Pirelli adopted objectives for improvement on the environmental performance of its products in an objective, measurable and transparent manner, as shown in the graphs below. Regarding the most important environmental aspect, the materiality of which was presented in the infographic related to the life cycle of the tyre, Pirelli is committed to reducing by 2020, with respect to the 2007 average, the weighted average rolling resistance of its products by 40% as regards tyres for Cars, 20% for Truck products and 10% for Motorcycle products.

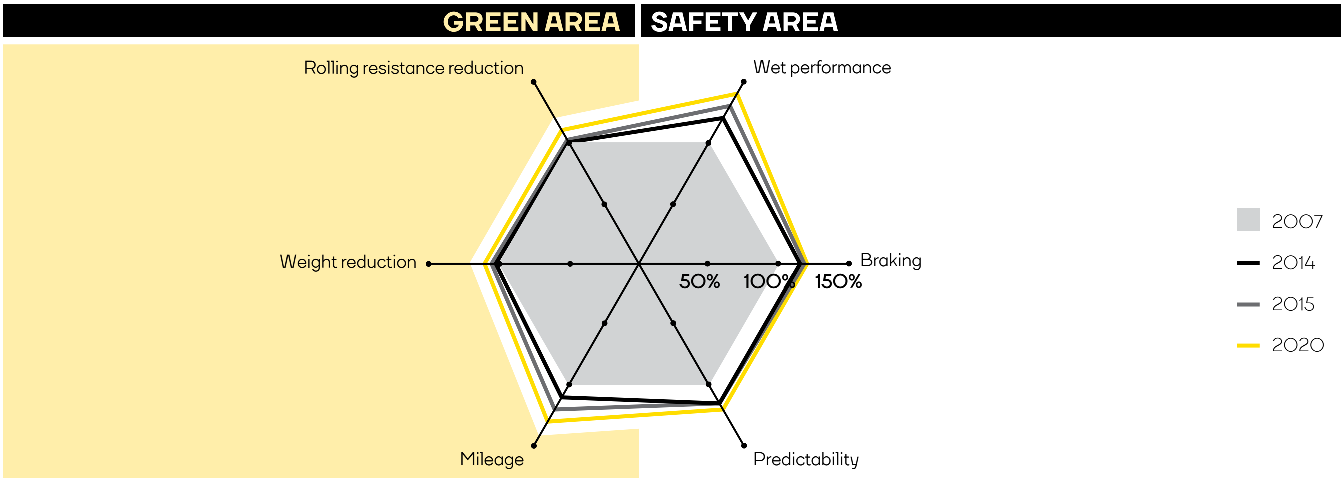
CAR



TRUCK



MOTO



This product strategy sees its highest expression in the Cinturato™ P7™ Blue; with this solution Pirelli was the first manufacturer in the world to offer the market a tyre that, in some measurements, boasts the double A on the Eurolabel scale. This product is available, depending on the measurements, both in double A class and in B class for rolling, while always maintaining A for wet grip. On average the Cinturato P7 Blue guarantees 23% less rolling resistance than the Pirelli reference (class C for rolling resistance) and therefore, lowers fuel consumption and less harmful emissions. A vehicle with Cinturato P7 Blue tyres that runs 15,000 km a year consumes 5.1% less fuel (equivalent to 52 litres), reduces greenhouse gas emissions of 123.5 kilograms of CO_2 and has a wet braking distance 9% lower than the Pirelli reference (class B for wet grip) in the same segment.
Comparative TÜV SÜD tests showed that, at a speed of 80 km/h on a wet surface, the P7™ Blue reduces braking by 2.6 metres 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, the renowned Pirelli Green Performance tyre released in 2009.
It has to be mentioned the approval for the new Tesla Model X electric SUV, of the Scorpion Zero Asimmetrico, a specific tyre for larger and more powerful SUVs, able to guarantee rally car performance. The Pirelli Scorpion Zero Asimmetrico allows immediate discharge into the ground of the maximum power and driving torque, while retaining good energy efficiency in order to ensure the autonomy of the electric vehicle.
As regards Truck, the focus on mileage and rolling resistance finds perfect synthesis in the new MC:01 line, used for urban transport. The need for more sustainable transport is one of the main demands emerging from the major metropolitan areas around the world. With its MC:01 product and through a new tread pattern design technology and the use of low hysteresis compounds, Pirelli has succeeded in combining an 18% reduction in rolling resistance[1] compared to the old product, with a substantial increase in mileage and thus the duration of the tyre in its first life. Moreover, an additional improvement has been achieved in terms of safety performance, regarding wet grip and braking[2] (reducing the braking distance by 2.4 m vs. previous product), where Pirelli products have an advantage, and in terms of performance on snow, to pass the test in order to obtain the 3PMSF certification (3 peak mountain Snow Flake). The confirmation of this performance is highlighted in a label that is at the top of this segment in fuel savings, as well as the wet grip class. Added to this is a further improvement in the durability of the casing of the :01 series that enables this tyre to be marked with a load index higher than the previous product and therefore also improved retreadability in the casing, extending the overall life of the tyre.

MANAGEMENT OF END-OF-LIFE TYRES

In terms of materiality, the end-of-life phase of the product has a low proportion of the total impact of the tyre on the environment, as already highlighted in the infographic related to the Group's environmental strategy. In Europe, about 95% of end-of-life tyres (ELT) are recovered (Source ETRMA - Annual Report 2013/2014), in Japan the value is 88% (source: JATMA - Tyre Industry of Japan 2015), while in the US the amount of recovered tyres comes to 92% (source: RMA - 2013 US Scrap Tyre Management).
For years now, Pirelli has been involved in the management of ELT, collaborating with leading national and international ref-

[1] Rolling Resistance test ISO28580 standard
[2] Wet grip Test ISO 15222 standard (wet braking)

erence bodies. Pirelli is in fact active in the Tyre Industry Project (TIPG) of the World Business Council for Sustainable Development (WBCSD), in the ELT working group of ETRMA (European Tyres and Rubber Manufacturers' Association) and, at national and local level, it interacts directly with leading organisations active in the recovery and recycling of ELTs. As a member of TIPG, Pirelli Tyre has collaborated on the publication of a report on the management of ELTs, taking a proactive approach to raising the awareness both within emerging countries and those that do not yet have a system for recycling ELTs, in order 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 end-of-life allow two paths of recovery: recovery of material or energy. In the recovery of material, the reclaimed rubber is already reused by Pirelli in the compounds for new tyres, thus contributing to the reduction of the related environmental impact. Thanks to research and development activities conducted by Pirelli on innovative materials in collaboration with major universities, it will be possible in the near future to improve the quality of recovered material in terms of their affinity with the other ingredients of the compounds, 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 PERFORMANCE MONITORING

In 2015, all the industrial production facilities of Pirelli Tyre and the tyre testing field in Vizzola Ticino (Varese) have Environmental Management Systems certified under International Standard ISO 14001:2004.
International Standard ISO 14001 was adopted by Pirelli as a benchmark in 1997, and since 2014 all the certificates have been issued with ANAB international accreditation (ANSI-ASQ National Accreditation Board: accrediting entity of the United States). Group policy mandates implementation and certification under ISO 14001 and, as a result, this 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.

As regards environmental management, a review is currently underway of the procedures and guidelines to ensure their adequacy with the new requirements introduced with the revision of the ISO 14001:2015 standard.
The environmental, health and safety performance of every tyre manufacturing site is monitored with the web-based Health, Safety and Environment Data Management (HSE-DM) system, which is processed and managed centrally by the Health, Safety and Environment Department. Pirelli has also improved the CSR-DM (CSR Data Management), an 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 performance types described comes from the three year period 2013-2014-2015 and consolidate the entire perimeter of the Group, including Pirelli de Venezuela deconsolidated as of 31 December 2015. The amount of finished product in 2015 was approximately 1,020,000 tonnes. From the end of 2014, the reporting scope has seen the exclusion of the steel cord business unit due to its sale to a company outside the Group. In line with the principles set by GRI, the historical value of the environmental indicators reported below was recalculated excluding the data of steel cord production facilities in the years 2014 and 2013. Therefore, the following figures comprise the impact of all Pirelli units: from industrial units to commercial and administrative sites.

TRENDS IN ENVIRONMENTAL PERFORMANCE INDICES

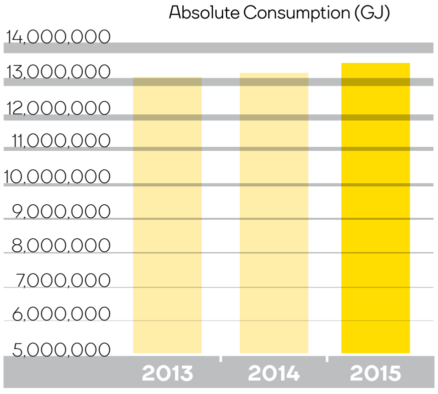
2015 saw a stabilisation of production volumes: the tonnes of finished product fell by less than half a percentage point compared to 2014 (an increase when calculated on a comparable basis), of which an important part occurred in Brazil, due to exogenous factors related to the relevant economic trend. This change in volume, together with the geographical redistribution, has had a particular impact on environmental performance indices. Endogenous factors that significantly impact the performance of the above indices are the productive focus on Premium products, characterised by higher energy intensity, more stringent quality specifications, more complex processing and smaller production batches than for market products in the medium-low range.
These factors have had an impact on emission and energy consumption indices, while the indices relating to water withdrawal and waste recovery improved slightly, with specific waste production that has remained stable.

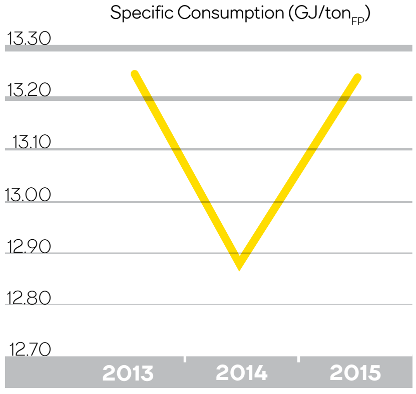
Energy Management

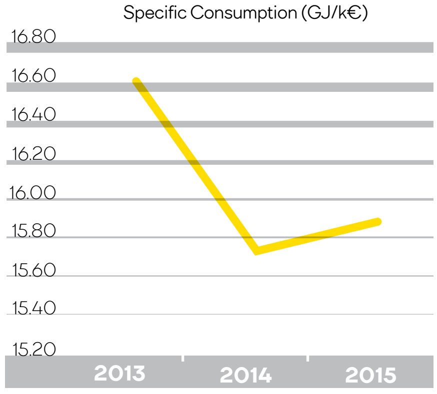
Pirelli monitors, manages and reports its energy consumption through three main indicators:
- absolute consumption, measured in GJ, which includes the total consumption of electrical energy, thermal energy, natural gas and petroleum derivatives (fuel oil, gasoline, diesel, and LPG);
- specific consumption, measured in GJ per tonne of finished product, which indicates the energy used to produce one tonne of finished product;
- specific consumption, as measured in GJ per euro of Operating Income.

The Sustainability Plan 2013-2017 with Vision and Target 2020, fully integrated within the Industrial Plan presented to the financial community in November 2013, provides for a reduction of 18% of specific energy consumption by 2020 compared to 2009 values.
In the course of 2015, the energy efficiency plan continued at all Group plants, already initiated in recent years and characterised by actions aimed at:
- improving energy management systems, through timely measurement consumption and a daily focus 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 secondary 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 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 2015, various interventions were made. In particular, the installation continues of LED lighting systems (Light Emitting Diode) to replace less efficient systems. To speed up the replacement plan, Pirelli also uses "Light Service" contracts, which guarantee both energy savings of more than 50% and the quality of light achieved.
Centrifugal compressors have been installed to replace volumetric compressors, with a recovery of electrical efficiency greater than 10%.
Great attention is recognized to efficiency in thermal energy conversion. Specific projects on steam generators, related to the automation of combustion, to the cleaning of the inner surfaces, to the insertion of drivers of supply pumps.
The South American context, the Brazilian one in particular, has led to an increase in the specific energy index (weighted on tonnes of finished product) of 2.8% compared to 2014, which remains more than 7% lower than the figure in 2009, the year on which the 2020 target is based.
The energy efficiency plan applied to factories in 2015 allowed about 46,600 GJ in savings. This value was calculated for each factory considering the production volumes of the reporting year and the change in efficiencies achieved in 2015 from the previous year. Energy savings, net of South America, amounted to 400,182 GJ.
The reported data were calculated by using direct measurements according to procedure (GHG Corporate Standard) and were subsequently converted into GJ by using heating values from official IPCC sources.

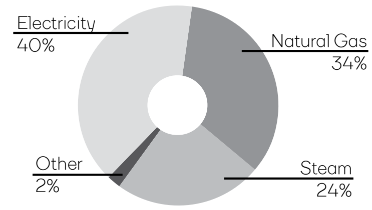






		2013	2014	2015
Absolute Consumptions	GJ	13,153,424	13,193,753	13,506,565
Specific Consumptions	GJ/tonne$_{FP}$	13.25	12.88	13.24
	GJ/€000	16.63	15.74	15.88

Distribution of Energy Sources



As illustrated in the graph "Distribution of energy sources", among the direct sources, natural gas can be found as well as, in smaller quantities, other liquid fuels such as oil, LPG and diesel (classified as "other").
These direct sources constitute 36% of the total; the remaining 64% consists of indirect sources such as purchased electricity and vapour.
Finally, taking into account the geographical distribution of Pirelli and according to IEA data (International Energy Agency), it has been estimated that the portion of electricity from renewable sources used by Pirelli in 2015 amounted to 38% of the total electricity used.
Every industrial facility fully respect legislative provisions regarding energy consumption and management. The legislative situation affecting the Company includes the introduction of periodic audit mechanisms on energy management and use, as well as possible tariff incentives. In this regard, there were no critical elements or non-conformities.
Throughout Europe, the Energy Efficiency Directive 2012/27/EU, issued to accelerate the achievement of the 20-20-20 objectives, introduces the obligation for all large companies and all major energy consumers to conduct energy audits. At Pirelli, this obligation is fulfilled by optimising the management systems already existing at the factory, ISO 14001 and ISO 50001 where present, with the aim of exploiting any opportunities proposed in the various EU countries.
In 2015, the energy diagnoses of all Pirelli's factories and of Milan offices were carried out successfully. The outcome did not show any particular areas of non-compliance with the Energy Performance Indicators (ENPI) established by the Directive for the various areas of consumption. However, areas for improvement were indicated, which will be subject to technical and economic evaluation.
The German plant has successfully renewed its ISO 50001:2011 certification.

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 (CH4) and nitrous oxide (N2O). Greenhouse gases are generated by the combustion of hydrocarbons at production sites, mainly to operate heat generators that power Group plants, particularly those that produce steam for vulcanisers, or from the consumption of electrical or thermal energy. The former are called "direct emissions", or Scope 1 emissions, 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 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 are 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 of 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 within the European Emission Trading Scheme only with reference to thermal power plants above 20 MW of installed capacity. The Company is not subject to any 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 by using three principal indicators:
- absolute emissions, as measured in tonnes;
- specific emissions, as measured in tonnes per tonne of finished product;
- specific emissions, as measured in tonnes 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 recorded an increase of 2015 specific emissions weighed on tonnes of finished product of +3% over the previous year and +1% compared with the index weighed on the operating income. As indicated above, the trend has been strongly affected by the geographic redistribution and in particular by the reduction in production volumes in areas with a lower emission impact, such as Brazil.

In terms of biogenic CO_2 as generated by the small rice husk silica manufacturing site, Pirelli emitted about 5,650 tonnes of CO_2eq in 2015.This amount is not counted in the absolute emissions of the Group mentioned above as it is generated from fuel of biogenic origin.

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 inspection 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 the target of increasing the use of energy from renewable sources. Among the various projects already underway, it is worth highlighting the photovoltaic power plant with 500 kW installed power at the plant in Rome, GA, USA. This project makes it possible to reduce emissions by 5% at the manufacturing plant concerned.

At the plant in Settimo Torinese, a cogeneration plant is in operation for the production of electricity, steam and hot water. There are two cogeneration modules, for a total of nearly 6 MW of electricity: a 4.8 MW turbine unit powered by natural gas and a 1 MW internal combustion engine powered by vegetable oil, which ensures 20% of energy from renewable sources. The plant is completed with an approximately 1.2 MWe photovoltaic plant, complementing the generation of renewable energy at the plant.

Actions completed in the past few years, in particular those related to energy efficiency, allowed the avoidance of about 12,000 tonnes of CO_2eq in 2015, value calculated using the same analysis for energy savings. The savings net of South America amounted to nearly 30,000 tonnes of CO_2eq.

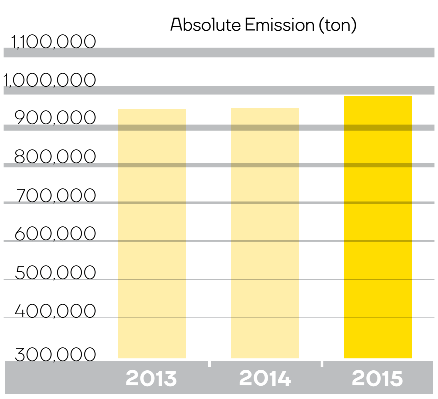
At the beginning of 2016, two new projects were activated that will ensure the supply of energy from renewable sources.

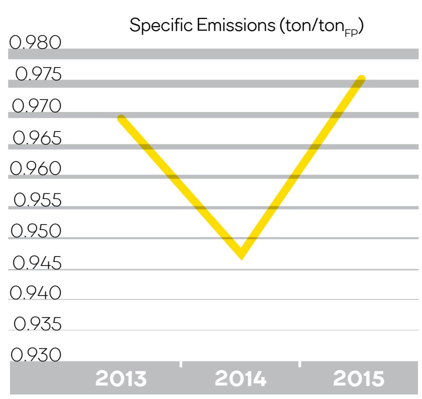
In Brazil, the installation was completed of a Biomass plant for vapour generation. The plant allows the use of wood waste from a local supply chain. The expected environmental benefits of the production of energy from biomass will allow replacing 52,500 MWh/year of energy from fossils and equal to a saving of 10,500 tonnes/year of CO_2 emissions.

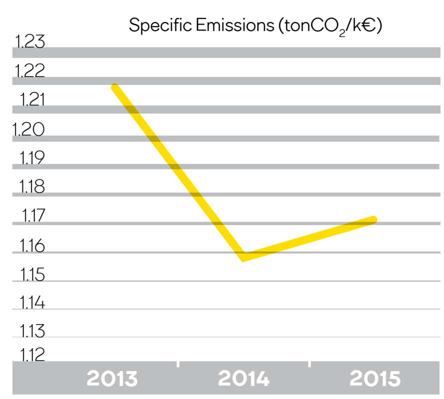
Pirelli is already studying the extension of this technology to other plants in Brazil.

In Mexico, an agreement was signed for the dedicated supply of electricity from wind power. This will guarantee 3 MW of renewable energy, at present equal to more than 30% of the electricity consumption of the plant, with an economic advantage over the purchase of electricity from the national grid.

The effects of these projects will be seen in the 2016 reports.

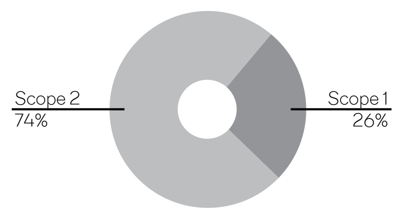






		2013	2014	2015
Absolute Emissions	tonne	963,020	970,704	995,889
of which Scope 1	tonne			263,690
of which Scope 2	tonne			732,199
Specific Emissions	tonne/tonne$_{FP}$	0.970	0.948	0.976
	tonne/€000	1.22	1.16	1.17

Distribution of Greenhouse Gas Emissions According to Scope

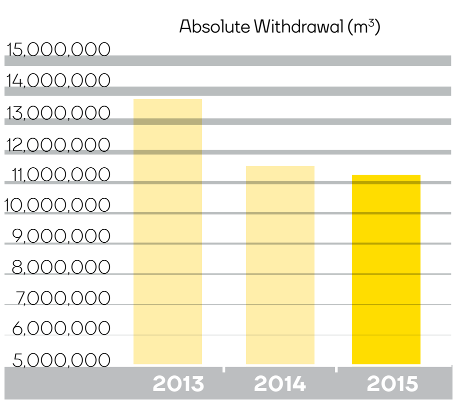


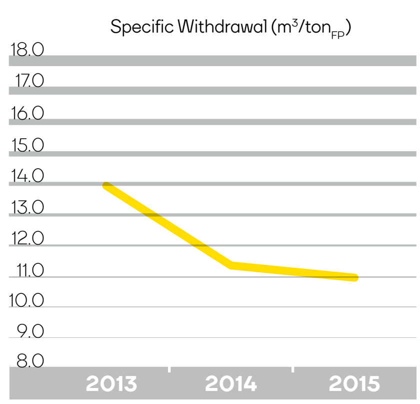
Water Management

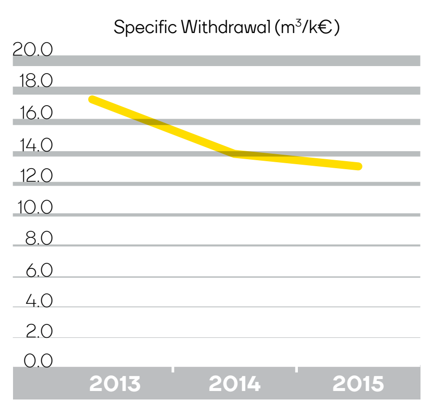
Efficient and conscious water use is one of the principal components of the Pirelli environmental strategy, which has undergone numerous improvements over the last years. These activities have involved and continue to involve both the overall efficiency of production processes, from design of machinery to Facility Management activities, and the contribution which every employee can make in reducing consumption of this precious resource.
The Pirelli Industrial Plan set a reduction target of specific water withdrawal of 58% by 2020 compared to the 2009 value.
From 2009 to today, thanks to the efforts of all the production facilities, 30 million cubic metres of water have been saved: an amount slightly lower than the absolute withdrawal during three years by the entire Pirelli Group. This figure might be the one that best expresses the commitment of the Company to the 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 2015 it recorded an absolute withdrawal of slightly above 11 million cubic metres, with a reduction in the specific withdrawal of 3% compared to 2014 and 42% compared to 2009. 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 ton of finished product, which indicates the withdrawal of water used to make one ton of finished product;
- specific withdrawal, as measured in cubic metres per euro of Operating Income.

		2013	2014	2015
Absolute Withdrawal	(m^3)	13,834,000	11,512,000	11,163,000
Specific Withdrawal	(m^3/tonne$_{FP}$)	13.9	11.2	11.0
	(m^3/€000)	17.5	13.7	13.1



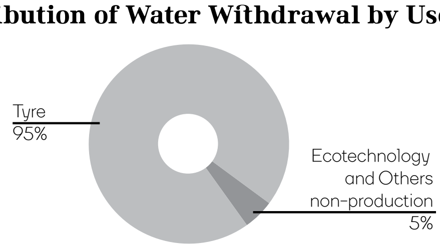




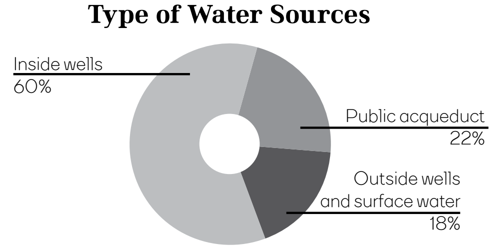
All the figures reported in this section have been collected by taking direct or indirect measurements, and are communicated by the local units.

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



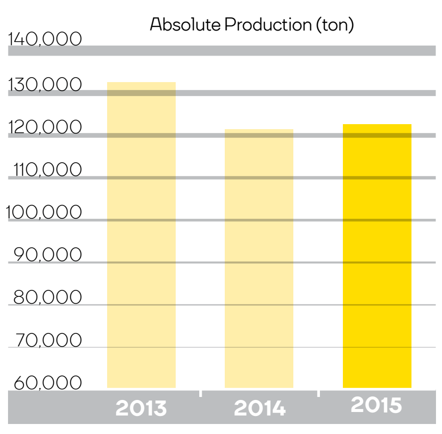
60% of the water withdrawn is pumped from wells inside the facilities and authorised by the competent authorities. Furthermore, Pirelli obtains about one-fifth of its requirements from surface water, while dedicating special care to guaranteeing that this volume is marginal in relation to the volume of the affected water bodies (always less than 5%). About 10% of the volume taken from surface water bodies is pumped from waterways located in Brazil and protected by national legislation.
Lastly, about 300,000 cubic metres of water used, equivalent to approximately 3% of total withdrawal, are obtained from the waste water treatment of its production processes.
A total of about 8.3 million cubic metres of domestic and industrial waste water were discharged, with 68% of this into surface water bodies, but always in quantities that are marginal in relation to the volume of the receiving bodies (always less than 5%) and without significantly impacting biodiversity. The remaining amount was discharged into sewer networks. Before being discharged into the final recipient, industrial waste water – adequately treated as necessary – is periodically subjected to analytical tests that certify compliance with locally applicable statutory limits. In particular, as regards the quality of industrial effluents of the Tyre facilities, indicative average values are: 6 mg/l of BOD5 (Biochemical Oxygen Demand), 24mg/l of COD (Chemical Oxygen Demand) and 12 mg/l of Total Suspended Solids.

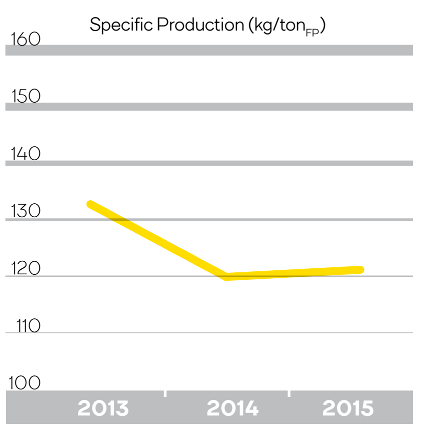
WasteManagement

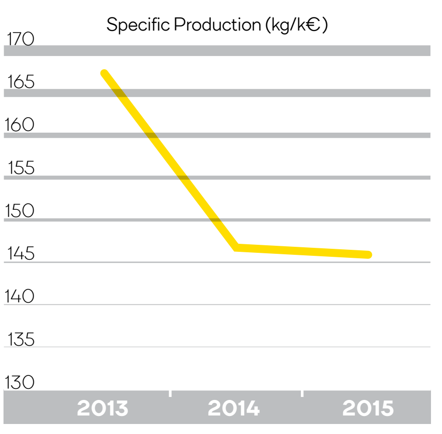
The improvement of environmental performance deriving from the production and management of waste is achieved through:
- innovation of production processes, with the aim of preventing the production of waste at the source, progressively reducing the processing of rejects and replacing current raw materials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

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 envisages that more than 95% of waste produced should 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).
In line with what is mentioned in the paragraph “Trends in Environmental Performance indices”, in 2015 91% of waste was recovered, with an increase of 1% over the previous year and 18% compared to 2009, the baseline year on which the 2020 target is based. Specific waste production saw a stabilisation of the figure, which stood at 121 kg per tonne of finished product. Hazardous wastes represent slight less than 9% of total production and are sent in their entirety to plants located in the same country where they are produced.

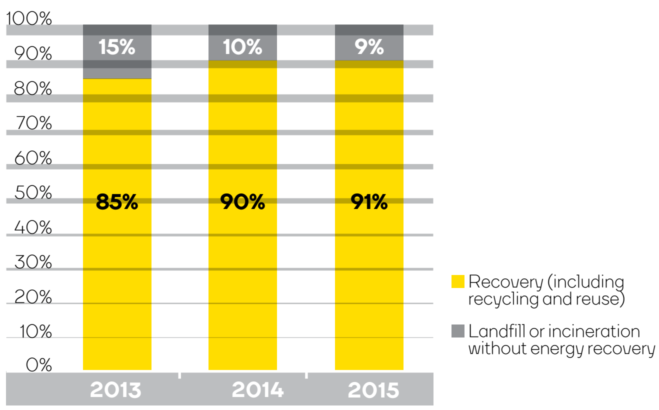




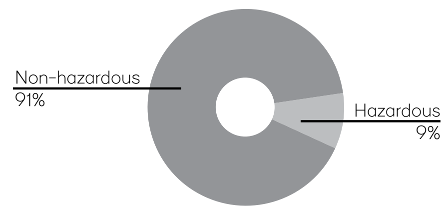


		2013	2014	2015
Absolute Production	(tonne)	133,000	122,000	123,000
Specific Production	(kg/tonne$_{FP}$)	133	120	121
	(kg/€000)	168	146	145

Waste by Type of Treatment



Waste by Type

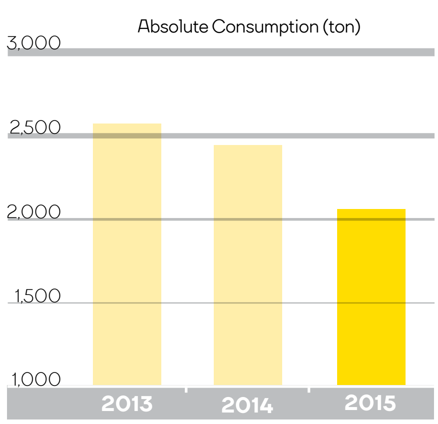


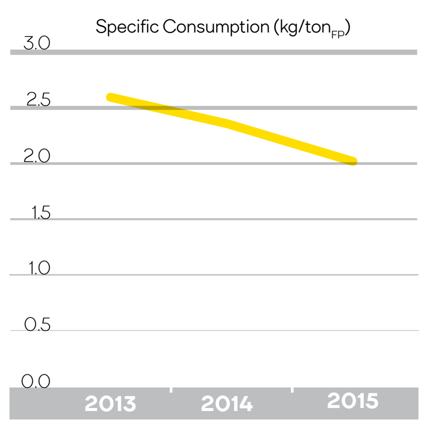
Other Environmental Aspects

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 optimising 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 further reduction in the specific consumption of solvents of more than 10% at the end of 2015 compared to the previous year and of 34% compared to 2009, with related emissions overall slightly lower than total consumption.

		2013	2014	2015
Absolute Consumption	tonne	2,560	2,420	2,100
Specific Consumption	kg/tonne$_{PF}$	2.6	2.4	2.1





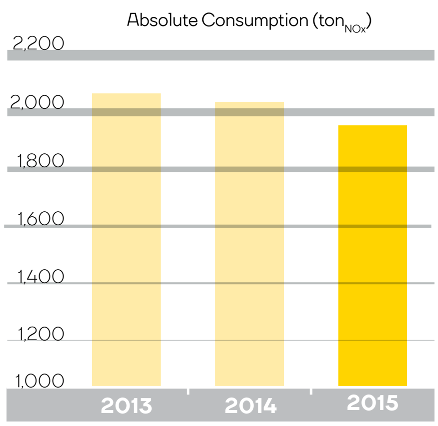
Biodiversity

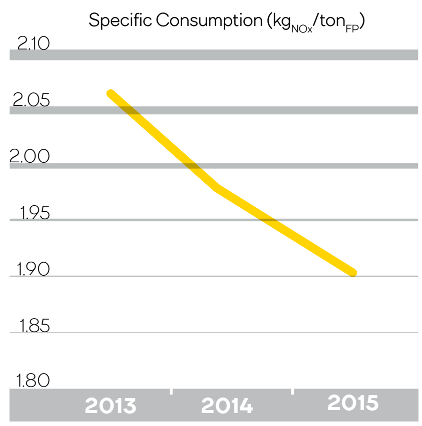
Pirelli pays the utmost attention to ensuring that corporate activities do not interfere with the biodiversity characteristic of the contexts in which the Company operates. Currently, there are two Pirelli facilities located within protected and high value areas for biodiversity: the facility in Vizzola Ticino (Varese, Italy) and the facility in Gravataí (Brazil).
The Vizzola Ticino site contains the tyre test track, has an area of 0.26 square kilometres and is part of the area of Parco del Ticino in Lombardy, an MAB area (Man and Biosphere, a collection of 425 biosphere reserves located in 95 countries around the world) defined by UNESCO. It features 21 species included on the IUCN Red List, of which: 15 are classified as "of least concern (LC)", 1 as "near threatened (NT)", 3 as "vulnerable (V)", 1 as "endangered (EN)" and 1 as "Critically Endangered (CR)".
To ensure the utmost protection of the natural environment in which the Vizzola test track is located, Pirelli has implemented an ISO 14001 certified Environmental Management System in accordance with the Parco del Ticino. Environmental impact on biodiversity in the area are not significant; however, several interventions were carried out, both directly by the Company and by the Park Authority, to mitigate and improve the interactions of Pirelli's activities with the natural environment, as stipulated in the agreement signed in 2001.
The Gravataí site (Brazil), measuring 0.57 square kilometres, including 0.16 sq km 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, should be duly considered and managed in every case to reduce all possible interference to a minimum.
Also in 2015 Pirelli decided to offset the CO_2 emissions produced by its fleet the previous year through the purchase of carbon credits. Direct results of the Pirelli car policy, this initiative promotes the choice of vehicles that have a lower environmental impact and supports a project to save forests.
The cars of the Italian company fleet in 2014 issued 1,073 tonnes of CO_2, a decrease of more than 15% over the previous year's value. In order to offset this impact on the climate, Pirelli purchased carbon credits through two projects: an international one, conducted in Turkey, related to the production of renewable energy from hydroelectric sources and an Italian one based on sustainable forest management.
In particular, the latter is located in Lombardy, near the basin of the Po River in the town of Cava Manara. Pirelli's contribution has enabled the maintenance of 39 hectares of land and the care of 39,000 plants, with the ultimate objective of rebuilding a forest that can evolve naturally, thus ensuring the survival of a large ecological corridor distributed along the banks of the river Po. The project is being carried out with the collaboration of Consorzio Forestale Unione Agricoltori di Pavia (Forest Consortium Farmers Union of Pavia). The activities financed with Pirelli's contribution will be carried out in 2016.
The union of the two projects has allowed the decrease of 165% of 2014 emissions, thus going well beyond what is required by our corporate policy with a view to increasing environmental responsibility.

NO_X Emissions

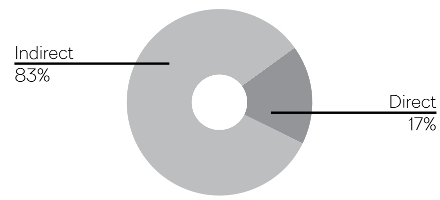
NO_X emissions derive directly from the energy-generating processes used. In 2015, the index based on tonnes of finished product marked a decrease of 8% compared to 2013.
The following graph shows the weight in 2015 of the direct and indirect emissions of NO_X out of the total NO_X emissions. The emissions have been calculated by using the BUWAL 250 and IDEMAT 2001 emission factors defined.

		2013	2014	2015
Absolute Emissions	tonneNO_X	2,046	2,023	1,943
Specific Emissions	kgNO_X/tonne$_{FP}$	2.06	1.98	1.90





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 instead contained in certain closed circuits of the cooling and air conditioning plants. Therefore, except for accidental and unforeseeable losses, there are no free emissions into the atmosphere that can be correlated with Pirelli manufacturing activities.
Direct emissions of SO_X, caused by the combustion of diesel and fuel oil, was estimated to be about 27 tonnes in 2015 (U.S. EPA emissions standards).
As regards the management of packaging, tyres are generally sold without packaging.
The environmental management systems implemented at the production units have assured constant and prompt monitoring and intervention regarding potential emergency situations that may arise, as well as the reports received from stakeholders.
In the course of 2015, there were no significant environmental spills and no significant complaints related to environmental issues or related penalties.

Expenses and investments

In the three-year period 2013-2015, environmental expenditure related to the production process exceeded Euro 57.7 million, of which over 34% was allocated in 2015. About 86% of this amount concerned normal management and administration of factories, while the remaining 14% was dedicated to preventive measures and improvement in environmental management.
To complete the picture it should be noted that, consistent with the materiality analysis published at the beginning of this section of the report, the most significant expenses that Pirelli dedicates to the environment are those relating to product Research & Development: in 2015, the Company invested Euro 214.4 million in research and innovation of its products, with a constant focus on safety performance, reduction of the environmental impact and, simultaneously, on increased 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, the ISO26000 Guidelines and the provisions of SA8000® Standard and underlying international standards.
Pirelli also informs its governance of Human Rights on the recommendations contained in the "UN Guiding Principles for Business and Human Rights: implementing the United Nations Protect, Respect and Remedy Framework".
Pirelli's commitment in favour of human rights is expressly stated in the document "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", which states that the Group's sustainable development strategies require, among other things, a commitment to continuous improvement of aspects of occupational health and safety at work of its activities, without prejudice to respect and support of the contents of the Universal Declaration of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. The policy specifies Pirelli's commitments with respect to each of the ILO Core Labour Standards, and the related extension to the supply chain. The "Equal Opportunities Statement" is dedicated to the Group commitment to equal opportunities 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 sustainability contract clauses applied to Group suppliers, as well as being published on the Pirelli website in the languages spoken by employees and principal suppliers.
The oversight of the respect of human rights was relevant also in the materiality matrix of sustainability factors for the Group's strategies, published in this report and which consolidate the views of all the categories of the Company's stakeholders, including employees, suppliers, institutions and dozens of NGOs in the countries in which the Company operates.
Human and Labour Rights will also be subject to special discussion during the "Pirelli Global Stakeholder Dialogue", which the Company will hold in Brussels in 2016 and which will be publicly reported on the website during the year.
The human rights management processes are handled by the Pirelli Sustainability & Risk Governance Department, which acts in concert with the affected and responsible functions, with reference to both the Internal and External Community.
On the management side of risk pertaining to Human Rights and labour rights in the world, before investing in a specific market, Pirelli conducts ad hoc assessments of any political, financial, environmental and social risks, including those related to the respect of human and labour rights. The external and external context is monitored in those countries where the Company operates, in view of preventing negative impacts on human rights in the ambit of the sphere of corporate influence, and if applicable, remedying them.
Any violation of human rights can be reported to the Company through the Whistleblowing Reporting Procedure, to which a paragraph is dedicated in this report and to which reference is made for further information on Reports received in recent years. Of these, in 2015 no reports 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, discrimination.
In terms of materiality in the corporate value chain, the respect for human rights and labour rights assumes particular importance in human resources and the supply chain management.
The management of human and labour rights in the Internal Community at Pirelli is outlined in the paragraph on "Compliance with statutory and contractual obligations in terms of overtime, leave, association and bargaining, equal opportunities and non-discrimination, prohibition of child and forced labour", to which reference is made for related 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.
Both management areas - suppliers and employees - are overseen through training and monitoring tools consolidated over years.

In terms of training on the Pirelli Model, new employees' attention is drawn to the Group's Sustainability Policies and the commitments they involve, as detailed in the "Ethical Code", the "Code of Conduct", the "Equal Opportunities Policy", and the "Social Responsibility Policy for Occupational Health, Safety, Rights, and Environment". Also with reference to the fact Pirelli complies with and upholds the contents 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", as well as the provisions of Standard SA8000®, including the ban on forced labour and child labour, up to freedom of collective bargaining, equal opportunities and non-discrimination. All of the above is also the subject of training for all the Sustainability and Purchasing Managers of the Group, and the Group's suppliers through annual sessions involving all categories of supply deemed critical for the materiality of sales at Pirelli and the social context in which they operate (in particular in developing countries).
Together with constant co-ordination and monitoring at corporate level, compliance with Pirelli human rights and labour rights requirements as well as environmental sustainability 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 2015 both by Pirelli facilities and by suppliers' facilities are extensively covered in this report, as part of the aforementioned paragraphs "Our Suppliers" and "Compliance with statutory and contractual obligations in terms of overtime, leave, association and bargaining, equal opportunities and non-discrimination, prohibition of child and forced labour".
Reference is made to the paragraph "Our Suppliers" in this report also with regard to the discussion of the topic "Conflict Minerals".

INTERNAL COMMUNITY

The Human Capital Sustainable Management Model is inspired by the Global Compact principles, 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 and in the specific commitments that the Company states in the its "Values and Ethical Code", in the "Social Responsibility Policy for Health, Safety and Rights, Environment" and in the "Equal Opportunities Statement", communicated to all Employees in the local language as well as made available to the External Community in the Sustainability section of the website www.pirelli.com/corporate.

PIRELLI EMPLOYEES AROUND THE WORLD

Pirelli employees as at 31 December 2015 amounted to 36,753 (vs. 36,795 in 2014 and 36,142 in 2013) thus presenting a substantial employment stability compared to the previous year.

BREAKDOWN OF EMPLOYEES* BY CATEGORY

2015**	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
TYRE BUSINESS	316	6,936	29,360	36,612
OTHER ACTIVITIES***	3	30	108	141
TOTAL PIRELLI	**319**	**6,966**	**29,468**	**36,753**

2014	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
TYRE BUSINESS	308	7,034	29,278	36,620
OTHER ACTIVITIES***	4	60	112	176
TOTAL PIRELLI	**312**	**7,093**	**29,390**	**36,795**

2013	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
TYRE BUSINESS	310	6,965	28,654	35,929
OTHER ACTIVITIES***	6	85	123	213
TOTAL PIRELLI	**316**	**7,050**	**28,777**	**36,142**

2015** VS 2014	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
TYRE BUSINESS	8	-98	82	-7
OTHER ACTIVITIES***	-1	-30	-4	-35
TOTAL PIRELLI	**7**	**-127**	**78**	**-42**

2015** VS 2013	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
TYRE BUSINESS	7	-29	706	683
OTHER ACTIVITIES***	-3	-55	-15	-72
TOTAL PIRELLI	**4**	**-84**	**692**	**611**

* The figures do not include the personnel related to the Steelcord business sold in 2014
** Includes Pirelli de Venezuela deconsolidated as of 31 December 2015
*** Includes Pirelli Eco Technology

BREAKDOWN OF EMPLOYEES* BY GEOGRAPHICAL AREA AND GENDER

2015**	TYRE BUSINESS			OTHER ACTIVITIES			TOTAL PIRELLI		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Europe	12,327	2,351	**14,678**	78	62	**140**	12,405	2,413	**14,818**
NAFTA	1,436	284	**1,720**	0	0	**0**	1,436	284	**1,720**
South America	12,225	815	**13,041**	0	0	**0**	12,225	815	**13,041**
MEA	3,239	80	**3,319**	0	0	**0**	3,239	80	**3,319**
Asia Pacific	3,056	799	**3,855**	1	0	**1**	3,057	799	**3,856**
TOTAL PIRELLI	**32,283**	**4,329**	**36,612**	**79**	**62**	**141**	**32,362**	**4,391**	**36,753**

2014	TYRE BUSINESS			OTHER ACTIVITIES			TOTAL PIRELLI		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Europe	12,172	2,388	**14,561**	90	85	**175**	12,262	2,473	**14,735**
NAFTA	1,260	195	**1,455**	0	0	**0**	1,260	195	**1,455**
South America	13,173	823	**13,996**	0	0	**0**	13,173	823	**13,996**
MEA	2,751	73	**2,824**	0	0	**0**	2,751	73	**2,824**
Asia Pacific	3,008	776	**3,784**	1	0	**1**	3,009	776	**3,785**
TOTAL PIRELLI	**32,364**	**4,255**	**36,620**	**91**	**85**	**176**	**32,455**	**4,340**	**36,795**

2013	TYRE BUSINESS			OTHER ACTIVITIES			TOTAL PIRELLI		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Europe	11,963	2,526	**14,488**	104	108	**212**	12,067	2,634	**14,700**
NAFTA	994	158	**1,152**	0	0	**0**	994	158	**1,152**
South America	13,046	759	**13,805**	0	0	**0**	13,046	759	**13,805**
MEA	2,811	76	**2,887**	0	0	**0**	2,811	76	**2,887**
Asia Pacific	2,817	780	**3,597**	1	0	**1**	2,818	780	**3,598**
TOTAL PIRELLI	**31,630**	**4,298**	**35,929**	**105**	**108**	**213**	**31,735**	**4,406**	**36,142**

2015** VS 2014	TYRE BUSINESS			OTHER ACTIVITIES			TOTAL PIRELLI		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Europe	155	-37	**117**	-12	-23	**-35**	143	-61	**82**
NAFTA	176	89	**265**	0	0	**0**	176	89	**265**
South America	-948	-8	**-955**	0	0	**0**	-948	-8	**-955**
MEA	488	7	**495**	0	0	**0**	488	7	**495**
Asia Pacific	48	23	**71**	0	0	**0**	48	23	**71**
TOTAL PIRELLI	**-81**	**74**	**-7**	**-12**	**-23**	**-35**	**-93**	**51**	**-42**

2015** VS 2013	TYRE BUSINESS			OTHER ACTIVITIES			TOTAL PIRELLI		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Europe	364	-175	189	-26	-46	-72	338	-221	117
NAFTA	442	126	568	0	0	0	442	126	568
South America	-820	57	-764	0	0	0	-820	57	-764
MEA	428	4	432	0	0	0	428	4	432
Asia Pacific	239	19	258	0	0	0	239	19	258
TOTAL PIRELLI	**653**	**31**	**683**	**-26**	**-46**	**-72**	**627**	**-15**	**611**

* The figures do not include the personnel related to the Steelcord business sold in 2014
** Includes Pirelli de Venezuela, deconsolidated as of 31 December 2015

Workforce Flows by Geographic Area, Gender and Age

The following data refer to Pirelli Group incoming/outgoing employees. The disposals and acquisitions of companies or business units, and changes in work schedules from full to part-time are not considered.

EMPLOYEE* FLOWS BY GEOGRAPHIC AREA IN THE THREE-YEAR PERIOD 2013-2015

	2015**		2014		2013	
	INCOMING	OUTCOMING	INCOMING	OUTCOMING	INCOMING	OUTCOMING
Europe	1,737	1,604	1,950	1,504	1,805	1,891
NAFTA	701	443	570	626	507	355
South America	1,590	2,478	1,401	1,369	2,945	2,527
MEA	1,041	570	539	188	573	531
Asia Pacific	586	519	686	469	789	596
TOTAL	**5,655**	**5,614**	**5,146**	**4,155**	**6,619**	**5,900**

2015** EMPLOYEE FLOWS BY GEOGRAPHICAL AREA, GENDER AND AGE: TOTAL VALUES

	INCOMING					OUTCOMING				
	<30	30-50	>50	MEN	WOMEN	<30	30-50	>50	MEN	WOMEN
Europe	1,049	600	88	1,449	288	570	647	388	1,240	364
NAFTA	500	198	3	558	143	304	132	7	378	65
South America	914	657	20	1,409	181	1,158	1,170	151	2,288	190
MEA	635	392	14	1,030	11	416	132	22	561	9
Asia Pacific	401	185	0	493	93	316	202	1	445	74
TOTAL	**3,499**	**2,031**	**125**	**4,939**	**716**	**2,763**	**2,283**	**569**	**4,912**	**702**

2015** EMPLOYEE FLOWS BY GEOGRAPHICAL AREA, GENDER AND AGE: PERCENTAGE VALUES

	INCOMING					OUTCOMING				
	<30	30-50	>50	MEN	WOMEN	<30	30-50	>50	MEN	WOMEN
Europe	60%	35%	5%	83%	17%	36%	40%	24%	77%	23%
NAFTA	71%	28%	0%	80%	20%	69%	30%	2%	85%	15%
South America	57%	41%	1%	89%	11%	47%	47%	6%	92%	8%
MEA	61%	38%	1%	99%	1%	73%	23%	4%	98%	2%
Asia Pacific	68%	32%	0%	84%	16%	61%	39%	0%	86%	14%
TOTAL	**62%**	**36%**	**2%**	**87%**	**13%**	**49%**	**41%**	**10%**	**87%**	**13%**

2014 EMPLOYEE FLOWS BY GEOGRAPHICAL AREA, GENDER AND AGE: 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	533	205	1,257	247
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	512	174	0	620	66	335	129	5	401	68
TOTAL	**3,595**	**1,405**	**146**	**4,666**	**480**	**2,248**	**1,580**	**327**	**3,666**	**489**

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

	INCOMING					OUTCOMING				
	<30	30-50	>50	MEN	WOMEN	<30	30-50	>50	MEN	WOMEN
Europe	66%	27%	6%	87%	13%	51%	35%	14%	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%	72%	28%	1%	85%	15%
TOTAL	**70%**	**27%**	**3%**	**91%**	**9%**	**54%**	**38%**	**8%**	**88%**	**12%**

2013 EMPLOYEE FLOWS BY GEOGRAPHICAL AREA, GENDER AND AGE: 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**

2013 EMPLOYEE FLOWS BY GEOGRAPHICAL AREA, GENDER AND AGE: 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%**

* The figures do not include the personnel related to the Steelcord business sold in 2014
** Includes Pirelli de Venezuela, deconsolidated as of 31 December 2015.

During the year, the Company operated internationally to rebalance the employment level aligning it to the needs of volume related to high market volatility, maintaining an occupational balance at the end of 2015 in line with that of 2014.
Among mature countries where Pirelli operates (i.e. those internationally defined as "mature" or "non-emerging" markets), in Italy, there was on one hand, the reorganisation of the production facility in Bollate by virtue of the agreements signed with the trade unions, on the other, the strengthening of HQ structures mainly in the areas dedicated to research and development.
As for emerging markets where Pirelli operates (i.e. those internationally defined as "emerging", namely Romania, Russia, Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, Egypt, Turkey, China), the Company increased the number of employees in China, Romania, Mexico and Turkey, acting on the organisation and production processes in line with market requirements. As for Brazil, following the country's crisis and the related negative impact in the Tyre sector, there was a reorganisation of the production structure, which led to a reduction in employees at the four production sites in the country, mainly acting on flexibility reduction and work organisation.
2014 showed a decrease of both incoming and outgoing flows compared to the previous year, mainly due to slightly lower growth in production volumes to that recorded in the period 2013-2012.
Pirelli does not employ anyone under the age of 15. There are 50 young people aged between 15 and 18 (34 in Brazil, 7 in Germany, 5 in the UK, 2 in Sweden and Venezuela and 1 in Switzerland), each for training and integration plans, in harmony with local laws.

DIVERSITY MANAGEMENT

Pirelli is characterised by a multinational context where individuals manifest a great diversity, whose conscious management simultaneously creates a competitive advantage for the Company and a shared social value.
Pirelli's commitment to compliance with equal opportunities and the enhancement of diversity in the workplace is expressed in the main Group Sustainability documents: the "Values and Ethical Code" approved by the Board of Directors, the "Social Responsibility Policy for Occupational Health, Safety and Rights, Environment" and the "Declaration on Equal Opportunities". 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 cul-

ture are its shared corporate values, policies and rules, which are applied everywhere with the sole difference of the language into which they are translated.
In 2015, remote training was provided in 24 countries on issues of diversity management at the company and its related value, already initiated in 2014 in Italy. The course, developed centrally in collaboration with local representatives in order to ensure maximum effectiveness, has been translated into 11 languages and offered to all employees, on line or in print copy.
Pirelli monitors the level of acceptance and appreciation of diversity perceived by employees within their own reality. The survey is conducted as part of the annual My Voice climate survey, conducted in the local language at Group level (please see the dedicated paragraph in this report). The results of the survey, conducted at the end of 2014 and communicated to employees at the start of 2015 were particularly appreciated with regard to the perception of the respect for Diversity within the Company, with a strong impact on the overall Trust Index with respect to the company. The results of the survey carried out at the end of 2015 will be communicated to employees in the first quarter of 2016 and reported in the next Annual Report.
A functional tool for the management of Equal Opportunity and the prevention of risk of breach thereof is the Group Whistleblowing Procedure, through which employees, suppliers and the external Community can anonymously report any suspected violation. Also in 2014, there were no whistleblowing reports concerning acts of discrimination. For further information on reports received in 2015, 2014 and 2013, reference is made to the paragraph "Group Reporting Procedure - Whistleblowing".
Internationality and multiculturalism are the characteristic elements of the Group: Pirelli operates in over 160 countries on five continents, and 91.4% of employees (at December 31, 2015) worked outside of Italy.
Awareness of the cultural differences that create the identity of the Company entails displaying the utmost confidence in management of local origin: 71% of Senior Managers work in their country of origin, where Senior Managers are those reporting directly to the Chairman and CEO as at December 31, 2015.
In order to develop the innovative and managerial potential inherent in multiculturalism and in dealings with different professional environments, the Company promotes the growth of its managers through international mobility: 57% of active Senior Managers in 2015 have in fact experienced at least one inter-company assignment during their professional experience within the Pirelli Group. At the end of 2015, moreover, 13% of expatriates were women (up from 12% in 2014).

Below is a breakdown of employees by gender in the three-year period 2013-2014-2015, expressed as the percentage weight of women against the total number of employees in each job category, the data shown in the following table show substantial stability in 2015 compared to 2014. The percentage of women of the total Pirelli population stood at 12%, of total executives at 9%, of total managerial positions at 19% and of total workers at 8%. However, the percentage of women in Managers positions rose to 21%, the latter being an important element as this category constitutes a growth pool.

	EXECUTIVES	CADRE	EXEC+CADRE (=TOT.MANAGERS)	WHITE COLLARS	BLUE COLLARS	TOTAL
2013	10%	20%	18%	34%	8%	**12%**
2014	9%	20%	19%	32%	8%	**12%**
2015*	9%	21%	19%	32%	8%	**12%**

*Includes Pirelli de Venezuela, deconsolidated as of 31 December 2015.

Analysing the breakdown of gender in terms of employment contract, the table below shows that in 2015, there was an increase in the substantial balance between men and women already recorded in 2014. We also note the further growth of permanent employment contracts, which in 2015 make up 95% of the total contracts compared to 93% in 2013-2014.

	2013			2014			2015*		
	M	F	TOT	M	F	TOT	M	F	TOT
PERMANENT	93%	96%	93%	93%	97%	93%	95%	96%	95%
TEMPORARY	7%	3%	7%	7%	3%	7%	4%	3%	4%
AGENCY	0%	1%	0%	0%	0%	0%	1%	1%	1%

*Includes Pirelli de Venezuela, deconsolidated as of 31 December 2015.

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: one year after the maternity and paternity event which occurred in 2014, 2015 saw 89% of women (the same figure as the previous period of reference 2013-2014) and 100% of men (vs. 98% in the previous period of reference 2013-2014) still being employed by the Company. The difference in the data between genders should be considered natural in light of the different socio-cultural contexts in which Pirelli female workers are inserted.

In the context of gender diversity, Pirelli pays special attention to remuneration equality, constantly monitoring this issue. The countries considered significant in the analysis at the end of 2015 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 differentials between men and women were calculated for each country and at the same weight of positions held, cross-checking the "grade" (i.e. the weight attributed to each position on the basis of various factors) with elements such as performance and professional seniority. This valuation method allows objectivity and accuracy of the survey and evaluation: in fact, it should be noted that data calculated and/or reported only at Group level would be 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 of remuneration differentials between men and women recorded in these countries is equal to 1% in favour of women for white collars and 5% in favour of men for cadres, compared to 3% in 2014 and 6% in 2013 for white collars and 3% in 2014 and 4% in 2013 for cadres in favour of men.
Some examples:

- Italy, which has an difference between average remuneration for men and average remuneration for women of around 13% in favour of women for the category of employees (compared to 5% in 2014 and 2% in 2013 in favour of men) and 1% also in favour of women (2% in 2014 in favour of women and 3% in 2013 in favour of men) for the category of cadre;
- Turkey, where the differential is in favour of men for 4% for the category of employees (5% in 2014 and 6% in 2013);
- Romania, where for the category of employees the differential is equal to 5% in favour of men (compared to 7% in favour of women in 2014, 3% in 2013);
- Brazil, where for the category of employees the differential is equal to 5% in favour of women (4% in favour of men in 2014 and 8% in 2013) and for the category of cadre it is equal to 4% also in favour of men (1% in 2014, 4% in 2013);
- Germany, which showed a difference between average remuneration for men and average remuneration for women of around 4% in favour of men for the category of employees (5% in 2014) and 3% also in favour of men for the category of cadre (2% in 2014);
- Venezuela, which showed a difference between average remuneration for men and average remuneration for women of around 3% in favour of women for the category of employees (4% in favour of men).

Finally, with reference to the population of executives, of which women account for 9% (figure unchanged compared to 2014 and 2013), there is an average remuneration difference of 5% in favour of men (in 2014, the ratio was 6% in favour of men, while in 2013 the ratio was 1% in favour of women).
In the various markets, the "professional seniority" factor, still on average of benefit of men, continues to have a strong impact on the remuneration trend. On the other hand, the number of women entering the labour market will contribute to an increasingly greater gender balance over the medium term, also 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.
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 and women or any other sort of diversity.
The inclusive culture which at Pirelli informs its way of doing business permeates corporate life even in the case of disability, as explained in the Pirelli Policy on equal opportunities, applied at all Affiliates of the Group. Under applicable local laws, approximately 1.2% of total employees in 2015 have some form of disability, as in 2014, however with the following considerations: the percentage measurement of disabled employees in the multinational context of the company clashes with the objective difficulty of measuring their number, both because in many countries where the Group is present, there are no specific laws or regulations promoting their employment and therefore disabilities are not automatically detected, and because in many countries this information is deemed confidential and protected by privacy laws. It is therefore likely that the actual percentage of disabled persons working at Pirelli might be higher, although any estimates would be discriminatory per se.

With reference to the "age" factor of the company population, as can be seen from the table below, it is homogeneous between gender, young on average and having increased slightly in the last three years.

AVERAGE AGE BY CATEGORY AND GENDER

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**

2015***	EXECUTIVES	CADRE	WHITE COLLARS	BLUE COLLARS	AVERAGE
Women	49	43	38	36	37
Men	50	45	39	37	38
Total	**50**	**44**	**38**	**37**	**38**

* Information applies to 99.8% of the workforce
** Information applies to 100% of the workforce
*** Information applies to 100% of the workforce, including Pirelli de Venezuela, deconsolidated as of 31 December 2015

The following table represents the average length of service by professional category and gender: even in 2015, there were no significant differences between men and women, whilst there was a significant increase of the average seniority of women in blue collar category (7 years compared to 4 in 2014 and 2013) and an average which has grown steadily over the last three years, reflecting a heightened sense of belonging.

AVERAGE JOB SENIORITY

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**

2015***	EXECUTIVES	CADRE	WHITE COLLARS	BLUE COLLARS	AVERAGE
Women	14	14	9	7	8
Men	15	15	10	9	10
Total	**15**	**14**	**10**	**9**	**10**

* Information applies to 99.8% of the workforce
** Information applies to 100% of the workforce
*** Information applies to 100% of the workforce, including Pirelli de Venezuela, deconsolidated as of 31 December 2015

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

- the use, as far as possible, of candidate lists with a significant presence of women in recruitment processes;
- the use of training to promote cultural change connected with the promotion of diversity, with specific modules dedicated to "Diversity Management," beginning with courses for new hires (e.g. Pirelli's Way Joining the Group);
- the taking of positive measures regarding 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 at the factories;
- welcome kits for those joining Pirelli at a facility in a country other than their home country.
- Welfare and work-life balance initiatives (in regard, refer to the paragraph "Welfare and initiatives in favour of the Internal Community" in this report).

REMUNERATION AND SUSTAINABILITY

The 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 employees, while on the other to reward and promote conduct that is as far as possible consistent with the corporate culture and values.
Compensation policies and processes for Group management (intended as the overall Executives) are managed by the central Human Resources department, while for non-executive personnel they are handled on an individual country basis.
Once again in 2015, and in accordance with market best practices, the impact of the (short-term and medium-term) variable component on the aggregate remuneration of Group management remained very high, which means that there is a strict correlation between remuneration and performance. Members of Group Management in general are connected to the Annual Incentive Plan (MBO) linked to the achievement of annual economic-financial objectives of the Group and/or Business Unit and/or Region and the qualitative assessment resulting from the Performance Management Tool, which allows greater relevance to be attributed to organisational conduct (how), and not simply the results achieved (how much) in a logic of sustainable remuneration over time.
In 2014, some changes and improvements were made to the annual incentive system (MBO) which, over the three year period 2014-2016, is no longer related to the Triennial Incentive Plan (LTI) but includes a form of deferred payment to the following year of a part (25%) of the annual incentive accrued subject to accrual of the MBO of the following year. Payment of an additional amount equal to a variable percentage of the entire MBO accrued during the previous year will be paid in line with the degree that the MBO is achieved in the following year (this mechanism is designed to roll throughout the entire three-year period 2014-2016).
The General Policy on Remuneration also approved for 2015 by the Board of Directors of Pirelli establishes principles and Guidelines to which Pirelli abides in order to determine and monitor the application of 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.

Specifically, the Remuneration Guidelines for the top management figures listed above cover fixed and variable remuneration, both short and medium-long term, (it is specified in this regard that Pirelli currently does not offer forms of remuneration through equity); indemnity in the event of dismissal; resignation and termination of employment; clawback clauses for Top Management.
Consistently with the variable compensation mechanisms adopted at the international level, the long-term incentive plan (LTI) 2014-2016 is entirely self-financed, given that the related liabilities are included in the profit and loss figures of the Industrial Plan. The plan involves an on/off condition, represented by the creation of value in the three year period, and 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 depending on the organisational unit of the Executive, with a weight at target of 30% of the LTI bonus;
- the position achieved by Pirelli in selected global sustainability indicators (Dow Jones Sustainability World Index ATX Auto Components sector and FTSE4Good Global Index sector Automobile & Parts), with a target weight of 10% of the LTI award. The accruable pro-rata of the incentive increases in relation to Pirelli's position in the ranking, up to a maximum pro-rata of twice the accruable value at performance target in case of achieving leadership. The two indices mentioned, in their complementarity, cover all the issues of sustainability and macro-areas of management on which Pirelli has set targets (emissions levels, water or energy consumption, environmental impact of products, sustainable chain management supply etc.).

The Board of Directors' meeting of December 22, 2015 resolved the early closure at the end of 2015 of the 2014-2016 LTI plan (thus one year before its natural expiry). The changed shareholder structure and the simultaneous delisting - which

in fact resulted in non-measurability of many of the objectives contained in the LTI plan - have meant that the medium-term objectives of the company should necessarily be revised in the incoming three-year period (2016-2018) in light of a new Industrial Plan that will be more fully valued in numerical terms during 2016.
With a view to retaining management, the Board of Directors also approved the payment in 2 instalments (April 2016 and April 2017) on the basis of reporting the newly measured goals - even in terms of percentage opportunities for each individual participant - on the values for the two-year period (2014-2015).

INTERNATIONAL MOBILITY

The theme of international mobility has always been important to Pirelli, with a view to achieving cultural and value integration while still respecting diversity, an approach that the Company considers crucial to maintaining and creating value in the long term. The dissemination of the Pirelli industrial culture throughout the world and the transfer of valuable technical and managerial know-how to new start-ups is also a key instrument in support of the Group's geographical expansion strategy.
In 2015, about 90 new inter-company expatriates were recorded, compared with about 50 postings in 2014 and about 70 in 2013. For more than a third, the postings were to major industrial countries, such as China and Russia, and mobility flows continued from emerging countries to mature countries.
At December 31, 2015, the expatriate population totalled about 217 persons (vs. 214 in 2014 and 244 in 2013), belonging to 19 nationalities, who moved to 34 different countries on five continents, of whom 71% were non-Executive employees and 13% were women. The overall expatriate population consists in equal amounts (50%) of Italian and foreign citizens, demonstrating the concrete progress being made towards the goal of creating an increasingly international management team.
The Pirelli International Mobility Policy (the new and current version applied as of 2013 postings) has been standardised and shared within all the affiliates, with common treatment rules in order to enable uniform management of the expatriate personnel of the entire Group.
It includes a principle of fiscal neutrality pursued through the implementation of a so-called "tax equalisation" policy, which allows neutralising of the tax differences that arise in the destination country with respect to the country of origin, ensuring the application of equitable and appropriate remuneration principles, in addition to the assignment of certain benefits closely related to care for expatriates and their accompanying families.

EMPLOYER BRANDING

Pirelli considers it crucial to enter the market by transmitting drivers that distinguish the group, that is, Business, People and Change, which include the cardinal principles on which the Company bases its business approach, such as technological know-how and product innovation, technological and commercial leadership in the highest segment of the market, the tension of the people towards results and the meritocracy that always ensures the best growth for employees, both locally and internationally.
In addition to disseminating the company principles, Employer Branding is also a valuable tool to give visibility to job opportunities aimed at recent graduates, not only in the Italian market but 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, over 200 events, projects and meetings were organised in 2015, 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 the various 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 Politehnica University 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, the American University of Cairo in Egypt.
Pirelli is also collaborating actively, at corporate level in Italy, with Milan Politecnico Turin Politecnico, Milan Bocconi and Catholic Universities and Turin University. The latter Universities are located close to the Pirelli offices in Italy and the Company has always considered them to be a benchmark for economic and engineering education of young people. With these institutions, Pirelli has organised Career Days, round tables, Job Fairs, as well as company presentations and opportunities to meet with students directly at the company, aimed at "personally experiencing" the reality of the Group.
The business-education partnerships described above are placed within the context of the "European Pact for Youth" of which Pirelli is a co-initiator, a Youth Pact that was signed during the last Enterprise 2020 Summit (held in November 2015 in Brussels) by the European Commission, CSR Europe and a group of companies. The Pact aims to promote the growth of new generations through the promotion of partnerships with Universities, training courses, internships and masters' courses: the objective of reducing the skills gap between different countries and different cultures is fundamental, trying

as much as possible to ensure that young people receive the training needed to enter the new professions required by a labour market whose expectations are constantly evolving.
Among the channels of Employer branding used by Pirelli, the internet plays an important role: on its pirelli.com website, the Company provides a channel for those who wish to submit their application for specific open positions, as well as providing full disclosure on its corporate history, management models adopted, objectives and results achieved; targeted channels are also used by Pirelli for the publication of its job offers, including LinkedIn where just in the last year Pirelli has doubled its followers, thus becoming the most visited profile among tyre manufacturers.

DEVELOPMENT

Performance Management

Performance Management (PM) means the process whereby the contribution of each employee in an organisation is defined, observed and assessed at Pirelli, a unique and fundamental opportunity for the development and orientation of each with respect to a series of predefined indicators that are critical to the success of the Company and the employee.
During the process, particular value is given at the time of feedback, which provides a transparent and open dialogue between the manager and the employee, from the phase of defining the individual objectives to that of assessment of the results achieved.
The Performance Management process involves all Pirelli staff worldwide (executives, managers and employees) and in 2015 saw a "redemption" rate (assessment sheets completed compared to the total of open sheets) equal to 94%, of which the completion rate by women involved in the process was 93%.
To support the quality of assessments, Pirelli has introduced the so-called Calibration Meetings. These are meetings organised by the managers of the individual functions, Business Units and countries, with their direct reports, and with the heads of Human Resources of reference, during which the assessments of people who belong to a specific organisational unit are pooled with the objective of ensuring a shared and balanced distribution of the assessment, to ensure a process that is as consistent, homogeneous and objective as possible.

Talent Review

The Talent Review process aims to place "people in the right place", or to ensure business continuity through the coverage of strategic positions with the best talents, both centrally and at each Affiliate. 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, where necessary.
"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 organisation. In fact, they represent the future of the Company for the coverage of strategic positions. The focus on talents is also demonstrated by the numerous skills assessment projects concluded in 2015, 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.
Pirelli is established as a company with a strong predisposition to developing talent from within: 95% of the people who hold key positions have grown and been promoted internally.
The pipeline of talents has a strong international and multicultural connotation, as their origin includes as many as 29 different nationalities.
In 2016, the development process of talents within the Group will continue, through consolidation of career plans, also with a view to providing the means for structured growth within the organisation and mitigating the retention risk of Pirelli talents.

TRAINING

2015 saw further consolidation of the Training@Pirelli training model (introduced in 2013), a system which is organised and structured globally and equipped to respond to needs that could arise at any time locally, in each of the countries where Pirelli is present.
The training offering is based on one hand on the strategic priorities of the organisation and the different functions, and on the other on the needs that arise each year from the Performance Management process.
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 and according to the cases provided centrally or locally, while Local Education is managed and implemented directly in the individual countries to meet the specific local needs.
The entire training offering is communicated and managed via the online training portal LearningLab.
In 2015, Pirelli received the Silver Award in the category "Best Corporate University" embodying the identity, the culture and the brand of the Organization for its stakeholders" by the Global Council of Corporate Universities. The award is aimed at the most important Corporate Universities worldwide.

Professional Academies

There are ten Pirelli Professional Academies: *Product Academy, Manufacturing Academy, Commercial Academy, Quality Academy, Supply Chain Academy, Purchasing Academy, Finance Academy, Planning & Control Academy, Human Resources Academy, Information Technology Academy.*

Sustainable Management elements are throughout the Academies, with focus for example on product life cycle (LCA - Life Cycle Assessment), environmental efficiency of the process, health and safety, sustainable management of the supply chain, risk management, diversity management, etc.

The Academies target the entire Group population and aim to provide continuous training, encourage cross-functional collaboration, ensure the exchange of expertise and know-how among countries and support the implementation of tools and procedures within the organisation.

The faculty of the Academy is mainly composed of internal trainers, experts from the specific functions who, based on the training needs and logistical needs, act at central, regional and local level, or through online seminars and webinar sessions.

In 2015, an internal process was implemented globally for the training and certification of Pirelli trainers, already completed in some countries. Participation in the internal "Train the trainer" course is a fundamental requirement of this process, aimed at ensuring and aligning the skills of all trainers regarding classroom management methods and delivery of the technical content of the Academy.

The Academy model involves a significant figure from the function guiding each Academy, supported by one or more professionals from the same function and from the Group Training function, which ensures consistency in the methods of approach, delivery and evaluation of learning in addition to collaboration with the local training teams.

Every year, the Professional Academies meet both the Top Management and the local training representatives, with the objective of strategic alignment and sharing of the results achieved. In 2015, the Academy offered 225 courses globally.

School of Management

The School of Management (SOM) is the training structure dedicated to the development of the management culture within Pirelli.

The training model is based on 3 areas: Business, People and Change, and is aimed at the populations of Executives, Middle Management/Senior Professionals and New Graduates/Junior Staff.

The focus of management training is calibrated and outlined every year based on the business challenges that the company is required to face.

The training aimed at executives is preferably provided centrally (Milan) in order to allow participants to discuss company strategies directly with Senior Management and share them at inter-departmental and geographical level.

In 2015, 6 editions of SOM were provided for Group Executives, of which 4 in Milan and 2 in Brazil (for Pirelli Executives operating in Brazil, Argentina and Venezuela).

The training offer aimed at Middle Management and Senior Professionals, designed centrally and thus delivered locally, saw the holding in 2015 of more than 50 editions in 11 countries of the Group, which were attended by about 800 people.

Also in 2015, in response to a need that emerged from the MyVoice survey, several workshops were organised on "feedback management" in the manager-employee relationship, involving the whole central management population, giving a total of about 300 people in the classroom.

The School of Management then continued to offer constantly updated services through the Train your Brain section, an online tool available to all managers on the LearningLab platform.

As for the population of new graduates, in 2015 saw consolidation of the two-year course Warming Up@Pirelli, which was launched in 2013.

The programme aims to provide a homogeneous view of the Pirelli reality for all young new recruits in the different countries. The main themes include: the Sustainable Management Model adopted by the Company, the strategies, the product, processes, customers, markets and all other matters regarding basic skills that Pirelli considers important for a young person who wishes to become part of the company's future. During the two-year training course, participants have the opportunity to work on various company projects of interest proposed by various functions, in order to apply innovative approaches and develop cross-functional teamwork. The macro-structure of the course, defined centrally in terms of content and process steps, is organised in various countries with appropriate adjustments aimed at enhancing the local specificities. In 2015, Warming Up@Pirelli involved 210 young new recruits globally.

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 at the Company. In the latter area the following courses in 2015 deserve a mention: Parents at Work, dedicated to the parents of children aged 0 to 6 with the aim to teaching them to exploit the parenting experience as a "gym" for the development and consolidation of managerial skills and conduct to be used in the workplace as well.

Focus: Training on Sustainability

In addition to training on the specific sustainable management processes that cover all the Academies of the Group, as described above, in 2015 training also continued on the Pirelli Sustainable Management Model, with an update of the current state of the Company's Sustainability Plan. Training was diversified according to the target group. In the context of the international corporate course Pirelli's Way Joining the Group, the Group's Sustainable Management strategy is presented to all new employees, starting from the multi- stakeholder approach in the context of integrated economic, environmental and social management. Training in the Pirelli Model also draws the attention of new recruits to the Group's Sustainability Policy and related commitments, as expressed through the Ethical Code, Code of Conduct, Equal Opportunity Policy, Social Responsibility Policy for Occupational Health, Safety and Rights and Environment, in addition to the requirements of the SA8000® Standard and internationally recognised human rights, starting with the prohibition of forced and child labour, up to the freedom of collective bargaining, equal opportunities and non-discrimination. All of these issues are also the subject of training courses for all Sustainability and Purchasing Managers of the Group.

In 2015, remote training was provided in 24 countries on issues of diversity management at the company and related values, already initiated in 2014 in Italy. The course, developed centrally in collaboration with local representatives in order to ensure maximum effectiveness, has been translated into 11 languages and offered to all employees, on line or in print copy.

In July 2015, Pirelli brought all its Sustainability managers together in Milan at a convention dedicated to exploring the long-term management strategies adopted by the company, new scenarios and future objectives. The event involved the active participation of the entire Top Management of the Company, with strong cross-functional alignment with a view to achieving the Group targets as well as demonstrating the fundamental teamwork that enables the Company to prevent risks and, above all, create lasting and shared value.

Pirelli Training Performance

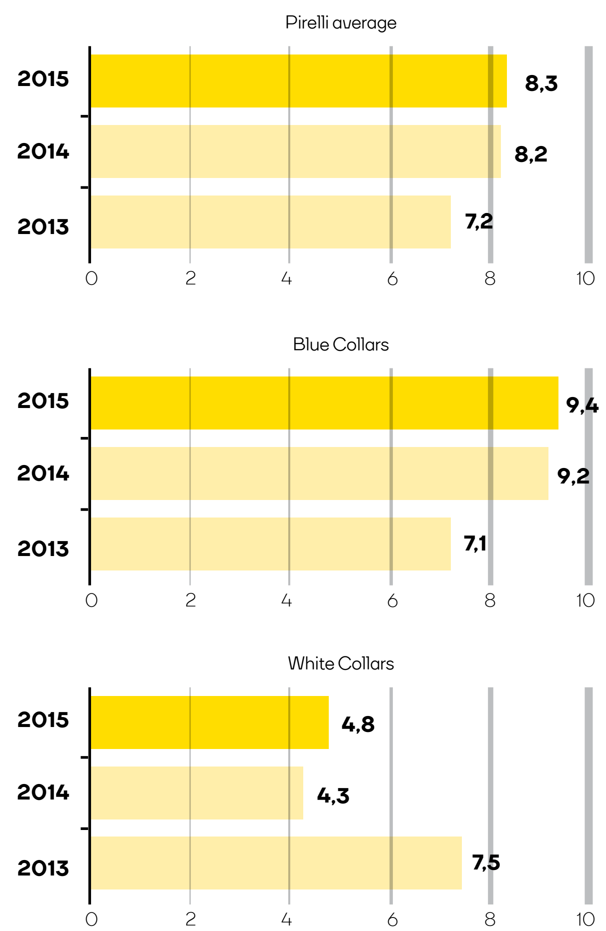
In 2015, Pirelli's investment in Training continued with an extremely positive trend, recording a number of average days of training per capita of 8.3 (vs. 8.2 in 2014 and 7.2 in 2013), thus for the third consecutive year surpassing the target of 7 days on average per capita promised in the Industrial Plan, which was only expected to be achieved from 2015.

With reference to the people involved, the average days of training for blue collars in 2015 rose to 9.4 (vs. 9.2 in 2014 and 7.1 in 2013), and also the number of average days for management and white collars increased, reaching in 2015 4.8 (vs. 4.3 in 2014 and 7.5 in 2013).

Pirelli intends to maintain increasingly structured homogeneity of the training offer, continuing in the coming years to deliver a number of average days of training per capita greater than or equal to 7 and reaching, with at least one day per capita, 90% of employees by 2017. In 2015, training involved 87% of the workforce (vs. 80% in 2014) with at least one day on average per capita and recorded a use of courses that substantially reflects the gender distribution of Pirelli employees, with a substantial balance in terms of equality of training access.

Lastly, of the total training provided by Pirelli in 2015, approximately 78% was in the Professional Academies, with an increasing focus on health, safety and environment topics, which amounted to 13% of total training hours delivered.

Average days of training per capita[3]



[3] Includes Pirelli de Venezuela deconsolidated as of 31 December 2015.

LISTENING: GROUP OPINION SURVEY

For years, Pirelli has consolidated the climate survey as a tool for active listening of its employees, as a basis for setting central and local improvement plans. The annual survey is called "My Voice" and involves all Pirelli employees around the world. Questionnaire management is attributed to a third party, providing anonymity to the respondents. Pirelli then receives the results in aggregate form.

The process related to My Voice involves the submitting of the questionnaire to employees around the world in November/December, the subsequent return of results from February of the following year, and the definition and implementation of specific action plans by Country/Function/Business Unit in the months until the following survey.

The survey carried out at the end of 2015, which confirmed the positive trend of the overall response rate (87% vs. 85% in 2014 and 61% in 2013) will involve communication of the results to employees in the first quarter of 2016 and the related reporting in the following financial statements.

This report outlines the result of the survey conducted at the end of 2014 and the results of which were announced to employees in the first quarter of 2015.

The overall response rate to My Voice in the year 2014 was 85%, showing sharp growth over 2013, mainly due to the sharp increase in participation among workers (+28.2%, from 56.7 % in 2013 to 84.9% in 2014).

As for the results, the global employee Trust Index with respect to the Company stood at 60% in 2014, consisting of 60% among blue collars and 59% among white collars, slightly lower than the previous year but slightly higher than the benchmark of Italian multinational companies.

The results of the survey confirmed the characteristic features of Pirelli, already recognised in the 2013 survey, i.e. a workplace characterised by a strong sense of belonging and pride, full of resources for employees and attentive to health and safety management and diversity; similarly, the survey confirmed the areas on which it is necessary to continue working, mainly related to the relationship between manager and employee, in terms of direct relation and recognition.

The results of the 2015 survey were communicated to all employees in detail and with the utmost transparency starting in February 2015, both through dedicated communications on the company Intranet and through face-to-face meetings. Like every year, the areas for improvement identified for each specific country and functional area were thus analysed, and priorities for intervention and concrete actions were defined with targets and precise implementation schedules.

In December 2015, Pirelli Tyre Co. was awarded the title of "2015 Best Companies to Work For in Greater China": this recognition was assigned by Great Place to Work - A consulting firm specialising in climate surveys - to 27 companies, selected from a panel of 112 participating companies distributed throughout the territory of Hong Kong, Mainland China and Taiwan and belonging to 10 different industrial sectors. In the evaluation process, Great Place to Work® took into account the responses of the employees of the participating companies to the 58 statements that make up the Trust Index Survey. All HR teams and Senior Management of the participating companies were asked to complete a questionnaire on personnel management policies and practices in place at each of the participating companies.

WELFARE AND INITIATIVES FOR THE INTERNAL COMMUNITY

At organisational level, Pirelli for years has had the figure of the "Group Welfare Manager", who is entrusted with the supervision of welfare activities, jointly with the many central and local functions concerned, including Health and Safety at Work, Industrial Relations and Equal Opportunity Managers of the Group.

The welfare initiatives that Pirelli offers to its employees differ from country to country, in accordance with the specific needs identified in different social contexts in which the affiliates operate. The focus below will be on the initiatives carried out in Italy.

In terms of tools that facilitate the use of initiatives by Employees, in 2015, a special section dedicated to welfare was set up on the company Intranet, where all Group Affiliates have the opportunity to promote and raise awareness of local activities. Overall, welfare activities activated at Pirelli Affiliates in the world are related to four areas of action:

- health (e.g. health care, information and awareness campaigns);
- family (e.g. scholarships, summer camps for employees' children, inter-company crèche);
- free time (e.g. open days, sporting and cultural activities);
- workplace (e.g. flexible working hours, facility, individual development training, cultural growth and group celebrations).

Historically, moreover, Pirelli at all its production units provides Infirmaries at which health and medical specialists are available to all employees during working hours. These facilities provide counselling for health problems outside work as well as first aid care and health supervision for workers exposed to specific risks. The infirmaries also support the various health-related promotional campaigns that are launched at local level, as well as prevention campaigns.

As an example of welfare activities activated locally, the following is an outline of some of the initiatives implemented in Italy and in other Group countries in 2015.
In Italy:
- new policy for allocation of internal parking at Bicocca (Milan), drafted up as a result of input received from a dedicated survey on mobility conducted among all employees;
- extension of the offering on the People Care portal, with new services and agreements (both national and local) and that of the "People Care for Bicocca" counter, which offers various time-saving services at special prices (laundry, reception of private parcels, shoemaker, payment of bills);
- extension of the number of days offered as part of the Bambini in Bicocca (Children at Bicocca) project, which guarantees babysitting/kids club service for employees' children of school age (5-10) during school holidays;
- the continuation of the "#sentirmibene" campaign initiatives, launched in late 2014, which consist of a series of initiatives to promote wellness and healthy lifestyles among employees;
- The "Wellness@IPP" initiative, inaugurated in April 2015, which offers some courses (Pilates, Yoga, BackSchool) to employees at discounted prices in the early-evening hours at the facilities of the Piero Pirelli Institute;
- 2016 "A Year of Safety" calendar made at Bollate: distributed to all employees of the plant and the result of a photo shoot that involved some employees, along with their children, photographed wearing personal protective equipment (PPE), confirming the constant attention and involvement paid at all levels to safety at the factory;
- Open Day at the plant in Settimo Torinese, open to all employees and their families, which involved over 3,000 people in the various activities on offer, including educational workshops, visits to the departments, games and music;
- The activation of a dedicated tax consultancy counter at Settimo Torinese and the opening of recreational spaces such as the company library and football field.

In other countries where Pirelli operates:
- the "Employee Assistance & Wellbeing" programme called ICAS, launched in Mexico in September 2015: a consulting and telephone listening service, active 24/7, which provides counselling, support in the emotional and practical management of day-to-day activities and life management services to support employees. The programme is constantly promoted internally through electronic and print communications.
- The second "Deutsche Diversity Tag" organised in Germany in June 2015 in collaboration with the "Charta der Vielfalt" organisation to promote and raise awareness among employees of the issue of diversity, also highlighting the ethnic and cultural wealth of Pirelli Deutschland.
- Through various initiatives (multi-ethnic food and drinks banquets, quizzes, brochures) during the 2015 event, the aim was to promote and stimulate the sharing of experiences among those present with a view to mutual enrichment.
- the "Faz Bem" project: same as #sentirmibene Italian, for employees and their families, aimed at promoting the improvement of the quality of life and sporting activities in Brazil, in particular through various communication and engagement initiatives.
- The initiative "Férias Dirigidas and Acampamento de Férias": recreation and integration activities offered every year, at locations near the Brazilian plants, to the children of employees during working hours during school holidays and targeted at children/teenagers aged 6 to 17.

The well-being of workers also comes from a working environment that is psycho-socially adequate and stimulating, where they feel valued and in which psychosocial risks and work-related stress are effectively prevented and countered. To this end, as part of the company's global programme called "Excellence in Safety", in partnership with DuPont Sustainable Solutions, Pirelli performs in-depth analyses and acts on key areas and issues such as improvement of the organisational structure, clarity of tasks and roles, empowerment of workers, improvement of communication in the organisation, sharing of objectives and motivation with respect to a common strategy.

INDUSTRIAL RELATIONS

The Industrial Relations Policy adopted by the Group is based on respect for constructive dialogue, fairness and roles. Guaranteeing and respecting free trade union activities is one of the key values on which Pirelli bases its own Human Capital 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 the activities and ensure that the aforementioned principles are observed throughout the Group.
Industrial Relations also have an active role in the Group's commitment in terms of health and safety, characterised by active participation on the part of the union and workers. In fact, 80% (vs. 79% in 2014) of Group employees are covered by representative bodies that periodically collaborate with the Company and the support of specialists in monitoring and confronting current issues and the awareness plans/programmes, in view of continuous dialogue aimed at improving the various activities operated by Pirelli to protect the health and safety of its own workers.

In 2015, the Industrial Relations activities reached important negotiating results both in Italy and abroad. Many collective agreements were renewed: in particular in Italy, the Company's role in the renewal of the national collective agreement of the Rubber Plastics sector for the three-year period 2016-2018 was significant, as well as the negotiations that led to the renewal, without any conflict, of collective agreements in the United Kingdom, Brazil, Argentina, Venezuela, Mexico and, in January 2016, in Turkey.

During the year, the Company operated internationally to rebalance the employment level, aligning it to the needs of volume related to high market volatility, maintaining a Group occupational balance at the end of 2015 in line with that of 2014.

In Italy, the Company continued with the organisational rationalisation process at the production site in Bollate. In June 2015, an agreement was signed with the trade unions at the factory and the territorial trade unions under which the rebalancing of the production mix with other types of premium tyres was agreed, in order to support the production revenues expected in the period 2016-2017. It was also agreed to adjust the management structure, with a new reference staff for the smooth operation of the business; excess staff were managed in a non-traumatic way through the extension of the solidarity contract for the 2016-2017 two-year period. This agreement also includes the Company's willingness to provide about 16 hours of training per capita in the two-year period 2016-2017, aimed at professional growth, versatility and safety culture.

In Brazil, the Company has initiated a process of reorganisation in the face of the crisis of the country that has also generated a sharp decline in consumption in the automotive industry impacting on the Tyre market. Specifically, there was a production rebalancing and the consequent downsizing of personnel, both of staff functions and within the establishments of Campinas, Santo André, Gravataí and Feira di Santana, acting primarily on reducing flexibility and on work organisation. This organisational rationalisation, managed through the trade union dialogue, was based on specific trade agreements at site level.

At the same time, in Romania, Mexico, China and Turkey, the Company increased the workforce acting on the organisation and production processes in line with market needs. In Italy, central Functions related to product research and development and innovation have been further strengthened.

As part of the announced industrial reorganisation and enhancement project by the Group aimed at giving independent importance to the Industrial Business (Truck, Agro and OTR tyres), in 2015, the Company informed union interlocutors in the countries concerned about the planned corporate operations, with the creation of companies dedicated to the Industrial Business and the related passage within them of all the assets, related activities and the workers engaged in this business, with effect from January 1, 2016.

Lastly, it is noted that in March 2015, the sale process of the steel cord business to the Bekaert Group was completed, with the latest regulatory approvals also being obtained from the local authorities.

European Works Council (EWC)

The Pirelli European Works Council (EWC), formed in 1998, holds its ordinary meeting once a year after presentation of the Group Annual Financial Report, where it is informed about the operating performance, operating and financial forecasts, investments made and planned, progress in research, and, as occurred at the annual meeting in 2015, about the progress of the company's Sustainability Plan. The agreement establishing the EWC provides for the possibility of holding other extraordinary meetings to informal delegates in case of transnational events concerning significant changes to the corporate structure: opening, restructuring or closing of premises, important and widespread changes in work organisation. EWC delegates are provided with the IT tools they need to perform their duties and a connection to the corporate intranet system, for the real-time communication of official Company press releases.

In February 2015, the Council consisted of 13 members from the offices of the countries entitled to representation in the Council, i.e.: 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 in 2004 as a reference tool for the management of social responsibility within its affiliates, Pirelli verifies the application of the requirements in terms of respect for human and labour rights through periodic audits, both commissioned to specialised third-party companies and performed by the Internal Audit Department. Particular attention is devoted to the sustainability of Pirelli's sites (and the company's 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 received training on the environmental, social and business ethics elements of an audit from function directors to enable them to carry out an effective, clear and structured audit, granting Pirelli 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 development of the shared action plans, through specific follow-ups. All managers from the affiliates involved in the audits are adequately trained and informed on the audit object and procedures by the applicable central functions, 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 of Social Responsibility for Health, Safety and Rights at Work, Environment" and the Group "Values and Ethical Code".
Considering the last three years, in 2013, the Internal Audit Department carried out audits in Argentina, the USA, Romania and Brazil; in 2014, in Italy, the United Kingdom and China; in 2015, in Mexico, Russia (Voronezh plant) and the United Kingdom. In 2016, the audits will continue in Germany, Russia (Kirov plant) and the UK (follow-up). The non-conformities emerged in 2015 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-ups in 2016 by the Internal Audit Department. 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 collective bargaining, and non-discrimination.

Labour and Social Security Lawsuits

In 2015, as in previous years, the level of work and social security litigation remained low. 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 to prevent and resolve these conflicts – to the extent possible – including through settlement procedures.

Unionisation Levels and Industrial Action

It is impossible to measure exactly 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 around 50% of Pirelli employees are trade union members. As to the percentage of workers covered by collective agreement, in 2015 it stood at 80% (vs. 79% in 2014). This figure is associated with the historical, regulatory and cultural differences between each country.
Collective agreements were renewed without any conflict and strikes. The labour unrest in 2015 refers exclusively to Italian plants on support actions related to national issues of political-union relevance (e.g. reform of the labour market)

Occupational Retirement and Health-Care Plans

The Group has defined contribution and defined benefit funds, with a substantial prevalence of the former kind over the latter. To date, the only defined benefit plans are:

- in the United Kingdom, where the fund relating to the tyre business has been closed to new employees since 2001 for the introduction of a defined contribution scheme (and closed to future accumulations for all active employees as of April 1, 2010), while the funds related to the cable business sold in 2005 were closed to future accumulations in the same year.
- in the United States, where the fund was closed in 2001 (since 2003, it has not been tied to salary increases) for the introduction of a contribution scheme (and only applies to retired employees);
- in Germany, where the fund was closed to new hires from 1982.

Other defined benefit plans exist in Holland and Sweden, but they represent a relatively insignificant liability for the Group.

The Group also maintains various supplemental health-care plans at its affiliates according to local requirements. These health-care schemes vary from country to country in terms of allocation levels and the types of coverage provided. The plans are managed by insurance companies or funds created ad hoc, in which the Company participates by paying a fixed amount as is done in Italy, or an insurance premium as is done in Brazil and the United States. For the economic-equity measurement of the above benefits, reference is made to the Consolidated Financial Statements, notes "Employee funds" and "Personnel Costs".

OCCUPATIONAL HEALTH, SAFETY AND HYGIENE

Management Model and System

The Pirelli approach to responsible management of Health, Safety and Hygiene at Work is based on the principles and commitments stated in the Group "Values and Ethical Code", in the "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment" and in the "Quality Policy", the texts of which are communicated to all Group employees in their local languages, and published in the Sustainability section of the Pirelli website, to which reference is made to fully view the content.
The Safety at Work Management System, as well as the environmental system introduced at the production units of Pirelli Tyre, was developed on the basis of procedures and Guidelines elaborated centrally in order to consolidate a "common language" within the Group that ensures sharing, alignment and management efficiency.
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 ANAB international accreditation (ANSI-ASQ National Accreditation Board - US accrediting body). Also in 2015, RINA Services S.p.A. was the evaluator of conformity of Safety and Environment Management Systems of Pirelli Tyre.
At the end of 2015 all the Pirelli Tyre production facilities are 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 and such that an activity of parallel certification in the content would be of relative value.
In the course of 2015, Pirelli started drafting a new Policy, exclusively focused on Health, Safety and Environment" (elements currently covered in the "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment"). The new Policy, the issue of which was initially scheduled for 2015, will instead be issued in 2016 in order to allow both proper alignment with the ISO14001:2015 standard and full congruence with the new corporate structures being finalised in 2016.

Safety Culture

The Zero Accidents Target is a strong and precise corporate position. Pirelli strongly believes that leaders play a strategic role in risk prevention. Their behaviour must therefore be an example for all employees. From an industrial point of view, this objective is pursued through investments aimed at technical improvement of work conditions, while constantly insisting on the cultural and behavioural aspect of all Company players.
Safety culture is of paramount importance: 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 own family. This approach, together with the involvement and continuous internal dialogue between management and workers, has allowed a sharp decline in historical injury indexes.
In support of the Management Model outlined above and with particular focus on the implementation of a standard approach to Behavioural Safety within the Group, in 2013, the Company signed a global agreement with DuPont Sustainable Solutions for the global implementation of the "Excellence in Safety" Programme, started in 2014 at sites in the United Kingdom, Venezuela, Argentina, Mexico, Turkey, Romania and extended in 2015 to all Group production sites. A specific Steering Committee, chaired by the Operations General Manager, monitors the progress of the programme.
In particular, in 2015, in addition to the strengthening and consolidation of the safety culture concepts based on conduct, the focus on Leading Indicators was further developed, 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 accidents.
The sharing of the Safety Culture was also supported by the communication of 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 "Excellence in Safety" Programme are in fact related to the improvement of the organisational structure, the clarity of the tasks and roles, empowering workers, improving communication within the organisation, the sharing of objectives, motivation with respect to a common strategy: all substantial issues for a work environment that is psycho-socially appropriate and stimulating for workers. The management of work-related stress is also the subject of the European Agency Campaign for Health and Safety in the Workplace (EU-OSHA) for the 2014-2015 two-year period, of which Pirelli was as usual a partner, once again confirming its commitment to promoting a healthy working environment in which 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 should 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 a special mention. This is the Pirelli Professional Academy dedicated to the sphere of factories, where health, safety and environment issues are discussed in detail. In 2015, the training on risk assessments related to machinery was completed. It should be noted that over 13% of the training provided by Pirelli in 2015 involved issues of Health and Safety at Work.
In 2015, the seventh edition of the Pirelli Health, Safety and Environment world meeting was also held. The annual meeting was held at the Pirelli production centre in Silao, Mexico. The purpose of this meeting, which brings together all managers responsible for Health and Safety in the Group, is to pool the best practices applied by the various Pirelli sites in the world, with a view to promoting continuous improvement.

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 centrally by the Health, Safety and Environment Department. This system makes it possible to monitor HSE performance and prepare numerous types of reports as necessary for management or operating purposes.
The HSE-DM system collects all the information on accidents occurred at the factories, Group fitting Units, European and Brazilian Equities and logistics units managed directly by Pirelli (accident analysis, corrective action taken, etc.). If the dynamics of a particular case are significant, all the plants are not only provided with the information via a system called Safety Alert, but are also urged to conduct an internal audit as to whether conditions similar to the ones that caused the injury also exist at their plants and to define any possible corrective measures. By using this system, every site is able to audit the solutions adopted by other plants in order to share the best choices.

Performance

In 2015, Pirelli reached an Accident Frequency Index (FI) of 0.48 with a reduction of 6% compared to 2014 and 73% compared to 2009. The target of the Industrial Plan and Sustainability Plan is for a reduction by 2020 in the Frequency Index of 90% compared to 2009.
The Accident Frequency Index, analysed by gender, also in 2015 remains significantly lower for women than the Group average, reflecting the fact that the female population is generally engaged in activities with lower risk than the male population.
Below is a summary table of the FI values in the last three-year period:

	2015*	2014	2013
Frequency Index (FI)	0.48	0.51	0.62
FI Male	0.52	0.57	0.68
FI Female	0.14	0.12	0.18

FI = number of accidents / hours actually worked x 100,000

The Accident Severity Index (SI) in the Group in 2015 was 0.16, substantially in line with the 2014 figure of 0.16.
Below is a summary table of the SI values in the last three-year period:

	2015*	2014	2013
Severity Index (SI)	0.16	0.16	0.18

The most representative injuries involve events resulting in contusions, cuts and fractures to upper limbs.
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.

With reference to commuting accidents and accidents involving temporary workers (not included in the calculation of the FI and SI mentioned above), the following table shows the total number registered in the group in the last three years. In particular, in 2015, there were 19 accidents involving temporary workers at the Group and 157 commuting accidents; the latter were substantially related to road safety shortages in emerging countries.

	2015*	2014	2013
Commuting accidents	157	133	107
Accidents with temporary workers	19	10	7

The Accident Frequency Index related to employees of external companies operating at the premises of the Group amounted to 0.37 (below the average of the Pirelli Group), down from the value of 0.52 in 2014.

In 2015, the occupational diseases Frequency Index stood at a value of 0.07, corresponding to a few dozen people out of all the employees of the Group.

	2015*	2014	2013
FI Occupational illnesses	0.07	0.04	0.09

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

*: The performances also include those of the Venezuelan subsidiary, deconsolidated as of 31 December 2015.

Fatalities

- 2015: there were two fatalities among employees of the group. One at the operating unit in Yanzhou (China), one at the operating unit in ATCO (Egypt), for which the Safety Alert process previously described was immediately activated in the Group.
- 2014: there was no fatal accident involving Group employees or employees of independent contractors working at the Group's operating sites.
- 2013: there was no fatal accident involving Group employees or employees of independent contractors working at the Group's operating sites.

Best Practices 2015

Six Pirelli manufacturing plants were "sites of excellence" in 2015, since no employees were injured there in the year:
- Breuberg MOTO (Germany)
- Camaçari (Brazil)
- Didcot (UK)
- Ecosil (Brazil)
- Sorocaba (Brazil)
- Ibiritè (Brazil)

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

Health and Safety Expenditure

In the three-year period 2013-2015, expenditure for Health and Safety by the Group exceeded Euro 40 million, of which over 25% was invested in 2015.
The expenditure made targeted improvements on machines and plant and, more in general, the workplace environment as a whole (ex. improvement 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 in the Accident Frequency Index of 90% compared to 2009 (underway);
- 2013-2015: implementation and consolidation of the systems BBS-Behaviour Based Safety, LOTO-LockOut/TagOut, POWRA-Point of Work Risk Assessment (underway);
- 2014-2018: global implementation of the “Excellence in Safety” programme with Dupont (underway);
- 2015-2017: completion of integration of Health, Safety and Environment KPIs for the sale/commercial/equities areas;
- 2016: new issuance of Health, Safety and Environment Policy in alignment with the ISO14001:2015 Standard.

EXTERNAL COMMUNITY

INSTITUTIONAL RELATIONS OF THE PIRELLI GROUP

In all the countries where Pirelli operates, the aim of Intuitional Affairs Department focuses on creating corporate value by managing structural relations with institutional stakeholders so as to ensure adequate representation of their interests. In accordance with the Pirelli Values and Code of Ethics, all activities carry the imprint of criteria of utmost transparency, legitimacy and responsibility, both as regards *information* disseminated publicly and *relations* managed with institutional contacts. In the area of institutional relations, Pirelli acts above all via active monitoring and in-depth analysis of the institutional and legislative context so as to verify any implications of concern and identify stakeholders of reference. Institutional dialogue is further enhanced by projects and initiatives carried out in collaboration with institutional players in promoting and supporting corporate matters of public interest. The most important of the tools that ensure absolute transparency of lobbying processes, which are again in any event achieved in full abidance of the principles ratified in the Group’s “Code of Ethics” and Anti-corruption Programme”, is the implementation of the “Institutional Relations Policy - Corporate Lobbying”, approved in February 2015 by the Pirelli Board of Directors. The Corporate Lobbying policy describes the principles and methods for representing corporate interests with public decision-makers in accordance with criteria of legitimacy, propriety and transparency. All initiatives of representation take advantage additionally of the collaboration of the legal and internal audit Functions in addition to being in line with international best practices (International Corporate Governance Network) and, of course, in full compliance with laws and regulations in the countries where Pirelli operates.

The “Lobbying Policy” is published on the Pirelli website.
The widespread geographic distribution of the Pirelli Group’s industrial and economic interests requires a multi-level approach, made via an extended ramification of institutional relations thus concerning a domestic, community and international dimension.
Pirelli Institutional Affairs Department contributes actively to the global political-economic debate and additionally keeps watch over developments in the main matters of corporate interest, also thanks to collaboration with various selected *think tanks* that are recognised worldwide, including in particular collaboration with the Institute for International Political studies, the International Affairs Institute, The Trilateral Commission, The Foundation for the Analysis, Study and Research into Reform of Democratic Institutions, the Aspen Institutes and the Italy-China Foundation.
In Italy, the Group interacts with a system of relations that involve the main institutional bodies at both central and local levels. In the area of Parliament, attention is above all focused on analysing corporate interests present in legislative processes and initiatives of the Standing Committees of the Chamber and Senate. At times, Institutional Affairs Department intervenes in parliamentary business to enhance the awareness of technical information, studies and specialist analyses pertaining to the Group’s business.
In the area of government, Pirelli has constant contact with the structures of the Presidency of the Council, the main Ministries of reference and the entities that correlate therewith. Especially important among the usual activities performed are the initiatives promoted in the matters of: questions relating to the Group’s industrial development; promoting and strengthening international relations in countries where the Group is present with industrial sites, analysing and studying in-depth impacts relating to the regulatory governance of tyres and their entire life-cycle; matters relating to road safety and environmental sustainability, both as regards production processes and in respect of the product itself.
Relations with European Institutions focus on consolidating relations with stakeholders and monitoring legislation. The ongoing dialogue and discussion with the Commission and the European Parliament concern a wide range of matters of corporate interest; transport, energy and environmental policy, industrial policy, research and innovation. During the various stages of processing and forming European regulation, Pirelli represents Group interests with Community stakeholders with an approach that is at all times directed towards utmost transparency and propriety.
The Pirelli Group is filed with the European Registry for Transparency, which was set up by an institutional agreement by and between the European Parliament and the European Commission.
At an international level Pirelli interacts with the main con-

tacts in the countries where its production sites are located. When necessary, the Group encourages moments of discussion and dialogue directed towards mutual understanding and with the purpose of promoting representation of its interests through a strategy based on a clear perception of its business. Referring to the initiatives of greatest importance during the course of the year in Italy, the Group headquarters, the following stand out:

Visit to the R&D laboratories in Bicocca, Milan

Last February Italy's Prime Minister visited the Research and Development Centre at Pirelli-Bicocca as part of a series of initiatives directed towards Italian industrial excellences, which represent the heart of the technological innovation of the Group's products and processes.

EXPO 2015 and the Charter of Milan

Pirelli hosted the "Expo of ideas" Day within the prestigious HangarBicocca as part of a project for collaboration with the Ministry for Agriculture Policy and Forests, sought as preparation for the initiatives of the Universal Exhibition 2015.
HangarBicocca was selected due to its natural vocation for hosting important international events and was in this way the backdrop for the most important event for defining the content of EXPO 2015 and the charter of Milan. The initiative was set up entirely by Pirelli and witnessed the participation of 500 experts and high-level intuitional representatives from the whole world

Festival of Innovation and Science in Settimo Torinese.

Again in 2015, to follow up the rich collaboration with local institutions, Pirelli took an active part in bringing to fruition the Festival of Innovation and Science. The Festival provided an opportunity to institutional authorities and the local community to appreciate and acknowledge the excellences of the Settimo Torinese plant.

Pirelli and ChemChina

Again in Italy, and to ensure the communication of information to all institutional stakeholders, the Prime Minister and the main Ministries of reference were given indications concerning Pirelli's involvement in the market transaction undertaken by Camfin, ChemChina and other partners. Among the other topics set out for parliamentary bodies it was possible to underscore the opportunities and industrial prospects and guarantee of continuity of the Group's presence in Italy.
By way of testimony to the entrepreneurial and economic ties between Italy and China, Pirelli then, at the invitation of the Chinese authorities, took part in the celebration of the 45th anniversary of diplomatic relations between Italy and China, organised at the Zuccari Hall of the Senate of the Republic.

International Activities

With a view to prioritising relations with the institutions of the countries where it is present, Pirelli encourages and takes part in initiatives for international promotion achieved by the Italian Government and Governments of the counties where industrial sites are located.
In terms of "economic diplomacy", besides a series of bilateral initiatives, Pirelli takes an active part in a number of Business Councils with Egypt, Mexico, Thailand and China.
In particular Pirelli has been awarded the Chair of the Business Council with Mexico, a country where the Group possesses an important industrial installation for producing car tyres. During its term as chair Pirelli has sought to promote specific initiatives aimed at developing contacts between the entrepreneurial activities of the two countries, with a meeting of the Italy – Mexico Business Council in the historic Palazzo Clerici, the offices of the Institute for Studies of International Politics, which hosted the event. At the conclusion of the meeting of entrepreneurs a select delegation of Italian and Mexican entrepreneurs took part in a restricted meeting in the presence of the President of the United Mexican States, the Mexican Minister of the Economy, the Italian Prime Minister and the Minister for Economic Development. The meeting was followed by the conference *"Italy & Mexico: Common Pathways in Global Development"*, organised in collaboration with ISPI.
Further confirmation of the active role also played in the field of economic and commercial relations with countries where it is present, in the area of the Italy – Egypt Business Council, Pirelli took part in a series of events attended by important institutional Egyptian and Italian players, where it was possible to study matters tied to the development of political and economic cooperation between the two countries in-depth. A further significant step was provided by the Group taking part in the Sharm el Sheik summit of the *Egypt Economic Development Conference*.
When the Formula 1 Gran Prix was held in Sochi, a select representation of the Top Management of Pirelli met the President of the Russian Federation. The occasion allowed the authorities in attendance to get to know the technological challenges the Group deals with in Formula 1 and its industrial commitment in the country.
Worthy of mention was the visit made by the Prime Minister of the Russian Federation, the Minister for Industry and Commerce and the Italian Ambassador to Russia to the Pirelli Installation at Voronezh, which is used for producing car and winter tyres.
Pirelli naturally continues its relations with the United States of America through the activities of the USA Pavilion, which contributed to bringing various initiatives organised by the Consulate of the United States of America in Milan and the State Department to fruition. The most important initiatives

include the visit to EXPO by the First Lady and the American Secretary of State. In the context of the latter, Marco Tronchetti Provera took part, together with a select group of entrepreneurs, in the *Executive Forum at Expo* held in the presence of the Secretary of State. This was a moment of discussion and dialogue of special significance in the light of the many challenges facing both countries on a global scale.
Again, in the international area, Pirelli intervened during the State visit to Indonesia by the President of the Republic of Italy, accompanied by the Minister for Economic Development. In this country, the Group has recently set in motion an important joint venture with PT Astra Otoparts for producing motorcycle tyres. During the State visit, Pirelli also signed a Memorandum of Understanding as part of the forum on opportunities for bilateral economic cooperation.
By way of tribute to the deep bonds of belonging with Brazil, where the Group boasts a historic industrial presence, Pirelli supported a series of projects promoted by the Roman Ambassador and the Consulate of Brazil in Milan to support Brazilian culture in Italy.

PRINCIPAL INTERNATIONAL COMMITMENTS FOR SUSTAINABILITY

The attention of Pirelli to sustainability is also expressed through participation in numerous projects and programmes promoted by international organisations and institutions in the area of social responsibility. The following are some of the main commitments undertaken by the Group worldwide (numerous activities and agreements existing locally at the affiliated companies are not included).

UN Global Compact Lead

In addition to being an active member of the Global Compact since 2004, Pirelli is part of the Global Compact Lead Companies, an initiative launched in 2011 at the World Economic Forum in Davos by United Nations Secretary-General Ban Ki-moon, where it has been on the Steering Committee since 2013. Pirelli endorses the “Blueprint for Corporate Sustainability Leadership”, which offers leadership guidelines envisaged in the Global Compact to inspire advanced and innovative sustainability performance in terms of management capacity for the creation of sustainable value. In 2015, Pirelli actively participated in the following Lead projects:

- Realizing Long-Term Value for Companies and Investors, a joint initiative of the UN Global Compact and the United Nations Principles for Responsible Investment (UNPRI) in which Pirelli has the role of co-chair, aimed at improving communication between companies, the market and investors on environmental, social and governance issues;
- Roadmap for Integrated Sustainability, a project that aims to create tools for full sustainability integration in the activities of individual company functions;
- Post-2015 Development Agenda, in which the Lead Companies work on the alignment between development of the business and Development Goals;

Participation in this project has led Pirelli to have an active role in the drafting of the new Sustainable Development Goals (SDGs). The objectives for sustainable development were presented in New York in September 2015 and will accompany the activities of sustainable companies until 2030. In early 2016, the UN Global Compact will publish the Industry Matrix of the transport sector, a document which describes examples of application of the SDGs to company activities; Pirelli contributed to the latter publication sharing various business case studies related to activities carried out in 2015.
Since 2014, Pirelli has been a Founding Participant of the SSE Corporate Working Group, the group of companies that provide their own evaluations and indications as part of the Sustainable Stock Exchanges (SSE) initiative promoted by UNPRI, United Nations Conference on Trade and Development, United Nations Environment Programme Finance initiative and the UN Global Compact. The initiative is based on a platform for exchange of ideas and assessments, which aims to increase the attention of world stock markets, investors, regulators and companies to the sustainable performance of companies.

ETRMA – European Tyre and Rubber Manufacturers Association

ETRMA is the main partner of the EU institutions for the sustainable development of new European policies for the sector and for their proper implementation. With the institutional support of the Pirelli Group, in 2015 the association continued to raise awareness of the European Commission and European Union Member Countries on the implementation of market surveillance for monitoring compliance with regulations on the general safety of vehicles and tyres and on energy efficiency, as well as the labelling of tyres in European countries, and through the strengthening of the partnership with the national associations of the sector of which Pirelli is an active member.
In 2015, ETRMA continued providing support to 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 equally involved. It aims at defining the economic and social actions of the European Union over the next decade and the programme of activities to raise awareness, for example, of road safety and sustainable mobility.
In the area of new skills, the European Automotive Skills Council was created, of which ETRMA is an active part. Moreover, ETRMA is heavily involved in the implementation of the Emission Trading Scheme, with the aim of reducing the economic impact of European energy policies and the European Innovation Partnership on Raw Materials and 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, thanks to which Europe maintains a more than 95% recovery rate, through close collaboration with the various operating partnerships existing in European countries.
The good ETRMA and European 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 of information and analysis on all aspects related to the rubber industry.
Under IRSG, Pirelli has since 2012 engaged, inter alia, in the Sustainability Rubber Project, which aims to create a Global Standard of Sustainable Management for the rubber industry. In May 2014, during the World Rubber Summit, the initiative Sustainable Natural Rubber was officially launched, based on the recommendations of the Heads of Delegation and the Industry Advisory Panel. The aim of the initiative is to achieve the application of a voluntary standard on sustainable natural rubber which is valid for all stakeholders and complementary to economic, social and environmental programmes being promoted in the producing nations. During 2015, the pilot test started on voluntary basis and involved all the stakeholders of the supply chain. It should be mentioned that about 85% of natural rubber is produced by small farmers owning less than 3 hectares of land; the decision to plant trees and produce natural rubber therefore depends on opportunity cost and therefore an adequate long-term plan to ensure stable growth that must be based on sustainability. In this context, the cooperation within the industry is very precious.

WBCSD – World Business Council for Sustainable Development

Pirelli again actively participated in the WBCSD (World Business Council for Sustainable Development) in 2015. This is a Geneva-based association of about 200 multinational companies based in over 30 countries that have made a voluntary commitment to link economic growth to sustainable development.
In particular, Pirelli endorses 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 tyres, was launched in 2005 with the objective to seizing, but above all anticipating, the challenges of sustainable development through the assessment of the potential impact on health and environment of tyres throughout their life cycle. The project also extends its evaluation activities to raw materials, tyre debris and nano-materials.
On the latter issue, in collaboration with the Organization for Economic Co-Operation and Development (OECD), a specific guide was developed for the sectors that contains best practices of reference 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 document is available at the link http://www.oecd.org/chemicalsafety/nanosafety/nanotechnology-and-tyres-9789264209152-en.htm .
The TIP group members also continued promotion in emerging countries, particularly in China, the largest automotive market in the world, of best practices in the management of End of Life Tyres (ELT), on enhancing their recovery and reuse as a resource (secondary raw material), with the aim of reducing the exploitation of raw materials and the attendant environmental impact.
The Sustainable Mobility Project 2.0 (SMP 2.0), in which Pirelli has participated since 2013, has developed a vision up to 2050 linked to an idea of urban mobility that is universally accessible and with low environmental impact, as regards the transport of both passengers and goods in an urban context. The three-year project (2013-2015) involves international companies in the automotive, auto & parts, transportation, oil & gas and information and communication technology sectors. The project led to the development of a set of sustainable mobility indicators, the creation of a “tool box” of solutions available in the public domain as the result of in-house innovation and led to the identification of six pilot cities (Hamburg, Bangkok, Campinas, Chengdu, Indore, Lisbon), with which a cooperation project has been started for the development of their sustainable mobility plans. Among the six pilot cities selected, Campinas (Brazil), in addition to being the site of an important Group plant, sees Pirelli taking on the role of task force leader for the project. At the conclusion of the project in January

2016, a stakeholder dialogue will be organised with key local stakeholders, with the aim of sharing the results of the project and drawing attention to sustainable mobility, road safety and highly pollutant emissions.

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

For the seventh consecutive year, Pirelli continued to be an official partner of the European Occupational Safety and Health Agency (EU-OSHA) in 2015. Every two years the Agency tackles a different issue. The 2014-2015 campaign "Healthy Workplaces Manage Stress" focused on the issue of stress and psychosocial risks in the workplace and aimed to encourage employers, executives, and workers and their representatives to collaborate together towards the management of these risks. In endorsing the Campaign and launching a series of targeted initiatives, 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 Group Sustainability and Risk Governance Director. CSR Europe is a network of companies in Europe that are leaders in the area of corporate social responsibility. Its members include fifty-nine multinational companies and forty-five national partner organisations from thirty-five European countries. 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, recognised by the European Commission as a particularly important example of Business Leadership to support the achievement of the policy objectives of Europe.
Through Enterprise 2020, CSR Europe promotes collaboration, innovation and 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 has been reaffirmed in the "Enterprise Manifesto 2020" presented in Milan in June 2015 during the conference "Last Call to Europe 2020". The manifesto was followed by the "Enterprise Summit 2020" in November, an event during which Pirelli formalised its role as co-initiator of the "European Pact for Youth", long advocated by the European Commission and aimed at supporting the increase of youth employment through education and training as essential tools to adapt the competences of young people to the new expectations of the market. In this context the active collaborations between Pirelli and the different universities around the world is central.
Thanks to its acknowledged expertise in the field of social and environmental responsibility, Pirelli chose CSR Europe to organise the *Pirelli Global Stakeholder Dialogue*, which is taking place in Brussels in February 2016. The results of the stakeholder dialogue will be published on the Group's website in 2016.

International Commitments against Climate Change

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.
During 2015, Pirelli continued with the "Road to Paris 2015" project, in which the company participated the previous year by signing three initiatives that are consistent with and related to its sustainable development strategy:
- Responsible Corporate Engagement in Climate Policy;
- Put a Price on Carbon;
- Climate Change Information in Mainstream Filings of Companies Communication.

In accordance with these initiatives, during 2015, Pirelli joined the "Business for COP 21 Initiative" and participated in various side events organised in Paris during the Climate Change Conference of the United Nations.
In 2014, the company signed the "Trillion Tonne Communiqué", an initiative coordinated by the Prince of Wales's 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 temperature higher than 2°C and thus avoid disruptive climate impacts that are inevitably associated. 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 it signed the "Copenhagen Communiqué" and in 2007 it signed the "Bali Communiqué", the first document for the development of concrete strategies through joint work by Governments on a comprehensive global climate agreement.

COMPANY INITIATIVES FOR THE EXTERNAL COMMUNITY

As specified in the Group "Values and Ethical Code", Pirelli provides support to educational, cultural, and social initiatives for promoting personal development and improving living standards. The Company does not provide contributions, advantages, or other benefits to political parties or trade union organisations, or to their representatives or candidates, this without

prejudice to its compliance with any relevant legislation.
Since the founding in 1872, Pirelli has been aware of its important role in the promotion of civil progress in all the communities where it operates and, capitalising on the Company's natural strengths, it has identified three focus areas: road safety, technical training and solidarity through sporting activities for young people. Pirelli for some years has adopted an internal procedure to regulate Group companies' contributions to the External Community, in relation to the roles and responsibilities of the functions involved, the operational process of planning, realising and monitoring the initiatives and the disclosures regarding the same. Essential support in the identifying of the actions that best satisfy local requirements comes from the dialogue with locally operating NGOs. Priority is given to those initiatives whose positive effects on the External Community are tangible and measurable according to objective criteria. The internal procedure also specifies that no initiatives may be taken in favour of beneficiaries for whom there is direct or indirect evidence of violation of human rights, worker rights, environmental protection or business ethics.

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 that inspires the Group's industrial and commercial choices. Pirelli's commitment to road safety takes the form of numerous training and awareness-raising activities, but above all it translates into research and the ongoing application of innovative technological solutions for sustainable transport. Pirelli is also highly focused on the achievement of 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:

- contribute to consumer knowledge about the fundamentals of road safety, through experience and safe driving courses;
- increase the awareness of young drivers on the causes of road accidents through specific initiatives.
- provide information material on winter road safety at the points of sale, with the support of the Pirelli website (potential reach of 9 million users worldwide in one year) and sites dedicated to information on winter ordinances;
- organise training seminars, in collaboration with associations, on issues of road safety related to the tyre and its related uses;
- train international dealers on the importance of the tyre in road safety and the performance differences between winter and summer tyre; the activity has been ongoing for over two years and has involved most of the countries in which Pirelli has a direct presence; in 2015 there were more than 700 classroom training courses for dealers from around the world with more than 14,000 participants;
- actively participate in national programmes on road safety, in agreement with associations, institutions, universities, manufacturers of cars and motorcycles or collaborating with law enforcement agencies for the preparation of a useful module for detection of the state of use of the tyre.

In Italy, Pirelli has developed a training programme in the area dedicated to dealers, with a focus on safety and performance differences between summer tyres, winter and All Season. The Company also dealt with the definition of summer/winter tests by Assogomma and actively participated in road tests with the involvement of government agencies, journalists and specialists in the automotive sector. As in previous years, also in 2015, Pirelli dedicated a website to the collection of updates related to the winter ordinances in force on Italian territory (www.ordinanzeinvernali.it).
In Turkey, Pirelli has continued an extensive e-learning project on road safety and the importance of the tyre at university level called "Traffic is Life - Traffic Safety": the course, eligible for university credits, was introduced in 14 universities and taken by almost 16,000 students.
In Russia, Pirelli has promoted, with the collaboration of the traffic police, a day in favour of "defensive driving", which involved more than 1,200 people. Also in Russia, in Kirov, Pirelli organised a "Picnic Tour" to promote safe driving and the "I Myself" rally, dedicated entirely to women, with the main objective of promoting compliance with the rules of good driving.
In Poland, Pirelli has sponsored an art competition on the theme of safe driving, and in the UK, Pirelli sponsored "Tyre Safe", an initiative to promote road safety.
In 2015, when Formula 1 returned to Mexico, Pirelli launched a highly successful educational programme on road safety that involved the use of F1 driving simulators.
In regard to heavy vehicle transport, in 2015 Pirelli Truck continued the activities it had already undertaken in previous years, dedicated to sustainable mobility and road safety. There is an important tutorial on Pirelli CyberFleet system on the pirelli.com/tyre website, which offers fleet managers the opportunity to quantify the benefits of a correct measurement of the pressure and temperature of the tyres in terms of regularity of wear, fuel economy and road safety. In parallel, meetings have been organised during the year at European level with fleets and dealers, aimed at raising awareness on sustainability in freight transport through the introduction of tools for tyre pressure monitoring (Cyber and FleetCheck systems).
There were many initiatives in favour of education for road safety also by the Pirelli Motorcycle Business Unit, which in 2015 continued the collaboration with driving schools for the development of practical and safe on-road and off-road experience.

Training

The promotion of technical education and training are 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 and the Politehnica of Bucharest in Romania, among others.
In 2015, in Italy, the collaboration with Università di Milano Bicocca led to the patent of a new super compound for tyres based on nano-particles. The new compound is the result of a three-year study conducted with the University of Prague and carried out in the scope of activities of the PhD in Science and Nanotechnology of Materials of the university of Milan.
In Romania, Pirelli has collaborations with several local universities that have led to the creation of an academy for information technology and an automotive Masters' course with scholarships and internships. During the year, the "Train Yourself for Success" programme involved 43 students from Alexe Marin College and Metallurgic College in Slatina. The training focused on electrical and mechanical skills required in the production process at the factory, as well as modules on Health, Safety and Environment and emergency management. More than 28 students were selected for recruitment at the factory. In collaboration with local authorities, Pirelli also participates in the START programme, aimed at training the unemployed.
Technical training has a fundamental role in the creation of a skilled labour pool needed to maximise plant productivity. In Mexico, the Piero Pirelli Institute for technical training was inaugurated, in the presence of the Governor of the State of Guanajuato. Within the institute, which will have an important role in the Silao community, there will be numerous classrooms, a showroom on the process, materials and 3D models of the product, workshops and production workstations that will use both virtual reality and physical warehouse simulators, service areas and offices.
In Egypt, Pirelli carried out a major restoration project at the school in El-Bieda. In particular, the restoration is focused on health facilities, the playground, gardens, exterior painting and polycarbonate windows.
In Turkey, Pirelli has also managed a restoration, in this case of the Turk Pirelli Primary School. Furthermore, also in Turkey teaching programmes in technical schools were organised by expert volunteers from Pirelli and involved 60 students.
In Russia, Pirelli bought machinery for a carpentry class.
In Brazil, Pirelli supports Educandario Imaculado Coracao de Maria in Amélia Rodrigues, an elementary school run by Italian nuns and attended by 918 children.
In Yanzhou, China, Pirelli has an active internship programme: some students selected from the Universities with which Pirelli collaborates, participate in training activities at the factory in product, quality, safety and research areas. Also in China, Pirelli has signed an agreement with the Qingdao University for Science and Technology, which provides 36 scholarships for outstanding students.
In the UK, Pirelli continues to organise apprenticeships, in collaboration with local technical schools and sponsorship of career fairs. This year Pirelli has also supported a programme to combat cyber bullying in schools.
In Germany, partnerships with local universities are coming to fruition with an extensive apprenticeship programme.
Training does not only concern the production process at the factory; for Pirelli, the tyre's entire life cycle is important. In fact, the Group focuses heavily on disseminating sustainable agriculture practices for raw materials such as natural rubber. In Indonesia, in collaboration with the supplier Kirana Megatara, the "Rubber Productivity Enhancement Project" with three main objectives has been launched:

- Educating natural rubber farmers by teaching the correct procedures for rubber extraction enabling the protection of natural resources (maximising productivity and maintaining and extending the life of trees);
- Distributing high-quality seeds to farmers to increase productivity of rubber trees;
- Giving scholarships to the children of natural rubber growers, to allow them to go to school and buy school books.

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 the right to play. Since 2008, Inter, Pirelli and Comunità Nuova have been running the Inter Campus social project in Slatina, Romania. The sports and recreational activities are organised for the entire year, involving over 100 children from different social contexts who have been learning team spirit, social integration and the values of friendship through football for over 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 in the area. In the United States, the first Inter Campus was inaugurated in 2014 by Pirelli and Inter along with the Youri Djorkaeff Foundation. The Campus is located in the community of Inwood, a neighbourhood in New York City, and involves more than 120 children. Also in 2014, Pirelli and Inter inaugurated together an Inter Campus project in Voronezh, Russia, involving two local orphanages: in May, the construction of the football field was completed and 100 shirts were distributed to the children.

Pirelli also sponsors baseball in Venezuela with the Pirelli Sports Club, a school with over 300 children and adolescents, and with athletes preparing for Major League sports in the USA; basketball, volleyball, soccer, cycling, judo, windsurfing, go-karting and swimming in Brazil, to name 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 organised a rally with great success in Carlisle for the Richard Burns Foundation which helps medical research; it also sponsored various sporting events linked to philanthropic fund-raising. In Carlisle, the company bought a football field for the community. In France and other locations, some employees took part in a race for charity; in Germany, Pirelli made donations for youth sports clubs.

In Kirov, Russia, Pirelli sponsored the "Pirelli Cup" in ice hockey.

In Egypt, Pirelli built a sports centre for youths on a plot of 3,000 square metres donated by the Ministry of Youth. The centre is 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 activities worldwide. The Company supports educational and didactic programmes that are able to give less fortunate children the tools to improve their condition; it contributes scholarships and research projects, firmly believing in training as vital to individual growth and the economic growth of a country.

In Brazil, where Pirelli has been historically active in the local community with social projects, the Company provided for about 150 children in the city of Feira de Santana, near the Pirelli factory, in an after-school programme with 15 different types of activities. A similar project is near the Gravataí factory, which is aimed at social inclusion and includes music and dance activities in addition to more traditional educational activities. Also in Brazil, Pirelli supports the kindergartens of Dr. Klaide in Santo André and Escadinha do Tempo in Meleiros, which guarantee not only educational activities but also medical, dental and psychological visits, in addition to food, for 280 children.

Pirelli supports the Fundació Mambre in Spain, a foundation that operates as a 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. Pirelli collaborates with the AMPANS association for the "Salut i Pedals" project, contributing bicycles to promote the sport. The AMPANS is dedicated to the cognitively disabled.

In Russia, the employees in Moscow gave support to an orphanage, by organising activities and gifts for the children there and providing cooking courses. A group of employees took part in a race in support of "Naked Hearts", the association run by Natalia Vodyanova. The Kirov factory employees have volunteered at a day-care centre and made tyre donations to the orphanage.

In Switzerland, there has been a major donation of tyres by an organisation in support of the disabled.

In Turkey, Pirelli has continued to support the Foundation for the Training and Protection of Mentally Disabled Children (ZİÇEV), offering a sum that covers the supply of gas for heating of the building.

In Venezuela, initiatives were organised to give educational toys to needy children and look after children during the school holidays while offering fun activities.

In Germany, Pirelli has made donations to the Red Cross and in favour of the disabled.

In Mexico, some employees ran a race in support of a nursing home for the elderly.

In Argentina, a campaign was organised for food donations to help a community kitchen for children, and a marathon was sponsored in support of children with cancer.

In the UK, Pirelli has dealt with many community initiatives, including, in particular, the project Burton Albion Community Trust Ghana, which helps a group of young people to make a trip to Ghana to provide help in community projects such as building houses or teaching in schools. Furthermore, also in the UK, Pirelli has offered support to communities in Cumbria, which was affected by severe flooding, both through financial assistance and through the donation of food, clothes, water and toys for the evacuees.

Health

Pirelli considers contributing to improving the health services of the communities where it operates to be important. 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 270 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 350 children in Slatina through the project Overland for Smile.
In the UK, the philanthropic activities of Pirelli in the field of health include sponsorships, fundraisers and donations for research and medical care. In 2015, Pirelli also sponsored an award to recognise the professionalism of some hospital employees.
In Spain, Pirelli participated in the Day of Solidarity Somos Uno, raising funds for biomedical research for serious childhood diseases. In France, the Group sponsored a car race to support cancer care at the hospital. Since 2010, Pirelli has supported the Pequeno Principe Hospital in Curitiba, the biggest paediatric hospital in Brazil.
In Kirov, Russia, 244 employees donated blood, and in Venezuela, there has been a campaign for Preventive Medicine.

Environmental Initiatives

Many Pirelli employees around the world enthusiastically participate every year in environmental projects.
In Egypt, a competition was also promoted in 2015 for the best ideas about recycling of factory waste materials (pieces of wood, building materials, etc.): six teams participated, divided among three local villages. Among the more useful projects are the strengthening of the roofs of houses, the construction of protected bus stops, and construction projects of bins for the collection of garbage, a stadium, and a nursery.
Environmental recycling projects have also been organised in Romania, where more than 250 volunteers gathered in Slatina to participate in a national recycling competition.
In Venezuela also in 2015, Pirelli organised a large group of volunteers to clear beaches and nearby public areas. In China, Pirelli employees were involved in planting trees.
In Mexico, in addition to planting trees, Pirelli employees cleaned up a large landfill of used tyres. In Germany, Pirelli made a donation to an association for the protection of nature.
In Voronezh, Pirelli participated in planting trees in the local project "Victory Forest". Employees have also collected more than 150 kg of batteries for recycling.

Culture and Social Value

The internationality of Pirelli also emerges from the love for culture, with initiatives in many countries worldwide also in 2015. The attention to culture, and even more the commitment to preserve it, spread it and enhance it, are part of social value creation DNA.
Pirelli is among the sponsors of the Museum of Modern Art of Sao Paulo, one of the most important structures in Latin America which, in addition to the permanent collection, every year offers major exhibitions, seminars, events and courses. Also in Brazil, Pirelli has supported the exhibition of Marino Marini, an Italian artist globally known for brass sculptures, and, at the Pinacoteca de Sao Paulo, the exhibition of Nuno Ramos. Pirelli also supports the exhibition of Marinella Pirelli, on 50 years of artistic activities with a particular focus on the poetic creative process and luminous objects. Pirelli has given support to the event ArtRio, a collection of 100 national and international galleries, and since 2015, has supported the Museu da Imagem and do Som in Sao Paulo, a diversified museum that gives space to new artists selected to exhibit photographic works, film, dance and music. In Brumadinho, Pirelli supports the Instituto Inhotim, with a famous collection of contemporary art and a collection of plants from around the world. In the field of music, Pirelli sponsors the Mozarteum project, which presents great international orchestras of classical music in Brazil and in Argentina; in Brazil, it has also sponsored a musical work, "Sou Toda Coração". In 2015, Pirelli sponsored the publication of a book and the presentation of a documentary, "Amazon Roots", about the life of the communities in the Amazon rain forest, collected through interviews, testimonies, photos and videos.
In many countries, Pirelli is conducting a mission, as an Italian multinational company, to protect and disseminate Italian culture abroad. The projects in 2015 include events dedicated to the Italian theatre, cinema and songs that took place in Argentina. In the latter country Pirelli is also sponsor of the Lucio Fontana Prize, which reached its 4th edition in 2015, promoted by the Buenos Aires Consulate General of Italy and reserved for emerging artists of Italian origin residing in Argentina.
Pirelli is also very attentive to the preservation of local cultures. In China, it supports research on Confucianism supporting the China Confucius Website and Confucius Culture Month.
In the United States, in Rome (Georgia), the location of a Pirelli factory, there is sponsorship of the Rome Area Council for the Arts.
In Romania, Pirelli offered a complimentary theatre evening to the community of Slatina and was one of the main sponsors of the "Zilele Eugen Ionescu" theatre festival.
In Turkey, Pirelli sponsored the 22nd Istanbul Jazz Festival, with the *"NETTWORK"* concert (Charnett Moffett, Stanley Jordan, Cyrus Chestnut and Jeff Watts).
Pirelli's Australian headquarters hosted research into the influence of Italian culture on business.
In Voronezh, Russia, Pirelli sponsored the Governor's Charity Ball, with the aim of raising funds for young talents in the region: musicians, artists, athletes and young researchers. In addition, Pirelli gave support to the "Literary Jam" project organised as part of the Year of Literature in Russia. Equipped with Pirelli tyres from the Voronezh site, a team of journalists from Rossiyskaya Gazeta made a literary journey in the country visiting the homes of famous authors and cooking their recipes. Also in Russia, an exhibition was presented of the Pirelli Calendar at Multimedia Art Museum in Moscow, while

in Kirov, Pirelli gave the city a statue representing the "Itala" Car of 1907, winner of the Rally from Paris to Beijing with Pirelli sponsorship.

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 2015 to develop and promote the Pirelli archives. Among these, the following are noted in particular:

- Publication of the volume "Una Musa tra le Ruote (The Muse in the Wheels). Pirelli: a century of art at the service of the product", which traces the history of Pirelli's communication from 1872 to 1972 through 200 works by great artists such as Armando Testa, Bruno Munari, Riccardo Manzi, Bob Noorda, Ezio Bonini to advertise Pirelli products. The book, published and distributed by Corraini in Italian and English, was presented on June 24, 2015 at La Triennale di Milano, an event organised under the patronage of AIAP (Italian Association of Visual Communication Design) and the Design Museum and was attended by over 1,000 people;
- Publication on the website www.fondazionepirelli.org of the digital library in Italian and English versions of the Pirelli Historical Archive documents divided into sections: texts, photographs, sketches and drawings, business magazines;
- Expo 2015: exhibition on the history of Pirelli's technological excellence. Coinciding with the Italian Grand Prix, the creation of an exhibition involving texts and images from the history of research and development by the Company, accompanied by cars and motorcycles by Italian manufacturers renowned for their excellence;
- Participation in the 14th Enterprise Culture Week promoted by Confindustria, on the theme "L'impresa va in scena" (The company goes on stage): guided tours to the historical archive space, Bicocca degli Arcimboldi and Pirelli Headquarters with the involvement of a group of professional actors. The event was attended by over 500 people;
- Exhibitions designed for the community of Pirelli employees: creation of exhibitions on the issues of women workers, health and nutrition in the company (history of the company canteen, colonies, stores of food and welfare services) and on Christmas in the Pirelli world. 1,175 employees were involved;
- Pirelli's participation as a main partner in "#ioleggoperchè" (a project set up by the Italian Publishers' Association): creation of reading promotion initiatives for Pirelli employees and their children;
- Partnership with the International Council on Archives, Business Archives (ICA/SBA) section: annual international conference for company archivists, hosted in the Pirelli Auditorium on June 15 and 16. The event was attended by 120 corporate archivists from around the world;
- Participation in the "restyling" project for the reception space in the new Children's department of the Niguarda Hospital: opening to students at the NABA (New Academy of Fine Arts in Milan) of the iconographic heritage of the company's Historical Archive to redefine the decorative elements and signage in the new hospital ward;
- The "Pirelli Educational Foundation" project aimed at students, with the aim of bringing younger people closer to the labour world and the values on which the Pirelli corporate culture is based: extension of the offer of educational and creative exhibitions on road safety and sustainability to raise awareness among children and young people, through workshops and multimedia tools, on tyre recycling and reuse policies and the research conducted by Pirelli into new materials and innovative processes that ensure a lower environmental impact. In 2015, there were over 150 educational courses, which involved over 2,500 children;
- "Bambini in Bicocca" project: for the third consecutive year the Foundation collaborated in the project with the Pirelli Human Resources Department, creating the educational and training courses aimed at employees' children being welcomed into the Company during school holidays. The children had the opportunity to learn about the workplace of their parents, to visit and learn about the heritage of the Pirelli Historical Archive and learn about techniques for tyre recycling and reuse. The project involved more than 225 children aged between 5 and 10 for 7 days;
- Educational activities for university students (about 300) from major Italian universities and academies (Università degli Studi di Milano-Bicocca, Nuova accademia di belle arti di Milano, Università Luigi Bocconi, Politecnico di Milano, etc.) and those abroad (School of management of Paris, Universidad Peruana de Ciencias Aplicadas of Lima, etc.). Moreover, since 2010 the Foundation has had a seat on the Board of Trustees of the Scuola dell'Infanzia G.B. Pirelli in Varenna, 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 used as a scholarship for particularly worthy students. The collaboration with the Association for Excellence Training also continues.

In 2015 approximately 9,000 researchers, students, historians and designers visited the Foundation headquarters and conducted research at the Pirelli Historical Archive. About 1,500 of its materials were provided for exhibitions and publications, also internationally. The development and promotion of the enormous artistic heritage of the Group also relies on digital communication. In addition to the website www.fondazionepirelli.org, implemented by the section devoted to visits and consulting of materials of the Historical Archive, the Foundation constantly updates its own Facebook page and Instagram and Pinterest accounts.

HANGARBICOCCA

Pirelli HangarBicocca, which with its 15,000 square metres is one of the largest exhibition venues in Europe, is a space dedicated to the production, exhibition and promotion of contemporary art, created in 2004 from the reconversion of a vast industrial facility that belonged to Ansaldo-Breda. The programming of solo exhibitions by the most important international artists is distinguished by a character of research and experimentation and special attention to site-specific projects which are capable of maintaining a dialogue with the unique features of the space. The project was revamped in 2012 with the belief 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 the Pirelli HangarBicocca Foundation. The 2015 artistic programme, curated by Artistic Director Vicente Todolí and curator Andrea Lissoni and new curator Roberta Tenconi, presented artists of great international profile, alternating exhibitions of very successful names with exhibitions of emerging artists. The programme managed to attract an Italian and international audience composed of art experts, representatives of the most important museums, trade journalists and the general press, as well as an equally large number of enthusiasts, families and students. During the year, there were a total of 200,000 visitors who visited the 6 large exhibition projects dedicated to international artists created in 2015:

- Joan Jonas (New York 1936) October 2, 2014 - February 1, 2015
- Céline Condorelli (Paris 1974) December 11, 2014 - May 10, 2015
- Juan Muñoz (Madrid 1953 - Ibiza 2001) April 9, 2015 - August 30, 2015
- Damián Ortega (Mexico City, 1967) June 5, 2015 - November 8, 2015
- Philippe Parreno (Oran, Algeria, 1964) October 22, 2015 - January 14, 2016
- Petrit Halilaj (1986; Kostërrc, Skenderaj-Kosovo) December 3, 2015 - March 13, 2016

The vocation of Pirelli HangarBicocca is that of a place open to the city and its hinterland, of an institution that accompanies the normal exhibition activity with a range of programmes intended to attract even the non-specialised public to contemporary art. The HB Public programme accompanied the exhibitions with a full calendar of events, guided tours to the exhibitions and the district, projections and meetings with the key players in art and culture. During the year, there were about 20 cultural events (day and/or evening) that involved more than 5,000 visitors in activities related to ongoing exhibitions as well as a 3-day summer festival in July, which was attended by over 3,000 people. The HB Kids and HB Family programme is continuing regularly and offers creative activities and workshops to introduce children aged 4 to 14 to the languages of contemporary art while accompanied by their parents: in 2015, the Education Department offered 220 creative activities attended by about 3,000 children, of whom more than half were aged between 4 and 6. The education department has also enhanced guided tours offering more than 600 activities in both Italian and foreign languages in addition to the "Art on Sunday" format involving cultural mediators in Sunday lessons of the history of the art related to the exhibitions. For students from all types and level of schools, Pirelli HangarBicocca conceived the HB School programme, which complements traditional art education with a methodology inspired by the principle of educating with art. In 2015, more than 5,940 students took part in the HB School activities. Between 2013 and 2015, Pirelli HangarBicocca further strengthened relations with major international museums and official cultural bodies from many countries. Among these were: 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, Louvre in Paris.
During the year, Pirelli HangarBicocca also hosted 30 private events, of which there were two major events of national significance:

- "Expo of Ideas" conference and round table with top representatives from Italian institutions. February 7, 2015.
- "Io leggo perché" (I read because) on the occasion of the National Book Day, live on RAI. April 23, 2015.

The activities of Pirelli HangarBicocca generate, among other things, significant induced employment: in 2015, the creation of exhibitions and major initiatives involved 36 companies and generated 9,900 days/worker.

Pokras Lampas

Agnes Gund

Art Collector and Patron

*“Being involved with the Pirelli calendar
alongside my granddaughter Sadie, and
working with and getting to know the remarkable
Annie Leibovitz was an extraordinary experience
that certainly left a mark on me. I suppose
the idea of “leaving my mark” would be the hope
that I have helped increase the opportunities for arts education
for New York City school children and beyond.
I also know I have left a mark through
my four children and twelve grandchildren
who have always been true to themselves and continue to inspire me
and “leave their mark” on those around them.„*

03. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in thousands of euro)

		12/31/2015	12/31/2014
9	Property, plant and equipment	2,419,453	2,522,464
10	Intangible assets	968,541	984,002
11	Investments in associates and J.V.	167,348	186,783
12	Other financial assets	225,121	180,741
13	Deferred tax assets	123,724	248,564
15	Other receivables	147,624	169,145
16	Tax receivables	6,169	12,068
	Non-current assets	**4,057,980**	**4,303,767**
17	Inventories	1,053,929	1,055,016
14	Trade receivables	676,192	673,808
15	Other receivables	165,408	265,274
18	Securities held for trading	78,167	61,404
19	Cash and cash equivalents	1,082,726	1,166,669
16	Tax receivables	62,410	73,960
27	Derivative financial instruments	61,305	29,104
	Current assets	**3,180,137**	**3,325,235**
	Assets held for sale	**-**	**44,037**
	Total Assets	**7,238,117**	**7,673,039**
20.1	Equity attributable to owners of the Group:	2,280,177	2,548,345
	_ Share capital	1,343,285	1,343,285
	_ Reserves	1,328,258	885,769
	_ Net income (loss)	(391,366)	319,291
20.2	Equity attributable to non-controlling interests:	63,367	63,157
	_ Reserves	55,578	49,611
	_ Net income (loss)	7,789	13,546
20	**Equity**	**2,343,544**	**2,611,502**
23	Borrowings from banks and other financial institutions	1,275,688	1,781,726
25	Other payables	98,631	74,692
21	Provisions for liabilities and charges	77,906	97,799
13	Provisions for deferred tax liabilities	43,622	53,029
22	Employee benefit obligations	362,540	458,945
26	Tax payables	2,646	3,397
	Non-current liabilities	**1,861,033**	**2,469,588**
23	Borrowings from banks and other financial institutions	1,138,592	530,890
24	Trade payables	1,313,131	1,394,312
25	Other payables	404,172	443,477
21	Provisions for liabilities and charges	63,221	67,030
26	Tax payables	62,445	100,761
27	Derivative financial instruments	51,979	42,835
	Current liabilities	**3,033,540**	**2,579,305**
	Liabilities related to assets held for sale	**-**	**12,644**
	Total Liabilities and Equity	**7,238,117**	**7,673,039**

CONSOLIDATED INCOME STATEMENT (in thousands of euro)

		2015	2014
29	Revenues from sales and services	6,309,633	6,018,063
30	Other income	168,635	204,076
	Changes in inventories of unfinished, semi-finished and finished products	53,856	71,634
	Raw materials and consumables (net of change in inventories)	(2,106,886)	(2,083,896)
31	Personnel expenses	(1,295,130)	(1,239,770)
32	Amortisation, depreciation and impairment	(327,004)	(304,855)
33	Other costs	(1,955,550)	(1,829,766)
	Increase in Fixed Assets for Internal Work	2,757	2,447
	Operating income (loss)	**850,311**	**837,933**
34	Net income (loss) from equity investments	(41,393)	(87,000)
	_ *share of net income (loss) of associates and j.v.*	*(9,002)*	*(55,147)*
	_ *gains on equity investments*	-	*18,989*
	_ *losses on equity investments*	*(38,420)*	*(54,715)*
	_ *dividends*	*6,029*	*3,873*
2.5	Deconsolidation of the Venezuelan subsidiary	(559,491)	-
35	Financial income	73,964	91,677
36	Financial expenses	(402,180)	(354,087)
	Net income (loss) before tax	**(78,789)**	**488,523**
37	Tax	(290,137)	(173,309)
	Net income (loss) from continuing operations	**(368,926)**	**315,214**
38	Net income (loss) from discontinued operations	(14,651)	17,623
	Total net income (loss)	**(383,577)**	**332,837**

	Attributable to:		
	Owners of the parent	(391,366)	319,291
	Non-controlling interests	7,789	13,546

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME (in thousands of euro)

		2015	2014
A	**Net income (loss)**	**(383,577)**	**332,837**
Components of other comprehensive income:			
	B - Items that will not be reclassified to income statement:		
	_ Net actuarial gains (losses) on employee benefits	12,473	(30,263)
	_ Tax effect	(18,910)	18,138
	Total B	**(6,437)**	**(12,125)**
	C - Items reclassified / that may be reclassified to income statement:		
	Exchange differences from translation of foreign financial statements:		
	_ Gains / (losses) for the period	(148,597)	(57,232)
	_ (Gains) / losses reclassified to income statement	131,952	2,103
	Fair value adjustment of other financial assets:		
	_ Gains / (losses) for the period	38,853	(5,231)
	_ (Gains) / losses reclassified to income statement	100	20,628
	Fair value adjustment of derivatives designated as cash flow hedges:		
	_ Gains / (losses) for the period	4,992	(3,497)
	_ (Gains) / losses reclassified to income statement	(215)	19,262
	_ Tax effect	(1,045)	(3,252)
	Fair value adjustment of derivatives designated as net investment hedges:		
	_ Gains / (losses) for the period	-	(4,761)
	Total C	**26,039**	**(31,979)**
	Share of other comprehensive income related to associates and joint ventures	1,090	4,340
	Total D	**1,090**	**4,340**
E	**Total components of other comprehensive income (B+C+D)**	**20,692**	**(39,764)**
A+E	**Total comprehensive income (loss)**	**(362,885)**	**293,073**
	Attributable to:		
	_ Owners of the Parent	(368,022)	279,899
	_ Non-controlling interests	5,136	13,174

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2015 (in thousands of euro)

	ATTRIBUTABLE TO THE PARENT					NON CON-TROLLING INTERESTS	TOTAL
	SHARE CAPITAL	TRANS-LATION RESERVE	TOTAL IAS RESERVES*	OTHER RESERVES/ RETAINED EARNINGS	TOTAL ATTRIBUTA-BLE TO THE PARENT		
Total at 12/31/2014	**1,343,285**	**(283,430)**	**(436,204)**	**1,924,694**	**2,548,345**	**63,157**	**2,611,502**
Components of other comprehensive income	-	(13,993)	37,338	-	23,345	(2,653)	20,692
Net income (loss)	-	-	-	(391,366)	(391,366)	7,789	(383,577)
Total conprehensive income (loss)	**-**	**(13,993)**	**37,338**	**(391,366)**	**(368,021)**	**5,136**	**(362,885)**
Dividends paid	-	-	-	(179,572)	(179,572)	(6,656)	(186,228)
Venezuela inflation effect	-	-	-	280,345	280,345	11,015	291,360
Deconsolidation of the Venezuelan subsidiary	-	-	-	-	-	(8,502)	(8,502)
Other	-	-	40,427	(41,347)	(920)	(783)	(1,703)
Total at 12/31/2015	**1,343,285**	**(297,423)**	**(358,439)**	**1,592,754**	**2,280,177**	**63,367**	**2,343,544**

(in thousands of euro)

	BREAKDOWN OF IAS RESERVES*				
	RESERVE FOR FAIR VALUE ADJUSTMENT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS	RESERVE FOR CASH FLOW HEDGE	RESERVE FOR ACTUARIAL GAINS/LOSSES	TAX EFFECT	TOTAL IAS RESERVES
Total at 12/31/2014	**56,120**	**(20,246)**	**(547,147)**	**75,069**	**(436,204)**
Other components of other comprehensive income	40,043	4,777	12,473	(19,955)	37,338
Other changes	-	-	40,345	82	40,427
Total at 12/31/2015	**96,163**	**(15,469)**	**(494,329)**	**55,196**	**(358,439)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2014 (in thousands of euro)

	ATTRIBUTABLE TO THE PARENT					NON CON-TROLLING INTERESTS	TOTAL
	SHARE CAPITAL	TRANSLATION RESERVE	TOTAL IAS RESERVES*	OTHER RESERVES/ RETAINED EARNINGS	TOTAL ATTRIB-UTABLE TO THE PARENT		
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 conprehensive 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 stakes	-	-	-	(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 AVAILABLE-FOR-SALE FINANCIAL ASSETS	RESERVE FOR CASH FLOW HEDGE	RESERVE FOR ACTUARIAL GAINS/LOSSES	TAX EFFECT	TOTAL IAS RESERVES
Total at 12/31/2013	**35,631**	**(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
Total at 12/31/2014	**56,120**	**(20,247)**	**(547,147)**	**75,069**	**(436,204)**

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)

		01/01 - 12/31/2015	01/01 - 12/31/2014
	Net income (loss) before taxes	480,702	488,523
	Amortisation, depreciation, impairment losses and reversals of impaired property, plant and equipment and intangible assets	327,004	304,855
	Reversal of financial expenses	402,180	354,087
	Reversal of financial income	(73,964)	(91,677)
	Reversal of dividends	(6,029)	(3,873)
	Reversal of gains/(losses) on equity investments	38,420	35,726
	Reversal of share of net income from associates and joint ventures	9,002	55,147
	Ordinary taxes	(182,737)	(173,309)
	Change in inventories	(86,127)	(104,203)
	Change in trade receivables	(139,377)	(32,621)
	Change in trade payables	29,574	160,209
	Change in other receivables/payables	42,875	(14,152)
	Change in provisions for employee benefit obligations and other provisions	43,975	(28,860)
	Other changes	(14,044)	(18,487)
A	**Net cash flows provided by (used in) operating activities**	**871,452**	**931,365**
	Investments in property, plant and equipment	(375,012)	(367,201)
	Disposal of property, plant and equipment	9,936	11,292
	Investments in intangible assets	(16,382)	(10,763)
	Acquisitions of investments in subsidiaries	-	17,886
	Exercise of Fenice share options	(12,157)	-
	Disposals (Acquisition) of investments in associates and JV	-	(17,458)
	Disposals (Acquisition) of financial assets	(8,493)	(455)
	Disposal of Steelcord	45,600	125,600
	Dividends received	6,029	3,873
B	**Net cash flows provided by (used in) investing activities**	**(350,479)**	**(237,226)**
	Other changes in equity	-	5,631
	Change in financial payables	234,346	112,700
	Change in financial receivables/Securities held for trading	2,670	(40,458)
	Financial income (expenses)	(304,246)	(190,325)
	Dividends paid	(189,561)	(160,101)
C	**Net cash flows provided by (used in) financing activities**	**(256,791)**	**(272,553)**
	Net cash flows provided by (used in) operating activities	919	(27,500)
	Net cash flows provided by (used in) investing activities	-	-
	Net cash flows provided by (used in) financing activities	-	454
D	**Net cash flows provided by (used in) discontinued operations**	**919**	**(27,046)**
E	**Total cash flows provided (used) during the period (A+B+C+D)**	**265,102**	**394,541**
F	**Cash and cash equivalents at beginning of financial year**	**1,150,605**	**806,856**
G	**Exchange differences on translation of cash and cash equivalents**	**(70,890)**	**(50,792)**
H	**Deconsolidation of the Venezuelan subsidiary**	**(277,659)**	**-**
I	**Cash and cash equivalents at end of financial year (E+F+G+H) (°)**	**1,067,158**	**1,150,605**
	(°) of which:		
	cash and cash equivalents	1,082,726	1,166,668
	bank overdrafts	(15,568)	(16,063)

Pokras Lampas

Eva Herzigova

Model and Actress

*"I would like to leave a mark with a THANK YOU.
A heartfelt thank you to the wonderfully
talented photographers, hair and make-up artists,
fashion editors and stylists,
magazines, fashion houses, designers and brands,
directors and production teams, my support teams,
my friends and above all my family, who over so many years
have and continue to believe in me.
For the wonderful experiences and the many amazing
images that will tell the story of the small part
I have been fortunate to play
in the history of this extraordinary
world of fashion. THANK YOU.„*

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, it is a holding company which manages, coordinates and finances the operations of its subsidiaries, primarily active in the tyre industry; other activities are represented by technologies for low emissions and in the field of renewable energy.

The registered office of the company is in Milan, Italy.
These Financial Statements have been prepared using the Euro as the accounting currency and all values have been rounded to thousands of Euro unless otherwise indicated.

On March 15, 2015, the Board of Directors authorised the publication of these Consolidated Financial Statements.

Following the outcome of the Public Purchase Offer launched by Marco Polo Industrial Holding S.p.A. and subsequent purchase transactions on the ordinary shares of Pirelli & C. S.p.A. led to Marco Polo holding 100% of the shares of this category, the ordinary shares were revoked from listing on October 6, 2016, Additionally, a General Meeting on February 15, 2016, in an extraordinary session approved a proposal for the mandatory conversion of savings shares into a special category of unlisted new issue shares without voting rights. Due to this resolution the saving shares were also delisted on February 26, 2016.

Pirelli & C. S.p.A. is subject to the management and coordination of Marco Polo International Italy S.p.A., which indirectly is the sole shareholder of Marco Polo Industrial Holding S.p.A. that directly controls the Company. Both the aforesaid companies are ultimately controlled by China National Chemical Corporation ("ChemChina"), a "state-owned enterprise" (SOE) under Chinese law, with registered office in Beijing, referable to the Central Government of the People's Republic of China.

2. BASIS OF PRESENTATION

2.1 FINANCIAL STATEMENTS FORMATS

The Group has adopted for the presentation 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 makes a distinction between current and non-current assets and liabilities.
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 gains/(losses) components for the financial year in a separate Income Statement, rather than include these components directly in the Statement of Comprehensive Income. The format of the Income Statement adopted provides for the classification of the expense by nature.
The Statement of Comprehensive Income includes the results for the financial year 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 in equity in previous years directly in the Statement of Comprehensive Income and not in the Explanatory Notes.
The Statement of Changes in Equity sets forth, in addition to total gains/(losses) for the financial year, the amounts of transactions

with equity holders and the changes which occurred during the financial year in retained earnings.
In the Cash Flow Statement, the cash flows deriving from operating activities are presented using the indirect method, according to which the gain or loss for the financial year is adjusted by the effects of non-monetary items, by any deferment or accrual of past or future operating receipts or payments, and by any revenue or cost items connected with the cash flows arising from investing activities or financing activities.

2.2 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 investment in the entity;
- the ability to use its own decision-making power to determine the amount of the results arising from the investment in the entity.

The Financial Statements of subsidiaries are included in the consolidated Financial Statements beginning on the date when a controlling interest is acquired until such time that control ceases to exist. The share of equity and the results attributable to non-controlling interests are separately indicated respectively in the consolidated Statement of Financial Position and consolidate Income Statement.

All companies over which the Group could exercise significant influence as defined by IAS 28 – Investments in Associates are considered associates. This influence is presumed to exist when the Group holds a percentage of voting rights between 20% and 50%, or when - even with a lower share of voting rights – it has the power to participate in determining financial and operating policies by virtue of specific legal relationships, such as, for example, participation in shareholders' agreements together with other significant forms of exercise of governance rights.
Joint arrangements are agreements under which two or more parties have joint control under a contract. Joint control is the shared control, established by agreement, of an economic activity, which exists only when, decisions on these activities require the unanimous consent of all the parties sharing control. 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 are distinguished from joint operations that are configured instead as agreements that give the parties of the agreement, which have joint control of the initiative, rights on individual assets and obligations for individual liabilities relating to the agreement. The Group does not currently have any agreements for joint operations.

The main changes in the scope of consolidation during the 2015 financial year relate to the sale on February 6, 2015 of the subsidiary Celikord A.S. (Turkey) and on March 27, 2015 of the Chinese subsidiary Sino Italian Wire Technology Co. Ltd. as completion of the sale of the steelcord activity to Bekaert; Furthermore, the deconsolidation of the Venezuelan subsidiary effective as of December 31, 2015 while maintaining the consolidated financial results for the entire financial year of 2015. The fair value of the investment has been recorded as assets available for sale. Please refer to section “Deconsolidation of the subsidiary Pirelli de Venezuela C.A.” for more details.

2.3 INFORMATION ON SUBSIDIARIES

The consolidated Financial Statements of Pirelli & C. S.p.A. include the assets and liabilities of approximately 100 legal entities. The following is a list of the subsidiaries which are considered to be significant:

	REGISTERED OFFICE	12/31/2015		12/31/2014	
		% OF THE GROUP	% OF NON-CONTROLLING INTERESTS	% OF THE GROUP	% OF NON-CONTROLLING INTERESTS
Pirelli Tyre Co. Ltd	Yanzhou (China)	90.00%	10.00%	90.00%	10.00%
Alexandria Tire Company S.A.E.	Alessandria (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 (United Kingdom)	100.00%		100.00%	
Pirelli Pneus Ltda	Santo Andrè (Brazil)	100.00%		100.00%	
TP Industrial de Pneus Brasil Ltda	Sao Paulo (Brazil)	100.00%		-	
Comercial e Importadora de Pneus Ltda	Sao Paulo (Brazil)	64.00%	36.00%	64.00%	36.00%
Pirelli Tyres Ltd	Burton on Trent (United Kingdom)	100.00%		100.00%	
Pirelli Tire LLC	Rome (USA)	100.00%		100.00%	
S.C. Pirelli Tyres Romania S.r.l	Slatina (Romania)	100.00%		100.00%	
Turk-Pirelli Lastikleri A.S.	Istanbul (Turkey)	100.00%		100.00%	
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: A 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.

2.4 CONSOLIDATION PRINCIPLES

The Financial Statements used for consolidation purposes are those of the companies included in the scope of consolidation, prepared as at the date of Financial Statements of the parent company and adjusted as necessary, in accordance with the IAS/IFRS principles applied by the Group.
The financial statements expressed in foreign currencies have been translated into Euro at the period-end exchange rates for the Statement of Financial Position and at the average exchange rates for the financial year for the Income Statement, with the exception of Financial Statements of companies operating in high-inflation countries, whose Income Statements are translated at period-end exchange rates.
The differences arising from the translation of opening equity at period-end exchange rates are recognised in the reserve for translation differences, together with the difference between the net income (loss) 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 costs in the Financial Statements of subsidiaries are assumed in their full amounts, regardless of the percentage of ownership;
  - the carrying amount of investments is eliminated against the underlying share of net equity;
  - the financial and operating transactions between companies consolidated on a line-by-line basis, including dividends distributed within the Group, are eliminated;
  - non-controlling interests are appropriately recorded under net equity. Similarly the quota of earnings or losses attributable to non-controlling interests are shown separately in the Income Statement;
  - with disposal of any subsidiary which brings about a loss of control, any goodwill that may be attributable to the subsidiary is taken into consideration in determining the gain or loss from the disposal;
  - 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 sale of 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 allocable amount 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 subsidiary;
  - if the Group's share in the losses of the associate/ joint venture exceeds the carrying amount of the investment in the Financial Statements, the carrying amount of the investment is 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 these losses;
  - 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.

2.5 DECONSOLIDATION OF THE SUBSIDIARY PIRELLI DE VENEZUELA C.A.

The subsidiary Pirelli de Venezuela C.A., which is 96.22% owned by the Group, produces, markets and distributes *Consumer* and *Industrial* tyres in Venezuela. The negative evolution of the macroeconomic situation, the regulatory control of the currency market and exchange rates and the continued reduction in the availability of the US Dollar in Venezuela which can be purchased through the official exchange mechanisms, have led to the emergence of a structural situation where companies are unable to convert the Venezuelan Bolivar into US Dollars. As a result, the Venezuelan subsidiary is no longer able to pay dividends and royalties, or able meet its trade liabilities to other companies in the Group.
Further regulatory restrictions were then added to the limitations already existing on the significant activities of the Group, which could not be considered temporary, such as the control of the margins on sales and a particularly stringent labour legislation, which, combined with the existing restrictions, did not in fact allow the Group to develop and implement their decisions on the relevant activities of the subsidiary.
Based on this scenario, which is expected to continue for the foreseeable future, as confirmed as well by the latest official statement made by President Maduro on February 17, 2016 according to which the SIMADI exchange rate currently at approximately 200 Bolivares per US dollar will replace the SICAD exchange rate of 13.5 Bolivares per US dollar, it was considered that the requisite conditions of IFRS 10 to carry out an accounting control on the subsidiary had not been met, and therefore deconsolidation of the subsidiary was proceeded with, effective as of December 31, 2015; (the Income Statement of the Venezuelan subsidiary was consolidated for the entire

financial year of 2015) and the investment recorded as an asset available for sale and recognised at fair value.
The deconsolidation of the Venezuelan subsidiary resulted in the recognition of a negative impact on the Income Statement to the amount of euro 559.5 million, which includes:
- negative impact of consolidation the positive net financial position to the amount of euro 277.7 million;
- negative impact of euro 138.3 million deriving from losses from the translation into Euro of the Financial Statements of the subsidiary accrued during the course of the previous financial year, recognised under equity and reclassified in the income statement;
- negative impact to the amount of euro 225.5 million resulting from the impairment of receivables that the Group held towards the Venezuelan subsidiary, which were all reset to zero based on the expectations of future collection;
- positive impact due to the recognition at fair value of the investment in the Venezuelan subsidiary, estimated at euro 18.9 million, which was substantially representative of the liquidity present in the country, and which was impaired by the SIMADI exchange rate, which, following the latest official statements of February 17, 2016 was to replace the SICAD exchange rate. The SIMADI exchange rate, which is currently trading at around 200 Bolivars to the US Dollar, will be mostly allowed to fluctuate freely. The fair value of the investment in Pirelli de Venezuela C.A. was recorded under financial assets available for sale and will be assessed at fair value;
- other positive impacts to the amount of euro 63.1 million

Future financial year results for the Group shall not include the results of the Venezuelan company. Revenues from the sales of raw materials and finished products to the Venezuelan subsidiary, as well as revenues from dividends and royalties, shall be recognised only at such time when payment has been effected. As a consequence of the deconsolidation, the Group's results shall no longer include the results of the Venezuelan subsidiary, and therefore will no longer bear the impacts of the recurring devaluations which have characterised recent financial years, at both the level of the Income Statement and the Net Financial Position. No further losses are foreseen linked to new supplies in the country; Pirelli could eventually recoup part of the value which was almost totally devalued as at December 31, 2015.

3. ACCOUNTING STANDARDS

3.1 ACCOUNTING STANDARDS ADOPTED

Pursuant to regulations 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, 2015, 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"). Due to the approval by General Meeting of the mandatory conversion of the unlisted savings shares of a special new issue category without voting rights, as of February 26, 2016, the company is no longer listed on the Milan Stock Exchange. The company will continue to prepare consolidated Financial Statements on the basis of IFRS accounting principles, in accordance with the discretion provided for by Art. 3 of Legislative Decree 38/2005

The consolidated Financial Statements have been prepared in accordance with the historical cost method, with the exception of:
- derivative financial instruments, financial instruments 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 calculated as the difference between:
- the fair value of the price 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 assets and liabilities acquired.

If this difference is negative, that difference is immediately recognised as income in the Income Statement.
In cases of acquisition of control of a company in which a non-controlling interest was already held (step acquisition), the investment held previously is recognised at fair value and the effects of this adjustment are recognised in the Income Statement.
Costs for the business combination are recognised in the Income Statement.
Contingent consideration, 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 met, are 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.

Goodwill

Goodwill is an intangible asset with indefinite useful life, and consequently is not amortised. 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

The trademarks and licenses for which the conditions for classification as an intangible asset with an indefinite lifespan are not fulfilled are assessed at the cost less accumulated amortisations and losses. The cost is amortised over the contract period or the useful lives of the assets, whichever is shorter. The trademarks for which the conditions for classification as an intangible asset with an indefinite lifespan are fulfilled are not systematically amortised and are instead subject to an impairment test at least once a year.

Software

Software license costs, including direct incidental costs, are capitalised and recognised in the Financial Statements net of accumulated amortisation and accumulated impairment losses. Software is amortised over its useful life on a straight-line basis.

Customer relationships

Customer relationships are intangible assets acquired in a business combination and are recognised in the Financial Statements at their fair value as at the purchase date. These are amortised 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 expenses 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 in the Income Statement 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 the depreciation of the assets until the end of their useful life or, in cases of disposal, until the last month of use.

The depreciation rates applied are as follows:

Buldings	3% - 10%
Plant	7% - 20%
Machinery	5% - 20%
Equipment	10% - 33%
Furniture	10% - 33%
Motor vehicles	10% - 25%

Government grants to capital account 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.
Borrowing costs directly attributable to the purchase, construction or production of a qualifying asset (defined as an asset that requires a significant amount of time in order to be prepared for use) are capitalised as part of the cost of the asset. Capitalisation of borrowing costs 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 remaining useful life of the asset or the residual period of the lease agreement, whichever is the shorter.
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. 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. 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, 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 its fair value less costs to sell or its value in use, whichever is the higher, 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, net of taxes, reflecting current market assessments of the time value of the money and 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.
If there is evidence that an impairment loss, which had been recognised in previous years and relating to tangible or intangible assets other than goodwill, may no longer apply or can be reduced, the recoverable amount of the asset is estimated again, and if it is higher than the net book value, the net book value is increased up to the recoverable amount. The reinstatement of value 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 financial years.
Any loss due to a reduction in value recognised in interim (half-yearly) Financial Statements for goodwill may not be reinstated in the Income Statement for the subsequent annual financial year.

Investments in associates and joint ventures

After applying the net equity method, if there are indicators of impairment, the value of investments in associates and joint ventures accounted for must be compared with the recoverable amount (known as the impairment test). The recoverable amount corresponds to fair value less costs to sell or the value in use, whichever is the higher.

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 an estimate of own quota of the current value of future cash flows it is thought will be generated by the associate or joint-venture, including financial flows deriving from the operating assets of the associate or joint-venture and the consideration deriving from any final assignment of the investment (known as the discounted cash flow – asset side criterion).

If there is evidence that an impairment loss recognised in previous years may no longer apply or can be reduced, the recoverable amount of the investment is estimated anew, and if it is higher than the amount of the investment, the latter amount is increased up to the recoverable amount.

Reinstatement of value 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 reinstatement of the value of 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, losses recognised up to that time in equity are transferred to the Income Statement. A prolonged (meaning more than 12 months) or significant (meaning more than 50% for instruments issued by entities operating in banking sector and more than one-third for instruments issued by entities operating in other sectors) reduction in the fair value of equity instruments and as compared with their cost is considered objective evidence of impairment.

This threshold revision was drawn from an update of a historical analysis carried out in 2008 and reflects only an adjustment to new conditions. The significant increase in the volatility of the financial markets in fact has, and particularly in the banking sector, led to the presence of exceptional circumstances for which it was deemed appropriate to revise the threshold value for the definition of lasting impairment losses with reference to the securities belonging to said sector. On the other hand, 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, gains and losses recognised up to that time in equity are transferred to the Income Statement.

Any impairment losses of a financial asset available for sale recognised in the Income Statement may be reinstated through the Income Statement, with the exception of those recognised for share securities classified as available for sale, which may not be reinstated with effects upon the Income Statement.

Financial assets available for sale, whether securities for debt or equity, for which fair value is not available, are accounted for at cost, less any impairment losses based on the best market information available at the date of Financial Statements.

Purchases and sales of financial assets available for sale are accounted for at the settlement date.

Inventories

Inventories are valued at cost (determined under the FIFO method) or estimated realisable value whichever is the lower.

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 borrowing costs 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 written down individually are included in groups with similar characteristics in terms of credit risk, and 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 apply, 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 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 reversed 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 from the Financial Statements when the specific contractual obligation has been extinguished.

Financial assets measured at fair value through the Income Statement

This category includes financial instruments 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. Transaction 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, to meet 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 for the financial year in which the change occurs.
If the effect of discounting is significant, 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 financial year in which they occur.
For other long-term benefits, actuarial gains and losses are recognised immediately in the Income Statement.
The provision for employee leaving indemnities (TFR) of Ital-

ian 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 as at the date of the Financial Statements), whereas subsequent to that date, it is considered a defined contribution plan.
The net interest calculated on net liabilities is classified under financial expenses.
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 financial instruments are accounted for in the manner set forth for 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;
- this hedge is highly effective during the various financial years 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 value 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. Amounts recognised directly in equity are reclassified in the Income Statement in the financial year when the hedged item produces an effect on the Income Statement.

When a hedging instrument expires or is assigned, terminated, exercised, or no longer meets the conditions to be designated as a hedge, or if designation is voluntarily revoked, hedge accounting is discontinued and the fair value adjustments accumulated in equity remain suspended in equity until the hedged item displays its effects on the Income Statement. Subsequently they are reclassified in the Income Statement over the financial years in which the asset acquired or liability assumed impacts upon 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 recognised in the Income Statement.

For derivative instruments that do not meet the requirements established by IAS 39 for adoption of hedge accounting, please see 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 listed on an active market is based on market prices at the date of Financial Statements. The market prices used for financial assets are the bid prices, whereas for financial liabilities they are the asking price. The fair value of instruments that are not listed 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 date of financial statements. 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 date of financial statements.

Income taxes

Current taxes are determined on the basis of a realistic forecast made of the charges payable under the current tax regulations of the country.
Deferred taxes are calculated according to the temporary differences applying between the asset and the liability amounts in the Financial Statements and their tax basis (full liability method), and are classified under non-current assets and liabilities.
Deferred tax assets on tax losses which have been carried-forward, as well as on temporary differences, are only recognised when there is a likelihood of future recovery over the time period covered by the forecasts of the business plan.
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 rollover 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 financial year or during previous financial years.

Equity

Treasury shares

Treasury shares are recognised as a reduction in equity.
If they are sold, reissued or cancelled, the resulting earnings 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 have been 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 have been reliably determined;
- it is likely that the economic benefits deriving from the sale will be enjoyed by the company;
- costs incurred or to be incurred have been reliably determined.

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 date of financial statements.
The results of a transaction can be measured reliably only when all the following conditions are met:

- the amount of revenue can be reliably determined;
- it is likely that the company will enjoy the economic benefits of the transaction;
- the stage of completion of the transaction at the date of Financial Statements can be reliably measured;
- the costs incurred for the transaction and the costs to be incurred to complete it can be reliably determined.

Interest income

Interest income is recognised on a time proportion basis that considers the effective return on 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 arises, which normally corresponds to the resolution approved by the General Meeting for the distribution of dividends.

Income (loss) per share

Income (loss) per share is calculated by dividing Group income (loss) by the weighted average number of outstanding shares during the financial 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.

Operational sectors

The operational sector is a part of the Group that engaging in business activities from which it may earn revenues and incur expenses, and whose operating results are regularly reviewed by top management with a view to making decisions about resources to be allocated to the segment and assessing its performance, and for which discrete financial statement information is available.

Accounting standards 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 value 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.
On 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 between 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 into a single item at the end of the Income Statement separately from the income (loss) from continuing operations.
Cash flows for discontinued operations are shown separately in the statement of cash flows.
The foregoing information is also presented for the comparative period.

3.2 ACCOUNTING STANDARDS AND INTERPRETATIONS ENDORSED AND IN FORCE FROM JANUARY 1, 2015

In accordance with IAS 8 “Accounting Policies, changes in accounting estimates and errors” the IFRS effective from January 1, 2015 are indicated below:

- IFRIC 21 - Levies.
  This interpretation clarifies the accounting of deferred tax and government taxes other than income taxes, in particular it defines the time when an entity can recognize these liabilities. Application of this interpretation will not have any impact on Financial Statements.
- “Improvements” to IFRS 2011-2013 (issued by the IASB in December 2014).
  The IASB issued a series of amendments to four standards in force in particular regarding the following aspects:
  - meaning of “IFRS in force” in IFRS 1 *First adoption of IFRS*;
  - the non-applicability to joint arrangements of IFRS 3 *Business Combinations*;
  - the portfolio exception for the determination of fair value in IFRS 13 *Fair Value Measurement*;
  - the clarification of the interrelationships between IFRS 3 and IAS 40 to classify an investment as a property investment or property for use by the owner in IAS 40 *Property Investments*.

Application of these amendments will not have any impact on 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 standards, 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, 2015, and which are therefore not applicable, are listed below.

None of these standards and interpretations has been adopted in advance by the Group.

— Amendments to IAS 19 - Employee benefits - defined benefit plans: contributions from employees or third parties
These amendments apply to the contributions that employees or third parties pay to defined-benefit pension funds to simplify accounting in certain specific circumstances.
These amendments have been endorsed by the European Union came into force on February 1st, 2015 and have been applicable since January 1st, 2016. Future application of these amendments will not have any impact.

— "Improvements" to IFRS 2010-2012 cycle (issued by the IASB in December 2013).
The IASB issued a series of amendments to 7 standards in force, in particular regarding: the definition of vesting conditions in IFRS 2 – Share-based payments; recognition of contingent consideration in a business combination in IFRS 3 – Business Combinations; aggregation of operating segments and the reconciliation of the total assets of the reporting segments as compared with the total assets of the entity in IFRS 8 – Operational Sectors; proportional restatement of accumulated depreciation in IAS 16 – Property, plant and equipment and IAS 38 – Intangible assets; identification and certain disclosures related to key managers in IAS 24 – Disclosures on transactions with related parties.
These amendments, which have been endorsed by the European Union, came into force on February 1, 2015 and have been applicable since January 1, 2016. The amendments made 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.

— 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 have been endorsed by the European Union and are applicable from January 1, 2016. Impacts on Financial Statements deriving from the future application of said amendments are not foreseen.

— Amendments to IAS 16 and IAS 38 – Explanation of the depreciation methods deemed acceptable
With these amendments, the IASB has sought 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.
Said amendments, which have been endorsed by the European Union, apply from January 1, 2016. Future application of these amendments will not have any impact on the Group's Financial Statements.

— Amendments to IAS 27 – application of the equity method in the separate Financial Statements
Following said amendments, 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.
Said amendments, which have been endorsed by the European Union, apply from January 1, 2016. The impacts deriving from the adoption of the equity method in the separate Financial Statements for the evaluation of the investment in subsidiary, associated companies and joint ventures are in the course of being analysed.

— "Improvements" to IFRS 2012-2014 cycle (issued by the IASB in September 2014)
The IASB has issued a series of amendments to 4 standards that are currently in force, relative to the following issues: amendment to the method of divestiture in IFRS 5 - Non-current assets held for sale and discontinued operations; service contracts and applicability of the amendments to IFRS 7 to interim Financial Statements in IFRS 7 - Financial Instruments: additional disclosures; discount rate to be applied in IAS 19 - Employee Benefits; disclosure of information presented "in other parts of the interim Financial Statements" in IAS 34 Interim Financial Statements.
Said amendments, which have been endorsed by the European Union and apply from January 1, 2016. Future application of these amendments will not have any impact on the Group's Financial Statements.

— Amendments to IAS 1 – disclosure initiative
Amendments to IAS 1, related to the disclosure initiative project, aim to clarify and improve the requirements of IAS 1 itself.
Said amendments, which have been endorsed by the European Union, apply from January 1, 2016. The impact on disclosures in consolidated Financial Statements is currently being analysed.

— Amendments to IFRS 10 and IAS 28 - sale or transfer of assets from an investing company to an associate or joint venture
The IASB issued said amendments to eliminate an incon-

sistency found 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 recognised fully and any gain or loss shall be recognised only for the related portion.
These amendments, whose coming into force has been put back indefinitely, have not yet been endorsed by the European Union. Future application of these amendments will not have any impact on the Group's Financial Statements as the current accounting treatment followed by the Group is already compliant.

— 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 are expected to come into force with effect from 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.

— IFRS 9 – Financial Instruments
IFRS 9, which will supplant IAS 39 – Financial Instruments: Detection and measurement, is divided into 3 parts:
- Classification and measurement of financial instruments according to 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 set forth in IAS 39.
  This principle, which was expected to come into force as of January 1st, 2018, has not yet been endorsed by the European Union. The impacts of 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 identification of the various contractual obligations ("performance obligations") contained within each individual sales contract and on revenue recognition based on the fulfilment of individual contractual obligations.
This principle, which is expected to come into force on January 1st, 2018, 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.

— IFRS 16 – Leases
The new leasing standard, which will replace the current IAS 17 stipulates a consolidated accounting model for the lessor according to which all leases must be stated in the asset and liability statement. The concept of operating leasing is no longer included.
The lessor must state the leased property under "buildings, facilities and equipment" in the assets and liability statement and, at the same time, include the financial liabilities for the current value of future payments.
The only exceptions allowed are for short-term leasing (less than or equal to 12 months) and "small asset" leasing (e.g. office furniture, PCs) for which accounting is similar to that currently adopted for operative leases. If a lease contract includes a service, this does not need to be capitalised.
This principle, which was expected to come into force as of January 1st, 2019, has not yet been endorsed by the European Union. Quantification of the impacts of the future application of the principle is currently being determined.

— Amendments to IAS 7 – (disclosure initiative)
The goal of these modifications is to improve information regarding the net flow generated/absorbed by investment activity and liquidity of the item, especially given restrictions applying to the use of cash and cash equivalents and similar means within the cash flow statement.
This principle, which is expected to come into force as of January 1, 2017, has not yet been endorsed by the European Union. The impact of the consolidated Financial Statements on the disclosures is currently being analysed.

— Amendments to IAS 12 – Acknowledgement of deferred tax assets on unrealised losses.
These amendments clarify how deferred tax assets in respect of debt instruments valued at fair value are to be accounted for.
This principle, whose coming into force is foreseen for January 1, 2017 has not yet been approved by the European Union. These amendments do not apply to the Group.

4. FINANCIAL RISK MANAGEMENT POLICY

The financial risks the Group is exposed to financial risks 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 Management on the basis of general risk management strategies defined by the Managerial Risk Committee.

4.1 TYPES OF FINANCIAL RISKS

Exchange rate risk

The widespread geographical distribution of Group production and trade activities entails exposure to transaction and translation exchange rate risk.

Transactional exchange rate risk

This risk is generated by the trade 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 trade or financial relationship is established and when the transaction is completed (collection or payment) may generate foreign exchange gains or losses.

The Group aims to minimise the impact of transaction exchange rate risk related to volatility. To achieve this objective, group procedures make 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.

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

The Group has not seen fit 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 in the market. The fluctuation in exchange rates between the time when the forecast is made and the time when the trade 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; it is not currently deemed necessary to adopt specific policies to hedge this exposure.

Approximately 23% of the total consolidated net equity at December 31, 2015 was expressed in Euros (compared to approximately 17% as at December 31, 2014). The most significant currencies other than Euro for the Group are the Brazilian Real (15.6%; 17% as at December 31, 2014), the Turkish Lira (5.6%; 7% as at December 31, 2014), the Chinese Renminbi (14.7%; 12% as at December 31, 2014), the Romanian Leu (12.8%; 13% as at December 31, 2014), the Egyptian Lira (3.8%; 3% as at December 31, 2014), the British Pound Sterling (6.8%; 4% as at December 31, 2014), the Argentine Peso (1.6%; 2% as at December 31, 2014), the US Dollar (3.2%; 5% as at December 31, 2014) and the Mexican Peso (6.2%; 6% as at December 31, 2014).The Group is no longer exposed to any exchange rate translation risks associated with the Venezuelan Bolivar due to deconsolidation of the Venezuelan subsidiary Pirelli de Venezuela C.A..

The table below shows the effects on consolidated equity deriving from a hypothetical appreciation/depreciation of the aforesaid currencies against the Euro, with all other conditions being equal:

(in thousands of euro)

	APPRECIATION OF 10%		DEPRECIATION OF 10%	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Brazilian Real	40,700	46,756	(33,300)	(38,255)
Turkish Lira	14,667	20,311	(12,000)	(16,618)
Chinese Renminbi	38,311	34,333	(31,345)	(28,091)
Romanian Leu	33,267	35,444	(27,218)	(29,000)
Egyptian Pound	9,889	9,811	(8,091)	(8,027)
British Pound	17,722	12,344	(14,500)	(10,100)
Argentinian Pesos	4,267	5,922	(3,491)	(4,845)
US Dollar	8,367	14,600	(6,845)	(11,945)
Mexican Pesos	16,156	17,156	(13,218)	(14,036)
Total on consolidated equity	**183,346**	**196,677**	**(150,008)**	**(160,917)**

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 trend ratio, the group enters into derivative contracts, typically interest rate swaps, to hedge for which hedge accounting is activated when the conditions set out in IAS 39 are fulfilled.

The following is an outline of the effects on net income and shareholders' equity directly arising from an increase or decrease of 0.50% in the level of interest rates for all currencies to which the Group is exposed, with all other conditions being equal:

(in thousands of euro)

	+0.50%		-0.50%	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Impact on net income (loss)	(2,240)	(1,790)	2,246	1,790
Total	**(2,240)**	**(1,790)**	**2,246**	**1,790**
Direct impact on equity	-	2,034	-	(3,457)
Total	**-**	**2,034**	**-**	**(3,457)**

Price risk associated with financial assets

The exposure of the Group to price risk is limited to the volatility of financial assets such as listed and unlisted equities and bonds, for approximately 4.2% of the total consolidated assets at December 31, 2015 (3.2% at December 31, 2014); such assets are classified as financial assets available for sale and securities held for trading.
Derivatives hedges are not set up to cover the volatility of these assets.

Financial assets available for sale consist of listed securities amounted to euro 154,355 thousand (euro 128,404 thousand at December 31, 2014) and those represented by securities indirectly associated with listed shares (Fin. Priv. S.r.l. and Emittenti Titoli S.p.A.) amounted to euro 23,576 thousand (euro 18,071 thousand at December 31, 2014); these financial assets represent 58.7% of total financial assets subject to price risk (60.4% at December 31, 2014); a +5% change in the above listed securities, other things being equal, would result in a positive change of euro 7,716 thousand of Group shareholders equity (positive euro 6,414 thousand at December 31, 2014), while a -5% change of these listed securities, other things being equal, would result in a decrease of euro 6,998 thousand in Group equity and a decrease of euro 718 thousand in net income/loss for the Group (at December 31, 2014 a decrease of euro 5,333 thousand in consolidated shareholders' equity and a decrease of euro 1,081 thousand in Group net income/loss).

Credit risk

Credit risk represents Group exposure to contingent losses resulting from default by either trade or financial counterparties. The Group is exposed to credit risk as part of its operating activities and financing activities.
In order to limit trade 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 sureties 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 the risk associated with trade receivables is the stipulation of insurance policies that aim to cover the risk of non-payment through the 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 notes 14 and 15 respectively regarding "Trade receivables" and "Other receivables".

Liquidity risk

Liquidity risk represents the risk that financial resources available are insufficient to meet the financial and trade obligations pursuant to contractual terms and conditions.
The principal instruments used by the Group to manage liquidity risk comprise 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 analysed constantly.
The Group has implemented a centralised cash pooling system for the management of collection and payment flows in compliance with various local currency and tax laws. Banking relationships are negotiated and managed centrally, in order to ensure coverage of short and medium-term financial needs at the lowest possible cost. 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, 2015 the Group had, aside from cash and securities held for trading of euro 160,893 thousand (euro 1,228,073 thousand at December 31, 2014), unused committed credit facilities of euro 820,480 thousand (euro 1,125,000 thousand at December 31, 2014), maturing in the first quarter of 2020.

The maturities of financial liabilities at **December 31, 2015** 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	1,313,131	-	-	-	1,313,131
Other payables	404,172	27,843	42,883	27,905	502,803
Financial instruments	51,979	-	-	-	51,979
Borrowings from banks and other financial institutions	1,138,592	113,220	1,066,177	96,291	2,414,280
	2,907,874	**141,063**	**1,109,060**	**124,196**	**4,282,193**

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 use of the two syndicated lines (granted respectively to Pirelli & C. S.p.A. and Pirelli International Plc) of euro 379,520 thousand at December 31, 2015 has been classified under non-current borrowings from banks. Please see note 23.
Of further note, an extraordinary general meeting of Pirelli & C. S.p.A shareholders on February 15, 2016 approved the project for merging by incorporation of the controlling company, Marco Polo Industrial Holding S.p.A., into Pirelli & C. S.p.A.
The effect of this merger will be that Pirelli will hold the debt of Marco Polo Industrial Holding S.p.A. (ex Bidco) subscribed to for the acquisition of Pirelli and amounting to about 4.2 billion. On February 16, 2016, the Board of Directors of Pirelli & C. S.p.A. approved the essential outlines of the of refinancing plan in respect of a counter value of up to a maximum of euro 7 billion, being the gross indebtedness of Pirelli & C. S.p.A as at September 30, 2015 (euro 2.7 billion) including the effects foreseen in respect of the merger with Marco Polo Industrial Holding S.p.A. (debt amounting to about euro 4.2 billion). This outline for financing aims to extend the maturity of the debt and optimise its structure thanks to the recourse to bond and banking markets. The terms and conditions of the refinancing, including any guarantees required, will be defined in the light of market conditions and practices of reference, also taking into account the rights incorporated into the Terms and Conditions for the benefit of holders of bond loans issued by Pirelli International plc and guaranteed by Pirelli Tyre S.p.A. for an aggregate of euro 600 million maturing in 2019 and which, as already stated, will remain in force until its natural maturity.
The approved refinancing plan does not alter Pirelli's right to activate as an alternative, if and when appropriate, the Mergeco Facility loan, already made available to the company by a pool of banks in the area of the Public Purchase Offer made by Marco Polo Industrial Holding S.p.A. in respect of Pirelli & C. S.p.A..

5. INFORMATION ON FAIR VALUE

5.1 FAIR VALUE MEASUREMENT

In respect of financial instruments measured at fair value, the following table shows the classification of these instruments on the basis of the hierarchy of levels pursuant to IFRS 13, reflecting the significance of the inputs used in determining the fair value. The 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 listed 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, 2015**, divided into the three levels defined above:

(in thousands of euro)

	NOTE	CARRYING AMOUNT AT 12/31/2015	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL ASSETS					
Financial assets carried at fair value through income statement:					
Securities held for trading	18	78,167	-	78,167	-
Current derivative financial instruments	27	49,166	-	49,166	-
Financial hedging instruments:					
Current derivative financial instruments	27	12,139	-	12,139	-
Available-for-sale financial assets:					
Other financial assets					
_ Equities and shares		210,643	154,355	23,576	32,712
_ Investment funds		14,478	-	14,478	-
	12	225,121	154,355	38,054	32,712
TOTAL ASSETS		**364,593**	**154,355**	**177,526**	**32,712**
FINANCIAL LIABILITIES					
Financial liabilities carried at fair value through income statement					
Current derivative financial instruments	27	(51,974)	-	(51,974)	-
Financial hedging instruments:					
Current derivative financial instruments	27	(5)	-	(5)	-
TOTAL LIABILITIES		**(51,979)**	**-**	**(51,979)**	**-**

The following table shows assets and liabilities carried 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
FINANCIAL ASSETS					
Financial assets carried at fair value through income statement:					
Securities held for trading	18	61,404	-	61,404	-
Current derivative financial instruments	27	25,634	-	25,634	-
Financial hedging instruments:					
Current derivative financial instruments	27	3,470	-	3,470	-
Available-for-sale financial assets:					
Other financial assets					
– Equities and shares		165,919	128,402	18,071	19,446
– Investment funds		14,822	-	14,822	-
	12	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	27	(32,824)	-	(32,824)	-
Financial hedging instruments:					
Current derivative financial instruments	27	(10,011)	-	(10,011)	-
TOTAL LIABILITIES		**(42,835)**	**-**	**(42,835)**	**-**

The following table shows the changes that occurred in level 3 during 2015:

(in thousands of euro)

	12/31/2015
Opening balance	19,446
Foreign currency translation differences	327
Increases / Subscription of capital	20,806
Impairment	(8,376)
Fair value adjustments through Equity	374
Other changes	135
Closing balance	**32,712**

These financial assets are primarily represented by share investments in the European Institute of Oncology (euro 5,754 thousand), Equinox Two S.C.A. (euro 4,425 thousand) and Tlcom I LP (euro 644 thousand) and F.C. Internazionale (euro 293 thousand).

The item **increases** refers mainly to the capital increase related to the investment in Alitalia - Compagnia Aerea Italiana S.p.A. (euro 1,766 thousand) and to recogniton of the investment in the subsidiary Pirelli de Venezuela C.A. (euro 18,877 thousand) which was deconsolidated as of December 31, 2015.

The item **impairment** refers mainly to investments in Equinox Two S.C.A. (euro 460 thousand) and Alitalia-Compagnia Aerea Italiana S.p.A (euro 7,115 thousand) and F.C. Internazionale Milano S.p.A. (euro 265 thousand).

During the financial year 2015, 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 date of Financial Statements. These instruments, included in level 1, comprise primarily equity 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 foreign exchange derivatives (forward contracts) is determined by using the forward exchange rate at the date of Financial Statements.

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 12/31/2015	CARRYING AMOUNT AT 12/31/2014
FINANCIAL ASSETS			
Financial assets carried at fair value through income statement			
Securities held for trading	18	78,167	61,404
Current derivative financial instruments	27	49,166	25,634
		127,333	**87,038**
Loans and receivables			
Other non-current receivables	15	147,624	169,145
Current trade receivables	14	676,192	673,808
Other current receivables	15	165,408	265,274
Cash and cash equivalents	19	1,082,726	1,166,669
		2,071,950	**2,274,896**
Available-for-sale financial assets			
Other financial assets	12	225,121	180,741
Hedging financial instruments			
Current derivative financial instruments	27	12,139	3,470
		2,436,543	**2,546,146**
FINANCIAL LIABILITIES			
Financial liabilities carried at fair value through income statement			
Current derivative financial instruments	27	51,974	32,824
Financial liabilities carried at amortised cost			
Non-current borrowings from banks and other financial institutions	23	1,275,688	1,781,726
Other non-current payables	25	98,631	74,692
Current borrowings from banks and other financial institutions	25	1,138,592	530,890
Current trade payables	24	1,313,131	1,394,312
Other current payables	25	404,172	443,477
		4,230,214	**4,225,097**
Hedging financial instruments			
Current derivative financial instruments	27	5	10,011
		4,282,193	**4,267,931**

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 other stakeholders, with a sustainable financial structure.
In order to achieve these objectives, as well as pursuing satisfactory earnings results and generating cash flows, the Group may adjust its dividend policy and the configuration of Company 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 the 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 2015 and 2014 are shown below:

	2015	2014
R.O.I. (operating income / average net invested capital)	20.34%	19.20%
Gearing (net financial position/equity)	0.51	0.38
R.O.E. (Return on Equity -net income / equity)	n.s.	13.19%

7. ESTIMATES AND ASSUMPTIONS

Preparation of the Consolidated Financial Statements entails management making estimates and assumptions which, under certain circumstances, are founded 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 applying. The results that actually emerge may 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 for the period in which the actual circumstances differ.
It is to be noted that the situation caused by the economic and financial crisis has entailed making extremely uncertain assumptions about future performance. Therefore, it cannot be ruled out that next financial 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 date of Financial Statements.
The estimates and assumptions relate mainly to the assessments of the recoverability of the intangible assets, to the definition of the useful lives of property, plant and equipment, to the assessment of the recoverability of investments in associated companies, to the recoverability of receivables, to the recognition/measurement of provisions for risks and charges, to the evaluation of pension schemes and other post-employment benefits, to the exchange rates used in relation to activities by the Group in Venezuela, and to the reasons which brought about the deconsolidation of the subsidiary as at December 31, 2015, and are based on data which reflects the best available information.

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 financial year subsequent to the reference period of the Financial Statements.

Goodwill

In accordance with the accounting standards adopted for 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 fair value or value in use, whichever is the greater.
If the recoverable amount proves to be lower than the carrying amount of the cash generating units, the goodwill allocated to them is 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 or not there has been an impairment loss when there are signs that difficulties are to be expected in the recovery of their net carrying amount through use.
The identification of aforesaid indications requires that the Directors make subjective judgments based on information available from both internal and external sources, as well as on historical experience.
Moreover, if it is determined that a potential impairment loss may be generated, this loss is calculated using appropriate measurement techniques.
Proper identification of elements indicating the existence of a potential impairment loss, and estimates for calculating the amount of such losses, depend on subjective assessments and factors that may vary over time, so affecting the assessments and estimates made by management.

Impairment of investments in associates and joint ventures

After applying the equity method, where there are indicators of impairment of assets, the value of investments in associates and joint ventures is compared to the recoverable value (so-called impairment test). The recoverable amount corresponds to the fair value less costs to sell, or the value in use, whichever is the higher.
For the purposes of the impairment test of Prelios S.p.A., a listed affiliate, the recoverable value was determined as equal to the fair value corresponding to the stock market value on December 30, 2015. In the case of Fenice S.r.l., an associate with unlisted shares, 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. For the investment in GWM Renewable Energy II S.p.A., the recoverable value was determined by assessing in a transparent manner Greentech Energy System A/S, a company listed on the Danish market and the company's principal asset.

Pension funds

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; so the actuarial risk relates only to previous deficits. Management uses different actuarial assumptions to calculate the liabilities and the future returns on assets serving these employee benefit plans. Actuarial assumptions of a financial nature regard the discount rate, the inflation rate and trends in healthcare costs.
Actuarial assumptions of a demographic nature essentially regard mortality rates.
The Group has identified discount rates deemed to be balanced, given the context.

Exchange rate used for the translation into foreign currency of trade items of Pirelli de Venezuela C.A., and the deconsolidation of the subsidiary as at December 31, 2015.

It is to be noted that as at December 31, 2015 in Venezuela the currency system was characterised by the simultaneous presence of an official exchange rate (the so-called CENCOEX), equal to 6.3 Bolivar to the US Dollar, and the exchange rates derived from auctions managed in accordance to the SICAD system (13.5 Bolivars to the US Dollar, 14.70 Bolivar to the Euro at the exchange rate set at the last auction held in September 2015, applicable to the Automotive industry sector, which is considered strategic for the country), as well as the SIMADI

exchange rate in force which amounted to 198.7 Bolivars to the US Dollar applicable to imports that did not need specific authorisation from the government and which is controlled by the Venezuelan Central Bank based on the parity setting of the open market. Based on the most recent available documentary evidence, the Group had already during the 2014 financial year considered it appropriate to adjust an exchange rate of 12 Bolivars to the US Dollar (SICAD exchange rate as at December 31, 2014) on all business transactions in foreign currency of the subsidiary and outstanding as at the date of the Financial Statements, with a subsequent recognition for the 2014 financial year of foreign exchange losses totalling euro 72.1 million.
During the course of the 2015 financial year the SICAD I exchange rate was superseded by the SICAD exchange rate (13.5 Bolivars to the US Dollar - 14.70 Bolivars to the Euro); this increase in the exchange rate led to an impact on the Income Statement totalling euro 23.9 million, of which euro 17.0 million was due to the adjustment of open items as at December 31, 2014 and euro 6.9 million for transactions which occurred in 2015.
It is noted that the Group proceeded with deconsolidation of the subsidiary Pirelli de Venezuela C.A., effective as of December 31, 2015. The decision to proceed with the deconsolidation was mainly due to the fact that the Venezuelan subsidiary was no longer able to pay dividends and royalties, or able to meet its trade liabilities towards other companies of the Group. To these limitations on the relevant activities of the Venezuelan subsidiary, which were not temporary, additional permanent regulatory restrictions were imposed, which included a control on sales margins by the local authorities, as well as a particularly stringent labour legislation. Given this scenario, which was expected to endure for the foreseeable future, it was considered that the requisite conditions of IFRS 10 had not been met in order for an accounting control to be carried out on the subsidiary, being the aforementioned conditions which in fact did not permit the Group to develop and implement decisions on the relevant activities of the subsidiary. Therefore, the deconsolidation of the subsidiary was proceeded with. Given the complexity of the Venezuelan scenario, the previously summarised considerations and assumptions inevitably relied on complex and subjective assessments and estimates based on historical experience, and are considered reasonable and realistic in the circumstances; these assessments and assumptions resulted in significant overall effects on the consolidated Financial Statements of the Pirelli Group. Please refer to note 2, "Basis of Presentation - Deconsolidation of the subsidiary Pirelli de Venezuela C.A." for more details on these effects.

Deferred tax assets

Deferred tax assets are accounted for on the basis of forecasts of taxable earnings expected in future financial years. Assessing the expected taxable earnings for the purpose of accounting for deferred taxation depends on factors that can vary over time, and may lead to significant effects on 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 foregoing paragraph in connection with 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 deterioration with respect to the assumptions in the plan, given the fact that net deferred tax assets relate to temporary differences/tax losses that, to a significant extent, can be recovered over a very long time, and the recovery of which is therefore compatible with scenarios in which the actual data might deviate negatively with respect to the assessments made by management.

Provisions for liabilities and charges

Provisions are set aside against contingent legal and fiscal liabilities, representing the risk of losing lawsuits. The value of provisions recognised in the Financial Statements relating to these liabilities represents the best estimate date of Financial Statements made by management for lawsuits and tax claims regarding a vast range of issues which are subject to the jurisdiction of a number of countries. Such an estimate entails making assumptions that depend on factors that may change over time and which may therefore have a material impact with respect to the current estimates made by management for the preparation of the Consolidated Financial Statements.

8. OPERATIONAL SECTORS

The operational sectors regarding separate disclosure are defined below:

- Consumer Business sector: includes for vehicles and motorcycles tyres made for both the original equipment channel and the replacement channel;
- Industrial Business sector: includes tyres for trucks and vehicles for agricultural use both for the original equipment channel and the replacement channel;

Results broken down by sector for **2015** are as follows:

(in thousands of euro)

	CONSUMER	INDUSTRIAL	OTHER BUSINESS	2015
Total net sales	**5,048,200**	**1,252,600**	**8,833**	**6,309,633**
Gross operating margin	1,031,109	152,107	(8,697)	1,174,519
Depreciation and amortisation	(268,204)	(54,502)	(1,502)	(324,208)
Operating income (loss)	**762,905**	**97,605**	**(10,199)**	**850,311**
Net income (loss) from equity investments				(41,393)
Financial income (expenses)				(328,216)
Deconsolidation of the Venezuelan subsidiary				(559,491)
Net income (loss) before tax				**(78,789)**
Tax				(290,137)
Net income (loss) from continuing operations				**(368,926)**

Results broken down by sector for **2014** 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**
Tax				(173,309)
Net income (loss) from continuing operations				**315,214**

Assets, liabilities and investments broken down by sector as at **December 31, 2015** are as follows:

(in thousands of euro)

	CONSUMER	INDUSTRIAL	OTHER BUSINESS	OTHER	TOTAL 12/31/2015
Goodwill	572,703	306,423	-	-	879,126
Allocated assets	3,706,289	893,050	13,100	-	4,612,439
Unallocated assets	-	-	-	1,746,552	1,746,552
TOTAL ASSETS	**4,278,992**	**1,199,473**	**13,100**	**1,746,552**	**7,238,117**
Allocated liabilities	1,540,747	463,100	1,800	-	2,005,647
Unallocated liabilities	-	-	-	2,888,926	2,888,926
TOTAL LIABILITIES	**1,540,747**	**463,100**	**1,800**	**2,888,926**	**4,894,573**
Investments:					
_ property, plant and equipment	333,572	40,998	442	-	375,012
_ intangible assets	14,587	1,795	-	-	16,382

Assets, liabilities and investments broken down by sector as 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

Business 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.
Business liabilities mainly comprise trade payables and other payables, advances from customers and 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 were focused on an increase in Premium capacity in Europe, NAFTA and China and improvement in the mix.

Sales by geographic area are provided below. They are allocated on the basis of the country where the customer resides.

(in thousands of euro)

	2015		2014	
Europe	2,209,033	35.01%	2,067,300	34.35%
Russia & CIS	192,500	3.05%	237,900	3.95%
NAFTA	861,100	13.65%	707,500	11.76%
South America	1,808,200	28.66%	1,963,463	32.63%
Asia/Pacific (APAC)	706,000	11.19%	558,400	9.28%
Middle Est/Africa/India (MEAI)	532,800	8.44%	483,500	8.03%
Total	**6,309,633**	**100.00%**	**6,018,063**	**100.00%**

Non-current assets by geographic area are allocated below. They are allocated on the basis of the country where the assets are located.

(in thousands of euro)

	12/31/2015		12/31/2014	
Europe	1,202,887	35.50%	1,172,336	33.44%
Russia & CIS	159,913	4.72%	184,422	5.26%
NAFTA	265,429	7.83%	244,563	6.97%
South America	413,980	12.22%	565,850	16.14%
Asia/Pacific (APAC)	399,059	11.78%	384,110	10.95%
Middle Est/Africa/India (MEAI)	67,600	2.00%	68,072	1.94%
Non-current unallocated assets	879,126	25.95%	887,113	25.30%
Total	**3,387,994**	**100.00%**	**3,506,466**	**100.00%**

The **allocated non-current assets** shown in the previous table consist of property, plant and equipment and intangible assets, excluding goodwill. The **non-current unallocated assets** pertain to goodwill (see note 10).

9. PROPERTY, PLANT AND EQUIPMENT

As at **December 31, 2015**, the breakdown and changes of property, plant and equipment are as follows:

(in thousands of euro)

	12/31/2015			12/31/2014		
	GROSS VALUE	ACCUMULATED DEPRECIATION	NET VALUE	GROSS VALUE	ACCUMULATED DEPRECIATION	NET VALUE
Land	95,599	-	95,599	103,808	-	103,808
Buildings	969,155	(375,339)	593,816	1,025,895	(407,017)	618,878
Plant and machinery	3,231,137	(1,726,778)	1,504,359	3,344,879	(1,790,305)	1,554,574
Industrial and trade equipment	644,704	(467,045)	177,659	671,027	(486,105)	184,922
Other assets	184,500	(136,480)	48,020	206,295	(146,013)	60,282
	5,125,095	**(2,705,642)**	**2,419,453**	**5,351,904**	**(2,829,440)**	**2,522,464**

GROSS VALUE (in thousands of euro)

	12/31/2014	INFLATION EFFECT	DECONS. SUBSIDIARY VENEZUELA	TRANS-LATION DIFFER.	INC.	DEC.	RECLAS-SIF.	OTHER	12/31/2015
Land	103,808	8,368	(12,705)	(3,515)	-	(297)	158	(218)	95,599
Buildings	1,025,895	92,475	(140,597)	(48,377)	41,499	(2,128)	(93)	481	969,155
Plant and machinery	3,344,879	186,534	(276,919)	(196,712)	255,015	(89,322)	7,992	(331)	3,231,137
Industrial and trade equipment	671,027	37,361	(57,349)	(47,466)	45,855	(28,691)	23,384	583	644,704
Other assets	206,295	59,307	(57,547)	(7,626)	32,643	(14,965)	(31,441)	(2,165)	184,500
	5,351,904	**384,045**	**(545,117)**	**(303,696)**	**375,012**	**(135,403)**	**-**	**(1,650)**	**5,125,095**

ACCUMULATED DEPRECIATION (in thousands of euro)

	12/31/2014	INFLATION EFFECT	DECONS. SUB-SIDIARY VENE-ZUELA	TRANS-LATION DIFFER.	RECLAS-SIF.	DEC.	DEPREC.	OTHER	12/31/2015
Buildings	(407,017)	(85,239)	131,559	19,641	-	1,017	(34,665)	(635)	(375,339)
Plant and machinery	(1,790,305)	(106,439)	168,794	104,173	16	84,427	(190,854)	3,410	(1,726,778)
Industrial and trade equipment	(486,105)	(31,516)	50,649	34,116	1,465	26,279	(62,609)	675	(467,045)
Other assets	(146,013)	(17,198)	26,820	4,131	(1,481)	13,744	(16,552)	71	(136,480)
	(2,829,440)	**(240,392)**	**377,823**	**162,061**	**-**	**125,467**	**(304,680)**	**3,521**	**(2,705,642)**

167

NET VALUE (in thousands of euro)

	12/31/2014	INFLA-TION EF-FECT	DECONS. SUBSIDI-ARY VEN-EZUELA	TRANS-LATION DIFFER.	INC.	DEC.	RE-CLAS-SIF.	DEPRE-CIATION	OTHER	12/31/2015
Land	103,808	8,368	(12,705)	(3,515)	-	(297)	158	-	(218)	95,599
Buildings	618,878	7,236	(9,038)	(28,736)	41,499	(1,111)	(93)	(34,665)	(154)	593,816
Plant and machinery	1,554,574	80,095	(108,125)	(92,539)	255,015	(4,895)	8,008	(190,854)	3,080	1,504,359
Industrial and trade equipment	184,922	5,845	(6,700)	(13,350)	45,855	(2,412)	24,849	(62,609)	1,258	177,659
Other assets	60,282	42,109	(30,727)	(3,495)	32,643	(1,221)	(32,922)	(16,552)	(2,097)	48,020
	2,522,464	**143,653**	**(167,294)**	**(141,635)**	**375,012**	**(9,936)**	**-**	**(304,680)**	**1,870**	**2,419,453**

The changes as at **December 31, 2014** were as follows:

GROSS VALUE (in thousands of euro)

	12/31/2013	INFLATION EFFECT	DISCONTINUED OPERATIONS	BUSINESS COMBINATION	TRANSLATION DIFFER.	INC.	DEC.	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 trade 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	DISCONTINUED OPERATIONS	BUSINESS COMBINATION	TRANSLATION DIFFER.	RECLASSIF.	DEC.	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 trade 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	DISCONTINUED OPERATIONS	BUSINESS COMBINATION	TRANSLATION DIFFER.	INC.	DEC.	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 trade 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 **increases** for 2015 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 2015 was 1.23 (1.32 in 2014).

Property, plant and equipment in progress as at December 31, 2015, included in the individual categories of property, plant and equipment, totalled euro 140,103 thousand (euro 183,829 thousand as at December 31, 2014).

Impairments during 2015, included in the "gross value-decreases" column of the above table totalled euro 2,796 thousand (euro 6,048 thousand in 2014) and mainly relate to buildings, plant and machinery and trade equipment in Russia, the United Kingdom and Italy.

Regarding restrictions on the ownership of assets, it should be noted that:
- the subsidiary Alexandria Tire Company S.A.E. (Egypt) has pledged, as collateral for loans granted by National Bank of Egypt, the value of its plant and machinery for euro 893 thousand (euro 2,416 thousand as at December 31, 2014);
- the subsidiary Pirelli Pneus Ltda. (Brazil) has pledged, as collateral for loans granted by BNDES (Banco Nacional de Desenvolvimento) and litigation with the INSS (National Social Security Institution of Brazil), its machinery and land for a total of euro 32,704 thousand (euro 43,130 thousand as at December 31, 2014);
- the subsidiary Pirelli Neumaticos SAIC (Argentina) has pledged its own land and buildings for a total of euro 5,036 thousand (euro 9,646 thousand as at December 31, 2014) as collateral for a loan from Banco de la Nacion Argentina;
- the subsidiary Dackia Aktiebolag pledged its facilities and equipment for a total of euro 55 thousand to guarantee assets received through leases from Nordea Bank;
- the subsidiary Pirelli Neumaticos S.A. de C.V. (Mexico) refunded the loan provided by Bancomext in full and redeemed the lands, buildings and facilities pledged (euro 68,230 thousand as at December 31, 2014).

The value of the facilities and other assets for which the Group signed a financial leasing agreement is included in the related categories of property, land and equipment.
The breakdown of the item is listed below:

(in thousands of euro)

	12/31/2015			12/31/2014		
	COST	ACCUMULATED DEPRECIATION	NET VALUE	COST	ACCUMULATED DEPRECIATION	NET VALUE
Leased buldings	2,519	(1,549)	970	2,979	(1,465)	1,514
Other leased assets	2,325	(2,092)	233	2,396	(2,052)	344
Leased plant and machinery	107	(107)	-	101	(101)	-
	4,951	**(3,748)**	**1,203**	**5,476**	**(3,618)**	**1,858**

Payables for financial leases are included in the financial payables (note 23).

The total of future minimum payments in respect of non-terminable operation leasing transactions amounts to euro 504,156 thousand, of which
- euro 83,048 thousand within one year
- euro 225,670 thousand between one and five years
- euro 195,437 thousand beyond five years

10. INTANGIBLE ASSETS

The breakdown and changes in intangible assets for the **2015** financial year were as follows:

(in thousands of euro)

	12/31/2014	TRANSLATION DIFFERENCES	INC.	DEC.	AMORTI-SATION	RECLASSIF.	OTHER	12/31/2015
Patents and intellectual property rights	17	-	-	-	(15)	-	-	2
Concessions/ licenses/trademarks – finite life	55,848	(4,074)	1,131	-	(5,795)	(5,832)	354	41,632
Concessions/ licenses/trademarks – indefinite life	-	-	-	-	-	5,832	-	5,832
Goodwill	887,113	(7,987)	-	-	-	-	-	879,126
Application software	15,676	(42)	1,552	-	(9,422)	6,210	57	14,031
Other intangible assets	25,348	(978)	13,699	(15)	(4,295)	(6,210)	369	27,918
	984,002	**(13,081)**	**16,382**	**(15)**	**(19,527)**	**-**	**780**	**968,541**

The changes which occurred for the **2014** financial year were as follows.

(in thousands of euro)

	12/31/2013	TRANS-LATION DIFFER-ENCES	DISCONTIN-UED OPERA-TIONS	EFFECT OF BUSINESS COMBINA-TION	INC.	DEC.	AMORTI-SATION	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	(213)	(3,867)	(626)	25,348
	1,013,979	**(21,725)**	**(17,337)**	**10,155**	**10,763**	**(245)**	**(20,917)**	**9,329**	**984,002**

The table below sets forth the allocation of goodwill for the operational sector, the cash generating unit (CGU) to which it was allocated for impairment testing and the method used to measure the recoverable amount:

(in thousands of euro)

OPERATING SEGMENT	CGU	12/31/2015	12/31/2014	RECOVERABLE AMOUNT
Consumer	Consumer	572,703	577,347	Value in use
Industrial	Industrial	306,423	309,766	Value in use
		879,126	887,113	

As at December 31, 2015, goodwill was tested for impairment (using the assistance of independent third party) and which 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 for the individual CGU at the measurement date.

The key assumptions used by management are the estimates of future increases in sales, in operating cash flows, in the rate of growth of terminal values and in the average weighted cost of capital (discount rate).
The expected cash flows cover a two-year period (2016-2017), and refer to the 2016 Budget, and for 2017, to the "2014-2017 Business Plan" announced to the financial community on November 6, 2013, corrected downwards by a percentage which corresponds to the negative variance between the 2016 Budget and the 2016 Old Plan, as well as the new updated forecasts for 2017.

With reference to the CGU Consumer segment, since the new updated forecast for 2017 presented higher cash flows compared to the 2017 Old Plan, the 2017 Old Plan was considered prudent. With reference to the CGU Industrial segment the updated forecasts for 2017 result as being more prudent than the 2017 Old Plan and therefore the updated forecasts for 2017 were used.

The cash flows for the 2016 Budget and those of the updated 2017 forecast as well as those in the updated 2017 Old Plan, all take the deconsolidation of the Venezuelan subsidiary into account.
Additionally, the reasonableness of the explicit forecast for the margins for the period as compared to the consensus for estimates of the sector players operating in the Premium segment was verified.
The calculation also included the hypothetical cash flows deriving from the disposal of the CGUs at the end of the explicit period (assumed to be equal to the present value of the perpetual stream of cash flow generated in the last year of the forecast).

The discount rates, defined at the average cost of capital net of taxes, applied to prospective cash flows and the growth factors used are listed in the following table:

OPERATING SEGMENT	CGU	2015			2014		
		DISCOUNT RATE (WACC)	GROWTH RATE (G)	WACC - G	DISCOUNT RATE (WACC)	GROWTH RATE (G)	WACC - G
Consumer	Consumer	8.45%	-	8.45%	8.00%	-	8.00%
Industrial	Industrial	8.45%	-	8.45%	8.00%	-	8.00%

On the basis of these tests, no impairment loss was recognised.
A sensitivity analysis was also carried out of the results for 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;
- an change in the EBITDA margin of 150 basis points.

The **"Concessions, licences and trademarks" with a defined useful life** item totalling euro 41,632 thousand mainly including trademarks deriving from the acquisition, which occurred in the 2014 financial year, of 29 sales outlets belonging to the Abouchar network (euro 4,354 thousand), from purchases that occurred during the course of the 2013 financial year, of 25 sales outlets belonging to Wagner in Germany (euro 8,003 thousand), from the purchases made during the course of the 2012 financial year in Russia (euro 1,568 thousand) and the Dackia retail chains in Sweden (euro 19,878 thousand).

The **"Concessions, licences and trademarks" with an undefined useful life** totalling euro 5,832 thousand, include the Campneus brand which is owned by the Brazil subsidiary. During the 2015 financial year, due to the revision of the business strategy and the positioning of the brands relative to the Brazilian sales networks, it was considered that the Campneus brand met the requirements to be classified as an intangible asset with an indefinite useful life. The brand was subjected to a specific impairment test on the basis of which the value in use was determined to higher than the value recorded in the Financial Statements.

"Other intangible assets" which totalled euro 27,918 thousand include the fair value assessment of customer relationships and trade partners deriving from the acquisition of the Abouchar sales network in 2014 (euro 576 thousand) and from the purchases made in 2012 in Russia (euro 3,167 thousand) and Sweden (Dackia - euro 4,302 thousand).

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The changes in investments in associates and joint ventures that occurred in the period are as follows:

(in thousands of euro)

	12/31/2015			12/31/2014		
	ASSOCIATES	JV	TOTAL	ASSOCIATES	JV	TOTAL
Opening balance	**158,885**	**27,898**	**186,783**	**111,525**	**19,941**	**131,466**
Increases	12,157	-	12,157	118,665	12,109	130,774
Distribution of dividends	(1,950)	-	(1,950)	(1,211)	-	(1,211)
Impairment	(21,742)	-	(21,742)	(20,394)	-	(20,394)
Share of net income (loss)	(4,192)	(4,810)	(9,002)	(53,769)	(1,378)	(55,147)
Share of other components recognized in Equity	1,090	-	1,090	4,340	-	4,340
Reclassifications and other	12	-	12	(271)	(2,774)	(3,045)
Closing balance	**144,260**	**23,088**	**167,348**	**158,885**	**27,898**	**186,783**

Investments in associates and joint ventures are accounted for in Consolidated Financial Statements using the equity method.

11.1 INVESTMENTS IN ASSOCIATES

The breakdown by individual investment is as follows:

(in thousands of euro)

	12/31/2014	INC.	DISTRUB. OF DIVIDENDS	IMPAIRMENT	SHARE OF NET INCOME (LOSS)	SHARE OF OTHER COMPONENTS RECOGNIZED IN EQUITY	RECLASS. AND OTHER	12/31/2015
Eurostazioni S.p.A.	60,541	-	(1,680)	-	1,637	-	-	60,498
Prelios S.p.A.	55,534	-	-	(7,000)	(6,039)	(575)	-	41,920
Fenice S.r.l.	16,023	12,157	-	-	-	1,665	-	29,845
GWM Renewable Energy II S.p.A.	25,112	-	-	(14,085)	-	-	134	11,161
Idea Granda Società Consortile r.l.	633	-	-	(533)	-	-	(100)	-
Other companies	1,042	-	(270)	(124)	210	-	(22)	836
Total associates	**158,885**	**12,157**	**(1,950)**	**(21,742)**	**(4,192)**	**1,090**	**12**	**144,260**

The investment in GWM Renewable Energy II S.p.A. (16.87% as at December 31, 2015, unchanged as compared to the previous financial year) is classified as an associate (although there is a percentage of ownership of less than 20%) since the Group exercises significant influence due to the presence of its managers on the company's Board of Directors.

Increases in 2015 refer entirely to the purchase of an investment totalling 7.32% in Fenice S.r.l. On July 29, 2015, the Fenice Creditor Partners (Pirelli & C. S.p.A., Unicredit S.p.A. and Intesa San Paolo S.p.A.) in fact exercised the right to purchase the entire quota held by Feidos 11 in Fenice pursuant to the "Right of Redemption" set forth in Fenice S.r.l. by-laws and a purchase option set forth in shareholder agreements. Execution of the transfer occurred on September 3, 2015. On September 25, 2015, Fenice Creditor Partners also updated the Side Agreements by making a number of changes. It is here mentioned that the updates to the Side Agreements constituted a modification/integration of the previous Agreement, which therefor remains valid between the shareholders and Feidos 11 with particular reference to the earn-out clause for Feidos 11 in the event of transfer by Fenice of the Prelios B shares it holds within 12 months of exercising the purchase option.
Although the percentage of ownership is greater than 50%, based on the provisions of the shareholder agreement, this does not entail control over Fenice S.r.l by Pirelli.

Impairments refer to the investments in Prelios S.p.A. for euro 7,000 thousand, GWM Renewable Energy II S.p.A. for euro 14,085 thousand, Idea Granda Società Consortile for euro 533 thousand and Serenergy for euro 124 thousand.

With reference to the investment in Prelios S.p.A., it has been felt that the Group's negative results and the difference between fair value, represented by the security listing on December 31, 2015 (euro 0.283 per share) and book value in consolidated Financial Statements post-application of the equity method (euro 0.33 per share) represented an impairment indicator. The value of the equity investment was therefore adjusted to its recoverable value, represented by its actual fair value.

With reference to the investment in GWM Renewable Energy II S.p.A., it has been felt that the trend in the stock exchange assessment of Greentech Energy System A/S, the company's primary asset, which was significantly below the book value of the equity investment in GWM Renewable Energy II S.p.A., represented an impairment indicator as at December 31, 2015. The value of the equity investment was therefore adjusted to its recoverable value, represented by the fair value of GWM Renewable Energy S.p.A. determined by valuing by way of transparency at Fair Value the investment therein held by the company Greentech Energy Systems A/S an represented by its Stock Exchange value. From the comparison, there is a loss of value in the Income Statement of euro 14,085 thousand.

With reference to the investment in Fenice S.r.l., it is to be noted that the withdrawal of partner Feidos 11 has in fact "frozen" part of the asymmetry applying under the previous version of the Side Agreements regarding the Fenice allocation of net revenues. Conversely the clause that provides for an asymmetrical allocation of earnings amongst the Creditor Partners applies.
Since the allocation between Creditor Partners is now asymmetrical and given too that the earn-out clause remains valid for Feidos 11 in case of the sale of the Prelios B shares it holds within 12 months of exercising the purchase option, it has been felt that this asymmetry represents an impairment indicator and therefore the investment has been subjected to an impairment test with the goal of comparing the investment value after application of the equity method with its recoverable value, represented by the fair value.

The fair value of the investment as at December 31, 2015, which Pirelli determines with the help of a professional independent third party, was found to be higher than its book value and therefore no impairment was applied.

To estimate the fair value, an income approach was used based on the criterion of options and the use of level 2 inputs.
The estimate was made starting from the liquidation preference, i.e. the preferential/asymmetric sharing mechanism of any income from Fenice itself following the sale of Prelios class B shares. As presumed date of sale it was decided to adopt the date of first expiry of the side agreement, that is July 31, 2018.
As the payoff is asymmetrical, it was reproduced on the basis of a portfolio of long and short positions of options, valued as at December 31, 2015 on the basis of the *Black & Scholes* formula.

The impairment found for Idea Granda Società Consortile represents an adjustment to the equity investment value at its Fair Value represented by the sales price; the company was indeed sold during 2015.

The share of net income (loss) of associates (negative for euro 4,192 thousand) mainly refers to Prelios S.p.A. (loss of euro 6,039 thousand) partially offset by the pro-quota positive operating income of Eurostazioni S.p.A. (gains of euro 1,637 thousand).
As performed on December 31, 2014, the Prelios S.p.A. Financial Statements used in applying the equity method refer to a different closing date as compared to December 31, 2015; in particular, the portion accruing to the 2015 financial year and amounting to euro 6,039 thousand is made up of the sum of:
- loss for the fourth quarter of the 2014 financial year (euro 2,620 thousand);
- loss for the first nine months of 2015financial year (euro 3,419 thousand).

The **Share of other components recognised in equity** (positive for euro 1,090 thousand), refers primarily to euro 1,665 thousand, prorated (62.56% until September 30, 2015 and 69.88% after this date) of gains recognised directly in equity by Fenice S.r.l. in the 2015 financial year, following the fair value adjustment of the 210,988,201 Category B Prelios S.p.A. shares it held; these shares are classified for Fenice S.r.l. as financial assets available for sale. The fair value of the Category B Prelios shares was determined based on the market value as at December 31, 2015 of the ordinary Prelios S.p.A. shares (euro 0.283) per share.

Investments in associates have accounted for using the equity method are not significant in terms of their impact on the consolidated assets total, either individually, or in aggregate form.

11.2 EQUITY INVESTMENTS IN JOINT VENTURES

The Group holds an equity investment of 60% (of ownership unchanged from the previous financial year) in PT Evoluzione Tyres, a jointly controlled entity which operates in Indonesia, and is active in the production of tyres. Although the company is now 60% owned due to contractual agreements between shareholders, it falls within the definition of a joint venture as the governance rules explicitly require the unanimous consent in decisions relating to the significant activities.
The equity investment accounted for using the equity method, is not significant in terms of the impact on the total consolidated assets.

12. OTHER FINANCIAL ASSETS

These amounted to euro 225,121 thousand compared to euro 180,741 thousand as at December 31, 2014 and are qualified as **financial assets available for sale**.

The transactions that occurred in the financial year are as follows:

(in thousands of euro)

	12/31/2015	12/31/2014
Opening balance	**180,741**	**185,009**
Translation differences	305	378
Increases	20,870	57,035
Decreases	-	(42,894)
Impairment	(15,751)	(13,434)
Fair value adjustments recognised in Equity	38,853	(5,231)
Other	103	(122)
Closing balance	**225,121**	**180,741**

The breakdown by individual investment is as follows:

(in thousands of euro)

	12/31/2015					12/31/2014
	HISTORICAL COST	CUMULATIVE FV ADJUSTMENTS RECOGNIZED IN EQUITY	FV ADJUSTMENTS RECOGNIZED IN INCOME STATEMENT		FAIR VALUE	FAIR VALUE
			Previous periods	2015		
Listed securities	A	B	C	D	A+B+C+D	
Mediobanca S.p.A.	90,247	76,955	(27,234)	-	139,968	106,650
RCS Mediagroup S.p.A.	37,480	-	(15,860)	(7,265)	14,355	21,620
Other companies	134	-	-	(104)	30	134
	127,861	**76,955**	**(43,094)**	**(7,369)**	**154,353**	**128,404**
Unlisted securities						
Alitalia - Compagnia Aerea Italiana S.p.A.	38,344	-	(31,229)	(7,115)	-	5,349
Fin. Priv. S.r.l.	14,458	9,891	(5,562)	-	18,787	14,473
Fondo Anastasia	13,250	1,228	-	-	14,478	14,822
European Institute of Oncology (Istituto Europeo di Oncologia S.r.l.)	4,039	1,715	-	-	5,754	5,382
F.C. Internazionale Milano S.p.A.	7,213	-	(6,655)	(265)	293	558
Euroqube	373	-	(222)	(47)	104	151
Tlcom I LP	1,406	-	(701)	(61)	644	665
Emittenti Titoli	117	4,672	-	-	4,789	3,598
Equinox Two SCA	7,881	-	(2,996)	(460)	4,425	4,447
Pirelli De Venezuela C.A.	18,877	-	-	-	18,877	-
Other companies	3,940	222	(1,111)	(434)	2,617	2,892
	109,898	**17,728**	**(48,476)**	**(8,382)**	**70,768**	**52,337**
Total	**237,759**	**94,683**	**(91,570)**	**(15,751)**	**225,121**	**180,741**

The **increases** mainly refer to the subscription of Alitalia - Compagnia Aerea Italiana S.p.A. (euro 1,766 thousand) and of the fair value of the subsidiary Pirelli de Venezuela C.A. (euro 18,877 thousand) deconsolidated as of December 31, 2015. The fair value of the subsidiary is substantially represented by the liquidity in the country impaired by the SIMADI exchange rate, which following the latest official statements on February 17, 2016, is to replace the SICAD exchange rate.. The SIMADI exchange rate, which is currently trading at around 200 Bolivars to the US Dollar, will mostly be allowed to fluctuate freely.

The **impairments** item mainly refers to investments in RCS MediaGroup S.p.A. for euro 7,265 thousand, Alitalia-Compagnia Aerea Italiana S.p.A for euro 7,115 thousand, Equinox Two S.C.A. for euro 460 thousand and F.C. Internazionale Milano S.p.A. for euro 265 thousand.

The **fair value adjustment recognised in equity** mainly refers to equity investments in Mediobanca S.p.A. (positive for euro 33,318 thousand), Fin.Priv. S.r.l. (positive for euro 4,314 thousand) and Emittenti Titoli (positive for euro 1,191 thousand).

The fair value of listed financial securities corresponds to the listing on the Stock Exchange as at December 31, 2015.

The fair value of unlisted financial instruments was determined by making estimates based on the best information available.

13. DEFERRED TAX ASSETS AND PROVISION FOR DEFERRED TAX LIABILITIES

The composition is the following:

(in thousands of euro)

	12/31/2015	12/31/2014
Deferred tax assets	123,724	248,564
Provision for deferred tax liabilities	(43,622)	(53,029)
	80,102	**195,535**

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)

	12/31/2015	12/31/2014
Deferred tax assets	**260,454**	**354,697**
_ of which recoverable within 12 months	64,484	76,718
_ of which recoverable beyond 12 months	195,970	277,979
Provision for deferred tax liabilities	**(180,352)**	**(159,162)**
_ of which recoverable within 12 months	(20,103)	(11,090)
_ of which recoverable beyond 12 months	(160,249)	(148,072)
	80,102	**195,535**

The tax effect of temporary differences and of tax losses carried forward which make up the item at December 31, 2015 and at December 31, 2014 is shown in the following table:

(in thousands of euro)

	12/31/2015	12/31/2014
Deferred tax assets:		
Provisions for future liabilities and charges	49,950	22,386
Employee benefit obligations	108,593	103,966
Inventories	20,258	14,492
Tax losses carried forward	7,486	127,645
Amortisation and depreciation	24,534	4,888
Trade receivables and other receivables	12,650	15,299
Trade payables and other payables	24,105	44,099
Derivatives	2,330	2,828
Other	10,548	19,094
Total	**260,454**	**354,697**
Provision for deferred tax liabilities:		
Amortisation and depreciation	(102,794)	(112,011)
Other	(77,558)	(47,151)
Total	**(180,352)**	**(159,162)**

The decrease posted under deferred tax assets is primarily attributable to tax asset depreciation on fiscal losses reported by the Pirelli & C. S.p.A. parent company. (euro 102,970 thousand) and the US subsidiary Pirelli Tire LLC. (euro 4,600 thousand). The impairment of the Parent company is directly related to the adjustment of the forecasts on future taxable gains of the companies participating in the Italian tax regime for which there is a significant reduction due to the new financial structure that the Group will assume following the reverse merger with the parent company Marco Polo Industrial Holding S.p.A. planned for the first half of 2016. It should be noted that tax losses related to the Italian companies of the Group can be carried forward indefinitely.

As at December 31, 2015, the value of the active deferred taxes not recognised for temporary differences amounted to euro 25,862 thousand (euro 39,530 thousand as at December 31, 2014), and those relative to tax losses amounted to euro 144,891 thousand (euro 37,857 thousand as at December 31, 2014): these amounts refer to situations where recovery was not thought likely.

The breakdown by maturity of the value of tax losses, for which no deferred tax assets were recognised, are shown below:

(in thousands of euro)

YEAR OF MATURITY	12/31/2015	12/31/2014
2015	842	1,508
2016	7,988	8,191
2017	5,646	5,577
2018	7,835	7,674
2019	3,651	3,643
2020	6,396	6,010
2021	3,996	4,012
2022	5,521	5,121
2023	4,902	-
2024	38,884	37,066
2025	12,690	12,690
2026	878	878
2027	890	890
without maturity date	455,548	72,075
	555,667	**165,334**

Of the total tax losses without maturity, euro 396,675 thousand refers to losses posted by the Spanish subsidiary Pirelli Neumaticos and euro 48,632 thousand in losses due to the UK subsidiary Pirelli UK Ltd. relation to which no sufficient taxable income to recover those losses is expected. The increase in fiscal losses for which deferred taxes have not been recognised is mainly attributable to the reversal mentioned of deferred income on tax losses of the Parent company.

The tax effect of gains and losses recognised directly in equity is negative for euro 19,955 thousand (positive for euro 14,879 thousand in 2014), and is disclosed in the Statement of Comprehensive Income; these changes were mainly due to the tax effects associated with the actuarial gains/losses on employee benefit obligations and the adjustment of derivatives in cash flow hedges to their fair value.

14. TRADE RECEIVABLES

The breakdown of trade receivables is set forth as follows:

(in thousands of euro)

	12/31/2015			12/31/2014		
	TOTAL	NON-CURRENT	CURRENT	TOTAL	NON-CURRENT	CURRENT
Customers	942,000	-	942,000	719,000	-	719,000
Provision for bad debts	(265,808)	-	(265,808)	(45,192)	-	(45,192)
	676,192	**-**	**676,192**	**673,808**	**-**	**673,808**

Out of the trade receivables total of euro 942,000 thousand (euro 719,000 thousand as at December 31, 2014), gross of the provision for bad debts, euro 375,798 thousand are overdue (euro 125,204 thousand as at December 31, 2014).

The increase in gross receivables was primarily due to the reclassification of third party receivables due to the Group as at December 31, 2015 from the Pirelli de Venezuela C.A.deconsolidated at December 31, 2015, (euro 220,725 thousand); these receivable were then fully impaired. This increase is offset by the decrease derived from the deconsolidation, of the receivables due from third parties to the Venezuelan subsidiary (euro 89.615 thousand).

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 as well as positions sharing similar credit risk characteristics that have been regrouped together and impaired on a collective basis.

The **change in the provision for bad debts** is shown below:

(in thousands of euro)

	12/31/2015	12/31/2014
Opening balance	**45,192**	**41,573**
Translation differences	(2,108)	(1,251)
Increases	14,181	16,389
Provision for receivables from Venezuelan subsidiary	220,725	-
Decreases	(11,904)	(11,504)
Deconsolidation of provision for bad debts of the Venezuelan subsidiary	(487)	-
Other	208	(15)
Closing balance	**265,808**	**45,192**

Increases to the provision for bad debts (excluding accruals of the Venezuelan subsidiary) were recognised in the Income Statement as "Other costs" (note 33).

For trade receivables, the carrying amount is considered to approximate its fair value.

15. OTHER RECEIVABLES

The breakdown of other receivables is as follows:

(in thousands of euro)

	12/31/2015			12/31/2014		
	TOTAL	NON-CURRENT	CURRENT	TOTAL	NON-CURRENT	CURRENT
Financial receivables	62,626	50,738	11,888	97,651	56,167	41,484
Trade accruals and deferrals	22,689	2,468	20,221	21,962	4,147	17,815
Receivables from employees	6,958	1,254	5,704	13,227	1,561	11,666
Receivables from social security and welfare institutions	7,139	-	7,139	10,643	-	10,643
Receivables from tax authorities not related to income taxes	95,556	8,809	86,747	102,889	12,123	90,766
Other receivables	123,262	84,355	38,907	188,364	95,147	93,217
	318,230	**147,624**	**170,606**	**434,736**	**169,145**	**265,591**
Provision for bad debts	(5,198)	-	(5,198)	(317)	-	(317)
	313,032	**147,624**	**165,408**	**434,419**	**169,145**	**265,274**

Non-current financial receivables (euro 50,738 thousand) principally include the amounts in escrow accounts in connection with tax and legal disputes of the subsidiary Pirelli Pneus Ltda (Brazil), bearing interest at market rates, for euro 41,267 thousand (euro 49,956 thousand as at December 31, 2014).

Current financial receivables (euro 11,888 thousand) refer to euro 2,367 thousand to prepaid commissions on the revolving and term loan multicurrency facility granted to Pirelli & C S.p.A. and to interest paid in advance on loans taken out by the subsidiary Turk-Pirelli Lastikleri A.S., for euro 3,529 thousand deposited by the Egyptian company to guarantee payments in foreign currency. The decrease as compared to December 31, 2014 is mainly due to reimbursement of the loan granted to associate Sino Italian Wire Technology Co Ltd. as part of the sale of the steelcord business (euro 31,195 thousand).

Receivables from tax authorities not related to income taxes (euro 95,556 thousand) relate in particular to receivables on VAT, withholding and property taxes.

Other non-current receivables (euro 84,355 thousand) mainly refer to amounts in escrow in connection with lawsuits and tax litigation involving the Brazilian units (euro 59,300 thousands), receivables for guarantees for the benefit of Pirelli that may be exercised if contingent liabilities materialise in relation to the acquired company Campneus Lider de Pneumaticos Ltda (Brazil), for euro 7,637 thousand, and a receivable amounting to euro 13,768 thousand relating to a cash contribution in connection with the signing of an equity partnership agreement.

Other current receivables (euro 38,907 thousand) mainly include advances paid to suppliers of euro 15,544 thousand, receivables from the disposal of property not used for industrial operations in Brazil of euro 2,352 thousand, and contributions for research and development to be received from the Region of Piedmont for euro 1,062 thousand.

The movement of the other current receivables and the related provision for bad debts includes the reclassification of intercompany receivables previously held by Brazilian and Italian third parties against the Venezuelan subsidiary (euro 4,855 thousand)..

For other current and non-current receivables, the carrying amount is considered to approximate their fair value.

16. TAX RECEIVABLES

Tax receivables relate to income taxes and total euro 68,579 thousand (of which euro 6,169 thousand is included in non-current assets), as compared to euro 86,028 thousand as at December 31, 2014 (of which euro 12,068 thousand is included in non-current assets). This amount mainly refers to receivables for tax prepayments made in respect of taxes for the financial year, receivables for withholding tax paid to foreign entities of euro 15,619 and IRES (corporate income tax) receivables from previous years recognised in respect of Pirelli & C. S.p.A. for approximately euro 5,343 thousand.

17. INVENTORIES

The breakdown of inventories is as follows:

(in thousands of euro)

	12/31/2015	12/31/2014
Raw and auxiliary materials and consumables	208,012	210,699
Sundry materials	6,796	7,193
Work in progress and semi-finished products	67,710	70,966
Finished products	769,610	759,387
Goods for resale	-	2,357
Advances to suppliers	1,801	4,414
	1,053,929	**1,055,016**

The inventory total (which also takes the effect of the deconsolidation of the Venezuelan subsidiary into account to the amount of euro 30,039 thousand) was substantially stable for 2015 as compared to the previous financial year in terms of both value and composition. The impairment of stocks, expressed net of reinstatements, amounted to euro 11,095 thousand (reversals amounted to euro 7,736 thousand as at December 31, 2014).

Inventories are not subject to any collateral pledges.

18. SECURITIES HELD FOR TRADING

Securities held for trading amounted to euro 78,167 thousand as compared to euro 61,404 thousand as at December 31, 2014, an increase of euro 16,763 thousand.
They consisted of:
- unlisted floating-rate bonds for euro 68,040 thousand (euro 57,735 thousand as at December 31, 2014);
- unlisted fixed-rate bonds for euro 10,095 thousand (euro 3,631 thousand as at December 31, 2014);
- unlisted equities for euro 32 thousand (euro 38 thousand as at December 31, 2014);

The fair value of listed financial instruments corresponds to their stock market price as at December 31, 2015.
The fair value of unlisted financial instruments has been 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".

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went from euro 1,166,669 thousand as at December 31, 2014 to euro 1,082,726 thousand as at December 31, 2015. These were essentially invested on the market as short-term maturity deposits with major banking counterparties at interest rates which are in line with prevailing market conditions. The evident decrease as compared to the previous financial year and which is attributable also to the deconsolidation of the Venezuelan subsidiary effective as of December 31, 2015, highlights a positive Net Financial Position of euro 277,659 thousand.
In the cash flow statement, the balance of cash and cash equivalents is net of bank overdrafts amounting to euro 15,568 thousand as at December 31, 2015 (euro 16,063 thousand as at December 31, 2014).

20. EQUITY

20.1 EQUITY ATTRIBUTABLE TO THE PARENT COMPANY

Equity attributable to the Parent Company went from euro 2,548,345 thousand at December 31, 2014 to euro 2,280,177 thousand at December 31, 2015.
This change as compared to December 31, 2014 (negative for euro 268,168 thousand), was substantially due to the net income of the year (negative for euro 391,366 thousand), the combined effect of inflation/devaluation deriving from the application of hyperinflation accounting in Venezuela (positive for euro 280,345 thousand), the fair value adjustment of derivative financial instruments in cash flow hedges excluding the relative tax effect (positive for euro 4,777 thousand), the fair value adjustment of financial assets/investments available for sale (positive for euro 38,853 thousand), the actuarial losses on pension funds excluding the related tax effect (positive for euro 12,473 thousand), the payment of dividends (euro 179,572 thousand), the differences resulting from the translation into Euro of the foreign Financial Statements (negative for euro 145,945 thousand) which were offset by the positive effect coming from the reclassification in Income Statement of previous foreign exchange losses due to the deconsolidation of the Venezuelan subsidiary and the disposal of the steelcord business (euro 131,952 thousand).
The subscribed and paid-up **share capital** at December 31, 2015 (including treasury shares in portfolio) is represented by 475,740,182 ordinary shares and 12,251,311 savings shares, without par value and having normal entitlements, for a total of euro 1,345,381 thousand. 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.
Equity per share was euro 4,672, as compared to euro 5,222 as at December 31, 2014.

20.2 EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

The equity attributable to non-controlling interests went from euro 63,157 thousand as at December 31, 2014 to euro 63,367 thousand as at December 31, 2015, mainly due to the net income for the 2015 financial year which was positive for euro 7,789 thousand, and which was offset by the decrease due to the deconsolidation of the Venezuelan subsidiary to the amount of euro 8,502 thousand.

21. PROVISIONS FOR LIABILITIES AND CHARGES

The changes that occurred during the financial year are shown below:

NON-CURRENT PORTION (in thousands of euro)

	12/31/2015
Opening balance	97,799
Translation differences	(19,750)
Increases	10,179
Uses	(9,686)
Reversals	(705)
Other	68
Closing balance at 12/31/2015	**77,906**

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 34,894 thousand) and labour lawsuits (euro 24,470 thousand) and by the parent company Pirelli & C. S.p.A. for tax litigation (euro 9,886 thousand) and trade risks, site remediation and labour disputes (euro 4,501 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..

CURRENT PORTION (in thousands of euro)

	12/31/2015
Opening balance	67,030
Translation differences	49
Increases	21,382
Uses	(21,255)
Reversals	(9,528)
Deconsolidation of the Venezuelan subsidiary	(1,655)
Other	7,198
Closing balance at 12/31/2015	**63,221**

The **current portion** of provisions for liabilities and charges mainly includes accruals for technical claims and product warranties (euro 17,574 thousand), site remediation of disused areas of land (euro 4,522 thousand), reorganisation and closure of business units (euro 1,443 thousand), litigation for occupational diseases (euro 10,237 thousand), tax risks (euro 10,323 thousand), labour lawsuits (euro 2,509 thousand) and industrial accident insurance (euro 3,677 thousand).

Increases mainly refer to provisions for product claims, labour lawsuits, occupational diseases, tax risks and site remediation of disused areas of land.

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 by various units within the Group, site remediation of disused areas of land and settlement of legal disputes.

The **reversals** of excess provisions mainly concerned technical claims (euro 1,616 thousand), tax (euro 1,046 thousand) and legal risks (euro 1,765 thousand), industrial/workplace accident insurance (euro 1,437 thousand), labour lawsuits (euro 1,400 thousand) and legal disputes (euro 1,075 thousand).

22. EMPLOYEE BENEFIT OBLIGATIONS

The item includes:

(in thousands of euro)

	12/31/2015	12/31/2014
Pension funds:		
– funded	154,413	203,183
– unfunded	96,375	107,899
Employee leaving indemnities (TFR - Italian companies)	38,625	42,451
Healthcare plans	21,449	22,337
Other benefits	51,678	83,075
	362,540	**458,945**

Pension funds

The following table shows the breakdown of pension funds as at **December 31, 2015**:

(in thousands of euro)

	12/31/2015						
	GERMANY	SWEDEN	TOTAL UNFUNDED PENSION FUNDS	USA	UK	OTHER COUNTRIES	TOTAL FUNDED PENSION FUNDS
Funded funds							
Present value of funded liabilities	-	-	-	158,483	1,247,129	5,846	**1,411,458**
Fair value of plan assets	-	-	-	(122,875)	(1,129,387)	(4,783)	**(1,257,045)**
Unfunded funds							
Present value of unfunded liabilities	92,779	3,596	**96,375**	-	-	-	-
Net liabilities recognised	**92,779**	**3,596**	**96,375**	**35,608**	**117,742**	**1,063**	**154,413**

The following table shows the breakdown of pension funds as 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 characteristics of the principal pension funds in place at December 31, 2015 are as follows:

- **Germany:** this is an unfunded defined-benefit plan based on the final salary. It provides a pension in addition to the state pension. The plan was closed in October 1982; the participants in this plan are thus employees whose employment began prior to that date;
- **USA:** this is a funded defined-benefit plan based on the final 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 in this plan have retired;
- **UK:** these are funded defined-benefit plans based on the final 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 as at the date of the sale in 2005;
- **Sweden:** this involves a defined benefit plan (ITP2), which was closed to new participants, and the only participants are retired employees and recipients of deferred pensions.

The **changes in net liabilities** in 2015 for funded and non-funded defined benefit pension fund assets are as follows:

(in thousand of euro)

	PRESENT VALUE OF GROSS LIABILITIES	FAIR VALUE OF PLAN ASSETS	TOTAL NET LIABILITIES
Opening balance at January 1, 2015	**1,477,209**	**(1,166,127)**	**311,082**
Translation difference	92,124	(77,050)	15,074
Movements through income statement:			
_ current service cost	1,093	-	1,093
_ interest expense / (income)	54,996	(45,993)	9,003
	56,089	**(45,993)**	**10,096**
Remeasurements recognized in equity:			
_ actuarial (gains) / losses from change in demographic assumptions	3,964	-	3,964
_ actuarial (gains) / losses from change in financial assumptions	(38,623)	-	(38,623)
_ experience adjustment (gains) losses	(4,807)	-	(4,807)
_ return on plan assets, net of interest income	-	5,576	5,576
	(39,466)	**5,576**	**(33,890)**
Employer's contributions	-	(51,992)	(51,992)
Employee contributions	24	(24)	-
Benefits paid	(77,120)	77,120	-
Settlements	(342)	-	(342)
Other	(685)	1,445	760
Closing balance at December 31, 2015	**1,507,833**	**(1,257,045)**	**250,788**

The **changes** in net liabilities occurring in 2014 were as follows:

(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:			
_ (gain) loss from change in demographic assumptions	12,630	-	12,630
_ (gain) loss 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 service cost is included in the item "Personnel expenses" (note 31), while interest expense/(income) is included in the item "Financial expenses" (note 36).

The following table shows the breakdown of funded pension fund assets:

(in thousand of euro)

	12/31/2015				12/31/2014			
	LISTED	UNLISTED	TOTAL	%	LISTED	UNLISTED	TOTAL	%
Shares	70,957	361,394	432,351	34%	74,725	269,765	344,490	30%
Bonds	173,429	116,948	290,377	23%	203,615	161,826	365,441	31%
Insurance policies	-	4,783	4,783	0%	-	4,896	4,896	0%
Deposits	250,344	4,996	255,340	20%	63,913	4,468	68,381	6%
Balanced funds	-	109,778	109,778	9%	846	187,179	188,025	16%
Real Estate	-	207,262	207,262	16%	-	73,210	73,210	6%
Derivatives	-	(51,834)	(51,834)	-4%	113,151	-	113,151	10%
Other	-	8,989	8,989	1%	-	8,533	8,533	1%
	494,730	**762,315**	**1,257,045**	**100%**	**456,249**	**709,878**	**1,166,127**	**100%**

The principal risks to which the Group is exposed in relation to pension funds are detailed as follows:

- volatility of assets serving the plans: to limit the liabilities, investment strategy privileges assets which are expected to have relatively high and stable returns over the long-term. This means 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 yields and expected inflation: forecasts of falling yields on bonds and/or rising inflation lead to an increase in the value of liabilities. Plans reduce this risk by making investments in "liability hedging" assets. In the United Kingdom, the protection assured by a portfolio of this type has been built up over the last several years, and from the second quarter of 2014 has 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. Plans do not protect themselves directly against this risk. UK plans have set in motion a process that will lead to being protected against longevity risks initially to an extent of 50% of liabilities covered by assets. Liabilities are measured by using prudent hypotheses whose adequacy is revised periodically.

In the UK, management of the assets of the plans has delegated, under the supervision and within a precise mandate attributed by the Trustees, to a Fiduciary Manager who operates according to a model of Liability Driven Investment (LDI), or having as a reference, liabilities (liability benchmark) so as to minimise volatility (and thus the risk) of the deficit, which in fact did reduce to about one third as compared to the levels applying 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 - meaning 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, funding arrangements and funding policies are revised once every three years. The next evaluation of funding is foresee for 2017. In the United States evaluations of funding are made on an annual basis.

Contributions expected to be paid into unfunded pension funds during the 2016 financial year amount to euro 6,351 thousand, whereas those funded amount to euro 36,415 thousand.

Employee leaving indemnities (TFR)

Changes for the financial year in Employee leaving indemnities (Italian companies) are as follows:

(in thousands of euro)

	12/31/2015	12/31/2014
Opening balance	42,451	44,496
Liabilities held for sale	-	(6,574)
Movements through income statement:		
_ current service cost	207	146
_ interest expense	737	1,254
Remeasurements recognized in equity:		
_ actuarial (gains) losses arising from changes in financial assumptions	(1,932)	5,787
_ experience (gains) losses	-	(748)
Indemnities/advanced payments	(2,053)	(2,129)
Other	(785)	219
Closing balance	**38,625**	**42,451**

The cost of labour is included in the item "Personnel expense" (note 31), whereas interest expense is included in the item "Financial expenses" (note 36).
Contributions which are expected to be paid into Employees' leaving indemnities during the 2016 financial year amount to euro 1,707 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 12/31/2015	21,449
Liabilities recognised at 12/31/2014	22,337

The following changes occurred during the period:

(in thousands of euro)

	12/31/2015	12/31/2014
Opening balance	22,337	17,333
Translation differences	2,508	2,585
Movements through income statement:		
_ current service cost	5	4
_ interest expense	819	773
Remeasurements recognized in equity:		
_ actuarial (gains) losses arising from changes in financial assumptions	(632)	1,610
_ actuarial (gains) losses arising from changes in demographic assumptions	(392)	854
_ experience (gains) losses	(1,970)	303
Benefits paid	(1,228)	(1,125)
Closing balance	**21,449**	**22,337**

The cost of labour is included in the item "Personnel expense" (note 31), while the interest expense is included in the item "Financial expenses" (note 36).

Contributions expected to be paid into the healthcare plan during 2016 total euro 1,566 thousand.

Additional information regarding post-employment benefits

Net actuarial losses accrued in 2015 and recognised directly in equity totalled euro 17,675 thousand (at December 31, 2014 net actuarial losses totalled euro 30,263 thousand).

The principal actuarial assumptions used at **December 31, 2015** are as follows:

	ITALY	GERMANY	NETHERLANDS	SWEDEN	UK	USA
Discount rate	2.10%	2.10%	2.10%	2.75%	3.90%	4.05%
Inflation rate	1.25%	1.75%	1.75%	1.50%	3.05%	N/A
Expected rate of wage and salary increases	-	3.00%	2.00%	-	-	N/A
Healthcare cost trend rates - initial	-	-	-	-	-	8.00%
Healthcare cost trend rates - final	-	-	-	-	-	4.50%

The principal actuarial assumptions used at **December 31, 2014** are 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 following table shows the analysis of the payment by due dates 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	76,798	77,725	239,232	418,352	812,107
Employees' leaving indemnities (TFR)	1,707	1,727	6,554	12,566	22,554
Healthcare plan	1,566	1,571	4,625	7,360	15,122
	80,071	81,024	250,410	438,276	849,781

The weighted average duration of obligations for post-employment benefits is 15.36 years (15.73 years at December 31, 2014).

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	3.61%	increase by	3.83%
Inflation rate (only UK plans)	0.25%	increase by	3.15%	decrease by	2.63%

At the end of 2014 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	3.77%	increase by	3.96%
Inflation rate (only UK plans)	0.25%	increase by	2.48%	decrease by	1.97%

The sole purpose of the above analysis 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 in respect of 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 Financial Statements. 189

Other long-term benefits

The table below sets forth a breakdown of other long-term benefits:

(in thousands of euro)

	12/31/2015	12/31/2014
Long-term incentive plans	-	10,909
Jubilee awards	17,348	17,252
Leaving indemnities - non Italian companies	26,881	46,340
Other long-term benefits	7,449	8,574
	51,678	**83,075**

The decrease in the Long-term incentive plans item is directly attributable to the reclassification of the amount allocated in 2014 under “Other current liabilities” and “Other non-current liabilities” due to the decision taken by the Board of Directors on December 22, 2015 to close early the Long Term Incentive Plan 2014-2016 for Management of the Pirelli Group and approved by the Board of Directors and General Meeting of Pirelli & C. S.p.A., respectively, on February 27 and June 12 2014, in view of the delisting of the ordinary shares of Pirelli & C. S.p.A.

The decrease in the item **“Leaving indemnities”** was mainly attributable to the deconsolidation of the Venezuelan subsidiary (euro 44,283 thousand).

23. 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)

	12/31/2015			12/31/2014		
	TOTAL	NON-CURRENT	CURRENT	TOTAL	NON-CURRENT	CURRENT
Bonds	1,231,006	731,224	499,782	1,214,297	1,214,297	-
Borrowings from banks	1,129,394	540,403	588,991	1,034,380	563,735	470,645
Borrowings from other financial institutions	20,517	2,344	18,173	16,028	1,055	14,973
Financial leasing payables	507	321	186	1,086	903	183
Accrued financial expenses and deferred financial income	25,593	63	25,530	43,644	159	43,485
Other financial payables	7,263	1,333	5,930	3,181	1,577	1,604
	2,414,280	**1,275,688**	**1,138,592**	**2,312,616**	**1,781,726**	**530,890**

The item **bonds** refers to:

- for the **current portion**, to the unrated bond placed by Pirelli & C. S.p.A. on the Eurobond market of an aggregate nominal amount of euro 500 million, with a fixed coupon of 5.125% and maturity in February 2016;
- for the **non-current portion**:
  - the private placement made by Pirelli International Plc on the American market for an aggregate nominal amount of USD 150 million (equal to euro 137,779 million based on the exchange rate at December 31, 2015), with a duration of between 5 and 12 years and an average coupon of 5.05%. Following exceeding the threshold of 50%, of the ordinary capital of Pirelli by Marco Polo Holding, there was a "change of control" event on the loan. In accordance with contract provisions, Pirelli International Plc, made an offer or redemption to underwriters, to which no sign-ups were received. Therefore, the original maturity date of the loan has been kept unchanged in preparing the Financial Statements as at December 31, 2015.
  - 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%. In respect of this loan, as already advised to the market, no "change of control" event occurred and so it will remain in being until its natural maturity.

The carrying amounts of the bonds were determined as follows:

(in thousands of euro)

	12/31/2015	12/31/2014
Nominal value	1,237,728	1,223,548
Transaction costs	(13,828)	(13,828)
Amortisation of effective interest rate	7,106	4,304
Adjustment for fair value hedge	-	273
	1,231,006	**1,214,297**

Borrowings from banks, amounting to euro 1,129,394 thousand refer mainly to,:

- loans granted by the European Investment Bank (EIB) to 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 150,000 thousand (euro 250,000 thousand at December 31, 2014), fully used, of which euro 100,000 thousand was classified as current bank borrowings, and the remainder, totalling euro 50,000 thousand, was classified as non-current bank borrowings (at December 31, 2014 euro 150,000 thousand was classified as non-current bank borrowings and euro 100,000 thousand was classified as current bank borrowings). On December 16, 2015, Pirelli Tyre S.p.A. repaid the maturing tranche of euro 100,000 thousand;

- euro 279,520 thousand (euro 75,000 thousand at December 31, 2014) for the use of the revolving line of credit and multicurrency term loan facility with a five year duration of euro 1,000,000 thousand granted to Pirelli International Limited which was subscribed to on January 9, 2015, and which replaces the revolving credit facility for euro 1,200,000 thousand. These uses were classified as non-current bank borrowings;
- euro 100,000 thousand for use of the euro 200,000 thousands' revolving line of credit and multicurrency term loan facility with a five year duration granted to Pirelli & C. S.p.A., which was subscribed to on February 13, 2015. These uses were classified as non-current bank borrowings;

euro 37.000 thousand relative to the *Schuldschein* (originally for a nominal aggregate of euro 155,000 which was partially reimbursed in June 2015 to the amount of euro 112,000 thousand, and in December 2015 to the amount of a further euro 6,000 thousand) a loan syndicated by the lender on the basis of a debt certificate governed under German law granted to Pirelli International Plc and which was disbursed on 14 December 2012, with original maturity in June 2016, to the amount of euro 32,000 thousand and in December 2017 for the residual amount of euro 5,000 thousand. This last tranche has been reclassified under short-term liabilities as a result of the "change of control" event as provided for by the contractual conditions;

- euro 72,242 thousand relative to loans classified as current bank borrowings granted in favour of the Mexican subsidiaries by HSBC for euro 32,575 thousand, by Banco Santander and Banco BBVA for euro 15,867 thousand each and by Citibank for euro 7,933 thousand. These loans have a maturity of 180 days and are not covered by any sort of guarantee.
- euro 2,975 thousand relative to loans granted by Banco Nacion Argentina between October 2011 and June 2012 in favour of Pirelli Neumaticos S.A.I.C. The duration of the loan is 5 years, expiring in October 2016, provides for monthly repayments amounting to euro 296 thousand and is backed by secured guarantee;
- use of credit lines at local level, in China, Brazil, Colombia, Egypt, Turkey and USA, to the amount of euro 484,468 thousand, of which euro 374,962 thousand was classified as current bank borrowings, and the remainder, totalling euro 109,506 thousand was classified as non-current bank borrowings.

As at December 31, 2015 the Group had, aside from cash and financial assets held for trading of euro 1,160,893 thousand, unused committed credit facilities of euro 820,480 thousand (euro 1,125,000 thousand at December 31, 2014) maturing in 2020.

Accrued financial expenses and deferred financial income (euro 25,530 thousand) mainly refer to the portion of interest accrued on bonds (euro 23,757 thousand; euro 23,656 thousand at December 31, 2014) and accrued interest on bank loans for euro 853 thousand (euro 1,203 thousand as at December 31, 2014). As at December 31, 2014, this also included interest rate swaps for euro 18,152 thousand.

Other current financial payables sums received from Monte Titoli for the purchase of Pirelli shares by Marco Polo Industrial Holding and which must be reimbursed to a number of shareholders (euro 1,805 million) and new funding for euro 2,619 thousand.

Other non-current financial payables includes the guarantee deposit towards Prelios S.p.A. of euro 1,332 thousand, 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 8,526 thousand (euro 84,747 thousand at December 31, 2014).
The reduction is attributable to the full repayment of the debt and the cancellation of the mortgage of the Mexican subsidiary.

Current financial payables include the quota part of non-current financial payables, which amount to euro 793,051 thousand (euro 278,700 thousand as at December 31, 2014) which will be adjusted during the subsequent financial year.

The carrying amount of current financial payables is considered to approximate their fair value. The table below compares the fair value of non-current financial payables with their carrying amount:

(in thousands of euro)

	12/31/2015		12/31/2014	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Pirelli & C. S.p.A. bonds	-	-	498,940	523,565
Pirelli International Plc bonds	594,022	594,054	592,483	605,184
Private placement - Pirelli International Plc	137,202	131,761	122,873	147,731
Borrowings from banks	540,403	678,671	563,735	566,125
Other financial payables	4,061	4,060	3,695	3,695
	1,275,688	**1,408,546**	**1,781,726**	**1,846,300**

The public bonds issued by Pirelli & C. S.p.A. and by Pirelli International Plc are listed on an active market and the related fair value was measured with reference to 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 Ltd 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, 2015**, the breakdown of borrowings from banks and other financial institutions to lenders by interest rate and by currency of origin of the debt was as follows:

(in thousands of euro)

	FIXED RATE		FLOATING RATE		TOTAL
EUR	654,417		33,515		687,932
USD (US Dollar)	3,272		-		3,272
BRL (Brazilian Real)	322,750		-		322,750
CNY (Chinese Renminbi)	7,734		-		7,734
RON (Romanian Leu)	99		-		99
TRY (Turkish Lira)	26,871		-		26,871
ARS (Argentinian Peso)	2,975		-		2,975
Other currencies	79,423		7,536		86,959
Current payables	**1,097,541**	**96%**	**41,051**	**4%**	**1,138,592**
EUR	599,361		380,285		979,646
USD	137,217		-		137,217
BRL (Brazilian Real)	53,971		21,708		75,679
CNY (Chinese Renminbi)	-		33,358		33,358
RON (Romanian Leu)	-		49,788		49,788
MXN (Mexican Pesos)	-		-		-
ARS (Argentinian Pesos)	-		-		-
Non current payables	**790,549**	**62%**	**485,139**	**38%**	**1,275,688**
	1,888,090	**78%**	**526,190**	**22%**	**2,414,280**

A breakdown as at December 31, 2014 was as follows:

(in thousands of euro)

	FIXED RATE		FLOATING RATE		TOTAL
EUR	124,828		119,530		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 (US Dollar)	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)	3,860		-		3,860
Non current payables	**1,451,098**	**81%**	**330,628**	**19%**	**1,781,726**
	1,862,458	**81%**	**450,158**	**19%**	**2,312,616**

As at December 31, 2015 non hedging derivatives were created in respect of variable rate debt whereas as at December 31, 2014 the value of fixed rate debt included both debts that were contractually for a fixed rate and debt denominated at a variable rate in respect of which hedging derivatives were created.

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)

	12/31/2015			12/31/2014		
	TOTAL	FIXED RATE	FLOATING RATE	TOTAL	FIXED RATE	FLOATING RATE
Up to 6 months	1,136,210	1,095,032	41,178	635,162	185,003	450,158
From 6 to 12 months	4,536	4,536	-	130,602	130,602	-
From 1 to 5 years	1,177,479	692,467	485,012	1,459,288	1,459,288	-
More than 5 years	96,055	96,055	-	87,565	87,565	-
	2,414,280	**1,888,090**	**526,190**	**2,312,616**	**1,862,458**	**450,158**

The **average cost of debt** for 2015 was at 5.90% (6.05% for 2014).

With regard to the presence of financial covenants and negative pledge clauses, it is to be noted that:

- the revolving and term loan multicurrency facility granted to Pirelli International Plc for a total of euro 1,000,000 thousand, and withdrawn for euro 279,520 thousand foresees in cases of negative pledges, an undertaking not to grant secured guarantees beyond the threshold defined as being Euro 200,000 thousand or 5% of Total Assets (as per the consolidated Financial Statements of Pirelli & C. S.p.A.) whichever is the higher, with the exception of secured guarantees on existing debt or debt to replace it, and to be granted pursuant to law in respect of trade finance, project finance and subsidised finance, or on loans granted by supranational entities;

- the revolving and term loan multicurrency facility granted to Pirelli & C. S.p.A. for a total of euro 200,000 thousand, and used for euro 100,000 thousand foresees, in cases of negative pledges, an undertaking not to grant secured guarantees beyond the threshold defined as being euro 200,000 thousand or 5% of Total Assets (as per the consolidated Financial Statements of Pirelli & C. S.p.A.) whichever is the higher, with the exception of secured guarantees on existing debt or debt to replace it, to be granted pursuant to law in respect of trade finance, project finance and subsidised finance, or on loans granted 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 herein above:
  - keeping to a ratio between non-centralised indebtedness (referring 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. and 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 applying to gross operating margin 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 margin is greater than 2.5.
    These parameters were fully satisfied as at December 31, 2015.
  - in cases of negative pledges, an undertaking not to grant secured guarantees beyond the threshold defined as being Euro 100,000 thousand or 3% of Total Assets whichever is the higher (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 in respect of to trade finance, project finance and subsidised finance, or on loans granted by supranational entities.
- the Schuldschein subscribed to by Pirelli International Plc for a nominal total amount of euro 37,000 thousand, with due dates falling between June 2016 and December 2017 (originally for an aggregate nominal sum of euro 155,000 and partially reimbursed in June and December 2015) envisages, in cases of negative pledges, an undertaking not to grant secured guarantees beyond the threshold defined as being euro 100,000 thousand or 3% of Total Asset, whichever is the highest (as defined in the Consolidated Financial Statements of Pirelli & C. S.p.A.), with the exception of secured guarantees on existing debt or any debt which replaces it (to be granted pursuant to law) relating to trade finance, project finance, subsidised finance, or any loans granted by supranational entities.

The other outstanding financial payables do not contain financial covenants.

24. TRADE PAYABLES

Trade payables are listed in the following table:

(in thousands of euro)

	12/31/2015			12/31/2014		
	TOTAL	NON-CURRENT	CURRENT	TOTAL	NON-CURRENT	CURRENT
Suppliers	1,281,810	-	1,281,810	1,377,024	-	1,377,024
Bill and notes payable	31,321	-	31,321	17,288	-	17,288
	1,313,131	**-**	**1,313,131**	**1,394,312**	**-**	**1,394,312**

The evident decrease in 2015 as compared to 2014 includes the deconsolidation of the Venezuelan subsidiary to the amount of euro 44,522 thousand.

The carrying amount of trade payables is considered to approximate their fair value.

25. OTHER PAYABLES

Other payables are listed in detail in the following table:

(in thousands of euro)

	12/31/2015			12/31/2014		
	TOTAL	NON-CURRENT	CURRENT	TOTAL	NON-CURRENT	CURRENT
Accrued trade liabilities and deferred trade income	65,812	40,450	25,362	69,354	36,230	33,124
Tax payables not related to income taxes	76,682	3,485	73,197	121,692	4,622	117,070
Payables to employees	149,446	24,186	125,260	103,211	-	103,211
Payables to social security and welfare institutions	66,402	22,195	44,207	75,356	29,098	46,258
Dividends payable	6,879	-	6,879	9,624	-	9,624
Other payables	137,582	8,315	129,267	138,932	4,742	134,190
	502,803	**98,631**	**404,172**	**518,169**	**74,692**	**443,477**

Non-current accrued trade liabilities and deferred trade income relate, for euro 37,670 thousand to capital contributions received for investments made in Mexico and Romania, whose benefits are recognised in the Income Statement in proportion to the costs for which the contribution has been disbursed.

Current accrued trade liabilities and deferred trade income include euro 5,403 thousand for government grants by the Piedmont Region, relating to financing for plants aimed at the realization of the New Technological Centre and whose benefits are recognised in the Income Statement in proportion to the costs for which the contribution was granted, euro 4,119 thousand in tax incentives for the Gravatai project carried out in Brazil and deferred for the duration of the amortisation period of the investment, euro 2,940 thousand for various trade initiatives, euro 2,235 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 2,128 thousand for costs related to insurance coverage in some Eurozone countries.

Tax payables not related to income taxes is mainly comprised of payables for VAT or equivalent taxes, indirect taxes not related to income, and withholding tax for employees.

Payables to employees mainly include compensation accrued during the period but not yet paid, including a estimate of LTI incentives, as well as the value of the three-year monetary incentive plan Long Term Incentive 2014 - 2016, for Pirelli Group Management, closed early by resolution of the Board of Directors following the delisting of ordinary shares of Pirelli & C. S.p.A.

Other current payables (euro 129,267 thousand) mainly include:
- euro 78,333 thousand for the purchase of property, plant and equipment (euro 76,398 thousand as at December 31, 2014);
- euro 9,914 thousand for income withholding tax (euro 8,342 thousand as at December 31, 2014);
- euro 6,467 thousand for payables to representatives, agents, professionals and consultants (euro 8,061 thousand as at December 31, 2014);
- euro 6,851 thousand for payables to directors, statutory auditors and supervisory bodies (euro 1,662 thousand as at December 31, 2014).
- euro 4,747 thousand in advances from customers (euro 16,839 as at December 31, 2014);
- euro 2,963 for customer refunds.

The deconsolidation of the Venezuelan subsidiary impacted particularly on the reduction of payables towards employees to the amount of euro 26,553 thousand and payables towards social security and welfare institutions to the amount of euro 3,857 thousand.

For other current and non-current payables, it is considered that their value approximates fair value.

26. TAX PAYABLES

Tax payables totalling euro 65,091 thousand (of which euro 2,646 thousand was recognised in non-current liabilities), mainly relate to national and regional income taxes which decreased compared to euro 104,158 thousand as at December 31, 2014 (of which euro 3,397 thousand was recognised in non-current liabilities).

27. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes a fair value assessment of derivative instruments and the breakdown is the following:

(in thousands of euro)

	12/31/2015		12/31/2014	
	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT ASSETS	CURRENT LIABILITIES
Without adoption of hedge accounting				
Foreign currency derivatives - trade transactions	42,327	(36,825)	19,765	(26,002)
Foreign currency derivatives - included in net financial position	6,840	(15,149)	5,868	(2,553)
Interest rate derivatives	-	-	-	(2,180)
Other derivatives - included in net financial position	-	-	-	(2,089)
Hedge accounting adopted				
_ cash flow hedge:				
Foreign currency derivatives - trade transactions	-	-	2,113	-
Interest rate derivatives	11,608	-	606	(10,011)
Other derivatives	530	(5)	545	-
_ fair value hedge				
Interest rate derivatives - included in net financial position	-	-	207	-
	61,305	**(51,979)**	**29,104**	**(42,835)**
- Total derivatives included in net financial position	6,840	(15,149)	6,075	(4,642)

196

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 as at the closing date of the period. These involve hedges of Group trade and financial transactions for which hedge accounting was not adopted. Fair value has determined by using a forward exchange rate as at the date of Financial Statements.

Derivative financial instruments with adoption of hedge accounting

_ Cash flow hedge

The value of **interest rate derivatives**, recognised among current liabilities for euro 11,608 thousand refers to fair value assessment of 4 cross currency interest rate swaps negotiated in November 2012 to cover the exchange rate risk exposure and limit exposure to the risk rate associated with the private placement by Pirelli International Plc on the US market for a total nominal amount of USD 150 million with a duration of between 5-12 years (see note 23 "Borrowings from banks and other financial institutions"). The goal is to cover the change in debt cash flows denominated in foe reign currency (principal and interest) tied to changes in exchange rates. The amount for this derivative found in equity is negative for euro 4,987 thousand.

28. COMMITMENTS AND CONTINGENCIES

Commitments to purchase property, plant and equipment

Commitments for the purchase of tangible fixed assets amount to euro 131,074 thousand (euro 167,122 thousand as at December 31, 2014), and mainly refer to the companies in Romania, Brazil, Mexico and Italy.

Commitments to purchase of equity investments/fund units

These refer to commitments to purchase shares in 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 2,208 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), a decision taken at the conclusion of a antitrust investigation initiated for the energy cables business and 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, challenging application of the principle of "parental liability". Indeed, Pirelli believes that the principle of "parental liability" is not applicable to it.

The European Commission also ordered Pirelli to deposit bank surety to cover the payment, if and when due, of 50% of the penalty levied on Prysmian and Pirelli jointly. As a consequence of the foregoing, on December 17, 2014, Pirelli provided the Commission with the sureties requested.

Pirelli has commenced legal action before the Court of Milan so that the obligation of Prysmian to hold Pirelli harmless from any claim made including that made by the European Commission, in connection with the aforementioned penalty, be ascertained and ruled.

Judgement has been suspended by the Court of Milan pending a final ruling by community judges. Pirelli has impugned the order for suspension before the Court of Cassation.

On **November 23, 2015**, Prysmian Cavi e Sistemi served suit on Pirelli for damages before the High Court of Justice against Prysmian and other members of the cartel by National Grid and Scottish Power, a company felt to have been injured by an alleged illicit understanding. Specifically, Prysmian has submitted a plea to obtain from Pirelli and Goldman Sachs, based on the role played at the time by its parent companies, to hold it harmless in respect of any obligations to indemnify National Grid and Scottish Power.

Pirelli has challenged a flaw in jurisdiction of the High Court of Justice because, since the action recalled above before the Court of Milan is still pending, it holds that a decision in respect of merit must be handed down by the aforementioned court submitted to.

On the basis of careful judicial analyses and supported by opinions drawn up by outside counsel, Pirelli believes it is not involved in the alleged irregularities of its former subsidiary and that full final liability for any breach must be borne exclusively by the company directly involved.

As a consequence of the foregoing, assessment of the risk is such as not to require any specific provision to be set aside in annual Financial Statements as at December 31, 2015.

29. REVENUES FROM SALES AND SERVICES

A breakdown of revenue from sales and services is as follows:

(in thousands of euro)

	2015	2014
Revenues from sale of goods	6,187,347	5,913,216
Revenues from services	122,286	104,847
	6,309,633	**6,018,063**

30. OTHER INCOME

A breakdown of this item is as follows:

(in thousands of euro)

	2015	2014
Gains on disposal of property, plant and equipment	1,846	18,279
Rent income	7,259	7,887
Insurance indemnities and other refunds	13,547	17,277
Recoveries and reimbursements	62,643	58,467
Government grants	5,968	6,981
Other income	77,372	95,185
	168,635	**204,076**

Gains on disposal of property, plant and equipment in 2014 included mainly gains to the amount of euro 6,261 thousand deriving from sale of the land in the Sumaré area in Brazil, for a total of euro 9,365 thousand, from sale of land and buildings in Germany and Turkey.

The item **recoveries and reimbursements** includes in particular:

- tax refunds for euro 15,082 thousand arising from tax facilitations in Argentina, Egypt, and in the state of Bahia in Brazil on trade exports;
- refunds of taxes and duties totalling euro 21,926 thousand received in Italy for euro 12,459 thousand, in Brazil for 5,575 thousand as reimbursement of tax credits for fiscal payables (VAT) in respect of the 2013 and 2014 financial years and in Germany for euro 3,294 thousand in the form of contributions for tyre disposal and contributions for the purchase of gas and energy;
- proceeds from the sale of scrap materials obtained from Egypt, Turkey and the United Kingdom for a total of euro 10,990 thousand;
- recoveries of costs for marketing events, rental management fees, development and product transfer in Italy, Germany and the United Kingdom for a total of euro 4,079 thousand;
- refunds from utilities (electricity) for euro 2,169 thousand.

The item **other income** includes income from sports for euro 34,351 thousand (euro 36,676 thousand in 2014), income from the release of provisions for liabilities and charges for euro 10,152 thousand (euro 22,040 thousand for 2014) and provisions for bad debts of euro 3,842 thousand. The reduction of the item "other" amounting to about euro 17,813 thousand, is due to the increased release during the 2014 financial year of the contingencies fund for a total of euro 11,888 thousand mainly related to guarantees issued within the area of extraordinary transactions occurring in previous financial years and lower income achieved from sports activity to the amount of euro 2,325 thousand.

31. PERSONNEL EXPENSES

The breakdown of this item is as follows:

(in thousands of euro)

	2015	2014
Wages and salaries	1,016,961	960,867
Social security and welfare contributions	171,939	174,268
Costs for employee leaving indemnities and similar	30,097	31,539
Costs for defined contribution pension funds	22,313	21,390
Costs for defined benefit pension funds	1,093	895
Costs for jubilee awards	3,222	5,865
Costs for defined contribution healthcare plans	40,834	38,742
Other costs	8,671	6,204
	1,295,130	**1,239,770**

Personnel expenses include **non-recurring events** for a total of euro 47,621 thousand (3.7% of the total) of which euro 24,112 thousand for the early closure of the LTI plan and euro 23,509 thousand tied to restructuring costs.
In 2014, the item included euro 24,744 thousand for restructuring costs (2.0% of the total).

32. AMORTISATION, DEPRECIATION AND IMPAIRMENT

The breakdown of this item is as follows:

(in thousands of euro)

	2015	2014
Amortisation	19,527	20,917
Depreciation	304,681	277,890
Impairment of property, plant and equipment	2,796	6,048
	327,004	**304,855**

Impairment mainly relates to buildings, plants, machinery, and industrial and trade equipment located in Russia and Italy. Of these impairments, euro 1,867 thousand qualifies as **non-recurring events** (0.6% of the item total).

33. OTHER COSTS

A breakdown of this item is as follows:

(in thousands of euro)

	2015	2014
Selling costs	315,773	305,041
Purchases of goods for resale	314,651	306,783
Fluids and power	199,438	223,611
Advertising	243,081	219,051
Professional advice	76,534	53,968
Maintenance	66,891	66,276
Warehouse operating costs	60,865	53,578
Leases, rental and lease installments	122,133	113,253
Outsourcing	40,966	44,961
Travel expenses	55,895	49,241
IT expenses	28,281	27,435
Key managers compensations	14,269	10,058
Other provisions	31,562	26,341
Duty stamps, duties and local taxes	43,375	37,916
Canteen	26,464	24,052
Bad debts	14,182	16,389
Insurance	30,329	28,587
Cleaning expenses	19,472	21,031
Waste disposal	20,707	21,111
Security expenses	12,493	12,081
Telephone expenses	11,997	12,181
Other	206,192	156,821
	1,955,550	**1,829,766**

The other costs item includes **non-recurring events** for euro 18,743 thousand (1% of the total of the item) related primarily to professional services connected to the spin-off transaction from Industrial.
In 2014 the item included euro 1,800 thousand (0.1% of the item total) of expenses connected with real estate gains achieved in Brazil.

34 NET INCOME (LOSS) FROM EQUITY INVESTMENTS

34.1 SHARE OF NET INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES

The Group's share of net income (loss) for associates and joint ventures accounted for under the equity method was negative to the amount of euro 9,002 thousand, as compared to the negative result of euro 55,147 thousand for the 2013 financial year.
It basically comprised the transposition of the result portions for the investment in Prelios S.p.A. (negative for euro 6,039 thousand, as compared to euro 23,612 thousand in 2014), in Eurostazioni S.p.A. (positive for euro 1,637 thousand compared to euro 3,587 thousand in 2014) and in PT Evoluzione Tyre (negative for euro 4,810 thousand as compared to euro 1,378 thousand in 2014).
In 2014, the share also included the share for investments in Fenice S.r.l. (negative for euro 30,770 thousand) and in GWM Renewable Energy II S.p.A. (negative for euro 3,244 thousand).
In this regard, reference should be also made to the foregoing note 11 "Investments in associates and joint ventures".

34.2 GAINS ON EQUITY INVESTMENTS

These can be analysed thus:

(in thousands of euro)

	2015	2014
Gain on the disposal of subsidiaries	-	4,781
Conversion effect of Prelios S.p.A. bond	-	13,307
Other income from investments	-	901
	-	**18,989**

The gain on the disposal of subsidiaries includes the results from the disposal of the investment in Pirelli Finance (Luxembourg) S.A..

34.3 LOSSES ON EQUITY INVESTMENTS

This item as follows:

(in thousands of euro)

	2015	2014
Fair value adjustment of Prelios S.p.A. class B shares	-	4,772
Impairment of investments in associates	21,742	20,393
Impairment of available-for-sale financial assets	15,751	29,294
Other losses on investments	927	256
	38,420	**54,715**

Impairment of investments in associates refers to investments in Prelios S.p.A. for euro 7,000 thousand and GWM Renewable Energy II S.p.A. for euro 14,085 thousand. In this regard, reference should be made to foregoing note 11 "Investments in associates and joint ventures".

The item **impairment of available-for-sale financial assets** mainly refers to investments in Alitalia - Compagnia Aerea Italiana S.p.A. (euro 7,115 thousand), in RCS MediaGroup S.p.A. (euro 7,265 thousand) and Equinox Two S.C.A. (euro 460 thousand). In 2014 the item referred mainly to investments in RCS MediaGroup S.p.A. (euro 15,860 thousand), Alitalia - Compagnia Aerea Italiana S.p.A. (euro 11,229 thousand), Equinox Two S.C.A (euro 1,764 thousand).

34.4 DIVIDENDS

Dividends in 2015 amounted to euro 6,029 thousand compared to euro 3,873 thousand in 2014.
These refer primarily to euro 3,938 thousand for the investment in Mediobanca S.p.A. (euro 2.363 thousand in 2014), for euro 788 thousand for revenues from common investment funds (euros 680 thousand in 2014) for euro 513 thousand in Fin. Priv. S.r.l. (euro 308 thousand in 2014) and euro 202 thousand for Emittenti Titoli S.p.A..

35. FINANCIAL INCOME

The breakdown of this item is as follows:

(in thousands of euro)

	2015	2014
Interests	64,444	40,100
Other financial income	9,520	8,595
Fair value measurement of currency derivatives	-	42,982
	73,964	**91,677**

Interests include euro 29,858 thousand for interest income from financial institutions (euro 15,405 thousand as at December 31, 2014), euro 22,139 thousand of interest on fixed income shares (euro 10,475 thousand as at December 31, 2014), euro 6,596 thousand for interest rate swaps (euro 8,337 thousand in 2014), euro 2,333 thousand for trade receivables interest (euro 2,620 thousand in 2014) and euro 1,604 thousand for interest on state securities (euro 2,058 thousand as at December 31, 2014).

The **other financial income** item primarily includes euro 8,226 thousand interest on tax credits and interest accrued on security deposits paid by the Brazilian associates for legal and fiscal disputes.

36. FINANCIAL EXPENSES

A breakdown of this item is as follows:

(in thousands of euro)

	2015	2014
Interests	108,699	124,757
Fees	20,981	17,100
High inflation effect Venezuela	143,477	28,974
Other financial expenses	6,678	9,736
Net losses on foreign currency translation	84,146	147,973
Net interest costs on employee benefit obligations	17,362	19,453
Fair value measurement of securities held for trading	10	477
Fair value measurement of currency derivatives	19,817	-
Fair value measurement of other derivatives	1,010	5,617
	402,180	**354,087**

Interests include euro 26,789 thousand for bonds issued by Pirelli & C. S.p.A. in 2011 (euro 26,730 thousand in 2014), euro 6,548 thousand for the private placement made by Pirelli International Plc on the US market at the end of 2012 (euro 5,805 thousand in 2014), euro 12,035 thousand for bonds placed by Pirelli International Plc on the Eurobond market in November 2014 and euro 8,672 thousand for interest on interest rate swaps (euro 22,996 thousand in 2014).

Net losses on foreign currency translation totalling euro 84,146 thousand (losses from exchange rate totalling euro 2,360,410 thousand and gains from exchange rate of euro 2,276,264 thousand) refer to adjustment to year-end exchange rates of items expressed in currencies other than the functional currency outstanding at the date of the Financial Statements and net losses on items closed during the course of the financial year.

The **Fair value measurement of currency derivatives** item refers to the purchase/sale of the trade and financial transaction hedging in agreement with the exchange rate risk management policy for the Group. For operations which were open at the end of the financial year, the fair value has been determined by applying the exchange rate at the end of the date of Financial Statements. The fair value assessment is made up of two elements: the interest component, tied to the interest rate difference between the two items covered by the individual hedging, amounting to a net hedging expense of euro 61,756 thousand and an exchange rate component equal to a net income of euro 41,939 thousand.
Comparison of these net losses on exchange rates, totalling euro 84,146 thousand, with the fair value measurement of the foreign exchange component of currency hedges negotiated as part of the Group currency risk management strategy (net gain of euro 41,939 thousand, as previously indicated in the "fair value measurement of currency derivatives" item), shows that management of foreign exchange risk is substantially in balance, considering that the negative imbalance, amounting to euro 42,207 thousand is mostly related to the depreciation of the Venezuelan currency (euro 23,970 thousand) and the Egyptian currency (euro 10,114 thousand) that are not subject to hedging. The adjustment to the 13.5 Bolivars to the US Dollar (14.70 Bolivar to the Euro) exchange rate for a significant part of trade transactions in foreign currency registered by the subsidiary Pirelli de Venezuela C.A. has an impact on the Venezuelan currency which is outstanding as of December 31, 2015.

Net interest costs on employee benefit obligations primarily includes euro 9,004 thousand regarding the pension funds, euro 737 thousand for employee leaving indemnities (TFR) and euro 819 thousand for healthcare plans (see note 22 "Employee benefit obligations").

Fair value measurement of other derivatives instruments (see note 27 "Derivative financial instruments") mainly consists of euro 2,119 thousand related to the gains on derivatives maturing in the period and euro 2,751 thousand relating to the loss from an adjustment to fair value of other derivatives for which hedge accounting has not been activated.

37. TAXES

A breakdown of the income taxes for the period is as follows:

(in thousands of euro)

	2015	2014
Current taxes	187,139	194,949
Deferred taxes	102,998	(21,640)
	290,137	**173,309**

The Group's effective tax burden for 2015 in respect of current taxes is wholly attributable to taxes payable by the Tyre Segment (euro 185,657 thousand) for the positive taxable income of its subsidiaries, partially offset by the accounting recognition by Pirelli & C. S.p.A. of the positive effects deriving from the option for domestic tax consolidation.
The increase in total tax burden reflects the impact resulting from assessment of the sustainability of deferred tax assets recognised in relation to prior-period tax losses of deferred tax assets on tax losses carried forward in relation to the lack of expected recoverability of the tax losses by the Italian companies in the Group as a result of the new financial structure that the Group will take on due to the reverse merger with the parent company Marco Polo Industrial Holding S.p.A. planned for the first half of 2016. The increase in tax expense was also affected by the effect of higher non-deductible expenses of the Venezuelan subsidiary

attributable to an effect of the high levels of inflation recorded in country and the devaluation of the trade payables/receivables. **The reconciliation between estimated taxes and effective taxes** is presented below:

(in thousands of euro)

	2015	2014
Gains / (losses) before taxes	(78,789)	488,523
Reversal of deconsolidation of the Venezuelan subsidiary	559,491	-
Reversal of share of net income (loss) of associates and joint ventures	9,002	55,147
A) Total taxable income	**489,704**	**543,670**
B) Estimated taxes	**144,984**	**176,327**
Main causes for changes between estimated and effective taxes:		
Income not subject to taxation	(78,898)	(65,539)
Non-deductible costs	82,371	91,402
Use of tax losses carried forward	(14,995)	(5,961)
Unrecognised deferred tax assets and/or release of deferred tax assets previously recognised	22,250	9,259
Taxes not related to income and costs for tax assessment	13,192	806
Other	12,645	(32,986)
C) Effective taxes before release of deferred tax assets previously recognised	**181,549**	**173,309**
Released deferred tax assets	108,588	-
D) Effective taxes after release of deferred tax assets previously recognised	**290,137**	**173,309**
Theoretical tax rate (B/A)	30%	32%
Effective tax rate before release of deferred tax assets previously recognised (C/A)	37%	29%
Effective tax rate post release of deferred tax assets previously recognised (D/A)	59%	29%

The Group's estimated tax burden has been calculated by taking into account the **nominal tax rates of the countries** where the Group's principal companies operate, as shown below:

	2015	2014
Europe		
Italy	31.40%	31.40%
Germany	29.58%	29.58%
Romania	16.00%	16.00%
Great Britain	20.00%	21.50%
Turkey	20.00%	20.00%
Russia	20.00%	20.00%
NAFTA		
USA	38.00%	38.00%
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	22.50%	30.00%

The nominal tax rate in Great Britain was reduced from 21.5% in 2014 to 20.0% in 2015, in accordance with local tax laws (Finance Act 2015).
The nominal tax rate in Egypt also decreased, going from 30% in 2014 to 22.5% in 2015 as a result of a change in legislation.

38. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

As a result of the signing of a sale agreement for 100% of the steelcord business inked by Pirelli and Bekaert on February 28, 2014, steelcord business qualifies as a "discontinued operation". With the sale on February 6, 2015 of the steelcord activities in Turkey and on March 27, 2015 in China, the sale of the entire Pirelli steelcord business to Bekaert was completed. The steelcord activities were part of the Industrial business operating segment.

It is recalled in this regard that the steel cord business provided the steel cord required for the production of tyres and that the sales agreement with Bekaert includes a long-term supply agreement for providing Pirelli with this material.

The result of discontinued operations is as follows:

INCOME STATEMENT DISCONTINUED OPERATIONS (in thousands of euro)

	2015		2014	
Revenues from sales and services		11,058		73,500
Raw materials and consumables (net of change in inventories)		(10,139)		(24,358)
Personnel expenses		(484)		(15,611)
Amortisation, depreciation and impairment		-		(2,200)
Other costs		-		(24,999)
Operating income (loss)		**435**		**6,332**
Net income (loss) from investments				411
Financial expenses		-		(1,700)
Net income (loss) before tax		**435**		**5,043**
Tax		-		(2,000)
Net income (loss)		**435**		**3,043**
Gain (loss) on disposal	*(705)*		*25,698*	-
Disposal tax effect	*(431)*		*(7,820)*	
Net gain (loss) on disposal		(1,136)		17,878
Reversal of reserve on foreign currency translation		(13,950)		(3,298)
Net income (loss) from discontinued operations		**(14,651)**		**17,623**

The **net loss on disposal** for euro 1,136 thousand (inclusive of indirect taxes on the sale amounting to euro 431 thousand) refers to the sale of the Turkish subsidiary Celikord A.Ş and Chinese associate Sino Italian Wire Technology Co. Ltd. This loss partially reduces the net capital gain (before rollover of exchange reserves), for a total of euro 17,878 thousand, registered for the 2014 financial year relating to the sale of the steel cord activities in Italy, Brazil and Romania. When preparing the Financial Statements as at December 31, 2014, steel cord activities in China and Turkey had been valued at the lower of the book value or their fair value on the basis of elements predictable as at that date.

The **reversal of reserve on foreign currency translation** relates to foreign exchange losses from the translation into Euro of the financial statements of the Turkish subsidiary, accruing in previous years, recorded in equity, and reclassified to the Income Statement following the sale.

39. DIVIDENDS PER SHARE

In 2015, Pirelli & C. S.p.A. paid to its shareholders, dividends based on 2014 earnings of euro 0.367 for each of the 475,388,592 ordinary shares (excluding treasury shares) and euro 0.431 for each of 11,842,969 savings shares (excluding treasury shares) for a total of euro 179,572 thousand.

In 2014 Pirelli & C. S.p.A. paid to its shareholders, dividends based on 2013 earnings of euro 0.32 for ordinary shares (excluding treasury shares) and euro 0.39 for savings shares (excluding treasury shares). Total dividends paid out amounted to euro 156,743 thousand.

40. HYPERINFLATION

In accordance with Group accounting policies regarding the criteria for entering/removing from accounts in respect of inflation, the subsidiary Pirelli de Venezuela C.A. has adopted inflation accounting with effect from 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 was a mixed index: up until December 31, December, 2007, a consumer price index (IPC) covering only the cities of Caracas and Maracaibo was used. 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 covers the entire country and uses December 2007 as its basis for calculation.
For the Financial Statements as at December 31, 2014 an inflation index of 192.8% has been used, calculated on the basis of an estimate made of annual inflation, amounting to 189.9%, to which an inflation adjustment for the 2014 year, being the difference applying between the official inflation index for the 2014 year (66.54%) and the estimate of this index used at the end of the previous financial year (68.84%) has been added. The official inflation index published by the Banco Central de Venezuela was found to amount to 180.9%.

	INDEX	CONVERSION FACTOR
December 31, 2013	498.1	1.6684
December 31, 2014	831.0	2.9289
December 31, 2015	2,434.0	1.0000

Losses on net monetary positions are recognised in the Income Statement as “Financial Expenses” (note 36) for euro 143,477 thousand (euro 28,974 thousand for 2014).

41. RELATED PARTY TRANSACTIONS

Related party transactions, including intercompany transactions, are neither unusual nor exceptional, but are rather part of the ordinary course of business of Group companies. These 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 Procedure for Related Party Transactions the Group has taken on.

The effects of related party transactions on the Consolidated Income Statement, and Statement of Financial Position, of the Pirelli & C. Group as at December 31, 2015 are shown below.

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES (in millions of euro)

Revenues from sales/services and other income	3.4	The amount refers mainly to, rental income and relevant management fees paid by Prelios Group (euro 2,0 million), to services rendered to Prelios S.p.A. (euro 0.1 million), to services rendered to PT Evoluzione Tyres (euro 0.9 million), and royalties paid by Idea Granda Società Consortile S.r.l. to Pirelli & C. Ambiente S.r.l. (euro 0.2 million).
Other costs	31.5	The amount includes energy purchases and machinery lease from Industriekraftwerk Breuberg GmbH (euro 22.2 milion), costs for the purchase of goods from Sino Italian Wire Technology Co. Ltd (euro 7.7 million) and PT Evoluzione Tyres (euro 1.3 milion), and services provided by CORIMAV (euro 0.2 million).
Financial income	0.4	The amount refers to interest from the loan granted to Sino Italian Wire Technology Co. Ltd.
Current trade receivables	1.4	The amount mainly concerns receivables for services provided to Prelios Group S.p.A. (euro 0.7 million) and to PT Evoluzione Tyres (euro 0.7 million)
Other current receivables	0.1	The amount refers to financial receivables from Fenice S.r.l. (euro 0.1 million).
Non-current borrowings from banks and other financial institutions	1.3	Security deposit received from Prelios S.p.A. as guarantee for the rental of the Milan premises.
Current trade payables	22.4	This amount mainly consists of payables for the purchase of energy from Industriekraftwerk Breuberg GmbH.
Other current payables	0.1	Other current payables refers to the deferral of a portion of the rental charges for the Milan premises of Prelios S.p.A. (euro 0.1 million).

TRANSACTIONS WITH OTHER RELATED PARTY (in millions of euro)

Financial expenses	0.7	The expenses are related to interests payable to Unicredit (euro 0.2 million) and Intesa-San Paolo Group (euro 0.4 million)

Benefits for key managers of the company

As at December 31, 2015, the compensation to which key managers with strategic responsibilities were entitled to amounted to euro 27,853 thousand (euro 18,268 thousand as at December 31, 2014). The portion relating to employee benefits was recognised in the Income Statement as “Personnel expenses” for euro 13,584 thousand (euro 8,209 thousand as at December 31, 2014) and for euro 14,269 thousand under the item “Other Costs” in the Income Statement (euro 10,058 thousand as at December 31, 2014). The remuneration also includes euro 1,572 thousand for employee leaving indemnity (TFR) and retirement benefits (euro 1,835 thousand as at December 31, 2014).

42. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On **February 9, 2016** Pirelli and the Lombardy Region signed a competitiveness agreement for a regional grant of euro 1.9 million to the R & D project “Total Safety System” conducted at the research centre of Milan Bicocca. The project, which will last for 24 months and have a total cost of euro 5.35 million, is part of activities related to the development of a new generation of tyres based on the concept of “total safety”. The project will allow Pirelli to study new product mixes oriented towards higher value-added segments, and to achieve positive results in environmental and social issues in terms of road safety, by reducing the fuel consumption of vehicles and increasing tyre mileage.

On **February 15, 2016**, Ren Jianxin, Yang Xingqiang, Bai Xinping, Ze’ev Goldberg, Tao Haisu, Wang Dan and Zhang Junfang, previously co-opted by the Board, were reappointed as directors by the ordinary general meeting of Pirelli & C. S.p.A. The Extraordinary General Meeting also approved a proposal of mandatory conversion of savings shares into newly issued special category unlisted shares without voting rights, as well as a proposal to adopt new Articles of Association. The mandatory conversion and adoption of the new Articles of Association were also approved, to the extent applicable, by a special savings general meeting of Pirelli & C.

S.p.A.. The extraordinary general meeting of Pirelli & C. S.p.A. also approved the merger by incorporation of the controlling Parent company Marco Polo Industrial Holding S.p.A. into Pirelli & C. S.p.A, for 6.30 Pirelli shares to be allotted after the merger to Marco Polo International Holding Italy S.p.A. (Holdco) - the sole partner of Marco Polo Industrial Holding S.p.A. - for every 1 share held before the merger by Marco Polo International Holding Italy S.p.A. (Holdco) in Marco Polo Industrial Holding S.p.A.. The merger is expected to be finalised within the first half of 2016.
Following the mandatory conversion of savings shares into special category unlisted shares, the savings shares ceased to be listed on regulated markets as of February 26, 2016.

On **February 16, 2016**, the Board of Directors of Pirelli & C. S.p.A. approved the essential lines of a refinancing plan for an amount up to a maximum of euro 7 billion aimed at extending debt maturities and optimizing their structure thanks to the use of bond and banking markets.
The terms and conditions of the refinancing, including any guarantees, will be defined in light of market conditions and practices of reference, also taking into account the rights incorporated in the Terms and Conditions in favour of bond holders for euro 600 million maturing in 2019 and that will remain in place until maturity. The refinancing plan leaves the right to activate the loan Mergeco Facility alternatively unchanged for Pirelli, if appropriate, and already made available to the company by a syndicate of banks as part of the public purchase offer of Marco Polo Industrial Holding S.p.A. on Pirelli.
Following the confirmation by the General Meeting of the directors co-opted on September 2 and October 20, 2015, the Board of Directors confirmed Ren Jianxin Chairman of the Board of Directors and the governance structure approved on October 20, 2015.

43. OTHER INFORMATION

Research and Development Expenses

Research expenses rose from euro 205.5 million in 2014 (3.4% of sales) to euro 214.4 million in 2015 (3.4% of sales). They were entered in the Income Statement as incurred since the requirements set under IFRS standards regarding their capitalisation do not subsist.

Compensation for Directors and Statury Auditors

(in thousands of euro)

	2015	2014
Directors	12,772	8,553
Statutory Auditors	200	198
	12,972	**8,751**

Employees

The breakdown by category of the average consolidated headcount of employees is as follows:

(in thousands of euro)

	2015	2014
Executives and white collar staff	7,379	7,536
Blue collar staff	27,748	28,546
Temporary workers	2,346	2,854
	37,473	**38,936**

Compensation for the auditing firm

Pursuant to the applicable regulations, details are listed below of the aggregate compensation paid during the 2015 financial year for auditing and other non-auditing services , rendered by the company Reconta Ernst and Young S.p.A. and other entities of their 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.	492		
	Reconta Ernst & Young S.p.A.	Subsidiaries	572		
	Network Ernst & Young	Subsidiaries	2,052	3,116	86.7%
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	480 [2]	480	13.3%
				3,596	**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.

Exchange rates

The main exchange rates used for consolidation are as follows:

(local currency against euro)

	PERIOD-END			AVERAGE		
	12/31/2015	12/31/2014	CHANGE IN %	2015	2014	CHANGE IN %
Venezuelan Bolivar	14.6975	14.5692	0.88%	14.6975	14.5692	0.88%
Swedish Krona	9.1895	9.3930	(2.17%)	9.3533	9.0986	2.80%
Australian Dollar	1.4897	1.4829	0.46%	1.4776	1.4726	0.34%
Canadian Dollar	1.5116	1.4063	7.49%	1.4186	1.4672	(3.31%)
Singaporean Dollar	1.5417	1.6058	(3.99%)	1.5256	1.6833	(9.37%)
U.S. Dollar	1.0887	1.2141	(10.33%)	1.1096	1.3295	(16.54%)
Taiwan Dollar	35.7769	38.4336	(6.91%)	35.2600	40.2949	(12.50%)
Swiss Franc	1.0835	1.2924	(16.16%)	1.0679	1.2146	(12.08%)
Egyptian Pound	8.5214	8.6840	(1.87%)	8.5460	9.4226	(9.30%)
Turkish Lira (new)	3.1776	2.8207	12.65%	3.0153	2.9042	3.83%
New Romanian Leu	4.5245	4.4821	0.95%	4.4444	4.4442	0.00%
Argentinian Peso	14.1357	10.3818	36.16%	10.2493	10.7954	(5.06%)
Mexican Peso	18.9074	17.8808	5.74%	17.5516	17.6321	(0.46%)
South African Rand	16.9530	14.0353	20.79%	14.1737	14.4062	(1.61%)
Brazilian Real	4.2504	3.2270	31.71%	3.6935	3.1206	18.36%
Chinese Renminbi	7.0696	7.4291	(4.84%)	6.9103	8.1669	(15.39%)
Russian Ruble	79.6972	68.3427	16.61%	67.7749	50.9928	32.91%
British Pound	0.7340	0.7789	(5.77%)	0.7259	0.8066	(10.00%)
Japanese Yen	131.0700	145.2300	(9.75%)	134.3157	140.3142	(4.28%)

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
TP Industrial Deutschland GmbH (ex T3 Industrial Germany GmbH)	Tyre	Breuberg / Odenwald	Euro	25,000	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.

COMPANIES CONSOLIDATED LINE-BY-LINE

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
Italy						
Driver Italia S.p.A.	Tyre	Milan	Euro	350,000	71.48%	Pirelli Tyre S.p.A.
Driver Servizi Retail S.p.A.	Tyre	Milan	Euro	120,000	100.00%	Pirelli Tyre S.p.A.
HB Servizi S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
Maristel S.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	10,000	100.00%	Pirelli & C. S.p.A.
Pirelli Consumer Italia S.r.l.	Tyre	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	40,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli 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.	Information Systems	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Industrial S.r.l. (ex-Pirelli Tyre Commerciale Italia S.r.l.)	Services	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Industrial S.r.l.	Services	Milan	Euro	30,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	756,820,000	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	92.25%	Pirelli & C. S.p.A.
					2.95%	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.
Ultrasic S.r.l.	Sustainable mobility	Milan	Euro	20,000	100.00%	Pirelli & C. Ambiente S.r.l.
The Netherlands						
E-VOLUTION Tyre B.V.	Tyre	Rotterdam	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
Poland						
Driver Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	100,000	68.00%	Pirelli Polska Sp. z o.o.
Pirelli Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre S.p.A.
TP Industrial Polska Sp. z o.o. (ex T3 Industrial Poland sp z.o.o.)	Tyre	Warsaw	Pol. Zloty	5,000	100.00%	Pirelli Tyre S.p.A.

COMPANIES CONSOLIDATED LINE-BY-LINE

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
United Kingdom						
CTC 2008 Ltd	Tyre	Burton on Trent	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Cif Trustees Ltd	Financial	Burton on Trent	British Pound	4	25.00%	Pirelli General Executive Pension Trustees LTD
						Pirelli General & Overseas Pension Trustees LTD
						Pirelli Tyres Executive Pension Trustees LTD
						Pirelli Tyres Pension Trustees LTD
Pirelli International plc	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	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli Tyres Ltd	Tyre	Burton on Trent	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Tyres Pension Trustees Ltd	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli UK Ltd	Financial	Burton on Trent	British Pound	163,991,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd	Tyre	Burton on Trent	British Pound	85,000,000	100.00%	Pirelli Tyre S.p.A.
TP Industrial UK Limited	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli Tyre S.p.A.
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6,638.78	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	40,000,000	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.

COMPANIES CONSOLIDATED LINE-BY-LINE

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
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
Spain						
Euro Driver Car S.L.	Tyre	L'Hospitalet Del Llobregat	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	L'Hospitalet Del Llobregat	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli Neumaticos S.A. - Sociedad Unipersonal	Tyre	L'Hospitalet Del Llobregat	Euro	25,075,907	100.00%	Pirelli Tyre S.p.A.
TP Industrial Espana Y portugal S.L.- Sociedad Unipersonal	Tyre	L'Hospitalet Del Llobregat	Euro	3,000	100.00%	Pirelli Tyre S.p.A.
Tyre & Fleet S.L. - Sociedad Unipersonal	Tyre	L'Hospitalet Del Llobregat	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.
TP Industrial (Suisse) SA	Tyre	Basel	Swiss Franc	100,000	100.00%	Pirelli Tyre S.p.A.

COMPANIES CONSOLIDATED LINE-BY-LINE

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
Turkey						
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turkey Lira	204,500,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Otomobil Lastikleri A.S.	Tyre	Istanbul	Turkey Lira	85,000,000	100.00%	Pirelli Tyre S.p.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre S.p.A.
NORTH AMERICA						
Canada						
Pirelli Tire Inc.	Tyre	St-Laurent (Quebec)	Can. $	6,000,000	100.00%	Pirelli Tyre (Suisse) SA
U.S.A.						
Pirelli North America Inc.	Tyre	New York (New York)	US $	10	100.00%	Pirelli Tyre S.p.A.
Pirelli Tire LLC	Tyre	Rome (Georgia)	US $	1	100.00%	Pirelli North America Inc.
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
TP Industrial Tyres S.A.	Tyre	Buenos Aires	Arg. Peso	100,000	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
CPA - Comercial e Importadora de Pneus Ltda	Tyre	Barueri	Bra. Real	200,000	100.00%	Comercial e Importadora de Pneus Ltda
Ecosil - Industria Quimica do Brasil Ltda	Tyre	Meleiro	Bra. Real	9,699,055	97.88%	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	750,117,627	100.00%	Pirelli Tyre S.p.A.
Pirelli Properties Ltda	Financial	Santo Andrè	Bra. Real	2,000,000	100.00%	Pirelli Ltda
RF Centro de Testes de Produtos Automotivos Ltda	Tyre	Elias Fausto (Sao Paulo)	Bra. Real	6,812,000	100.00%	Pirelli Pneus Ltda
TP Industrial de Pneus Brasil Ltda	Tyre	San Paolo	Bra. Real	90,020,522	99.00%	Pirelli Tyre S.p.A.
TLM - Total Logistic Management Serviços de Logistica Ltda	Tyre	Santo Andrè	Bra. Real	3,074,417	99.98%	Pirelli Pneus Ltda
					0.02%	Pirelli Ltda

COMPANIES CONSOLIDATED LINE-BY-LINE

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
Chile						
Pirelli Neumaticos Chile Ltda	Tyre	Santiago	Chile Peso/ 000	1,918,451	99.98%	Pirelli Pneus Ltda
					0.02%	Pirelli Ltda
Colombia						
Pirelli de Colombia SAS	Tyre	Santa Fe De Bogota	Col. Peso/ 000	3,315,069	96.12%	TP Industrial de Pneus Brasil Ltda
					2.28%	Pirelli de Venezuela C.A.
					1.60%	TLM - Total Logistic Management Serviços de Logistica Ltda
Pirelli Tyre Colombia S.A.S.	Tyre	Santa Fe De Bogota	Col. Peso/ 000	57,080,000	100.00%	Pirelli Pneus Ltda
Perù						
Pirelli de Peru S.A.C.	Tyre	Lima	Nuevos Soles	837,745	100.00%	Pirelli Pneus Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	35,098,400	99.98%	Pirelli Tyre S.p.A.
					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%	Pirelli North America Inc.
Servicios Pirelli Mexico S.A. de C.V. (In liquidation)	Tyre	Mexico City	Mex. Peso	50,000	99.00%	Pirelli Pneus Ltda
					1.00%	Pirelli Ltda
TP Servicios Industrial Tyre Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	50,000	99.00%	Pirelli Tyre S.p.A.
					1.00%	TP Industrial de Pneus Brasil Ltda
TP Tyre industrial Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	50,000	99.00%	Pirelli Tyre S.p.A.
					1.00%	TP Industrial de Pneus Brasil Ltda

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	69.88%	Pirelli & C. S.p.A.
GWM Renewable Energy II S.p.A.	Enviroment	Rome	Euro	15,063,016	16.87%	Pirelli & C. S.p.A.
Prelios S.p.A.	Financial	Milan	Euro	426,441,257	29.22%	Pirelli & C. S.p.A.
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						
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	HEAD-QUARTER	CUR-RENCY	SHARE CAPITAL	% HOLD-ING	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%	Pneus Pirelli S.A.S.
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.
United Kingdom						
T1com I Ltd Partnership	Financial	London	Euro	1,154	9.39%	Pirelli UK Ltd
Tunisia						
Société Tunisienne des Industries de Pnéumatiques S.A.	Tyre	Tunis	Tun. Dinar	12,623,469	15.83%	Pirelli Tyre S.p.A.
Venezuela (*)						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	20,062,679	96.22%	Pirelli Tyre S.p.A.

(*) Subsidiary deconsolidated at 12/31/2015

04. PARENT FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION (in euro)

		12/31/2015	12/31/2014
7	Property, plant and equipment	95,168,661	98,475,019
8	Intangible assets	6,595,475	6,004,723
9	Investments in subsidiaries	1,141,926,126	1,141,058,670
10	Investments in associates	134,332,227	125,099,440
11	Other financial assets	199,062,058	173,459,081
12	Deferred tax assets	-	119,085,130
13	Other receivables	15,499,628	509,063,077
	Non-current assets	**1,592,584,175**	**2,172,245,140**
14	Trade receivables	41,687,151	32,745,336
13	Other receivables	984,868,245	422,632,944
15	Cash and cash equivalents	146,152	7,883
16	Tax receivables	62,105,317	91,003,635
17	Derivative financial instruments	339,959	208,573
	Current assets	**1,089,146,824**	**546,598,371**
	Total assets	**2,681,730,999**	**2,718,843,511**
	Equity:		
	_ Share capital	1,343,285,421	1,343,285,421
	_ Other reserves	261,111,674	209,191,418
	_ Retained earnings reserve	311,232,731	245,738,903
	_ Net income (loss)	(1,701,751)	257,963,959
18	**Total Equity**	**1,913,928,075**	**2,056,179,701**
19	Borrowings from banks and other financial institutions	101,332,467	500,590,378
23	Other payables	6,562,751	-
20	Provisions for liabilities and charges	14,346,127	17,055,654
21	Employee benefit obligations	2,103,617	4,194,187
	Non-current liabilities	**124,344,962**	**521,840,219**
19	Borrowings from banks and other financial institutions	523,734,313	21,997,360
22	Trade payables	40,932,464	27,302,326
23	Other payables	34,374,696	24,571,419
20	Provisions for liabilities and charges	400,001	2,656,657
24	Tax payables	44,016,488	64,295,829
	Current liabilities	**643,457,962**	**140,823,591**
	Total Liabilities and Equity	**2,681,730,999**	**2,718,843,511**

INCOME STATEMENT (in euro)

		2015	2014
25	Revenues from sales and services	22,793,825	19,321,622
26	Other income	121,961,642	123,892,638
27	Raw materials and consumables	(303,230)	(233,230)
28	Personnel expenses	(33,122,362)	(28,236,505)
29	Amortisation, depreciation and impairment	(6,987,974)	(5,870,715)
30	Other costs	(106,701,393)	(80,274,818)
	Operating income (loss)	**(2,359,492)**	**28,598,992**
31	Net income (loss) from equity investments	122,321,771	192,741,651
	– gains on equity investments	-	18,941,099
	– losses on equity investments	(52,340,619)	(139,120,559)
	– dividends	174,662,390	312,921,111
32	Financial income	17,078,556	19,619,201
33	Financial expenses	(30,997,521)	(29,615,039)
	Net income (loss) before taxes	**106,043,314**	**211,344,805**
34	Taxes	(107,745,065)	46,619,154
	Net income (loss)	**(1,701,751)**	**257,963,959**

STATEMENT OF OTHER COMPREHENSIVE INCOME (in thousands of euro)

		2015	2014
A	**Net income (loss)**	**(1,702)**	**257,964**
	Other components of other comprehensive income:		
B	**Items that will not be reclassified to income statement:**		
	– Net actuarial gains (losses) on employee benefits	69	(156)
	Total B	**69**	**(156)**
C	**Items reclassified / that may be reclassified to income statement:**		
	Fair value adjustment of other financial assets:		
	– Gains / (losses) for the period	38,854	(5,542)
	– (Gains) / losses reclassified to income statement	100	20,632
	Total C	**38,954**	**15,090**
B+C	**Total other components of other comprehensive income**	**39,023**	**14,934**
A+B+C	**Total comprehensive income (loss) for the year**	**37,321**	**272,898**

STATEMENT OF CHANGES IN EQUITY (in thousands of euro)

	SHARE CAPITAL	LEGAL RESERVE	MERGER RESERVE	IAS RESERVE	RETAINED EARNINGS RESERVE	NET INCOME (LOSS)	TOTAL
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)	-
_ Reatined 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**
Profit Allocation as per resolution of May 14, 2015:							
_ Dividends	-	-	-	-	-	(179,572)	(179,572)
_ Legal Reserve	-	12,898	-	-	-	(12,898)	-
_ Retained Earnings	-	-	-	-	65,494	(65,494)	-
Other components of other comprehensive income	-	-	-	39,021	-	-	39,021
Net income (loss)	-	-	-	-	-	(1,702)	(1,702)
Total at 12/31/2015	**1,343,285**	**152,113**	**12,467**	**96,531**	**311,233**	**(1,702)**	**1,913,928**

(in thousands of euro)

	IAS RESERVE		
	RESERVE FOR FAIR VALUE ADJUSTMENT OF FINANCIAL ASSETS AVAILABLE-FOR-SALE	RESERVE FOR ACTUARIAL GAINS/LOSSES	TOTAL
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**
Other components of other comprehensive income	38,952	69	39,021
Balance at 12/31/2015	**94,464**	**2,067**	**96,531**

STATEMENT OF CASH FLOWS (in thousands of euro)

		2015	2014
	Net income (loss) before taxes	106,043	211,345
	Amortisation, depreciation, impairment losses and reversals of impaired property, plant and equipment and intangible assets	6,988	5,871
	Gains/(losses) on equity investments	(122,322)	(192,742)
	Reversal of financial income	(17,079)	(19,619)
	Reversal of financial expenses	30,998	29,615
	Taxes	(107,745)	46,619
	Change in trade receivables/payables	4,688	478
	Change in other receivables/payables and other provisions	132,427	(61,935)
	Change in employee benefit obligations	(2,023)	2,571
	Capital (gains)/losses on sales of plant, property and equipment and intangible assets	-	(91)
A	**Net cash flows provided by (used in) operating activities**	**31,975**	**22,112**
	Investments in property, plant and equipment	(1,455)	(553)
	Disposal of property, plant and equipment	-	458
	Investments in intangible assets	(2,818)	(3,135)
	Investments in subsidiaries	(22,663)	(13,030)
	Investments in associates	(23,337)	-
	Investments in other financial assets	(1,766)	(5,349)
	Disinvestments in subsidiaries	20	15,271
	Dividends received	174,662	312,921
B	**Net cash flow provided by (used in) investing activities**	**122,643**	**306,583**
	Dividends paid	(179,572)	(156,745)
	Change in financial receivables	(60,243)	(161,927)
	Interests receivable and other financial income	13,853	19,619
	Change in financial payables	102,479	(34)
	Interests payable and other financial expenses	(30,998)	(29,615)
C	**Net cash flow provided by (used in) financing activities**	**(154,480)**	**(328,702)**
D	**Total cash flow in the period provided by (used in) continuing operations (A+B+C)**	**138**	**(7)**
E	**Net cash and cash equivalents at beginning of year**	**8**	**15**
F	**Net cash and cash equivalents at end of the period (D+E)**	**146**	**8**

Pokras Lampas

Steve McCurry

Photographer

*“People often ask me how I describe a good photograph.
Aesthetics alone will take you only so far.
I believe that a successful photograph has to tell a story
about the human condition and the connections between people
that resonate at the most basic emotional level.
If I am successful, my pictures should be understood by anyone,
regardless of their individual circumstances.„*

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pirelli & C. S.p.A. (hereinafter also the "Company" or the "Parent Company") is a corporation organised under the laws of the Republic of Italy.
Founded in 1872, it is a holding company that manages, coordinates and finances the operations of its subsidiaries.

At the reporting date, the main investment of the Company is a shareholding in Pirelli Tyre S.p.A. – a company operating in the tyre sector - of which it owns 100% of the share capital.

The registered office of the Company is in Milan, Italy.

Following the outcome of the Public Purchase Offer made by Marco Polo Industrial Holding S.p.A. and subsequent transactions of purchase in respect of the ordinary shares of Pirelli & C. S.p.A. which led to Marco Polo Industrial Holding S.p.A. to holding 100% of this category share, they were delisted on October 6, 2015. Additionally, the General Meeting, in extraordinary sitting, approved a motion for obligatory conversion of savings shares into special category unlisted shares of new issue and without voting rights. Following this resolution, savings shares too were delisted with effect from February 26, 2016.

Pirelli & C. S.p.A. is subject to the management and coordination of Marco Polo International Italy S.p.A., which indirectly is the sole shareholder of Marco Polo Industrial Holding S.p.A. that directly controls the Company. Both the aforesaid companies are ultimately controlled by China National Chemical Corporation ("ChemChina"), a "state-owned enterprise" (SOE) under Chinese law, with registered office in Beijing, referable to the Central Government of the People's Republic of China.

2. BASIS OF PRESENTATION

FORMAT OF FINANCIAL STATEMENTS

The separate financial statements at December 31, 2015 consist of a Statement of Financial Position, an Income Statement, a Statement of Other Comprehensive Income, a Statement of Changes in Equity, a Statement of Cash Flows and 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 profit/loss for the year are presented in a separate Income Statement, and not included directly in the Statement of Other Comprehensive Income. The Income Statement adopted classifies costs by their nature.
The Statement of Other Comprehensive Income includes the result for the period and, for homogeneous categories, revenues and expenses which, in accordance with IFRS are recognised directly in equity. The Company has decided to present both 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 amounts of transactions with equity holders and the changes in the period of retained earnings.
In the Statement of Cash Flows, cash flows deriving from operating activities are presented using the indirect method, according to which the profit or loss for the period is adjusted by the effects of non-monetary items, by any deferment or accrual of past or future

operating receipts or payments, and by any revenue or cost items connected with the cash flows arising from investing activities or financing activities.
The Statement of Financial Position and Income Statement are presented in Euro, while the Statement of Other Comprehensive Income, the Cash Flow Statement, the Statement of Changes in Equity and the values stated in the Explanatory Notes are presented in thousands of Euro.

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 the International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, in force at December 31, 2015. 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").
Following approval by the General Meeting of obligatory conversion of saving shares into special category unlisted shares of new issue and without voting rights. Due to this resolution the saving shares were also delisted on February 26, 2016. The company will continue to prepare separated financial statements on the basis of IFRS accounting principles taking advantage of the leave granted under at. 3 of Legislative Decree no. 38/2005.
The separate financial statements have been prepared using the historical cost basis except for derivative financial instruments, and financial assets available for sale, which are measured at fair value.
These separate financial statements have been prepared on a going concern basis.
Information concerning the principal risks and uncertainties has been summarised in the management report.
The accounting policies used in preparing the separate financial statements are the same as used for the preparation of the consolidated financial statements, where applicable, except in connection with the valuation of investments in subsidiaries and associates and dividends, as indicated below.

INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in subsidiaries and related companies are stated at cost, adjusted for any impairment losses according to the criteria of IAS 28.
In the event that a loss pertaining to the Company exceeds the carrying amount of the investment and the subsidiary is obliged to fulfil legal or implicit obligations of the subsidiary or in any event cover its losses, any excess over the carrying amount is recognized in a specific provision for liabilities under the provisions for liabilities and charges.
In the presence of specific impairment indicators, the value of investments is subjected to impairment tests. For the purposes of an impairment test, the carrying amount of the investment is compared with the recoverable amount, which is defined as fair value less costs to sell or value in use, whichever is the greater.
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 the purposes of the impairment test in cases of investments in listed companies, fair value is determined with reference to the market value of the investment regardless of the percentage of ownership. In cases of investments in unlisted companies, fair value is determined using estimates based on the best information available.
The value in use is determined by applying "Discounted Cash Flow - asset side", as accepted by the relevant accounting standards, and 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 activities and any final payment from the sale of the investment.
If the reason for impairment ceases to apply, the carrying amount of the investment is recognised in the Income Statement, up to original cost.

DIVIDENDS

Dividend income is recognised in income statement when the right to receive payment is established, which normally matches the time of 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 the raising of funds in the market (liquidity risk).
Financial risk management is an integral part of Group business management and is handled directly by 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 occurring 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 objective of the Group is to minimise the effects on the Income Statement of foreign exchange rate risk related to volatility. To achieve this objective, Group procedures make 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 Group Treasury.

Items subject to exchange rate risk are mainly represented by receivables and payables denominated in foreign currency. 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 in the market, which typically take the form of forward contracts.

The Group does not felt it is worthwhile to activate 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 covered even without adopting this option.

Furthermore, it is mentioned at this point that exchange rate forecasts are made as part of the annual and three-year planning process using the best information available in the market. Any 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 suitability of hedging 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 future cash flows of a financial asset or liability will change due to fluctuations in market interest rates.

Group policy is to seek 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, to hedge for which hedge accounting is activated when the conditions set out in IAS 39 are met.

As part of this policy, individual Group companies may present situations of greater or lesser exposure to changes in interest rates; in detail, at December 31, 2015, the Company had a positive net financial position, wherein financial debt had an allocation of 80% fixed and 20% floating and financial receivables had an allocation of 52% fixed and 48% floating.

At December 31, 2014, the Company had a net financial position where financial debts had an allocation of 88% fixed 12% floating rate, gross of interest rate swaps for hedging purposes, while financial loans were entirely at a variable rate.

All other conditions being equal, a hypothetical increase or decrease of 0.50% in the level of interest rates would result - year on year - in a net positive impact on the income statement of euro 1,726 thousand, in the case of an increase occurring, and a negative impact of euro 1,726 thousand, in the case of a decrease.

Price risk associated with financial assets

The company is exposed to price risk confined to the volatility of financial assets such as listed and unlisted stocks and bonds; these assets are classified as financial assets available for sale.

Derivatives hedges to limit the volatility of these assets are not normally set up.

An increase of 5% in the share price, all other things being equal, would entail an increase of euro 8,860 thousand in shareholders equity (euro 7,244 thousand at December 31, 2014), a decrease of 5% in the shares, all other things being equal, would entail a decrease of euro 8,142 thousand in net equity (euro 6,163 thousand at December 31, 2014) and euro 718 thousand of expenses in the Income Statement of the Company.

Credit risk

Credit risk represents the exposure of the Company to contingent losses resulting from default by trade and financial counterparties. The exposure of the Company from trade obligations is mainly towards Group companies in respect of financial obligations totally towards Group companies.

To limit the risk from commercial obligations towards third parties, the Company has implemented procedures to evaluate the potential and financial solidity of its customers to monitor expected cash flows and take 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 of the Company be insufficient to meet its financial and commercial obligations pursuant to the contractual terms and conditions set.
The principal instruments used by the Group to manage liquidity risk comprise 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 analysed constantly.
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 capital markets.
The Parent Company has implemented a centralised cash pooling system for management of collection and payment flows in compliance with various local currency and tax regulations. Negotiation and management of bank credit lines in the short and long term takes place centrally, partly in order to maximise economic benefits.
At December 31, 2015 Pirelli & C. S.p.A. had a "Term and Revolving Facility", with Mediobanca as leader, of euro 200 million - five-year duration.
The line is divided into: Term Facility of euro 100 million (used) and a Revolving Facility of euro 100 million, which at December 31, 2015 was not used by the Company.

The maturities of financial liabilities at **December 31, 2015** may be broken down as follows:

(in thousands of euro)

	UP TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL 12/31/2015
Borrowings from banks and other financial institutions	523,734	-	101,332	625,066
Trade payables	40,932	-	-	40,932
Other payables	34,375	6,563	-	40,938
	599,041	**6,563**	**101,332**	**706,936**

The maturities of financial liabilities at **December 31, 2014** may 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**

5. INFORMATION ON FAIR VALUE

5.1 FAIR VALUE MEASUREMENT

In relation to financial instruments measured at fair value, the following table shows the classification of these instruments on the basis of the hierarchy of levels pursuant to IFRS 13, reflecting the significance of the inputs used in determining the fair value. The 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 at **December 31, 2015**, divided into the three levels defined above:

(in thousands of euro)

	NOTE	CARRYING AMOUNT AT 12/31/2015	LEVEL 1	LEVEL 2	LEVEL 3
Available-for-sale financial assets:					
Other financial assets					
_ equities and shares	11	184,584	154,324	23,576	6,684
_ investment funds	11	14,478	-	14,478	-
Derivative hedging instruments					
Current derivative financial instruments	17	340	-	340	-
Total		**199,402**	**154,324**	**38,394**	**6,684**

At **December 31, 2014**, the breakdown was as follows:

(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**

During 2015, 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)

	12/31/2015	12/31/2014
Opening balance	12,295	118,671
Increases	1,767	9,043
Reclassification	100	(104,087)
Valuation adjustment	(7,852)	(11,641)
Fair value adjustments recognized in Equity	374	309
Closing balance	**6,684**	**12,295**

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 price quotations published at the reporting date. These instruments, which are included in level 1, comprise primarily equity 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 and 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 12/31/2015	CARRYING AMOUNT AT 12/31/2014
FINANCIAL ASSETS			
Loans and receivables			
Other non-current receivables	13	15,500	509,063
Current trade receivabels	14	41,687	32,745
Other receivables	13	984,868	422,633
Cash	15	146	8
Available-for-sale financial assets:			
Other financial assets	11	199,062	173,459
Derivative hedging instruments			
Derivative financial instruments	17	340	209
Total financial assets		**1,241,603**	**1,138,117**
FINANCIAL LIABILITIES			
Financial liabilities at amortized cost			
Non-current borrowings from banks and other financial institutions	19	101,332	500,590
Current borrowings from banks and other financial institutions	19	523,734	21,997
Current trade payables	22	40,932	27,302
Other non-current payables	23	6,563	-
Other current payables	23	34,375	24,571
Total financial liabilities		**706,936**	**574,460**

6. CAPITAL MANAGEMENT POLICY

The objective of the Company is to maximise its return on net invested capital while maintaining an ability to operate over time, and ensuring adequate returns for its shareholders and benefits for other stakeholders through a sustainable financial structure. In order to achieve these objectives, and pursue satisfactory earnings results and generating cash flows, the Company may adjust its policy regarding dividends and the configuration of Company capital.

The main indicators used by the Company to manage its capital are as follows:

1) **R.O.I. (Return on investment):** this is calculated as the ratio in percentage terms between operating income (loss), including income (loss) from investments, and average net invested capital: the indicator represents the ability of corporate results to remunerate net invested capital, which is defined as the sum of fixed assets and net working capital. The net income (loss) from investments is included in the calculation as the main representative magnitude of the performance of an investment holding company. The objective of the Group 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 trends 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 ability of the Company 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 businesses operated.

The figures for 2015 and 2014 are shown below:

	2015	2014
1) R.O.I. (Ratio between operating income inclusive of net income from equity investments and average net invested capital)	7.32%	12.86%
2) Gearing*	N/A	N/A
3) R.O.E. (Return on Equity)	-0.09%	12.91%

* this index is not applicable in view of positive net financial (liquidity) debt position in FY 2015 and 2014

7. PROPERTY, PLANT AND EQUIPMENT

The movements during the period 2014-2015 are summarised in the following table:

(in thousands of euro)

GROSS VALUE	BALANCE AT 12/31/2013	INC.	DEC.	BALANCE AT 12/31/2014	INC.	DEC.	BALANCE AT 12/31/2015
Land	21,209	-	(97)	21,112	-	-	21,112
Buildings	110,852	-	-	110,852	-	-	110,852
Plant and machinery	5,066	-	-	5,066	923	-	5,989
Industrial and commercial equipment	1,193	-	-	1,193	-	-	1,193
Other assets	13,964	553	(362)	14,155	532	(21)	14,666
	152,284	**553**	**(459)**	**152,378**	**1,455**	**(21)**	**153,812**

ACCUMULATED DEPRECIATION	BALANCE AT 12/31/2013	DEPRECIATION	DEC.	BALANCE AT 12/31/2014	DEPRECIATION	DEC.	BALANCE AT 12/31/2015
Buildings	(35,330)	(4,018)	-	(39,348)	(4,018)	-	(43,366)
Plant and machinery	(4,755)	(51)	-	(4,806)	(61)	-	(4,867)
Industrial and commercial equipment	(1,147)	(11)	-	(1,158)	(11)	-	(1,169)
Other assets	(8,420)	(533)	362	(8,591)	(671)	21	(9,241)
	(49,652)	**(4,613)**	**362**	**(53,903)**	**(4,761)**	**21**	**(58,643)**

NET VALUE	BALANCE AT 12/31/2013	INC./DEC.	DEPRECIATION	BALANCE AT 12/31/2014	INC./DEC.	DEPRECIATION	BALANCE AT 12/31/2015
Land	21,209	(97)	-	21,112	-	-	21,112
Buildings	75,522	-	(4,018)	71,504	-	(4,018)	67,486
Plant and machinery	311	-	(51)	260	923	(61)	1,122
Industrial and commercial equipment	46	-	(11)	35	-	(11)	24
Other assets	5,544	553	(533)	5,564	532	(671)	5,425
	102,632	**456**	**(4,613)**	**98,475**	**1,455**	**(4,761)**	**95,169**

No financial expenses on property, plant and equipment were capitalised.
No impairment was carried out during the 2015 financial year.

8. INTANGIBLE ASSETS

The changes during the period 2014-2015 were as follows:

(in thousands of euro)

	12/31/2013	INC.	DEPRECIATION	12/31/2014	INC.	DEPRECIATION	12/31/2015
Software licenses	515	558	(217)	856	837	(268)	1,425
Other:							
– software expenses	343	-	(163)	180	-	(132)	48
– expenses for other projects	3,269	2,577	(877)	4,969	1,981	(1,828)	5,122
TOTAL	4,127	3,135	(1,257)	6,005	2,818	(2,228)	6,595

Increases in the year consist mainly of charges incurred for implementing staff management systems (euro 1,396 thousand for a project under development), for the activation of a new SAP system for treasury management (euro 330 thousand) and for the purchase of licenses (euro 837 thousand).
No impairment was carried out during the 2015 financial year.

9. INVESTMENTS IN SUBSIDIARIES

These amounted to euro 1,141,926 thousand (euro 1,141,058 thousand at December 31, 2014), an increase as compared to the previous year of euro 868 thousand.

Below are details:

(in thousands of euro)

	12/31/2015	12/31/2014
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.	2,878	-
Pirelli Tyre S.p.A.	1,090,755	1,085,861
Pirelli Tyre Commerciale S.r.l.	-	20
PZero Srl	-	4,894
Servizi Aziendali Pirelli S.C.p.A.	103	103
HB Servizi S.r.l.	-	2,010
Pirelli Ltda	9,666	9,666
Pirelli UK ltd.	21,871	21,871
Pirelli Group Reinsurance Company S.A.	6,346	6,346
Pirelli Consumer Italia S.r.l.	20	
TOTAL	1,141,926	1,141,058

The table pursuant to article 2427 of the Civil Code is provided in the annexes.
It is here mentioned that on July 28, 2015, the deed of merger of PZero S.r.l. into Pirelli Tyre S.p.A. was signed, effective from August 1, 2015.

The changes are outlined below:

(in thousands of euro)

	12/31/2015	12/31/2014
Opening balance	**1,141,058**	**1,162,188**
Subscriptions, increases and replenishment of capital	27,557	13,030
Impairment	(21,775)	(23,670)
Decreases	(4,914)	(10,490)
Closing balance	**1,141,926**	**1,141,058**

Increases refer to the recapitalization of Pirelli & C. Ambiente S.r.l. for euro 21,643 thousand, the increase of investment in Pirelli Tyre S.p.A. for euro 4,894 thousand following the merger with PZero S.r.l., a capital contribution of euro 1,000 thousand into HB Servizi S.r.l. and establishment of the company Pirelli Consumer Italia S.r.l. for euro 20 thousand and which is a company set up in the area of the project for corporate reorganisation of the Industrial business unit.

Impairments relate to the investment in Pirelli & C. Ambiente S.r.l. (euro 18,765 thousand) and in HB Servizi S.r.l. (euro 3,010 thousand) and in this case the excess over the carrying amount has been recorded in a specific provision for liabilities and charges. The value of the two investments has been adjusted to their fair value, which is estimated to be the value of shareholders' net equity.

The **decreases**, amounting to euro 4,914 thousand, refer to the investment in PZero S.r.l. merged into Pirelli Tyre S.p.A. for euro 4,894 thousand and to the sale of the subsidiary Pirelli Industrial S.r.l. (formerly Pirelli Tyre Commerciale S.r.l.) to Pirelli Tyre S.p.A..

10. INVESTMENTS IN ASSOCIATES

At December 31, 2015, these amounted to Euro 134,332 thousand (euro 125,100 thousand at December 31, 2014).

The breakdown is as follows:

(in thousands of euro)

	12/31/2015	12/31/2014
Listed securities		
Prelios S.p.A.	41,920	56,037
Unlisted securities		
Consortium for the Reseaкch into Advanced Materials (CORIMAV)	104	104
Eurostazioni S.p.A. - Rome	52,937	52,937
Fenice S.r.l.	28,179	16,022
GWM Renewable Energy II S.p.A.	11,192	-
TOTAL	**134,332**	**125,100**

The following table shows the changes:

(in thousands of euro)

	12/31/2015	12/31/2014
Opening balance	**125,100**	**93,062**
Subscriptions, increases and replenishment of capital	23,349	112,622
Impairment	(14,117)	(80,584)
Closing balance	**134,332**	**125,100**

The **increases** for the year refer to investments in Fenice S.r.l. (euro 12,157 thousand) and the acquisition by Pirelli & C. Ambiente S.r.l. of the shareholding in GWM Renewable Energy II S.p.A. (euro 11,192 thousand).
The increase in the investment in Fenice S.r.l. is due to the purchase of a portion of 7.32% of the capital. On July 29, 2015, the Creditor Partners of Fenice (Pirelli & C. S.p.A., Unicredit S.p.A. and Intesa San Paolo S.p.A.) actually exercised the right to purchase the entire portion held by Feidos 11 in Fenice under a "Redemption Right" required by the by-laws of Fenice S.r.l. and a purchase option provided for in side agreements. Transfer was carried out on September 3, 2015. On September 25, 2015, the Creditor Partners of Fenice also updated the Side Agreement by making a number of changes. It is here mentioned that the updated Agreement constitutes a modification/integration of the previous Agreement, and so it remains valid between the partners and with respect to Feidos 11, with particular reference to the earn-out clause in favour of Feidos 11 in the case of sale by Fenice of Prelios B shares held by it within 12 months from exercising the purchase option.
On December 21, 2015, the subsidiary Pirelli & C. Ambiente S.r.l. purchased the investment in GWM Renewable Energy II S.p.A. amounting to 16.87% of the company capital.

The **impairment** refers to the investment in Prelios S.p.A. (euro 14,117 thousand) as it was considered that the loss made by the company, and the difference between the share price at December 31, 2015 (euro 0.283 per share) and the carrying amount of euro 0.378 per share, represents an impairment indicator. The value of the investment was therefore adjusted to the recoverable amount, represented by fair value.

11. OTHER FINANCIAL ASSETS

At December 31, 2015, these amounted to euro 199,062 thousand (euro 173,459 thousand at December 31, 2014).

Below are details:

(in thousands of euro)

	12/31/2015	12/31/2014
Available-for-sale financial assets		
Listed securities		
Mediobanca S.p.A. - Milan	139,969	106,650
RCS Mediagroup S.p.A. - Milan	14,356	21,621
Unlisted securities		
Fin. Priv Srl	18,787	14,473
Real Estate Investment Fund - Anastasia	14,478	14,822
Alitalia - Compagnia Aerea Italiana S.p.A.	-	5,349
European Institute of Oncology (Istituto Europeo di Oncologia S.r.l.)	5,754	5,382
F.C. Internazionale Milano S.p.A.	293	558
Other companies	5,425	4,604
Total	**199,062**	**173,459**

The table below shows the changes in the item **available-for-sale financial assets**:

(in thousands of euro)

	12/31/2015	12/31/2014
Opening balance	**173,459**	**176,764**
Increases	1,766	56,579
Decreases	-	(42,764)
Fair value adjustment in Equity	38,854	(5,542)
Impairment	(15,117)	(11,578)
Reclassification	100	-
Closing balance	**199,062**	**173,459**

The **increases** relate to the subscription of 678,914,731 Alitalia-Compagnia Aerea Italiana S.p.A. shares for euro 1,766 thousand. After this operation the investment of the company reached 1.56% of the share capital.

Fair value adjustments in equity mainly relate to investments in Mediobanca S.p.A. (positive for euro 33,318 thousand), Fin. Priv. S.r.l. (positive for euro 4,314 thousand), Emittente Titoli (positive for euro 1,191 thousand), Istituto Europeo di Oncologia S.r.l. (positive for euro 372 thousand), Fondo Comune di investimento Anastasia (negative for euro 344 thousand).

The **impairments** item mainly refers to the investment in RCS Mediagroup S.p.A. (euro 7,265 thousand), Alitalia-Compagnia Aerea Italiana S.p.A. (euro 7,115 thousand), Movincom Servizi S.p.A. (euro 337 thousand) and F.C. Internazionale Milano S.p.A. (euro 265 thousand).

The fair value of listed securities matches the stock market price at December 30, 2015. For unlisted securities and real estate funds, the fair value was estimated on the basis of available information.

Further details are set out in the Annexes to the explanatory notes.

12. DEFERRED TAX ASSETS

In 2015, an **impairment of deferred tax asset**s (euro 102,970 million) was recorded and was directly attributable to the revision of forecasts over a medium period time horizon of future taxable income of companies participating in Italian tax consolidation, for which, during this period, a significant reduction is expected due to the new financial structure that the Group will take on as a result of the merger with Marco Polo Industrial Holding S.p.A. and expected in the first half of 2016. It should be noted that the tax losses relating to Group Italian companies are carried forward indefinitely.

13. OTHER RECEIVABLES

Other receivables can be broken down as follows:

(in thousands of euro)

	12/31/2015			12/31/2014		
	TOTAL	NON CURRENT	CURRENT	TOTAL	NON CURRENT	CURRENT
Other receivables from subsidiaries	3,555	-	3,555	3,039	-	3,039
Financial receivables from subsidiaries	964,472	-	964,472	901,917	500,000	401,917
Guarantee deposits	695	695	-	2,244	637	1,607
Other receivables from third parties	15,797	14,181	1,616	9,726	8,426	1,300
Receivables from tax authorities not related to income taxes	9,405	-	9,405	7,425	-	7,425
Financial accrued interest income	3,453	-	3,453	5,286	-	5,286
Financial prepaid expenses	2,991	624	2,367	2,059	-	2,059
	1,000,368	15,500	984,868	931,696	509,063	422,633

Current financial receivables from subsidiaries mainly include loans disbursed in favour of Pirelli Tyre S.p.A. (euro 350,000 thousand, duration 02/24/2014 - 02/24/2016), Pirelli Industrie Pneumatici S.r.l. (euro 150,000 thousand, duration 04/02/2014 - 04/04/2016) and the use of euro 462,000 thousand of the short-term credit facility (euro 600,000 thousand) by Pirelli Tyre S.p.A..

Other non-current receivables from third-parties refer mainly to a contribution made in cash upon signing an investment partnership contract.

Current accrued financial interest income mainly refers to interest accrued but not yet received on financial receivables from the subsidiary Pirelli Tyre S.p.A. for euro 2,715 thousand, Pirelli Industrie Pneumatici S.r.l. for euro 738 thousand.

Financial prepaid expenses mainly refer to commissions on the revolving and term loan credit facility.

For other receivables, it is considered that the carrying amount approximates fair value.

14. TRADE RECEIVABLES

These amounted to euro 41,687 thousand compared to euro 32,745 thousand the previous year.
The breakdown is as follows:

(in thousands of euro)

	12/31/2015	12/31/2014
Receivables from subsidiaries	36,902	30,389
Receivables from associates	406	-
Receivables from other companies	7,481	5,458
Total receivables	**44,789**	**35,847**
Provision for bad debts	(3,102)	(3,102)
	41,687	32,745

Of total gross trade receivables amounting to euro 44,789 thousand (euro 35,847 thousand at December 31, 2014), euro 7,481 thousand are towards other companies (euro 5,458 thousand as at December 31, 2014) of which euro 6,894 thousand fell due on December 31, 2015.
Receivables due and past due have been written down based on the Group policies described in the paragraph relating to management of credit risk within the "Financial Risk Management Policy".
The impaired receivables include both significant positions written down separately, and positions with similar characteristics in terms of credit risk, grouped and written down on a collective basis.

The analysis of trade receivables by geographical area is as follows:

	12/31/2015		12/31/2014	
	RECEIVABLES FROM SUBSIDIARIES	RECEIVABLES FROM OTHER COMPANIES	RECEIVABLES FROM SUBSIDIARIES	RECEIVABLES FROM OTHER COMPANIES
Italy	92.42%	79.26%	94.38%	35.00%
Rest of Europe	6.88%	20.40%	5.46%	28.13%
Other	0.70%	0.34%	0.16%	36.87%
	100.00%	100.00%	100.00%	100.00%

The change in the provision for bad debts is shown below:

(in thousands of euro)

	12/31/2015	12/31/2014
Opening balance	3,102	3,042
Increases/Decreases	-	60
	3,102	3,102

For trade receivables, the carrying amount is considered to approximate fair value.

15. CASH AND CASH EQUIVALENTS

These amounted to euro 146 thousand (euro 8 thousand at December 31, 2014).

(in thousands of euro)

	12/31/2015	12/31/2014
Bank deposits	140	3
Cash on hand	6	5
	146	8

16. TAX RECEIVABLES

These amounted to euro 62,105 thousand (euro 91,004 thousand at December 31, 2014). The amount mainly includes:
- receivables from the inland revenue for withholding tax (euro 26,397 thousand);
- receivables from Group companies participating in tax consolidation for euro 27,842 thousand (euro 39,112 thousand at December 31, 2014). The decrease as compared to the previous year depends essentially on a lower contribution of the positive taxable result achieved by Pirelli Tyre S.p.A.;
- receivables from the inland revenue for IRES for 2008/2014 of euro 5,343 thousand (euro 5,058 thousand at December 31, 2014) and for VAT litigation in 2004 (euro 1,102 thousand).

17. DERIVATIVE FINANCIAL INSTRUMENTS

The item amounted to euro 340 thousand (euro 209 thousand at December 31, 2014).

18. EQUITY

Equity amounted to Euro 1,913,928 thousand (euro 2,056,180 thousand at December 31, 2014). The analysis of changes and their composition are provided in the main financial statements.

18.1 SHARE CAPITAL

The share capital at December 31, 2015 amounted to euro 1,345,381 thousand, and was represented by 475,740,182 ordinary and 12,251,311 special shares.
Share capital is shown net of treasury shares, amounting to euro 969 thousand for ordinary shares (no. shares 351,590, representing 0.07% only of ordinary shares) and euro 1,126 thousand for special shares (no. shares 408,342, representing 3.33% only of special shares) and therefore amounted to euro 1,343,285 thousand. The total of treasury shares represents 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 2013-2015
Share capital (1)	1,343,285	-	-	-
Legal reserve	152,114	B	152,114	-
Other reserves				
— Merger Reserve	12,467	A, B, C	12,467	-
— IAS Reserve	96,531	-	-	-
Retained earnings	311,233	A, B, C	311,233	-
Total	**1,915,630**		**475,814**	
Non available share (2)			(6,595)	
Residual available share			**469,219**	

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 can be broken down as follows:

(in thousands of euro)

	12/31/2015			12/31/2014		
	TOTAL	NON CURRENT	CURRENT	TOTAL	NON CURRENT	CURRENT
Bonds	499,833	-	499,833	498,940	498,940	-
Borrowings from other financial institutions	101,332	101,332	-	1,650	1,650	-
Other financial payables	1,805	-	1,805	-	-	-
Accrued liabilities	22,096	-	22,096	21,997	-	21,997
	625,066	101,332	523,734	522,587	500,590	21,997

The item **bonds** refers to an unrated bond placed by Pirelli & C. S.p.A. 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 carrying amount of the bond at December 31, 2015 was determined as follows:

(in thousands of euro)

	12/31/2015	12/31/2014
Nominal value	500,000	500,000
Transaction costs	(5,296)	(5,296)
Amortisation of effective interest rate	5,129	3,964
Adjustment for fair value hedge	-	272
	499,833	498,940

The borrowings from other financial institutions item mainly includes euro 100,000 thousand relating to the use of the revolving and term loan credit facility for euro 200,000 thousand with duration five years subscribed on February 13, 2015.

The accrued liabilities essentially refer to interest that has accrued on the bond loan but has not yet been 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	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
Bond	499,833	498,940	502,935	523,565
Other non-current borrowings	101,332	1,650	101,332	1,650
	601,165	500,590	604,267	525,215

Borrowings from banks and other financial institutions are denominated in euros.

20. PROVISIONS FOR LIABILITIES AND CHARGES

Below are the changes for the non-current part during the period:

PROVISION FOR LIABILITIES AND CHARGES - NON-CURRENT PART (in thousands of euro)

	12/31/2015	12/31/2014
Opening balance	**17,056**	**37,167**
Increases	264	1,012
Releases	(410)	(19,455)
Uses	(2,564)	(1,668)
Closing balance	**14,346**	**17,056**

Increases are mainly due to the allocation to adjust the provision to the actual demand for legal and tax disputes.

Uses refer substantially to costs associated with reclamation.

The provision for liabilities and charges current portion amounted to euro 400 thousand and refers to the surplus over carrying amount, for the adjustment of the value of the investment in HB Servizi S.r.l..

21. EMPLOYEE BENEFIT OBLIGATIONS

Employee benefit obligations amounted to euro 2,104 thousand (euro 4,194 thousand at December 31, 2014). This item includes provision for employee leaving indemnities which amounts to euro 1,548 thousand (euro 1,489 thousand at December 31, 2014) and other employee benefits of euro 555 thousand (euro 2,705 thousand at December 31, 2014).
The decrease is attributable to reclassification of the amount allocated in 2014 under Other current liabilities and Other non-current liabilities due to the decision taken by the Board of Directors on December 22, 2015 in respect of early closing of the Long-Term Incentive Plan 2014-2016 for the Management of the Pirelli Group and approved by the Board of Directors and Shareholders of Pirelli & C., respectively on February 27 and June 12, 2014, in view of the delisting of the ordinary shares of Pirelli & C. S.p.A..

Employee leaving indemnities (TFR)

The changes during the year 2015 for the provision for leaving indemnities are as follows:

(in thousands of euro)

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**
Movements through income statement	89
Actuarial (gains)/losses recognized in Equity	(69)
Indemnities, advance payments, relocations	39
Balance at 12/31/2015	**1,548**

The amounts shown in the Income Statement have been included in the item “Personnel Expenses” (note 28).

The net actuarial losses accrued in 2015 and attributed directly to net equity, amount to euro 68 thousand. The cumulative amount at December 31, 2015 of net income attributed directly to net equity amounts to euro 2,066 thousand (euro 1,998 thousand at December 31, 2014).

The principal **actuarial assumptions used at December 31, 2015** are as follows:

2015	
Discount rate	2.1%
Inflation rate	1.3%

The principal **actuarial assumptions used at December 31, 2014** were as follows:

2014	
Discount rate	1.8%
Inflation rate	1.5%

Employees in service at December 31, 2015 came to 131 units (125 units at December 31, 2014).

Other conditions being equal, a hypothetical change of 0.25% in the discount rate would result in a decrease in liabilities amounting to 2.57%, in the case of an increase occurring (2.37% at December 31, 2014), and an increase in liabilities of 2.64%, in the case of a decrease (2.43% at December 31, 2014).

22. TRADE PAYABLES

This breakdown of trade payables is as follows:

(in thousands of euro)

	12/31/2015	12/31/2014
Payables to subsidiaries	825	1,149
Payables to associates	607	56
Payables to other companies	39,500	26,097
	40,932	**27,302**

The carrying amount of trade payables is considered to approximate their fair value.
The change over December 31, 2014 in the item payables to other companies refers mainly to costs incurred for transactions of corporate reorganisation.

23. OTHER PAYABLES

The breakdown is as follows:

(in thousands of euro)

	12/31/2015			12/31/2014		
	TOTAL	NON-CURRENT	CURRENT	TOTAL	NON-CURRENT	CURRENT
Payables to subsidiaries	10,796	-	10,796	8,119	-	8,119
Payables to social security and welfare institutions	2,296	-	2,296	1,989	-	1,989
Payables to employees	17,017	6,182	10,835	3,989	-	3,989
Other payables	9,834	381	9,453	9,884	-	9,884
Accrued liabilities	-	-	-	590	-	590
Deferred income	995	-	995	-	-	-
	40,938	**6,563**	**34,375**	**24,571**	**-**	**24,571**

Payables to subsidiaries refer to receivables related to VAT consolidation.

Payables to social security and welfare institutions mainly include contributions payable to INPS and INAIL.

Payables to employees refer to the wages to be paid to employees. This item includes a payable for the LTI incentive 2014-2016, due to the early closure of the Long-Term Incentive Plan 2014 - 2016 approved by the Board of Directors of Pirelli & C. S.p.A.

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

These amounted to euro 44,016 thousand (euro 64,296 thousand at December 31, 2014) mainly including payables IRES tax (euro 27,309 thousand) and payables for WHT (euro 15,385 thousand).

25. REVENUES FROM SALE AND SERVICES

These mainly refer to:

(in thousands of euro)

	2015	2014
Sale of services to subsidiaries	22,062	18,707
Sale of services to other companies	732	615
	22,794	**19,322**

The increase is mainly due to reorganization of facilities with the consequent extension of services provided to Group's Italian affiliates.

26. OTHER INCOME

This amounted to euro 121,962 thousand, (euro 123,892 thousand in 2014), and is as follows:

(in thousands of euro)

	2015	2014
Other income from subsidiaries	110,571	104,357
Other income from other companies	11,391	19,535
	121,962	123,892

Other income from subsidiaries includes royalties paid by Group companies in order to use the trademark (euro 83,865 thousand in 2015 - euro 80,087 thousand in 2014), recovery of expenses and other income (euro 17,603 thousand in 2015 - euro 14,450 thousand in 2014), rents and recoveries of management fees on rents (euro 9,102 thousand in 2015 - euro 9,820 thousand in 2014).

Other income from other companies mainly consists of royalties paid by other companies in order to use the Pirelli trademark (euro 3,579 thousand in 2015 - euro 2,109 thousand in 2014), reversal of excess funds (euro 260 thousand in 2015 - euro 10,000 thousand in 2014), recovery of expenses and other incomes (euro 3,775 thousand in 2015 - euro 3,287 thousand in 2014), rents and recoveries of management fees on rents (euro 3,777 thousand in 2015 - euro 9,820 thousand in 2014).

27. RAW MATERIALS & CONSUMABLES

These amounted to euro 303 thousand (euro 233 thousand in 2014) and include purchases of advertising materials, fuel and other materials.

28. PERSONNEL EXPENSES

These amounted to euro 33,122 thousand (euro 28,237 thousand in 2014) broken down as follows:

(in thousands of euro)

	2015	2014
Wages and salaries	27,136	22,301
Social security and welfare contributions	4,497	4,473
Employee leaving indemnities (TFR)	72	62
Leaving indemnities and similar obbligations	1,075	1,030
Other costs	342	371
	33,122	28,237

Staff in service on average is as follows:
- Executives: 36
- Employees: 92
- Workers: 2

The increase over the previous year is essentially due to what was described previously in note 21 in connection with variable annual medium term incentives (three-year LTI plan 2014/2016).

29. AMORTISATION, DEPRECIATION AND IMPAIRMENT

The breakdown is as follows:

(in thousands of euro)

	2015	2014
Depreciation – property, plant and equipment	4,761	4,613
Amortisation – intangible assets	2,227	1,258
	6,988	5,871

30. OTHER COSTS

The breakdown of other costs is the following:

(in thousands of euro)

	2015	2014
Services rendered by subsidiaries	5,664	6,473
Advertising	29,728	25,076
Consultancy and collaboration services	18,446	8,917
Accruals for the provision of future liabilities and charges	265	1,071
Legal and notarial expenses	3,882	1,564
Travel expenses	10,514	3,442
Compensation of Board members and Supervisory Board	2,813	2,928
Membership fees and contributions	5,031	3,516
Rental and lease instalments	9,602	9,808
IT expenses	2,295	2,445
Power, gas and water expenses	2,032	1,836
Security service	2,200	1,839
Insurance premiums	1,627	1,228
Patents and trademarks expenses	1,339	764
Cleaning and property ordinary maintenance expenses	278	551
Property maintenance	1,111	985
Other	9,874	7,832
	106,701	80,275

31. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

31.2. LOSSES ON EQUITY INVESTMENTS

These amounted to euro 52,341 thousand (euro 139,121 thousand in 2014), in detail:

(in thousands of euro)

	2015	2014
Impairment losses on equity investments in subsidiaries:		
_ PZero S.r.l.	-	10,169
_ Pirelli & C. Ambiente S.r.l.	18,766	16,156
_ Pirelli Finance Luxembourg S.A.	3,410	-
Impairment losses on equity investments in associates:		
_ Prelios S.p.A.	14,117	35,657
_ Fenice S.r.l.	-	44,927
Impairment losses on other financial assets:		
_ Prelios category B shares	-	4,772
_ Alitalia S.p.A. - Compagnia Aerea Italiana S.p.A.	7,115	11,229
_ RCS Mediagroup S.p.A.	7,265	15,860
_ Movincom Servizi S.p.A.	337	-
_ Others	400	351
Losses on disposals:		
_ Sirio S.p.A.	931	-
	52,341	**139,121**

Impairment losses on equity investments in subsidiaries refer to an adjustment in respect of the subsidiary Pirelli & C. Ambiente S.r.l. and HB Servizi S.r.l.

Impairment losses on equity investments in associates refer to an adjustment of Prelios S.p.A.

Impairment losses on other financial assets mainly refer to impairments on investments available for sale, in Alitalia - Compagnia Aerea Italiana S.p.A. (euro 7,115 thousand), RCS MediaGroup S.p.A. (euro 7,265 thousand).

For fuller details please see the notes relating to equity investments in subsidiaries, associates and other financial assets

31.3. DIVIDENDS

These amounted to euro 174,662 thousand compared to euro 312,921 thousand in 2014. In detail:

(in thousands of euro)

	2015	2014
From subsidiaries:		
Pirelli Tyre S.p.A. - Italy	163,000	294,000
Pirelli Ltda - Brasil	-	7,671
Pirelli Sistemi Informativi S.r.l. - Italy	-	500
Pirelli Servizi Amministrazione e Tesoreria S.p.A. - Italy	-	800
Pirelli Labs S.r.l. - Italy	1,000	-
Maristel S.p.A. - Italy	-	1,000
Pirelli Group Reinsurance Company SA	3,309	4,299
	167,309	**308,270**
From associates:		
Eurostazioni S.p.A. - Italy	1,680	1,011
	1,680	**1,011**
From other companies:		
Mediobanca S.p.A. - Italy	3,938	2,363
Sirio S.p.A. - Italy	137	-
ECA Ltd - Great Britain	24	-
Fin. Priv. S.r.l. - Italy	513	308
Emittente Titoli S.p.A. - Italy	202	33
Anastasia Fund - Italy	788	680
Euroqbe S.A. (in liquidation) - Belgium	71	256
	5,673	**3,640**
	174,662	**312,921**

The reduction as compared to 2014 is due essentially to non-collection of the interim dividend from Pirelli Tyre S.p.A. which will be resolved and collected in a single settlement.

32. FINANCIAL INCOME

These amounted to euro 17,079 thousand (euro 19,619 thousand in 2014).
They mainly include interest on loans granted to the subsidiary Pirelli Tyre S.p.A. (euro 11,583 thousand in 2015, euro 13,964 thousand in 2014) and Pirelli Industrie Pneumatici S.r.l. (euro 2,991 thousand in 2015, euro 3,791 thousand in 2014).

33. FINANCIAL EXPENSES

These amounted to euro 30,998 thousand (euro 29,615 thousand in 2014 and essentially include euro 26,789 thousand for interest accrued on the Bond (euro 26,730 thousand in 2014) and euro 533 thousand related to interest on loans (euro 2,440 thousand in 2014).

34. TAXES

Taxes are analysed in the following table:

(in thousands of euro)

		2015	2014
	Current income taxes		
	Foreign WHT	8,184	18,373
	Regional tax on production (IRAP)	-	(2,257)
	Taxes previous years	(1,353)	(1,503)
	Consolidated corporate income tax (IRES)	4,037	5,669
	Other taxes	150	9,331
A	**Total Current income taxes**	**11,018**	**29,613**
	Deferred taxes		
	Through tax consolidation	322	(767)
	On tax losses carried forward	(119,085)	17,773
B	**Total Deferred taxes**	**(118,763)**	**17,006**
A+B	**Total Taxes**	**(107,745)**	**46,619**

Current taxes include the effect of withheld income from foreign sources for previous years, as well as the benefits of fiscal consolidation of the Italian group, and release of funds previously set aside. Total taxes also reflect the impairment of deferred tax assets in connection with the expected recoverability of tax losses by the Italian Group companies (refer to note 12).

The transfer of the estimated tax burden to the current in **2015** is analysed in the following table:

(in thousands of euro)

		IRES	IRAP	
Net Income (loss) before tax	**A**	**106,043**	**106,043**	**106,043**
Net income (loss) from discontiuned operations	**B**	**-**	**-**	**-**
Net income (loss) before tax including income from discontiuned operations	**C=A-B**	**106,043**	**106,043**	**106,043**
Tax rate	D	27.5%	5.57%	
Estimated tax	E = C*D	(29,162)	(5,907)	(35,069)
Decrease				
Detaxation of dividends	F	45,425	18,485	63,909
Gains on disposal of share investments	G	-	-	-
Reserves	H	1,342	-	1,342
Other decrease	I	373	961	1,334
Deferred tax	L	-	-	-
Income from WHT previous years	M	8,184	-	8,184
Increase				
Impairment	N	(14,138)	-	(14,138)
Taxes previous years	O	(521)	-	(521)
Not recovered WHT	P	-	-	-
Release of deferred tax	Q	(102,970)	-	(102,970)
Other increase	R	(3,346)	(13,539)	(16,885)
Taxes	S=E+F+G+H+I+L+M+N+O+P+Q+R	(94,813)	-	(94,813)
Current tax burden Pirelli & C. S.p.A.	**S**	**(94,813)**	**-**	**(94,813)**
Net income from tax consolidation	**T**	**(12,932)**		**(12,932)**
Total tax	**U=S+T**	**(107,745)**	**-**	**(107,745)**
Net income (loss)	**V=C+U**			**(1,702)**

The transfer of the estimated tax burden to the current in **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 discontiuned operations	**B**	**-**	**-**	**-**
Net income (loss) before tax including income from discontiuned operations	**C=A-B**	**211,345**	**211,345**	**211,345**
Tax rate	D	27.5%	5.57%	
Estimated 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			-
Release of deferred tax	Q		(9,931)	-
Other increase	R	(3,923)	-	(3,923)
Taxes	S=E+F+G+H+I+L+M+N+O+P+Q+R	45,770	(2,258)	43,512
Current tax burden Pirelli & C. S.p.A.	**S**	**45,770**	**(2,258)**	**43,512**
Net income from tax consolidation	**T**	**3,106**		**3,106**
Total tax	**U=S+T**	**48,876**	**(2,258)**	**46,618**
Net income (loss)	**V=C+U**			**257,963**

TAX CONSOLIDATION

It is mentioned at this point that starting from 2004, the Company has exercised an option for consolidated taxation as consolidator, pursuant to art. 117 and following of the TUIR, with regulation of relations arising from adhering to consolidation through special “Regulations”, and which involves a common procedure for the application of laws and regulations.
Said regulation has been 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 the light of the corrective and supplementary interventions occur-

ring in relevant legislation.
The above amendments have concerned particularly the remuneration of the tax losses used by the companies adhering to the consolidation. Adoption of consolidation allows the Parent Company Pirelli & C. S.p.A. to offset any taxable income or loss of the Parent Company with those of its resident subsidiaries that have exercised the option, but taking into account that any tax losses accrued during periods prior to the introduction of group taxation may only be used by the companies concerned.

35. RELATED PARTY TRANSACTIONS

Related Party Transactions, including intra-group transactions, are not classified as unusual and occur during the ordinary course of business of 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 show the main transactions with related parties for the years ended December 31, 2015 and December 31, 2014 (amounts are expressed in euro millions).

YEAR 2015
TRANSACTIONS WITH SUBSIDIARIES

(in millions of euro)

ITEMS OF BALANCE SHEET		
Current assets		
Trade receivables	36.9	Refers mainly to receivables for services/provisions (euro 33.6 million Pirelli Tyre S.p.A., euro 2.6 million Pirelli Tyre Russia, euro 0.2 million Pirelli Sistemi Informativi S.r.l., euro 0.2 million PZero S.r.l.)
Other receivables	971.4	Refers mainly: for euro 814,7 million to loans granted and related interest accrued and not paid with Pirelli Tyre S.p.A.; eur 153,7 million to a loan granted and related interest accrued but not paid with Pirelli Industrie Pneumatici S.r.l.; euro 2,4 million to the intra-group current account with Pirelli International Plc
Tax receivables	27.8	The amount refers to receivables from Group companies that adhere to tax consolidation (mainly euro 25.8 million Pirelli Tyre S.p.A., euro1.8 million Pirelli Industrie Pneumatici S.r.l)
Financial instruments	0.3	The sum refers to receivables for hedging income and related accruals from Pirelli International Plc

Currents liabilities		
Trade payables	0.8	Refer mainly to payables for the provision of services (the main ones are: euro 0.3 million Pirelli Tyre S.p.A., euro 0.3 million Pirelli Amministrazione e Tesoreria S.p.A., euro 0.1 million Servizi Aziendali Pirelli S.c.p.a.)
Other payables	11.3	Refer mainly to payables to Group companies that adhere to VAT consolidation, the main ones are: euro 10.6 million Pirelli Tyre S.p.A., euro 0,1 million Driver Italia S.p.A. and the deferred liablity for rent in force withPirelli Tyre S.p.A. euro 0.5 million
Tax payables	16.5	Refers to payables to subsidiaries that adhere to tax consolidation, mainly euro 16.3 million Pirelli Tyre, euro 0,1 million Pirelli & C. Ambiente S.r.l.

255

(in millions of euro)

ITEMS OF INCOME STATEMENT		
Revenues from sales and services	22.1	The amount mainly refers to service agreements. The main relations are: euro 20.8 million Pirelli Tyre S.p.A., euro 0.3 million Pirelli & C. Ambiente S.r.l., euro 0.3 million Pirelli Sistemi Informativi S.r.l., euro 0.2 milion Pirelli Servizi Amministrazione e Tesoreria S.p.A.,euro 0.2 million HB Servizi S.r.l.)
Other income	109.2	The amount mainly refers to: brand license agreements (euro 82,8 million Pirelli Tyre S.p.A., euro 1,0 million Pirelli Tyre Russia); other recoveries (euro 17,2 million Pirelli Tyre S.p.A., euro 0.4 million Pirelli Sistemi Informativi S.r.l.); lease agreements (euro 0,8million Pirelli Sistemi Informativi S.r.l., euro 5,7 million Pirelli Tyre S.p.A., euro 0,3 million Pirelli Servizi Amministrazione e Tesoreria S.p.A., euro 0.1 million Pirelli Ambiente S.r.l.)
Other costs	5.4	The amount mainly refers to charges for various services and expenses (euro 1.2 million Pirelli Servizi Amministrazione e Tesoreria S.p.A., euro 1,4 million Pirelli Sistemi Informativi S.r.l., euro 1.2 million Pirelli Tyre S.p.A., euro 0.7 HB Servizi S.R.L., euro 0.4 million Servizi Aziendali Pirelli S.c.p.a.).
Net income (loss) from equity investments - Dividends	167.3	These refer to: euro 163.0 million Pirelli Tyre S.p.A., euro 3.3 million Pirelli Group Reinsurance Company S.r.l., euro 1.0 million Pirelli Labs S.p.A
Financial income	15.8	Income deriving from loans granted (euro11,6 million Pirelli Tyre S.p.A, euro 3,0 million Pirelli Industrie Pneumatici S.r.l., euro 0,7 million Pirelli & C. Ambiente S.r.l.) and hedging transactions euro 0.5 million Pirelli Internatonal Plc.
Taxes	26.8	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 24.3 million, Pirelli Sistemi Informativi S.r.l. euro 0.2 million, Pirelli Industrie Pneumatici S.r.l. euro 1.9 mllion; Tax charges - the main items are: Pirelli Tyre S.p.A. euro 0.3 million

(in millions of euro)

CASH FLOW INVESTMENTS AND DISINVESTMENTS		
Investments in subsidiaries	33.9	The amount refers for euro 21.7 million to the capital increase in Prelli Ambente S.r.l., for euro 1.0 million for capital payments in HB Servizi S.r.l. and for euro 11.2 million to the acquisition of GWM Renewable Energy II S.p.A. by Pirelli Ambiente S.r.l.

TRANSACTIONS WITH ASSOCIATES

(in millions of euro)

ITEMS OF BALANCE SHEET		
Current assets		
Trade receivables	0.4	The sum refers to receivables for services rendered to Prelios S.p.A.
Other receivables	0.1	The amount refers to the loan and its applicable interest provided to Fenice S.r.l.
Currents liabilities		
Trade payables	0.6	Refers to payables for services received from Lambda S.p.A. (euro 0.5 million) and from Corimav (euro 0.1 million)
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	1.3	Refers to the Prelios S.p.A. security deposit for rent of the R&D building

(in millions of euro)

ITEMS OF INCOME STATEMENT		
Other income	1.4	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	1.7	The amount refers to dividends distributed by Eurostazioni S.p.A.

YEAR 2014
TRANSACTIONS WITH SUBSIDIARIES

(in millions of euro)

ITEMS OF BALANCE SHEET		
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 S.p.A.; 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.)
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)
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.

(in millions of euro)

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

(in millions of euro)

CASH FLOW INVESTMENTS AND DISINVESTMENTS		
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 millions 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.
Currents 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

(in millions of euro)

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)

BENEFITS FOR KEY MANAGERS OF THE COMPANY

The compensation payable to key managers amounted to euro 8,237 thousand at December 31, 2015 (euro 6,582 thousand at December 31, 2014) of which being recognised in the Income Statement as “Personnel Expenses” euro 5,457 thousand (euro 3,638 thousand in 2014) and in the Income Statement as “Other Costs” euro 2,781 thousand (euro 2,944 thousand at December 31, 2014). Compensation also includes euro 355 thousand for employee leaving indemnity (TFR) and retirement benefits (euro 353 thousand at December 31, 2014).

36. OTHER INFORMATION

EXTERNAL AUDITORS' FEES

The table below shows the fees paid in financial year 2015 for the audit services 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.	492	492

[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

37. COMMITMENTS AND CONTINGENCIES

GUARANTEES PROVIDED ON BEHALF OF SUBSIDIARIES AND OTHER COMPANIES

The guarantees were issued for loans and contractual commitments of subsidiaries for euro 1,109,997 thousand.
The sum includes euro 1,103,617 thousand for guarantees given for the benefit of Pirelli Tyres Ltd. (UK) and Pirelli UK Ltd. in respect of local pension funds.

OTHER RISKS

At the start of **April 2014**, the European Commission notified Pirelli and other Parties involved (among which being Prysmian Cavi and Sistemi, controlled by Pirelli up until July 2015) of a decision taken at the conclusion of antitrust inquiries begun in respect of the energy cables business, and which foresees a penalty to be borne by Prysmian amounting to around euro 104 million for a part of which, amounting to euro 67 million, Pirelli is liable jointly with Prysmian. This decision confirms the fact that there was no involvement of Pirelli in the alleged cartel. The antitrust Breach contested is attributable exclusively to a principle of the so-called "parental liability" as during part of the period of the alleged cartel, Prysmian was a subsidiarity of Pirelli. Pirelli has submitted recourse to the Court of the European Union against the decision of the European Commission, challenging application of the principle of "parental liability".
The European Commission has additionally demanded Pirelli file a bank surety to cover payment, if and when owed, of 50% of the penalty applied to Prysmian and Pirelli jointly. As a consequence of the foregoing, Pirelli handed over the guarantee requested by the Commission on December 17, 2014.
Pirelli has taken legal action before the Court of Milan so that the obligation of Prysmian to hold Pirelli harmless from any demand including that of the European Commission in connection with the aforesaid penalty be held and ruled. Judgement has been suspended by the Court of Milan pending the final judgement of community judges. Pirelli has impugned the order of suspension before the Court of Cassation.
On **November 23, 2015**, Prysmian Cavi e Sistemi served suit for damages commenced before the High Court of Justice against Prysmian and other participants in the cartel, on the part of National Grid and Scottish Power, a company that felt it had been injured by the alleged illicit understanding. Specifically, Prysmian submitted a plea to have Pirelli and Goldman Sachs, based on the role played at the time of the cartel, of its controlling companies, hold it harmless in respect of any obligations to indemnify National Grid and Power.
Pirelli has raised a flaw in jurisdiction of the High Court of Justice as the action before the Court of Milan recalled above is pending, and feels that the decision as to merit must be put before the Court previously addressed. Pirelli, on the basis of careful judicial analyses supported by authoritative opinions from outside counsel, does not feel it is involved in the alleged irregularities of its former

subsidiary and that full final liability for any breach must be borne exclusively by the company directly involved.
As a consequence of the foregoing, the assessment of the of risk is such that it does not require any specific provision to be made in the annual Financial Statements as at December 31, 2015.

38. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

On **February 9, 2016** Pirelli and the Lombardy Region signed a competitiveness agreement for a regional grant of Euro 1.9 million to the R & D project "Total Safety System" conducted at the research center of Milan Bicocca. The project, which will last for 24 months and have a total cost of Euro 5.35 million, is part of activities related to the development of a new generation of tyres based on the concept of "total safety". The project will allow Pirelli to study new product mixes oriented towards higher value-added segments, and to achieve positive results in environmental and social issues in terms of road safety, by reducing the fuel consumption of vehicles and increasing tyre mileage.

On **February 15, 2016**, Ren Jianxin, Yang Xingqiang, Bai Xinping, Ze'ev Goldberg, Tao Haisu, Wang Dan and Zhang Junfang, previously co-opted by the Board, were reappointed as directors by the ordinary general meeting of Pirelli & C. S.p.A. The Extraordinary General Meeting also approved a proposal of mandatory conversion of savings shares into newly issued special category unlisted shares without voting rights, as well as a proposal to adopt new Articles of Association. The mandatory conversion and adoption of the new Articles of Association were also approved, to the extent applicable, by a special savings general meeting of Pirelli & C. S.p.A.. The extraordinary general meeting of Pirelli & C. S.p.A. also approved the merger by incorporation of the controlling Parent company Marco Polo Industrial Holding S.p.A. into Pirelli & C. S.p.A, for 6.30 Pirelli shares to be allotted after the merger to Marco Polo International Holding Italy S.p.A. (Holdco) - the sole partner of Marco Polo Industrial Holding S.p.A. - for every 1 share held before the merger by Marco Polo International Holding Italy S.p.A. (Holdco) in Marco Polo Industrial Holding S.p.A.. The merger is expected to be finalised within the first half of 2016.
Following the mandatory conversion of savings shares into special category unlisted shares, the savings shares ceased to be listed on regulated markets as of February 26, 2016.

On **February 16, 201**6, the Board of Directors of Pirelli & C. S.p.A. approved the essential lines of a refinancing plan for an amount up to a maximum of euro 7 billion aimed at extending debt maturities and optimizing their structure thanks to the use of bond and banking markets.
The terms and conditions of the refinancing, including any guarantees, will be defined in light of market conditions and practices of reference, also taking into account the rights incorporated in the Terms and Conditions in favour of bond holders for euro 600 million maturing in 2019 and that will remain in place until maturity. The refinancing plan leaves the right to activate the loan Mergeco Facility alternatively unchanged for Pirelli, if appropriate, and already made available to the company by a syndicate of banks as part of the public purchase offer of Marco Polo Industrial Holding S.p.A. on Pirelli.
Following the confirmation by the General Meeting of the directors co-opted on September 2 and October 20, 2015, the Board of Directors confirmed Ren Jianxin Chairman of the Board of Directors and the governance structure approved on October 20, 2015.

ANNEXES TO THE EXPLANATORY NOTES

MOVEMENTS OF EQUITY INVESTMENTS FROM 12/31/2014 TO 12/31/2015

	12/31/2014			
	NUMBER OF SHARES	CARRYING AMOUNT (€/THOUSAND)	% OF TOTAL EQUITY INV.	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	-	100.0	100.0
Pirelli Tyre S.p.A. - Milan	756,820,000	1,085,860.9	100.0	100.0
Pirelli Industrial S.r.l. (former Pirelli Tyre Commerciale Italia S.r.l.) - Milan	-	20.0	-	-
Pirelli Consumer Italia S.r.l. - Milan	-	-		
PZero Srl - Milano	1 quota	4,894.3	100.0	100.0
Servizi Aziendali Pirelli S.C.p.A. - Milan	95,940	103.3	100.0	92.3
HB Servizi Srl	-	2,010.2	-	-
Total investments in subsidiaries - Italy		**1,103,175.9**		
FOREIGN COMPANIES				
Brasil				
Pirelli Ltda	14,000,000	9,665.9	100.0	100.0
T3 Brasil Industrial de Pneus Agricol	-	-	-	-
Pirelli Pneus Ltda	-	-	-	-
UK				
Pirelli UK ltd. - London - ordinary	163,991,278	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 foreign subsidiaries		**37,882.8**		
Total investments in subsidiaries		**1,141,058.7**		
INVESTMENTS IN ASSOCIATES				
ITALY				
Listed				
Prelios S.p.A. - Milan (*)	148,127,621	56,036.7	29.2	29.2
Total listed Italian companies		**56,036.7**		
Unlisted				
Fenice Srl	1 quota	16,022.1	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
GWM Renewable Energy II S.p.A. - Rome	-	-	-	-
Total unlisted companies		**69,062.8**		
Total investments in associates - Italy		**125,099.4**		
Total investments in associates		**125,099.4**		

(*) quota 29.2% refers to the percentile of the investment in the voting capital

CHANGES		12/31/2015			
NUMBER OF SHARES	(€/THOUSAND)	NUMBER OF SHARES	CARRYING AMOUNT (€/THOUSAND)	% OF TOTAL EQUITY INV.	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
-	2,877.6	1 quota	2,877.6	100.0	100.0
-	4,894.3	756,820,000	1,090,755.2	100.0	100.0
-	(20)	-	-	-	-
	20.0	-	20.0	100.0	100.0
-	(4,894.3)	-	-	-	-
-	-	95,940	103.3	100.0	92.3
-	(2,010.2)	-	-	100.0	100.0
	867.4		**1,104,043.3**		
-	-	14,000,000	9,665.9	100.0	100.0
-	-	-	-	-	-
1	-	1	-	-	-
-	-	163,991,278	21,871.1	100.0	100.0
-	-	800,000	6,345.8	100.0	100.0
	-		**37,882.8**		
	867.4		**1,141,926.1**		
-	(14,116.6)	148,127,621	41,920.1	29.2	29.2
	(14,116.6)		**41,920.1**		
-	12,157.0	1 quota	28,179.1	69.9	69.9
-	-	1 quota	103.5	100.0	100.0
-	-	52,333,333	52,937.1	32.7	32.7
12,863,908	11,192.3	12,863,908	11,192.3	16.9	16.9
	23,349.3		**92,412.1**		
	9,232.7		**134,332.1**		
	9,232.7		**134,332.1**		

MOVEMENTS OF OTHER AVAILABLE-FOR-SALE FINANCIAL ASSETS FROM 12/31/2014 TO 12/31/2015

	12/31/2014			
	NUMBER OF SHARES	CARRYING AMOUNT (€/THOUSAND)	% OF TOTAL EQUITY INV.	OF WHICH DIRECT
INVESTMENTS IN OTHER COMPANIES				
ITALIAN LISTED COMPANIES				
Mediobanca S.p.A. - Milan	15,753,367	106,650.3	1.8	1.8
RCS Mediagroup S.p.A. - Milan	23,135,668	21,620.3	4.4	4.4
Total other Italian listed companies		**128,270.6**		
Total other listed companies		**128,270.6**		
ITALIAN UNLISTED COMPANIES				
Aree Urbane S.r.l. (in liquidation) - Milan	1 quota	-	-	-
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	229,104,399	5,348.6	2.7	2.7
CEFRIEL - Società Consortile a Responsabilità limitata	1 quota	-	5.2	5.2
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	12,000	-	3.4	3.4
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	3,597.5	2.8	2.8
F.C. Internazionale Milano S.p.A. - Milan	55,805,625	558.1	0.5	0.5
Fin. Priv. S.r.l. - Milan	1 quota	14,473.3	14.3	14.3
Istituto Europeo di Oncologia S.r.l. - Milan	1 quota	5,381.8	6.1	6.1
Nomisma - Società di Studi Economici S.p.A. - Bologna	959.429	243.5	3.3	3.3
Redaelli Sidas S.p.A. (in liquidazione) - Milan	750,000	-	4.6	4.6
S.In.T S.p.A. - Torin	90,000	92.7	10.0	10.0
Consorzio Movincom scrl	1	6.0	5.8	5.8
Movincom Servizi S.p.A.	435,600	372.7	9.7	9.7
Tiglio I S.r.l. - Milan	1 quota	109.7	0.6	0.6
Total other Italian unlisted companies		**30,183.9**		
FOREIGN COMPANIES				
Libia				
Libyan-Italian Joint Company - ordinary shares B	300	31.5	1.0	1.0
Belgium				
Euroqube S.A. (in liquidation)	67,570	151.2	17.8	17.8
U.S.A.				
Gws Photonics Inc - Wilmington - private shares B	1,724,138	-	-	-
Gws Photonics Inc - Wilmington - private shares C	194,248	-	-	-
UK				
Eca International	100	-	2.8	2.8
Total other foreign companies		**182.7**		
OTHER PORTFOLIO SECURITIES				
Fondo Comune di Investimento Immobiliare - Anastasia - nr quote 53	53 quota	14,822.0	-	-
Total other portfolio securities		**14,822.0**		
TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS		**173,459.2**		

FAIR VALUE VALUATION AT 12/31/2015	OTHER CHANGES		12/31/2015			
	NUMBER OF SHARES	(€/THOUSAND)	NUMBER OF SHARES	CARRYING AMOUNT (€/THOUSAND)	% OF TOTAL EQUITY INV.	OF WHICH DIRECT
33,318.4	–	33,318.4	15,753,367	139,968.7	1.8	1.8
–	–	(7,264.6)	23,135,668	14,355.7	4.4	4.4
33,318.4		**26,053.8**		**154,324.4**		
33,318.4		**26,053.8**		**154,324.4**		
–	–	–	1 quota	–	–	–
–	–	–	30	–	0.1	0.1
–	678,914,731	(5,348.6)	908,019,130	–	1.5	1.5
–	–	–	1 quota	–	5.2	5.2
–	–	–	1 quota	–	14.3	14.3
–	–	–	12,000	–	3.4	3.4
–	–	–	1 quota	–	7.1	7.1
–	–	–	1,561,000	–	0.4	0.4
–	–	–	1,100	–	3.7	3.7
1,191.3	–	1,191.3	229,000	4,788.8	2.8	2.8
–	–	(265.2)	55,805,625	292.9	0.5	0.5
4,313.9	–	4,313.9	1 quota	18,787.2	14.3	14.3
372.0	–	372.0	1 quota	5,753.8	6.1	6.1
–	–	(83.2)	959,429	160.3	3.3	3.3
–	–	–	750,000	–	4.6	4.6
1.8	–	1.8	90,000	94.5	10.0	10.0
–	–	(2.8)	1	3.2	5.8	5.8
–	–	(237.6)	435,600	135.1	4.4	4.4
–		(2.3)	1 quota	107.4	0.6	0.6
5,879.0		**(60.7)**		**30,123.2**		
–	–	–	300	31.5	1.0	1.0
–	–	(46.7)	67,570	104.5	17.8	17.8
–	–	–	1,724,138	–	–	–
–	–	–	194,248	–	–	–
–	–	–	100	–	2.8	2.8
-		**(46.7)**		**136.0**		
(343.5)	–	(343.5)	53	14,478.5	–	–
(343.5)		**(343.5)**		**14,478.5**		
38,853.9		**25,602.9**		**199,062.1**		

INVENTORY AT 12/31/2015
LIST OF EQUITY 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)
EQUITY INVESTMENTS IN SUBSIDIARIES - ITALY						
Pirelli Servizi Amministrazioni e Tesoreria S.p.A.	Milan	3,238	100.0%	2,047	3,991	33
Maristel S.p.A.	Milan	1,315	100.0%	1,020	2,137	11
Pirelli Ambiente S.r.l.	Milan	2,878	100.0%	10	2,878	(17,135)
Pirelli Sistemi Informativi S.r.l.	Milan	1,655	100.0%	1,010	2,207	52
Pirelli Labs S.p.A.	Milan	4,079	100.0%	5,000	5,484	(77)
Pirelli Tyre S.p.A.	Milan	1,090,755	100.0%	756,820	1,292,960	264,218
Pirelli Consumer Italia S.r.l.	Milan	20	100.0%	10	16	(4)
Servizi Aziendali Pirelli S.c.p.a.	Milan	103	92.3%	104	276	18
HB Servizi Srl	Milan	0	100.0%	10	389	(1,582)
Total equity investments in subsidiaries - Italy		**1,104,043**				
EQUITY INVESTMENTS IN FOREIGN SUBSIDIARIES						
Switzerland						
Pirelli Group Reinsurance Company S.A.	Lugano	6,346	100.0%	7,383	14,024	4,089
Brasil						
Pirelli Ltda	Sao Paulo	9,666	100.0%	3,294	1,374	(3,880)
UK						
Pirelli UK ltd.	London	21,871	100.0%	250,000	283,822	17,663
Total equity investments in foreign subsidiaries		**37,883**				
Total equity investments in subsidiaries		**1,141,926**				
EQUITY INVESTMENTS IN ASSOCIATES - ITALY						
Consortium for the Reserach into Advanced Materials (CORIMAV)	Milan	104	100.0%	104	104	0
Eurostazioni S.p.A.	Rome	52,937	32.7%	165,233	*	*
Fenice S.r.l.	Milan	28,179	69.9%	23,345	*	*
Prelios S.p.A.	Milan	41,920	29.2%	426,432	*	*
GWM Renewable Energy II Spa	Rome	11,192	16.9%			
Total equity investments in associates - Italy		**134,332**				
Total equity investments in associates		**134,332**				

* Data not yet available

Jonathan Rea

2015 SBK World Champion

*“When thinking about motorcycling in the future,
I hope I leave my mark as someone who is remembered
for always giving 100% no matter the circumstances
and also for having fun when I ride the motorcycle.
For me that is the most important,
because when we strip it back I started competing
because it was fun and to this day
I always have a lot of fun when I race!„*

Pokras Lampas

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE GENERAL MEETING OF SHAREHOLDERS

Dear Shareholders,
The Board of Statutory Auditors must, in the terms of art. 2429 paragraph 2 of the Civil Code report to the general meeting on the results of the corporate financial year and the activity performed in meeting its duties and making comments and proposals concerning the financial statements and their approval.
During the course of the financial year the Board of Statutory Auditors performed its tasks of oversight in the terms foreseen under current regulations and taking into account standards of conduct recommended by the National Council of Qualified Accountants and Accounting Experts and the provisions of the Consob in the matter of corporate controls and the activities of the Board of Statutory Auditors.

* * *

The financial statements for the 2015 financial year show revenues amounting to euro 6,309.6 million , an operating income (loss) (Ebit) of euro 850.3 million with an Ebit margin attaining 13.7% of these revenues.
The aggregate consolidated loss, which includes residual amount of assets and liabilities held for sale (final tranche of Steelcord business) amounts to euro -383.5 million. This loss was mainly brought about by the deconsolidation of the Venezuelan company (euro -559.5 million).
It is here mentioned that as at the date of reference December 31, 2015, Pirelli has proceeded to deconsolidating the Venezuelan equity invested company (held 96.22%) and recognize the fair value of the investment (amounting to euro 18.9 million). The grounds for this deconsolidation have been the growing and permanent restrictions on converting foreign currency and the increasingly lower availability of USA dollars in the country which, in a manner that cannot be held to be temporary, do not permit payment of dividends, royalties and commercial payables to other companies of the Group. To this must be added further regulatory limitations (for example controls of sales margins and especially stringent labour legislation), which are not temporary either, and which in fact do not allow the Group to implement business decisions on the assets of the equity invested company nor govern its main activities. On the basis of this scenario the company has considered, in line with what has already been done by other multinationals, that conditions required for assuming accounting oversight on the company in the terms of IFRS 10 did not apply. The economic results of the Venezuelan company have been consolidated for the entire 2015 financial year. Deconsolidation of the equity invested Venezuelan company has led to detecting an adverse impact in the Income Statement for euro 559.5 million including deconsolidation of the net financial position of the company which as at December 31, 2015 was favourable for euro 277.7 million. A detailed analysis of the intention to proceed to deconsolidation was provided to the Board of Statutory Auditors in its meeting on March 10, 2016 held jointly with the Audit, Risks, Sustainability and Corporate Governance Committee.
Consolidated net financial position is negative for euro 1,199.1 million (979.6 at the end of 2014).
The parent company Pirelli & C. S.p.A. closed the financial year with a net loss of euro 1.7 million (net profit of euro 258 million in 2014) mainly due to impairments of deferred taxes plus for euro 103 million.

* * *

We here point out that the financial statements for Pirelli & C. S.p.A. have been drawn up on the basis of the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, applying as at December 31, 2015 With effect from February 26, 2016 it no longer has shares listed on the Milan Stock Exchange. In the consolidated financial statements as at December 31, 2015 the company declared that it will continue to prepare consolidated financial statements on the basis of IFRS accounting standards, on the basis of the option granted under art. 3 of Legislative Decree. 38/2005.
In the Directors' Report on Operations, the main risks and uncertainties are itemised and account is given of the foreseeable progress in management.
The financial statements for the Company are made up of a statement of financial position, an income statement, a statement of other comprehensive income, a statement of changes in equity, a statement of cash flows and explanatory notes.
The financial statements are accompanied by Directors' Report on Operations.

APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors in office as at the date of this report is made up thus:
- Dr. Francesco Fallacara (Chairman), appointed by the General meeting of shareholders on May 14, 2015
- Dr Fabio Artoni (statutory auditor), appointed by the General meeting of shareholders on May 14, 2015
- Dr. Fabrizio Acerbis (statutory auditor), appointed by the General meeting of shareholders on March 15, 2016
- Dr. Giovanni Bandera (statutory auditor) appointed by the general meeting of shareholders on March 15, 2016
- Dr. David Reali (statutory auditor) appointed by the General meeting of shareholders on March 15, 2016

Deputy auditors are Dr. Fabio Facchini and Dr. Giovanna Oddo.
The Board of Statutory Auditors expires from office by completion of mandate with the General Meeting of Shareholders called to approve the financial statements as at December 31, 2017
The Board of Statutory Auditors was, from January 1, 2015 up until May 14, 2015, made up of Francesco Fallacara, Chairman, Antonella Carù and Sebastiano Umile Iacovino, statutory auditors and from May 14, 2015 to March 15, 2016 by Francesco Fallacara, Chairman, Antonella Carù and Fabio Artoni, statutory auditors.

In the light of these circumstances, and considering the inspection activities performed by the oversight body in office during the course of the financial year 2015, it must be pointed out that all mention in this report of oversight and verification activities performed during the course of the financial year is to be understood as referring to the actions of the members pro tempore in office of auditing body.

SIGNIFICANT EVENTS

The significant events are detailed in the Directors' Report on Operations. In particular:

- On August 11, 2015 – following the acquisition by Marco Polo Industrial Holding S.p.A., a company controlled by CNRC and with an equity investment by Camfin, of 20.34% Pirelli & C. S.p.A. from Camfin S.p.A. and the signing of the Pirelli side agreement with subject matter, in addition to the quota acquired, also the 5.85% of the capital held indirectly by Camfn S.p.A. in Pirelli through Cam 2012 S.p.A. - Marco Polo Industrial Holding S.p.A. launched a mandatory POA on the entirety of ordinary shares of Pirelli at 15 euros per share and a voluntary POA on the entirety of savings shares at 15 euros per share.
- On November 6, 2015 ordinary shares were delisted
- On November 23, 2015 the Board of Directors of Pirelli convened an extraordinary general meeting to resolve on a mandatory conversion of savings shares into special category unlisted shares of new issue without voting rights, adoption of new articles of association and merger with the controlling company Marco Polo Industrial Holding S.p.A.
- On December 22, 2015 the Board of Directors of Pirelli & C. S.p.A. and Marco Polo Industrial Holding S.p.A. approved the project for merger through incorporation of Marco Holding Industrial Holding S.p.A. into Pirelli & C. S.p.A.

As also set out by directors in their report among significant events after the end of the financial year we would mention:
- On February 15, 2016 an extraordinary general meeting of partners of Pirelli & C. S.p.A.:
    - approved the project for merger by incorporation of the controlling company Marco Polo Industrial Holding S.p.A. into Pirelli & C. S.p.A. on the basis of 6.30 Pirelli shares to be assigned post-merger to Marco Polo Industrial Holding Italy S.p.A. (Holdco)

- sole partner in Marco Polo Industrial Holding S.p.A. - for each 1 share held prior to the merger by Marco Polo Industrial Holding S.p.A. (Holdco) in Marco Polo Industrial Holding S.p.A. It is foreseen that the merger can be concluded in the first half-year of 2016.
    - also approved the proposal for mandatory conversion of savings shares into special category unlisted shares of new issue and without voting rights. Following the mandatory conversion of savings shares into special category unlisted shares, the savings shares cease to be listed on regulated markets with effect from February 26, 2016
    - approved the proposal to adopt new articles of association.

- On March 15, 2016 the General meeting:
    - dealt with the appointment of the Board of Directors in the persons of Messrs. REN Jianxin, President, Marco Tronchetti Provera Executive Vice President and Chief Executive Officer, Carlo Acutis, Giorgio Luca Bruno, Andrey Kostin, Igor Sechin, YANG Xun, BAI Xinping, Ze'ev Goldberg, Emerson Milenski, WANG Dan, ZHANG Haitao, Gustavo Bracco, JIAO Chonggao, Luca Rovati e YANG Xingqiang, Directors; the new Board of Directors will expire as at the general meeting of shareholders convened to approve the financial statements as at December 31, 2018.
    - Consistently with new provisions of the articles of association, it resolved an increase to 5 in the number of regular members of the Board of Statutory Auditors appointing regular auditors Fabrizio Acerbis, Giovanni Bandera and David Reali - of which one by way of replacement for regular auditor Antonella Carù resigning from office with effect from the same date and did not deal - consistently with the new provisions of the articles of association - with replacement of the alternate auditor Andrea Lorezatti, who resigned with effect from the date 15/3/2016. The board will expire as at the general meeting convened to approve the financial statements as at December 31, 2017.

ATYPICAL AND UNUSUAL TRANSACTIONS

Significant transactions detected in the 2015 financial year are set out in detail in the Directors' Report on Operations. No atypical or unusual transactions were found to apply.

TRANSACTIONS INTRAGROUP OR WITH RELATED PARTIES

In the terms of art. 2391-bis of the Civil Code and Consob resolution no. 17221 dated March 12, 2010 bearing "Regulations in respect of transactions with related parties", subsequently modified by Consob resolution no. 17389 dated June 23, 2010, on November 3, 2010 the Board of Directors of Pirelli & C. S.p.A. subject to the favourable opinion by the Committee concerned made up only of independent directors (appointed for this in the terms of art. 4 of the Regulation mentioned by specific resolution of the Board of Directors) unanimously approved a "Procedure for transactions with related parties"
Following revoking of all shares from listing, the Board of Directors also revoked the foregoing procedure among others with effect from March 15, 2016.
We would point out that the Procedure adopted by the Company and followed in respect of transactions effected during the course of the 2015 financial year (i) is consistent with the standards contained in the Consob Regulations mentioned, (ii) was made public on the website of the Company (www.pirelli.com)
During the course of the 2015 financial year transactions with related parties both intragroup and third parties were carried out.
Intragroup transactions examined by us were found to be done in the ordinary course of business as being essentially made up of mutual administration, financial and organisational services. They were governed by applying normal conditions determined in accordance with standard parameters, and which reflect the actual enjoyment of the services, and were performed in the interests of the Company as they aimed to rationalise the use of Group resources.
Transactions with non-intragroup related parties examined by us were these too found to be of an ordinary kind (as falling into the ordinary carrying on of the operational business or financial business connecter therewith) and/or concluded at conditions equivalent to those of the market or standard, and meeting the interests of the Company. These transactions were notified to us periodically by the Company.
We took part in meetings of the Audit, Risks, Sustainability and Corporate Governance Committee (also meeting as Committee for Transactions with Related Parties) during which it expressed a favourable opinion in respect of a number of transactions with related parties of "lesser relevance" as the Committee assessed the interests of the Company in performing the transaction and the related conditions as being worthwhile and proper.

Transactions with Related Parties are indicated in the notes commenting upon the financial statements for the financial year and the consolidated financial statements of the Company wherein the consequent economic, assets and liabilities effects are set out.
We have had oversight on abidance by the Procedure concerning this adopted by the Company and the propriety of the process followed by the Board and Committee concerned in the matter of qualifying related parties and we have nothing to report.

IMPAIRMENT TEST PROCEDURE

We would report that following revoking of the listing the Board of Directors was no longer bound, as suggested in the joint document of the Bank of Italy/Consob/ISVAP dated March 3, 2010, to approve autonomously and beforehand in respect of the time of approval of the financial statements, that the prescriptions of international accounting standard IAS 36 were met concerning an impairment test, subject to prior sharing of this by the Audit, Risks, Sustainability and Corporate Governance Committee.
The impairment test procedures were conducted by the Company on the goodwill allocated to the Consumer and Industrial cash generating units and were submitted at the meeting to approve the financial statements in a manner preliminary as compared to the passing the resolution for approval of these, on March 15, 2016.
In the explanatory notes to the financial statements information and outcomes are shown in the terms of the assessment process followed with the aid of a highly qualified expert.

OVERSIGHT ACTIVITIES IN THE TERMS OF LEGISLATIVE DECREE 39/2010 “LEGAL AUDITING OF ACCOUNTS”

The Board of Statutory Auditors together with the Audit, Risks, Sustainability and Corporate Governance Committee had oversight in respect of:
- financial information process;
- effectiveness of the system of internal control, internal auditing and risk management
- legal auditing of annual accounts and consolidated accounts;
- independence of the firm of auditors, especially in respect of the provision of non-auditing services.

* * *

Activities of oversight of the financial briefing process

The Board of Statutory Auditors checked upon there being adequate rules and processes presiding over the process of “forming” and “disclosing” financial information and so expresses an assessment of adequacy in respect of the process of forming of the financial information and does not feel that there are queries for submission to the General meeting.

Oversight of activities on the effectiveness of internal control, internal auditing and risk managements systems and legal auditing of annual accounts and consolidated accounts

The Board of Statutory Auditors, together with the Audit, Risks, Sustainability and Corporate Governance Committee met with the Director of Internal Audit on a quarterly basis so being informed in connection with the results of the actions of auditing aimed at verifying the adequacy and operation of the System of Internal Control, abidance by the law, corporate procedures and processes and activity of implementing related plans for improvement. It also received the Audit Plan for the financial year and related actual figures as well as the Annual Risk Assessment and Annual Risk Management Plan.
Additionally, at half-yearly intervals it received from the Audit, Risks, Sustainability and Corporate Governance Committee and from the Oversight Body, their respective reports on activities performed.
The Board of Statutory Auditors also took due note of what was reported by the Chief Financial Officer who at the time of approving the the financial statements confirmed the adequacy and suitability of the powers and means granted to them by the Board of Directors of the Company, confirming too having had direct access to all the information necessary for producing accounting data, without any need for authorisation whatsoever; the Board of Statutory Auditors also took due note that the Chief Financial Officer reported having taken part in the internal flows of briefing for accounting purposes and having approved all the corporate proce-

dures bearing on the income statement and the statement of financial position of the Company.
The Board of Statutory Auditors hereby expresses an assessment of adequacy of the system of internal control, internal auditing and governance of risks overall, and there are no queries to be submitted to the General Meeting.
The Board of Statutory Auditors met the firm of auditors at least quarterly intervals and from these meetings no fundamental questions arising at the time of auditing came to light nor significant shortcomings in the system of internal control in respect of the process of financial briefing, also in the terms of what is laid down under art. 19, paragraph 3 of Legislative Decree 39/2010.

Activities of oversight in respect of the independence of the firm of auditors, especially in respect of matters concerning the provision of non-auditing services

The Board of Statutory Auditors had oversight in respect of the independence of the Firm of Auditors and in particular received period evidence of the appointments other than for auditing services to be attributed (or attributed on the basis of specific regulatory provisions) to the Legal Auditor of accounts.
In respect of the independence of the Firm of Auditors, a detailed procedure was issued at a Group level in this regard and which sets forth a prohibition in respect of all companies of the Pirelli Group of awarding appointments to companies belonging to the network of the Legal Auditor appointed without prior and expressed authorisation from the Chief Financial Officer, who, with the aid of the Internal Audit Director, has the task of verifying the fact that the appointment to be awarded does not fall among those not admitted under art. 17 of the Legislative Decree mentioned no. 39/2010 and that in any event, given its features, does not impact upon the independence of the auditor.
All appointments other than those of legal auditor of accounts or are mandatory in the terms of the law of and foresee an annual compensation in excess of 50 thousand euros are to be submitted to prior examination by the Board of Statutory Auditors of Pirelli & Company, save for grounded and specific reasons. the Internal Audit Director has provided the Board of Statutory Auditors with a listing on a quarterly basis of the non-auditing services awarded to the Auditor.
During the course of the 2105 financial year Reconta Ernst&Young S.p.A. performed activities summarised below for the benefit of the Group:

(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.	492		
	Reconta Ernst & Young S.p.A.	Subsidiaries	572		
	Network Ernst & Young	Subsidiaries	2,052	3,116	86.7%
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	480 (2)	480	13.3%
				3,596	**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.

The Board of Statutory Auditors deems that the considerations mentioned above are adequate to the size, complexity and characteristics of the works carried out and believes also that the appointments (and related compensation) other than auditing services are not such as to impact upon the independence of the Legal Auditor.
In this latter regard, it is here pointed out that the Audit, Risks, Sustainability and Corporate Governance Committee shared this assessment.

ORGANISATIONAL STRUCTURE

The Board of Statutory Auditors has assessed the organisational structure of Company as being adequate to its needs and suited to ensuring abidance by standards of proper administration.

COMPENSATION OF DIRECTORS AND DIRIGENTI WITH STRATEGIC RESPONSIBILITIES

During the course of the financial year the Board of Statutory Auditors expressed the opinion required under the law in respect of the compensations paid to directors awarded special appointments, expressing the opinion foreseen under article 2389 of the Civil Code.
The Board of Statutory Auditors detected the fact that the system of compensation applying foresees awarding compensation utilising a fixed element and an additional (variable) element tied to the economic results achieved, also in the long term at a Group level and related to achieving specific objectives set by the Board of Directors as proposed by the Remuneration Committee.
During the meeting on December 22, 2015, the Board of Directors, as proposed by the Remuneration Committee and subject to prior approval by the Board of Statutory Auditors, resolved early closing as at December 31, 2015 of the three-year cash incentive plan 2014/2016 (LTC 2014/2016).
At the subsequent meeting on March 15, 2016 following on from the foregoing resolution, the Board of Directors resolved approval of the MBO proposal for 2016 and the LTI proposal 2016/2018, a three-year incentive plan connected with attaining creation of positive value in the three-year period and two further distinct objectives.
This three-year incentive plan is directed towards all executives in general of the group and foresees settling the incentive at the end of the three-year term.

FURTHER ACTIVITIES OF THE BOARD OF STATUTORY AUDITORS

In exercising its functions, the Board of Statutory Auditors, as prescribed under article 149 of the Consolidation Act, oversaw:

- the observance of the law and memorandum of association;
- the abidance by principles of proper administrations;
- the adequacy of the structure of the Company in respect of matters of its concern;
- the manner of actual implementation of rules of corporate governance foreseen in codes of conduct to which the Company, through briefings to the public, has declared abiding by for the 2015 financial year;
- the adequacy of dispositions imparted to subsidiary companies in the terms of art. 114, paragraph 2, of Legislative Decree</1<1 58/1998, having duly noted that the Company is able to meet the obligations of disclosure foreseen under the law in a timely manner and on a regular basis as set forth under Legislative Decree mentioned no.. 58/1998. This also through the gathering of information from the persons responsible for the organisational functions and periodic meetings with the firm of auditors for the purposes of mutual exchanges of date and relevant information. In this regard, there are no special comments to make.

It is additionally pointed out that in the Directors' Report on Operations a paragraph has been included containing a description of the main features of the risk management and internal audit system applying in connection with the process of financial briefing, also for consolidation.

The Board of Statutory Auditors takes due note that:

- the Directors' Report on Operations has been found compliant with current rules, consistent with the resolutions of the administrative body and with findings of the financial statements and contains an adequate briefing on the activity of management and intragroup transactions. The section containing the briefing on transactions with related parties has been included in the explanatory notes to the financial statements to meet IFRS standards;
- having verified the rationale of the assessment proceedings applied and their compliance with international concepts and accounting standards with special reference to financial assets;
- that the financial statements for the financial year and the consolidated financial statements of the Company have been found to have been drawn up in accordance with the structure and outlines imposed by current regulations;

- that in the Boards of Directors of the main subsidiary companies directors and/or executives of the parent Company are present and who ensure coordinated management and a flow of information that is adequate, supported also by suitable accounting information .

We additionally report that the Board of Statutory Auditors:
- has obtained from Directors, on basis at least quarterly, also to abide by what is laid down in the specific procedure approved by the Board of Directors, information in respect of the activity carried on and transactions of greatest economic, financial and equity significance concluded by the Company. The Board of Statutory Auditors can reasonably ensure that the transactions resolved and concluded are complaint with the law and the Corporate Articles of Association and are not manifestly imprudent or reckless, or in conflict of interest, or contrary to resolutions passed by the General Meeting, or such as to compromise the integrity of corporate equity;
- has received from the Oversight Body set up in the terms of Legislative Decree dated 8 June 2001 no. 231 and in which, in a capacity as member, Auditor Prof. Antonella Carù (who – as already announced – was in office as acting auditor up until 15/03/2016 and is still in any event today a member of the oversight body) takes part, information concerning the outcomes of its activity of oversight from which it has been found that no anomalies or reasons for criticism have come to light.
- has held periodic meetings with representatives of the firm of auditors so as to be able to exchange, as prescribed under article 150, paragraph 3 of the Consolidation Act, data and relevant information with it for carrying out its tasks. In this context it is mentioned that no data or relevant information have come to light that require mention in this report;
- has obtained information of matching bodies of the main subsidiary companies concerning the systems of administration and control and general progress of corporate business (in the terms of paragraph 1 and 2 of art. 151 of Legislative Decree dated. 58/1998);
- has not received reports in respect of article 2408 of the Civil Code nor any mentions;
- has issued opinions during the course of the 2015 financial year in the terms of art. 2386 of the Civil Code and opinions in the terms of art. 2389 of the Civil Code.

In connection with the firm of auditors, the Board of Statutory Auditors reports that Reconta Enrnst&Young S.p.A.:
- on March 21, 2016 a report containing a judgment as to compliance by the financial statements for the financial year and consolidated financial statements with the regulatory discipline and accounting standards applicable, with a favourable judgement;
- the statements made by the Company concerning the fact that no appointments of parties tied to continuing relations with the firm of auditors itself apply.

***

Additionally, the Board of Statutory Auditors, in respect of corporate bodies, reports that:
- the Board of Directors in office – appointed on March 15, 2016 and expiring at the General Meeting called to approve the financial statements for the financial year closing on December 31, 2018 – is made up as at the date of its report of 16 Directors;
- the previous Board of Directors met 11 times during the course of 2015;
- the Audit, Risks, Sustainability and Corporate Governance Committee as at the Report date, met 12 times during the course of 2015;
- the Remuneration Committee met 4 times during the course of 2015
- Nominations and Successions Committee met once during the course of 2015;
- The Strategy Committee met 3 times during the course of 2015
- The Transactions with related Parties Committee met 3 times during 2015.

The Board of Statutory Auditors has at all times attended the meetings of the Board of Directors and Board Committees.
All the members of the Board of Statutory Auditors additionally attended the General Meeting of ordinary shareholders on May 14, 2015.

Finally, the Board takes due note:
- of having overseen the carrying out of the compliances tied to “Market Abuse” and Protection of savings” regulations in the matter of corporate briefing and “internal dealing”, referring especially to the treatment of privileged information and procedures for disclosing releases and information to the public;
- having verified, in accordance with what is recommended with the Code of Self-discipline of the Italian Stock Market, that its

members meet the requirements of independence required for directors under the aforesaid Code;
- having detected proper application of the criteria and procedures for ascertaining the requirements of indepenence adopted by the Board of Directors for assessing the independence of the its members annually and has no comments to make in this regard;
- having taken due note of the fact that the report by Directors attached to the financial statements of the Company, describes the main risks and uncertainties to which the Company is exposed;
- With reference to what is laid down under article 36 of the Market Regulations approved by Consob by resolution no. 16191/2007, having verified that the corporate organisation and procedures adopted allow Pirelli & C. to ascertain that the companies controlled and constituted by it and governed by the law of Sates that do not belong to the European Union and subject to abidance by Consob provisions, have an administrative-accounting system suited to having economic, equity and financial data necessary for drawing up the consolidated financial statements regularly reach management and the auditor of the Company. We would report that as at 31 December 2015, the extra EU Companies controlled directly or indirectly by Pirelli & C. and relevant for the purposes of article 36 of Market Regulations are: Pirelli Neumaticos S.A. de C.V. (Mexico), Pirelli Neumaticos S.A.I.C. (Argentina), Pirelli Pneus Ltda (Brasile), Pirelli Tire LLC (USA), Pirelli Tyre Co. Ltd (China), Turk Pirelli Lastikleri A.S. (Turkey), Limited Liability Company Pirelli Tyre Russia (Russia), Comercial e Importadora De Pneus LTDA (Brasile), Alexandria Tire Company S.A.E. (Egypt), TP industrial de Pneus Brasil Ltda.

During the course of oversight activities carried out and on the basis of the information obtained from the firm of auditors, no omissions, no acts subject to criticism, not irregularities or events in any way of a significance such as to require reporting or mention in this report were detected.
From the activities previously described and performed both in collegial and individual form, due note was taken in the minutes of the 6 meetings of the Board of Statutory Auditors held during the course of 2015.

PROPOSAL TO THE GENERAL MEETING

Financial statements as at December 31, 2015

The Board hereby expresses an opinion in favour of approving the Financial Statements as at December 31, 2015 and has no objections to raise concerning the motions for resolution submitted by the Board of Directors as to making good the loss.

Other matters proposed

Concerning the other matters submitted for your approval the Board does not have any comments to make.

Milan, March 21, 2016

Dr. Francesco Fallacara (Chairman)
Dr. Fabio Artoni
Dr. David Reali
Dr. Giovanni Bandera
Dr. Fabrizio Acerbis

05. RESOLUTIONS

PROPOSAL FOR APPROVAL OF THE FINANCIAL STATEMENTS AND ALLOCATION OF THE YEAR'S PROFIT

Dear Shareholders,

The year ended 31 December 2015 closed with a loss of Euro 1,701,751.
The Board of Directors proposes to cover the loss for the year through the partial use of the Reserve from retained earnings, which shall therefore decrease after said use to Euro 309,530,980.

"The Shareholders' Meeting,
- examined the financial statements at 31 December 2015;
- having acknowledged the Statutory Auditors' Report;
- having acknowledged the report of the Independent Auditors;

RESOLVED

a) to approve the Company's financial statements for the year ended 31 December 2015, as presented by the Board of Directors as a whole, in the individual entries and with the proposed provisions, showing a loss of Euro 1,701,751;

b) to cover the loss for the year through the partial use of the reserve from retained earnings, which shall therefore decrease after said use to Euro 309,530,980"

06. CERTIFICATIONS

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel: +39 02 722121
Fax: +39 02 72212037
ey.com

EY
Building a better working world

Independent auditor's report
in accordance with art. 14 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of

Pirelli & C. S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Pirelli & C. Group, which comprise the statement of financial position as at 31 December 2015, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The Directors of Pirelli & C. S.p.A. are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with art. 11, paragraph 3 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Reconta Ernst & Young S.p.A.
Sede Legale: 00198 Roma - Via Po, 32
Capitale Sociale € 1.402.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.IVA 00891231003
Iscritta all'Albo Revisori Contabili al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Pirelli & C. Group as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Opinion on the consistency with the consolidated financial statements of the Report on Operations

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion on the consistency of the Report on Operations with the consolidated financial statements, as required by the law. The Directors of Pirelli & C. S.p.A. are responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. In our opinion the Report on Operations is consistent with the consolidated financial statements of Pirelli & C. Group as at 31 December 2015.

Milan, 21 March 2016

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.

Building a better working world

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel: +39 02 722121
Fax: +39 02 72212037
ey.com

Independent auditor's report
in accordance with art. 14 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of

Pirelli & C. S.p.A.

Report on the financial statements

We have audited the accompanying financial statements of Pirelli & C. S.p.A., which comprise the statement of financial position as at 31 December 2015, and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors of Pirelli & C. S.p.A. are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with art. 11, paragraph 3 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Reconta Ernst & Young S.p.A.
Sede Legale: 00198 Roma - Via Po, 32
Capitale Sociale € 1.402.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.IVA 00891231003
Iscritta all'Albo Revisori Contabili al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n. 10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Pirelli & C. S.p.A. as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Opinion on the consistency with the financial statements of the Report on Operations

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion on the consistency of the Report on Operations with the financial statements, as required by the law. The Directors of Pirelli & C. S.p.A. are responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. In our opinion the Report on Operations is consistent with the financial statements of Pirelli & C. S.p.A. as at 31 December 2015.

Milan, 21 March 2016

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.

ASSURANCE STATEMENT

PIRELLI & C. S.p.A. 2015 INTEGRATED REPORT: ASSURANCE STATEMENT OF SUSTAINABILITY INDICATORS

SGS Italia S.p.A. (SGS) was commissioned to conduct an independent assurance of sustainability indicators disclosed in Pirelli & C. S.p.A. (Pirelli) 2015 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 2015 Integrated Report, with 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 2015 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 Principles and the reliability of information accounted according to AA1000 Assurance Standard 2008;
- 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 GRI-G4 set of indicators related to supply-chain processes and monitoring of environmental, social and governance impacts.
- compliance verification of greenhouse gases emissions (GHG[2]) 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.

[1] ESG: Environmental, Social, Governance
[2] GHG:Greenhouse Gas

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 2015 Integrated 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 2016 at Pirelli Head Quarters in Milan (Italy) and at sites of the Group in Breuberg (Germany) and Alexandria (Egypt), 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 2015 Integrated Report, which represents a significant summary of the activities carried out by Pirelli, are complete, reliable and accurate.

The Pirelli 2015 Integrated Report outlines how Pirelli business strategy, governance, performance and prospects of allow value creation in the short, medium and long term, as well as it represents an essential tool of communication with 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 2015 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. Therefore, SGS confirms the adherence of the Pirelli 2015 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 affirms the relevant compliance with the principles of AA1000 (Inclusivity, Materiality and Correspondence), confirming that they are complete, reliable and accurate..

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.
- It is confirmed that the governance of human rights, as developed by the Group, is strongly integrated into business strategy.
  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 an important component of Risk Governance.
- Several initiatives of suppliers engagement have been implemented with the aim to increase economic, environmental and social value. As a concrete example of the actions that have been carried out in accordance with the principles of the Group Ethical Code, Policy and Code of Conduct, the audit team especially appreciates the initiatives undertaken to sustain the local social development along its value chain also involving the second and third hand tyre suppliers

(partnership with a supplier of natural rubber in Indonesia with the aim of contributing to the welfare of small plantations).

- 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 of their suppliers. 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.
- On going the third party audits on suppliers on sustainability issues. It has also been introduced a preliminary verification on sustainability issues during the qualification process of new potential suppliers through third party audits with the aim to evaluate the level of compliance with the main national and international regulations applying in terms of labour, environment and business ethics.

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 greenhouse gas (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 2015 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, March 21, 2016

SGS Italia S.p.A.

Paola Santarelli
Certification and Business Enhancement
Consumer and Retail
Business Manager

Laura Ligi
Certification and Business Enhancement
Consumer and Retail
Project Leader

AA1000
Licensed Assurance Provider
000-8

SUMMARY TABLES GRI G4 + UNGC

KPI CATEGORY	KPI NUMBER	KPI DESCRIPTION	DETAILS AND PARAGRAPHS
Strategy and Analysis	G4-1	Statement about the relevance of sustainability to the organization and the organization's strategy to manage sustainability	Letter from Chairman; Letter from CEO; Presentation of 2015 Integrated Report; Materiality Analysis; Industrial Plan 2013-2017 with Sustainability Target for 2020
	G4-2	Description of key impacts, risks, and opportunities	Macroeconomic and Market Scenario; Risk Factors and Uncertainty; Group "Green Sourcing" Policy; CDP Supply Chain; The Pirelli Group Environmental Strategy
Company Profile	G4-3	Name of the organization	General Information
	G4-4	Primary brands, products, and services	Group Performance and Results
	G4-5	Headquarters location	General Information
	G4-6	Countries of operation	Presentation of 2015 Integrated Report; Basis of Presentation
	G4-7	Nature of ownership and legal form	Other Information; Information on Ownership Structures; General Information
	G4-8	Markets served	Automotive Markets; Our Customers
	G4-9	Scale of the organization	Group Performance and Results; Pirelli Employees around the World
	G4-10	Characteristics of the labour force	Pirelli Employees around the World; Diversity Management
	G4-11	Percentage of employees covered by collective bargaining agreements	Industrial Relations
	G4-12	Organization's supply chain	Our Suppliers
	G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, supply chain	Pirelli Employees around the World; Significant Events in 2015; Scope of Consolidation
	G4-14	Precautionary approach	Risk Factors and Uncertainty
	G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	Main Policies; Group "Green Sourcing" Policy; Conflict Minerals; The Pirelli Group Environmental Strategy; Human Rights Governance; Compliance with Statutory and Contractual Obligations; Principal International Commitments for Sustainability
	G4-16	Membership of associations or organizations	Principal International Commitments for Sustainability

KPI CATEGORY	KPI NUMBER	KPI DESCRIPTION	DETAILS AND PARAGRAPHS
Identification of Material Aspects and Boundaries	G4-17	Entities included in the consolidated financial statements	Scope of Reporting; Scope of Consolidation
	G4-18	Report content and Aspect Boundaries	Presentation of 2015 Integrated Report; Scope of Reporting; Scope of Consolidation
	G4-19	Material Aspects identified in the process for defining report content	Materiality Analysis; Industrial Plan 2013-2017 with Sustainability Target for 2020
	G4-20	Material Aspects Boundaries within the organization	Materiality Analysis; Industrial Plan 2013-2017 with Sustainability Target for 2020
	G4-21	Material Aspects Boundaries outside the organization	Materiality Analysis; Industrial Plan 2013-2017 with Sustainability Target for 2020; Materiality of ESG Impacts along the Supply Chain; Human Rights Governance
	G4-22	Restatements of information provided in previous Reports	Scope of Reporting; Scope of Consolidation
	G4-23	Significant changes in the Scope and Aspect Boundaries from previous Reports	Scope of Reporting; Scope of Consolidation
Stakeholder engagement	G4-24	List of stakeholder groups engaged	Stakeholder Engagement; Materiality Analysis
	G4-25	Identification and selection of stakeholders with whom to engage	Stakeholder Engagement; Materiality Analysis
	G4-26	Organization's approach to stakeholder engagement	Stakeholder Engagement; Materiality Analysis; Reporting Procedure – Whistleblowing; Financial Community; Listening and Exchanging Ideas as Sources for Continuous Improvement; Our Suppliers; Listening: Group Opinion Survey; Safety Culture; Institutional Relations of the Pirelli Group
	G4-27	Key topics and concerns raised through stakeholder engagement	Stakeholder Engagement; Materiality Analysis; Reporting Procedure – Whistleblowing; Financial Community; Listening and Exchanging Ideas as Sources for Continuous Improvement; Our Suppliers; Listening: Group Opinion Survey; Safety Culture; Institutional Relations of the Pirelli Group
Report Profile	G4-28	Reporting period	From January 1st, 2015 to December 31st, 2015
	G4-29	Date of most recent previous report	April 30th, 2014
	G4-30	Reporting cycle	Annual
	G4-31	Contact point for information regarding the Report or its content	To submit comments and ask for clarifications or further details, please refer to the Contacts published in the Sustainability section of the Pirelli website
	G4-32	GRI Content Index	Sustainable Assurance Statement; Summary tables GRI G4 - UNGC
	G4-33	External Assurance	Sustainable Assurance Statement; Summary tables GRI G4 - UNGC
Governance	G4-34	Governance structure	Sustainable Governance Model; Role of the Board of Directors
	G4-35	Delegating authority for economic, environmental and social topics	Sustainable Governance Model
	G4-36	Positions with responsibility for economic, environmental and social topics	Sustainable Governance Model
	G4-37	Consultation between stakeholders and the highest governance bodies on economic, environmental and social topics	Stakeholder Engagement
	G4-38	Composition of highest governance bodies and its committees	A detailed description of the highest governance bodies and its committees can be found on www.pirelli.com/corporate, pages Governance/Board of Directors and Governance/Archive/2016/Board of Directors/Board Committees

KPI CATEGORY	KPI NUMBER	KPI DESCRIPTION	DETAILS AND PARAGRAPHS
Governance	G4-39	Executive powers of the Chairman	Role of the Board of Directors
	G4-40	Qualification and expertise of Directors	The Curriculum Vitae of the Chairman and of the CEO can be found on www.pirelli.com/corporate, page Governance/Board of Directors
	G4-41	Processes to avoid conflicts of interest	See the Procedures for Related Party Transaction on www.pirelli.com/corporate, page Governance/Archive/2016
	G4-42	Highest governance bodies and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	Sustainable Governance Model
	G4-43	Measures taken to develop and enhance the highest governance bodies' collective knowledge of economic, environmental and social topics	Risk Factors and Uncertainty
	G4-44	Evaluation of the Board of Directors' performance	For more information on the Board Performance Evaluation please go to www.pirelli.com/corporate, pages Governance/Archive/2016/Board of Directors/Composition of the Board of Directors
	G4-45	Highest governance bodies' role in the identification and management of economic, environmental and social impacts, risks, and opportunities	Risk Factors and Uncertainty; Sustainable Governance Model
	G4-46	Highest governance bodies' role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics.	Risk Factors and Uncertainty; Sustainable Governance Model
	G4-47	Frequency of the highest governance bodies' review of economic, environmental and social impacts, risks, and opportunities	Risk Factors and Uncertainty; Sustainable Governance Model
	G4-48	Highest committee or position that formally reviews and approves the organization's sustainability report	Sustainable Governance Model
	G4-49	Communicating critical concerns to the highest governance bodies	Sustainable Governance Model
	G4-50	Critical concerns that were communicated to the highest governance bodies and the mechanism(s) used to address and resolve them	Sustainable Governance Model
	G4-51	Remuneration policies for highest governance bodies and senior executives	Remuneration and Sustainability
	G4-52	Determining remuneration	Remuneration and Sustainability
	G4-53	How stakeholders' views are sought and taken into account regarding remuneration	Remuneration and Sustainability; Stakeholder Engagement; Significant Events in 2015
	G4-54	Ratio of the annual compensations within the organization	The information is omitted as in some countries it is subject to specific confidentiality obligations
	G4-55	Ratio of percentage increase in annual compensation within the organization	The information is omitted as in some countries it is subject to specific confidentiality obligations

KPI CATEGORY	KPI NUMBER	KPI DESCRIPTION	DETAILS AND PARAGRAPHS
Ethics and Integrity	G4-56	Organization's values, principles, standards and norms of behavior	Sustainable Governance Model; Transparency in Communication to the Customer; Conflict Minerals; Group "Green Sourcing" Policy; Human Rights Governance; Diversity Management; Compliance with Statutory and Contractual Obligations; Occupational Health, Safety and Hygiene; Institutional Relations of the Pirelli Group
	G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity	Reporting Procedure – Whistleblowing;
	G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity	Reporting Procedure – Whistleblowing;
Material Aspect: Economic Performance	G4-DMA	Generic Disclosures on Management Approach	Sharing of Added Value
	G4-EC1	Direct economic value generated and distributed	Sharing of Added Value
	G4-EC2	Financial implications, risks and opportunities for the organization's activities due to climate change	Operational Risk; Risks in Social, Environmental, Business Ethics Responsibility and Third-Party Audit; CDP Supply Chain; The Pirelli Group Environmental Strategy
	G4-EC3	Coverage of the organization's defined benefit plan obligations	Occupational retirement and health-care plans; Employee benefit Obligations; Personnel Expenses
	G4-EC4	Financial assistance received from government	Loans and Contributions Received from the Public Administration
Material Aspect: Market Presence	G4-DMA	Generic Disclosures on Management Approach	Diversity Management
	G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage	Diversity Management
	G4-EC6	Proportion of senior management hired from the local community	Diversity Management
Material Aspect: Indirect Economic Impacts	G4-DMA	Generic Disclosures on Management Approach	Sharing of Added Value; Company Initiatives for the External Community
	G4-EC7	Development and impact of infrastructure investments and services supported	Sharing of Added Value; Company Initiatives for the External Community
	G4-EC8	Significant indirect economic impacts	Sharing of Added Value; Company Initiatives for the External Community
Material Aspect: Procurement Practices	G4-DMA	Generic Disclosures on Management Approach	Our Supplier; Trend of Purchases
	G4-EC9	Proportion of spending on local suppliers	Our Supplier; Trend of Purchases
Material Aspect: Materials	G4-DMA	Generic Disclosures on Management Approach	Macroeconomic and Market Scenario (Raw Materials); The Pirelli Group Environmental Strategy; Research and Development of Raw Materials
	G4-EN1	Materials used	Research and Development of Raw Materials
	G4-EN2	Recycled input materials	Trend of Purchases
Material Aspect: Energy	G4-DMA	Generic Disclosures on Management Approach	The Pirelli Group Environmental Strategy; Energy Management
	G4-EN3	Energy consumption within the organization	Energy Management
	G4-EN4	Energy consumption outside of the organization	The Pirelli Group Environmental Strategy; Energy Management
	G4-EN5	Energy intensity	Energy Management
	G4-EN6	Reduction of energy consumption	Energy Management
	G4-EN7	Reductions in energy requirements of products and services	Product and Use Phase: Green Performance Targets; Energy Management

KPI CATEGORY	KPI NUMBER	KPI DESCRIPTION	DETAILS AND PARAGRAPHS
Material Aspect: Water	G4-DMA	Generic Disclosures on Management Approach	The Pirelli Group Environmental Strategy; Water Management; Other Environmental Aspects
	G4-EN8	Water withdrawal	Water Management
	G4-EN9	Water sources significantly affected by withdrawal	Water Management
	G4-EN10	Water recycled and reused	Water Management
Material Aspect: Biodiversity	G4-DMA	Generic Disclosures on Management Approach	Biodiversity
	G4-EN11	Operational sites in, or adjacent to, protected areas and areas of high biodiversity value	Biodiversity
	G4-EN12	Description of significant impacts of on biodiversity	Biodiversity
	G4-EN13	Habitats protected or restored	Biodiversity
	G4-EN14	List of species with habitats in areas affected by operations, by level of extinction risk	Biodiversity
Material Aspect: Emissions	G4-DMA	Generic Disclosures on Management Approach	Management of Greenhouse Gas Emissions and Carbon Action Plan
	G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	Management of Greenhouse Gas Emissions and Carbon Action Plan
	G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	Management of Greenhouse Gas Emissions and Carbon Action Plan
	G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	CDP Supply Chain; The Pirelli Group Environmental Strategy
	G4-EN18	Greenhouse gas (GHG) emissions intensity	Management of Greenhouse Gas Emissions and Carbon Action Plan
	G4-EN19	Reduction of greenhouse gas (GHG) emissions	Management of Greenhouse Gas Emissions and Carbon Action Plan
	G4-EN20	Emissions of ozone-depleting substances (ODS)	Other Emissions and Environmental Aspects
	G4-EN21	NOX, SOX, and other significant air emissions	Solvents; NOx Emissions; Other Emissions and Environmental Aspects
Material Aspect: Effluents and Waste	G4-DMA	Generic Disclosures on Management Approach	Waste Management; Water Management
	G4-EN22	Water discharge	Water Management
	G4-EN23	Waste disposal	Waste Management
	G4-EN24	Significant spills	Other Emissions and Environmental Aspects
	G4-EN25	Hazardous waste	Waste Management
	G4-EN26	Biodiversity and habitats affected by the organization's discharges	Water Management
Material Aspect: Products and Services	G4-DMA	Generic Disclosures on Management Approach	Operational Risk; The Pirelli Group Environmental Strategy; Product and Use Phase: Green Performance Targets
	G4-EN27	Mitigation of environmental impacts of products and services	Product and Use Phase: Green Performance Targets
	G4-EN28	Products sold and their packaging materials that are reclaimed	Other Emissions and Environmental Aspects; Management of End-of-Life Tyres
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	Other Emissions and Environmental Aspects
Material Aspect: Transport	G4-DMA	Generic Disclosures on Management Approach	The Pirelli Group Environmental Strategy
	G4-EN30	Environmental impacts of transport	The Pirelli Group Environmental Strategy

KPI CATEGORY	KPI NUMBER	KPI DESCRIPTION	DETAILS AND PARAGRAPHS
Material Aspect: Overall	G4-EN31	Environmental protection expenditures and investments	Expenses and Investments
Material Aspect: Supplier Environmental Assessment	G4-DMA	Generic Disclosures on Management Approach	Reputational and Social-Environmental Responsibility Risks; Our Suppliers
	G4-EN32	Suppliers screened using environmental criteria	The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases
	G4-EN33	Actual and potential negative environmental impacts in the supply chain and actions taken	Reputational and Social-Environmental Responsibility Risks; The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; CDP Supply Chain
Material Aspect: Environmental Grievance Mechanisms	G4-DMA	Generic Disclosures on Management Approach	The Pirelli Group Environmental Strategy
	G4-EN34	Grievances about environmental impacts filed, addressed, and resolved	Other Emissions and Environmental Aspects
Category: Social Sub-category: Labor Practices and Decent Work Material Aspect: Employment	G4-DMA	Generic Disclosures on Management Approach	Pirelli Employees around the World
Material Aspect: Employment	G4-LA1	Number and rates of new employee hires and employee turnover	Pirelli Employees around the World
	G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Welfare Initiatives for the Internal Community
	G4-LA3	Return to work and retention rates after parental leave	Diversity Management
Material Aspect: Labor/ Management relations	G4-LA4	Minimum notice periods regarding operational changes	Industrial Relations
Material Aspect: Occupational Health and Safety	G4-DMA	Generic Disclosures on Management Approach	Industrial Relations; Occupational Health, Safety and Hygiene - Management Model and System
	G4-LA5	Workforce represented in health and safety committees	Industrial Relations
	G4-LA6	Injuries, occupational diseases, lost days, absenteeism and total number of work-related fatalities	Health, Safety and Hygiene - Monitoring of Performance, Performance
	G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	Health, Safety and Hygiene - Performance
	G4-LA8	Health and safety topics covered in formal agreements with trade unions	Industrial Relations
Material Aspect: Training and Education	G4-DMA	Generic Disclosures on Management Approach	Development; Training
	G4-LA9	Training per employee	Training; Pirelli Training Performance
	G4-LA10	Programs for skills management and lifelong learning of employees	Development: Performance Management; Talent Review; Training
	G4-LA11	Employees receiving regular performance and career development reviews	Development: Performance Management
Material Aspect: Diversity and Equal Opportunities	G4-DMA	Generic Disclosures on Management Approach	Diversity Management
	G4-LA12	Composition of governance bodies and breakdown of employees per indicators of diversity	Pirelli Employees around the World; Diversity Management

KPI CATEGORY	KPI NUMBER	KPI DESCRIPTION	DETAILS AND PARAGRAPHS
Material Aspect: Diversity and Equal Remuneration for women and men	G4-DMA	Generic Disclosures on Management Approach	Diversity Management
	G4-LA13	Ratio of basic salary and remuneration of women to men	Diversity Management
Material Aspect: Supplier Assessment for Labor Practices	G4-DMA	Generic Disclosures on Management Approach	Reputational and Social-Environmental Responsibility Risks; Our Suppliers
	G4-LA14	Suppliers screened using labor practices criteria	The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality of ESG Impacts along the Supply Chain; Conflict Minerals
	G4-LA15	Actual and potential negative impacts for labor practices in the supply chain and actions taken	The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality of ESG Impacts along the Supply Chain; Conflict Minerals
Material Aspect: Labor Practices and Grievance Mechanisms	G4-DMA	Generic Disclosures on Management Approach	Reporting Procedure – Whistleblowing; Listening: Group Opinion Survey
	G4-LA16	Grievances about labor practices filed, addressed, and resolved	Reporting Procedure – Whistleblowing; Listening: Group Opinion Survey
Sub-category: Human Rights Material Aspect: Investment	G4-DMA	Generic Disclosures on Management Approach	63-71; 92-93
	G4-HR1	Investment agreements and contracts that include human rights clauses or that underwent human rights screening	The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality Analysis; Training of Suppliers on Sustainability
	G4-HR2	Employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations	Human Rights Governance; Focus: Training on Sustainability
Material Aspect: Non-Discrimination	G4-DMA	Generic Disclosures on Management Approach	Diversity Management
	G4-HR3	Incidents of discrimination and corrective actions taken	Diversity Management; Reporting Procedure – Whistleblowing
Material Aspect: Freedom of Association and Collective Bargaining	G4-DMA	Generic Disclosures on Management Approach	Human Rights Governance; Industrial Relations
	G4-HR4	Risks to the right to exercise freedom of association and collective bargaining	Reputational and Social-Environmental Responsibility Risks; Human Rights Governance; Industrial Relations; Compliance with Statutory and Contractual Obligations
Material Aspect: Child Labor	G4-DMA	Generic Disclosures on Management Approach	Supply Chain Sustainable Management System; The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality of ESG Impacts along the Supply Chain; Training of Suppliers on Sustainability; Human Rights Governance; Compliance with Statutory and Contractual Obligations
	G4-HR5	Operations identified as having significant risk for incidents of child labor	Supply Chain Sustainable Management System; The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality of ESG Impacts along the Supply Chain; Training of Suppliers on Sustainability; Human Rights Governance; Compliance with Statutory and Contractual Obligations

KPI CATEGORY	KPI NUMBER	KPI DESCRIPTION	DETAILS AND PARAGRAPHS
Material Aspect: Forced or Compulsory Labor	G4-DMA	Generic Disclosures on Management Approach	Supply Chain Sustainable Management System; The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality of ESG Impacts along the Supply Chain; Training of Suppliers on Sustainability; Human Rights Governance; Compliance with Statutory and Contractual Obligations
	G4-HR6	Operations identified as having significant risk for incidents of forced or compulsory labor	Supply Chain Sustainable Management System; The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality of ESG Impacts along the Supply Chain; Training of Suppliers on Sustainability; Human Rights Governance; Compliance with Statutory and Contractual Obligations
Material Aspect: Security Practices	G4-DMA	Generic Disclosures on Management Approach	Supply Chain Sustainable Management System; The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality of ESG Impacts along the Supply Chain; Training of Suppliers on Sustainability; Human Rights Governance; Compliance with Statutory and Contractual Obligations
	G4-HR7	Security personnel trained on human rights policies	Supply Chain Sustainable Management System; The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality of ESG Impacts along the Supply Chain; Training of Suppliers on Sustainability; Human Rights Governance; Compliance with Statutory and Contractual Obligations
Material Aspect: Indigenous Rights	G4-DMA	Generic Disclosures on Management Approach	Reporting Procedure – Whistleblowing
	G4-HR8	Violations of the rights of indigenous peoples	Reporting Procedure – Whistleblowing
Material Aspect: Supplier Human Rights Assessment	G4-DMA	Generic Disclosures on Management Approach	Supply Chain Sustainable Management System; The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality of ESG Impacts along the Supply Chain; Training of Suppliers on Sustainability; Conflict Minerals; Human Rights Governance; Compliance with Statutory and Contractual Obligations
	G4-HR9	Operations subject to human rights reviews or impact assessments	Supply Chain Sustainable Management System; The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality of ESG Impacts along the Supply Chain; Training of Suppliers on Sustainability; Conflict Minerals; Human Rights Governance; Compliance with Statutory and Contractual Obligations
	G4-DMA	Generic Disclosures on Management Approach	Risks in Social, Environmental, Business Ethics Responsibility and Third Party Audit; The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Conflict Minerals; Human Rights Governance
	G4-HR10	Suppliers screened using human rights criteria	Risks in Social, Environmental, Business Ethics Responsibility and Third Party Audit;The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality of ESG Impacts along the Supply Chain; Conflict Minerals; Training of Suppliers on Sustainability; Human Rights Governance
	G4-HR11	Actual and potential negative human rights impacts in the supply chain and actions taken	The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality of ESG Impacts along the Supply Chain; Conflict Minerals; Training of Suppliers on Sustainability; Human Rights Governance
Material Aspect: Human Rights Grievance Mechanisms	G4-DMA	Generic Disclosures on Management Approach	Reporting Procedure – Whistleblowing
	G4-HR12	Grievances about human rights impacts filed, addressed, and resolved	Reporting Procedure – Whistleblowing

KPI CATEGORY	KPI NUMBER	KPI DESCRIPTION	DETAILS AND PARAGRAPHS
Sub-Category: Society Material Aspect: Local Communities	G4-DMA	Generic Disclosures on Management Approach	Stakeholder Engagement; Biodiversity; Company Initiatives for the External Community
Sub-Category: Society Material Aspect: Local Communities	G4-SO1	Operations with implemented local community engagement, impact assessments, and development programs	Stakeholder Engagement; Biodiversity; Company Initiatives for the External Community
Sub-Category: Society Material Aspect: Local Communities	G4-SO2	Operations with significant actual and potential negative impacts on local communities	Stakeholder Engagement; Biodiversity; Company Initiatives for the External Community
Material Aspect: Anti-Corruption	G4-DMA	Generic Disclosures on Management Approach	"Premium Integrity" Program
Material Aspect: Anti-Corruption	G4-SO3	Operations asessed for risks related to corruption	Risks in Social, Environmental, Business Ethics Responsibility and Third Party Audit; "Premium Integrity" Program
Material Aspect: Anti-Corruption	G4-SO4	Communication and training on anti-corruption policies and procedures	Main Policies; "Premium Integrity" Program; The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality of ESG Impacts along the Supply Chain; Training of Suppliers on Sustainability;
Material Aspect: Anti-Corruption	G4-SO5	Confirmed incidents of corruption and actions taken	Reporting Procedure – Whistleblowing
Material Aspect: Public Policy	G4-DMA	Generic Disclosures on Management Approach	Sharing of Added Value; "Premium Integrity" Program; Company Initiatives for the External Community
Material Aspect: Public Policy	G4-SO6	Value of political contributions	Sharing of Added Value; "Premium Integrity" Program; Company Initiatives for the External Community
Material Aspect: Anti-Competitive Behavior	G4-DMA	Generic Disclosures on Management Approach	Main Policies; "Premium Integrity" Program
Material Aspect: Anti-Competitive Behavior	G4-SO7	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	Consolidated Financial Statements - Commitments and Contingencies; Parent Financial Statements - Commitments and Contingencies
Material Aspect: Compliance	G4-DMA	Generic Disclosures on Management Approach	Our Customers - Compliance
Material Aspect: Compliance	G4-SO8	Fines and sanctions for non-compliance with laws and regulations	Our Customers - Compliance
Material Aspect: Supplier Assessment for Impacts on Society	G4-DMA	Generic Disclosures on Management Approach	Risks in Social, Environmental, Business Ethics Responsibility and Third Party Audit; Supply Chain Sustainable Management System; The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality of ESG Impacts along the Supply Chain
Material Aspect: Supplier Assessment for Impacts on Society	G4-SO9	Suppliers screened using criteria for impacts on society	The ESG Elements Analysed during Suppliers Assessment, Selection, Qualification and Audit Phases; Materiality of ESG Impacts along the Supply Chain
Material Aspect: Supplier Assessment for Impacts on Society	G4-SO10	Actual and potential negative impacts on society in the supply chain and actions taken	Risks in Social, Environmental, Business Ethics Responsibility and Third Party Audit; Materiality of ESG Impacts along the Supply Chain
Material Aspect: Grievance Mechanisms for Impacts on Society	G4-DMA	Generic Disclosures on Management Approach	Reporting Procedure – Whistleblowing
Material Aspect: Grievance Mechanisms for Impacts on Society	G4-SO11	Grievances about impacts on society filed, addressed, and resolved	Reporting Procedure – Whistleblowing
Sub-Category: Product Responsibility Material Aspect: Customer Health and Safety	G4-DMA	Generic Disclosures on Management Approach	Quality and Product Certification; Focus on Human Health and the Environment; Product Safety, Performance and Eco-Sustainability
Sub-Category: Product Responsibility Material Aspect: Customer Health and Safety	G4-PR1	Product and service categories for which health and safety impacts are assessed for improvement	Quality and Product Certification; Focus on Human Health and the Environment; Product Safety, Performance and Eco-Sustainability
Sub-Category: Product Responsibility Material Aspect: Customer Health and Safety	G4-PR2	Incidents of non-compliance with regulations concerning the health and safety impacts of products and services during their life cycle	Our Customers - Compliance

KPI CATEGORY	KPI NUMBER	KPI DESCRIPTION	DETAILS AND PARAGRAPHS
Material Aspect: Product and Service Labeling	G4-DMA	Generic Disclosures on Management Approach	Customer Information and Training
	G4-PR3	Product and service information	Customer Information and Training; Listening and Exchanging Ideas as Sources for Continuous Improvement
	G4-PR4	Incidents of non-compliance with regulations concerning product and service information and labeling	Our Customers - Compliance
	G4-PR5	Results of surveys measuring customer satisfaction	Listening and Exchanging Ideas as Sources for Continuous Improvement
Material Aspect: Marketing Communications	G4-DMA	Generic Disclosures on Management Approach	Transparency in Communication to the Customer
	G4-PR6	Sale of banned or disputed products	Our Customers - Compliance
	G4-PR7	Incidents of non-compliance with regulations concerning marketing communications	Our Customers - Compliance
	G4-DMA	Generic Disclosures on Management Approach	Transparency in Communication to the Customer
	G4-PR8	Substantiated complaints regarding breaches of customer privacy and losses of customer data	Our Customers - Compliance
	G4-DMA	Generic Disclosures on Management Approach	Transparency in Communication to the Customer
	G4-PR9	Fines for non-compliance with laws and regulations concerning the provision and use of products and services	Our Customers - Compliance

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	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

Concept & Design:
Le Balene / Cacao Design - Milan

Calligraphy:
Pokras Lampas

Printing: **Stampatore**

WWW.PIRELLI.COM/IR

FSC
www.fsc.org
MISTO
Carta
da fonti gestite in
maniera responsabile
FSC® C008309

Printed on: **Fedrigoni paper** Ispira / Arco Design / GSK and **ArjoWiggins** Curious Matter

In line with Pirelli's Green Sourcing Policy, the planning phase or this report included an analysis of the environmental impact of the materials used with the help of the supplier chosen, which has been certified by way of an environmental management system. Thanks to this approach, in order to carry out this project, we have used FSC-certified paper, vegetable-based inks, and water-based paints. The final packages is made out of recyclable cardboard and polypropylene.