



## **Pirelli & C. S.p.A.**

Registered Office at Viale Piero e Alberto Pirelli, 25 – Milan – Italy  
Share capital €1,904,374,935.66  
Milan–Monza–Brianza–Lodi Companies Registers No. 00860340157  
Economic & Administrative Index No. 1055

## **Information Document**

drafted in accordance with Art. 5 of the Related-Party Transactions Procedure approved by Consob in Decision No. 17221 of 12 March 2010 (as subsequently amended) and Art. 18 of the Related-Party Transactions Procedure last adopted by the Board of Directors of 06 November 2017 in order to illustrate amendments to some of the terms and conditions of licence agreements with Prometeon Tyre Group and Aeolus.

This information document is available to the public at the registered offices of Pirelli & C. S.p.A. in Milan, Viale Piero e Alberto Pirelli, 25 and can also be consulted at Borsa Italiana S.p.A., at the authorised storage mechanism website eMarket Storage ([www.emarketstorage.com](http://www.emarketstorage.com)) and on the Company website [www.pirelli.com](http://www.pirelli.com).

**20 FEBRUARY 2019**

## TABLE OF CONTENTS

<b>GLOSSARY .....</b>	<b>3</b>
<b>PREAMBLE .....</b>	<b>6</b>
<b>1. NOTICES .....</b>	<b>8</b>
1.1 RISKS RELATED TO POTENTIAL CONFLICTS OF INTEREST ARISING FROM THE TRANSACTIONS.....	8
<b>2. INFORMATION ON THE TRANSACTIONS .....</b>	<b>9</b>
2.1 DESCRIPTION OF THE CHARACTERISTICS, METHOD, TERMS AND CONDITIONS OF THE TRANSACTIONS. ....	9
2.2. INDICATIONS OF THE RELATED PARTIES WITH WHICH THE TRANSACTIONS HAVE BEEN MADE, THE NATURE OF THE RELATIONSHIP AND THE NATURE AND SCOPE OF THE INTEREST OF THESE PARTIES IN THE TRANSACTIONS.....	15
2.3 INDICATION OF THE ECONOMIC RATIONALE AND SUITABILITY OF THE TRANSACTIONS FOR THE ISSUER.....	15
2.4 METHOD TO DETERMINE THE PAYMENT FOR THE TRANSACTIONS AND ASSESSMENT OF ITS CONSISTENCY COMPARED TO MARKET VALUES FOR SIMILAR TRANSACTIONS .....	18
2.5 ILLUSTRATION OF THE ECONOMIC, ASSET AND FINANCIAL EFFECTS OF THE TRANSACTIONS AND APPLICABLE SIGNIFICANCE INDEX.....	20
2.6. COMPENSATION AMOUNTS OF THE MEMBERS OF THE BOARD OF THE COMPANY AND/OR ITS SUBSIDIARIES EXPECTED TO VARY AS A RESULT OF THE TRANSACTIONS AND DETAILED INDICATIONS OF THESE VARIATIONS.....	26
2.7 INFORMATION ON FINANCIAL INSTRUMENTS HELD BY THE MEMBERS OF THE GOVERNING AND CONTROL BODIES, GENERAL MANAGERS AND EXECUTIVES INVOLVED IN THE TRANSACTIONS IN THE COMPANY AND ITS PARTY AND INTERESTS IN THE TRANSACTIONS.....	26
2.8. INDICATION OF THE BODIES OR DIRECTORS CONDUCTING OR PARTICIPATING IN THE NEGOTIATIONS AND/OR QUALIFYING AND/OR APPROVING THE TRANSACTIONS. ..	27
2.9. INDICATION OF THE SIGNIFICANCE OF THE OPERATIONS FOR THE PURPOSES OF CUMULATION IN ACCORDANCE WITH ARTICLE 5, PARAGRAPH 2, OF MULTIPLE TRANSACTIONS COMPLETED DURING THE FINANCIAL YEAR WITH THE SAME RELATED PARTY OR ENTITIES RELATED THERETO OR TO THE COMPANY.....	28

## APPENDICES:

[OMISSIS]

## GLOSSARY

**PTG Licences Amendment Agreements:** means both the PTG Brand Licence Amendment Agreement and the PTG Technology Licence Amendment Agreement.

**Aeolus Licence Amendment Agreement:** means the “*First Amendment to patent and know-how license and technical assistance agreement*” signed on 31 January 2019 by Pirelli Tyre and Aeolus, including amendments to some of the terms and conditions of the Aeolus Licence Agreement, as set out in further detail in §2.1.1.2.

**PTG Trademark Licence Amendment Agreement:** means the “*First Amendment to Trademark License Agreement*” signed on 20 February 2019 by Pirelli Tyre and PTG, including amendments to some of the terms and conditions of the PTG Trademark Licence Agreement, as set out in further detail in §2.1.2.3.

**PTG Technology Licence Amendment Agreement:** means the “*First Amendment to Process to Product Integrated Know-How and Patent Licence and Technical Assistance Agreement*” signed on 20 February 2019 by Pirelli Tyre and PTG, including amendments to some of the terms and conditions of the PTG Technology Licence Agreement, as set out in further detail in §2.1.2.4.

**Aeolus:** means Aeolus Tyre Co., Ltd., a Chinese company with registered offices at 48 South Jiaodong Road, Jiaozuo, Henan (People’s Republic of China).

**ChemChina:** means China National Chemical Corporation, a Chinese company with registered offices in Beijing (People’s Republic of China), 62 West Beisihuan Road, Haidian District.

**Board of Statutory Auditors:** means the Board of Statutory Auditors of the Issuer.

**RPT Committee:** means the Related-Parties Transactions Committee of the Issuer.

**Board of Directors:** means the Board of Directors of the Issuer.

**Consob:** means the Italian Companies and Stock Exchange Commission.

**Technical Support Agreement:** means the agreement between Pirelli Tyre and PTG concerning PTG’s commitments to Pirelli Tyre with reference to the performance of the technical support services due to Aeolus by PTG under the separate agreement between PTG and Aeolus, as set out in further detail in §2.1.1.3.

**Aeolus Licence Agreement:** means the “*Patent and Know-How Licence and Technical Assistance Agreement*” signed on 28 June 2016 by Pirelli Tyre and Aeolus, concerning the licensing of patents and *know-how* granted to Aeolus by Pirelli for the manufacturing and marketing of Industrial Tyres, as set out in further detail in §2.1.1.1.

**Amended Aeolus Licence Agreement:** means the Aeolus Licence Agreement as amended in accordance with the Aeolus Licence Amendment Agreement.

**PTG Trademark Licence Agreement:** means the “*Trademark Licence Agreement*” with effect from 01 January 2017 between Pirelli Tyre and Pirelli Industrial S.r.l. (now PTG) concerning the trademark licence granted to PTG by Pirelli Tyre for the

manufacturing and marketing of Industrial Tyres, as set out in further detail in §2.1.2.1.

**Amended PTG Trademark Licence Agreement:** means the PTG Trademark Licence Agreement as amended in accordance with the PTG Trademark Licence Amendment Agreement.

**PTG Technology Licence Agreement:** means the “*Process to Product Integrated Know-How and Patent Licence and Technical Assistance Agreement*” with effect from 01 January 2016 between Pirelli Tyre and Pirelli Industrial S.r.l. (now PTG) concerning the licensing of patents and *know-how* granted to PTG by Pirelli for the manufacturing and marketing of Industrial Tyres, as set out in further detail in §2.1.2.2.

**Amended PTG Technology Licence Agreement:** means the PTG Technology Licence Agreement as amended in accordance with the PTG Technology Licence Amendment Agreement.

**Industrial Licence Agreement:** means jointly the Aeolus Licence Agreement, the PTG Trademark Licence Agreement and the PTG Technology Licence Agreement.

**PTG Licence Agreements:** means both the PTG Trademark Licence Agreement and the PTG Technology Licence Agreement.

**Amended PTG Licence Agreements:** means both the Amended PTG Trademark Licence Agreement and the Amended PTG Technology Licence Agreement.

**CNRC:** means China National Tyre & Rubber Co. Ltd., a Chinese company with registered offices in Beijing (People's Republic of China), 62 West Beisihuan Road, Haidian District.

**Information Document:** means this information document.

**Registration Document:** means the Registration document lodged with Consob by the Issuer on 15 September 2017.

**Issuer:** means Pirelli.

**Expert:** means EY Advisory S.p.A., with registered offices in Milan, Via Meravigli, 12, Italian Tax Code, VAT No. and Milan–Monza–Brianza–Lodi Companies Registers No. 13221390159

**Merger:** means the planned merger between PTG and some of the *industrial assets* of CNRC with Aeolus as set out in further detail in the Preamble to the Information Document.

**Aeolus Transaction:** means the rewording of some of the terms and conditions of the Aeolus Licence Agreement by the signing of the Aeolus Licence Amendment Agreement and the Technical Support Agreement, as set out in further detail in the Preamble to the Information Document.

**PTG Transaction:** means the rewording of some of the terms and conditions (a) of the PTG Trademark Licence Agreement by the signing of the PTG Trademark Licence Amendment Agreement; and (b) of the PTG Technology Licence

Agreement by the signing of the PTG Technology Licence Amendment Agreement, as set out in further detail in the Preamble to the Information Document.

**Transactions:** means both the Aeolus Transaction and the PTG Transaction.

**Pirelli:** means Pirelli & C. S.p.A., with registered offices in Milan, Viale Piero e Alberto Pirelli, 25, Italian Tax Code, VAT No. and Milan–Monza–Brienza-Lodi Companies Registers No. 00860340157.

**Pirelli Tyre:** means Pirelli Tyre S.p.A., a company wholly-owned and subject to the management and co-ordination of Pirelli, with registered offices in Milan, Viale Piero e Alberto Pirelli, 25, Italian Tax Code, VAT No. and Milan–Monza–Brienza-Lodi Companies Registers No. 07211330159.

**Industrial Tyres:** means tyres for heavy-duty vehicles for industrial, agricultural and passenger transport uses.

**RPT Procedure:** means the related-parties transactions procedure last adopted by the Issuer in accordance with the Consob RPT Regulations by the resolution of the Board of Directors on 06 November 2017.

**PTG:** means Prometeon Tyre Group S.r.l., a company with registered offices in Milan, Viale Sarca, 222, 20126, Italian Tax Code, VAT No. and Milan–Monza–Brienza-Lodi Companies Registers No. 09271680960.

**Consob RPT Regulations:** means the Regulations adopted by Consob in Decision No. 17221 of 12 March 2010, as subsequently amended.

**Net Revenues:** means the net revenues derived from the sales of Industrial products which are significant for the purposes of determining the variable part of the *royalties* to be paid to Pirelli Tyre, in accordance with, as applicable and according to the case, the Industrial Licence Agreements, the Aeolus Licence Amendment Agreement and the PTG Licences Amendment Agreements.

**Company:** means the Issuer.

**TPIH:** means TP Industrial Holding S.p.A. with registered offices in Milan, Viale Sarca, 222, Italian Tax Code, VAT No. and Milan–Monza–Brienza-Lodi Companies Registers No. 13442420157.

## PREAMBLE

This Information Document has been provided by Pirelli to illustrate (in accordance with the provisions of Art. 18 of the RPT Procedure, Art. 5, paragraph 2 of the Consob RPT Regulations and Appendix 4 thereto):

- (i) a transaction concerning: (a) the rewording of some of the terms and conditions of the Aeolus Licence Agreement by the signing by Pirelli Tyre and Aeolus on 31 January 2019 of the Aeolus Licence Amendment Agreement; and (b) the assumption of reciprocal commitments between Pirelli Tyre and PTG concerning the technical support to be provided by PTG to Aeolus by the signing on 31 January 2019 of the Technical Support Agreement between Pirelli Tyre and PTG (the “**Aeolus Transaction**”); and
- (ii) a transaction concerning the rewording of some of the terms and conditions: (a) of the PTG Trademark Licence Agreement, entered into between Pirelli Tyre and PTG on 20 February 2019 by the signing of the PTG Trademark Licence Amendment Agreement; and (b) the PTG Technology Licence Agreement, entered into by the same parties on the same date, 20 February 2019, by the signing of the PTG Technology Licence Amendment Agreement (the “**PTG Transaction**” and, jointly with the Aeolus Transaction, the “**Transactions**”).

It should be noted that, as set out in further detail in the Registration Document, the Industrial Licence Agreements were entered into: (i) following the extraordinary demerger transaction from Pirelli of the manufacturing and marketing in Italy and/or overseas of Industrial Tyres implemented by the transfer from Pirelli Tyre of the relevant going concern of business to Pirelli Industrial S.r.l., now PTG, and prior to the subsequent reorganisation of the PTG ownership interest;<sup>1</sup> and (ii) in view of a planned merger between PTG and some of the industrial assets of CNRC into Aeolus, originally planned by 2017 and as yet not completed, after which PTG would have become a company of Aeolus group (the “**Merger**”).

The following aspects are also included:

- (i) Effects of the Transactions: as indicated below (see *under* §2.5.3), the effects of the Transactions on consolidated revenues and EBIT of the Issuer have a non-significant effect. As regards the 2018 and 2019 financial years, the effects of the Transactions are already included in the consolidated preliminary results and forecast data disclosed to the market on 14 February 2019;
- (ii) Lack and reduction of exclusivity constraints: (a) the PTG Trademark Licence Agreement and the PTG Technology Licence Agreement subject to rewording do not provide for any exclusive rights in favour of the licensee PTG (see

---

<sup>1</sup> As of today, the share capital of PTG is held in a proportion of 52% by TPIH (of which, in turn, 65% of the shares are held by Marco Polo International Italy S.r.l.), 38% by High Grade (HK) Investment Management Limited and 10% by Aeolus itself.

*under* §2.1.2.1 and §2.1.2.2); (b) in the period of the reformulation of the *royalties* from the Amended Aeolus Technology Licence Agreement, Pirelli could license the same technology to third-party subjects other than operators with registered offices and business located in China;<sup>2</sup>

- (iii) Withdrawal in the event of significant changes in the ownership and management of the licensee: Pirelli Tyre reserves the right to withdraw from the Industrial Licence Agreements as reworded in the event that a competitor of Pirelli comes to hold shares of at least 20% in the licensee or participates in the management thereof (see *under* §2.1.1.1, 2.1.2.1, 2.1.2.2).

The Transactions are not strategic for the business of the Pirelli group, as they concern trademarks and technology related to the *Industrial* business, where, as a result of the industrial reorganisation and enhancement operation of 2015-2017, they were separated from the Pirelli group that now focuses on the *Consumer* sector. The Aeolus Transaction and the PTG Transactions are separate transactions that can be individually qualified as transactions with related parties of minor significance made by a subsidiary of Pirelli (Pirelli Tyre) with related subjects (Aeolus and PTG).

Although these are independent and separate Transactions, for the purposes of the publication of the Information Document, the Transactions are prudently considered cumulatively, as they were executed during the 2019 financial year with subjects with a significant relationship between them and with the Company, and due to some profiles relating to the scope thereof and the context of their completion, which could be considered for the purposes of detecting a relationship of uniformity or significant unitary design in accordance with Art. 5, paragraph 2 of the Consob RPT Regulations.

As set out in further detail in §2.5.4 below, the Transactions, considered cumulatively, do not exceed the applicable Significance Threshold, given that the aggregate value of both Transactions does not exceed the threshold of 5% of the stock exchange value of Pirelli as at the close of business on 28 September 2018<sup>3</sup>.

The total value of the Transactions falls below the significance threshold, which will become applicable on the publication date of the Annual Report as at 31 December 2018 (due to the fact that, based on these data, the threshold of 5% of the stock exchange value of Pirelli must be taken from the different date of 28 December 2018).

In any case, due to the need for maximum transparency with regard to the market, the Company has prudently decided to publish this Information Document voluntarily.

As regards the 2018 and 2019 financial years, the effects of the Transactions are

---

<sup>2</sup> In the event of a licence to third parties, Aeolus will be entitled to benefit from the same conditions, where these are more favourable for the licensee (see *under* §2.1.1.2)

<sup>3</sup> This date constitutes the last open market day included in the reference period of the most recently published periodic accounting document (the Interim Management Report as at 30 September 2018).

already included in the consolidated preliminary results and forecast data disclosed to the market on 14 February 2019. The Aeolus Transaction and the PTG Transaction received a favourable opinion from the RPT Committee on 28 January 2019 and 11 February 2019 respectively.

For the purposes of assessing the economic suitability of the Transactions and the substantive correctness of the conditions thereof, the RPT Committee used the services of an independent Expert (EY Advisory S.p.A.).

The Transactions were illustrated and, to the extent necessary, also approved by the Pirelli Board of Directors on 14 February 2019.

## **1. NOTICES**

### **1.1 Risks related to potential conflicts of interest arising from the Transactions.**

The Transactions are related-party transactions inasmuch as they were entered into with Aeolus and PTG, companies subject to the same control as the Issuer (see *under §2.2*).

The Issuer considers that the Transactions do not present specific risks due to the existing relationship with the parties or potential conflicts of interest other than those typical to related-party transactions. The typical risks of related-party transactions have been avoided by applying the current legislative and regulatory framework and the RPT Procedure, taking into account that:

- both Transactions have been examined, assessed and approved according to a procedure for related-party transactions carried on in accordance with the provisions of the RPT Regulations and the Consob RPT Regulations;
- at the end of that procedure, with reference to each of the Transactions, the RPT Committee, consisting only of independent Directors, unanimously expressed, with all its members present – therefore with no abstentions or votes to the contrary – a favourable opinion on the Issuer’s interest in the completion of each of the Transactions and on the suitability and substantive correctness of the conditions thereof (see Appendices 1 and 2);
- for the purposes of these opinions, the RPT Committee used assessments by the Expert (jointly appointed by the RPT Committee and by the Board of Statutory Auditors), which issued separate fairness opinions attesting to the appropriateness of each of the Transactions for the profile of economic suitability and the substantive correctness of the conditions thereof (see Appendices 3 and 4).

For the sake of completeness, it should be noted that the Transactions present risks (regardless of the existing relations with the parties) that are typical of similar transactions relating to existing contractual relations regarding the transfer of licences for trademarks and technology for industrial business in comparable sectors. These risks include, for example: (i) market risk (related to future variations in demand for Industrial Tyres); (ii) the party risk (related to the non-fulfilment of the



contractual obligations and non-payment of royalties by Aeolus or PTG); (iii) the operational risk (related to any indirect damage that Pirelli could suffer as a result of the inappropriate or opportunistic use by Aeolus or PTG of the trademark and technology subject to the licence); (iv) the risk of future renegotiations based on market performance and Aeolus or PTG results.

As set out in further detail below (see under §§2.3 and 2.4) and in the Expert's assessments, the Transactions entail a significant reduction in the party, operational and renegotiation risks referred to above, based on a balanced framework of reciprocal concessions and advantages in line with conditions that could be agreed upon at arm's length under current market conditions, thus allowing Pirelli to increase the current value of the expected benefits from the Industrial Licence Agreements, and, in conclusion, to maximise the value of the technology and trademarks licensed under the current market conditions.

## **2. INFORMATION ON THE TRANSACTIONS**

### **2.1 Description of the characteristics, method, terms and conditions of the transactions.**

#### **2.1.1 Aeolus Transaction**

##### **2.1.1.1 The Aeolus Licence Agreement prior to renegotiation**

It should be noted that, with the Aeolus Licence Agreement (as set out in the Registration Document), Pirelli Tyre licensed to Aeolus (with the right to sub-license to other Aeolus group companies) the right to exploit patents, templates, applications and know-how for the purposes of the development, manufacturing and marketing of Industrial Tyres. In that agreement, Aeolus and Pirelli Tyre agreed, *inter alia*, to the following terms and conditions:

- a duration of the licence until 2030, with automatic renewal for further periods of two years, unless terminated by either Party;
- a commitment by Aeolus to pay to Pirelli Tyre as royalties (in the absence of a Merger): (i) in 2018, an amount equal to the higher of €15 million or 2% of Net Revenues, up to a maximum amount of €20 million; (2) for each year after 2019 (included), an amount equal to the higher of €17 million or 2% of Net Revenues, up to a maximum amount of €22 million;
- a commitment by Aeolus and Pirelli Tyre to meet on a five-yearly basis (by 31 January 2021 and by 31 January 2026), to discuss in good faith the possibility of renegotiating the percentage amount of the variable royalties for the subsequent five years on the basis of certain pre-selected performance indicators (subject to the setting of minimum amounts);
- a commitment by Pirelli Tyre (where it and Aeolus both remain subject to the control of CNRC) not to grant to third parties similar licences for the same commercial purposes, thus permitting the establishment of *competitors* with Aeolus with reference to the technology subject to the licence;

- a commitment by Pirelli Tyre to provide, upon request from Aeolus, technical support, training and consultancy services to Aeolus in relation to the licensed technology, to be provided by qualified staff to be identified on a case-by-case basis, with a minimum of 20 and a maximum of 30 persons per year (full-time equivalent) in the first five years of the licence;
- Pirelli Tyre's right to withdraw from the Aeolus Technology Licence Agreement should a competitor of Pirelli come to hold shares of at least 20% in Aeolus or participates in the management thereof.

#### 2.1.1.2 The Aeolus Licence Amendment Agreement

On 31 January 2019, as part of the Aeolus Transaction, Pirelli Tyre and Aeolus signed the Aeolus Licence Amendment Agreement, introducing *inter alia* the following amendments:

- Pirelli Tyre waiving the non-paid amounts accrued by Aeolus as interest in 2017 and 2018, estimated at approximately €1 million and royalties in 2018 of approximately €9 million;
- the renegotiation of the annual royalties in the period 2019-2023 (included) which are now being reformulated as the higher of a minimum amount of €7 million and 1% of the Net Revenues up to a maximum amount (unchanged) of €22 million (without prejudice to, as of 2024 included, the original royalties equal to the higher of a minimum of €17 million and 2% of the Net Revenues, up to a maximum amount of €22 million will apply again);
- the express acknowledgement of the exclusion from the Net Revenues of the sales of (a) Busanbao products, or (b) products sold by Aeolus to PTG or its group companies in accordance with the off-take agreements between Aeolus or TP Trading Co. Ltd, as well as (given that the (a) and (b) products do not use the licences) (c) products sold with a gross margin lower than 2% up to a total maximum amount of Net Revenues of €100 million;
- the amendment of the structure of technical support to Aeolus, with a net saving in support costs in favour of Pirelli Tyre estimated at €3.8 million for each year of the licence, for a total amount equal to €45.6 million for the entire licence period (to 2030). In particular, it is foreseen that (a) the technical support previously provided by Pirelli (for an amount estimated at €6.3 million per year) is henceforth provided directly by PTG on the basis of a separate agreement between Aeolus and PTG, under which the payment for the technical support work will be paid to PTG by Aeolus, except for technical support up to a maximum of €2.5 million, which will be reimbursed to PTG by Pirelli Tyre; (b) the technical support will be identified and monitored by a committee consisting of four representatives (of which CNRC, Pirelli Tyre, PTG and Aeolus may each appoint one representative), which will decide unanimously (and therefore with the deciding vote of Pirelli Tyre);<sup>4</sup>

---

<sup>4</sup> in this respect, Pirelli Tyre will do its best (best endeavour) to supervise the technical assistance projects, without prejudice to, where Aeolus makes claims of non-fulfilment against PTG, an agreed termination procedure between the Parties, to be resolved by a unanimous decision of the Committee, in the absence of which Aeolus may make their own claims against PTG and where the latter does not fulfil these, it will have the right to appeal as a last

- in the event that PTG terminates the separate agreement with Aeolus for the change of control of PTG, the option for Pirelli Tyre to enter into an assistance agreement with Aeolus under similar terms and conditions to those set out in the separate agreement made between the latter and PTG, or to identify a qualified third party to negotiate with Aeolus a technical assistance relationship under similar terms and conditions;
- the yearly issue by leading Chinese banks of independent first-demand guarantees in favour of Pirelli Tyre of an amount sufficient to guarantee the minimal annual amount of the royalties due to Pirelli Tyre from Aeolus;
- a reduction in the exclusivity obligations of Pirelli Tyre until 31 December 2023, under which, in that period, Pirelli Tyre may enter into agreements providing for the transfer of similar licences in terms of the subject and commercial purposes, except to subjects with registered offices and business in China and without prejudice to, in the event that Pirelli Tyre intends to enter into a licence agreement with third parties other than those indicated above, Aeolus being entitled to benefit from the same terms and conditions, where these prove more favourable to the licensee than those of the Amended Aeolus Licence Agreement;
- the express exclusion of any novative or terminatory effect whatsoever of the original Aeolus Licence Agreement.

#### 2.1.1.3 The Technical Support Agreement

On 31 January 2019, in line with the Aeolus Licence Amendment Agreement, Pirelli Tyre and PTG also signed the related Technical Support Agreement, with the same duration as the Amended Aeolus Licence Agreement, providing for, *inter alia*:

- a commitment by PTG to Pirelli Tyre to provide technical assistance to Aeolus in accordance with the Amended Aeolus Licence Agreement;
- a commitment by Pirelli Tyre and PTG to negotiate in good faith the terms and conditions of any technical support requested of Pirelli Tyre by PTG where necessary to enable PTG to provide technical support services to Aeolus;
- due to the ending of Pirelli Tyre's obligation to provide technical support to Aeolus, which will be provided by PTG, a commitment by Pirelli Tyre to pay (instead of Aeolus) to PTG a total maximum amount of €2.5 million for each year of the licence, without prejudice to Pirelli Tyre's right not to pay any amount in the event that PTG does not fulfil its obligations to Aeolus;
- Pirelli Tyre's right to pay the amounts due to PTG in accordance with the Technical Support Agreement with the value of any technical support provided to PTG by Pirelli Tyre;
- Pirelli Tyre's right to be indemnified and held harmless against any prejudice, damages costs or expenses incurred thereby arising from PTG's failure to fulfil the obligations of technical assistance to Aeolus that it has assumed.

#### 2.1.2 **PTG Transaction**

---

resort to Pirelli Tyre, without prejudice to the maximum liability for claims made in each year of the licence of an amount that may not exceed the value of the project approved by the Committee to which the said claims refer; Pirelli Tyre will, in turn, be entitled to indemnification against PTG in accordance with the provisions of the Technical Support Agreement (see under §2.1.1.3)

#### 2.1.2.1 The PTG Trademark Licence Agreement prior to renegotiation

It should be noted that, with the PTG Trademark Licence Agreement (as set out in the Registration Document), Pirelli Tyre exclusively licensed to PTG (with the right to sub-license to other PTG group companies) the non-transferable right to exploit a set of trademarks owned by Pirelli Tyre for the purposes of the development, manufacture and marketing of Industrial Tyres. In that agreement, Pirelli Tyre and PTG provided that, *inter alia*:

- a duration of the licence until 30 December 2026, with automatic renewal for further periods of one year, unless terminated by either Party;
- the payment to Pirelli Tyre by PTG (a) in 2017 and 2018 of annual royalties of a minimum of €15 million and 2% of Net Revenues, whichever is greater; (b) from 2019 (included) and for each subsequent year of the licence, annual royalties of a minimum of €21 million and 2% of Net Revenues, whichever is greater;
- Pirelli Tyre's right to withdraw from the PTG Trademark Licence Agreement should a competitor of Pirelli come to hold shares of at least 20% in PTG: or participates in the management thereof.

#### 2.1.2.2 The PTG Technology Licence Agreement prior to renegotiation

In addition, it should be noted that, with the PTG Trademark Licence Agreement (as set out exclusive in the Registration Document), Pirelli Tyre also non-exclusively licensed to PTG (with the right to sub-license to other PTG group companies) the non-transferable right to exploit patents, templates, applications and know-how related to products and integrated processes, for the purposes of the development, manufacture and marketing of Industrial Tyres under terms and conditions which, *inter alia*, state:

- a duration of the licence until 31 December 2030, with automatic renewal for further periods of five years, unless terminated by PTG;
- the payment to Pirelli Tyre by PTG of annual *royalties* (a) in 2018, of a minimum of €10 million and 1 % of Net Revenues, whichever is greater; (b) from 2019 (included) and for each subsequent year of the licence, of a minimum of €21 million and 2% of Net Revenues, whichever is greater;
- a commitment by Pirelli Tyre to provide to PTG (and to its group companies), upon request from PTG and until 31 December 2020, technical support and services, training and consultancy related to the licensed technology, through qualified staff indicated by Pirelli up to a maximum of 30 persons per year (full-time equivalent), without prejudice to the Parties' right to occasionally agree on the provision by Pirelli Tyre to PTG of technical support in addition to that included within the aforementioned limit, for the payment by PTG of an amount determined on the basis of market conditions;
- Pirelli Tyre's right to withdraw from the PTG Technology Licence Agreement should a competitor of Pirelli come to hold shares of at least 20% in PTG or participates in the management thereof.

#### 2.1.2.3 The PTG Trademark Licence Amendment Agreement

On 20 February 2019, as part of the PTG Transaction, Pirelli Tyre and PTG signed the PTG Trademark Licence Amendment Agreement, with inter alia the following amendments to the PTG Trademark Licence Agreement:

- the extension of the duration of the licence, now deferred to 31 December 2030 (instead of 31 December 2026), with the resulting addition of four years of the licence compared to the original duration, without prejudice to automatic renewal for further periods of one year, unless terminated by either Party;
- the gradual reduction of the minimum annual royalties to be paid to Pirelli Tyre in the period 2019-2026 (included), redetermined as follows: (i) €16 million in 2019; (ii) €15 million in 2020; (iii) €14 million in 2021; €13 million in 2022; (iv) €12 million in each year from 2023 to 2026 (included);
- the reduction of the variable annual royalties in the period 2019-2030 (included), redetermined as the total amount from the sum of: (i) an annual amount of 2% of Net Revenues from the marketing of "Pirelli"-branded products; (ii) an annual amount of 1% of Net Revenues from the marketing of "Formula"-branded products up to a total annual amount of Net Revenues of €120 million (with the understanding that, above that threshold of Net Revenues, variable royalties of 2% of Net Revenues will continue to apply); (c) an annual amount of 0.5% of Net Revenues from the marketing of products with other brands (including "Pharos", "Vantage" and others) up to a total amount of Net Revenue in the same year of reference of €80 million per year (with the understanding that, above that threshold of Net Revenues, variable annual royalties of 2% of Net Revenues will continue to apply);
- the forecast of annual royalties for the extension period of the licence in the years 2027-2030 (included, determined as the higher of (i) a minimum of €12 million and (ii) a variable amount to be calculated by applying the same percentages to the Net Revenues as set by the determination of the variable *royalties* in the period 2019-2026 (as set out in the previous section), without prejudice to the variable annual amount of royalties to be paid to Pirelli Tyre during that period not exceeding a total maximum amount of €22 million and, where the calculation of such variable annual royalties actually exceeds €22 million, the Parties must negotiate in good faith a review of the maximum threshold;
- the express acknowledgement that revenue from the sales of products by PTG (and its group companies) to Pirelli (and its group companies) is excluded from the Net Revenues up to a total annual amount of (i) €120 million in the period 2019-2021 and (ii) €160 million from 2022 (included);
- where PTG (or its group companies) sell to Pirelli (or its group companies) products with the trademarks subject to licensing, a commitment by PTG to guarantee to Pirelli (or its group companies) the lower price and the more favourable market conditions practised by PTG (or its group companies) to third parties in the sales of products marketed by the same distribution network in the same country;
- Pirelli Tyre's right to pay any amount it is due to pay (or due from its group companies) with any unpaid amounts due from PTG as royalties;

- the express exclusion of any novative or terminatory effect whatsoever of the original PTG Trademark Licence Agreement.

#### 2.1.2.4 The PTG Technology Licence Amendment Agreement

Also as part of the PTG Transaction, on 20 February 2019, PTG and Pirelli Tyre also entered into the PTG Technology Licence Amendment Agreement, introducing inter alia the following amendments:

- the reduction of the annual royalties in the period 2019-2023 (included), now redetermined as the higher of (i) a minimum of €10 million and (i) a variable amount of 1% of Net Revenues, provided that the amount of Net Revenues does not exceed €1.3 billion, with the understanding that, above that threshold of Net Revenues, the variable royalties will continue to be 2% of Net Revenues;
- the acknowledgement that, from 2024 (included), the annual royalties originally agreed in the PTG Technology Licence Agreement as a minimum of €21 million and 2% of Net Revenues, whichever is greater, will apply again;
- the express acknowledgement that revenues from sales of the following products are to be excluded from Net Revenues: (a) products with “*x-ply*” technology and “*inner tubes, flaps, forklifts tyres*”, as these are manufactured with no application of the patents and know-how subject to licensing; and (b) products with no “Pirelli” branding, for sales up to a total maximum annual amount of €200 million;
- a commitment by the Parties to meet prior to 30 June 2026 to negotiate in good faith any adjustment to the variable part of the royalties for the period after 2024, taking into account market developments and the actual performance and margins of PTG;
- a reduction and renegotiation of the technical support commitments falling to Pirelli Tyre, providing for: (i) a reduction in the type of support (a) for the conduct of laboratory tests and Industrial product tests to be conducted at Pirelli Tyre laboratories and plants in Italy; (b) the completion of the regulatory, certification and registration tasks for the products; and (c) an extension of the period of technical support falling to Pirelli Tyre until 31 December 2023 (instead of the original end date of 31 December 2020);
- the reduction of the maximum limits of the technical support commitments falling to Pirelli Tyre in the relevant period to within the following maximum limits of persons per year (full-time equivalent): (i) 22 persons in 2019; (ii) 17 persons in 2020; (iii) 6 persons in 2021; (iv) 2 persons in 2022; (v) 1 person in 2023;<sup>5</sup>
- Pirelli Tyre’s right to pay any amount it is due to pay (or due from its group companies) with any unpaid royalties due from PTG;

---

<sup>5</sup> Pirelli Tyre and PTG will be able to enter into agreements for any technical support from Pirelli Tyre to PTG in addition to that provided for in the Amended PTG Technology Licence Agreement up to a maximum total amount of €2 million, with the payment by PTG of an amount to be calculated on the basis of the rates charged by Pirelli Tyre (which will not be greater than market conditions).

- the automatic renewal of the Amended PTG Technology Licence Agreement upon its expiry on 31 December 2030 for further periods of one year, unless terminated by either Party prior to each expiry;
- the express exclusion of any novative or terminatory effect whatsoever of the original PTG Technology Licence Agreement.

**2.2. Indications of the related parties with which the Transactions have been made, the nature of the relationship and the nature and scope of the interest of these parties in the transactions**

The Aeolus Transaction was entered into by Pirelli Tyre with Aeolus and PTG.

The TGP Transaction was entered into by Pirelli Tyre with PTG alone.

The Transactions are therefore taking place between subjects linked by a significant inter-relationship (in accordance with Articles 2.3 and 3.1 of the RPT Procedure and Appendix 1 of the Consob RPT Regulations), insofar as they were entered into between a subsidiary of Pirelli (Pirelli Tyre) and companies subject to the same control by Pirelli (Aeolus and PTG respectively), taking into account that Pirelli, Aeolus and PTG are subsidiaries of ChemChina through CNRC.

For the aforementioned relationship profiles, Aeolus and PTG are inter-related subjects.

The Transactions were illustrated and, to the extent necessary, also approved by the Pirelli Board of Directors on 14 February 2019.<sup>6</sup> With regard to the interests of the Directors in relation to the Transactions, see under §2.7.

**2.3 Indication of the economic rationale and suitability of the Transactions for the Issuer**

As also indicated in the Expert's report, the Transactions originate in the serious deterioration of market conditions in the Industrial Tyre market segment worldwide, especially in Asia. The decrease in volumes has negatively affected the business of Aeolus and PTG, which, given the specificities of their conditions, have recorded a significant contraction in consolidated revenues and margins.

**2.3.1 Economic rationale and suitability of the Aeolus Transaction for the Issuer**

The economic rationale and suitability of the Aeolus Transaction for the Issuer are justified by the following assessments, made by the RPT Committee on the basis of the analyses conducted by the Expert:

- the crisis in the Industrial segment has caused a significant imbalance between the trend of the reference market and the economic conditions originally agreed in the Aeolus Licence Agreement, which broadly provide for royalties set at fixed and pre-determined amounts;

---

<sup>6</sup> See note 20.

- this imbalance has caused a significant negative leverage effect for Aeolus, contributing to a reduction in the Industrial Tyres sales margins and the generation of an implicit royalties rate which, given the pronounced decline in market conditions, is growing more than proportionally in terms of the reduced revenues, increasing the implicit licensing costs;
- under these circumstances, the financial conditions of the original Licence Agreement have therefore become unsustainable for Aeolus, which has delayed some payments and requested the renegotiation of some of the terms and conditions of the Aeolus Licence Agreement in light of the negative market conditions;
- Aeolus' loss of profitability has resulted in the licensee presenting a significant risk of default to Pirelli, in turn resulting for Pirelli in a significant reduction in the expected net value of the existing licensing.

Under these circumstances, Pirelli Tyre has an interest in rewording some of the terms and conditions of the original Aeolus Licence Agreement according to the Aeolus Transaction, which is being implemented via a balanced equilibrium of reciprocal concessions and advantages, enabling Pirelli to maximise the value of the technology and services subject to the Licence Agreement in the current adverse market situation (in any event, taking into account that these assets are of no strategic significance to Pirelli, which, following the separation, is concentrating its industrial business in the Consumer sector). In particular, the terms and conditions of the Aeolus Transaction are:

- consistent with the conditions that could be agreed at arm's length under the current adverse market conditions;
- suitable to prevent adverse effects that may otherwise be associated with a high risk of non-fulfilment by Aeolus of the original Aeolus Licence Agreement, including due to the temporary reduction in royalties to sustainable levels for Aeolus, the issue of first-call bank guarantees in favour of Pirelli Tyre and the provision of unanimous procedures for the selection, monitoring and management of technical assistance projects to be provided to Aeolus by PTG);
- suitable to deal with a significant reduction in costs (direct and indirect) of technical assistance to Pirelli Tyre, which will be replaced by PTG in the provision of assistance services to Aeolus;
- suitable to enable Pirelli Tyre to exploit the licensing technology, including via a reduction in the exclusive obligations to which it is currently bound.

With particular reference to the suitability of the Aeolus Transaction, as indicated in the Expert assessments, the Aeolus Transaction is reasonably suitable to restore (also via de-risking of the relationship) the profitability conditions of the licence for Pirelli Tyre at the expected positive net values, which are reasonably advantageous to Pirelli Tyre compared to the effects of Aeolus not fulfilling the original Aeolus Licence Agreement. Given this profile:

- the rewording of the Aeolus Licence Contract includes a reduction in the pressure on Aeolus' profitability (currently negative), resulting in the reduction



of the risk of non-fulfilment by Aeolus and of terminating the licensing relationship;

- a reasonable estimate of the current value of the potential compensation for damages that could be obtained by Pirelli Tyre in the event of Aeolus' non-fulfilment and the resulting termination of the original Aeolus Licence Agreement is lower than the current value of the net income associated with the Amended Aeolus Licence Agreement;

### **2.3.2 Economic rationale and suitability of the PTG Transaction for the Issuer**

The economic rationale and suitability of the PTG Transaction for the Issuer are justified by the following assessments, made by the RPT Committee on the basis of the analyses conducted by the Expert:

- the deterioration of Industrial Tyre market conditions has resulted in a decline in volumes, in turn resulting for PTG in a significant contraction of consolidated revenues and the EBIT Margin, and in a significant increase in the level of indebtedness;
- a significant imbalance has therefore occurred between the financial conditions in the PTG Licence Agreements and the market conditions, also due to the specific structuring of the royalties as originally agreed by the Parties which, in both licences, set a significant increase in the fixed minimum royalties from 2019 (€ 21 million). This increase in royalties was agreed on the basis of the completion of the Merger, which has not occurred, contrary to expectations;
- the conditions of the original PTG Licence Agreement have therefore become unsustainable for PTG, which has requested the renegotiation of some of the terms and conditions of the Agreement in light of the negative market conditions;
- the increase in financial leverage and the loss of profitability that PTG would suffer as a result of the increase in minimum royalties results in a significant risk to Pirelli Tyre of contractual non-fulfilment by PTG, which in turn has given rise to a significant reduction in the expected value of the PTG Licence Agreements for Pirelli Tyre;

Under these circumstances, Pirelli Tyre has an interest in rewording the terms and conditions of the PTG Licence Agreements in line with the Transaction, as the latter gives rise to a balanced equilibrium of reciprocal concessions and advantages, enabling Pirelli to maximise the value of the technology and trademarks licensed under the current adverse market circumstances (taking into account in this case too that these assets are of no strategic significance to Pirelli Tyre, which, following the separation, is concentrating its industrial business in the Consumer sector only). In particular, the terms and conditions of the PTG Transaction are:

- consistent with the conditions that could be agreed at arm's length under the current adverse market conditions;

- suitable to prevent adverse effects that may otherwise be associated with a risk of non-fulfilment of the original PTG Licence Agreement, including due to the temporary reduction in royalties to sustainable levels for PTG);

With particular reference to the suitability of the PTG Transaction, as indicated in the Expert assessments, the Aeolus Transaction is reasonably suitable to restore (also via de-risking of the relationship) the profitability conditions of the licence at values reasonably advantageous for Pirelli Tyre compared to the non-fulfilment by PTG and the termination of the original PTG Licence Agreements. In this situation, as also noted by the Expert in their assessment:

- the rewording of the original PTG Licence Agreements results in a reduction in the pressure on PTG profitability and financial leverage, resulting in the reduction of the risk of non-fulfilment and termination of the Amended PTG Licence Agreements; and
- a reasonable estimate of the current value of the potential compensation for damages that could be obtained by Pirelli Tyre in the event of PTG's non-fulfilment and the termination of the original PTG Licence Agreement is lower than the current value of the net income associated with the Amended PTG Licence Agreements;

#### **2.4 Method to determine the payment for the Transactions and assessment of its consistency compared to market values for similar transactions**

The Transactions include the rewording of some of the terms and conditions of the existing Industrial Licence Agreements between Pirelli Tyre, Aeolus and TGP. Therefore, the Transactions do not provide for a specific payment, the consistency of which could be compared with the market values of similar transactions. It is similarly impossible to benchmark the Transactions with market conditions or standards related to the renegotiation of similar licences under similar circumstances.

In that regard, it is noted that the RPT Committee, using its right under Art. 13.4 of the RPT Procedure and Art. 7.1(b) of the Consob RPT Regulations, after having made contact with various leading auditing firms, requested the assistance of EY Advisory S.p.A.,<sup>7</sup> which provided separate fairness opinions for the benefit of the RPT Committee and the Board of Statutory Auditors on the consistency of the contractual conditions at the reformulation stage of the Aeolus Licence Agreement and the PTG Licence Agreements on 28 January 2019 and 11 February 2019 respectively. These opinions are attached to the Information Document (see Appendices 3 and 4).

The RPT Committee assessed the professional profile of the independent Expert, the subsistence of the independence requirements thereof and the economic aspects of the proposals received, noting in particular that there are no economic,

---

<sup>7</sup> The Independent Expert was jointly appointed by the RPT Committee and by the Board of Statutory Auditors, the latter for support in the competence work of that body, in accordance with Art. 20 of the RPT Procedure.

asset or financial relations with EY that could undermine their independence (similar checks that confirmed the above were conducted internally by EY).

In relation to the terms and the subject of the task of the Expert, the names of the professionals who carried out the task are reported in Appendix 3 and Appendix 4 (respectively with regard to the Aeolus Transaction and to the PTG Transaction). For the indication of the economic, asset and financial relationships with the Issuer and other relevant entities (referred to in Art. 2.4, Appendix 4 of the Consob Regulations), see Appendix 5 to the Information Document.

The economic, patrimonial and financial relations with the Issuer and with the entities listed in Appendix 4 of the RPT Regulations (for the list, see Appendix 6) have been deemed not to adversely affect the independence of the Expert, even if the size of its turnover is taken into account.

According to its tasks, the Expert noted the consistency of the Aeolus Transaction and the PTG Transaction in terms of economic suitability and the substantive correctness of the conditions thereof. On the basis of this assessment, the RPT Committee unanimously expressed its favourable opinion on the Aeolus Transaction on 28 January 2019, and on the PTG Transaction on 11 February 2019 (see Appendices 1 and 2).

Previously, the economic rationale and profiles of economic advantageousness of the Transactions (see above, §2.3), as noted by the RPT Committee on the basis of the Expert's assessments.

The assessments of the substantive correctness of the Transactions are provided below, as noted by the RPT Committee on the basis of the analyses conducted by the Expert.

#### **2.4.1 Suitability and substantive correctness of the conditions of the Aeolus Transaction**

The RPT Committee notes that, also on the basis of the assessments conducted and the information provided in the Expert's reports, the Aeolus Transaction fulfils the requirements of substantive correctness required by the RPT Procedure and by the Consob Regulations for the following reasons:

- the rate of royalties in the Amended Aeolus Licence Agreement in the period 2018-2023 (1% of net revenues) appears to be consistent with market evidence and with the main synthesis methodologies adopted in professional practice. In particular:
  - (a) the rate of royalties that the reformulation of the Amended Aeolus Licence Agreement reduces to 1% in the period 2019-2023 is aligned with the minimum value in the range of the market royalties for comparable agreements (licenses for technology and technological know-how in the automotive sector and transportation equipment and parts sectors);
  - (b) in light of the operational difficulties met by Aeolus over recent years and the adverse market context in which it operates, the selection of a

royalties rate within the minimum range identified appears to be reasonable;

(c) in addition, the rate of royalties set out in the Amended Aeolus Licence Agreement is consistent with the implicit rate of royalties obtained by applying the profit split criterion;

- the current value of the lower income expected from the reformulation of the Aeolus Licence Agreement is at least equal to the value of the lower operational risks or those of the termination of the licence and the greater benefits (including savings in technical support) that could be taken from the Amended Aeolus Licence Agreement.

#### **2.4.2 Substantive correctness of the conditions of the PTG Transaction**

The RPT Committee notes that, also on the basis of the assessments conducted and the information provided in the Expert's reports, the PTG Transaction fulfils the requirements of substantive correctness required by the RPT Procedure and by the Consob Regulations for the following reasons:

- the rates of royalties in the PTG Trademark Licence Agreement, which, due to the reformulation, are reduced within the thresholds indicated to 1% for the "Formula" brand and to 0.5% for other brands (other than the "Pirelli" brand) are close to the minimum market range values for comparable licence agreements (concerning trademarks and tradenames in the automotive sector and the transportation or equipment and parts sectors); in light of the current market context, the characteristics of minor brands and the specific performance of PTG, the choice of rate of royalties located in the minimum range appears to be reasonable;
- the rate of royalties in the PTG Technology Licence Agreement which, due to the reformulation, is reduced (within the thresholds illustrated) to 1% in the period 2019-2023, is close to the minimum market range values for comparable licence agreements (concerning technology and technological know-how in the automotive sector and the transportation or equipment and parts sectors); in light of the current market context and the specific performance of PTG, the choice of rate of royalties located within the minimum range appears to be reasonable;
- the current value of the lower income from the reformulation of each of the original PTG Licence Agreements is at least equal to the value of the lower operational risks or those of the termination of the licence that could be taken from the related PTG Licence Agreement after the reformulation thereof;

#### **2.5 Illustration of the economic, asset and financial effects of the Transactions and applicable significance index.**

##### **2.5.1 Economic, asset and financial effects of the Aeolus Transaction**

On one hand, the Aeolus Transaction gives rise to a possible reduction in royalties and other amounts payable to Pirelli Tyre and, on the other hand, to a saving in technical support costs to Pirelli Tyre.

As for revenues from royalties, the effects of the reformulation of the Aeolus Licence Agreement on the total amount from the royalties payable to Pirelli Tyre depends on the future trend of Net Revenues from the sales of the relevant products.

In a positive scenario, the royalties under the Amended Aeolus License Agreement Aeolus do not change with respect to the royalties under the original Aeolus Licence Agreement because the maximum amount of royalties is not changed by the Aeolus Licence Amendment Agreement:(remaining at €22 million per year until 2030).In a negative scenario, the royalties may be reduced by the lowering of the minimum royalties provided for in the agreement.

The overall effects of the reformulation of the Aeolus Technology Licence Agreement are expected to be within a negative-amount range with a maximum between €14.4 million and €19.4 million, over a 12-year period (from 2019 to 2030), taking into account both the possible theoretical maximum reduction in royalties payable to Pirelli Tyre,<sup>8</sup> and the lower technical support costs.<sup>9</sup>

Given the above, as Aeolus' Net Revenues increase, the theoretical maximum reduction in royalties lowers to a neutralisation, and could also turn into an increase in Pirelli consolidated EBIT, due to the reduction in technical support costs.

## **2.5.2 Economic, asset and financial effects of the PTG Transaction**

The effects of the PTG Transaction will be checked with reference to the PTG Trademark Licence Amendment Agreement and to the PTG Technology Licence Amendment Agreement.

### **2.5.2.1 Effects of the PTG Trademark Licence Amendment Agreement**

The overall effects of the reformulation of the PTG Trademark Licence Agreement over the 12-year period (from 2019 to 2030) are expected to be within a range between a maximum negative amount of €14 million and a variable positive amount resulting from the sum (i) of the reduction in royalties actually recorded in the period 2019-2026<sup>10</sup> and (ii) certain positive effects, within a minimum of additional royalties of €48 million and a maximum of additional royalties of €88 million from the

---

<sup>8</sup> In a negative scenario, the total amount of royalties and the other accrued unpaid amounts to Pirelli Tyre is subject to a possible reduction of a total maximum amount between a minimum of €60 million (in the event of Net Revenue equal to or less than the level determining the application of the minimum royalties and a maximum of €65 million (in the event of Net Revenue equal to or greater than the level determining the application of the maximum variable royalties).

<sup>9</sup> As a result of the reorganisation of the technical support to be provided by PTG (instead of Pirelli Tyre), the Aeolus Transaction gives rise to a net saving for Pirelli Tyre in technical support costs estimated at approximately €3.8 million per year, a total of €45.6 million over the entire licence period (to 2030). This amount is calculated net of the residual costs to Pirelli Tyre for the reimbursement of technical support provided by PTG to Aeolus for a total amount of €2.5 million per year, although it does not include the additional saving in indirect costs (currently unquantifiable).

<sup>10</sup> The reduction in royalties for the period 2019-2026 (included) payable to Pirelli Tyre are subject to a possible reduction for a maximum total amount of €62 million due to the reduction of the fixed minimum component. This reduction in royalties will tend to reduce as the Net Revenues of PTG increase, which determine the application of the variable royalties, in view of the fact that, beyond the thresholds identified in the Amended PTG Trademark Licence Agreement (see above, §2.1.2.3), the rate of variable royalties remains unchanged from that provided for in the original PTG Trademark Licence Agreement.

extension of the Amended PTG Trademark Licence Agreement to 2030 (previously expected to expire in 2026).<sup>11</sup>

#### 2.5.2.2 Economic and financial effects of the PTG Technology Licence Amendment Agreement.

The overall effects of the reformulation of the PTG Technology Licence Agreement are expected to be within a theoretical maximum negative amount of € 63.2 million over the 5-year period (from 2019 to 2023), taking into account both the possible reduction in royalties payable to Pirelli Tyre as a result of the reformulation of the percentage of variable royalties,<sup>12</sup> and the benefits of reducing and revising the technical support costs.<sup>13</sup>

It should be noted that in 2016 PTG acquired the availability of process know-how for Industrial tyres for payment to Pirelli of €61 million:<sup>14</sup> through which PTG acquired technological independence in the manufacturing process.

To reduce the audit costs associated with the checks on the technology actually used in the manufacture of Industrial Tyres, in the Amended PTG Technology Licence Agreement, Pirelli and PTG expressly clarified that, for a series of non-Pirelli-branded Industrial products,<sup>15</sup> the royalties will not be paid to Pirelli in the event of Net Revenues not greater than a maximum of €200 million. Notwithstanding that products not manufactured with the technology referred to in the PTG Technology Licence Agreement would continue to be excluded for the purposes of calculating Net Revenues, the maximum theoretical negative amount of this clarification for Pirelli over the 12-year period (from 2019 to 2030) would be €48 million.

#### 2.5.3 Further effects of the Transactions

The Aeolus Transaction and the PTG Transaction include a rewording of some of the terms and conditions of the respective Industrial Licence Agreements and therefore do not give rise to specific asset effects on Pirelli Tyre or on the Issuer. The Amended Industrial Licence Agreements on Industrial technology do not constitute a presumption of impairment for the intangible technological assets (with a limited lifespan) considering that: a) the intangible assets concern both the

---

<sup>11</sup> With reference to the royalties for the period 2027-2030 (included), new revenues from royalties are set up (not provided for in the original PTG Trademark Licence Agreement) for a total amount which, depending on the trend of Net Revenues, may vary from a minimum of €48 million to a maximum of €88 million.

<sup>12</sup> As a result of the reformulation of the PTG Technology Licence Agreement in the years 2019-2023 (included), the revenues from royalties payable to Pirelli Tyre are subject to a possible reduction of an amount of €65 million, corresponding to the maximum reduction of the variable royalties in that period.

<sup>13</sup> With regard to technical support, as a result of the reformulation of the PTG Technology Licence Agreement, Pirelli Tyre will be able to benefit from a reduction and rescheduling of the technical support costs which, from an estimated cost of approximately €6.6 million in 2019-2020, are reduced to an estimated total cost of approximately €4.8 million, to be distributed in the period 2019-2023.

<sup>14</sup> Given the signing, taking effect as of 01 April 2016, of the "Process by Machinery Know-How Licence Agreement"

<sup>15</sup> These are products with "x-ply" technology and "inner tubes, flaps, forklifts tyres" and non-"Pirelli"-branded products for sales up to a total maximum amount of €200 million per year.

Consumer technology and the Industrial technology; b) from the date of the Purchase Price Allocation (“PPA”), *i.e.* the allocation of the price paid by the vehicle Marco Polo Industrial Holding S.p.A. for the acquisition of the Pirelli group and the subsequent reverse merger of Marco Polo Industrial Holding S.p.A. with Pirelli, the intangible technological assets were amortised; c) the discount rate used for the estimate of the fair value of the technology in the PPA reduced, which more than compensated for the negative effect of the lower *royalties* from the reformulated agreements.

The Amended PTG Trademark Licence Agreement on the trademarks, even when considered in the most favourable scenario for Pirelli (royalties equal to the minimum contractual provisions) does not affect the preliminary result of the annual impairment test on the intangible Pirelli brand assets (with an unlimited lifespan) in that the estimated fair value is still higher than the carrying amount of the trademark itself.

On an economic and financial level, the effects of the Transactions set out above in terms of variations in revenues and cost savings and therefore in consolidated EBIT will be noted in the financial reports of the Issuer and Pirelli Tyre. In that regard, please see the previous sections.

In any event, the potential net effects of the Transactions in terms of consolidated revenues and EBIT of the issuer, considered for each individual financial year or cumulatively for the entire duration of the reformulated Industrial Licence Agreements, are not deemed to result in a notable or significant impact on the economic, asset and financial performance of the Pirelli group. To that end, it is useful to observe that (i) the preliminary consolidated revenues disclosed to the market on 14 February 2019 are €5,194.5 million, and for 2019, on the basis of the budget disclosed to the market on the same date, the revenues expected as at 31 December 2019 will rise by 4-6% compared to the 2018 data; and (ii) the preliminary adjusted consolidated EBIT disclosed to the market on 14 February 2019 is €955 million and the margin EBIT is expected to rise to approximately 19% compared to the 2018 data (18.4) (projections for these data to 2030 are not available).

For the sake of completeness, it is reported that, as regards the 2018 and 2019 financial years, the effects of the Transactions are already included in the preliminary results and forecast data disclosed to the market on 14 February 2019.

Lastly, the Transactions are not strategic for the business of the Pirelli group, as they concern trademarks and technology related to the Industrial business, where, as a result of the industrial reorganisation and enhancement operation that took place in 2015-2017, they were separated from Pirelli business and the companies of its group, which now focus on the Consumer sector.

## **2.5.4 Transactions significance index**

### **2.5.4.1 Applicable significance threshold**

The Transactions include a transaction of minor significance in accordance with the RPT Procedure and the Consob Regulations, insofar as each of them differs from

a transaction of major significance and from a transaction for a small amount (Art. 4 of the RPT Procedure and Art. 3.1(c) of the Consob RPT Regulations).

At the end date of the Transactions and the publication of the Information Document, the threshold of major significance applicable to related-party transactions for the Issuer is €361.4 million (the “**Threshold Value**”), in application of the index of significance of the value of the Transaction (referred to in Art. 1.1(a), Appendix 1 of the RPT Procedure and Art. 1.1(a), Appendix 3 of the Consob Regulations). This index should be determined as 5% of the Pirelli capital as at 28 September 2018 (€7.228 billion), *i.e.* at the close of the last market day in the period of reference of the latest periodic accounting document published by Pirelli (the Interim Management Report as at 30 September 2018) <sup>(16)</sup>.

In order to determine the value of each of the Transactions, reference should be made to “to the amount paid to/by the Party to the Agreement” and where “the financial conditions of the transaction depend in whole or in part on quantities not yet known, the maximum value admissible or payable in accordance with the Agreement”; (see (Articles 1.1(a), Appendix 1 to the RPT Procedure and 1.1(a), Appendix 3 to the Consob Regulations).

In this case, the Transaction concerns the amendment of some of the terms and conditions of the existing Industrial Licence Agreements between the Issuer and Aeolus and PTG.

#### 2.5.4.2 Aeolus Transaction significance index

In application of the above criteria, for the purposes of determining the value of the contractual amendments covered by the Aeolus Transaction, the potential reduction of amounts payable to Pirelli Tyre may be taken as royalties and interest accrued for a maximum total amount of €65 million (see above, §2.5.1).

This amount does not prudently consider the net saving in technical support costs to Pirelli Tyre (a total of €45.6 million) (see above, §2.5.1). For the same reason, the amounts payable by Pirelli to PTG under the Technical Support Agreement (€30 million to 2030) should not be considered,<sup>17</sup> as these amounts are in fact the remainder from a saving in higher technical support costs that Pirelli Tyre would have paid in accordance with the original Aeolus Licence Agreement (see above, §2.1.1.2, 2.1.1.3 and 2.5.1). In any event, even if these costs were cumulated with the maximum reduction in royalties as mentioned above, the total value of the Aeolus Transaction (recalculated at €95 million) would still remain below the threshold value.

#### 2.5.4.3 PTG Transaction significance index

As indicated above (see above, §2.5.2, for the purposes of determining the value of the contractual amendments covered by the PTG Trademark Licence Amendment Agreement, it is noted that: (i) in the years in the period 2019-2026 (included), the

---

<sup>16</sup> Criterion to be applied because the Threshold Value is higher than the amount of €223.2 million, 5% of the consolidated net assets of Pirelli (€4.464 billion) as set out in the financial report as at 30 September 2018.

<sup>17</sup> This amount is the result of the maximum annual amount of €2.5 million that Pirelli Tyre is committed to pay to PTG until 2019 to 2030 (included) in accordance with the Technical Support Agreement.



royalties payable to Pirelli Tyre are subject in a negative scenario to a potential reduction for a maximum total amount of €62 million; (ii) over the years in the extension period from 2019-2030 (included), new royalties (not provided for in the original licence) will instead be due to Pirelli for a total amount which, depending on the trend of Net Revenues, may vary from a minimum of €48 million to a maximum of €88 million.

On the other hand, with regard to the value of amendments made as a result of the PTG Technology Licence Amendment Agreement, it is noted that the revenues from royalties payable to Pirelli Tyre are subject to a possible reduction for a maximum total amount of €113 million.

Therefore, in a negative scenario, the maximum reduction of amounts payable to Pirelli Tyre as a result of both PTG Licences Amendment Agreements would give rise to a value of the transaction of €175 million, which is lower than the threshold value. This amount does not prudently consider the benefit derived from the increase in the amounts payable to Pirelli Tyre by way of royalties in the extension period of the Amended PTG Trademark Licence Agreement in the years 2027-2030 (up to a maximum of €88 million).<sup>18</sup> The savings in technical support costs to Pirelli Tyre are also not taken into account.

#### 2.5.4.4 Transactions significance index

Given the above, for the sole purposes of identifying the significance index for transactions with related parties of major or minor significance in accordance with the RPT Regulations and the Consob RPT Regulations (and therefore without taking into account the benefits for Pirelli Tyre in terms of cost savings and the increase in royalties in the extension period of the PTG Trademark Licence Agreement for the years 2027-2030 (see above § 2.5.1-2.5.2), the total value of the Transactions, considered cumulatively, including by applying the prudential criteria, can be calculated at an amount of €240 million, which is lower than the Threshold Value.<sup>19</sup>

It is also noted that, on the date of publication of the Annual Report as at 31 December 2018, the significance threshold for related-party transactions will reduce to approximately €280 million (due to the fact that, from that date, the 5% threshold of Pirelli's stock market capitalisation will have to be taken as at 28 December 2018 and, therefore, a capitalisation of approximately €5.61 billion will have to be applied).

In any event, due to the need for maximum transparency with regard to the market, the Company has prudently decided to publish this Information Document voluntarily.

---

<sup>18</sup> It is noted however that, even if the increase in royalties in the years 2027-2030 was cumulated in absolute value to the maximum amount of reduction in royalties payable in the previous period 2019-2026, the total value thus determined would still be lower than the Threshold Value.

<sup>19</sup> The value of the cumulatively considered Transactions remains below the Threshold Value even if such a maximum reduction in the amount of royalties payable to Pirelli Tyre was added in absolute value to (i) the reimbursement by Pirelli Tyre to PTG of the technical support costs under the Technical Support Agreement (€30 million); and (ii) the positive amount of the maximum increase in royalties payable to Pirelli Tyre in the extension period of the Amended PTG Trademark Licence Agreement in the years 2027-2030 (€88 million).

**2.6. Compensation amounts of the members of the board of the Company and/or its subsidiaries expected to vary as a result of the Transactions and detailed indications of these variations.**

The compensation amounts of the members of the Board of Directors of the Company and/or its subsidiaries is not expected to vary as a result of the Transactions.

**2.7 Information on financial instruments held by the members of the governing and control bodies, General Managers and Executives involved in the Transactions in the Company and its party and interests in the Transactions.**

Neither the members of the Pirelli Board of Directors nor the Board of Statutory Auditors, the General Manager or executives with strategic responsibilities are directly involved in the Transactions as related parties.

For the sake of completeness, please note that:

- Ning Gaoning, Chairman of Pirelli, is the Chairman of ChemChina;
- Marco Tronchetti Provera, Executive Vice Chairman and Chief Executive Officer of Pirelli, holds the position of Vice Chairman of the Board of Directors of TPIH, parent company of PTG) and indirectly controls Camfin S.p.A. ("**Camfin**", a company indirectly holding representative shares of 22.4% of the share capital of TPIH), of which he is the Chairman and Chief Executive Officer;
- Giorgio Luca Bruno, Director of Pirelli, holds the position of Chief Executive Officer of TPIH and the position of Chairman and Chief Executive Officer on the Board of Directors of PTG and Director of Camfin, holds 500 shares in the Issuer, acquired upon the Company IPO;
- Giovanni Tronchetti Provera, Director and Senior Manager of the Issuer, is also a Director of TPIH, PTG and Camfin (of which he is also an indirect shareholder);
- Bai Xinping, Director of Pirelli, holds the position of Chairman of the Board of Directors of Aeolus and Director of TPIH. He is also the Chairman of the Board of Directors of Marco Polo International Italy S.r.l. ("**Marco Polo**", direct parent company of TPIH), and holds managerial positions in ChemChina and CNRC;
- Yang Xingqiang, Director of Pirelli, holds the position of Chairman of the Board of Directors of TPIH and Director of Marco Polo, and holds managerial positions in ChemChina and CNRC;
- Ze'ev Goldberg, Director of Pirelli, works for CNRC and TPIH;

For the sake of completeness and to the extent necessary, please also note that:

- except for the Director Giovanni Lo Storto and the Chairman of the Board of Statutory Auditors, Francesco Fallacara, the other Directors and Statutory Auditors were appointed on the recommendation of Marco Polo International Italy S.p.A., 65% of the shares of which are indirectly held by CNRC, 22.4% by Camfin;
- the Serving Auditor Luca Nicodemi is also Chairman of the Board of Statutory Auditors of TPIH and PTG;

- the Serving Auditor Alberto Villani is a Serving Auditor of TPIH and PTG;

**2.8. Indication of the bodies or Directors conducting or participating in the negotiations and/or qualifying and/or approving the Transactions.**

The Transactions have been subject to separate negotiations and to discrete procedures for related-party transactions in accordance with the provisions of the RPT Regulations and the Consob RPT Regulations.

The negotiations on the Transactions were conducted by the Management of Pirelli and Pirelli Tyre.

The Committee, the members of which are all independent Directors, received full and adequate information well in advance on the commencement and progress of the negotiations over the Transactions, with the option to submit observations and request information, and received contractual documents and drafts in the various stages of the negotiations.

The commencement and progress of negotiations over the Transaction has been dealt with, thoroughly considered and updated during several meetings of the RPT Committee, also attended by the Board of Statutory Auditors (as set out in further detail in the respective opinions of the RPT Committee, in Appendices 1 and 2).

Analytical reports on the description of the Transactions, the indication of the Parties, the main conditions of the Transaction, including the economic conditions, the evaluation process followed and the grounds for the Company's interest in the completion of the Transaction and the advantageousness of its conditions were provided to the RPT Committee.

In relation to the legal aspects of the procedure, the RPT Committee, the members of which are all independent Directors, was attended by lawyers, and by the Board of Statutory Auditors.

As indicated above (see above, §2.4), for the purposes of the assessment of the advantageousness and substantive correctness of the Transactions, the RPT Committee used the services of the Expert appointed jointly by the same RPT Committee and by the Board of Statutory Auditors. As part of its task, the Expert issued two separate fairness opinions dated 28 January 2019 and 11 February 2019, attached hereto as Appendices 3 and 4).

On 28 January 2019, the RPT Committee unanimously expressed, with all its members present – therefore with no abstentions or votes to the contrary – a favourable opinion on Pirelli's interest in the Aeolus Transaction, and on the advantageousness and substantive correctness of the conditions thereof (see Appendix 1).

On 11 February 2019, the RPT Committee unanimously expressed, with all its members present – therefore with no abstentions or votes to the contrary – a favourable opinion on Pirelli's interest in the completion of the PTG Transaction,

and on the advantageousness and substantive correctness of the conditions thereof (see Appendix 2).

Both Transactions were illustrated and, to the extent necessary, approved by the Board of Directors of the Issuer on 14 February 2019.<sup>20</sup>

**2.9. Indication of the significance of the Operations for the purposes of cumulation in accordance with Article 5, paragraph 2, of multiple transactions completed during the financial year with the same related party or entities related thereto or to the Company.**

The Aeolus Transaction and the PTG Transaction constitute autonomous and separate transactions under the respective Industrial Licence Agreements. However, for the purposes of the publication of the Information Document, the Transactions are prudently considered cumulatively, as they were completed during the 2019 financial year with subjects with a significant relationship between them and with the Company, and due to some profiles relating to the scope thereof and the context of their completion, which could be considered for the purposes of detecting a relationship of uniformity or significant unitary design in accordance with Art. 5, paragraph 2 of the Consob RPT Regulations.

The information in this Information Document were provided with reference to each of the Transactions.

Milan, 20 February 2019

**Statement of the manager responsible for the preparation of the corporate accounting documents**

---

<sup>20</sup> The Board of Directors, most of the members of which are Independent Directors, unanimously approved the Transactions, including with the favourable vote of all eight Independent Directors in office. The Chairman Ning Gaoning and Directors Bai Xinping, Yang Xingqiang and Giorgio Luca Bruno did not take part in the talks on the point of the agenda related to the Transactions.

The manager responsible for the preparation of corporate accounting documents, Francesco Tanzi, states in accordance with Art. 154-*bis*, paragraph 2 of Legislative Decree No. 58/1999 that the accounting information contained in this information document corresponds to the documentary findings and to the accounting ledgers and records.

Francesco Tanzi

The manager responsible for the preparation of the corporate accounting documents

**[APPENDICES OMISSIS]**