



# Pirelli & C. S.p.A.

## Reports to the Shareholders' Meeting of 18 May 2022

### **Three-year monetary incentive plans for the Pirelli Group Management:**

- approval of the monetary incentive plan for the three-year period 2022-2024 for Pirelli Group Management;
- approval of the adjustment mechanisms of the quantification of the objectives included in the monetary incentive plans for the three-year periods 2020-2022 and 2021-2023 for Pirelli Group Management;

**related and consequent resolutions and granting of powers.**

**(item 3 on the agenda)**

**Illustrative reports drawn up by the Directors pursuant to Article 125-ter of Italian Legislative Decree no. 58 of 24 February 1998 as subsequently amended and supplemented, approved by the Board of Directors on 17 March 2022**

### 3.1 Approval of the monetary incentive plan for the three-year period 2022-2024 for Pirelli Group Management.

Dear Shareholders,

in view of the Shareholders' Meeting of Pirelli & C. S.p.A. (hereinafter "**Pirelli**") called for 18 May 2022 (in a single call) (the "**Shareholders' Meeting**"), we inform you that, at its meeting of 17 March 2022, the Board of Directors approved the targets for the three-year monetary incentive Plan of the three-year period 2022-2024 for Pirelli Group Management ("**2022-2024 LTI Plan**" or "**LTI Plan**") in line with the targets of the 2021-2022/2025 Strategic Plan ("**Strategic Plan**"). The LTI Plan 2022-2024 was also approved pursuant to Article 2389 of the Italian Civil Code, on the proposal of the Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors in relation to the parties for whom such opinion is required. The 2022-2024 LTI Plan is subject to the approval of the Shareholders' Meeting pursuant to Article 114-*bis* of the Consolidated Law on Finance ("**TUF**") as it states, *inter alia*, that part of the incentive is determined based on a relative Total Shareholder Return target, in that it is linked to the stock market price trends of Pirelli shares against an index made up of select Tier 1 peers in the Tyre sector.

Moreover, pursuant to Article 123-*ter* of the TUF, the 2022-2024 LTI Plan is set out in the 2022 Remuneration Policy adopted by Pirelli and submitted to the binding vote of the Shareholders' Meeting ("**2022 Policy**"), the definitions of which – unless otherwise specified – are fully recalled herein.

Below is a summary of the main features and conditions of the 2022-2024 LTI Plan. For a more analytical description of the 2022-2024 LTI Plan, please review the Information Document drafted pursuant to Article 84-*bis*, paragraph 1, of Consob Resolution No. 11971 of 14 May 1999 ("**Issuers' Regulation**"), which is available to the public at Pirelli's registered office (in Milan, Viale Piero e Alberto Pirelli 25), on the website [www.pirelli.com](http://www.pirelli.com), as well as on the authorised emarket Storage platform ([emarketstorage.com](http://emarketstorage.com)) in accordance with applicable regulations.

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#### Reasons for adopting the Plan<sup>1</sup>

In line with national and international best practices, the 2022 Policy is tailored to Pirelli's objective of attracting, motivating and retaining resources with the professional attributes required to pursue corporate objectives. In addition, through the confirmation of the multi-year variable components assigned, in particular, to the Executive Vice Chairman and Chief Executive Officer, Deputy-CEO, General Managers, Key Managers ("**KMs**"), Senior Managers and Executives, the 2022 Policy also aims to achieve long-term interests, contributing to the achievement of strategic objectives and sustainable success of the company, as well as aligning the interests of Management with those of shareholders.

Starting from LTI Plan of the three-year period 2020-2022, included in the 2020 Remuneration Policy approved by Pirelli's Shareholders' Meeting of 18 June 2020 ("**2020 Policy**"), the Company introduced a "rolling" mechanism for medium-long term incentive plans. In applying

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<sup>1</sup> Information required by Article 114-*bis*, paragraph 1, letter a) of the TUF.

this mechanism, Pirelli's Board of Directors set the objectives of the LTI Plans for the period 2020-2022, 2021-2023 and most recently also for the period 2022-2024, all of which are tied to the achievement of the Strategic Plan objectives.

### Beneficiaries of the Plan<sup>2</sup>

The 2022-2024 LTI Plan is extended to Directors holding special offices (except the Chairman), to General Managers, to Key Managers ("**Top Management**"), as well as to all managers of Italian companies and employees of foreign companies who fall within Pirelli's scope of consolidation who have been granted the title of Executive (the "**Executives**") with a grade (determined using the Korn Ferry method) of 20 or higher (Top Management and Executives, jointly referred to as "**Management**"). It is also assigned to those who, during the three-year period, join the Group and/or take over, due to internal career progression, the position of Executive. In this case, their inclusion is subject to participation in the LTI Plan for at least one full financial year and the incentive is calculated in relation to the period of actual participation in the LTI Plan.

In particular, as at the date of this report, Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera, Deputy-CEO Giorgio Luca Bruno, Director Giovanni Tronchetti Provera (as Senior Manager), General Manager Operations Andrea Casaluci, and the other KMs among others are participants of the LTI Plan.

### Performance Targets and Bonus Calculation<sup>3</sup>

The LTI incentive is set as a percentage of the base salary with increasing percentages in relation to the role held and taking into account the reference benchmarks of each figure. Applying the "rolling" mechanism, the 2022-2024 LTI Plan confirms the three-year incentive percentages set forth in the 2021-2023 LTI Plan which, if targets are achieved, can go from a 15% minimum for Executives to a 70% maximum for Directors holding specific offices to whom specific duties are also delegated. There is also a limit to the maximum achievable LTI incentive.

The LTI Plan 2022-2024, which is monetary and does not include the assignment of shares or options on shares, is subject to the achievement of three-year objectives and is determined as a percentage of the gross annual base salary (GAS).

The LTI plans' "rolling" structure introduced with the 2020 Policy enables the value of the following three-year period targets to be established on a yearly basis, while ensuring Management loyalty and a proper focus on performance targets. The date of any first medium-long term incentive plan payment applying the "rolling" mechanism is April 2023 (if the 2020-2022 results are achieved) and, thereafter, April of each subsequent year if the results of the previous three-year period have been achieved.

In compliance with the 2021-2023 LTI Plan, the 2022-2024 Plan foresees three target types, all independent of each other and each assigned a specific weight:

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<sup>2</sup> Information required by Article 114-*bis*, paragraph 1, letters b) and b-*bis*) of the TUF.

<sup>3</sup> Information required by Article 114-*bis*, paragraph 1, letter c) of the TUF.

- an objective represented by the “Cumulative Group Net Cash Flow (before dividends),” with a weight of 40% of the overall LTI bonus;
- total Shareholder Return (“**TSR**”) target, with a weight of 40%, to a panel of selected Tier 1 peers. The document made available at the Shareholders’ Meeting provides more detailed information on the application of the TSR target;
- the remaining 20% is tied to sustainability objectives and, in particular: (i) 10% is calculated in relation to Pirelli’s positioning in the Dow Jones Sustainability World Index ATX Auto Component sector and (ii) 10% is linked to CO<sub>2</sub> Emissions Reduction (a target which replaces the CDP Ranking index applicable to the 2020-2022 LTI Plan and 2021-2023 LTI Plan).

For all three objectives (cumulative Group Net Cash Flow, TSR and Sustainability) there is a minimum value associated with the recognition of a payout of 75% of the bonus achievable at target performance.

Regarding each objective, where the set minimum value is not attained, no right is accrued by the beneficiary to the corresponding part of the incentive.

For intermediate results falling between the “access threshold” and the target or between the target and the maximum, performance will be calculated by linear interpolation, except for the Sustainability target (represented by the positioning in the Dow Jones Sustainability World Index ATX Auto Component sector), which will be calculated in three steps only: entry level, target and maximum, without enhancing intermediate performance.

In light of the recent macroeconomic and geopolitical developments, the 2022-2024 LTI Plan sets out the mechanisms for the Board of Directors (on the proposal of the Remuneration Committee, after consulting with the Board of Statutory Auditors) to adjust the sole quantification of targets for the exclusive purpose of accounting for any negative impact caused by the worsening geopolitical and macroeconomic reference scenario (compared to the time when the assumptions underlying the quantification of the LTI Plan targets were made). In particular, the approved criteria allow to reduce the quantification of the objectives in a non-proportional way the negative effects generated (in order to push Management towards compensatory actions) by factors resulting from the deepening of the crisis and affecting, for example, the trend of sales in Russia, the increase of the landed cost due to productions in alternative plants and the substitution of suppliers of raw materials.

#### Bonus Period

If the targets are achieved, the bonus for the 2022-2024 LTI Plan (LTI Bonus) will be paid out in the first half of 2025, provided that the employment relationship on the basis of which the 2022-2024 LTI Plan was granted is maintained through to 31 December 2024.

In the event of termination and/or employment for any reason prior to the end of the three-year period (subject to the provisions laid out below), the beneficiary shall no longer be part of the 2022-2024 LTI Plan and, as such, the LTI Bonus shall not be paid, not even in part. For Directors holding special offices to whom specific duties have been attributed who (i) cease to hold office before the end of the three-year period due to their mandate ending or due to the termination of the entire Board of Directors, and (ii) are not later re-appointed even as Directors, a *pro rata temporis* payment of the LTI Bonus is provided.

## Plan Duration and Amendments

The 2022-2024 LTI Plan implements the third LTI Plan cycle based on the “rolling” mechanism already included in the 2020 Policy, which is structured based on three-year performance periods (cycles) that start each year, when the performance indicators and respective targets are set.

The “rolling” mechanism allows performance indicators to be aligned, for each new cycle, with market changes and the company’s strategic objectives which could be revised from year to year.

## Special fund to encourage workers' participation in enterprises<sup>4</sup>

The LTI Plan 2022-2024 does not receive any support from the Special Fund to encourage workers' participation in enterprises, referred to in Article 4(112) of Law No. 350 of 24 December 2003.

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The 2022-2024 LTI Plan is to be considered “of particular significance” as it is addressed, at the date of this report, to the Executive Vice Chairman and Chief Executive Officer, Deputy-CEO, General Manager of Operations and KMs among others. They have the power to make decisions that may affect the Group’s development and future outlook.

Considering that the LTI Plan is monetary in nature (as it does not envisage any assignment of Pirelli shares or other financial instruments, but only a cash incentive partly linked to the stock market price trends of Pirelli ordinary shares against an index composed of selected Tier 1 peers in the Tyre sector), the Information Document drawn up pursuant to the applicable laws and regulations does not contain the information required for plans that envisage an assignment of shares or other financial instruments.

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<sup>4</sup> Information required by Article 114-bis, paragraph 1, letter d) of the TUF.

### 3.2 Approval of the adjustment mechanisms of the quantification of the objectives included in the monetary incentive plans for the three-year periods 2020-2022 and 2021-2023 for Pirelli Group Management.

Dear Shareholders,

at the meeting of 17 March 2022, the Board of Directors – on the proposal of the Remuneration Committee, subject to the favourable opinion of the Board of Statutory Auditors – established the mechanisms for adjusting the current quantification of the targets under the short-term incentive (STI) and medium/long-term incentive (LTI) plans<sup>5</sup>, solely to account for any negative impact caused by a worsening macroeconomic and geopolitical scenario (compared to the time when the assumptions underlying the quantification of the Plans' targets were made). In particular, the approved criteria allow to reduce the quantification of the objectives in a non-proportional way the negative effects generated (in order to push Management towards compensatory actions) by factors resulting from the deepening of the crisis and affecting, for example, the trend of sales in Russia, the increase of the landed cost due to productions in alternative plants and the substitution of suppliers of raw materials.

This criteria was approved by the Board of Directors, in implementation of the provisions (regarding the revision of the plans and adjustment of targets) set out in the Information Documents on the 2020-2022 LTI Plan and 2021-2023 LTI Plan, which was made available to the public on 20 April 2021<sup>6</sup> pursuant to Article 84-*bis*, paragraph 1, of the Issuers' Regulation. Said criteria – included in the 2022 Policy, approved by the Board of Directors and submitted to the binding vote of the Shareholders' Meeting – was approved by the Board of Directors, subject to the same criteria and the 2022 Policy being approved by the Shareholders' Meeting.

For a more analytical description of the effects of this adjustment on the quantification of the targets of the LTI Plans for the 2020-2022 and 2021-2023 cycles, as well as for further updates and coordination amendments, please review the Information Documents (drafted pursuant to Article 84-*bis*, paragraph 1, of the Issuers' Regulation, as amended) which, at the same time as this report, are also available to the public (with evidence of the relevant amendments) at the registered office of Pirelli & C. S.p.A. (in Milan, Viale Piero e Alberto Pirelli 25), on the website [www.pirelli.com](http://www.pirelli.com) and on the authorised emarket Storage platform ([emarketstorage.com](http://emarketstorage.com)) in accordance with applicable regulations.

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<sup>5</sup> This refers to the 2022 STI Plan and LTI Plans for the three-year cycles 2020-2022, 2021-2023 and for the new cycle 2022-2024.

<sup>6</sup> For the Information Document relating to the 2020-2022 LTI Plan, this date refers to when the update was made available; the Information Document of the 2020-2022 LTI Plan was made available on 28 April 2020.

Dear Shareholders,

on the basis of the above, we hereby ask you to:

in relation to item 3.1 on the agenda, given that the 2022-2024 LTI Plan states – *inter alia* – that a portion of the bonus be determined based on a Total Shareholder Return target calculated based on stock market price trends of Pirelli ordinary shares against an index made up of select Tier 1 peers in the Tyre sector:

- 1.** approve – pursuant to Article 114-*bis* of Legislative Decree No. 58 of 24 February 1998, as subsequently amended and supplemented – the adoption of the 2022-2024 LTI Plan for Pirelli Group Management, regarding the part where it is also based on the performance of Pirelli shares, under the terms set out herein and as better described in the Information Document (drawn up pursuant to Article 84-*bis*, paragraph 1, of the Issuers' Regulation);
- 2.** grant the Board of Directors the broadest powers needed or appropriate to implement the 2022-2024 LTI Plan and to adjust or amend the performance indicators and respective targets of the 2022-2024 LTI Plan, submitting the new performance indicators and respective targets to the Shareholders' Meeting if they relate to or concern the relevant features pursuant to Article 114-*bis* of the TUF (compensation plan based on financial instruments);

in relation to item 3.2 on the agenda:

- 3.** approve the adjustment mechanisms of the quantification of targets under the LTI Plans for the 2020-2022 and 2021-2023 cycles for Pirelli Group Management and the updates and coordination amendments, under the terms set out herein and better described in the Information Documents (drafted pursuant to Article 84-*bis*, paragraph 1, of the Issuers' Regulation), as amended, as a result of the adjustment made to mitigate any negative effects caused by a worse macroeconomic and geopolitical scenario due to a worsening of the crisis;
- 4.** grant the Board of Directors – on the proposal of the Remuneration Committee and after consulting with the Board of Statutory Auditors – the broadest powers needed or appropriate to implement the 2020-2022 and 2021-2023 LTI Plans (last amended pursuant to the resolution passed under section 3) and to proceed with any further adjustment or amendment of the performance indicators and respective targets, submitting the new performance indicators and respective targets to the Shareholders' Meeting if they relate to or concern the features referred to in Article 114-*bis* of the TUF (compensation plan based on financial instruments).