



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

**Reports to the Meeting of 15 May 2018**

**Three-Year Monetary Incentive Plan (2018-2020) for Pirelli's Group Management. Related and consequent resolutions**

**Prospectus prepared by the Directors pursuant to art. 125-ter of Legislative Decree 24 February 1998, no. 58 and subsequent amendments and additions, approved by the Board of Directors on 26 February 2018.**

Dear Shareholders,

During the meeting held on February 26, 2018, the Board of Directors approved the adoption of a new 2018-2020 three-year monetary incentive plan for the Management of the Pirelli Group ("LTI Plan"). The Plan is linked to the objectives of the 2018/2020 period included in the 2017/2020 Business Plan. The guidelines of the LTI Plan were previously approved by the Board of Directors in the meeting held on July 28 2017, as announced to the Market within the framework of the Initial Public Offering ("IPO") transaction concluded with the listing of Pirelli & C. shares on the Stock Exchange. The new LTI Plan was also approved pursuant to Art. 2389 of the Italian Civil Code, following proposal by the Remuneration Committee and with the favourable opinion expressed by the Board of Statutory Auditors on the subjects for whom the above-mentioned opinion is requested. The LTI Plan is subject to the approval of the Shareholders' Meeting pursuant to art. 114-bis of Legislative Decree 58/1998 ("TUF," the Consolidated Financial Act), as it sets out, inter alia, that part of the incentive is to be determined on the basis of the Total Shareholder Return objectives calculated with respect to Pirelli's performance and with respect to an index composed by a selected panel of "peers" belonging to the Tyre sector.

Below, please find the highlights of the LTI Plan. For a more detailed description we invite you to refer to the Disclosure Document drafted pursuant to art. 84-bis, first paragraph, of Consob resolution no. 11971 of May 14, 1999 (the "Issuers Regulations"), available to the public at the registered office of Pirelli & C. S.p.A. ("Pirelli") - located in Milan, viale Piero and Alberto Pirelli 25- and on Pirelli's website ([www.pirelli.com](http://www.pirelli.com)) as well as on the authorized eMarket storage (eMarket Storage.com) mechanism in accordance with legal requirements and at the Borsa Italiana SpA (Milan, Piazza degli Affari n.6) alongside the current Report.

## ***RATIONALE FOR PLAN ADOPTION<sup>1</sup>***

In line with national and international best practices, the Remuneration Policy for the year 2018 adopted by Pirelli (the "2018 Policy")<sup>2</sup> is based upon Pirelli's goal of attracting, motivating and retaining those resources possessing the professional skills required to successfully pursue the Group's objectives.

The 2018 Policy and the 2018-2020 LTI Plan (which forms an integral part of it) are defined in such a way as to align the interests of Management with those of Shareholders, pursuing the primary objective of creating sustainable medium to long term value, through the creation of an effective and proven correlation between remuneration on the one hand, and individual and Pirelli's performances on the other.

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<sup>1</sup> Information pursuant to art. 114-bis, par. 1, a) of the legislative decree 58/1998.

<sup>2</sup> The 2018 Policy is made available to the public along with this Report

The 2018 Policy was drawn up based on past experience, in order to allow for a full understanding of the link between the Management's remuneration structure and the creation of value in the medium to long term horizon. The 2018 Policy also takes into account the regulatory provisions adopted by Consob with resolution no. 18049 of December 23, 2011.

The LTI Plan was adopted in support of the new 2018/2020 Business Plan with consequent early closure of the 2016-2018 LTI Plan, with pro-rata payment of the three-year incentive envisaged therein.

## ***RECIPIENTS OF THE PLAN***<sup>3</sup>

The LTI Plan is addressed to Pirelli's Management (consisting of Executive Directors of Pirelli & C. and by the Group's executives) and may also be extended to those who, over the three-year period, become part of the Group's Management or take on an Executive role. In such cases, inclusion in the Plan is subject to the condition of participating in the LTI Plan for at least a full year and the incentive percentages are calculated on the basis of the number of months of actual participation in the Plan.

In particular, the LTI Plan includes, amongst others, the Executive Vice Chairman and Chief Executive Officer of Pirelli & C. Marco Tronchetti Provera, and the Managers having strategic responsibilities<sup>4</sup> Maurizio Boiocchi (EVP and Strategic Advisor Technology), Andrea Casaluci (EVP Business Unit Prestige & Motorsport & COO Region Europe), Roberto Righi (EVP and Chief Commercial Officer), Francesco Sala (Senior Vice President Manufacturing), Maurizio Sala (EVP and Chief Planning and Controlling Officer), Luigi Staccoli (EVP Pirelli Digital) and Francesco Tanzi (EVP and Chief Financial Officer). The LTI plan is also addressed to senior managers and to the Group's executives (including Director Giovanni Tronchetti Provera, exclusively as a Group's executive) and may also be extended to those who, over the three-year period, for internal career growth or as newly hired, take on Executive positions.

## ***PERFORMANCE OBJECTIVES AND CALCULATION OF AWARD***<sup>5</sup>

Pirelli's Management remuneration structure is composed by three elements:

- a fixed component;
- an annual variable component (MBO): this is a percentage of the fixed component increasing in relation to the position held by the beneficiary and taking into account the different roles' reference benchmarks. If target objectives are achieved, this percentage may vary from a minimum of 20%

<sup>3</sup> Information pursuant to art. 114-bis, par. 1, b) and b-bis of the legislative decree 58/1998.

<sup>4</sup> It should be noted that Mr. Gustavo Bracco, Executive with strategic responsibilities, is not among the LTI Plan recipients.

<sup>5</sup> Information pursuant to art. 114-bis, par. 1, c) of the legislative decree 58/1998.

for Executives (executives of the Italian Pirelli Company or employees of the Group's foreign Companies, with a position or role that is equivalent to that of an Italian executive) up to a maximum of 125% for Directors holding special offices who are assigned specific duties, and is aimed to reward, depending on the position held, the annual performance of the Group, of the Company and / or of the function to which they belong. A cap to the maximum attainable MBO award is set which amounts to twice the incentive payable at target level. For the sake of continuity of results over time, payment of 25% of the potentially accrued MBO is deferred to the following year, its payment being subject to the accrual of the MBO award in such following year (and therefore potentially at "risk" of disbursement), in addition to a possible "reward" mechanism of increase of the total MBO award, in accordance with the degree of achievement of the MBO objectives in the following year (for the valuation of the Annual Total Direct Compensation, this deferral and "bonus" component is classified as a medium-long term variable component) .

- a medium-long term variable component: consisting of the incentive of the LTI Plan, aimed at rewarding the Group's performance for the 2018-2020 period, and the aforementioned component of MBO deferral and increase reward mechanism.

As with the MBO incentive, also the LTI incentive is established as a percentage of the fixed component increasing on the basis of the position held and of the reference benchmarks for each role. If target objectives are reached, this percentage may vary from a minimum of 50% for Executives up to a maximum of 250% for Directors holding special offices who are assigned specific duties . A limit has been set to the maximum LTI incentive that is equal to twice the incentive that can be attained at target.

The LTI Plan, which is monetary and does not provide for the assignment of shares or options on shares, is subject to the achievement of the three-year objectives and is determined as a percentage of the gross annual fixed component /Gross Annual Salary (RAL) received by the beneficiary on the date at which participation of the subject to the Plan was established. The 2018-2020 LTI Plan envisages an access threshold consisting in a Deleveraging (calculated as the NFP / EBITDA adjusted ratio) lower than 2 as calculated at December 31st 2020.

Furthermore, the following four types of objectives have been established, the first three of which are independent from each other, with relative weightings:

- Return on Sales target (calculated as the ratio between the three-year cumulative Group Adjusted EBIT and the cumulative net sales for the three-year period) with a weighting equal to 30% of the total LTI award;

- Absolute Group Total Shareholder Return ("TSR") target with a weighting on the total LTI award equal to 40%. In the document made available at the Shareholders' Meeting, more detailed information on the implementation of the TSR target and on the peer group composition is available;

- Relative TSR target, with a weighting of 20%, relative to a panel of selected peers. In the document made available at the Shareholders' Meeting, more detailed information on the implementation of the TSR target is available;

- the remaining 10% is calculated on the basis of a Sustainability indicator in relation to the positioning of Pirelli in the Dow Jones Sustainability Index AX Auto Components sector. This objective is subject to the achievement of the minimum value of at least one of the above-mentioned economic / financial objectives.

For all of the three objectives (TSR, ROS and Sustainability) a minimum value (access threshold) has been set corresponding to a payout equal to 75% of the respective portion – with reference to each objective - of the incentive achievable at target performance.

In the event of failing to achieve the minimum established value ( access threshold) for any objective, the beneficiary does not accrue any right to payment of the relevant portion of the incentive.

In relation to the TSR and ROS targets, the final calculation of the incentive for intermediate results between the access threshold and the *target* or between the *target* and the maximum, is carried out using linear interpolation.

## ***AWARD PAY-OUT PERIOD***

If objectives are met, pay-out ("Pay-Out Date") of the medium to long term incentive (so-called LTI award) to participants of the LTI Plan will be carried out in the first half of 2021, provided that for the participants, as of 31 December 2020, the employment relationship has not ceased.

In the event of termination of the employment relationship, which may have occurred for any reason before the end of the three-year period, the recipient ceases to participate in the LTI Plan and, consequently, the LTI Bonus will not be paid, not even pro-rata. For Directors holding special offices who are assigned specific duties (as is the case for the Executive Vice Chairman and Chief Executive Officer Mr. Marco Tronchetti Provera) who cease to hold office because their term has expired and are not subsequently appointed as directors the pro-rata payment of the LTI bonus will be provided for.

## ***DURATION OF THE PLAN AND CHANGES***

The Plan, referred to the financial years 2018-2020, ends on the Pay-Out Date. In compliance with existing procedures in order to proceed with a review of the LTI Plan, reference should be made to the Disclosure Document.

# ***SPECIAL FUND TO INCENTIVIZE WORKERS' PARTICIPATION IN COMPANIES<sup>6</sup>***

The Plan receives no support from the Special Fund to incentivize workers' participation in companies, pursuant to Art. 4, Par. 112 of Law n. 350 dated December 24, 2003.

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The LTI Plan is to be considered "of particular relevance" as it is addressed, amongst others, to the Executive Vice Chairman and Chief Executive Officer of Pirelli & C. and to subjects having strategic responsibilities as they have regular access to classified information and hold the power to adopt decisions that may affect the Group's evolution and future prospects.

Taking into account that the LTI Plan is monetary and does not provide for the allocation of shares or options on shares or stocks, but exclusively a cash incentive partially related to the performance of Pirelli's ordinary share, the Disclosure Document, drafted in compliance with the current legislation, does not contain the information required for mechanisms regarding the assignment of shares or options on shares.

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Dear Shareholders,

On the basis of the above, we ask you to:

1. approve - pursuant to art. 114-bis of Legislative Decree n. 58 dated February 24, 1998, as subsequently amended and integrated - the adoption of a 2018-2020 three-year monetary incentive plan (so-called LTI Plan) for the Management of the Pirelli Group in the part in which it is also based on the performance of Pirelli's share, in the terms illustrated in this Report and, as better described, in the Disclosure Document relating to the LTI Plan (prepared pursuant to article 84-bis, 1<sup>st</sup> Paragraph, of the Issuers' Regulation). In fact, the LTI Plan envisages, inter alia, that a portion of the LTI Award will be determined on the basis of the Total Shareholder Return objective calculated according to Pirelli's performance and to an index composed of selected "peers" in the Tyre sector;
2. confer to the Board of Directors – and, on its behalf, to the Executive Vice Chairman and Chief Executive Officer - all powers necessary to proceed to the full and complete implementation of the LTI Plan.

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<sup>6</sup> Information pursuant to art. 114-bis, par. 1, d) of the legislative decree 58/1998.