Pirelli & C. S.p.A.

Report to the Shareholders' Meeting of 24 March 2021

Authorisation for the convertibility of the equity-linked bond named "*EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025*" and share capital increase in tranches, with the exclusion of the shareholders' option rights, to service said bond, through the issue of ordinary shares. Amendment to article 5 ("Share Capital") of the Bylaws. Related and consequent resolutions. Conferral of powers

(sole item on the agenda of the extraordinary session)

Dear Shareholders,

the Board of Directors of Pirelli & C. S.p.A. (hereinafter: “**Pirelli & C**.” or the “**Company**”) has called you to an extraordinary shareholders' meeting to discuss and resolve on the proposal to authorise the convertibility into Pirelli & C. ordinary shares of the equity-linked bond for a nominal amount of 500,000,000 (five hundred million) euros with maturity on 22 December 2025, reserved for Institutional Investors (as defined below), named “*EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025*”, issued on 22 December 2020 and guaranteed by Pirelli Tyre S.p.A. (“**Pirelli Tyre**” or the “**Guarantor**”) (the “**Bonds**”) and, as a consequence, the proposal to increase the share capital to service the Bond, for payment and in tranches, excluding the pre-emption right pursuant to Article 2441, paragraph 5, of the Italian Civil Code, for a maximum of 500.000.000 (five hundred million) euros, including any premium, to be redeemed one or more times through the issue of ordinary shares with regular dividend entitlement, having the same characteristics as the ordinary shares in circulation (the “**Capital Increase**”).

The Company is, therefore, proposing the Capital Increase for the purposes of issuing new shares under the circumstances provided for by the Bonds’ contract provisions.

This report aims to illustrate the capital increase proposal pursuant to article 2441, paragraph 6, of the Italian Civil Code and to article 72 of the Conditions adopted with CONSOB resolution no. 11971 of 14 May 1999 (the “**Issuers’ Regulation**”) and to article 125-ter of Legislative Decree of 24 February 1998, no. 58 (the “**Consolidated Law on Finance**”).

1 Characteristics of the transaction

1.1 Basis and purpose of the Capital Increase

The Capital Increase falls within the scope of the issue of the Bonds to Italian and foreign qualified investors (as defined by the applicable governing regulations), outside the United States of America pursuant to Regulation S of the Securities Act of 1933, with exclusion also of other jurisdictions where the offering or placement of Bonds would be subject to specific authorisations, (hereinafter, for the sake of brevity, “**Institutional Investors**”), excluding, in any case, any offer to the general public, whose issue was approved by the Board of Directors on 14 December 2020 with pricing set on 15 December 2020, following the placement procedure. The main characteristics and purposes of the Bonds are illustrated below.

1.2 Scope and characteristics of the Bond issue

The issue of bonds (the “**Bonds**”) and the main terms and conditions of the Bonds were the subject of approval by the Board of Directors on 14 December 2020. The placement of the Bonds began on 14 December 2020 and was completed the following day, with the pricing being defined on 15 December 2020.

The aggregate principal amount of the Bonds is € 500 million.

The placement of the Bonds is for Institutional Investors that are specialised in equity-linked instruments due to, on the one hand, the complexity of the Bonds’ financial characteristics, which, by their very nature, require an understanding by investors possessing remarkable technical expertise and, on the other, a desire to ensure the positive outcome of the transaction in the short run, which is not compatible with the requirements and timing of placements with other categories of investors, including retail investors. The offer of the Bonds to Institutional Investors has allowed for a prompt gathering of financial resources from the non-banking capital market, enabling the Company to take advantage of opportunities offered by both the favourable market situation and the placement conditions deriving from the equity-linked elements of the Bonds. The Board of Directors deems that the issue of the Bonds is in the interests of the Company, in that it has gathered financial resources from the market at conditions favourable both in terms of cost and duration.

In resolving to proceed with the issue of the Bonds – with the consequent proposal hereby to approve, pursuant to Article 2441, paragraph 5, of the Italian Civil Code, the Capital Increase – the Board of Directors took into account the main benefits of the transaction as structured, in a market context characterised by high volatility in light of impacts including, among others, the COVID-19 emergency and the progress of the "Brexit" negotiations, the outcome of which – on the date of the Board of Directors resolution – was still uncertain, as described below:

a. the opportunity to swiftly benefit, given said volatility, from favourable windows of opportunity as and when they may arise, by way of timely placement with Institutional Investors, in a benchmark market that is compatible, as regards potential investors, with the envisaged amount and with a quick placement;

b. extremely rapid implementation times, which have thus minimised the Company's exposure to market risks as compared to alternative instruments, such as, for instance, the issue of non-convertible Bonds, syndicated loans, capital increase with shareholder pre-emption rights. In the trade-off between certainty as regards to issue terms and conditions, on the one hand, and the recognition of shareholder pre-emption rights on the other, we the Board prioritised the former, deeming it the choice that best meets our shareholders' interests, since it allows the Company to issue, at the best possible price, a relatively limited number of shares if and when the circumstances warranting conversion were to arise. Concurrently, the timing of the placement, which started following the market closure, has mitigated the risk that the announcement be followed by speculative actions with respect to the relevant shares that may have stood to potentially undermine final issue pricing;

c. funding on favourable, cost and duration terms in due consideration, also, of the equity-linked nature of the Bonds;

d. The placement of capital at a premium of 45% with respect to the Reference Price (as defined below) (equal to a premium of 38.9% with respect to the closing price of Pirelli & C. ordinary shares on the day of placement of the Bonds), where a capital increase with pre-emption right – as per market practice – should have been carried out at a discount; the premium referred to above already takes into account the possibility of the Company distributing dividends during the life of the Bonds up to an amount equal to 0.060 euros per share in relation to the financial year ended on 31 December 2020, 0.110 euros per share in relation to the financial year ending on 31 December 2021, 0.128 euros per share in relation to the financial year ending on 31 December 2022, 0.141 euros per share in relation to the financial year ending on 31 December 2023 and 0.155 euros per share in relation to the financial year ending on 31 December 2024, without the conversion price being adjusted to compensate bondholders in view of the dividends distributed ("*dividend protection*" clause); and

e. the opportunity of optimising – in an economic context impacted by COVID-19, as per the last communication to the market on 11 November 2020 – the debt profile of the group headed by Pirelli & C. (the "**Pirelli Group**"), extending their maturities, and to preserve the cash generated by the business, due to the non-interest bearing nature of the Bond.

The capital increase as submitted by the Board of Directors for approval by the Shareholders' Meeting falls within the scope of the Bond issue and, as such, warrants the Company's interest in excluding shareholder pre-emption rights.

The provisions governing the Bonds, set forth under the Trust Deed, which also includes the Terms & Conditions (hereinafter, the "**Conditions**", available at www.pirelli.com), establishes that, following the approval of the Capital Increase, Pirelli & C. shall release a statement, following which any Bond conversion shall be settled in ordinary shares of the Company (hereinafter, "**Additional Ordinary Shares**"), without prejudice to cash settlements (if any) as provided for by the Conditions. If, however, the Capital Increase were not to be passed by 30 June 2021, the Bonds may not be converted into Additional Ordinary Shares and Pirelli & C. shall have the right to perform early redemption of the Bonds, pursuant to the provisions described below (cf. "early redemption" under paragraph 1.3 below).

1.3 Purpose of the Capital Increase in service to the conversion of the Bonds

The Conditions establishes that, should the Shareholders' Meeting not pass the Capital Increase in service to the conversion of Bonds by 30 June 2021 (the so-called "***Long-Stop Date***") the Company may effect a cash-settled early redemption of all but not some only of the Bonds at the greater of (i) 101% of the principal amount of the Bonds and (ii) 101% of the Fair Bond Value.

Should the Shareholders' Meeting resolve to authorise the convertibility of the Bonds and, consequently, to approve the capital increase to service the conversion of the Bonds, the Company shall be required to give specific notice to the bondholders (the "**Physical Settlement Notice**"), in virtue of which the bondholders shall be entitled, as of the date specified therein (the "**Physical Settlement Date**") – which shall be no earlier than 10 nor later than 20 Borsa Italiana trading days after the date on which the Physical Settlement Notice is given – to convert their bonds into the Company's ordinary shares from the Physical Settlement Date up to the seventh day prior to the Bonds' maturity date, pursuant to provisions and limitations set forth under the Conditions. In particular, the Conditions of the Bonds set specific time periods in which the Bonds may not be converted in order, inter alia, to simplify the administrative management in conjunction with certain corporate events.

Any conversion of the Bonds into newly issued shares will allow the Company to bolster its capital structure and diversify its financial structure, concurrently limiting cash outflow as regards to principal at maturity, as well as to expand its shareholder base, with Institutional Investors joining in the share capital.

For the aforesaid reasons, the Board of Directors deems it important that the Bonds be converted into Company shares. As highlighted above, the reasons for excluding any shareholder pre-emption rights pursuant to article 2441, paragraph 5 of the Italian Civil Code, as with reference to the proposed Capital Increase, are the same which have led to the issue of the Bonds.

The Board of Directors therefore deems that excluding shareholder pre-emption rights is entirely justified given the characteristics, timing and scope of the Bond issue.

1.4 Main characteristics of the Bond

Pursuant to the resolutions of the Board of Directors, to the Terms and Conditions and to the executive decision as with reference to the issue, the Bonds have the following characteristics:

- <u>aggregate principal amount</u>: 500,000,000 (five hundred million) euros;
- <u>currency</u>: Euro;
- <u>minimum denomination of the Bonds</u>: 100,000.00 (one hundred thousand point zero zero) euros;
- <u>life</u>: 5 (five) years, Maturity Date being 22 December 2025;

- issue price: equal to 100% (hundred per cent) of the principal amount of the Bond;
- interest rate: zero, the Bonds will not pay any coupon;
- yield to maturity: zero;
- guarantees: initially guaranteed by Pirelli Tyre, which may be terminated under the conditions set forth in the Conditions of the Bond. Also, the Conditions of the Bonds provides for negative pledge clauses, according to which the Company and the Guarantor will be prohibited from setting up, directly or through their relevant subsidiaries (as identified in the Conditions of the Bond), security interests (other than permitted security interest as identified in the Conditions of the Bond) on further indebtedness, other than intercompany indebtedness, represented by securities, without (i) such security interest being previously or concurrently pledged or extended as security for the Bonds; or (ii) different security interests or personal guarantees are created or additional protections are put in place that are deemed by the Trustee, in its sole discretion, to be substantially analogous to the security interest created in favour of such further indebtedness;
- initial conversion price: 6.235 (six point two hundred and thirty five) euros per share, subject to adjustments as per Conditions, consistent with the applicable and governing market procedures for this kind of financial instrument (including in terms of dividend protection as represented above);
- accrual date: from issue date;
- conversion right: subject to the Shareholders' passing of the Capital Increase by no later than the Long-Stop Date;
- redemption: at maturity all but not some only of the Bonds will be repaid at an amount equal to 100% of the principal amount, unless previously redeemed;
- early redemption by the Company: ability for the Company to fully redeem the Bond in advance at its principal amount, in the event that, as of a certain date, the
  - "parity value" of Bonds (as calculated in the Conditions) is, for a certain number of days, higher than Euro 130,000.00 (one hundred and thirty thousand point zero zero), all as detailed in the Conditions of the Bond (so-called issuer's soft call);
  - if conversion or early redemption rights are exercised in a percentage equal to or higher than 80% (eighty percent) of the principal amount of the Bond (so-called clean up call); or
  - if the Company is required, in relation to the payments due, to pay taxes relating to bondholders as a result of changes in tax law (so-called tax call);
  - if the Capital Increase is not approved, for an amount equal to the higher of (a) 101% (one hundred and one per cent) of the Principal amount of the Bond, and (b) 101% (one hundred and one percent) of the fair market value of the Bonds, as calculated by an independent entity on the basis of the average price of the Bonds in the five open market days following the communication of early redemption;
- change of control or free float event: in a period of time identified in the Conditions of the Bond, each investor will be granted at his or her choice, upon the occurrence of change of qualified control events of the Company (so-called change of control) or in the event that the free float of the Company's ordinary shares (calculated in accordance with the terms set out in the Conditions of the Bond) falls below a certain threshold and remains there for a certain number

of open market days from the first day on which it fell below that threshold (so-called free float event), alternatively (i) the right to request early redemption at the principal value of the Bonds, through the exercise of a put option or (ii) the recognition of a new conversion price (if applicable, according to the so-called cash settlement amount mechanism), lower than the original price and based on the period between the event and the maturity of the Bonds; all this according to the terms and conditions set out in the Conditions of the Bond;

- listing: Vienna MTF, a multilateral trading facility managed by the Vienna Stock Exchange (*Wiener Börse AG*);
- governing law: English law, save for aspects that are subject to compliance with Italian law.

1.5 Reasons for excluding rights issues

The Bond issue, the Capital Increase and the approval of the convertibility of the Bonds into convertible bonds represent a single transaction designed to equip the Company with a means of procurement that is ideally suited to rapidly collect funds from capital markets on terms favourable (with regards to cost and duration) to the Company. To this end, completion of the transaction requires the approval of a capital increase in service to the Bonds, excluding shareholder pre-emption rights. The Board of Directors deems that excluding such rights is in the interest of the Company with reference to article 2441, paragraphs 5 and 6 of the Italian Civil Code, for the following reasons:

a. the basis for directing the Bonds at Institutional Investors only, thus excluding shareholders' pre-emption rights as regards to the subsequent Capital Increase, is the extreme complexity and the characteristics of equity-linked financial instruments, which make them unsuitable for retail investors (thus including the Company's shareholders). The equity-linked instrument, by its nature (given the chosen structure and characteristics of the Bonds, as offered, inter alia, in principal amounts of € 100,000.00) and by its solely being addressed to and directed at Institutional Investors, constitutes an efficient means to source non-bank financing on terms that are both very favourable and well suited to the current requirements of the Company, and stands to provide improvements with respect to financial position and charges not otherwise attainable (more so not attainable with reference to conventional convertible bonds that carry shareholder subscription rights);
b. the issue and placement of equity-linked instruments requires such rapid market timing and implementation as to entail the exclusion of shareholder pre-emption rights and of any public offer of the Bonds, as these entail a higher burden of duties for the Company, as well as slower timing, greater costs and higher implementation risks;
c. approval of the Capital Increase along with rights to convert the Bonds voids Bondholder rights to cash settlements, other than where redemption is provided for pursuant to the conditions described under paragraph 1.4, thus potentially stabilising the resources acquired by means of the Bonds;
d. any prospective conversion of Bonds into Pirelli & C. shares, or, in any case, the issue of shares pursuant to the terms and conditions of the Bonds, will enable the Company to (i) bolster its capital structure and diversify its financial structure, concurrently limiting cash outflow as regards to principal at maturity and to (ii) expand its shareholder base.

1.6 Terms and methods of Conversion of Bonds into share capital

The conversion price, which corresponds to the issue price of new shares proceeding from the Capital Increase, is € 6.235, save for possible adjustments to the conversion price as described herein.

The issue price per share shall be recognised at € 1.90 (or at the smaller amount of the conversion price) as share equity and, for any remainder, as share premium.

The number of shares to be issued or transferred for the conversion will be determined by dividing the aggregate principal amount of the Bonds by the conversion price in effect at the relevant conversion date, rounding down to the nearest whole number of ordinary shares. No share fractions shall be issued or delivered and no cash payment or adjustment will be made in lieu of such fractions.

Given such parameters, namely an initial conversion price of € 6.235 per share, no more than 80,192,461 ordinary shares Pirelli & C. shall be issued.

The Conditions of the Bonds envisage that the initial conversion price will be subject to adjustments, in a manner in accordance with customary market practice for such financial instruments, upon occurrence, inter alia, of the following events, including but not limited to: consolidation or subdivision of ordinary shares in issue; the issue of ordinary shares for no consideration (excluding capital increases in service to compensation plans based on financial instruments as defined under article 114-*bis* of the Consolidated Law on Finance); distribution of dividends in kind or of dividends in cash for ordinary shares higher than the amount indicated below; allocation to ordinary shareholders and/or issue of ordinary shares; financial instruments convertible into ordinary shares, rights or options giving the right to subscribe ordinary shares at a price lower than market price and not offered to bondholders (excluding capital increases for financial compensation plans based on financial instruments as defined under article 114-*bis* of the Consolidated Law on Finance); modification of rights attaching to financial instruments previously issued that entail the right or obligation to convert such instruments into ordinary shares, so as to enable the acquisition of ordinary shares at a price lower than fair market value.

Bonds offer the investor greater protections compared with future dividends paid by the Company. In fact, should the Company decide to distribute dividends during the life of the Bonds for a higher amount, in relation to each financial year, than the corresponding amount indicated in the Conditions of the Bond, the conversion price of the Bonds shall be adjusted on the basis of the formulas set out in the Conditions of the Bond, in order to compensate the bondholders for the amount of the dividends distributed.

Should a change of control or free float event occur, as subject to and as defined by the Conditions, investors may be granted a separate conversion ratio for a limited period (90 days), said ratio being adjusted and lower than the initial conversion price, based on a formula that shall factor in the time at which the relevant event occurs and the overall duration of the Bonds, so as to reflect the value of any rights attaching to the Bonds that may not have been exercised, all as set forth and determined within the Terms and Conditions.

2 Breakdown of short-term and medium to long-term financial indebtedness

The following table details Pirelli Group net financial position as at 30 September 2020 and as at 31 December 2019.

(in million of Euro)	**30/09/2020**	**31/12/2019**
Current borrowings from banks and other financial institutions	1,419.4	1,419.4
- of which lease obligations	*73.6*	*77.8*
Current derivative financial instruments	26.8	31.7
Non-current borrowings from banks and other financial institutions	4,593.0	3,949.8
- of which lease obligations	*398.5*	*405.3*

Non-current derivative financial instruments	22.7	10.3
Total gross debt	**5,801,2**	**5,411,2**
Cash and cash equivalents	(1,115.6)	(1,609.8)
Other financial assets at fair value through Income Statement	(34.2)	(38.1)
Current financial receivables and other assets**	(68.2)	(35.5)
Current derivative financial instruments	(65.5)	(32.1)
Net financial debt *	**4,517.7**	**3,695.7**
Non-current derivative financial instruments	(1.8)	(52.5)
Non-current financial receivables and other assets**	(263.4)	(136.0)
Total net financial (liquidity) / debt position	**4,252.5**	**3,507.2**

* Pursuant to Consob Notice of July 28, 2006 and in compliance with ESMA/2013/319 Recommendations

** The item “financial receivables and other assets” is reported net of the relative provision for impairment which amounted to euro 6.5 million at September 30, 2020 (euro 8.7 million at December 31, 2019)

The structure of gross debt of the Pirelli Group as at 30 September 2020 and as at 31 December 2019 is the following:

(in million of Euro)	**30/09/2020**	**31/12/2019**
Use of unsecured financing ("Facilities")	1,924.6	1,994.8
P.O. EURIBOR +0.70% - 2018/2020	-	199.9
P.O. 1.375% - 2018/2023	548.9	547.8
Schuldschein	523.2	523.7
Bilateral long term borrowings	721.2	722.4
ISP short term borrowing	200.0	200.0
Other loans	1,411.2	739.5
Lease obligations IFRS 16	472.1	483.1
Total gross debt	**5,801.2**	**5,411.2**

The following table details Pirelli & C. S.p.A. net financial position as at 30 September 2020 and as at 31 December 2019.

(in million of Euro)	**30/09/2020**	**31/12/2019**
Current borrowings from banks and other financial institutions	549.1	678.3
- of which lease obligations	*5.6*	*2.7*
Current derivative financial instruments	-	-
Non-current borrowings from banks and other financial institutions	4,237.3	3,577.2
- of which lease obligations	*44.4*	*35.5*

Non-current derivative financial instruments	44.0	9.6
Total gross debt	**4,830.4**	**4,265.1**
Cash and cash equivalents	(1.7)	(1.8)
Current financial receivables and other assets	(858.5)	(2,325.2)
Current derivative financial instruments	(0.4)	(10.1)
Net financial debt *	**3,969.8**	**1,928.0**
Non-current derivative financial instruments	(1.6)	(30.3)
Non-current financial receivables and other assets	(2,000.3)	(0.3)
Total net financial (liquidity) / debt position	**1,967.9**	**1,897.4**

* Pursuant to Consob Notice of July 28, 2006 and in compliance with ESMA/2013/319 Recommendations

The structure of gross debt of Pirelli & C. as at 30 September 2020 and as at 31 December 2019 is the following:

(in million of Euro)	**30/09/2020**	**31/12/2019**
Use of unsecured financing ("Facilities")	1,924.6	1,994.8
P.O. EURIBOR +0.70% - 2018/2020	-	199.9
P.O. 1.375% - 2018/2023	548.9	547.8
Schuldschein	523.2	523.7
Bilateral long term borrowings	721.2	722.4
ISP short term borrowing	200.0	200.0
Other loans	862.5	38.3
Lease obligations IFRS 16	50.0	38.2
Total gross debt	**4,830.4**	**4,265.1**

It should be noted that (i) the financial information as at 30 September 2020 has not been subject to any full or limited audit, and (ii) the financial information as at 30 September 2020 relating to Pirelli & C. is management data.

3 Information regarding the expected close of the current year and management data for the current year

3.1 Expected closure of the financial year ended 31 December 2020

In 2020 the performance of the economy was affected by the COVID-19 emergency and the containment measures adopted by the various countries, with a significant drop in the GDP worldwide, production and consumption.

In particular, in the tyre sector the global demand for car tyres in 2020 recorded a drop in volumes in the "mid-teens", less marked for the new Premium segment (≥18-inch rim tyres) which was confirmed as the most resilient.

Pirelli & C. promptly responded to the profound change in the global scenario by implementing a plan of action announced to the financial market on 3 April 2020. This Plan allowed it to:

- ensure the health and safety of its employees, adopting all the necessary prevention measures;
- protect profitability and cash generation through cost containment (Cost Competitiveness Plan and "COVID Actions" for a total of 140 million euros of net benefits), and remodelling of the investment programmes;
- strengthen its capital structure. This is the logic underlying the subscription of a new "sustainable" banking facility for 800 million euros or (at 5 years) the issue of the Bond and, in general, optimisation of the financial structure extending the debt maturity dates;
- consolidate collaboration with the main Premium and Prestige car manufacturers and with the sales network in view of the recovery of demand.

The measures listed have allowed the Pirelli Group to minimize the negative impact of the revenue reduction on the adjusted EBIT, as well as on net cash generation, expected in line with the indications made by the Company on 11 November 2020 during approval of the interim financial report at 30 September 2020. In this regard, it should be recalled that as of the date of this report the preliminary results for the financial year ended 31 December 2020 are expected to be examined and approved by the Company's Board of Directors on 10 March 2021.

3.2 Expected outlook for the current financial year

The prospect of an improved macro scenario, considering the containment of the pandemic, and the interventions of the main governments and central banks to support the economy lead to the forecast of a recovery in the tyre market in 2021.

4 Underwriters and/or placement syndicate, members, intervention procedures

The Capital Increase shall not involve the establishment of an underwriters syndicate and/or placement since the scope of said Capital Increase is the service of prospective bond conversions.

Note that the offering of the Bonds saw Credit Suisse Securities (Europe) Limited and Goldman Sachs International as joint global coordinator and joint bookrunner (the "***Joint Global Coordinator***"). BNP Paribas, China International Capital Corporation Hong Kong Securities Limited, Intesa Sanpaolo S.p.A., Mizuho International plc, UniCredit Bank AG, Milan Branch acted as joint bookrunners alongside the *Joint Global Coordinators* (collectively, the "***Joint Bookrunners***").

5 Other forms of placement

No other form of placement is envisaged.

6 Price-setting criteria for the issue of new ordinary shares and conversion ratio

The Company's Board of Directors, upon due consideration of the characteristics of both the Bonds and the Capital Increase, has resolved to submit to Shareholders for approval that the issue price of the shares proceeding from the Capital Increase equal conversion price of the Bonds, without prejudice to the criteria set forth under article 2441, paragraph 6, of the Italian Civil Code pursuant to which the issue price shall not be less than the price determined based on Company equity and shall, furthermore, duly account for the prior semester's Company stock performance on the Mercato Telematico Azionario of Borsa Italiana.

The initial conversion price of the Bonds – given the nature of the Bonds and their being subject to conversion into ordinary shares provided the Extraordinary Shareholders' Meeting so approves – was determined, in keeping with customary market practice for such financial instruments and upon placement of the Bonds, based on the fair market value of the Company's ordinary shares and on the quantity and quality of demand for the Bonds during placement with institutional investors.

In this regard, note that, as far as the Board of Directors is aware, when formulating their proposals for the purposes of bookbuilding, the Institutional Investors, in compliance with consolidated practices in similar transactions, mainly assess the following financial characteristics of a bond similar to that in question:

- conversion price; and
- any interest rate paid,

all in combination with each other.

As stated above, the Bond does not provide for the payment of any coupon (i.e. it corresponds to an interest rate of 0.00% and has an effective rate of return at maturity of 0.00%) and, therefore, the determination of the conversion price took this circumstance into account.

The conversion price is determined on the basis of a “reference price” of the shares underlying the bond (“*reference share price*”), increased by a conversion premium, determined on the basis of the quantity and quality of demand during placement which, as outlined above, takes into account, inter alia, the characteristics of the relative bond, as well as of the issuer.

In order to determine a “reference price” corresponding to the actual market value of the ordinary shares, it was benchmarked against the reference share price of the Company's ordinary shares placed by the Joint Global Coordinators concurrent to the placement of the Bonds (the “**Concurrent Delta Placement**”), on behalf of the subscribers of the bonds wishing to hedge the market risk of an investment in the Bonds. This price, amounting to 4.300 euros per Pirelli & C. ordinary share (the “**Reference Price**”), was determined by an accelerated bookbuilding process. The price was then adjusted by a 45% conversion premium as determined based on opinions submitted by the Joint Bookrunners and on market conditions, delivering a final conversion price of € 6.235. The use of the Concurrent Delta Placement mechanism as a method for identifying the “reference price” in order to determine the market value of the Pirelli & C. ordinary shares was justified, inter alia, by the following reasons: (i) the choice to carry out the transaction after the close of the market in order to avoid being exposed to price fluctuations on Borsa Italiana during the session, taking into account that in the final part of the calendar year the volumes traded on most shares are reduced; and (ii) the opportunity of having a base value that corresponds more fully to the price at which the Institutional Investors (with whom the Pirelli & C. ordinary shares were placed under the Concurrent Delta Placement) are willing to buy and subscribe Pirelli & C. ordinary shares and, therefore, of reducing the influences of the phenomena set out under point (i) above. In the last year, as far as the Board of Directors is aware, the Concurrent Delta Placement has started to represent an increasingly frequent operating procedure also in the Italian market.

For completeness, note, in this regard, that the Reference Price is already higher than the weighted average price for the traded volumes of Pirelli & C. shares in the last 6 months prior to the date of 14 December 2020 (inclusive)[1].

With reference to the conversion premium, note that it is consistent with the premium applied in similar transactions. In particular, taking into consideration similar issuing transactions (excluding “*tap issues*” drawn on already issued equity-linked bonds), listed in the databases usually used for these checks, which (i) were carried out on the markets of the European Economic Area and of the United Kingdom; and (ii) were completed in the period between 14 December 2017 and 14 December 2020, the average conversion premium was 42.6% with respect to the relative reference prices.

[1] Note that the weighted average price of Pirelli & C. ordinary shares in the last 6 months was 3.941 euros.

Pursuant to provisions under article 2441, paragraph 6 of the Italian Civil Code, for the purposes of setting the issue price of the new ordinary shares in service to any prospective conversion of the Bonds, the Board of Directors factored in the book value per share of Pirelli & C. S.p.A's equity as at 31 December 2019, namely €4,580,444,684, as well as the arithmetic average of the price of the Company's ordinary shares based on Italian Stock Exchange listings for the prior semester ending 14 December 2020 (inclusive), namely € 3.856.

It is worth noting that, as per the Terms and Conditions, the initial conversion price may be adjusted on the conversion date in accordance with customary market practice for such financial instruments, upon occurrence of such events as are listed, but are not limited to, in paragraph 1.6 above.

Pursuant to such assessments, the Board of Directors deems the criteria adopted in determining the initial conversion price of the Bonds and of the issue price of the Additional Ordinary Shares (and of the relevant conversion ratio) to be consistent with the criteria set forth under article 2441, paragraph 6, of the Italian Civil Code and, as such, suitable in respect of establishing a pricing that, given the exclusion of shareholder pre-emption rights, best reflects the equity interests of the Company's shareholders.

As regards any change of control or free float event, as subject to and as defined by the Conditions, any adjustment of the conversion price is justified by the relevant events heretofore outlined. More specifically, should any such relevant event occur, investors may be granted a separate conversion ratio for a limited period (90 days), said ratio being adjusted and lower than the initial conversion price, based on a formula that shall factor in the time at which the relevant event occurs and the overall duration of the Bonds, so as to reflect the value of any rights attaching to the Bonds that may not have been exercised, all as set forth and determined within the Terms and Conditions.

7 Shareholders willing to subscribe for shares to be issued in proportion to their shareholdings – preferential subscriptions rights not exercised

As previously outlined, the Capital Increase shall be solely in service to any prospective conversion of the Bonds into Pirelli & C. ordinary shares to be issued.

Hence, as per the reasons previously described, shareholders shall not be entitled to exercise shareholder pre-emption rights pursuant to article 2441, paragraph 5, of the Italian Civil Code.

8 Time to completion of the transaction

The Capital Increase shall be carried to the extent of the conversion of the Bonds during the term of the Bonds.

Where the Capital Increase is not fully subscribed at the closing date for conversion, the Company's share capital shall be recognised as increased by the amount equivalent to that subscribed by such closing date and as of the same having been subscribed.

9 Accrual date of the ordinary shares to be issued

The ordinary shares which will be issued following the exercise of conversion of the Bonds will be fully paid and will in all respects rank pari passu with the fully paid ordinary shares in issue on the relevant conversion date.

10 Pro-forma equity and financial criteria reflecting the transaction's prospective effects on equity and financial position – Share value effects

If the Shareholders' Meeting approves the Capital Increase, the estimate of the pro-forma economic, equity and financial effects on the consolidated financial statements of the Pirelli Group and on the statutory financial statements of Pirelli & C. shall be as follows:

a. on the settlement date, the cash deriving from the payment made by bondholders, of 500 million euros, shall be used to establish the debt component of the financial instrument issued, equal to the fair value of a liability issued by the Company under essentially equivalent market conditions without the conversion right, while the remaining quota, up to the amount collected, is established as a component of net worth, with the consequent reduction of the net financial debt. Issue costs are recognised according to their relative proportions under liabilities and equity;
b. from the settlement date, recognition in the profit and loss statement, for the duration of the bond, of notional passive interest represented by the difference between the redemption value (principal amount) of the bond and its initial book value, with the consequent increase of the net financial debt;
c. thereafter, in the event of conversion into shares by the bondholders, on the option exercise date, reclassification of the liabilities relating to the debt component of the Bonds subject to conversion, including the quota of notional interest accrued up to that date, within the net worth, with the consequent reduction of the Company's net financial debt;
d. in the case of no conversion, the liabilities relating to the debt component shall remain posted in the financial statements, increased by the quota of the notional interest, up to the date of maturity on which the principal amount of 500 million euros shall be redeemed.

Note that, in accordance with the conditions of the convertible Bond, any conversion of the Bonds held by single bondholders may occur over the course of the full duration of the Bond up to the seventh day prior to the Bond maturity date pursuant to the provisions and limitations set forth under the Conditions, without prejudice to the possibility for the Company to exercise the early redemption options provided for by the Conditions of the Bond and described in Paragraph 1.4.

Based on the number of outstanding shares comprising the share capital of the Company as at the date of this report (i.e. 5 February 2021), if the Bonds were to be fully converted into the ordinary shares of the Company on the basis of the maximum number of shares (80,192,461 ordinary shares), compared to an initial theoretical stake of 1% in the ordinary capital, the shareholder – following the potential conversion, except for cases where the anti-dilution clauses provided for in the conditions of the bond are applied – shall hold a 0.93% stake in the total ordinary share capital, as illustrated in the table below:

	Share capital at 5 February 2021	**Potential number of shares to be issued in service to the Bonds**	**Share capital at 5 February 2021 + maximum capital increase in service to the Bonds**
Ordinary shares in issue	1,000,000,000	80,192,461	1,080,192,461
TOTAL SHARES	**1,000,000,000**	**80,192,461**	**1,080,192,461**
Number of ordinary shares equivalent to 1% of share	10,000,000		10,000,000

capital in issue as at 5 February 2021			
Percentage of ordinary stock	*1.00%*		0.93%

11 Modifications to By-Laws

If the proposal for Capital Increase, as described in this report, is approved, it will be necessary to integrate art. 5 of the By-laws by inserting a new paragraph that will take into account the adoption of the relevant resolution by the Extraordinary Shareholders' Meeting. In this regard, we propose the introduction of a new closing paragraph to article 5 of the Company By-Laws, worded as follows:

"*The extraordinary shareholders' meeting of 24 March 2021 has resolved to increase the share capital in cash, for payment and in tranches, excluding the pre-emption right pursuant to Article 2441, paragraph 5, of the Italian Civil Code, for a total value, including any premium, of 500,000,000 (five hundred million) euros, to service the conversion of the "*EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025*", to be redeemed one or more times through the issue of ordinary shares of the Company, with regular dividend entitlement, for a maximum amount of 500,000,000 (five hundred million) euros, to exclusively service the bond issued by the Company, named "*EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025*", in accordance with the criteria established in the relative Conditions, it being understood that the last deadline for subscribing the newly issued shares is 31 December 2025 and that, if the capital increase has not been fully subscribed by this date, it shall in any case be understood as having been increased for an amount equal to the subscriptions received and effective as of the same, expressly authorising the directors to issue the new shares as they are subscribed. Fractions of shares shall not be issued, transferred or delivered and no payment in cash or adjustment shall be made in lieu thereof*".

The above-mentioned proposal for the amendment of art. 5 of the By-law does not constitute any circumstances envisaged for the exercise of the right of withdrawal by the Company's shareholders, pursuant to art. 2437 of the Italian Civil Code.

* * *

Whereas the above, the Board of Directors submits the following proposed resolution to the approval of the Shareholders:

" *Pirelli & C. SpA's Shareholders, as convened in the Extraordinary Shareholders' Meeting,*

- *having examined the report submitted by the Board of Directors;*
- *having reviewed the main terms and conditions of the Bonds as presented in the summary report provided by the Board of Directors,*
- *having reviewed the fairness opinion submitted pursuant to article 2441 of the Italian Civil Code and article 158 of the Consolidated Law on Finance;*
- *having reviewed the Board of Statutory Auditors' attestation to the effect that current share capital is fully subscribed and paid up;*

resolve

1. *to allow for and authorise, pursuant to the provisions set forth under the Conditions, the convertibility of the equity-linked bonds of a nominal amount of 500,000,000 (five hundred million) euros, with maturity on 22 December 2025, named "*EUR 500 million Senior Unsecured

Guaranteed Equity-linked Bonds due 2025*", and hence to approve a share capital increase for payment in cash, in tranches and excluding the pre-emption right pursuant to article 2441, paragraph 5, of the Italian Civil Code, for a total maximum value, including any share premiums, of 500,000,000 (five hundred million) euros, to service the conversion of the "*EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025*" herein mentioned, if necessary to be settled in shares under the provisions of the Conditions, to be redeemed one or more times through the issue of ordinary shares of the Company, for a maximum amount of 500,000,000 (five hundred million) euros - and therefore with the issue, on the basis of the initial conversion price of the Bond of Euro 6.235, of maximum no. 80,192,461 Pirelli & C. ordinary shares (provided that the maximum number of Pirelli & C. ordinary shares may increase on the basis of the actual conversion ratio applicable from time to time) - with regular dividend entitlement to exclusively service the bond issued by the Company named "*EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025*", in accordance with the criteria established in the relative Conditions. Fractions of shares shall not be issued, transferred or delivered and no payment in cash or adjustment shall be made in lieu thereof;*

2. *to approve that the Board of Directors – and on its behalf the legal representatives serving at the time, also severally – with the right to subdelegate, shall provide bondholders with a physical settlement notice, pursuant to which bondholders shall be entitled to convert the Bonds into newly issued ordinary shares of the Company;*
3. *to agree that the issue price of any Additional Ordinary Shares as regards to the Capital Increase shall be determined based on the provisions of the Bonds' Terms and Conditions as per the above point 1, and as such shall be €6.235, save for adjustments and save for cases where the relevant conversion price shall be calculated differently pursuant to the provisions of the abovementioned Bonds' Terms and Conditions; and that issue price per share shall be recognised at € 1.90 (or at the smaller amount of the conversion price) as share capital and, for any remainder, as share premium;*
4. *to mandate the Board of Directors, and on its behalf the legal representatives pro tempore, also severally, to execute the above approved Capital Increase and to determine, inter alia, from time to time and pursuant to the provisions of the Terms and Conditions (i) the issue price of the shares, as well as, having determined such issue price, (ii) the number of shares to be issued and the conversion ratio, as required for the purposes of fully implementing the provisions and criteria set forth under the Terms and Conditions; all of which without prejudice to, should the Capital Increase not be fully subscribed by 31 December 2025, share capital being increased by an amount equal to the subscriptions effected and as of the subscription date there*of;
5. *to introduce a new closing paragraph to article 5 of the Company By-Laws, worded as follows:*

   "The extraordinary shareholders' meeting of 24 March 2021 has resolved to increase the share capital in cash, for payment and in tranches, excluding the pre-emption right pursuant to Article 2441, paragraph 5, of the Italian Civil Code, for a total value, including any premium, of 500,000,000 (five hundred million) euros, to service the conversion of the "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025", to be redeemed one or more times through the issue of ordinary shares of the Company, with regular dividend entitlement, for a maximum amount of 500,000,000 (five hundred million) euros, to exclusively service the bond issued by the Company, named "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025", in accordance with the criteria established in the relative Conditions, it being understood that the last deadline for subscribing the newly issued shares is 31 December 2025 and that, if the capital increase has not been fully subscribed by this date, it shall in any case be understood as having been increased for an amount equal to the subscriptions received and effective as of the same, expressly authorising the directors to issue the new shares as they are subscribed. Fractions of shares shall not be issued, transferred or delivered and no payment in cash or adjustment shall be made in lieu thereof";

6. *to grant the Board of Directors – and on its behalf the legal representatives serving at the time, even severally – all powers to execute the capital increase and, from time to time, to make the amendments to article 5 of the Company Bylaws resulting from exercise of the bond conversions, and as such to fulfil all obligations and disclosure requirements pursuant to governing laws and regulations, and to carry out all necessary formalities for the resolution to be recorded in the Companies Register, accepting and introducing any non-substantial amendments, additions and deletions to said resolutions that may be required by the relevant authorities, and to grant all powers to fulfil the legal and regulatory requirements resulting from adoption of the resolution and any conversions."*

For The Board of Directors

The Executive Vice Chairman and CEO

Marco Tronchetti Provera

Milan, 5 February 2021