



**Shareholders' Meeting of
15 June 2021
Appointment of the Board of
Statutory Auditors**

**Document of the outgoing Board of
Statutory Auditors of Pirelli & C.
S.p.A. drawn up in compliance with
the instructions contained in the
rules of conduct of the Board of
Statutory Auditors of listed
companies issued by the CNDCEC**

1. Introduction

As is known, the term of office of the Board of Statutory Auditors of Pirelli & C. S.p.A. (“**Pirelli**” or the “**Company**”), appointed by the Shareholders’ Meeting of 15 May 2018 for the financial years 2018-2020, is due to expire on approval of the annual financial report as of 31 December 2020. The Shareholders’ Meeting convened to approve the 2020 financial statements (“**Shareholders’ Meeting**”) will therefore be called, *inter alia*, to appoint a new control body by means of the slate voting mechanism described in the Bylaws.

Rule Q.1.6. of the Rules of Conduct of the Board of Statutory Auditors of Listed Companies issued by the National Council of Chartered Accountants and Accounting Experts (“**CNDCEC**”) on 26 April 2018 (“**Rules of Conduct**”) states that “*Prior to the expiry of its term of office, the outgoing board of statutory auditors should summarize the activities carried out in a specific document, specifying the number of meetings and their average duration, as well as the time required for each of the activities carried out and the professional resources employed. This document must be sent to the company in order to allow shareholders and candidate auditors to assess the adequacy of the proposed remuneration*”.

In compliance with the aforementioned rule, the outgoing Board of Statutory Auditors intends to make available to the shareholders a complete picture of the activities that the Pirelli Board of Statutory Auditors which will be appointed by the Shareholders’ Meeting is required to perform and, in addition to this, a summary of its assessments regarding the optimum composition of the control body (in addition to the regulatory requirements) for the purposes of the effective operation of the same, in sufficient time to allow the shareholders themselves to take it into account when selecting the candidates to be included in the lists to be presented to the Shareholders’ Meeting.

The considerations presented here also take into account the experience gained by the members of the outgoing Board of Statutory Auditors in performing their duties, Pirelli’s corporate governance system and the results of the self-assessment process conducted by the Board of Statutory Auditors pursuant to the Rules of Conduct.¹

¹ For further information on the self-assessment carried out by the Board of Statutory Auditors, please refer to the annual Report on the Corporate Governance and Share Ownership contained in the 2020 financial statements folder.

2. Role of Pirelli's Board of Statutory Auditors

The main functions performed by the control body within Pirelli's corporate governance system are stated below. As is known, the Board of Statutory Auditors is required to oversee:

- compliance with the law and the Company Bylaws;
- compliance with the principles of correct administration;
- the adequacy of the Company's organisational structure concerning the aspects within its area of competence, the internal control and the administrative and accounting system, as well as the reliability of the latter to represent correctly the operating results;
- the ways in which the corporate governance rules specified in the codes of conduct prepared by companies which manage the regulated markets or by the trade associations which the Company declares to follow are actually implemented; and
- the adequacy of the instructions issued by the Company to the subsidiaries in relation to the obligations to report price sensitive information.

Furthermore, pursuant to art. 19 of Legislative Decree no. 39 of 27 January 2010 (as amended by Legislative Decree no. 135 of 17 July 2016), the Board of Statutory Auditors, identified as the "Internal Control and Auditing Committee":

- informs the Board of Directors of the results of the statutory audit and addresses its report to the same body;
- monitors the financial reporting process and submits recommendations or proposals intended to ensure its integrity;
- verifies the effectiveness of the internal control, quality and risk management systems of the company and internal audit, as regards financial reporting, without violating their independence;
- oversees the statutory audit of the financial statements and consolidated financial statements, taking into account any results and conclusions of the quality controls carried out by CONSOB pursuant to art. 26, paragraph 6, of Regulation (EU) 537/2014;
- verifies and monitors the independence of external auditors or auditing firms, in particular with regard to the provision to the Company of services other than auditing;

- is responsible for the external auditor or auditing firm selection procedure and recommends the external auditors or auditing firms to be appointed pursuant to art. 16 of Regulation (EU) 537/2014.

Furthermore, pursuant to the rules regarding non-financial information referred to in Legislative Decree no. 254 of 30 December 2016, the Board of Statutory Auditors oversees compliance with the provisions of the aforementioned decree in relation to the preparation of the non-financial disclosure (so-called "DNF") by the Board of Directors and informs the shareholders' meeting of the results of the aforementioned supervisory activity.

Note also that, based on the current composition of the Supervisory Body referred to in Legislative Decree no. 231 of 8 June 2001 a Statutory Auditor is invited to be a member of said body.

3. Considerations regarding the optimum qualitative and quantitative composition of the control body

In view of the appointment of the new control body, the outgoing Board of Statutory Auditors hereby provides:

- a summary of the individual characteristics that each candidate for Statutory Auditors should preferably possess (in addition to fulfilling the regulatory requirements), and
- to follow, its own considerations about the overall optimum composition of the supervisory body itself.

3.1. Individual characteristics

As is known, all Statutory Auditors must act with independence of judgement and fulfil the:

- professionalism and integrity requirements established by law (see Ministerial Decree no. 162 of 30 March 2000 issued pursuant to art. 148, paragraph 4, of Legislative Decree no. 58 of 24 February 1998 - **TUF**) and the Bylaws, and
- the independence requirements established by law (art. 148, paragraph 3, of the TUF) and the Corporate Governance Code to which Pirelli adheres.

The Statutory Auditors are also subject to limits on the number of offices they may hold, as established by current legislation (art. 144-*terdecies* as referred to in CONSOB resolution no. 11971 of 14 May 1999 – Issuers' Regulation - to which reference is made in art. 148-*bis* of the TUF).

Pirelli's Bylaws (art. 16) requires:

- the Board of Statutory Auditors to consist of 5 (five) standing statutory auditors and 3 (three) alternate statutory auditors who fulfil the requirements of current legislation and regulations; and
- two Standing Statutory Auditors and two Alternate Statutory Auditors to be registered in the Register of External Auditors and to have worked on external audits for a period of no less than three years.

Statutory auditors who do not fulfil the last requirement are chosen from among those who have gained an overall experience of at least three years in:

- a) administration or control activities or managerial duties in joint-stock companies with a share capital of no less than two million euro, or
- b) professional activities or university teaching in legal, economic, financial and technical-scientific subjects, strictly related to business activity, or
- c) managerial functions in public bodies or public administration bodies operating in the credit, financial and insurance sectors or in any case in sectors strictly related to the company's business (pursuant to art. 16.1 of Pirelli's Bylaws "*the subjects and sectors of activity strictly related to those of the company are those stated in the corporate purpose, with particular reference to companies or entities operating in the financial, industrial, banking, insurance, real estate and services sectors in general*").

Furthermore, the members of the Board of Statutory Auditors, as members of the internal control and audit committee, are in general terms competent in the sector in which the audited company operates (see art. 19, paragraph 3, of Legislative Decree no. 39/2010).

In light of the above, the outgoing Board of Statutory Auditors therefore recommends that each slate also include candidates who have this specific competence (particularly in terms of previous experience).

The outgoing Board of Statutory Auditors also deems it essential that each candidate for the office of member of the control body should have adequate time to devote to the office to allow their participation in meetings of the Board of Statutory Auditors and of the Board of Directors and prior examination of the documentation made available in advance of each meeting. In this regard, it is important to point out that the Standing Statutory Auditors attend meetings of the Board of Directors and (some or all) are invited to attend the meetings of the Committees set up within the Board itself. In addition to this, in terms of the commitment required to the Statutory Auditors, there is

a requirement to prepare reports and opinions for which the Board of Statutory Auditors is responsible and the minutes of the regular meetings required by current legislation and to participate in training activities and induction sessions regularly organised by the Company.

The following table summarises the number of meetings attended by the Board of Statutory Auditors in 2018, 2019 and 2020 and their average duration.

Meetings of the Board of Directors and corporate bodies	2018 (*)		2019		2020	
	No. of Meetings	Average duration (min.)	No. of Meetings	Average duration (min.)	No. of Meetings	Average duration (min.)
Board of Statutory Auditors	12	117.5	12	93	12	58
Board of Directors	6	60	7	50	9	58
Audit, Risks, Sustainability and Corporate Governance Committee	5	132	5	129	8	92
Remuneration Committee	3	40	4	34	4	41
Appointments and Successions Committee	/	/	/	/	2	18
Strategies Committee	/	/	1	50	2	50
Related-Parties Transactions Committee	10	38.5	12	36	10	50
Total number of meetings	36		41		47	

(*) For calculation purposes, all the meetings held in 2018 were taken into account, including those prior to the appointment of the Board of Statutory Auditors.

NOTE: Meetings of the Audit, Risks, Sustainability and Corporate Governance Committee, Remuneration Committee and Related-Parties Transactions Committee are attended by the entire Board of Statutory Auditors, while one representative of the Board of Statutory Auditors (normally the Chairman) is invited to attend meetings of the Appointments and Successions Committee and Strategies Committee.

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It is therefore recommended that shareholders take the above into account for the purpose of identifying candidates for the position of member of the control body.

3.2. Overall composition

According to the outgoing Board of Statutory Auditors it is desirable for the slates presented by the shareholders:

- to put forward individuals who fulfil the personal and aptitude requirements referred to in paragraph 3.1 above (including the availability of sufficient time and resources by each candidate Auditor, given that - as previously stated - this is a key requirement for the effective performance of the assignment); and
- to ensure adequate diversity – as a success factor - in terms of age, gender, educational and professional record, while fulfilling the prime objective of ensuring appropriate competence and professionalism (this diversity is in fact believed to allow the Board of Statutory Auditors to perform its tasks most effectively as it can benefit from the contribution of multiple qualified points of view).

With specific regard to gender diversity, attention is drawn to the requirement to ensure that at least two fifths of candidates are of the less represented gender in accordance with Law no. 160 of 27 December 2019 (which amended art. 148, paragraph 1-*bis*, of the TUF). In this respect, the outgoing Board of Statutory Auditors reiterates its belief that a balanced representation of members of different genders within the control body helps to strengthen its dynamics and efficiency.

Furthermore, the continued existence in the new control body of its current members would allow it to benefit from the knowledge of the Group's business and dynamics they gained during their mandate.

Lastly, it should be pointed out that for the purpose of ensuring the effectiveness of control activities, based on the experience gained, the Board of Statutory Auditors believes the following to be essential:

- a spirit of collaboration and trust among all the members of the Board of Statutory Auditors; and

- constant discussion and constructive interaction (also informal) between the aforementioned members, who are expected to perform their duties with autonomy and independence of judgement.

In this respect, throughout the term of office, the Chairman of the Board of Statutory Auditors played a crucial role in guiding the aforementioned discussions, promoting a spirit of cohesion between the members, bearing the requests made by the Board of Statutory Auditors to the Board of Directors, performing Company control duties and coordinating the work of the Statutory Auditors. In light of this, the outgoing Board of Statutory Auditors hopes that the candidates for this role have the necessary standing and authority and that they have gained previous experience in the Boards of Statutory Auditors of listed companies that are similar to Pirelli in terms of size and international standing.

The Board of Statutory Auditors also expresses particular appreciation for the decision taken by the Company to provide for a control body consisting of 5 (five) standing auditors and 3 (three) alternate auditors, demonstrating its recognition of the primary role of this body in the life of the Company.

4. Considerations regarding the remuneration of the control body

As is known, pursuant to Recommendation no. 30 of the Corporate Governance Code “*The remuneration of the members of the supervisory body must provide adequate compensation for the competence, professionalism and commitment required by the importance of the position held and the size and sectoral characteristics of the company and its situation*”.

According to the Rules of Conduct ² and best practices, an useful reference for assessing the adequacy of the remuneration of the members of the control body is the remuneration paid to non-executive directors for their activities and, as regards the remuneration of the Chairman of the Board of Statutory Auditors, the remuneration paid to the Chairman of the Audit, Risks, Sustainability and Corporate Governance Committee.

² See rule Q.1.6. of the Rules of Conduct “*On accepting the candidacy, the candidate auditor shall assess the adequacy of the proposed remuneration taking into account:*

- *the breadth and complexity of the assignment in relation to the nature, the economic dimension (for example, the volume of income and assets), the complexity, the sector of activity, the organisational structure and other characteristics of the company;*
- *any document drawn up by the outgoing board of statutory auditors, carefully evaluating the time required to perform the assignment, as well as the professional skills and experience needed;*
- *the remuneration paid to non-executive directors and the remuneration criteria for participation in internal committees;*
- *with reference to the remuneration of the chairman of the board of statutory auditors, the time commitment required to perform their function, and the remuneration paid to the chairman of the audit and risks committee”.*

It is also worth noting that during the current year - with the support of an independent expert - the Company also carried out a benchmarking analysis intended to identify the main market practices regarding the remuneration paid to the members of the control body of other comparable issuers. The aforementioned analysis demonstrated that the remuneration envisaged for the Board of Statutory Auditors of Pirelli is in line with the market median for both the Chairman of the Board of Statutory Auditors and the Standing Auditors.

The outgoing Board of Statutory Auditors therefore invites the shareholders to take into account the aforementioned comparative elements and the relative reference parameters in assessing the adequacy of the remuneration to be proposed to the Shareholders' Meeting and hopes that the respective proposals will be made available to the public well in advance of the date of the shareholders' meeting called to renew the Board of Statutory Auditors.

It also invites candidates for the position of member of the control body to evaluate the aforementioned comparative elements and the respective parameters, when accepting the candidacy, for the purpose of evaluating the adequacy of the remuneration provided for the relevant office.

22 March 2021

The Auditors

(Mr Francesco Fallacara)

(Mr Fabio Artoni)

(Ms Antonella Carù)

(Mr Luca Nicodemi)

(Mr Alberto Villani)