



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

## **Reports to the Shareholders' Meeting of 15 June 2021**

### **Three-year monetary incentive plans for Pirelli's Group management:**

- approval of the monetary incentive plan for the three-year period 2021-2023 for Pirelli's Group management;
  - adjustment of the objective of cumulative Group Net Cash Flow (before dividends) and normalization of potential effects on the relative Total Shareholder Return objective included in the monetary incentive plan for the three-year period 2020-2022 for Pirelli's Group management;
- related and consequent resolutions and conferment of powers.

**(item 5 on the agenda)**

**Illustrative reports drafted by the Directors pursuant to art. 125-ter of Legislative Decree no. 58 of 24 February 1998 as subsequently amended and supplemented, approved by the Board of Directors on 31 March 2021.**

A. Approval of the monetary incentive plan for the three year period 2021-2023 for Pirelli's Group management

Dear Shareholders,

in the meeting of 31 March 2021, the Board of Directors approved the objectives of the three-year, monetary incentive Plan for the 2021-2023 cycle for the Pirelli's Management ("**2021-2023 LTI Plan**"), related to the targets of the 2021-2022/2025 Strategic Plan presented on the same date ("**Strategic Plan**"). The 2021-2023 LTI Plan was also approved pursuant to art. 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 persons for whom such opinion is required. The 2021-2023 LTI Plan is subject to the approval of the Shareholders' Meeting pursuant to art. 114-*bis* of Legislative Decree no. 58 of 24 February 1998 ("**TUF**") as it states, inter alia, that part of the incentive is determined on the basis of a relative Total Shareholder Return target, calculated with respect to an index made up of selected "Tier 1" peers in the Tyre sector.

Moreover, pursuant to art. 123-*ter* of TUF, the 2021-2023 LTI Plan is included in the 2021 remuneration policy adopted by Pirelli ("**2021 Policy**"), submitted for the approval to the Shareholders' Meeting.

The main information on the 2021-2023 LTI Plan is set out below, while for a more analytical description you are invited to read the Information Document prepared pursuant to art. 84-*bis*, paragraph 1, of Consob Resolution No. 11971 of 14 May 1999 ("**Issuers' Regulation**"), which is also available to the public at the registered offices of Pirelli & C. S.p.A. (in Milan, Viale Piero e Alberto Pirelli 25) and on the website [www.pirelli.com](http://www.pirelli.com) as well as at Borsa Italiana S.p.A. together with this report.

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

In line with national and international best practices, the 2021 Policy is tailored to Pirelli's objective of attracting, motivating and retaining resources with the professional qualities required to pursue business objectives. In addition, through the multi-year variable components assigned, in particular, to the Executive Vice Chairman and Chief Executive Officer, Deputy-CEO, General Managers, KM, Senior Managers and Executives, it aims to achieve long-term interests, contributing to the achievement of strategic objectives and the 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 cycle 2020-2022, included in the 2020 Remuneration Policy approved by the Shareholders' Meeting of 18 June 2020 ("**2020 Policy**"), the Company introduced a "rolling" mechanism for medium-long term incentive plans. On applying it, the Board of Directors of Pirelli & C. defined the 2021-2023 LTI Plan objectives, linked to achieving the Strategic Plan

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

targets for the 2021-2022/2025 period (“**Strategic Plan**”), with no change to the incentive plan structure.

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

The 2021-2023 LTI Plan is extended to all Top Management - except for the Chairman - and extended, except in specific cases, to all Executives whose grade, determined with the Korn Ferry method, is equal to or above 20. It is also assigned to those who join the Group and/or were promoted to an Executive position, due to internal career growth, during the three-year period. In this case, their inclusion is subject to participation in the LTI Plan for at least one full financial year and the incentive percentages are scaled to the number of months of actual participation in the LTI Plan.

In particular, as at the date of this report, among others, the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera, the Director Giovanni Tronchetti Provera (as Senior Manager), the General Manager Operations Andrea Casaluci, and Key managers (“**KM**”) are participants in the LTI Plan<sup>3</sup>.

### Performance Targets and Bonus Calculation<sup>4</sup>

The Management remuneration structure, as better described in the 2021 Policy which should be referred to for further details, has several elements:

- gross annual base salary (GABS);
- STI annual variable component: designed to reward the beneficiary’s performance in the short term, motivating Management to achieve the Company’s annual objectives; it is set as a percentage of the base salary, increasing in relation to the role held by the beneficiary and taking account of the benchmarks for each figure. This percentage can range, in case of on-target performance, from a minimum of 15% for Executives (managers of Pirelli’s Italian companies or employees of Group’s foreign companies with a position or role comparable to that of an Italian manager) up to a maximum of 125% for Directors holding specific offices to whom further specific duties may be attributed;
- medium-long term variable component (LTI): composed of LTI incentive plans linking Management remuneration to the Group’s medium-long term performances, and of the deferral and mark-up component of the STI incentive.

As for the STI incentive, the LTI incentive is also 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 2021-2023 LTI Plan confirms the three-year incentive percentages set forth in the 2020-2022 LTI Plan which, as of 2021, are re-

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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> In case of appointment, the Deputy-CEO will participate to the 2021-2021 LTI Plan.

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

proportioned on an annual basis and, in case of on-target performance, can go from a minimum of 15% for Executives to a maximum of 70% for Directors holding specific offices to whom further specific duties may be attributed. There is also a limit (cap) to the maximum achievable LTI incentive.

The 2021-2023 LTI Plan, which is monetary and does not include the assignment of shares or options on shares, is also subject to the achievement of three-year objectives and determined as a percentage of the gross annual base salary (GABS) received by the beneficiary at the date on which their participation in the Plan was established.

The medium-long term incentive plan “rolling” structure introduced with the 2020 Policy enables yearly definition of the value of the following three-year period targets, while ensuring management loyalty and the correct focus on performance targets. The date of eventual first payment is April 2023 (if the 2020-2022 results are achieved) and, from then on, April of each subsequent year if the results of the previous three-year period are achieved.

In continuity with the 2020-2022 LTI Plan, the 2021-2023 LTI Plan foresees three objectives types, all independent of each other and each with a specific weight:

- objective represented by the cumulative Group Net Cash Flow (before dividends), with a weight at target performance of 40% of the overall LTI bonus;
- Total Shareholder Return (“TSR”) objective related to a panel of selected Tier 1 peers, with a weight at target performance of 40%. The Information Document made available at the Shareholders’ Meeting provides more detailed information on the application of the Total Shareholder Return objective;
- the remaining 20% is calculated on the basis of Sustainability indicators in relation to Pirelli’s positioning in two indices of equal weight: (i) Dow Jones Sustainability World Index ATX Auto Component sector and (ii) CDP Ranking.

For all three objectives (cumulative Group Net Cash Flow (before dividends), relative 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 payment of the related pro-quota bonus.

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, differently to the Sustainability objectives, which are calculated only in three steps: “access threshold”, target and maximum, without considering intermediate performances.

### Bonus Period

If objectives are achieved, the 2021-2023 LTI Plan incentive (so-called LTI Bonus) will be paid in the first half of 2024, subject to participants being present at 31 December 2023.

If the office and/or employment relationship has been terminated for any reason (without prejudice to the following) before the end of the three-year period, the beneficiary's participation in the 2021-2023 LTI Plan shall cease and, as a result, no LTI Bonus nor pro-rated bonus will be paid. For Directors holding specific office to whom further specific duties may be attributed who cease to hold office due to having completed their mandate or to the termination of the entire Board of Directors, and are not appointed thereafter even as Directors, a pro-rata payment of the LTI Bonus is provided for.

### Plan Duration and Amendments

The 2021-2023 LTI Plan implements the second LTI Plan cycle, based on the "rolling" mechanism already included in the 2020 Policy, structured on three-year performance periods (cycles) that start each year, with the definition of performance indicators and related objectives.

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>5</sup>

The LTI Plan 2021-2023 does not receive any support from the Special Fund to encourage workers' participation in enterprises, referred to in art. 4, paragraph 112, of Law No. 350 of 24 December 2003.

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The 2021-2023 LTI Plan is to be considered "of particular importance" as it is addressed, as at the date of this report, inter alia, to the Executive Vice Chairman and Chief Executive Officer, the General Manager Operations and KM as they have regular access to inside information and have the power to make decisions that may affect the Group's development and future prospects<sup>6</sup>.

Considering that the LTI Plan is monetary in nature, as it does not provide for the assignment of shares or stock options on shares, but only a cash incentive partly linked to the performance of Pirelli & C.'s ordinary shares, the Information Document prepared in accordance with current regulations does not contain the information required for mechanisms that consider the assignment of shares or stock options.

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<sup>5</sup> Information required by Article 114-bis, paragraph 1, letter d) of the TUF.

<sup>6</sup> In case of appointment, the Deputy-CEO will participate to the 2021-2021 LTI Plan.

B. Adjustment of the cumulative Group Net Cash Flow (before dividends) and normalization of potential effects on the relative total shareholder return objective included in the monetary incentive plan for the three-year period 2020-2022 for Pirelli's Group management.

Dear Shareholders,

in its meeting of 5 August 2020, as a result of the health emergency linked to the spread of Covid-19, of the consequent revision of the 2020-2022 Strategic Plan and the announced launch for the first quarter of 2021 of the Strategic Plan for the period 2021-2022/2025, the Board of Directors gave the Remuneration Committee a mandate to proceed with an adjustment of the cumulative Group Net Cash Flow objective (before dividends) of the three-year monetary incentive Plan for the 2020-2022 cycle for the Pirelli's Management ("**2020-2022 LTI Plan**") - already submitted for Shareholders' Meeting approval on 18 June 2020 pursuant to art. 114-*bis* of Legislative Decree no. 58 of 24 February 1998 - to align it with the 2020 guidance disclosed to the market on 5 August 2020 and with the targets of the 2021-2022/2025 Strategic Plan ("**Strategic Plan**") for the years 2021 and 2022.

That adjustment was examined and approved in the Board of Directors' meeting of 31 March 2021 (which also approved the Strategic Plan) implementing what was planned related to the plan review and adjustment of objectives in the Information Document on the 2020-2022 LTI Plan made available to the public on 28 April 2020 pursuant to art. 84-*bis*, paragraph 1 of the Consob Resolution no. 11971 of 14 May 1999 ("**Issuers' Regulation**"). The adjustment is also reported in the 2021 remuneration policy (the "**2021 Policy**") and was approved by the Board of Directors subordinate to Shareholders' Meeting approval of that adjustment and the 2021 Policy. The adjustment of the cumulative Group Net Cash Flow objective (before dividends) of the 2020-2022 LTI Plan is aligned with the guidance disclosed to the market on 5 August 2020 and the new Strategic Plan. For a more analytical description of the adjustment of the cumulative Group Net Cash Flow objective (before dividends) of the 2020-2022 LTI Plan, you are invited to read the Information Document prepared pursuant to art. 84-*bis*, paragraph 1, of the Issuers' Regulation, as amended by the adjustment described, made available to the public at the registered offices of Pirelli & C. S.p.A. (in Milan, viale Piero e Alberto Pirelli 25) and on the website [www.pirelli.com](http://www.pirelli.com) as well as at Borsa Italiana S.p.A. together with this report.

Also for the 2020-2022 LTI Plan, it is provided the option to normalise the potential effects on the final result of the acquisition of Cooper by Goodyear (a company included in the reference panel for the TSR objective) at the start of 2021, in order to calculate its impact on the TSR.

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Dear Shareholders,

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

Related to item 5.1 on the agenda:

1. approve - pursuant to art. 114-*bis* of Legislative Decree No. 58 of 24 February 1998, as subsequently amended and supplemented - the adoption of the three-year monetary incentive plan for the 2021-2023 period ("**2021-2023 LTI Plan**") for the Management of the Pirelli Group, regarding the part where it is also based on the performance of Pirelli shares, in the terms set out in this report and as better described in the Information Document (prepared pursuant to art. 84-*bis*, paragraph 1, of the Issuers' Regulation). The LTI Plan 2021-2023 states, inter alia, that a quota of the LTI bonus will be determined on the basis of a relative Total Shareholder Return objective, calculated with respect to an index made up of selected Tier 1 peers in the Tyre sector;
2. grant the Board of Directors with all the powers needed or opportune to implement the 2021-2023 LTI Plan and to adjust or modify the performance indicators and relative 2021-2023 LTI Plan objectives, submitting the new performance indicators and objectives to the Shareholders' Meeting if the plan has characteristics established by art. 114-*bis* of TUF (remuneration plans based on financial instruments);

related to item 5.2 on the agenda:

3. with reference to the monetary incentive plan for the three-year cycle 2020-2022 for Pirelli's Group Management, already approved by the Shareholders' Meeting of 18 June 2020 ("**2020-2022 LTI Plan**"), approve the adjustment of the «cumulative Group Net Cash Flow (before dividends)» objective of in the terms described in this report and as indicated in the Information Document (prepared pursuant to art. 84-*bis*, paragraph 1, of the Issuers' Regulation) as amended by the adjustment to align it with the guidance communicated to the market on 5 August 2020 and with the 2021-2022/2025 Strategic Plan targets for the years 2021 and 2022;
4. with reference to the 2020-2022 LTI Plan, already approved by the Shareholders' Meeting of 18 June 2020, approve the option to normalise the potential effects on the final result of the acquisition of Cooper by Goodyear (a company included in the reference panel for the TSR objective) at the start of 2021, in order to calculate its impact on the TSR;
5. grant the Board of Directors with all the powers needed or opportune to implement the 2020-2022 LTI Plan (as adjusted) and perform any other adjustment or amendment of the performance indicators and relative objectives, submitting the new performance indicators and objectives to the Shareholders' Meeting if the plan has the characteristics established by art. 114-*bis* of TUF (remuneration plans based on financial instruments).