



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

**Reports to the Shareholders' Meeting of  
18 June 2020**

**Three-year Monetary Incentive Plan (2020-2022) for Pirelli's  
Group Management. Related and subsequent resolutions.  
(item 4 on the agenda)**

Prospectus drafted by the Directors in accordance with Art. 125-ter of Legislative Decree No. 58 of 24 February 1998 and subsequent amendments and additions, approved by the Board of Directors on 2 March 2020.

Dear Shareholders,

at the meeting held on 19 February 2020, the Board of Directors approved (i) the closure, effective as of 31 December 2019, of the 2018-2020 Long-Term Incentive Plan, without any payment, even pro-quota, of the three-year incentive and (ii) the adoption of a new three-year monetary incentive Plan for the three-year period 2020-2022 for the Management of the Pirelli Group ("**LTI Plan**"), related to the objectives of the 2020/2022 Strategic Plan presented on the same date. The LTI Plan was also approved pursuant to Article 2389 of the Italian Civil Code, on the proposal of the Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, in relation to the persons for whom such opinion is required. Pursuant to Article 114-*bis* of the Consolidated Law on Finance ("**TUF**"), the LTI Plan is subject to the approval of the Shareholders' Meeting, in the part where it is provided that the incentive is determined on the basis of a relative Total Shareholder Return objectives, calculated with respect to an index made up of selected "Tier 1" peers in the Tyre sector.

Moreover, pursuant to Article 123-*ter* TUF, as amended and supplemented by Article 3 of Italian Legislative Decree No. 49 of 10 May 2019, the LTI Plan is included in the 2020 Remuneration Policy adopted by Pirelli ("**Policy**"), which will be submitted for approval to the Shareholders' Meeting.

The main information on the LTI Plan are set out below, while for a more analytical description you are invited to read the Information Document prepared pursuant to Article 84-*bis*, paragraph 1, of Consob Resolution No. 11971 of 14 May 1999 ("**Issuers' Regulations**"), 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. (Milan, Piazza degli Affari 6) 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 Policy is tailored to Pirelli's objective of attracting, motivating and retaining resources with the professional attributes required to pursue the Group's objectives. Moreover, it aims to achieve the long-term interests through the multi-year variable components, encouraging the achievement of strategic objectives and the sustainable growth of the company and bringing Management's interests into line with those of the Shareholders.

In light of the above and considering the launch of the Strategic Plan for the period 2020-2022, the Board of Directors of Pirelli & C. has therefore resolved to adopt a Long-Term Incentive Plan related to the objectives contained in the 2020-2022 Strategic Plan.

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

At the same time, the Board of Directors resolved to close the 2018-2020 Long-Term Incentive Plan early, effective as of 31 December 2019, without any payment, even pro-rata, of the three-year incentive provided for therein.

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

The LTI Plan is extended to all Top Management and, except for specific cases, to all Management, as well as to those who became part of it 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, among others, the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera, the General Manager of Operations Andrea Casaluci, and Key managers ("**KM**") are participants in the LTI Plan.

#### Performance objectives and Bonus calculation<sup>3</sup>

The structure of the remuneration of Management, as better described in the Policy to which reference is made for further details, has three main elements:

- gross annual base salary (GAS);
- STI annual variable component (MBO): designed to reward the beneficiary's performance in the short term; it is set as a percentage of the base salary, increasing in relation to the role held by the beneficiary. This percentage can range, if the target objectives are met, from a minimum of 20% for Executives (executives of Pirelli's Italian companies or employees of foreign Group companies with a position or role comparable to that of an Italian executive) up to a maximum of 125% for Directors holding special offices to whom specific duties are also delegated;
- medium-long term variable component (LTI): made up of the incentive of the LTI Plan, intended to reward the Group's performance over the period 2020-2022, and the above-mentioned deferral and mark-up component of the STI (MBO).

As for the STI (MBO) 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. This percentage may range, if the target objectives are achieved, from a minimum of 45% for Executives to a maximum of 210% for Directors holding special offices to whom specific duties are also delegated. There is a limit to the maximum achievable LTI incentive.

The LTI plan, which is monetary and does not include the assignment of shares or options on shares, is subject to the achievement of three-year objectives and

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

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

determined as a percentage of the gross annual base salary/GAS received by the beneficiary at the date on which his/her participation in the Plan was established.

The new LTI Plan is characterized by a "rolling" structure: every year a new LTI plan is launched based on the objectives for the following three years, ensuring management loyalty and the correct focus on performance targets. The date of the eventual first payment (if the 2020-2022 results are achieved) is April 2023 and, from then on, April of each subsequent year if the results of the three-year period are achieved.

The 2020-2022 LTI Plan provides for three types of objectives, all independent of each other, and their weights:

- objective represented by the cumulative Group Net Cash Flow (before dividends), with a weight at target level of 40% of the total LTI bonus;
- Total Shareholder Return ("TSR") objective related to a panel of selected Tier 1 peers, with a weight at target level of 40%. The 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, relative TSR and Sustainability) there is a minimum value (access threshold) to which is associated payment of a pro-quota bonus that is 75% of the pro-quota achievable on target.

In reference to each objective, if the minimum value (or access threshold) set is not achieved, the beneficiary accrues no right to the payment of the related pro-quota bonus.

For intermediate results between the minimum value (access threshold) and the target value or between the target value and the maximum value, performance will be calculated by linear interpolation, with the exception of the Sustainability objective, which will be calculated in just three steps: entry level, target and maximum, without considering the intermediate performances.

#### Bonus Period

If the objectives are achieved, the medium-long term incentive (LTI Bonus) will be paid to the beneficiaries of the LTI Plan in the first half of 2023, provided that the participants have not terminated their office and/or employment relationship as at 31 December 2022. Subsequently, the LTI Bonus will be paid in the first half of the year following the end of each three-year cycle, under the same conditions.

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 LTI Plan shall cease and, as a result, no LTI Bonus nor pro-quota bonus will be paid. For Directors holding special offices to whom specific duties are delegated who cease to hold office due to completion of their term of office and who are not subsequently appointed even as directors, the pro-rata payment of the LTI Bonus is envisaged.

#### Plan Duration and Amendments

The LTI Plan, referring to the years 2020-2022, provides for a "rolling" mechanism structured on three-year performance periods (cycles) that start each year, with the definition of performance indicators and related objectives.

The "rolling" mechanism allows: (i) to align, for each new cycle, the performance indicators with market changes and the strategic objectives of the company which could be revised from year to year, (ii) on completion of the first three-year period (with the exception of the first three-year cycle 2020-2022 which provides for payment on a three-year basis) and on achievement of the performance objectives to which each cycle is related, to pay part of the incentive on an annual basis.

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

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

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The LTI Plan is to be considered "of particular importance" as it is addressed, 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.

Considering that the LTI Plan is monetary, 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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Dear Shareholders,

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

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

**1.** approve - pursuant to Article 114-*bis* of Legislative Decree No. 58 of 24 February 1998, as subsequently amended and supplemented - after the closure, effective as of 31 December 2019, of the 2018-2020 Long-Term Incentive Plan, without any payment, even pro-quota, of the three-year incentive provided for therein - the adoption of a three-year monetary incentive plan for 2020-2022 (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 Article 84-*bis*, paragraph 1, of the Issuers' Regulations). The LTI Plan 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 necessary to define starting from the next financial year, for the three-year period 2021-2023, and subsequently from year to year, the performance indicators and related objectives, and submit to the Shareholders' Meeting the new performance indicators for the three-year period ending in 2023 and subsequent years only if the plan has the characteristics set out in Article 114-*bis* TUF (compensation plans based on financial instruments).