



— 2021  
ANNUAL REPORT

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## CORPORATE BODIES

### Board of Directors<sup>1</sup>

Chairman	Ning Gaoning
Executive Vice Chairman and Chief Executive Officer	Marco Tronchetti Provera
Deputy-CEO	Giorgio Luca Bruno
Director	Yang Xingqiang
Director	Bai Xinping
Independent Director	Paola Boromei
Independent Director	Domenico De Sole
Independent Director	Roberto Diacetti
Independent Director	Fan Xiaohua
Independent Director	Giovanni Lo Storto
Independent Director	Marisa Pappalardo
Independent Director	Tao Haisu
Director	Giovanni Tronchetti Provera
Independent Director	Wei Yintao
Director	Zhang Haitao

**Secretary of the Board** Alberto Bastanzio

<sup>1</sup> Appointment: June 18, 2020. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2022. The current composition of the Board of Directors reflects the resolutions more recently adopted by the Shareholders' Meeting on June 15, 2021.

**Board of Statutory Auditors<sup>2</sup>**

Chairman	Riccardo Foglia Taverna
Statutory Auditors	Antonella Carù Francesca Meneghel Teresa Cristiana Naddeo Alberto Villani
Alternate Auditors	Franca Brusco Maria Sardelli Marco Taglioretti

**Audit, Risk, Sustainability and Corporate Governance Committee**

Chairman – Independent Director	Fan Xiaohua
Independent Director	Roberto Diacetti
Independent Director	Giovanni Lo Storto
Independent Director	Marisa Pappalardo Zhang Haitao

**Committee for Related Party Transactions**

Chairman – Independent Director	Marisa Pappalardo
Independent Director	Domenico De Sole
Independent Director	Giovanni Lo Storto

**Nominations and Successions Committee**

Chairman	Marco Tronchetti Provera Ning Gaoning Bai Xinping Giovanni Tronchetti Provera
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<sup>2</sup> Appointment: June 15, 2021. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2023.

**Remuneration Committee**

Chairman – Independent Director	Tao Haisu Bai Xinping
Independent Director	Paola Boromei
Independent Director	Fan Xiaohua
Independent Director	Marisa Pappalardo

**Strategies Committee**

Chairman	Marco Tronchetti Provera Ning Gaoning Giorgio Luca Bruno Yang Xingqiang Bai Xinping
Independent Director	Domenico De Sole
Independent Director	Giovanni Lo Storto
Independent Director	Wei Yintao

**Independent Auditing Firm<sup>3</sup>** PricewaterhouseCoopers S.p.A.

**Manager Responsible for the Preparation of the Corporate Financial Documents<sup>4</sup>** Giorgio Luca Bruno<sup>5</sup>

The Supervisory Board (as provided for by the Organisational Model 231 adopted by the Company) is chaired by Prof. Carlo Secchi.

<sup>3</sup> Appointment: August 1, 2017, effective as of the date of the commencement of trading of Pirelli shares on the stock exchange (October 4, 2017). Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2025.

<sup>4</sup> Appointment: Board of Directors Meeting on November 11, 2021. Expiry: jointly with the current Board of Directors.

<sup>5</sup> As indicated above, Giorgio Luca Bruno also holds the position of Deputy-CEO.

## PRESENTATION OF 2021 INTEGRATED ANNUAL REPORT

The Pirelli 2021 integrated Report (Annual Report 2021) aims to provide a comprehensive overview of the process of creating value for the Company's Stakeholders, as resulting from the integrated management of the financial, productive, intellectual, human, natural, social and relational capitals. Reporting reflects the business model adopted by Pirelli, inspired by the United Nations Global Compact, the principles of Stakeholder Engagement set forth by the AA1000, and the Guidelines of ISO 26000.

The financial capital, which comprise the company's financial resources, supply the sustainable management of other capitals and is in turn influenced by the value created by the latter.

In 2021, the management of the business produced an adjusted EBIT<sup>6</sup> of €815.8 million (€501.2 million in 2020) with a margin of 15.3% (11.6% in 2020). Internal levers (volumes, price/mix and efficiencies) more than offset the negativity of the external scenario (raw materials, inflation and exchange rate impact), enabling the company to achieve a better result than expected (€770-800 million was the goal implicit in the November target) and a adjusted Return of Investments (ROI) of 17.6% (≥16% November target).

The Company's productive capital, which includes a geographically diversified production structure with 18 plants in 12 countries on four continents, is managed with a view to environmental efficiency, with targets in terms of reducing water withdrawal, energy consumption, CO<sub>2</sub> emissions and increasing waste recovery.

In line with the goal of achieving Group carbon neutrality by 2030, in 2021 the decarbonisation plan for Pirelli's value chain continued. In terms of absolute CO<sub>2</sub> emissions (scopes 1 and 2) in 2021, Pirelli reached the well below 2°C Target approved by the Science Based Target Initiative (SBTi) four years ahead of schedule and asked the SBTi to upgrade it in line with 1.5°C. Significant the use of renewable electricity: 100% of the electricity acquired by the Group in Europe in 2021 is certified as renewable, 62% at global level. The absolute emissions of the supply chain increased from the pre-pandemic period, declining by 2.5% compared with 2019 and by 6% compared with 2018, the base year for the Science Based Target Initiative for the supply chain (reduction target -9% in 2025 compared with 2018).

The research and development activities contribute substantially to the improvement of environmental efficiency along the entire product life-cycle, from the innovative raw materials to the process, distribution, use and up to the end of life of tyres. Research and development expenses in 2021 amounted of €240.4 million (4.5% of sales), of which €225.1 million was for High Value activities (6.0% of High Value revenues). In turn, Pirelli's Eco & Safety Performance products, which combine

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<sup>6</sup> EBIT reported excluding amortisation of intangible assets related to assets recognised as a result of Business Combination, operating costs attributable to non-recurring, restructuring and one-off charges, Covid 19 direct costs and charges related to the retention plan approved by the Board of Directors on 26 February 2018.

performance and respect for the environment, at the end of 2021 represent 63.1%<sup>7</sup> of total car tyre turnover (58% in 2020 and 55.8% in 2019). By restricting the scope of the analysis to High Value products<sup>8</sup>, the percentage of Eco & Safety Performance products rises to 68.4% (63.8% in 2020 and 63.3% in 2019). Furthermore, in 2021, 49% of the new IP Code<sup>9</sup> placed on the market a growth of 10 percentage points of new IP Codes placed on the market have parameters in line with the highest classes (A or B) of the European rolling resistance labelling (which indirectly impacts the energy efficiency of vehicles), 10 percentage points more than in 2020 (70% the target for 2025). At the same time, the percentage of new IP Code tyres produced globally with values in line with the A or B European labelling values for wet grip remained very high at 87% of the total. The average rolling resistance of tyres produced by Pirelli worldwide decreased by more than one percentage point with respect to 2020, with a drop of 10.3% compared to 2015.

Significant efforts were made by Research & Development in renewable and recycled innovative materials, which led Pirelli fitting the Volvo Recharging Concept with a tyre containing 94% non-fossil materials (like silica from rice husks, carbon black from recycling and bio-resin). Innovative and sustainable materials for Pirelli include attention to people and biodiversity, and it is with this conviction that last May Pirelli presented the first tyre in the world with natural rubber and rayon certified by Forest Stewardship Council (FSC), destined for the BMW X5 Plug-In Hybrid. In 2021, Pirelli also launched a multi-year project in partnership with the BMW GROUP and the NGO BirdLife International to favour the production of sustainable natural rubber in Indonesia through a project that involves part of the rainforest of Hutan Harapan (island of Sumatra). It aims to improve the quality of life of the indigenous community and protect animals at risk.

The heavy investment in innovation also fuels Pirelli's intellectual capital, as it has a portfolio of active patents grouped into more than 685 families covering product, process and materials innovations, as well as a globally recognised brand.

These types of capital evolve thanks to the commitment, competence and dedication of human capital, the heart of the Company's growth. Merit, ethics and the sharing of strong values and clear policies, dialogue, attention to welfare and diversity are accompanied by advanced instruments to attract and retain the best talent. The number of management positions held by women increased further in 2021 to 24.8%. Investment in our 'occupational health and safety culture' is paramount. The accident frequency index in 2021 stands at 2.07<sup>10</sup>, confirming the constant downward trend.

The main awards obtained in 2021 include:

- in the motorsport and sustainability area, Pirelli was the only tyre manufacturer in the world to receive three stars from the Environmental Accreditation Programme promoted by FIA,

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<sup>7</sup> Figure obtained by weighing the value of sales of Eco & Safety Performance tyres on the total value of sales of Group car tyres. Eco & Safety Performance products identify the car tyres that Pirelli produces throughout the world and that fall under rolling resistance and wet grip classes A, B, C according to the labelling parameters set by European legislation.

<sup>8</sup> High Value products are determined by equal or greater than 18 inches and, in addition, include all "Specialties" products (Run Flat, Self-Sealing, Noise Cancelling System).

<sup>9</sup> Identification Product Code

<sup>10</sup> Accident Frequency Index based on 1,000,000 hours worked.

the International Automobile Federation, considered as the maximum recognition for the commitment to reducing the environmental impact in the context of FIA Motorsport.

- confirmation of ESG Leadership position by the main Sustainability Indices and Initiatives: Pirelli was awarded the “S&P Global Gold Class” recognition in the Sustainability Yearbook 2022, published by S&P Global based on the results of the Dow Jones Sustainability Index 2021 assessments. The Company was reconfirmed among the global leaders in the fight against climate change, being placed on the CDP “Climate A list” and also obtaining the maximum score of “A” in the CDP Supplier Engagement Rating Leaderboard for the management of climate issues along its supply chain. In conclusion, Pirelli was reconfirmed, as the only company from the automotive sector on the United Nations Global Compact Lead list, which includes the companies identified as those most committed to implementation of the Ten Principles of the Global Compact of the United Nations.

The annual financial statements and the consolidated financial statements have been prepared in accordance with IAS/IFRS.

In the drawing up of the Annual Report 2021 the principles of Integrated Reporting contained in the Framework of the International Integrated Reporting Council (IIRC) have been considered, the sustainability performance complies with the GRI Standards, SASB Auto Parts Framework and with the provisions of Legislative Decree no. 254 of 30 December 2016, following the process dictated by the principles of the AA1000 APS (materiality, inclusivity and responsiveness). In addition, this report includes the assessments required by the European Taxonomy Regulation in its areas of application (EU Regulation 2020/852 of 18 June 2020 and the related Delegated Regulations (EU) 2021/2178 and (EU) 2021/2139).

### **ESEF Requirements (European Single Electronic Format)**

This document has not been prepared pursuant to EU Delegated Regulation 2019/815 (ESEF Regulation), which was adopted in implementation of the Transparency Directive. The document prepared pursuant to the ESEF Regulation is available (only in Italian) on the website of the authorised storage mechanism eMarket Storage (emarketstorage.com) and on the Company’s website [www.pirelli.com](http://www.pirelli.com).

## **DIRECTORS' REPORT ON OPERATIONS**

**AT DECEMBER 31, 2021**

## MACROECONOMIC AND MARKET SCENARIO

### Economic Overview

For 2021, the global economy recorded GDP growth of +5.7%, having fully recovered from the decline recorded during 2020 due to the pandemic, thanks to unprecedented monetary and fiscal support, to the gradual easing of the restrictive measures imposed on mobility, to the progress of the global vaccination campaigns and to the consequent rapid recovery in demand. Temporary supply constraints, linked to the speed of recovery and to lockdowns, led to a significant increase in the costs of production factors and finished products, which was also passed on to consumer prices during the second half-year of 2021.

In Europe, the success of the vaccination campaigns, particularly during the second and third quarters of 2021, allowed for the gradual reopening of economic activity which contributed to GDP growth of +5.2% for 2021. This trend slowed during the fourth quarter due to the spread of the Omicron variant, to the persistent supply-side bottlenecks and to rising inflation (particularly energy).

GDP growth in the US (+5.7% for 2021) was bolstered by a combination of broad measures of support for the economy, and by strong vaccination programme participation during the first part of the year, which eased mobility restrictions and supported domestic demand. The trend for the fourth quarter improved significantly (annualised GDP growth of +6.9%), particularly due to increased investment and exports, even though the negative impacts of the Omicron variant, the persistent supply chain disruptions and higher inflation, led to more moderate consumption levels.

### Economic Growth, Trend Changes in GDP

	1Q 2021	2Q 2021	3Q 2021	4Q 2021	2021	2020
EU	-1.1	13.8	4.1	4.8	5.2	-6.0
US	0.5	12.2	4.9	5.5	5.7	-3.4
China	18.3	7.9	4.9	4.0	8.1	2.3
Brazil	1.3	12.3	4.0	1.6	4.6	-3.9
Russia	-0.9	10.0	4.3	4.8	4.7	-2.7
World	3.6	11.7	4.8	4.0	5.7	-3.4

Note: Change in year-on-year percentages. Final data, forecasts for Brazil, Russia and the World.

Source: National statistics offices and IHS Markit, February 2022.

In China, GDP growth of +8.1% for 2021 was characterised by a strong rebound at the beginning of the year followed by the normalisation of activity, albeit with discontinuities due to COVID-19 outbreaks under to the country's "zero contagion" policy. During the second half-year, electricity shortages and a slowdown in the housing market put a brake on economic activity, leaving the change in GDP for the fourth quarter at +4.0% year-on-year.

In Brazil following the increase in external demand, which lent support to exports and economic activity during the first part of 2021, recovery slowed due to uncertainty regarding the evolution of



the pandemic, as well as due to the impacts of the crisis in hydroelectric power generation, industrial production and rising inflation and interest rates.

The Russian economy recovered quickly from the COVID-19 linked recession, with GDP returning to pre-crisis levels as early as last summer. Preliminary estimates indicate that Russian GDP grew by +4.7% for 2021, thanks to the return of foreign trade volumes to “pre-pandemic” levels and also to the recovery in energy prices.

## Exchange Rates

The euro/US dollar exchange rate averaged 1.18 in 2021, an appreciation of +3.5% compared to the previous year. During the fourth quarter, however, expectations of a more restrictive monetary policy in the United States compared to the Eurozone, favoured the US dollar, with the exchange rate averaging US\$ 1.14 (-4.1% compared to the same quarter in 2020).

The growth of the Chinese economy in 2021 was accompanied by the strengthening of the renminbi, which averaged 6.45 against the US dollar, an appreciation of +6.9% compared to the average for 2020 (and by +3.3% against the euro). This trend continued for the fourth quarter: the renminbi averaged 6.39 against the US dollar, an appreciation of +3.5% compared to the same period of 2020 (+7.9% against the euro).

Rising inflation and political uncertainty weighed on the Brazilian real in 2021, which depreciated by -4.4% against the US dollar and by -7.7% against the euro, (by -6.3% for the fourth quarter against the US dollar but was stable against the euro).

Rising oil and natural gas prices, together with rising interest rates, sustained the gradual strengthening of the rouble during the course of 2021, effectively limiting its year-on-year depreciation against both the US dollar (-1.9%) and the euro (-5.3% against the euro).

Key Exchange Rates	1Q		2Q		3Q		4Q		Full year average	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
US\$ per euro	1.20	1.10	1.21	1.10	1.18	1.17	1.14	1.19	1.18	1.14
Chinese renminbi per US\$	6.48	6.98	6.46	7.08	6.47	6.92	6.39	6.62	6.45	6.90
Brazilian real per US\$	5.49	4.47	5.30	5.39	5.23	5.38	5.58	5.40	5.40	5.16
Russian rouble per US\$	74.32	66.39	74.20	72.41	73.49	73.57	72.61	76.19	73.64	72.21

Note: Average exchange rates for the period. Source: National central banks.

## Raw Materials Prices

Raw material prices rose steadily during 2021, following the generalised decline during 2020 due to the slowdown in global demand in the early stages of the pandemic.

For 2021, the average price of Brent equalled US\$ 70.8 per barrel, up by +64% from the average price for 2020. This price increase during the second half-year of 2021 was also influenced by the shortage in natural gas in Europe, and the closure of some coal-fired electric power plants in China

which led to higher demand and prices for gas and oil. Brent prices averaged US\$ 79.8 per barrel during the fourth quarter of the year (+76% compared to the same period in 2020).

For 2021, the trend for butadiene was similar to that of oil, with an average price that stood at euro 1,006 per tonne, almost double compared to the average price recorded for 2020 (euro 1,192 per tonne for the fourth quarter, +119% year-on-year).

The average price for natural rubber was US\$ 1,678 per tonne for 2021, an increase of +27% compared to 2020. Particularly during the fourth quarter of 2021, natural rubber prices returned to 2014 levels, reaching an average of euro 1,729 per tonne (+12% compared to the fourth quarter of 2020).

Raw Materials Prices	1Q			2Q			3Q			4Q			Full year average		
	2021	2020	% chg.	2021	2020	% chg.	2021	2020	% chg.	2021	2020	% chg.	2021	2020	% chg.
Brent (US\$ / barrel)	61.1	50.9	20%	69.0	33.3	107%	73.2	43.4	69%	79.8	45.2	76%	70.8	43.2	64%
Butadiene (€ / tonne)	715	727	-2%	853	392	118%	1,265	382	231%	1,192	543	119%	1,006	511	97%
Natural rubber TSR20 (US\$ / tonne)	1,668	1,337	25%	1,653	1,107	49%	1,659	1,281	30%	1,729	1,545	12%	1,678	1,317	27%

Note: Data are averages for the period. Source: IHS Markit, Reuters

## Trends in Car Tyre Markets

In 2021, the car tyre market grew by +7.7% globally; volumes still remain below pre-pandemic 2019 levels by around 8%. Growth in the Parts channel (+9.7% vs. 2020) was supported by the recovery in mobility but the market still remains below pre-COVID levels (-4.5% vs. 2019); the Original Equipment market (+2.1% vs. 2021, -15.3% from pre-pandemic levels) is suffering from the impact of the semiconductor shortage on car production.

There was a more marked recovery in demand for the Car  $\geq 18''$  segment (+14.9% compared to 2020, +7.5% for Original Equipment, +20.1% for the Replacement channel), which continued its growth to beyond pre-pandemic levels (+5.4% growth in overall demand, -4.4% for Original Equipment and +12.9% for the Replacement channel compared to 2019), also supported by an improved parc mix.

Market demand for the Car  $\leq 17''$  segment (+6.1% compared to 2020) recovered from the lows of 2020, while still remaining well below 2019 levels (-10.2% overall) in all regions.

## Trends in Car Tyre Markets

<i>% year-on-year</i>	<b>1Q 2021</b>	<b>2Q 2021</b>	<b>3Q 2021</b>	<b>4Q 2021</b>	<b>2021</b>	<b>2021 / 2019</b>
<b>Total Car Tyre Market</b>						
<b>Total</b>	<b>11.8</b>	<b>41.3</b>	<b>-5.1</b>	<b>-5.3</b>	<b>7.7</b>	<b>-7.5</b>
<i>Original Equipment</i>	14.1	47.9	-19.2	-13.3	2.1	-15.3
<i>Replacement</i>	11.0	39.2	-0.1	-2.1	9.7	-4.5
<b>Market ≥ 18"</b>						
<b>Total</b>	<b>20.3</b>	<b>56.5</b>	<b>-1.6</b>	<b>0.7</b>	<b>14.9</b>	<b>5.4</b>
<i>Original Equipment</i>	18.4	66.3	-15.0	-10.6	7.5	-4.4
<i>Replacement</i>	21.8	50.8	7.9	9.6	20.1	12.9
<b>Market ≤ 17"</b>						
<b>Total</b>	<b>9.9</b>	<b>38.0</b>	<b>-5.9</b>	<b>-6.7</b>	<b>6.1</b>	<b>-10.2</b>
<i>Original Equipment</i>	12.4	41.2	-21.0	-14.3	-0.0	-19.3
<i>Replacement</i>	9.2	37.2	-1.4	-4.1	7.9	-7.2

Source: Pirelli estimates

## **SIGNIFICANT EVENTS OF 2021**

During **January and February 2021**, Pirelli repaid some debt maturities in advance, which had been scheduled for 2021 and 2022 for a total of euro 838 million. In particular, a tranche of the “*Schuldschein*” loan was repaid, with original maturity on July 31, 2021 for euro 82 million, plus a portion of the unsecured (“*Facilities*”) loan for the amount of euro 756 million with original maturity in 2022. These repayments, for which part of the liquidity raised in 2020 was used, made it possible to optimise the financial structure of the debt.

On **February 25, 2021** Pirelli communicated the terms of the termination, effective February 28, 2021, of the employment relationship with the General Manager and co-CEO Angelos Papadimitriou, which had been announced to the market on **January 20, 2021**.

In accordance with the Pirelli Remuneration Policy, the Board of Directors granted to Mr Papadimitriou, in addition to the amounts due by way of remuneration and other legal benefits accrued up to the date of his termination: (i) 10 months' of gross annual salary as a redundancy incentive, equal to the value of what would have been the compensation in lieu of notice, based on conventional seniority recognised at the time of recruitment as an executive; (ii) euro 100,000 gross by way of a general novative settlement, to be paid once the termination was defined in accordance with the existing labour law procedures, as well as the maintenance until December 31, 2021 of certain non-monetary benefits granted at the time of recruitment as an executive. Mr Papadimitriou shall remain bound for the two years following his termination of office as Director, to a non-compete agreement, valid for the main countries in which Pirelli operates, in exchange for a consideration, for each applicable year, equal to 100% of his gross annual salary, to be paid in eight deferred quarterly instalments starting from July 1, 2021. The non-compete agreement includes a *non-solicit* clause as well as penalties in the event of any breach of the obligations pursuant to the non-compete agreement. The termination of Angelos Papadimitriou's appointment as Director occurred on **March 31, 2021**.

On **March 24, 2021** the Shareholders' Meeting approved, during an extraordinary session, the convertibility of the “*EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025*” issued on December 22, 2020, as well as approved a divisible capital increase, with the exclusion of option rights, to service the conversion for a total counter-value, including any share premium, of euro 500 million. On the basis of the initial conversion ratio of the Bond Loan of euro 6.235, this increase will correspond to the issue of a maximum of 80,192,461 Pirelli & C. S.p.A. ordinary shares (notwithstanding that the maximum number of Pirelli & C. S.p.A. ordinary shares could increase depending on the effective conversion ratio applicable from time to time). Bondholders have the option as of May 6, 2021, based on the Physical Settlement Notice issued by the Company on **April 15, 2021**, to exercise the right to convert the bonds into Pirelli ordinary shares as provided for in the terms and conditions of the bond.

On **March 31, 2021**, the Board of Directors approved the 2021-2022|2025 Industrial Plan, which had been presented to the financial community on the same date, and also approved the Financial Statements at December 31, 2020 which had closed with a consolidated net income of euro 42.7 million and a net income for the Parent Company of euro 44 million. The Board of Directors resolved

to propose to the Shareholders' Meeting convened for June 15, 2021, the distribution of a dividend, also by way of withdrawing part of the earnings accrued during previous financial years, of euro 0.08 per share for a total of euro 80 million.

On **April 1, 2021**, Pirelli announced that on March 31, 2021 it had received notification from ChemChina, informing it that the latter had received notification regarding the restructuring of ChemChina and the Sinochem Group Co., Ltd. by the Assets Supervision and Administration Commission of the State Council ("SASAC"), which foresaw for the establishment of a new holding company by SASAC, which will perform the duties of the transferor on behalf of the State Council and the consolidation of Sinochem and ChemChina into a new holding company. Following the completion of the joint restructuring in September, ChemChina is now directly controlled by Sinochem Holdings Corporation Ltd.

On **May 19, 2021**, Pirelli announced that it was the first company in the world to produce a line of Forest Stewardship Council (FSC) certified tyres, designed for the new BMW X5 xDrive45e Plug-In Hybrid. The FSC Forest Stewardship Certification ensures that natural rubber plantations are managed in a way that preserves biological diversity and benefits the lives of local communities and workers, while at the same time ensuring economic sustainability. The attainment of FSC Certification for natural rubber produced from certified plantations, is just the latest milestone in Pirelli's long standing commitment to the sustainable management of the natural rubber supply chain.

On **June 15, 2021**, the Company's Shareholders' Meeting approved the Financial Statements for the 2020 financial year, and resolved to distribute a dividend of euro 0.08 per share, equal to a total dividend pay-out of euro 80 million before withholding taxes. The dividend was placed in payment on June 23, 2021 (with an ex-dividend date of June 21, 2021 and a record date of June 22, 2021). The Shareholders' Meeting also confirmed the number of members of the Board of Directors at fifteen, and - upon proposal of the Board of Directors - appointed Giorgio Luca Bruno as new Director, whose mandate will expire together with the other members of the Board of Directors with the approval of the financial statements at December 31, 2022. The Shareholders' Meeting then appointed the Board of Statutory Auditors for the 2021-2022-2023 financial years, which is made up of Riccardo Foglia Taverna (Chairman), Alberto Villani, Teresa Cristiana Naddeo, Antonella Carù (who maintains her position as a member of the Supervisory Board) and Francesca Meneghel as Statutory Auditors and Franca Brusco, Marco Taglioretti and Maria Sardelli as Alternate Auditors. The Shareholders' Meeting also approved the remuneration policy for 2021, and expressed its favourable opinion on the Financial Report regarding remunerations paid during the 2020 financial year, as well as approved the adoption of the three-year 2021-2023 monetary incentive plan for the management sector of the Group. Lastly, with reference to the three-year 2020-2022 monetary incentive plan approved by the Shareholders' Meeting of June 18, 2020, the Shareholders' Meeting approved the proposal to adjust the Group's cumulative Net Cash Flow target (before dividends), and the possibility of normalising the potential effects on the TSR (Total Shareholder Return) target for Goodyear's acquisition of Cooper (which took place at the beginning of 2021), which is included in the panel of reference for this objective.

Also on **June 15, 2021**, the Pirelli Board of Directors, in keeping with that which had been announced to the market, appointed Giorgio Luca Bruno as Deputy-CEO, who was granted powers for the operational management of Pirelli, to be exercised in a vicarious capacity. The Board also appointed Giorgio Luca Bruno as a member of the Strategies Committee, confirming the number of its members at eight. Consistent with that which was disclosed to the market, Pirelli's macro-organisational structure envisages that Deputy-CEO Giorgio Luca Bruno will report directly to Executive Vice Chairman and CEO Marco Tronchetti Provera, thus superseding the office of General Manager and co-CEO, whose responsibilities had been entrusted *ad interim* to the Executive Vice Chairman and CEO as of the termination date of termination of the working relationship with Mr Papadimitriou. The Executive Vice Chairman and CEO is in charge of strategic and industrial direction and will therefore continue to be responsible for: Strategic Planning & Controlling, Investor Relations, Competitive, Business Insight and Micromobility Solutions, Communication and Brand Image, Institutional Affairs and Culture, Corporate Affairs, Compliance, Audit and the Company Secretary. The Deputy-CEO is attributed all the necessary executive levers, in addition to the staff areas that do not report directly to the Executive Vice Chairman and CEO. Reporting to the Deputy-CEO is the General Manager of Operations, Andrea Casaluci, to whom all business divisions and regions will continue to report.

The Board of Directors - following the unanimous opinion of the Committee for Related Party Transactions, which deliberated with the presence of all its members - also unanimously approved the new Related Party Transactions Procedure, which has been adapted to the new provisions on related party transactions recently adopted by CONSOB.

On **September 20, 2021** Pirelli was the only company in the global Automobiles & Parts sector, confirmed by the United Nations as a Global Compact LEAD. This year comprising thirty seven companies, the Global Compact LEAD brings together the world's companies who are most committed to implementing the Ten Principles of the United Nations Global Compact.

On **October 28, 2021** Pirelli announced the start of a three-year project in the Hutan Harapan forest in Indonesia, in collaboration with the BMW Group and BirdLife International, which involves measures to support local communities, the conservation of forests and the protection of endangered animal species.

On **November 11, 2021**, the Board of Directors approved a syndicated credit facility, to be finalised in the coming months, for a total of euro 1.6 billion that will be used to refinance and/or replace the bank credit facilities maturing in June 2022. The operation allows for the optimisation of the debt profile by extending maturity dates.

Also on the same date, the Board of Directors - subject to the favourable opinion of the Board of Statutory Auditors and the verification of the requirements set forth in the Articles of Association - resolved to appoint Giorgio Luca Bruno, effective November 11, 2021, as the Manager Responsible for the Preparation of the Corporate Financial Documents, replacing Francesco Tanzi who, as was announced to the market, left the company on December 31, 2021.

Giorgio Luca Bruno holds 500 Pirelli shares.

On **November 20, 2021** Pirelli announced that it was the first and only tyre manufacturer in the world to have been awarded the *Three Star Certification* of the Environmental Accreditation Programme

promoted by the FIA, the International Automobile Federation. This is an award that attests to the Company's achievements in sustainability in motorsport, achieved thanks to a supply chain that is fully managed in accordance with environmental and social sustainability criteria.

On **December 7, 2021** Pirelli was recognised as a global leader in the fight against climate change, obtaining a place on the 2021 Climate A List drawn up by the CDP, the international non-profit organisation that collects, disseminates and promotes information on environmental issues. An "A" rating is the highest that can be awarded and was only given to 200 companies out of 13,000 participants. This recognition by the CDP is confirmation of Pirelli's ongoing commitment to environmental sustainability, whereby the Company has had its CO<sub>2</sub> emissions reduction target validated by the Science Based Targets Initiative (SBTi) and has long since set a "*carbon neutrality*" objective for 2030, which is also supported by the target of sourcing 100% renewable electrical energy at global level by 2025.

## GROUP PERFORMANCE AND RESULTS

In this document, in addition to the financial measures provided for by the International Financial Reporting Standards (IFRS), Alternative Performance Indicators derived from the IFRS were used, in order to allow for a better assessment of the of the Group's operating and financial performance.

Reference should be made to the paragraph "*Alternative Performance Indicators*" for a more analytical description of these indicators.

\* \* \*

Pirelli's results for 2021 reflect the recovery in demand and the implementation of the key programmes of the 2021-2022|2025 Industrial Plan.

On the **Commercial** front:

- strengthening of the High Value segment, with an outperformance by Car  $\geq 18''$  (+23% for Pirelli volumes compared to +15% for the market); with even more sustained growth for Car  $\geq 19''$  (+28% for Pirelli volumes compared to +24% for the market). Pirelli fully seized the opportunities offered by the market recovery, by leveraging a portfolio of products with a high technological content which were further upgraded during the year and a production and logistics structure capable of handling the high volatility of demand;
- increased exposure to the electric vehicle market, with Original Equipment volumes at  $\sim 6x$  those of 2020;
- consolidation of leadership in China in the high-end products range:
  - both on the Original Equipment channel, thanks to the strong exposure to Premium Car makers and also to partnerships with the leading local Premium manufacturers of electric vehicles;
  - and on the Replacement channel, where the recovery in demand was intercepted through the distribution chain and the strong development of online sales;
- a recovery in sales for the Standard segment (+9% for Pirelli Car  $\leq 17''$  volumes compared to +6% for the market), with the mix increasingly oriented towards higher rim diameter products;
- progressive price/mix improvement (+9.1% for 2021, +16.3% in the fourth quarter of 2021 alone), which reflected the price increases and the favourable performance of the mix.

On the **Innovation** front:

- the homologation plan continued with the OEM partners, with  $\sim 310$  technical homologations in 2021, concentrated mainly in the  $\geq 19''$  range and Specialties;



- the launch of six new product lines dedicated to the Replacement channel to meet the different needs of consumers.

For the **Competitiveness Programme: Phase 2 of the Efficiency Plan** continued with gross benefits of euro 155 million (euro 70 million net of inflation) relative to:

- product cost, with modularity and design-to-cost programmes;
- manufacturing, through the completion of the previously announced optimisation of the industrial footprint and the implementation of efficiency programmes;
- SG&A, by leveraging, an optimised of the logistics and warehouse network and the negotiation of purchases;
- organisation, through the recourse to digital transformation.

For the **Operations Programme**:

- the process of returning to optimum levels of plant saturation continued, which at year-end were equal to approximately 90%;
- completed instead, were the restructuring programmes in Italy, with the conversion of the Bollate factory from Car Standard to cycling and in Brazil with the transfer of motorbike production from Gravatai to Campinas, (which allows for a more efficient supply for both the Latin American market and the export channel) and the reorganisation programme in Great Britain for the Burton-on-Trent factory, which now focuses on semi-finished products.

For the **Digitisation Program**, efforts continued to transform the Company's key processes by 2023. This programme will enable the real-time integration of the exchange of information between the various corporate functions and its partners/external customers through digital platforms, using artificial intelligence models.

With regard to the **Sustainability Programmes**, reference should be made to the Presentation of the Integrated Financial Statements for 2021 and to the "*Report on Responsible Value Chain Management*".

**Pirelli closed the 2021 financial year** with results that exceeded targets, which had been revised upwards twice during the course of the year:

- **net sales** amounted to euro **5,331.5** million, +23.9% compared to 2020 (+24.8% growth net of the exchange rate effect and hyperinflation in Argentina), with November targets of euro ~5.1/~5.15 billion, thanks to a better than expected commercial performance. In particular:
  - volume growth (+15.7% at Group level, a target of ~+14%/~+15%) was especially supported by the High Value segment (+20.2% compared to the target of +17%/+18%), and sustained the recovery in demand in the main geographical regions, and by the

strengthening of market share; Standard volumes were up by +11.2% (a target of +11.5%/+12.5%);

- an improved price/mix (+9.1%), which reflected the above mentioned dynamics;
- a negative impact, however, from the exchange rate effect and hyperinflation in Argentina (-0.9%), affected by the depreciation compared to 2020, of the US dollar (-3.4%) and of the main currencies of emerging countries against the euro (the Brazilian real at -7.7% and Russian rouble at -5.3%), particularly concentrated in the first half-year;
- **EBIT adjusted** equalled euro **815.8** million (euro 501.2 million for 2020), with profitability at 15.3%, an improvement compared to 11.6% for 2020. Internal levers (volumes, price/mix, efficiencies) more than compensated for the negative external scenario (raw materials, inflation, exchange rate effect), making it possible to achieve results that exceeded the Company's expectations (the implicit objective of the November net target had been euro 770/800 million);
- **net income/(loss)** amounted to an income of euro **321.6** million (euro 42.7 million for 2020), and **net income/(loss) adjusted** amounted to an income of euro **468.8** million, net of one-off, non-recurring and restructuring expenses, COVID-19 direct costs and the amortisation of the intangible assets included in the PPA;
- the **Net Financial Position** at December 31, 2021 showed a debt of euro **2,907.1** million (euro 3,258.4 million at December 31, 2020), with a solid cash generation before dividends of euro 431.2 million (euro 248.8 million for 2020, euro 344.1 million for 2019), which was above the target (euro 390/410 million). This trend was supported by a markedly improved operating performance and by the careful management of working capital.
- a **liquidity margin** equal to euro **2,698.6** million.

The **Group's consolidated Financial Statements** can be summarised as follows:

<i>(in millions of euro)</i>	<b>2021</b>	<b>2020</b>
<b>Net sales</b>	<b>5,331.5</b>	<b>4,302.1</b>
<b>EBITDA adjusted (*)</b>	<b>1,210.7</b>	<b>892.6</b>
% of net sales	22.7%	20.7%
<b>EBITDA (**)</b>	<b>1,085.7</b>	<b>725.1</b>
% of net sales	20.4%	16.9%
<b>EBIT adjusted</b>	<b>815.8</b>	<b>501.2</b>
% of net sales	15.3%	11.6%
Adjustments: - amortisation of intangible assets included in PPA	(113.7)	(114.6)
- non-recurring, restructuring expenses and other	(106.1)	(107.7)
- COVID-19 direct costs	(18.9)	(59.8)
<b>EBIT</b>	<b>577.1</b>	<b>219.1</b>
% of net sales	10.8%	5.1%
Net income/(loss) from equity investments	4.0	(5.3)
Financial income/(expenses) (**)	(144.3)	(156.4)
<b>Net income/(loss) before taxes</b>	<b>436.8</b>	<b>57.4</b>
Taxes	(115.2)	(14.7)
Tax rate %	26.4%	25.6%
<b>Net income/(loss)</b>	<b>321.6</b>	<b>42.7</b>
Earnings/(loss) per share (in euro per share)	0.30	0.03
Net income/(loss) adjusted	468.8	245.5
<b>Net income/(loss) attributable to owners of the Parent Company</b>	<b>302.8</b>	<b>29.8</b>

(\*) The adjustments refer to one-off, non-recurring and restructuring expenses to the amount of euro 101.4 million (euro 99.3 million for 2020), to expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 to the amount of euro 4.7 million (euro 8.4 million for 2020), and to COVID-19 direct costs to the amount of euro 18.9 million (euro 59.8 million for 2020).

(\*\*) This item includes the impacts deriving from the application of the accounting standard IFRS 16 – Leases, on EBITDA to the amount of euro +103.0 million (euro +103.9 million for 2020), and on financial expenses to the amount of euro -20.8 million (euro -22.3 million for 2020).

<i>(in millions of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
<b>Fixed assets</b>	<b>8,912.4</b>	<b>8,857.1</b>
Inventories	1,092.2	836.4
Trade receivables	659.2	597.7
Trade payables	(1,626.4)	(1,317.0)
<b>Operating net working capital</b>	<b>125.0</b>	<b>117.1</b>
% of net sales	2.3%	2.7%
Other receivables/other payables	0.8	23.4
<b>Net working capital</b>	<b>125.8</b>	<b>140.5</b>
% of net sales	2.4%	3.3%
<b>Net invested capital</b>	<b>9,038.2</b>	<b>8,997.6</b>
<b>Equity</b>	<b>5,042.6</b>	<b>4,551.9</b>
Provisions	1,088.5	1,187.3
<b>Net financial (liquidity)/debt position</b>	<b>2,907.1</b>	<b>3,258.4</b>
Equity attributable to owners of the Parent Company	4,908.1	4,447.4
Investments in intangible and owned tangible assets (CapEx)	345.6	140.0
Increases in right of use	122.4	68.5
Research and development expenses	240.4	194.6
% of net sales	4.5%	4.5%
Research and development expenses - High Value	225.1	182.5
% of High Value sales	6.0%	6.0%
Employees (headcount at end of period)	30,690	30,510
Industrial sites (number)	18	19

For a better understanding of the Group's performance, the following **quarterly performance figures** are provided below:

<i>(in millions of euro)</i>	1 Q		2 Q		3 Q		4 Q		Total year	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<b>Net sales</b>	<b>1,244.7</b>	1,051.6	<b>1,320.1</b>	764.8	<b>1,414.5</b>	1,277.4	<b>1,352.2</b>	1,208.3	<b>5,331.5</b>	4,302.1
yoy	18.4%		72.6%		10.7%		11.9%		23.9%	
organic yoy *	24.5%		73.9%		10.5%		9.0%		24.8%	
<b>EBITDA adjusted</b>	<b>266.5</b>	244.2	<b>307.4</b>	23.7	<b>320.1</b>	309.4	<b>316.7</b>	315.3	<b>1,210.7</b>	892.6
% of net sales	21.4%	23.2%	23.3%	3.1%	22.6%	24.2%	23.4%	26.1%	22.7%	20.7%
<b>EBITDA</b>	<b>223.5</b>	220.2	<b>278.5</b>	(18.5)	<b>304.8</b>	276.8	<b>278.9</b>	246.6	<b>1,085.7</b>	725.1
% of net sales	18.0%	20.9%	21.1%	(2.4)%	21.5%	21.7%	20.6%	20.4%	20.4%	16.9%
<b>EBIT adjusted</b>	<b>168.8</b>	141.1	<b>208.6</b>	(74.4)	<b>221.4</b>	213.7	<b>217.0</b>	220.8	<b>815.8</b>	501.2
% of net sales	13.6%	13.4%	15.8%	(9.7)%	15.7%	16.7%	16.0%	18.3%	15.3%	11.6%
Adjustments: - amortisation of intangible assets included in PPA	(28.4)	(28.7)	(28.5)	(28.6)	(28.4)	(28.7)	(28.4)	(28.6)	(113.7)	(114.6)
- non-recurring, restructuring expenses and other	(39.4)	(18.6)	(23.8)	(21.2)	(10.7)	(26.4)	(32.2)	(41.5)	(106.1)	(107.7)
- COVID-19 direct costs	(3.6)	(5.4)	(5.1)	(21.0)	(4.6)	(6.2)	(5.6)	(27.2)	(18.9)	(59.8)
<b>EBIT</b>	<b>97.4</b>	88.4	<b>151.2</b>	(145.2)	<b>177.7</b>	152.4	<b>150.8</b>	123.5	<b>577.1</b>	219.1
% of net sales	7.8%	8.4%	11.5%	(19.0)%	12.6%	11.9%	11.2%	10.2%	10.8%	5.1%
Net income/(loss) from equity investments	(0.1)	(5.3)	2.1	0.7	(0.4)	(1.5)	2.4	0.8	4.0	(5.3)
Financial income/(expenses)	(40.0)	(32.5)	(31.8)	(40.6)	(35.1)	(40.2)	(37.4)	(43.1)	(144.3)	(156.4)
<b>Net income/(loss) before taxes</b>	<b>57.3</b>	50.6	<b>121.5</b>	(185.1)	<b>142.2</b>	110.7	<b>115.8</b>	81.2	<b>436.8</b>	57.4
Taxes	(15.1)	(12.1)	(32.1)	44.9	(37.6)	(26.8)	(30.4)	(20.7)	(115.2)	(14.7)
Tax rate %	26.4%	24.0%	26.4%	24.3%	26.4%	24.2%	26.3%	25.4%	26.4%	25.6%
<b>Net income/(loss)</b>	<b>42.2</b>	38.5	<b>89.4</b>	(140.2)	<b>104.6</b>	83.9	<b>85.4</b>	60.5	<b>321.6</b>	42.7

\* before exchange rate effect and hyperinflation in Argentina

**Net sales** totalled euro 5,331.5 million, a growth of +23.9% compared to 2020, or +24.8% excluding the combined impact of the exchange rate effect and the adoption of hyperinflation accounting in Argentina (totalling -0.9%).

**High Value sales** accounted for 70.9% of total Group revenues (70.4% for 2020), consistent with the target for the year.

The following table shows the **market drivers for net sales performance**:

	2021				
	1Q	2Q	3Q	4Q	Total year
Volume	22.2%	69.9%	(0.4%)	(7.3%)	15.7%
of which:					
- High Value	29.3%	68.8%	1.8%	0.0%	20.2%
- Standard	15.4%	72.9%	(2.6%)	(13.4%)	11.2%
Price/mix	2.3%	4.0%	10.9%	16.3%	9.1%
<b>Change on a like-for-like basis</b>	<b>24.5%</b>	<b>73.9%</b>	<b>10.5%</b>	<b>9.0%</b>	<b>24.8%</b>
Exchange rate effect /Hyperinflation accounting in Argentina	(6.1%)	(1.3%)	0.2%	2.9%	(0.9%)
<b>Total change</b>	<b>18.4%</b>	<b>72.6%</b>	<b>10.7%</b>	<b>11.9%</b>	<b>23.9%</b>

**Pirelli volumes** grew by +15.7% compared to 2020, with an increase in market share particularly for the High Value segment: Pirelli recorded volume growth for the segment of +20.2%, with a +11.2% increase for the Standard segment.

**Pirelli Car ≥18" volumes** increased by +23%, compared with +15% for the market.

- for the **Original Equipment** channel (Pirelli volumes at +21%, the market at +8%), growth was supported by exposure to the Premium and Prestige segments, by the consolidation of the client base in North America and APAC and by the growing demand for specific products for electric vehicles;
- for the **Replacement** channel (Pirelli volumes at +25%, the market at +20%), the Company further strengthened its market share in the main geographical regions, benefiting from the growth in High Value pull-through volumes (Replacement demand for vehicles with Pirelli tyres as Original Equipment) and the launch of six new dedicated lines.

**Pirelli Car ≥19" volumes** rose sharply and recorded a growth of +28% against a market growth of +24%.

**Pirelli Car ≤17" volumes** recorded a more pronounced growth during 2021 (+9%) compared to the relevant market (+6%), thanks to the strong recovery in demand in South America where the Company is a market leader.

Volume trends for the **fourth quarter** reflected the fall in global demand for Car tyres (-5%), mainly on the Original Equipment channel (-13%), due to the shortage in semi-conductors. Demand on the Replacement channel (-2%), was impacted by the volatility of macroeconomic scenario. Against this backdrop, Pirelli High Value volumes remained unchanged from 2020, while the Standard segment declined by -13.4%.

For **Car ≥18"**, Pirelli confirmed its outperformance compared to the market (+4% for Pirelli volumes, +1% for market volumes):

- both for the Original Equipment channel (-5% for Pirelli volumes, -11% for market volumes) which was supported by the greater penetration of Prestige and Premium OEMs and by new contracts in North America and APAC;
- and the Replacement channel (+13% for Pirelli volumes, +10% for market volumes), particularly in North America and APAC.

Within the **Car ≤17"** segment, the reduction in Pirelli volumes during the last quarter (-12%) was more marked than that of the market (-7%), which was consistent with the Group's strategy of reducing exposure to the segment.

The **price/mix** for 2021 rose sharply (+9.1%), which reflected:

- the aforementioned price increases in an inflationary environment;
- the improvement in the product mix, linked to the gradual migration from Standard to High Value and the improvement in the mix in both segments (High Value and Standard).

Price/mix for the fourth quarter was at record levels (+16.3%), benefiting from the price increases and the improvement of all mix components (product, channel and Region).

The negative **exchange rate effect**, which also took the application of hyperinflation accounting in Argentina into account: -0.9% for 2021 (but +2.9% for the fourth quarter), was impacted by the appreciation of the euro against the US dollar and the main emerging market currencies (particularly South America and Russia).

The performance for **net sales according to geographical region** was as follows:

<i>(in millions of euro)</i>	2021			2020	
		%	yoy	Organic Yoy*	%
Europe and Turkey	2,058.5	38.6%	17.2%	17.6%	40.8%
North America	1,145.7	21.5%	31.6%	34.2%	20.2%
APAC	1,018.8	19.1%	17.6%	16.0%	20.1%
South America	667.6	12.5%	45.6%	49.3%	10.7%
Russia, Nordics and MEAI	440.9	8.3%	25.6%	26.7%	8.2%
<b>Total</b>	<b>5,331.5</b>	<b>100.0%</b>	<b>23.9%</b>	<b>24.8%</b>	<b>100.0%</b>

\* before exchange rate effect and hyperinflation in Argentina

**Net sales for the fourth quarter** amounted to euro 1,352.2 million (euro 1,208.3 million for the same period in 2020), up by +11.9% year-on-year (an organic growth of +9.0%) and reflected the above trends.

**EBITDA adjusted** equalled euro 1,210.7 million (euro 892.6 million for 2020), with a margin of 22.7% (20.7% for 2020) and reflected the dynamics described in the following paragraph in terms of EBIT adjusted.

**EBIT adjusted** equalled euro 815.8 million (euro 501.2 million for 2020) with a margin of 15.3% (11.6% for 2020). The contribution of internal levers (volumes, price/mix and efficiencies), more than offset the negativity of the external scenario (raw materials, inflation and exchange rate effect). More specifically:

- strong **volume** growth (euro +266.6 million);
- **price/mix** (euro +282.7 million) which more than compensated the **increase in the cost of raw materials** (euro -211.9 million including the relative exchange rate effect) and the negative impact of the exchange rate effect (euro -11.5 million);
- the **positive effect of Phase 2 of the Competitiveness Plan** which generated structural efficiencies which amounted to euro 154.6 million, which more than compensated:
  - **inflation** (euro -85.0 million);
  - the **reversal impact of COVID-19 Measures** (euro -30.7 million equal to the balance between euro -79.7 million in higher discretionary costs relative to activities suspended during 2020 due to the pandemic and the benefits derived from the increased utilisation of production plants which amounted to euro +49.0 million);
  - **amortisation and depreciation** (euro -11.0 million);
- the **increase in other costs** (euro -39.2 million, mainly concentrated in the first quarter), being the balance between higher **R&D and marketing costs for the High Value segment** (euro -32.0 million), **increased accruals** (euro -51.2 million) for the long and short-term management incentive plans (the latter cancelled in 2020) and the benefit (euro +44.0 million) derived mainly from the rebuilding of inventories, consistent with the recovery in sales volumes.

For the **fourth quarter of 2021**, EBIT adjusted equalled euro 217.0 million, thanks to the contribution of the price/mix, which offset the impact of raw materials by 1.4 times. The EBIT margin adjusted equalled 16.0% (18.3% for the fourth quarter of 2020) and reflected:

- the increased impact of inflation on the costs of production compared to the targets for the year (approximately euro 10 million more), linked mainly to logistics and energy costs;
- the reversal impact of COVID-19 Measures (the net balance amounted to euro -8.0 million for the quarter).

<i>(in millions of euro)</i>	1 Q	2 Q	3 Q	4 Q	Total year
<b>2020 EBIT Adjusted</b>	<b>141.1</b>	<b>(74.4)</b>	<b>213.7</b>	<b>220.8</b>	<b>501.2</b>
<b>- Internal levers:</b>					
Volumes	95.9	219.1	(5.5)	(42.9)	266.6
Price/mix	16.0	31.0	103.0	132.7	282.7
Amortisation and depreciation	(4.0)	(2.0)	(2.0)	(3.0)	(11.0)
COVID-19 cost cutting (reversal impact)	(25.0)	(29.4)	(16.3)	(9.0)	(79.7)
Slowdown (reversal impact)	10.0	34.0	4.0	1.0	49.0
Efficiencies	25.8	56.7	27.2	44.9	154.6
Other costs	(58.1)	24.1	(4.0)	(1.2)	(39.2)
<b>- External levers:</b>					
Cost of production factors (commodities)	(11.1)	(27.6)	(75.0)	(98.2)	(211.9)
Cost of production factors (labour/energy/other)	(10.8)	(21.2)	(18.6)	(34.4)	(85.0)
Exchange rate effect	(11.0)	(1.7)	(5.1)	6.3	(11.5)
<b>Total change</b>	<b>27.7</b>	<b>283.0</b>	<b>7.7</b>	<b>(3.8)</b>	<b>314.6</b>
<b>2021 EBIT Adjusted</b>	<b>168.8</b>	<b>208.6</b>	<b>221.4</b>	<b>217.0</b>	<b>815.8</b>

**EBIT**, which equalled euro 577.1 million (positive to the amount of euro 219.1 million for 2020), included:

- the amortisation of the intangible assets identified during the PPA to the amount of euro 113.7 million (substantially consistent with 2020);
- non-recurring, restructuring expenses and other to the amount of euro 101.4 million (euro 99.3 million for 2020), mainly relative to structural rationalisation measures, in addition to the retention plan (approved by the Board of Directors on February 26, 2018) to the amount of euro 4.7 million (euro 8.4 million for 2020);
- emergency COVID-19 direct costs to the amount of euro 18.9 million (euro 59.8 million for 2020), mainly relative to costs incurred for the purchase of protective personnel equipment.

**Net income/(loss) from equity investments** amounted to an income of euro 4.0 million, compared to the loss of euro 5.3 million for 2020. Net income/(loss) from equity investments included dividends received in 2021 amounting to euro 2.3 million, plus the pro-rata result for the period for the Chinese joint venture Xushen Tyre (Shanghai) Co., Ltd. and for the Indonesian joint venture PT Evoluzione Tyres, totalling a positive euro 1.0 million, which was an improvement compared to the pro-rata result for the two joint ventures for 2020, which had amounted to euro -5.9 million.

**Net financial expenses** for 2021 amounted to euro 144.3 million, compared to euro 156.4 million for 2020.

This decrease by euro 12.1 million, compared to the previous year, was mainly the result of higher expenses for financial debt (euro +4.3 million) which was impacted by, amongst other factors, the effects of COVID-19 which caused a temporary increase in the margin on the Group's main bank credit facility. These higher expenses were more than compensated by the benefits arising from financial management, mostly at local level (euro -16.4 million not related to debt).



At December 31, 2021, the cost of debt year-on-year (calculated over the last twelve months) equalled 2.38% (1.94% at December 31, 2020), which reflected the aforementioned slight increase in financial expenses relative to financial debt (euro +4.3 million), combined with the significant reduction in gross debt achieved during the course of the year, thanks to cash generation and the repayment of financial debt during the first months of 2021, to the amount of euro 838 million.

**Taxes** for 2021 amounted to euro -115.2 million against a net income before taxes of euro 436.8 million, with a tax rate of 26.4%. For 2020, taxes had amounted to euro -14.7 million against a net income before taxes of euro 57.4 million (a tax rate of 25.6%).

**Net income/(loss)** amounted to an income of euro 321.6 million, compared to an income of euro 42.7 million for 2020.

**Net income/(loss) adjusted** amounted to an income of euro 468.8 million, compared with an income of euro 245.5 million for 2020. The following table shows the calculations:

<i>(in millions of euro)</i>	<b>2021</b>	<b>2020</b>
<b>Net income/(loss)</b>	<b>321.6</b>	<b>42.7</b>
Amortisation of intangible assets included in PPA	113.7	114.6
One-off, non-recurring and restructuring expenses	101.4	99.3
COVID-19 direct costs	18.9	59.8
Retention plan	4.7	8.4
Taxes	(91.5)	(79.3)
<b>Net income/(loss) adjusted</b>	<b>468.8</b>	<b>245.5</b>

**Net income/(loss) attributable to the owners of the Parent Company** amounted to an income of euro 302.8 million, compared to the loss of euro 29.8 million for 2020.

**Equity** went from euro 4,551.9 million at December 31, 2020, to euro 5,042.6 million at December 31, 2021.

**Equity attributable to the owners of the Parent Company** at December 31, 2021 equalled euro 4,908.1 million, compared to euro 4,447.4 million at December 31, 2020.

The change is shown in the table below:

<i>(in millions of euro)</i>	<b>Group</b>	<b>Non-controlling interests</b>	<b>Total</b>
<b>Equity at 12/31/2020</b>	<b>4,447.4</b>	<b>104.5</b>	<b>4,551.9</b>
Translation differences	114.6	11.3	125.9
Net income/(loss)	302.8	18.8	321.6
Fair value adjustment of financial assets / derivative instruments	27.5	-	27.5
Actuarial gains/(losses) on employee benefits	61.0	-	61.0
Dividends approved	(80.0)	-	(80.0)
Effect of hyperinflation in Argentina	33.6	-	33.6
Other	1.2	(0.1)	1.1
<b>Total changes</b>	<b>460.7</b>	<b>30.0</b>	<b>490.7</b>
<b>Equity at 12/31/2021</b>	<b>4,908.1</b>	<b>134.5</b>	<b>5,042.6</b>

The reconciliation between equity the Parent Company's equity and the consolidated equity attributable to the owners of the Parent Company is reported below:

<i>(in millions of euro)</i>	<b>Share Capital</b>	<b>Treasury reserves</b>	<b>Net income/(loss)</b>	<b>Total</b>
<b>Equity of Pirelli &amp; C. S.p.A. at 12/31/2021</b>	<b>1,904.4</b>	<b>2,692.1</b>	<b>216.6</b>	<b>4,813.1</b>
Net income/(loss) of consolidated companies (before consolidation adjustments)	-	-	315.9	315.9
Share capital and reserves of consolidated companies (before consolidation adjustments)	-	4,419.1	-	4,419.1
Consolidation adjustments:				
- carrying amount of equity investments in consolidated companies	-	(4,633.8)	-	(4,633.8)
- intragroup dividends	-	229.3	(229.3)	-
- other	-	(5.8)	(0.4)	(6.2)
<b>Consolidated equity of the Group at 12/31/2021</b>	<b>1,904.4</b>	<b>2,700.9</b>	<b>302.8</b>	<b>4,908.1</b>

The **net financial position** showed a debt of euro 2,907.1 million, compared with a debt of euro 3,258.4 million at December 31, 2020. It was composed as follows:

<i>(in millions of euro)</i>	12/31/2021	12/31/2020
Current borrowings from banks and other financial institutions	1,489.2	883.6
- of which lease liabilities	91.6	75.4
Current derivative financial instruments (liabilities)	10.3	32.5
Non-current borrowings from banks and other financial institutions	3,789.4	4,971.0
- of which lease liabilities	412.8	390.4
Non-current derivative financial instruments (liabilities)	3.5	87.6
<b>Total gross debt</b>	<b>5,292.4</b>	<b>5,974.7</b>
Cash and cash equivalents	(1,884.7)	(2,275.5)
Other financial assets at fair value through Income Statement	(113.9)	(58.9)
Current financial receivables **	(81.8)	(102.6)
Current derivative financial instruments (assets)	(38.8)	(13.4)
<b>Net financial debt *</b>	<b>3,173.2</b>	<b>3,524.3</b>
Non-current derivative financial instruments (assets)	(4.6)	-
Non-current financial receivables **	(261.5)	(265.9)
<b>Total net financial (liquidity) / debt position</b>	<b>2,907.1</b>	<b>3,258.4</b>

\* Pursuant to CONSOB Notice of July 28, 2006 and in compliance with the ESMA guidelines regarding disclosure requirements pursuant to the Prospectus Regulation applicable from May 5, 2021.

\*\* The item "financial receivables" is reported net of the relative provisions for impairment which amounted to euro 9.3 million at December 31, 2021 (euro 8.5 million at December 31, 2020).

The **structure of gross debt** which amounted to euro 5,292.4 million, was as follows:

<i>(in millions of euro)</i>	12/31/2021	Maturity date					
		within 1 year	between 1 and 2	between 2 and 3	between 3 and 4	between 4 and 5	more than 5 years
Use of unsecured financing ("Facilities")	949.2	949.2	-	-	-	-	-
Convertible bond	461.0	-	-	-	461.0	-	-
EMTN programme bond	550.8	-	550.8	-	-	-	-
Schuldschein	442.0	-	422.1	-	19.9	-	-
Pirelli & C. bank bilateral borrowings	1,221.3	99.9	124.8	996.6	-	-	-
Sustainable credit facility	796.0	-	-	-	796.0	-	-
Other loans	367.7	358.8	5.7	3.2	-	-	-
Lease liabilities	504.4	91.6	71.8	62.5	54.9	42.5	181.1
<b>Total gross debt</b>	<b>5,292.4</b>	<b>1,499.5</b>	<b>1,175.2</b>	<b>1,062.3</b>	<b>1,331.8</b>	<b>42.5</b>	<b>181.1</b>
		28.3%	22.2%	20.1%	25.2%	0.8%	3.4%

At December 31, 2021 the Group had a liquidity margin equal to euro 2,698.6 million, composed of euro 700 million in the form of non-utilised committed credit facilities and euro 1,998.6 million in cash and cash equivalents, including financial assets at fair value through the Income Statement to the amount of euro 113.9 million. The liquidity margin of euro 2,698.6 million guarantees coverage for maturities for borrowings from banks and other financial institutions, until February 2024. Considering also the Company's optional right to extend the maturity of the unsecured "Facilities" loan by a further two years (therefore until June 2024), this coverage would be guaranteed until June 2024.

**Net cash flow**, in terms of change in the net financial position, was positive to the amount of euro 351.3 million (euro 248.8 million for 2020) and included the payment of dividends amounting to euro

-79.9 million (no dividends were paid in 2020). Net cash flow for the year can be summarised as follows:

(in millions of euro)	1 Q		2 Q		3 Q		4 Q		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
EBIT adjusted	168.8	141.1	208.6	(74.4)	221.4	213.7	217.0	220.8	815.8	501.2
Amortisation and depreciation (excluding PPA amortisation)	97.7	103.1	98.8	98.1	98.7	95.7	99.7	94.5	394.9	391.4
Investments in intangible and owned tangible assets (CapEx)	(89.8)	(56.6)	(63.0)	(24.8)	(60.5)	(24.7)	(132.3)	(33.9)	(345.6)	(140.0)
Increases in right of use	(26.7)	(22.9)	(23.2)	(24.1)	(9.7)	(15.2)	(62.8)	(6.3)	(122.4)	(68.5)
Change in working capital and other	(717.2)	(861.2)	73.3	131.9	(61.7)	(173.0)	756.5	809.5	50.9	(92.8)
<b>Operating net cash flow</b>	<b>(567.2)</b>	<b>(696.5)</b>	<b>294.5</b>	<b>106.7</b>	<b>188.2</b>	<b>96.5</b>	<b>878.1</b>	<b>1,084.6</b>	<b>793.6</b>	<b>591.3</b>
Financial income / (expenses)	(40.0)	(32.5)	(31.8)	(40.6)	(35.1)	(40.2)	(37.4)	(43.1)	(144.3)	(156.4)
Taxes paid	(37.1)	(31.4)	(34.9)	(22.4)	(26.8)	(16.2)	(26.8)	(20.7)	(125.6)	(90.7)
Cash-out for non-recurring, restructuring expenses and other	(28.9)	(20.7)	(40.4)	(28.2)	(33.4)	(42.4)	(19.0)	(27.5)	(121.7)	(118.8)
Differences from foreign currency translation and other	15.9	27.6	(14.9)	(19.5)	11.4	14.5	13.0	(6.7)	25.4	15.9
<b>Net cash flow before dividends, extraordinary transactions and investments</b>	<b>(657.3)</b>	<b>(753.5)</b>	<b>172.5</b>	<b>(4.0)</b>	<b>104.3</b>	<b>12.2</b>	<b>807.9</b>	<b>986.6</b>	<b>427.4</b>	<b>241.3</b>
EU electric cables market cartel sanction	-	-	-	-	-	-	-	(33.7)	-	(33.7)
(Acquisition) / Disposals of investments	3.8	-	-	-	-	-	-	-	3.8	-
<b>Net cash flow before dividends paid by the Parent Company and impact of convertible bond</b>	<b>(653.5)</b>	<b>(753.5)</b>	<b>172.5</b>	<b>(4.0)</b>	<b>104.3</b>	<b>12.2</b>	<b>807.9</b>	<b>952.9</b>	<b>431.2</b>	<b>207.6</b>
Impact of convertible bond	-	-	-	-	-	-	-	41.2	-	41.2
<b>Net cash flow before dividends paid by the Parent Company</b>	<b>(653.5)</b>	<b>(753.5)</b>	<b>172.5</b>	<b>(4.0)</b>	<b>104.3</b>	<b>12.2</b>	<b>807.9</b>	<b>994.1</b>	<b>431.2</b>	<b>248.8</b>
Dividends paid by the Parent Company	-	-	(79.3)	-	(0.5)	-	(0.1)	-	(79.9)	-
<b>Net cash flow</b>	<b>(653.5)</b>	<b>(753.5)</b>	<b>93.2</b>	<b>(4.0)</b>	<b>103.8</b>	<b>12.2</b>	<b>807.8</b>	<b>994.1</b>	<b>351.3</b>	<b>248.8</b>

**Net cash flow before dividends paid by the Parent Company** amounted to euro 431.2 million, a marked improvement compared to euro 248.8 million for 2020 and to euro 344.1 million for 2019. This trend was mainly supported by the improved **operating net cash flow** equal to euro 793.6 million (euro 591.3 million for 2020, euro 807.5 million for 2019), which reflected:

- EBIT adjusted which amounted to euro 815.8 million (compared to euro 501.2 million);
- investments in tangible and intangible assets (CapEx) amounting to euro -345.6 million (euro -140 million in 2020), aimed mainly at High Value activities and at the constant improvement of the mix and quality in all factories;
- increases in the right of use by euro -122.4 million (euro -68.5 million for 2020), mainly due to the signing/renewal of medium-term lease contracts for some of the Group's strategic warehouses in the regions of Europe and North America;
- cash generation related to working capital/other of euro 50.9 million for 2021 (euro -92.8 million for 2020). This improvement compared to 2020 was mainly due to the careful management of working capital, with:
  - inventories accounted for a 20.5% share of net sales, a slight increase compared to the figure for 2020 (19.4%) and consistent with 2019. This increase was attributable to an increase in raw materials (raw materials accounted for 3.3% of sales in 2021, 2.5% in 2020 and 2.2% in 2019), with the aim of mitigating potential supply chain risks in an extremely volatile macroeconomic context characterised by uncertainties regarding international transport. This increase was offset by the efficient management of finished products, which accounted for 15.7% of sales in 2021, which was stable compared to 2020 (15.6%), but had decreased compared to 2019 (17.0%). The greater efficiency in the management of finished product inventories was mainly attributable to the structural measures put in place in terms of the integration of information with customers, and to the resulting higher visibility of demand trends, as well as greater production flexibility;

- significant cash generation for trade payables, which benefitted from organic growth as a result of business recovery, as well as the low level of investments carried out in the last quarter of 2020. The ratio of trade payables to net sales at December 31, 2021 was 30.6%, consistent with the 2020 financial year at closing and down from the 32.3% for 2019;
- cash absorption for trade receivables was slightly higher than for 2020, due to the recovery of business. Trade receivables accounted for 12.4% of net sales which was consistent with 2019 and a marked improvement compared to 2020 (13.9%).

**Net cash flow** improved by euro 102.5 million compared to the 2020 financial year and equalled euro 351.3 million (euro 248.8 million for 2020) and included, in addition to that described for operating cash flow, the following impacts:

- financial expenses to the amount of euro -144.3 million (euro -156.4 million for 2020);
- taxes paid to the amount of euro -125.6 million (euro -90.7 million for 2020);
- cash-out for non-recurring, restructuring expenses and other to the amount of euro -121.7 million (euro -118.8 million for 2020);
- differences from foreign currency translation and other to the amount of euro +25.4 million (euro +15.9 million for 2020);
- dividends paid to the amount of euro -79.9 million (no dividends were paid in 2020).

For the **fourth quarter of 2021**, **net cash flow** was positive in the amount of euro 807.8 million (euro +994.1 million for the fourth quarter of 2020), thanks to the usual seasonality of working capital, consistent with the historical trend.

## RESEARCH AND DEVELOPMENT ACTIVITIES

Pirelli Research and Development - which counts approximately 2,000 personnel, equal to approximately 7% of the Group's human resources between the Milan headquarters and its twelve technology centres located all over the world - constitutes a central phase for the development of new products, and allows a direct relationship with markets with end users and with the R&D centres and factories of the main vehicle manufacturers, which are located in the same geographical regions. Pirelli's Research and Development model, implemented according to the "Open Innovation" model, is complemented by a series of collaborations with external partners - suppliers, universities and the vehicle manufacturers themselves - in order to anticipate technological innovations in the sector, direct research and development activities and meet the needs of the end user. During the course of 2021, collaboration began with the Milan Polytechnic for the integrated use of their dynamic simulator with the static simulator at the Pirelli R&D centre in Milan for virtual tyre development activities. Pirelli's Eco & Safety approach aims to maximise its environmental performance while maximising safety for people at the same time, by embracing the entire life cycle of the product with a view to a circular economy characterised by a reduction in the environmental resources used, especially where these are non-renewable. In this context, Eco & Safety Design is at the heart of Pirelli's innovation strategy.

**Research and development expenses for the 2021 financial year totalled euro 240.4 million, (4.5% of net sales), of which euro 225.1 million was destined for High Value activities (6% of High Value revenues).**

Pirelli also continued to develop its CYBER™ technologies which, thanks to the sensors inside the tyre will contribute in making essential information available for the improvement of vehicle performance and driving safety. In 2021, for the first time in the world, a vehicle (the McLaren Artura) was fitted with sensorised tyres as Original equipment. The Pirelli Cyber Tyre system consists of a sensor in each of the tyres and software integrated into the car's electronics.

## INNOVATION IN PRODUCTS, MATERIALS AND PRODUCTION PROCESSES

In order to develop new products specifically designed to satisfy the needs and technical specifications of its customers, Pirelli has established relationships with major Prestige and Premium vehicle manufacturers. At the IAA Mobility 2021 International Motor Show in Munich, almost 1 in 3 (29%) of the electric cars on display, were fitted with Pirelli tyres. Also on display for the first time were the world's first Forest Stewardship Council (FSC) certified tyres. Pirelli P ZERO tyres containing FSC certified natural rubber and rayon were fitted to the new BMW iX5 Hydrogen and BMW X5 xDrive45e Plug-In Hybrid.

Pirelli is the absolute leader in the Prestige segment with a market share that exceeds 50% for Original Equipment. Pirelli is also the leading supplier to brands such as Aston Martin, Bentley, Ferrari, Porsche, Maserati, McLaren and Pagani Automobili. For example, in 2021, the P ZERO

Corsa tyres were developed specifically for the new Porsche Cayenne Turbo GT as Original Equipment. Pirelli P ZERO Slick tyres were instead chosen by Dallara to equip the exclusive Stradale EXP, a version of the Stradale designed for track use, thanks to an increase in power to 500 hp and a weight of just 890 kg.

In the Premium segment, on the other hand, the privileged relationship with companies such as Alfa Romeo, Audi, BMW, Mercedes, Jaguar, Land Rover and Ford continued.

In 2021, the P ZERO beat the leading manufacturers in the Ultra High Performance segment for the second time in a major comparative test organised by the British Evo Magazine, which is one of the most arduous tests on the market for key aspects such as handling, braking and acceleration in both dry and wet conditions.

New product launches in 2021 include:

- the new Cinturato All Season SF2, an all-season tyre that ensures compliance with winter regulations at all times and safe driving in all weather conditions, as revealed by the tests carried out by the TÜV SÜD certification body - which awarded this tyre the Performance Mark - and by the comparison tests carried out by Dekra with the tyres of the main competitors;
- Pirelli Powergy, a summer tyre for the Replacement channel aimed at modern crossovers, SUVs, sedans and MPVs, created thanks to the latest simulation technologies fine-tuned by Pirelli;
- Cinturato Winter 2, a winter tyre for medium-sized cars and CUVs that offers performance that is among the best on the market, in all winter driving conditions, as confirmed by tests conducted by the TÜV SÜD certification body, which also awarded this tyre the Performance Mark. With the Cinturato Winter 2, therefore, Pirelli wraps up the complete renewal of the Cinturato family, following presentation of the new Cinturato P7 summer tyre in 2020 and the aforementioned Cinturato All Season SF2 in early 2021.

In the Motorcycle sector, the DIABLO ROSSO™ IV was presented in February: the fourth generation of the DIABLO ROSSO™ family of high-performance tyres, is designed for supersport, naked and crossover motorbikes as well as for road sports use. The technological features, which enable it to achieve better grip levels, precise feedback and vehicle control even in the wet, consist of a dual tread with a high silica content for the front axle and a dual-compound or three-compound tread with a Cap&Base pattern for the rear axle. The innovative profiles, derived from experience in the FIM Superbike World Championship, are characterised by a multi-radius design that improves tyre handling.

For Cycling, Pirelli presented a new family of clincher tyres – the P ZERO – which is divided into the P ZERO Race, the product designed for pure performance and the P ZERO Road, the alternative for those looking for a more durability oriented all-round tyre, which replaces the P ZERO Velo, Pirelli's first clincher launched in June 2017. The objective of further improving grip, smoothness and comfort has been achieved, using the same tread pattern and compound as the Tubeless Ready

version of the same name. SmartEVO, the compound based on a ternary blend of functionalised polymers, has been tested by the top World Tour teams with whom Pirelli is a partner. The construction of the casing, in 120 TPI Nylon, is innovative and is characterised by a wider protection belt: the TechBelt Road, comprising of an additional layer of Aramid fabric underneath the compound, which increases puncture protection in varied conditions of use. The P ZERO Road clincher was specifically developed as a multi-purpose tyre. It differs from the Race tyre in its tread pattern with narrower and longer grooves and with its EVO Compound, which makes it a more versatile tyre with a more durability-oriented performance. Pirelli then completed its line of tyres dedicated to road cycling by introducing the new P7 Sport clincher to the market, geared towards greater robustness and durability than other tyres in the Pirelli road range, in fact it features a 60 TPI Nylon casing with TechBELT. The tread features the new PRO Compound, with a formulation geared towards mileage and grip and a special tread design that has many more sipes to reduce the warm-up phase of the tyre compared to the P ZERO Race, which benefits grip, even in colder conditions. Pirelli also launched SmarTUBE: the new inner tube with technology derived from the tubulars developed for the World Tour teams and now available for all clincher tyre models, made of thermoplastic polyurethane (TPU), a latest generation material chosen for its excellent performance compared to traditional butyl. In fact, SmarTUBE features a weight reduction of up to 70% compared to the already light latex chambers. The lower mass of the wheel results in better responsiveness from the bike, particularly when climbing and accelerating. Lastly, Pirelli initiated the development of a new line of tyres, specifically dedicated to the world of gravity racing, with the involvement of Fabien Barel.

## COMMITMENT TO MOTORSPORTS

Motorsport has always played a first order role in Pirelli's history. The Company has been involved in competitions for 115 years, starting with the feat achieved in 1907 by Prince Scipione Borghese, who won the Paris-Beijing motor race in an Itala fitted with Pirelli tyres. Today, Pirelli participates in more than 350 competitions each year and 2022 will be particularly important for technical innovations. These include the introduction of 18 inch tyres in the FIA Formula 1 World Championship, tyres made for hybrid cars in the FIA World Rally Championship and a new range of products across several classes for GT competitions.

Formula 1, which has seen the presence of Pirelli since the start of the World Championship in 1950 and in the role of Global Tyre Partner since 2011, which has been confirmed until 2024, is preparing for a technological revolution. After more than half a century, tyres will change size from 13 to 18 inches and will play a key role together with the single-seaters developed according to the new regulations, which will reintroduce the ground effect. The 18 inch tyre is a completely new project which has involved all elements of the tyre, from profiles to structure to compounds, with a wider window of use. Its design required more than 10,000 hours of indoor testing, more than 5,000 hours of simulation and more than 70 solutions which were developed virtually to create the 30 specifications tested by almost all the teams, across a total of more than 20,000 kilometres. The new 18 inch tyres are more similar to the tyres used daily by drivers around the world and this will give Pirelli the opportunity to transfer all the technologies derived from Formula 1 to road products. Pirelli



has also been present in rally racing since the inaugural season of the World Rally Championship in 1973 and in the role of sole tyre supplier from 2021 to 2024. The relentless technological evolution during the 2022 season will be particularly marked by the introduction of new hybrid engines for the WRC cars. Pirelli has evolved its entire range of P ZERO, Scorpion and Sottozero tyres to cope with the extra weight and increased power of the new WRC1s. In Gran Turismo, a single family of tyres, the P ZERO DHF, has been designed to cover the specific needs of all GT racing classes (GT2, GT3 and GT4). Even the mono-brand championships - Ferrari, Lamborghini and McLaren - will also use the upgraded products and the TRANS-AM series will switch from 16 inch to 18 inch tyres in 2022. Pirelli is the first and only tyre manufacturer in the world to have been awarded the Three Stars Certification of the Environmental Accreditation Programme promoted by the FIA, in recognition of its commitment to sustainability in Motorsport.

Pirelli has been confirmed by the Dorna WorldSBK Organization, in agreement with the FIM, International Motorcycling Federation, as the Official Tyre Supplier for all classes of the MOTUL FIM Superbike World Championship, up to and including the 2023 season. This technical partnership, which began in 2004, can claim the record for the longest running single-brand tyre in the history of international motorsport and has been continually supported by intense research and development, which has succeeded in increasing the competitiveness of the championship year after year. Beginning with the 2021 season, Pirelli will also be the sole tyre supplier for the newly formed Yamaha R3 bLU cRU European Cup. Since 2004, Pirelli has brought a total of more than 1 million racing tyres to the Superbike circuits, with the development of 750 new solutions during the period of collaboration stipulated in the contract. Pirelli has won 76 world titles in motocross, winning the world titles in the MXGP and MX2 classes, where together with its riders it has occupied the top nine positions in the overall standings and has been chosen by the VR46 Riders Academy as its technical partner and tyre supplier for multiple training activities with road motorbikes, motocross and e-MTB bikes.

For 2021, in the field of cycling, with the reconfirmation of its agreements with the top UCI teams, Trek-Segafredo and Team BikeExchange, Pirelli has added a partnership with a third World Tour team: AG2R Citroën. This partnership with the teams is also and above all aimed at product evolution, a constant exchange of feedback on the tyres and the continuous improvement in their performance, thanks to the suggestions of the athletes. In particular, at the Giro d'Italia 2021, the P ZERO RACE Tub SL was introduced, which is a new tubular product aimed almost exclusively at professional cycling and which took almost two years to develop in collaboration with professional cyclists.

In road tests carried out by the teams, the new tyre demonstrated that it improved the handling of the bike as well as the speed of ascent (VAM) offering excellent protection against punctures and greater control at high speeds.

For further information on the sustainability aspects of products - also for Motorsport - and on new materials, reference should be made to the section of the Annual Report entitled "*Report on Responsible Value Chain Management*", which constitutes the Company's consolidated non-financial Declaration pursuant to Legislative Decree No. 254/16.

**PARENT COMPANY HIGHLIGHTS**

The table below shows a summary of the main **Income Statement and Statement of Financial Position figures**.

<i>(in millions of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
Operating income/(loss)	(19.6)	9.1
Financial income/(expenses)	(46.0)	(36.4)
Net income/(loss) from equity investments	230.3	39.7
Taxes	51.9	31.6
<b>Net income/(loss)</b>	<b>216.6</b>	<b>44.0</b>
Financial assets	4,693.6	4,681.1
Net Equity	4,813.1	4,651.1
Net Financial Position	1,694.6	1,891.0

**Operating income/(loss)** of the Parent company amounted to loss of euro 19.6 million, compared to an income of euro 9.1 million for 2020. This decrease was mainly due to the negative impact of the provisions for the short-term incentive plan for Management, which was cancelled in 2020 due to the COVID-19 pandemic and for the long-term management incentive plans, which reflects the improved performances on the underlying parameters of the plans.

**Net financial expenses** amounted to euro 46 million, compared to euro 36.4 million for the previous financial year. This worsening was mainly due to increased financial expenses for financial debt which was impacted, by amongst other factors, the effects of COVID-19, which caused a temporary increase in the margin on the Company's main bank credit facilities.

**Net income from equity investments** amounted to euro 230.3 million compared to euro 39.7 million for the previous financial year. This increase was essentially attributable to higher dividends distributed by the subsidiary Pirelli Tyre S.p.A. (euro 220 million in 2021 compared to euro 50 million in 2020).

**Taxes** for 2021 were positive to the amount of euro 51.9 million, compared to the positive amount of euro 31.6 million for 2020. This increase was mainly attributable to the recognition of deferred tax assets on temporary differences that were generated during the year.

The following is a summary of the values of the main **financial assets**:

<i>(in millions of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
<b>Investments in subsidiaries</b>		
- Pirelli Tyre S.p.A.	4,528.2	4,528.2
- Pirelli Ltda	8.4	9.7
- Pirelli Uk Ltd.	7.9	7.9
- Pirelli Group Reinsurance Company S.A.	6.3	6.3
- Pirelli Servizi Amministrazione e Tesoreria S.p.A.	3.2	3.2
- Pirelli International Treasury S.p.A.	75.0	75.0
- Other companies	3.4	3.4
<b>Total equity investments in subsidiaries</b>	<b>4,632.4</b>	<b>4,633.7</b>
<b>Investments in associates and other financial assets at fair value through Other Comprehensive Income</b>		
- Eurostazioni S.p.A. - Roma	6.3	6.3
- RCS MediaGroup S.p.A. - Milano	21.9	14.0
- Fin. Priv S.r.l.	21.2	15.9
- Fondo Comune di Investimento Immobiliare Anastasia	2.8	2.8
- Istituto Europeo di Oncologia S.r.l.	8.0	7.9
- Other	1.0	0.5
<b>Total investments in associates and other financial assets at fair value through Other Comprehensive Income</b>	<b>61.2</b>	<b>47.4</b>
<b>Total financial assets</b>	<b>4,693.6</b>	<b>4,681.1</b>

**Equity** went from euro 4,651.1 million at December 31, 2020 to euro 4,813.1 million at December 31, 2021, as detailed below:

<i>(in millions of euro)</i>	
<b>Equity at 12/31/2020</b>	<b>4,651,1</b>
Net income/(loss) for the financial year	216,6
Dividends approved	(80,0)
Other components of comprehensive income	25,3
Other movements	0,1
<b>Equity at 12/31/2021</b>	<b>4,813,1</b>

The table below shows the **composition of equity**:

<i>(in millions of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
Share capital	1,904.4	1,904.4
Legal reserve	380.9	380.9
Share premium reserve	630.4	630.4
Concentration reserve	12.5	12.5
Other reserves	133.7	133.7
IAS reserve	7.5	(17.7)
Retained earnings reserve	504.2	540.0
Merger reserve	1,022.9	1,022.9
Net income/(loss) for the financial year	216.6	44.0
<b>Total Equity</b>	<b>4,813.1</b>	<b>4,651.1</b>

## **RISK FACTORS AND UNCERTAINTY**

The uncertainty of the macroeconomic environment, the instability of the financial markets, the complexity of management processes and continuous regulatory changes, demands the capacity to protect and maximise the tangible and intangible sources of value which characterise the Company's business model. Pirelli has adopted a proactive risk governance model, which through the systematic identification, analysis and assessment of risk areas, is able to provide the Board of Directors and Management, the instruments needed, to anticipate and manage the effects of these risks. The Pirelli Risk Model systematically assesses three categories of risks:

### **1. External Risks**

Risks whose occurrence is outside the sphere of influence of the company. This category includes risks related to macroeconomic trends, to the evolution of demand, to competitor strategies, to technological innovation, to the introduction of new regulations and to country specific risks (financial, security related, political and environmental risks), as well as the impacts linked to climate change.

### **2. Strategic Risks**

Risks that are characteristic of the relevant business, the proper management of which is a source of competitive advantage, or otherwise, a cause of failure to achieve economic and financial objectives. This category includes risks linked to markets, to product innovation and development, to human resources, to production processes, to financial risks and risks connected to mergers and acquisitions.

### **3. Operational Risks**

Risks generated by the organisation and by corporate processes, whose occurrence do not result in any competitive advantage. These types of risks include amongst others, Information Technology, Business Interruption, Legal & Compliance, Health, Safety & Environment and Security related risks.

Transversal to the aforesaid risks are **Corporate Social Responsibility, Environmental and Business Ethics Risks**. These are risks associated with the non-compliance with local and international regulations, best practices and corporate policies regarding the respect for human and labour rights, environmental and business ethics and can be generated by the organisation either as part of the relative value chain, or as part of the supply chain.

## EXTERNAL RISKS

### **Risk Related to the Macroeconomic Outlook**

After the strong rebound of the global economy following the recession caused by the pandemic, Pirelli expects a more moderate pace of growth during the course of 2022 - with the gradual normalisation of rates to pre-COVID trend levels. This slowdown will affect both mature and emerging markets and will be due to the effects of the Omicron COVID-19 variant (at least for the first few quarters of the year), on higher energy prices and, more generally, the continuation of a higher and more persistent inflationary scenario than expected. In addition to this global scenario, there are also elements peculiar to individual economies, such as the expected economic slowdown in the People's Republic of China, due to the normalisation of the real estate market, together with the impact on private consumption caused by the containment measures linked to their zero-COVID policy. Further elements of uncertainty also persist in connection with geopolitical tensions, especially with regard to the current Russian-Ukrainian crisis, as well as the emergence of new variants of COVID-19. Lastly, with regards to emerging markets, the risk of financial instability remains significant in those countries with a high level of public debt, also in light of the impact of the current health crisis on public finances.

### **Country Risk**

Where appropriate, Pirelli adopts a local-for-local strategy, creating a productive presence in rapidly developing countries, in order to respond to local demand with competitive industrial and logistical costs. This strategy is aimed at increasing the competitiveness of the Group, as well as to allow the Group to overcome potential protectionist measures (customs barriers or other measures such as technical prerequisites, product certification and administrative costs related to import procedures, etc.). In context of this strategy, Pirelli operates in countries (Argentina, Brazil, Mexico and Russia) where the general politico-economic situation and tax regimes may prove unstable in the future. Uncertainty also persists regarding the future relationship between China and the United States and, more generally, regarding the medium-long term balance of current international trade agreements, which could lead to an alteration of the normal market dynamics and, more generally, in business operating conditions. The Group constantly monitors the evolution of risks (political, economic/financial and security related) relative to the countries in which it operates, in order to continue to adopt timely (and if possible pre-emptive) measures to mitigate the potential impacts of any changes arising at local level. Furthermore, in situations of under-utilisation of the production capacity of some factories, the reallocation of production between Group manufacturing sites is possible.

### **Risks relative to the Russia-Ukraine crisis**

At the date of this document, the outcomes and implications of the Russia-Ukraine crisis remain uncertain. The tightening of international sanctions is also having repercussions on the economy of

the Russian Federation in terms of growth expectations, the currency market and the sustainability of the domestic economic and financial system in the medium-term.

These factors are compounded by the additional complications arising from the restrictive countermeasures that the Russian government is preparing - and in some cases has already implemented - in response to the pressure of international sanctions.

The current situation is also bringing about rising prices for energy, metal and agricultural commodities, with repercussions on consumer price pressure and growth prospects for the Eurozone. These elements of uncertainty could lead to an alteration of normal market dynamics and, more generally, of business operating conditions.

The Group has set up a “*Crisis Committee*” to constantly monitor developments in the Russia-Ukraine crisis, for which it has already activated mitigation measures and a contingency plan.

### **Brexit Risks**

The Group constantly monitors potentially critical issues (and their relative mitigation plans) concerning the new trade agreements between the UK and the EU, which officially came into force on January 1, 2021. These risks are both of a mainly operational nature (related to possible delays in the supply of raw materials and/or finished products) in the short-term, while elements of structural uncertainty also persist which are difficult to estimate. To date, it has been difficult to define what the political and commercial relations between the two trading areas will be in the long-term and therefore what the impact will be for the automotive and auto parts sector both on the UK domestic market and in terms of exports to the European Union.

### **Risks Associated with the Shortage in Semi-Conductors**

The COVID-19 pandemic has led to a radical change in the way work is done, resulting in, among other things, a significant increase in demand for products and technologies that are heavily dependent on semi-conductors. Not only does this further exacerbate an already growing trend in global chip demand, but it also depressed supply due to prolonged lockdowns and related reductions in production. The pandemic effect was further compounded by the occurrence of a catastrophic event at the plant of one of the largest chip manufacturers, further depressing available supply. The automotive sector, which is closely dependent on the availability of semi-conductors on the one hand and to a just-in-time strategy on the other, turned out to be particularly vulnerable to this shock, with significant consequences on the volumes produced and, indirectly, on the demand for tyres by Original Equipment customers. This imbalance between supply and demand for semi-conductors is considered an emerging risk in that it could continue during the course of 2022, also because of new COVID-19 variants and their relative impacts on production, thereby continuing to negatively impact the automotive sector. The Group constantly monitors the elements of uncertainty connected with

this emerging risk, in order to continue to adopt timely measures to mitigate any possible impacts on demand.

### **Coronavirus Risk (COVID-19)**

Pirelli sells its products on a world-wide basis in over 160 countries and owns manufacturing sites located in different countries, some of which are also significantly affected by the COVID-19 (SARS-CoV-2) outbreak. Although there is broad consensus on the gradual improvement of the global health situation in the short to medium-term, this hypothesis contains elements of uncertainty, some of them significant, mainly linked to the evolution of new variants of the Coronavirus (Omicron, Delta). If these risks were to persist during the year, they could lead to an alteration in the dynamics of the market and, more generally, in business operating conditions.

In terms of operational risks, Pirelli monitors, amongst other things, potential risk events relative to both supply chain resilience and the extensive use of new technological devices used for remote working.

Lastly, the Group is following developments in the spread of the Coronavirus through constant contact with national and international organisations. The Company adopts check and prevention measures in respect of all employees worldwide.

### **Risks Associated with the Evolution of Long-Term Demand**

Mobility is undergoing an unprecedented evolution due to technological changes (electrification of propulsion, driving automation and digital connectivity), cultural changes (increase in the average age of obtaining a driving licence, loss of importance of owning a car, etc.) and regulatory changes, often aimed at limiting the presence of polluting vehicles in and around metropolitan areas. In addition to all this, during the course of 2020, there was the health emergency linked to the spread of COVID-19, which led, amongst other things, to a forced and unexpected reduction in mobility and to the wide-spread adoption of digital technologies aimed at remotely managing many activities that used to be carried out almost exclusively in person. To date, it has not been easy to predict the long-term trends of this phenomenon and therefore the potential impacts on the tyre sector. On the one hand, in fact, certain types of mobility - such as daily commuting over limited distances - will be strongly impacted, while on the other, a possible reduction in the use of public transport, together with a move to peripheral areas - even distant from the workplace - could lead to an increase in the miles driven. Pirelli constantly monitors these trends, both by analysing studies and data available at global and local level and by participating in *webinars* and national and international conferences on the subject. The Group is also active in specific projects together with other major players in global mobility, such as the Transforming Urban Mobility Initiative, promoted by the World Business Council for Sustainable Development (WBCSD), which has been active since 2019.

## **Risks Linked to Climate Change**

Having joined the Task Force on Climate-Related Financial Disclosures (TCFD) in September 2018, Pirelli applies all the recommendations made in June 2017 by the TCFD and is committed, on a voluntary basis, to the dissemination of transparent reporting and the disclosure of any relevant information on climate change related risks and opportunities. To this end, Pirelli monitors these elements of uncertainty through sensitivity analyses and risk assessments, to assess and quantify the financial impacts (risks and opportunities) relative to climate change, in relation to IPCC (Intergovernmental Panel on Climate Change) climate scenarios, to IEA (International Energy Agency) energy transitions and to put in place appropriate prevention and mitigation measures to protect its business. In accordance with the findings of the most recent Climate Change Risk Assessment of the Group, in the short to medium-term there are no significant risks relative to production processes or to the markets in which Pirelli operates. On the other hand, as regards a medium-long term scenario, the tyre sector could be subject to a number of risks both of a physical nature (extreme weather events with potential impacts on the continuity of production at the plant sites), as well as of a regulatory nature (possible effects on operating costs).

In contrast, opportunities were identified for an increase in the sales of Pirelli Eco & Safety Performance products, which are tyres with a lower environmental impact throughout their life cycle. For the full description of the eleven TCFD recommendations, reference should be made to the section *“Joining the Task Force on Climate-Related Financial Disclosures (TCFD)”* in this report and Pirelli's public responses to the CDP Climate Change 2021 questionnaire.

## **Risks Related to Price Trends and the Availability of Raw Materials**

Natural rubber, synthetic rubber and oil related raw materials (particularly chemicals and carbon black) will continue to represent a factor of uncertainty within the Group's cost structure, given the strong volatility recorded in recent years and their impact on the cost of the finished product. For the main raw materials purchased by the Group, possible price scenarios are constantly simulated in relation to historical volatility and/or the best information available on the market (e.g. forward prices). On the basis of the different scenarios, sale price increases and/or the different internal cost efficiency recovery measures, (use of alternative raw materials, reduction of product weight, improvement of the process quality and reduction in waste levels) which are necessary to guarantee the expected profitability levels, are identified.

## **Risks Linked to the Competitive Positioning of the Group and to the Competitive Dynamics of the Sector**

The market in which the Group operates is characterised by the presence of numerous operators, some of which have significant financial and industrial resources and brands that enjoy a significant level of international or local renown. To date, Pirelli is the only player in the tyre industry which focuses solely on the Consumer market on a global scale, with its single brand positioned in the



segment which interests the manufacturers and users of Prestige and Premium vehicles. The intensification of the level of competition in the sector in which the Group operates could, in the medium to long-term, have an impact on its Income Statement, Statement of Financial Position and Financial Statements. High barriers to entry - both technological and productive - provide structurally mitigating factors against the potential intensification of the competitive arena in the Group's key sector. Added to this is the uniqueness of the Pirelli's strategy which is based - amongst other things - on an extensive homologation based parc, which is focused on the Prestige and Premium segments and an ever increasing capacity focused on the High Value segment.

## STRATEGIC RISKS

### **Exchange Rate Risk**

The diverse geographic distribution of Pirelli's manufacturing and commercial activities entails exposure to exchange rate risk, both transactional and translational. Transactional exchange rate risk is generated by transactions of a commercial and financial nature carried out by individual companies in currencies other than the functional currency, due to fluctuations in exchange rates between the time when the commercial/financial relationship originates and the time when the transaction is settled (collection/payment).

The Group's policy is to minimise the impact of transactional exchange rate risk linked to volatility and for this reason the Group's procedures provide that the Operating Units are responsible for collecting all the relevant information pertaining to positions subject to transactional exchange rate risk (mainly represented by receivables and payables in foreign currency). Coverage is then provided in the form of forward contracts which are entered into, where possible, with the Group's Treasury. The managed positions subject to exchange rate risk are mainly represented by receivables and payables in foreign currency. The Group Treasury is responsible for hedging the resulting net position for each currency and, in accordance with the established guidelines and predetermined restrictions, it in turn closes out all risk positions by negotiating hedging derivative contracts on the market, typically forward contracts. Of note is that, as part of the annual and three-year planning process, the Group formulates exchange rate forecasts for these time horizons based on the best information available on the market. Any fluctuation in an exchange rate between the time of planning and the time when a commercial or financial transaction originates, results in a transactional exchange rate risk on future transactions. From time to time the Group assesses the opportunity to carry out hedging transactions on future transactions, for which it typically uses both forward buy or sell transactions and optional risk-reversal type instruments. (e.g., zero cost collars). Pirelli owns controlling interests in companies that prepare their Financial Statements in currencies other than the euro which is the currency used to prepare the consolidated Financial Statements. This exposes the Group to translational exchange rate risk, due to the conversion into euro of the assets and liabilities of subsidiaries operating in currencies other than the euro. The main exposures to

translational exchange rate risk are constantly monitored and at present it has been decided to not adopt specific hedging policies for these exposures.

### **Liquidity Risk**

The main instruments used by the Group to manage the risk of insufficient available financial resources to meet the financial and commercial obligations within the terms and deadlines established, are constituted by one-year and three-year financial plans as well as treasury plans, in order to allow for the complete and correct detection and measurement of cash inflows and outflows. The differences between the plans and the final data are subjected to constant analysis. The Group has implemented a centralised system for the management of collection and payment flows in compliance with the various local currency and tax regulations. The negotiation and management of banking relationships is carried out centrally, in order to ensure hedging for short and medium-term financial needs at the lowest possible cost. Even the procurement of medium to long-term resources on the capital market is optimised through centralised management. The prudent management of the aforementioned risk requires the maintenance of an adequate level of cash or cash equivalents and/or highly liquid short-term securities and the availability of funds obtainable through an adequate amount of committed credit facilities and/or the recourse to the capital market. In addition to the available portion of the committed credit facility (*Revolving Credit Facility*) totalling euro 700 million, which at December 31, 2021 resulted as being completely unused, the Pirelli Group resorts to the capital market to diversify both products and maturities in order to seize the best opportunities available from time to time.

### **Interest Rate Risk**

Interest rate risk is represented by the exposure to the variability in the fair value or the future cash flows of financial assets or liabilities due to changes in market interest rates. The Group evaluates, based on market conditions, whether to enter into derivative contracts, typically interest rate swaps and cross currency interest rate swaps.

### **Price Risk Associated with Financial Assets**

The Group's exposure to price risk is limited to the volatility of financial assets, such as listed and unlisted equities and bonds, which represent 1.2% of the Group's total assets. Derivatives are not normally placed on these assets to limit their volatility.

## **Credit Risk**

Credit risk represents the Group's exposure to potential losses resulting from the non-fulfilment of the commercial and financial obligations undertaken by counterparties. As regards these commercial counterparties, in order to limit this risk, Pirelli has put in place procedures to assess the potential and financial creditworthiness of customers, to monitor expected cash flows and to take any recovery action. The aim of these procedures is to define customer credit limits, whereby in the event that those limits are exceeded, the rule to withhold further supplies is activated. In some cases customers are asked to provide guarantees, mainly bank guarantees issued by parties of the highest credit or personal standing. Less frequently, mortgage guarantees may be requested. Other instruments used for commercial credit risk management is the taking out of insurance policies. A master agreement has been in place, which was recently renewed for the 2021-2022 two-year period, with a leading insurance company for worldwide coverage of credit risk mainly related to sales on the Replacement channel (the coverage ratio as of December 31, 2021 was equal to 72% (for the Group). However, as regards the financial counterparties for the management of its temporary cash surpluses, or for trading in derivative instruments, the Group deals only with entities of the highest credit standing. Pirelli does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system and, does not have any significant concentrations of credit risk.

## **Risks Associated with Human Resources**

The Group is exposed to the risk of loss of human resources in key positions or in possession of critical know how. To address this risk, the Group adopts remuneration policies that are periodically updated, also due to changes in the general macroeconomic scenario, as well as on the basis of salary benchmarks. Also planned are long-term incentive plans and specific non-compete agreements (which also have a retention effect), designed amongst other things, to fit the risk profiles of the activities of the business. Lastly, specific management policies have been adopted to motivate and retain talent.

## **OPERATIONAL RISKS**

### **Risks Related to Environmental Issues**

The activities and products of the Pirelli Group are subject to numerous environmental laws that vary between the countries in which the Group operates. These regulations have in common their tendency to evolve in an ever more restrictive manner, also due to the growing concern in the international community over issues of environmental sustainability. Pirelli expects the gradual introduction of ever stricter laws in relation to the various environmental aspects on which companies may impact (atmospheric emissions, waste generation, impacts on soil and water use, etc.), by virtue

of which the Group expects to have to continue to make investments and/or incur costs that may be significant.

### **Employee Health and Safety Risks**

In carrying out its activities, the Pirelli Group incurs charges and costs for the measures necessary to ensure full compliance with the obligations provided for by the regulations on health and safety in the workplace. Particularly in Italy the law relating to health and safety at work (Legislative Decree No. 81/08) and subsequent amendments (Legislative Decree No. 106/09) have introduced new obligations which have impacted the management of activities at Pirelli sites and the processes for allocating liabilities. Failure to comply with the regulations in force entails penal and/or civil sanctions against those responsible and, in some cases of violation of health and safety regulations, against companies, in accordance with the European model of objective corporate responsibility that has also been implemented in Italy (Legislative Decree No. 231/01).

### **Defective Product Risk**

Like all manufacturers of goods for sale to the public, Pirelli could be subject to liability actions related to the alleged defectiveness of materials sold, or may be required to initiate product recall campaigns. Although in recent years there have not been any significant cases and such events are however covered from an insurance point of view, any occurrence could have a negative impact on the reputation of the Pirelli brand. For this reason, tyres produced by Pirelli are subjected to careful quality analysis before being placed on the market and the entire production process is subjected to specific quality assurance procedures, with constantly upgraded safety and performance requirements.

### **Litigation Risks**

In carrying out its activities, Pirelli may become involved in legal, fiscal, commercial, trade or labour law disputes. The Group adopts the necessary measures to prevent and mitigate any consequences that may result from such proceedings.

### **Personal Data Processing Risks**

In the normal course of Pirelli's business activities, personal data on employees, customers (B2C and B2B) and suppliers are processed. The treatment of personal data collected by the Group companies is subject to the laws and regulations applicable in the countries in which these companies operate or are present. The Group has therefore put in place measures to achieve full

compliance with all applicable data protection regulations (while maintaining as the reference legislative framework, that which was introduced by Regulation (EU) 2016/679, the so-called “General Data Protection Regulation” or “GDPR”, which came into force in May 2018), thus mitigating the risk of proceedings before the regulatory authorities and/or privacy litigation. Nevertheless, changes to applicable legislation, the launch of new products onto the market and, in general, any new initiatives involving the treatment of personal data (or substantial modifications to existing personal data processing operations), could involve the need to incur significant costs, or require the Group to revise its modus operandi with regard to compliance activities in this area.

### **Risks Related to Information Systems and Network Infrastructure**

The supporting role of ICT (Information and Communication Technology) systems in supporting business processes, their evolution and development and the Group's operating activities was also confirmed during the course of 2021, as being fundamental to the achievement of results. Work was carried out in continuity with 2020 for the prevention and mitigation of risks related to possible malfunctions of the systems, through high reliability solutions and the protection of the Company's information assets by upgrading the security systems against unauthorised access and the Company's data management solutions. On the other hand, some of the processes for managing incidents were improved in order to minimise the impact in terms of service unavailability. These measures continued in order to bring the Server and Client environments into compliance, through the constant and progressive upgrading of the operating systems, in order to reduce their vulnerabilities. Particular attention has been paid to the renewal of infrastructural components characterised by technological obsolescence, which could lead to an increased risk of breakdowns and accidents, with an impact on business activities.

The extensive practise of remote working in 2020 and 2021, with its probable impacts also in the short to medium-term, considering both the possible continuation of the pandemic scenario and in light of changing work habits, entails for the Company, an emerging exacerbation of cyber security risk and risks connected to the capacity and resilience of technological systems.

The Company has put in place risk mitigation measures for both of these emerging risks, and closely monitors their evolution. With regard to the emerging exacerbation of Cyber Security risk during 2021:

- consistent with the three-year Strategic Roadmap resulting from the NIST Assessment, initiatives were implemented aimed at increasing the Group's cyber security posture. Some examples: a new structure was defined and the number of staff in the Cyber Security HQ function was increased, the protection of Pirelli devices against the most advanced threats was improved, and periodic committees were set up with top management to share risks and initiatives on the subject. A specific Operational Technology Assessment was initiated to update the technical and organisational security measures at the industrial sites;

- periodic cyber security awareness and cyber readiness initiatives were carried out, to provide users with training and updates on the main cyber security risks, with particular reference to emerging risk dimensions, including those related to the extensive use of remote working and to ransomware, through the provision of:
  - ad-hoc training sessions, designed both according to the type of recipients and the specific risks to be addressed (e.g. new joiners);
  - awareness sessions (Cyber Security Pills) on a bi-weekly basis, through the publication of content on the intranet and courses on the corporate training portal (e.g. phishing, social engineering, ransomware, secure browsing);
  - monthly sessions of phishing simulations (white phishing campaigns) aimed at “preparing” users to recognise and manage malicious e-mails.
- Cyber Security Defence Center – CSDC:

In order to cope with the ever-increasing and changing cyber security risk scenario, in 2021 activities were further intensified to evolve the systems for monitoring and managing security events and incidents. The Cyber Security Defence Centre structure was set up in Italy, the fulcrum of the Group's defensive management which, in real time, manages and implements the protective measures necessary to ensure the security of Company assets, by integrating Threat Intelligence services in order to identify potential threats or security risks in advance and to appropriately manage potential incidents or related attacks.

Lastly, with regard to the emerging exacerbation of technological risks linked to the extensive practice of working remotely, the Digital Department took many measures in 2021 aimed at supporting business activities, by minimising the impact on users and ensuring their security. Among the main actions was the strengthening of the network to allow the increase in remote connections (VPN); refresher courses were provided, with sessions in Italian and English in collaboration with Learning Lab, on the new Office365 technologies (Teams and OneDrive), to increase the conscious use of online technologies; investments were made for the modernisation of meeting rooms to facilitate hybrid working methods; Softphones were configured on PCs to remotely access telephone extensions, even for Smart Working; and the Anti-Virus system on all employees' PCs was updated to minimise Cyber Security risks.

Many activities were carried out in 2021 that directly or indirectly led to the mitigation of security risks, specifically:

- The “*TIM Data Centre Closure*” project was completed.

With this project the old Pirelli Data Centres hosted in the TIM Data Centres in Cesano and Bologna were closed, with the migration of the workloads partly to the Cloud and partly to SuperNap's Tier 4 Gold Data Centre, which offers best-in-class service levels and security.

The migration of some of the workloads to the Cloud and especially the migration of all central Disaster Recovery solutions to the Cloud, has brought about cost efficiencies and improvements in performance and service availability, both under normal conditions and in the event of a disaster.

- “Software Defined Data Centre” Project

The “Software Defined Data Centre” project continued, with the objective of transforming traditional factory data centres into modern data centres based on hyperconverged and software defined architectures, increasing the flexibility and speed as required in the development and deployment of business critical services and applications. This transformation, which affected the Kirov, Carlisle and Campinas plants last year, will affect all Pirelli plants over the next two years.

- Software Defined WAN Project

The SD WAN project ended in January 2021, activating all 55 remote sites within its scope. With this Pirelli has achieved:

- greater total WAN bandwidth than before;
  - the elimination of the concept of backup; both lines which connect to the remote site are active;
  - the optimised usage of links through the automatic selection of the most appropriate link at that moment on an application-by-application basis;
  - direct internet access enabled on each remote site;
  - improved network operations services through automation and Zero Touch Provisioning;
  - a changed operations model from reactive to proactive, which has improved traffic visibility;
  - an improved user experience across O365 applications with more resilient and performant connectivity.
- Operational support and Cyber Security services were provided for Prometeon in accordance with contractual provisions.

## **Business Interruption Risks**

The territorial fragmentation of operating activities and their interconnection exposes the Group to risk scenarios that could lead to the interruption of its business activities for periods which could be more or less prolonged, with the consequent impact on the operational capabilities and results of the

Group itself. Risk scenarios related to natural or accidental events (fires, floods, earthquakes, etc.), to wilful misconduct (vandalism, sabotage, etc.), to breakdowns in the auxiliary plants or to interruptions in the supply of utilities, can in fact cause significant property damage and the reduction and/or interruption of production, particularly if the event concerns high volume or specific product (high-end) production sites. Pirelli monitors their vulnerability to catastrophic natural events (in particular flood, hurricane and earthquake) and estimates any potential damage (based on the given probability of occurrence) for all the Group's production sites. Analyses confirm an adequate monitoring of business interruption risks, thanks to a complex series of security measures, of systems for the prevention of harmful events and for the mitigation of potential impacts on the business, also in light of the current business continuity plans, as well as the insurance policies in place to cover property damage and any business interruptions which the Group's production sites might suffer, (the Group's insurance coverage may however not be sufficient in compensating all potential losses and liabilities in case of catastrophic events). Even Pirelli's supply chain is regularly assessed for potential business interruption risks.

### **Risks Relative to the Financial Reporting Process**

Pirelli has also implemented a specific and articulated risk management and internal control system, supported by a dedicated Information Technology application, in relation to the process of preparing the half-year, annual and consolidated Financial Statements, in order to safeguard the Company's assets, its compliance with laws and regulations, the efficiency and effectiveness of corporate operations, as well as the reliability, accuracy and timeliness of its financial reporting. In particular, the process of preparing financial documentation is carried out through the appropriate administrative and accounting procedures, developed in accordance with the criteria established by the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organisations of the Tradedway Commission. The administrative/accounting procedures for the production of the Financial Statements and all other financial reports fall under the responsibility of the Manager responsible for the preparation of the corporate financial documents, who verifies their adequacy and effective implementation on a half-yearly basis. In order to allow for the attestation by the Manager responsible for the preparation of the corporate financial documents, a mapping has been carried out of the companies and the relevant processes that feed and generate information of an economic or financial nature. The identification of the companies that belong to the Group and the relevant processes, is carried out annually on the basis of quantitative and qualitative criteria. Quantitative criteria consist of identifying those Group companies which, in relation to the selected processes, represent an aggregate value above a certain materiality threshold. The qualitative criteria consist of examining those processes and companies which, according to the assessment of the Manager responsible for the preparation of the corporate financial documents, may present potential areas of risk, even though they do not fall within the quantitative parameters described above. For each selected process, the risk/control objectives associated with the preparation of the Financial Statements and any related disclosures, as well as with the effectiveness/efficiency of the internal control system in general, have been identified. For each control objective, punctual verification measures have been provided for and specific responsibilities have been assigned. A system of supervision of the checks carried out by means of a chain attestation system has been



implemented. Any criticalities emerging from the evaluation process are the subject of action plans whose implementation is verified at subsequent closures. There is even the half-yearly issue of a declaration by the Chief Executive Officer and the Chief Financial Officer of each subsidiary on the reliability and accuracy of the data supplied for the purposes of preparing the Group's consolidated Financial Statements. In the lead up to the dates of the Board of Directors' Meetings which approve the consolidated data at June 30 and December 31, the results of the verification procedures are discussed with the Manager responsible for the preparation of the corporate financial documents. The Internal Audit Department performs periodic audits aimed at verifying the adequacy of the design and operability of the checks carried out on sample companies and processes, selected on the basis of the materiality criteria.

## SOCIO-ENVIRONMENTAL RESPONSIBILITY RISKS

### **Risks Relative to Social and Environmental Responsibility and Business Ethics**

Risk governance at Pirelli is enterprise-wide and includes the identification, analysis and monitoring of environmental, social, economic/financial and business ethics risks that are directly or indirectly attributable to the Company, through Pirelli affiliates or in dealings with them, such as those related to the sustainability of the supply chain. Prior to investing in a specific market, ad-hoc assessments are conducted on possible political, financial, environmental and social risks, including those related to the respect of human rights and labour laws. Alongside the ongoing monitoring of the application of Pirelli's internal regulations regarding financial, social (particularly regarding human and workplace rights), environmental and business ethics on Group sites, which occurs through the periodic audits performed by the Internal Audit Department, Pirelli has adopted an ESG (Environmental and Social Governance) risk mitigation strategy, also with regard to its own supply chain which is periodically audited by specialised third party companies. In both cases, if non-compliance is detected, a remedial plan is provided for, whose implementation is regularly monitored by the auditor. For further information on the model used for managing sustainability risks along the supply chain, see the paragraph *"Our Suppliers"*. For the governance aspects of human rights issues, see the paragraph *"Respecting Human Rights"*. For the management of internal risk within the affiliates, see the section *"Compliance with Legislative-Contractual Requirements on Overtime, Rest, Association and Bargaining, Equal Opportunities and Non-Discrimination, Prohibition of Child and Compulsory Labour"* of the consolidated non-financial Declaration.

**OUTLOOK FOR 2022**

<i>(in billion of euro)</i>	<b>2021</b>	<b>2022E</b>
Revenues	5.33	~5.6 ÷ ~5.7
Ebit margin adjusted	15.3%	~16% ÷ ~16.5%
Investments (CapEx)	0.35	~0.39
<i>% of net sales</i>	~6.5%	~7%
Net cash flow before dividends	~0.43	~0.45 ÷ ~0.48
Net financial position <i>NFP/Ebitda Adj.</i>	-2.9 2.4x	~-2.6 ≤2x
ROIC <i>post taxes</i>	17.6%	≥19%

**Market Outlook for 2022**

Pirelli expects that 2022 will be characterised by sustained economic growth, albeit in a scenario that presents elements of volatility linked to the progression of the COVID-19 pandemic, to inflationary pressures and to the possible consequent monetary tightening, as well as the escalation of geopolitical tensions. Specifically, Pirelli expects global GDP to grow by +4.4% and inflation of 4.1% (particularly accentuated in North America and Europe), due to the increase in the costs of raw materials, energy and labour and in logistics costs.

For the **automotive sector**, global production for 2022 is expected to grow by +8.6% compared to 2021, with even stronger growth for the Premium and Prestige segments (+10.5%) and other SUVs (+11.1%). Growth - even more than forecast in the Industrial Plan - of the electric car segment share of total production (+7% vs. the Plan estimate of +6%), especially for the Premium and Prestige segments (+16% vs. the Plan estimate +12%).

Given this scenario, **global demand for car tyres** is expected to grow by approximately +3%, with the High Value segment once again proving to be the most dynamic, with volumes expected to increase by four times that of the Standard segment.

For the **High Value** segment in particular, market expectations are as follows:

- **Original Equipment** volumes  $\geq 18''$  are expected to grow by approximately +9% thanks to the gradual normalisation of the semi-conductor shortage;
- **Replacement** volumes  $\geq 18''$  are expected to grow by approximately +7%, driven by the restocking of dealer inventories and the effect of new car registrations from previous years.

Less growth is expected for the **Standard** segment, where Original Equipment  $\leq 17''$  (which is more affected by the semi-conductor crisis than the high-end range) is expected to grow by approximately +5%, while the Replacement channel is expected to grow by approximately +1.5% (due to the gradual shift of the car parc towards the Premium range).

Pirelli will respond to a challenging 2022 by strengthening the levers already provided by the Industrial Plan. Specifically, an even more selective approach is planned for Original Equipment, with a focus on higher rim diameters ( $\geq 19''$ ) and on Specialties, especially for the electric car segment. The Competitiveness Plan has been confirmed with gross benefits of euro 150 million, and these efficiencies, together with price increases and an improved mix, will more than offset the increase in the costs of raw materials, in inflation of other production factors, and in exchange rate volatility.

In light of the results achieved for 2021 and the scenario forecast for 2022, Pirelli expects:

- **Revenues of between euro ~5.6 billion and euro~5.7 billion**, with:
  - **a total growth in volumes** of between  $\sim +1.5\%$  and  $\sim +2.5\%$ : High Value Volumes are expected to increase by  $\sim +6\%$ / $\sim +7\%$ ; Standard volumes are expected to decline by  $\sim -3\%$ / $\sim -4\%$ , consistent with the strategy of progressively reducing exposure to this segment;
  - **price/mix improvement** by  $\sim +5.5\%$  /  $\sim +6.5\%$  thanks to further price increases and a more favourable mix;
  - an **exchange rate impact** of between  $\sim -1.5\%$  /  $\sim -2\%$ .
- **EBIT margin adjusted of between approximately ~16% and ~16.5%** considering the aforementioned dynamics;
- **Net cash generation before dividends is expected to be between euro 450 million and euro 480 million**, thanks to the operating performance and the efficient management of working capital;
- **Investments** amounting to approximately euro 390 million ( $\sim 7\%$ );
- **Net financial position** equal to euro  $\sim -2.6$  billion with a NFP/EBITDA adjusted ratio of  $\leq 2$  times.

With reference to tensions between Russia and Ukraine, Pirelli has constituted a “Crisis Committee” to constantly monitor the development of the Russia-Ukraine crisis for which mitigation actions and a contingency plan have already been activated, including the progressive production reallocations of export flows to other Group plants. When the company presented its preliminary 2021 results it announced an initial analysis of the impact on 2022 guidance. That analysis assumed the persistence of February level energy and oil prices until the end of the year, as well as the potential impact on local operations linked to imports and exports to and from Russia of raw materials and finished goods.

In the analysis of this scenario, which does not take into account the idea of a total interruption of the import and export flows from Russia and a recessionary scenario in Europe because of an escalation of geopolitical tensions, the guidance for profitability and cash generation would be positioned in the lower part of the range (EBIT Adjusted around euro 890 million and cash generation before dividends around euro 450 million).

Pirelli continues to monitor the evolution of the situation and will inform the market if the forecasts shift significantly from the assumptions of the initial analysis.

Pirelli is against this war and is supporting the Ukrainian population with a donation of 500,000 euro and facilitating the collection of funds among employees. The investments in the local market, excluding those linked to security, have been halted. The activities of the factories in Russia will be progressively limited to those needed to guarantee the financing of salaries and social services for employees.

**SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR**

On **January 28, 2022** Pirelli launched the start of celebrations, for the 150<sup>th</sup> anniversary of its foundation on January 28, 1872 which will continue throughout 2022, with an event at the *Piccolo Teatro* in Milan.

On **February 1, 2022** Pirelli was awarded Gold Class recognition in the 2022 Sustainability Yearbook published by S&P Global, which examined the sustainability profile of more than 7,500 companies. Pirelli obtained the "S&P Global Gold Class" recognition in the ranking that is carried out annually on the basis of the results of the Corporate Sustainability Assessment for the Dow Jones Sustainability Indexes of S&P Global. In 2021 Pirelli confirmed its position among the excellent performers of the Automobiles & Components sector, within the Dow Jones Sustainability World and Europe indexes, with a score of 77 points against a sector average of 31.

On **February 21, 2022**, Pirelli, in keeping with that which had been announced to the market on November 11, 2021 finalised the signing of a euro 1.6 billion five-year multi-currency bank credit facility with a pool of leading Italian and international banks.

The new credit facility, which is geared towards the Group's ESG objectives, will mainly enable the Group to:

- repay debt maturing in June 2022 (approximately euro 950 million at December 31, 2021) by using euro 600 million from the new credit facility and the remainder from the Company's liquidity;
- replace euro 700 million from an available and unused credit facility maturing in June 2022, with euro 1.0 billion from the new credit facility, thereby increasing financial flexibility by euro 300 million.

This operation, which was finalised with improved terms and conditions than for the credit facilities that will be replaced, was consistent with the Company's plans and allows for the optimisation of the debt profile by extending maturity dates.

On **February 23, 2022** Pirelli announced that it had been assigned an investment grade rating by S&P Global Ratings and Fitch Ratings. This follows the Company's request for a public rating, in keeping with the Group's objectives of optimising conditions of access to the credit market. Specifically, Fitch Ratings assigned Pirelli an Investment Grade rating of BBB- with a stable outlook, emphasising, amongst other things, the solidity of the Company's operating margins and its ability to generate cash flow, which make it possible to forecast a significant reduction in debt over the next two to three years. The agency highlighted Pirelli's leadership position in the Premium segment, its consolidated know-how for high-performance products, its exposure to aftermarket activities that are less volatile than that of the Standard segment and the reputation of its Brand. S&P Global Ratings assigned an Investment Grade rating of BBB- with a stable outlook, highlighting, amongst other things, the solid position Pirelli holds in the Premium and Prestige markets, its ability to efficiently utilise its manufacturing plants, which is reflected in an EBITDA margin that exceeds the sector

average and the agency's expectation of continuous debt reduction, through the careful management of a solid free cash flow.

On **March 4, 2022** Pirelli announced that will donate euro 500 thousand to help Ukrainian refugees affected by the war. The company will also provide employees with a current account to collect their donations as well. Pirelli strongly condemns what is happening and stands by the people who are suffering.

## ALTERNATIVE PERFORMANCE INDICATORS

This document, in addition to the financial measures provided for by the International Financial Reporting Standards (IFRS), also includes measures derived from the latter, even though not provided for by the IFRS (Non-GAAP Measures), in compliance with the ESMA Guidelines on Alternative Performance Indicators (ESMA Guidelines/2015/1415) published on October 5, 2015. These measures are presented in order to allow for a better assessment of the results of the Group's operations and should not be considered as alternatives to those required by the IFRS.

In particular, the Non-GAAP Measures used are as follows:

- **EBITDA:** is equal to the EBIT but which excludes the depreciation and amortisation of property, plant and equipment and intangible assets. The EBITDA is used to measure the ability to generate earnings, excluding the impacts deriving from investments;
- **EBITDA adjusted:** is an alternative measure to the EBITDA which excludes non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBITDA margin:** is calculated by dividing the EBITDA by revenues from sales and services. This measure is used to evaluate operating efficiency, excluding the impacts deriving from investments;
- **EBITDA margin adjusted:** is calculated by dividing the EBITDA adjusted by revenues from sales and services. This measure is used to evaluate operating efficiency, excluding the impacts deriving from investments, operating costs attributable to non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBIT:** is an intermediate measure which is derived from the net income/(loss) but which excludes taxes, financial income/(expenses) and the net income/(loss) from equity investments. The EBIT is used to measure the ability to generate earnings, including the impact arising from investments;
- **EBIT adjusted:** is an alternative measure to the EBIT which excludes the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBIT margin:** is calculated by dividing the EBIT by revenues from sales and services. This measure is used to evaluate operating efficiency;
- **EBIT margin adjusted:** is calculated by dividing the EBIT adjusted by revenues from sales and services. This measure is used to evaluate operating efficiency excluding the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations,

operating costs attributable to non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;

- **Net Income/(loss) adjusted;** is calculated by excluding the following items from the net income/(loss):
  - o the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
  - o non-recurring expenses/income recognised under financial income and expenses;
  - o non-recurring expenses/income recognised under taxes, as well as the tax impact relative to the adjustments referred to in the previous points;
- **Fixed assets:** this measure is constituted of the sum of the Financial Statement items, *“Property, plant and equipment”*, *“Intangible assets”*, *“Investments in associates and joint ventures”*, *“Other financial assets at fair value through other Comprehensive Income”* and *“Other non-current financial assets at fair value through the Income Statement”*. Fixed assets represent the non-current assets included in the net invested capital;
- **Net operating working capital:** this measure is constituted by the sum of *“Inventory”*, *“Trade receivables”* and *“Trade payables”*;
- **Net working capital:** this measure is constituted by the net operating working capital and by other receivables and payables and derivative financial instruments not included in the net financial position. This measure represents the short-term assets and liabilities included in the net invested capital and is used to measure short-term financial stability;
- **Net invested capital:** this measure is constituted by the sum of (i) fixed assets and (ii) net working capital. Net invested capital is used to represent the investment of financial resources;
- **Provisions:** this measure is constituted by the sum of *“Provisions for liabilities and charges (current and non-current)”*, *“Provisions for employee benefit obligations (current and non-current)”*, *“Other non-current assets”*, *“Deferred tax liabilities”* and *“Deferred tax assets”*;
- **Net financial debt:** is calculated pursuant to the CONSOB Notice dated July 28, 2006 and in compliance with the ESMA guidelines on disclosure requirements pursuant to the Prospectus Regulation applicable as of May 5, 2021. Net financial debt represents borrowings from banks and other financial institutions net of cash and cash equivalents, of other current financial assets at fair value through the Income Statement, of current financial receivables (included in the Financial Statements under *“Other receivables”*) and of derivative financial instruments included in the net financial position (included in the Financial Statements under current assets, current liabilities and non-current liabilities, as *“Derivative financial instruments”*);



- **Net financial position:** this measure represents the net financial debt less the non-current financial receivables (included in the Financial Statements under “*Other receivables*”), the current derivative financial instruments included in the net financial position (included in the Financial Statements under current assets as “*Derivative financial instruments*”) and the non-current derivative financial instruments included in the net financial position (included in the Financial Statements under non-current assets as “*Derivative financial instruments*”). Net financial position is an alternative measure to net financial debt, but which includes non-current financial assets;
- **Liquidity margin:** this measure is constituted by the sum of the Financial Statement items, “*Cash and cash equivalents*”, “*Other financial assets at fair value through the Income Statement*” and the committed credit facilities which have not been non-utilised;
- **Operating net cash flow:** this is calculated as the change in the net financial position relative to operations management;
- **Net cash flow before dividends and extraordinary transactions and investments:** is calculated by adding the change in the net financial position due to financial and tax management, to the operating net cash flow;
- **Net cash flow before dividends paid by the Parent company:** is calculated by adding the change in the net financial position due to extraordinary transactions and the management of investments, to the net cash flow before dividends and extraordinary transactions and investments;
- **Net cash flow:** is calculated by subtracting the dividends paid by the Parent company, from the net cash flow before dividends paid by the Parent company;
- **Investments in intangible and owned tangible assets (CapEx):** is calculated as the sum of investments (increases) in intangible assets and investments (increases) in property, plant and equipment, excluding any increases relative to the right of use;
- **Increases in the right of use:** is calculated as the increases in the right of use relative to lease contracts;
- **Ratio of investments to depreciation:** is calculated by dividing the investments (increases) in owned tangible assets with the depreciation for the period. The ratio of investments to depreciation is used to measure the ability to maintain or restore amounts for property, plant and equipment;
- **ROIC:** is calculated as the ratio between the EBIT adjusted net of tax effects and the average net invested capital net of provisions which does not include “*Investments in associates and joint ventures*”, “*Other financial assets at fair value through other Comprehensive Income*”, “*Other non-current financial assets at fair value through the Income Statement*”, “*Other non-current assets*”, the intangible assets relative to assets recognised as a consequence of

Business Combinations, the deferred tax liabilities relative to the latter and the *“Provisions for employee benefit obligations current and non-current”*.

## **OTHER INFORMATION**

### **ROLE OF THE BOARD OF DIRECTORS**

The Board of Directors is responsible for the strategic guidance and supervision of the Company's overall business activities, with the power to direct the administration as a whole and with the authority to take the most important decisions in financial/strategic terms, or in terms of their structural impact on management, or functional to the exercise of Pirelli's controlling and steering activities.

The Chairman is endowed with the legal representation of the Company in legal proceedings, as well as with all other powers attributed to him under the Articles of Association.

The Executive Vice Chairman and Chief Executive Officer are exclusively delegated powers for the ordinary management of the Company and of the Group, as well as the power to make proposals regarding the Industrial Plan and financial budgets to the Board of Directors, as well as any deliberations regarding any strategic industrial partnerships or joint ventures to which Pirelli is a party.

The Deputy-CEO is attributed the powers attributed to the Executive Vice Chairman and Chief Executive Officer for the ordinary management of the Company and of the Group, to be exercised vicariously only in the case of the impediment, even temporary, of the Executive Vice Chairman and Chief Executive Officer.

The Board has internally instituted the following Committees with advisory and proposal-making duties:

- Audit, Risk, Sustainability and Corporate Governance Committee;
- Remuneration Committee;
- Committee for Related Party Transactions;
- Nominations and Successions Committee;
- Strategies Committee.

For more information on the role of the Board of Directors, reference should be made to the Report on Corporate Governance and Ownership Structure contained in the 2021 Annual Report, as well as other additional information published in the Governance section of the Company's website ([www.pirelli.com](http://www.pirelli.com)).

## INFORMATION ON THE SHARE CAPITAL AND OWNERSHIP STRUCTURE

The subscribed and paid-up share capital at the date of approval of this Financial Report amounted to euro 1,904,374,935.66 and was represented by 1,000,000,000 registered ordinary shares without indication of their nominal value.

The Extraordinary Shareholders' Meeting of March 24, 2021 resolved to increase the share capital in cash, by way of a divisible payment, with the exclusion of option rights pursuant to Article 2441, paragraph 5, of the Italian Civil Code, for a total counter-value, including any share premium, of euro 500,000,000.00 to service the conversion of the “*EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025*”, to be paid in one or more tranches through the issue of ordinary shares of the Company, with regular dividend entitlements, for a maximum amount of euro 500,000,000.00 to exclusively service the “*EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025*” issued by the Company, in accordance with the criteria provided by the relevant Regulation, notwithstanding that the final deadline for the subscription of the newly issued shares is set as December 31, 2025 and that if, on that date, the capital increase has not been fully subscribed, it shall be deemed to have been increased by an amount equal to the subscriptions received and from that date onwards, with the express authorisation of the Directors to issue the new shares, as and when they are subscribed. No fractions of shares will be issued or delivered and no cash payment or adjustment will be made in lieu of such fractions.

The shareholder Marco Polo International Italy S.r.l. - pursuant to Article 93 of Legislative Decree No. 58/1998 - controls the Company with a 37% share of the capital, but does not exercise management and coordination activities over the Company.

Updated extracts are available on the Company's website, of the existing agreements between some of the shareholders, including indirect shareholders of the Company, which contain the provisions of the Shareholders' Agreements relative, amongst other things, to the governance of Pirelli.

For further details on the governance and ownership structure of the Company, reference should be made to the Report on Corporate Governance and Ownership Structure contained in the 2021 Annual Report group of documents, as well as other additional information published in the Governance and Investor Relations section of the Company's website ([www.pirelli.com](http://www.pirelli.com)).

## WAIVER OF THE PUBLICATION OF INFORMATION DOCUMENTS

The Board of Directors, taking into account the simplification of the regulatory requirements introduced by CONSOB in the Issuer's Regulation No. 11971/99, resolved to exercise the option to derogate, pursuant to the provisions of Article 70, paragraph 8 and Article 71, paragraph 1-bis of the aforesaid Regulation, from the obligation to publish the prescribed disclosure documents in the event of significant mergers, de-mergers, capital increases through contributions of assets in kind, acquisitions and disposals.

## FOREIGN SUBSIDIARIES NOT BELONGING TO THE EUROPEAN UNION (EXTRA-EU COMPANIES)

Pirelli & C. S.p.A. directly or indirectly controls some companies based in countries which do not belong to the European Community ("*Extra-EU Companies*"), which hold particular significance pursuant to Article 15 of CONSOB Regulation No. 20249 of December 28, 2017, concerning Market Regulations.

With reference to data at December 31, 2021, the Extra-EU Companies controlled directly or indirectly by Pirelli & C. S.p.A., which are of relevance pursuant to Article 15 of the Market Regulations are:

Limited Liability Company Pirelli Tyre Russia (Russia); Pirelli Pneus Ltda (Brazil); Pirelli Comercial de Pneus Brasil Ltda (Brazil); Comercial e Importadora de Pneus Ltda. (Brazil); Pirelli Tire LLC (USA); Pirelli Tyre Co., Ltd. (China); Pirelli Otomobil Lastikleri A.S. (Turkey); Pirelli Neumaticos S.A.I.C. (Argentina); Pirelli Neumaticos S.A. de C.V. (Mexico); Pirelli UK Tyres Ltd. (United Kingdom) and Pirelli Tyre (Suisse) SA (Switzerland).

Also pursuant to the same aforesaid provisions, the Company has specific and appropriate Group Operating Regulations in place which ensure immediate, constant and full compliance with the provisions of the aforementioned CONSOB Regulation. In particular, the competent Company managements provide the punctual and periodic identification and publication of the relevant Non-EU Companies pursuant to the Market Regulation and - with the necessary and appropriate cooperation of the companies concerned - guarantee the collection of data and information and the verification of the circumstances referred to in the aforementioned Article 15, ensuring the availability of the information and data provided by the subsidiaries in the event of a request by CONSOB. A periodic flow of information is also provided for in order to guarantee to the Board of Statutory Auditors of the Company, that the prescribed and appropriate checks are performed.

Lastly, the aforesaid Operating Regulation, consistent with regulatory provisions, governs the disclosure to the public of the Financial Statements (that is the Statement of Financial Position and Income Statement), of the relevant non-EU companies, which are used to prepare the consolidated Financial Statements of Pirelli & C. S.p.A.

It should therefore be noted that the Company has fully complied with the provisions of Article 15 of the aforementioned CONSOB Regulation No. 20249 of December 28, 2017 and that the conditions required by the same have been met.

## RELATED-PARTY TRANSACTIONS

The Company's Board of Directors, as part of the new listing process initiated and completed during the 2017 financial year, has once again approved the Procedure for Related Party Transactions ("*RPT Procedure*"),

As part of the periodic revision of existing procedures, on June 15, 2021, the Company's Board of Directors - following the unanimous opinion of the Committee for Related Party Transactions, which had deliberated with the presence of all its members - unanimously approved the new Procedure for Related Party Transactions, which had been adjusted to the new provisions on related party transactions adopted by CONSOB pursuant to the amendments to the European Shareholders' Rights Directive II. The new Procedure came into force on July 1, 2021.

Pursuant to Article 5, paragraph 8 of CONSOB Regulation No. 17221 of March 12, 2010 as subsequently amended and integrated, (most recently by CONSOB Resolution No. 21624 of December 10, 2020), concerning related party transactions, it should be noted that during the 2021 financial year, that no transaction of significant importance as defined by Article 3, paragraph 1, letter b) of the aforementioned Regulation, was submitted to the Board of Directors of Pirelli & C. S.p.A. for approval.

The RPT Procedure can be viewed, together with the other corporate governance procedures at the website ([www.pirelli.com](http://www.pirelli.com)). For more details on the RPT Procedure, reference should be made to the section "*Directors' Interests and Related Party Transactions*" included in the Annual Report on the Corporate Governance and Ownership Structure, contained in the Financial Statements group of documents.

The information on Related Party Transactions as required, pursuant to CONSOB Communication No. DEM/6064293 of July 28, 2006 is presented in the Financial Statements and in the Note entitled "*Related Party Transactions*" in the 2021 Annual Report. Related Party Transactions, are neither exceptional nor unusual, but are part of the ordinary course of business for the Group companies and are carried out in the interest of the individual companies. Such transactions, when not settled under standard conditions, or dictated by specific regulatory conditions, are in any case regulated by conditions consistent with those of the market. Furthermore, they are carried out in compliance with the RPT Procedure.

Also, there were no Related Party Transactions - or changes or developments to the transactions described in the preceding financial report - that have significantly affected the Group's financial position or results for the 2021 financial year.

#### EXCEPTIONAL AND/OR UNUSUAL OPERATIONS

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it should be noted that during the course of the 2021 financial year, that no exceptional and/or unusual transactions as defined in the aforesaid Notice, were carried out by the Company.

## COMPLIANCE WITH THE REGULATIONS ON THE PROTECTION OF PERSONAL DATA

Following the entry into force of EU Regulation 2016/679 and amendments to Legislative Decree No. 196/2003 (introduced by Legislative Decree No. 101/2018), it should be noted that the Company has completed, with the support of the competent departments, all the activities necessary to meet the new requisites of the law, including, amongst others, the preparation of a Record of Processing Activities. The Company has also appointed lawyer Alberto Bastanzio as the Data Protection Officer (“DPO”), whose contact details were duly communicated to the Guarantor for the Protection of Personal Data on July 25, 2018. The DPO can be contacted, other than at the registered office of the Company, also at the following e-mail address: [dpo\\_pirelli@pirelli.com](mailto:dpo_pirelli@pirelli.com). The activities carried out by the DPO during the relevant reporting financial year are described in detail in the “*Annual Report of the DPO*” available at the registered office of the Company, to which reference should be made for further details.

The Board of Directors

Milan, March 17, 2022

## **REPORT ON RESPONSIBLE MANAGEMENT OF THE VALUE CHAIN**

***Consolidated non-financial disclosure pursuant to Legislative Decree of December 30, 2016, no. 254***



## METHODOLOGICAL NOTE

This section of the Annual Report 2021, entitled “Report on Responsible Management of the Value Chain” (hereinafter “the Report”), constitutes the “Consolidated Non-Financial Statement” of the Company pursuant to Legislative Decree no. 254/2016 and explores the Sustainable Management Model adopted by Pirelli, the governance tools to support maintenance and creation of values, relationships with Stakeholders and related connection with the development of financial, productive, intellectual, human, natural, social and relational capital, which was mentioned in the “Presentation of 2021 Pirelli Integrated Annual Report”.

The Report reflects the integrated Business model adopted by the Group, inspired by the United Nations Global Compact, the principles of Stakeholder Engagement set forth by the AA1000, and the Guidelines of ISO 26000. Reported information is prepared in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Standards, *Comprehensive* option, SASB Auto Parts Sustainability Accounting Standard, following the process suggested by the APS1000 APS principles (*materiality, inclusivity and responsiveness*), and considering the *integrated reporting* principles contained in the International Integrated Reporting Council (IIRC). In addition, this report considers the priorities reported by the European Securities and Markets Authority (ESMA) through the ESMA circular 32-63-1186 and includes the considerations required by the European Taxonomy Regulation in its fields of application (EU Regulation 2020/852 dated 18 June 2020 and the Delegated Regulations (EU) 2021/2178 and (EU) 2021/2139 connected to it). It should be noted that the assurance activities by the Independent Auditors linked to the latter involved verifying the preparation and publication of the information required by Reg. 852/20, in compliance with the indications given by Assirevi to the Independent Auditors through the Document of Research No. 243 of February 2022, entitled “Auditor’s activity on the disclosure pursuant to art. 8 of Regulation 2020/852 - Taxonomy Regulation”.

The set of GRI indicators covered by the Report is wider than the list of specific material issues indicated in the materiality matrix, and this in order to provide a more complete and transversal view on the Company’s performance, for the benefit of all Stakeholders.

The Report shows the sustainability performance of the Group in 2021 compared to 2020 and 2019, with respect to the targets set in the 2021-2022 Industrial Plan, 2025 Vision.

The Report, published annually, (the previous Pirelli Annual Report was published in April 2021 with reference to the year 2020), is approved by the Group’s Board of Directors and covers the same scope of consolidation of the Group.

The main information systems that contribute to the collection of the data contained in the Report are: CSR-DM (Corporate Social Responsibility Data Management), HSE-DM (Health, Safety and Environment Data Management), SAP HR (SAP Human Resources) and HFM (Hyperion Financial Management).

In terms of internal control of the contents of the Report, the Company, through the *Group Compliance* function, has set up a structured system that includes:

- a dedicated Operating Procedure, in which the roles, responsibilities and procedures to be followed by the Group companies in order to ensure adequate management and reporting of non-financial information are defined;
- an internal control system aimed at providing an assurance about the correct collection and reporting of non-financial information, to which an additional assurance is added for that information considered to be of particular relevance since, for example, it falls within the Group Sustainability Plan targets;
- a third party verification through a circling activity, of all the quantitative non-financial data reported in the Report with the aim to conduct an independent verification of the NFD data and the related source;
- the signing of a letter of certification by the Top Management concerning the data that are collected through the CSR-DM information system and the paragraphs of the financial statements of competence.

As regards external audits, the sustainability performance accounted in the Report is subject to limited audit by an independent firm (PricewaterhouseCoopers S.p.A.) in accordance with the criteria indicated in the *International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000)*, issued by the *International Auditing and Assurance Standards Board*. For further information, reference is made to the related Auditor's Report provided at the end of the Annual Report. As part of this limited audit activity, the data relating to GHG (Greenhouse Gas) emissions were also specifically analysed, including for the purposes of the disclosure process to the CDP (formerly the Carbon Disclosure Project).

The Report is structured into four macro areas:

- an introductory section related to the sustainable management model adopted by the Company, Materiality Matrix, Governance and Compliance policies and activities, Stakeholder Engagement, long-term planning;
- an "Economic Dimension", in which the distribution of added value is detailed along with the management and performance relating to investors, customers and suppliers;
- an "Environmental Dimension", which describes the management of environmental aspects and impacts throughout the entire product cycle;
- a "Social Dimension", which brings together the paragraphs dedicated to: governance of human rights, the internal community and the external community.

At the end of the Annual Report 2021, before the Independent Auditor's Report mentioned above, the following summary Tables are available:

- the GRI Content Index, which shows the full list of indicators accounted based on the GRI Standards, indicating the relative page in the Annual Report 2021;
- a table of correlation between indicators accounted based on the GRI Standards and the United Nations Global Compact Principles;
- the SASB Content Index showing the complete list of indicators reported according to the SASB Auto Parts Sustainability Accounting Standard, indicating the relevant page within the 2021 Annual Report;
- a table of correlation between the performance/targets of the Group and the Sustainable Development Goals of the United Nations on which the aforementioned performance and targets have an impact;
- a correlation table between the information contained in the Annual Report and the topics indicated by Legislative Decree no. 254/2016.

For any clarifications and further information on the content of the Report, reference is made to the "Contacts" page of the "Sustainability" section of the website [www.pirelli.com](http://www.pirelli.com).

## **Management Model**

Pirelli Sustainability Model is inspired by the United Nations Global Compact, the principles of Stakeholder Engagement set forth by the AA1000 and the Guidelines of ISO 26000.

Responsible management by Pirelli runs through the entire value chain. Every operating unit integrates economic, social and environmental responsibility in its own activity, while cooperating constantly with the other units, implementing the Group strategic guidelines.

The main management systems adopted by Pirelli include ISO 9001, IATF 16949, ISO/IEC 17025 in the area of Quality Management, SA8000® for the management of Social Responsibility at its subsidiaries and along the supply chain, ISO 45001 for the management of Health and Safety in the workplace, ISO 14001 for environmental management and ISO 37001 on anti-corruption measures. The Company is also inspired by the ISO 14064 for the quantification and reporting of greenhouse gas emissions (GHG), the ISO 14040 family rules for the methodology for calculating the environmental footprint of the product and the Organisation and, specifically, ISO 14067 and ISO 14046 for the determination of the Carbon Footprint and Water Footprint. In December 2021, the Company also renewed its independent certification (from SGS Italia S.p.A.) regarding the compliance of its Sustainable Purchasing Management model based on the ISO 20400 Standard (obtained during 2018).

Details on the coverage of these certifications and methodological reference tools have been given in the paragraphs “Programmes of Compliance 231, Anti-corruption, Privacy, Trade Compliance and Antitrust “, “Our Customers”, “Our Suppliers”, “Environmental Dimension”, “Industrial Relations” and “Occupational Health, Safety and Hygiene” of this Report.

With reference to the Group’s Sustainability Governance, the Board of Directors of Pirelli & C. S.p.A., supported in its activities by the Audit, Risks, Sustainability and Corporate Governance Committee, approves the objectives and targets for sustainable management integrated in the Group Plan. The Board of Directors also approves Pirelli’s Annual Report, including the Consolidated Non-Financial Statement, which is in turn subject to the supervision of the Board of Statutory Auditors in accordance with Legislative Decree no. 254 of 30 December 2016. Within the Board of Directors, the CEO is responsible for sustainability matters.

The strategic evolution of Group Sustainability is entrusted to the *Sustainability Strategic Committee*, a body appointed in 2004, chaired by the CEO and composed of the Company’s Top Management representing all the organisational and functional responsibilities. The Committee has strategic responsibility and holds ordinary meetings at least twice a year. As of 2021, the *Sustainability Strategic Committee* is being supported by a *Sustainability Operational Committee* chaired by the Deputy CEO and consisting of the Company’s Top Management, which will be responsible for the strategic and operational management of the Group’s Sustainability matters, including, among others, Climate Change and Diversity, Equity and Inclusion.

The organisational structure is thus made up of a Sustainability and Future Mobility Department reporting directly to the Deputy CEO of the company, which has oversight of the management at a Group level and proposes plans for sustainable development to the Sustainability Strategic Committee. The Group Sustainability & Diversity Officer works in the Sustainability and Future Mobility Department.

The Department receives support from:

- a *Sustainability Working Group* made up of sustainability referents within the different company departments in order to guarantee constant monitoring and coordination of strategic programmes with an impact on the competence of specific departments;
- *Country Sustainability Managers & Diversity Managers* to oversee activities covering all Group affiliates. The role of Country Sustainability Manager is held by the Country CEOs, who report directly to them for the operational management of Country plans.

## **Sustainability Planning and the United Nations Sustainable Development Goals (SDGs)**

Pirelli’s sustainable development planning aims to make a tangible contribution to the global effort to achieve the 2030 Sustainable Development Goals (SDGs) presented by the United Nations in September 2015.

In methodological terms, the process of sustainable planning is characterised by specific operational steps aimed at continuous improvement in performance: evaluation of the context through benchmarks, dialogue with stakeholders, needs raised by internal functions, identification of risks and opportunities for growth, definition of projects and targets, implementation, monitoring and reporting.

In March 2021, Pirelli has published the Sustainability Plan 2021-2022 with 2025 and 2030 Vision, fully complementary with the Company's Industrial Plan. The Plan's targets have been defined in alignment with the materiality of the Company's socio-environmental impacts and in support of the United Nations 2030 Sustainable Development Goals, as further discussed below.

The targets and related performance of the Plan (for details see the related sections in this Report) foresee in summary the below figures.

At raw material level, for new product lines:

- by year 2025: renewable materials > 40%, recycled materials > 3%, fossil-based materials < 40%;
- by year 2030: renewable materials > 60%, recycled materials > 7%, fossil-based materials < 30%.

With reference to the evolution of the total product range, by 2025:

- more than 70% of new products will be in Rolling Resistance Class A/B<sup>11</sup>;
- more than 90% of new products will be in WetGrip Class A/B;
- growth in *Eco & Safety Performance* revenues with a target of > 66% of total car sales and > 71% of High Value products only<sup>12</sup>.

In terms of environmental efficiency of production processes:

- with reference to CO<sub>2</sub> emissions, by 2025 it is planned that 100% of renewable electrical energy purchased at Group level should be renewable, as well as a 25% reduction in absolute CO<sub>2</sub> emissions compared to 2015 (Science Based Target approved by SBTi in 2020); by 2030 it is planned to achieve Carbon Neutrality (considering emissions from electrical and thermal energy);
- with regard to natural resource efficiency, the following are also planned by 2025: reductions of 10% in specific energy consumption (compared to 2019) and 43% in specific water

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<sup>11</sup> on all new ipcodes with Label, converting the non-European scales to the European classification.

<sup>12</sup> High Value products are determined by rim sizes equal to or greater than 18 inches and, in addition, include all "Specialties" products (RUN FLAT™, SEAL INSIDE™, PNCS™).

withdrawal (compared to 2015), as well as achieving 98% of waste sent for recovery (zero waste to landfill vision);

Regarding the sustainability of the supply chain:

- reduction of absolute CO<sub>2</sub> emissions from raw material suppliers by 9% by 2025 compared to 2018 (Science Based Target approved by SBTi);
- adoption of increasingly advanced models of management of the economic, social and environmental responsibility of the supply chain with particular attention to the upstream supply chain;
- implementation of the Pirelli Roadmap relating to the sustainable management of the natural rubber supply chain, in line with the dictates of Pirelli Policy and the Global Platform for Sustainable Natural Rubber (GPSNR), of which Pirelli is a founding member.

In the Plan, a central role is dedicated to human capital, the heart of the Company and of its ability to achieve the set objectives. The culture of safety in the workplace will continue to support the Zero Accidents objective, with an expected accident frequency index of  $\leq 0.1$  by 2025. The plan focuses on increasingly innovative human capital management. New marketing recruitment solutions for STEM (Science, Technology, Engineering, Mathematics) talents will be accompanied by experimentation with increasingly smart working methods and training in new digital skills, in an inclusive working environment capable of meeting the challenges of the future in an agile manner. ESG objectives, which are an integral part of the short- and long-term incentive plans (with a weight of 20% of the LTI bonus), will act as an enabler of positive tension towards achieving the Group's sustainability objectives.

To support the achievement of Group targets, all Pirelli commercial and industrial subsidiaries around the world have a Country Sustainability Plan.

As noted above, the Plan targets defined in alignment with the materiality of the Company's socio-environmental impacts affect the following SDGs in particular:

- 3 - Good Health and Well-being;
- 4 - Quality Education;
- 5 - Gender Equality;
- 6 - Clean Water and Sanitation;
- 7 - Affordable and Clean Energy;
- 8 – Decent Work and Economic Growth;
- 9 - Industry, Innovation and Infrastructure;

- 10 - Reduced Inequalities;
- 11 - Sustainable Cities and Communities;
- 12 - Responsible Consumption and Production;
- 13 - Climate Action;
- 15 - Life on Land
- 16 – Peace, Justice and Strong Institutions
- 17 – Partnerships for the Goals

For more information on the distribution and weight of the contribution for each SDG, please refer to the graphic representation of the materiality matrix proposed in the paragraph “Materiality Analysis and Mapping” of this Report.

Please be aware that:

- the Pirelli Sustainability Plan 2025 with 2030 vision is published in the “Sustainability” section of the Company’s website ([www.pirelli.com](http://www.pirelli.com));
- at the end of the 2021 Annual Report, prior to the Independent Auditors’ Report, are located the Summary Tables including a correlation table between the Group’s performance/targets and the United Nations Sustainable Development Goals, on which the aforementioned performance and targets have an impact.

## **Stakeholder Engagement**

The role of Pirelli in an economic and social context is tied to its capacity to create value through a multi-stakeholder approach, i.e. through a sustainable and lasting growth that can reconcile the interests and expectations of all those with whom the Company interacts and especially:

- customers, since Pirelli way of doing business is based on customer satisfaction;
- employees, who make up the wealth of knowledge and driving force of the Group;
- shareholders, investors and the financial community;
- suppliers, with which it shares a responsible approach to business;
- competitors, because improved customer service and market position depend on fair competition;

- the environment, institutions, government and non-government bodies;
- the communities of the various Countries where the Group operates on a stable basis, while being aware of its responsibilities as a Corporate Global Citizen.

To the stakeholders mentioned, dedicated paragraph are within this Report, to which reference is made for further qualitative and quantitative study.

The interactions that take place between Stakeholders are analysed in detail in order to manage relations with them effectively in accordance with the AA1000 Model adopted by the Company and with a view to creating lasting, shared value.

Dialogue, interaction and involvement are calibrated to meet the needs for consultation with the various types of stakeholder and include meetings, interviews, surveys, joint analyses, roadshows and focus groups. Local feedback received from Stakeholders contributed to the corporate evaluation of the priorities for action, influencing the materiality matrix and the development strategy set out in the Sustainability Plan.

During 2021, due to the state of health emergency from Covid-19, engagement and dialogue activities with stakeholders continued through digital channels, while engagement activities that were supposed to have taken place on-site and in person to be most effective were postponed.

### **Materiality Analysis and Mapping**

Pirelli's materiality mapping was updated with consolidated results in January 2022, was then submitted to the Sustainability Strategic Committee, the Board of Directors Committee and the Board of Statutory Auditors and then to the Board of Directors for publication in this Report. The matrix was updated and published in 2022, replacing the previous materiality mapping prepared in 2019.

The thorough Stakeholder Engagement activities allowed the observation of the priorities assigned by the key Stakeholders relating to a panel of sustainability topics critical for the Auto parts sector, and therefore to compare these expectations with the importance of the same issues for the success of the business according to the experience and expectations of the Top Management.

Stakeholders have been involved through a request for prioritisation of action on a selection of ESG issues relevant for the development of the Company.

The topics considered relevant were pre-selected considering their relevance to the automotive components sector according to leading research and sustainable finance bodies, their presence in the materiality mapping of car manufacturers and car parts, the risks and opportunities arising from regulatory developments with reference to the UN Sustainable Development Goals to 2030 (SDGs). To this end, the Sustainable Development Goals on which the Company can contribute most through strategies and actions developed considering the material issues assessed have been represented in the matrix below.



For this reason we would like to emphasise that all the ESG elements pre-identified through the aforementioned analysis and present in the materiality mapping are material and relevant to Pirelli's development, albeit with greater or lesser priority, as evidenced by the position of the different elements within the matrix defined according to the results of the interview process with stakeholders and management.

Given the complexity, the international extent of corporate Stakeholders and the variety of their expectations, the panel of Stakeholders of the Company from which feedback was requested covered all the Regions in the world and included:

- the major Original Equipment Customers;
- more than 650 End Customers belonging to the most representative markets;
- the most important Dealers;
- numerous Employees in the various countries where the Group is present;
- several Pirelli Suppliers;
- the leading Financial Analysts;
- national and supranational institutions and public administrations;
- Media specialists;
- international and local NGOs present in the various Countries in which Pirelli has production activities;
- Universities that have collaborations with the Group.

The main topics submitted for evaluation by Stakeholders are as follows:

- Climate Change and Greenhouse Gas Emissions Reduction;
- Responsible Management of Natural Resources;
- Biodiversity Protection;
- Circular Economy;
- Future Mobility;
- Product Quality and Safety;
- Product Environmental Sustainability;

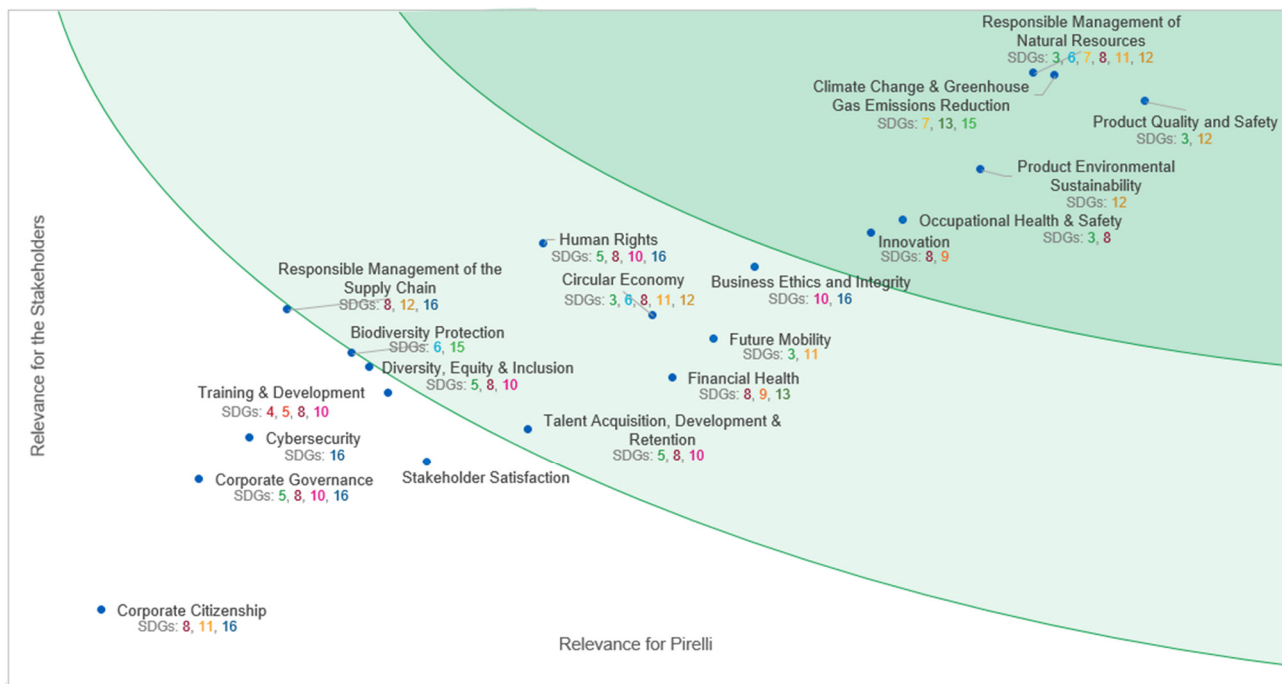
- Corporate Citizenship;
- Human Rights;
- Diversity, Equity and Inclusion;
- Training and Development;
- Occupational Health and Safety;
- Stakeholder Satisfaction;
- Talent Acquisition, Development and Retention;
- Responsible Management of the Supply Chain;
- Innovation;
- Cybersecurity;
- Business Ethics and Integrity;
- Corporate Governance;
- Financial Health.

The priorities among the significant issues expressed by Pirelli and its stakeholders on the above issues have been represented in a materiality matrix showing, on the vertical axis, the expectations of several external and internal stakeholders, while on the horizontal one, the importance that the Management attributes to individual business success factors. The result of such consolidation is outlined below.

It should be noted that the consolidation of the materiality matrix at Group level tends, by its very nature, to deviate significantly from the materiality matrix consolidated by the Group's Subsidiaries at country level. Elements of sustainability located in an area of minor materiality in the matrix at a Group level may be found to have major materiality for a number of Countries and specific stakeholders who are more directly involved.

The reporting of material issues, related risks and opportunities to these topics and the methods for managing them are reported in this Report, in the paragraph "Operational Risks" (of the Directors' Report on Operations), as well as in the paragraphs dedicated below to the various issues and Stakeholders.

Materiality mapping is a key element in the definition of the Group's sustainable development strategies and as such is considered in the definition of the Company's multi-year strategic sustainability objectives.



## Main Policies

The Sustainable Management Model throughout the value chain is reflected in the main Group Policies, published on Pirelli’s website in multiple languages and communicated to all employees in their local language.

In particular, the following Policies are recalled:

- the “Group Values and Code of Ethics”;
- the “Code of Conduct”;
- the “Anti-Corruption” Programme;
- the “Global Antitrust and Fair Competition” Policy;
- the Group “Equal Opportunities Statement”;
- the “Health, Safety and Environment” Policy;
- the “Global Human Rights” Policy;
- the “Product Stewardship” Policy;
- the “Global Quality” Policy;

- the “Green Sourcing” Policy;
- the “Social Responsibility Policy on Occupational Health, Safety and Rights and Environment”;
- the “Global Tax” Policy;
- the “Institutional Relations - Corporate Lobbying” Policy;
- the “Global Personal Data Protection” Privacy Policy;
- the “Group Whistleblowing - Group Reporting Procedure”;
- the “Sustainable Natural Rubber” Policy, including the dedicated Grievance Procedure;
- “Pirelli Intellectual Property” (or IPR) Policy;
- “Pirelli Social Media” Policy.

The contents of the aforementioned Policies and the related methods for implementation are addressed in the sections of this Report that deal with the related issues.

Next, a focus on the Compliance programmes “231”, “Anti-corruption”, “Privacy”, “Trade Compliance”, “Antitrust” and on the “Whistleblowing” policy.

### ***Programmes of Compliance 231, Anti-corruption, Privacy, Trade Compliance and Antitrust***

With regard to the administrative liability of companies and bodies provided for by Legislative Decree no. 231/2001 (hereinafter also the “Decree”), Pirelli has adopted an Organization and Management Model (hereinafter also Model 231) structured in a General Section, which includes a review of the regulations contained in the Decree, of the crimes relevant to the Italian companies of the Group and the procedures for adopting and implementing the Model, and in a Special Section, which indicates the corporate processes and the corresponding sensitive activities for the Group’s Italian companies pursuant to the Decree, as well as the principles and internal control plans to supervise these activities.

In 2021, Given the continuation of the public health emergency situation declared in 2020 and continued in 2021, the specific periodic monitoring information flows to the Supervisory Board relating to the company’s management of the Coronavirus emergency were maintained.

During the year, training and communication activities on the current Organisational Model were completed for the entire population of the Group’s Italian companies.

In addition, the process of communicating and implementing the Group Anti-Corruption Programme continued in the main Countries in which Pirelli operates. The Programme, available in twenty-two

different languages on Pirelli website, is the corporate benchmark for the prevention of corruptive practices and represents a collection of principles and rules aimed at preventing or reducing the risk of corruption. In the document, Pirelli principles already set out in the Ethical Code and the Code of Conduct, including zero tolerance of *“corruption of public officials, or any other party, in any guise or form, or in any jurisdiction even in places where such activity is admissible in practice, tolerated, or not challenged in the courts”* are restated. Among the provisions of the Group Anti-Corruption programme are a prohibition in respect of recipients of the Code of Ethics from offering gifts and other utilities that might meet conditions of a breach of rules, or which are in conflict with the Code of Ethics, or may, if made public, constitute detriment even only to the image of Pirelli. Additionally, *“Pirelli defends and protects its corporate assets, and shall procure the means for preventing acts of embezzlement, theft, and fraud against the Group”* and *“condemns the pursuit of personal interest and/or that of third parties to the detriment of social interests”*.

As part of the anti-corruption programme implementation process, mandatory country-specific training courses have been made available through an e-learning platform. In addition, a Group-wide anti-corruption training course was prepared for the Purchasing Department to raise awareness of the issue so as to make it easier for employees to identify potential critical situations and activate the procedures set out in the internal rules.

The activity aimed at analysing the profiles of corruption risk and continued through the assessment of conformity with local regulations in force in the Countries where the Company is present, the verification of the adequacy of the corporate oversight and the updating of the risk analysis.

Finally, specific procedures have been formalised on the third party due diligence process through the analysis of the activities, conducted in the main Countries, of gathering and verifying information of an ethical, legal and reputational nature relating to counterparties and aimed at identifying potential compliance risks in advance.

During the year the certifying body performed audits of the ISO 37001 Anti-Corruption Management System of Pirelli & C. S.p.A. and Pirelli Tyre S.p.A., and of the Affiliates in Russia, Brazil and Spain, renewing the certification previously obtained.

Referring to the contributions made to the External Community, Pirelli has for many years adopted internal procedures defining the roles and responsibilities of the involved functions, and the operational process of planning, achieving monitoring and control of results of the initiatives supported. Pirelli procedure specifies that it may not promote initiatives for the benefit of beneficiaries in respect of whom there is direct or indirect evidence of failure to abide by the human rights, workers, the environment, or business ethics. “Pirelli Values and Ethical Code” set forth in their turn that the Company *“does not provide contributions, advantages, or other benefits to political parties or trade union organizations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation”*.

Concerning institutional relations of the Group, and especially activities of corporate lobbying, Pirelli has adopted a Corporate Lobbying Policy for ensuring this is done in abidance with principles ratified by the Ethical Code and the Group Anti-Corruption Programme and in line with International

Corporate Governance Network principles and in all cases in compliance with laws and regulations current in countries where Pirelli operates.

In terms of prevention and control, the audits carried out by Internal Audit Department at Group subsidiaries include monitoring of crime risks, among which corruption and fraud figure. In this regard, it should be noted that, with reference to 2021, on the basis of the reports received through the whistleblowing reporting channel, no cases of fraud were ascertained to the detriment of the Company.

There were no cases of public legal action against the company regarding corruption practices.

Additionally, during the course of 2021 the implementation of the Functional Segregation model continued (so-called *Segregation of Duties*), aimed at strengthening the system of internal controls and preventing the committing of fraud.

Also in 2021, Pirelli supported the activities of Transparency International, to which it subscribes as supporter in educational area projects aimed at promoting an active role of civic and moral education in strengthening civil society against crime and corruption, believing that it is only through proactive and firm actions of value promotion that a general improvement in the quality of life can be achieved.

With reference to Privacy - personal data protection, in 2021, the processing activities carried out by Group companies based in the European Union, the Russian Federation, Turkey, South Africa and Brazil were monitored in order to verify their compliance with the applicable data protection regulations. At the same time, a project was launched to implement a personal data protection management model in all the countries of the APAC region, due to the different legislative changes. One of the main focuses of this project was Chinese legislation.

Finally, during 2021, Pirelli was not involved in any proceedings, investigations or inspections by data protection authorities, either within the European Union or within elsewhere.

In relation to trade compliance issues, in 2021 Pirelli adopted a management system to ensure compliance with the relevant regulations in the performance of its business activities. This management system was formalised with the updating of the Global Sanctions Compliance Policy and the definition of an operating manual (Global Sanctions Compliance Handbook). In addition to this documentation, Pirelli has also developed and implemented a risk-based system for the automated monitoring of commercial counterparties (customers and suppliers) using dedicated tools and platforms.

On the subject of Antitrust and in line with the provisions of its *Global Antitrust and Fair Competition Policy*, Pirelli operates in accordance with fair and proper competition for the purpose of Company and at the same time, market development. In this context, Pirelli constantly updates the Group's Antitrust Programme in line with international best practices.

Throughout 2021 Pirelli continued to implement the Antitrust Programme in the various Countries in which it operates: online training activities were carried out, as well as continuous business

assistance to facilitate the management of antitrust issues in the daily conduct of business activities or relationships with other operators.

During 2021 Pirelli was not involved in any antitrust proceedings or significant investigations as participant in anti-competitive conduct.

### ***Focus: Reporting Procedure - Whistleblowing Policy***

The Group Reporting Procedure, or Whistleblowing Policy supports the Group' internal compliance and control systems. It is aimed at both employees and external stakeholders; it is internally accessible through intranet and company bulletin boards in the local language and externally through Pirelli website.

The Policy governs the manner of reporting breaches, suspected breaches and inducement to breaches in the matter of law and regulations, principles ratified by the Code of Ethics, including reports relating to equal opportunities, discrimination and mobbing, in addition to all that is dealt with in the aforementioned Group Policies, internal auditing principles, corporate policies, rules and procedures, and any other behaviour involving commission or omission of acts that might directly or indirectly lead to economic-equity detriment, or even one of image, for the Group and/or its companies.

The reporting channel is also expressly referred to by the Sustainability Clauses included in each supply order/contract as well as being reiterated in the text of the different Group policies published on the Company's website.

Reports may be made also in an anonymous form and protection of utmost confidentiality is at all times restated, as too is zero tolerance in respect of acts of reprisal of any kind against whoever makes a report or is the subject of the report.

Reports may concern directors, auditors, management, employees of the Company and, in general, anyone operating in Italy or abroad for Pirelli or engaging in business relations with the Group, including partners, customers, suppliers, consultants, collaborators, auditing companies, institutions and public entities.

The e-mail box [ethics@pirelli.com](mailto:ethics@pirelli.com) is made available to anyone wishing to proceed with an alert, which is valid for all Group subsidiaries, as well as for the External Community, and is centrally managed by the Group Internal Audit function which, in the Pirelli organisation, has a functional reporting to the Audit, Risks, Sustainability and Corporate Governance Committee, made up of only independent directors, and to the Board of Statutory Auditors of Pirelli & C. S.p.A.

Internal Audit Department has the task of analysing all reports received, even involving corporate functions felt to be concerned for the activities necessary of verification, in addition to scheduling specific action plans. In the event of a report being found to be grounded, adopting fitting disciplinary and/or legal actions is foreseen for the protection of the Company.

In respect of reports received in the years 2021, 2020 and 2019, below is a summary table, followed by an in-depth analysis of those pertaining to 2021<sup>13</sup>.

	2021	2020	2019
<b>Total reports</b>	59	50	77
Of which anonymous	35	17	29
Of which filed closed for being absolutely generic	12	3	7
Of which founded	12	20	25
Countries of origin of the reports ascertained	Argentina, Brazil and Romania	Argentina, Brazil, and UK	Brazil, Bulgaria, Dubai, Greece, Italy, Romania, and Russia
Matter alleged in the reports ascertained	Violation of the Code of Ethics and/or company procedures.	Violation of the Code of Ethics and/or company procedures, fraud against the Company or third parties, employee claims, discrimination.	Violation of the Code of Ethics and/or company procedures, fraud against the Company or third parties, product quality anomalies, discrimination.
Outcome of cases investigated	Review and integration of processes where deemed fitting, decisions by the functions concerned and the Human Resources Department.	Review and integration of processes where deemed fitting, decisions by the functions concerned and the Human Resources Department.	Review and integration of processes where deemed fitting, decisions by the functions concerned and the Human Resources Department.

During the course of 2021 the Whistleblowing procedure was activated 59 times. In particular:

- the 59 reports were received from 6 different Countries (Argentina, Brazil, Italy, Romania, Turkey and the UK);
- 92% of the reports (54 cases) were forwarded using the email address [ethics@pirelli.com](mailto:ethics@pirelli.com) provided, while 8% (5 cases) by sending a letter to management which dealt with informing Internal Audit Department as per corporate rules;
- 41% of the reports (24 cases) were signed whereas the remaining 59% (35 cases) were received in anonymous form;

<sup>13</sup> The data reported are related only to the consolidated scope of the Consumer business. Furthermore, with regard to the 6 reports that were still in progress at the reporting date of the 2020 Annual Report, following the conclusion of the verification activities in 8 cases no objective evidence was found to consider the facts alleged to be true, while in 3 cases the partial veracity of the reports was confirmed and the company intervened with specific plans aimed at removing the causes and/or improving the internal control system.



- among the signed notifications, 5 were activated by external Stakeholders, all the 5 cases were related to breaches of the Code of Ethics and/or company procedures. It is objectively impossible to confirm that there were, in absolute terms, no further reports from external Stakeholders received as a number of reports were, as specified, anonymous.

Of the 59 reports received during the 2021 year, at the beginning of 2022, 7 were found to be at the verification and in-depth investigation stage, whereas 52 were found to have been concluded.

With regard to the 52 reports for which the audits were concluded, specific activities of verification involving, where necessary, the corporate functions concerned were conducted, and based on the analyses carried out and the documentation made available during the assessment, it emerged that:

- in 40 cases objective corroborating evidence was detected such as to hold the facts contended in the reports received to be true;
- in the remaining 12 cases, the substantial truthfulness of the facts attributed was found, in particular, all 12 cases concerned violations of the Code of Ethics and/or company procedures. The Company has activated for all cases, intervening with disciplinary sanctions (reprimands) and with actions aimed at removing the causes of complaints and/or aimed at improving the internal control system.

In 2021 there was a slight fall in reports compared to 2020, although remaining at an even lower level than in 2019, likely to be linked to, and thus before, the Covid-19 health emergency period.

The Internal Audit Department periodically reported the reports received and the progress of the analyses carried out to the competent corporate bodies of Pirelli & C. S.p.A.

### ***Grievance Mechanism Natural Rubber***

In 2021 the Pirelli Group made available to its Stakeholders a grievance mechanism for reporting violations of the policy on the sustainable management of natural rubber throughout the supply chain. Reports, including anonymous ones, are sent to the email address [grievance.naturalrubber@pirelli.com](mailto:grievance.naturalrubber@pirelli.com) and are treated confidentially.

## **ECONOMIC DIMENSION**

### **SHARING OF ADDED VALUE**

The Values and Ethical Code of Pirelli ratify the commitment of the Company to operate to ensure responsible development over the long term, while being aware of the connections and interactions between economic, social and environmental dimensions. This is to wed the creation of value, the progress of the company, the attention given to Stakeholders and the raising standards of living and quality of the environment.

“Added value” means the wealth created over a given reporting period, calculated as the difference between the revenues generated and the external costs sustained in the period. Distribution of added value among Stakeholders allows the relations there are between Pirelli and its main Stakeholders to be expressed by focusing attention on the socio-economic system in which the Group operates.

<b>DISTRIBUTION OF ADDED VALUE (in thousands €)</b>						
	<b>2021</b>		<b>2020</b>		<b>2019</b>	
<b>Gross Global Added Value</b>	<b>2,194,760</b>		<b>1,674,788</b>		<b>2,315,148</b>	
Remuneration of personnel	(1,101,913)	50.3%	(949,678)	56.7%	(1,072,167)	46.3%
Remuneration of Public Administration	(115,158)	5.2%	(14,693)	0.9%	(164,562)	7.2%
Remuneration of borrowed capital	(144,281)	6.5%	(156,502)	9.3%	(109,480)	4.7%
Remuneration of risk capital	-	0.0%		0.0%	(177,000)	7.6%
Remuneration of the company	(830,269)	37.5%	(548,726)	32.8%	(788,044)	34.0%
Contributions to the external community	(3,138)	0.1%	(5,189)	0.3%	(3,895)	0.2%

The added value created in 2021 is 31% higher than in 2020. Trends in the items determining gross global added value, as shown above, are set out in the Directors’ Report and Consolidated Financial Statements section of this Report, to which reference is made for further in-depth study.

### **Contributions to the external community**

The impact of expenses for corporate initiatives in 2021 for the external community on the net result of the Group amounted to 1% (12.2% in 2020). The decrease in this ratio compared to the previous year is due to lower contributions made during the year to the external community (in 2020, Covid-19 donations amounted to €2,745,000, whereas in 2021 they were absent), which in turn were weighed on a higher Group net result compared to the previous year.

The table below shows the expenses incurred in the last three years:

<b>CONTRIBUTIONS TO THE EXTERNAL COMMUNITY (in thousands €)</b>			
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Training and research	755	738	691
Social-cultural initiatives	1,918	1,441	2,136
Sports and solidarity	465	3,010	1,068
<b>Total contributions to the external community</b>	<b>3,138</b>	<b>5,189</b>	<b>3,895</b>

For further study of the main initiatives supported by the contributions indicated above and related model of governance, please refer to the paragraphs in this report devoted to corporate contributions and initiatives for the external community. It should also be noted that the amounts allocated to trade associations amount to a total of €865,000. Trade associations, among their activities, interact with policy makers, but it is not possible for us to estimate the share dedicated exclusively to lobbying activities. For more details on lobbying activities with European institutions, see the paragraph “ETRMA - European Tyre and Rubber Manufacturers Association”.

<b>Trade associations (in migliaia di €)</b>	<b>2021</b>
Assolombarda (Italia)	299
USMTMA - U.S. Tyre Manufacturing Association (Stati Uniti)	169
ETRMA - European Tyre Rubber Manufacturers Association (Europa)	73
wdk - Wirtschaftsverband der deutschen Kautschukindustrie e.V. (Germania)	70
ANIP - National Association of Tires Manufacturers (Brasile)	68
British Tyre Manufacturers' Association (Regno Unito)	35
Altro	151
<b>Totale Trade associations</b>	<b>865</b>

Lastly, in line with what is set forth in the Code of Ethics, Pirelli “*does not provide contributions, advantages, or other benefits to political parties or trade union organizations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation*”. For this reason, contributions in these areas are absent (zero). It should be noted that Pirelli’s institutional relations are permeated by criteria of maximum transparency, legitimacy, and responsibility, both with respect to information disseminated in public venues and to relations managed with institutional interlocutors in accordance with the Ethical Code and the Institutional Relations - Corporate Lobbying Policy.

## **LOANS AND CONTRIBUTIONS RECEIVED FROM THE PUBLIC ADMINISTRATION**

The main contributions received by the Public Administration in 2021 are shown below.

### ***Romania***

The Company S.C. Pirelli Tyres Romania S.r.l. received a non-repayable grant of €28.5 million from the Romanian state as an incentive for local investments, of which €3.0 million in 2021 (the incentives were paid from 2018 onwards).

### ***Italy***

The Company Pirelli Tyre S.p.A. obtained incentives from the Lombardy Region in the form of non-repayable grants of €1.695 million and €2.462 million for the implementation of two Research and Development projects on Safety and Smart Manufacturing. The first project has been completed, while for the second one €558,000 were received in the current year as the balance.

With reference to the agreement signed with the MiSE (Ministry of Economic Development) in the 2019 financial year for the facilitation of three Research and Development projects up to a maximum of €6.3 million in the aggregate, in the current year the Company obtained the three respective decrees granting the subsidies from MiSE.

## **RELATIONS WITH INVESTORS AND THE FINANCIAL MARKET**

Pirelli engages in constant dialogue with shareholders, bondholders, institutional and individual investors, and analysts at the major investment banks via the Investor Relations function and the Group's Top Management, promote communication that is equal, transparent, timely and accurate, in line with the provisions of the Group's Values and Code of Ethics.

During 2021, communication activities with the financial market continued with meetings and virtual roadshows due to the Covid-19 pandemic. Particularly noteworthy was the presentation of the 2021-22 | 2025 Business Plan, which was widely attended by the main Italian and foreign analysts and investors connected via video-streaming.

In line with international Best Practices, the "Investors" section of the Pirelli website is constantly updated with information on strategy, business model, market performance and positioning with respect to competitors.

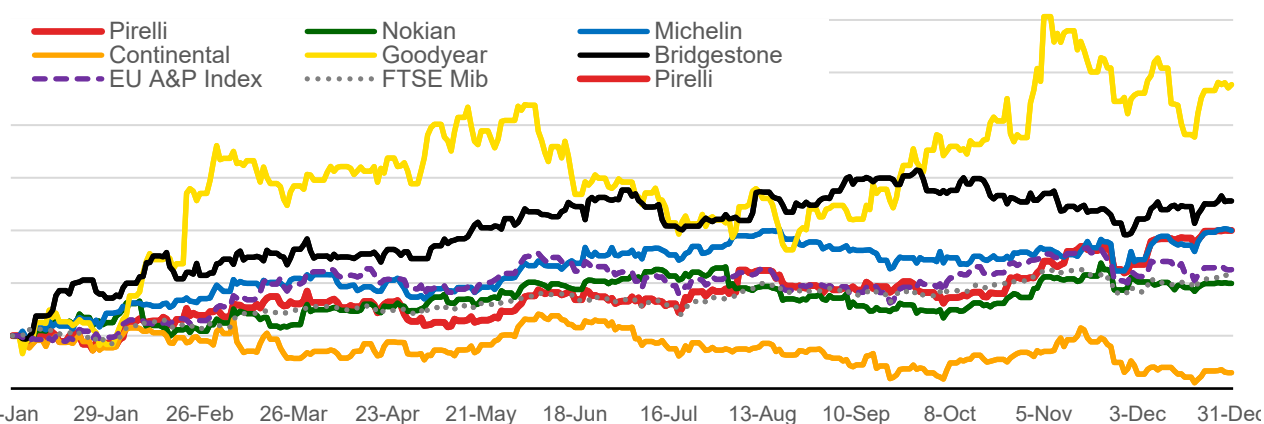
The interest of the financial community towards Pirelli is proved by the broad coverage of the stock by 20 of the main national and international business banks and brokers and by the inclusion of the

company in the main indices, including FTSE ALL World, FTSE MIB, MSCI Small Cap and Listed Italian Brands.

The evaluation (Target Price) and the analysts’ estimates (Consensus) are published in the “Investors” section on the company’s website and periodically updated, based on publications and model updates by analysts covering the stock.

After a 2020 characterised by the health crisis and the consequent impacts of COVID on the real economy (due to the lockdowns implemented in the main countries), in 2021 equity markets were characterised by a general upturn, in a context of recovery of economic activity supported by the progressive diffusion of vaccines, and in particular by the support of expansionary fiscal and monetary policies by governments and central banks. Pirelli ended 2021 with a market capitalisation of €5.93 billion (average December capitalisation), up +40%<sup>14</sup>. This compares with -14%<sup>9</sup> for Continental, +20%<sup>9</sup> for Nokian, +40%<sup>9</sup> for Michelin, +51%<sup>9</sup> for Bridgestone, +95%<sup>9, 15</sup> for Goodyear, and +25%<sup>9</sup> for the EU Stoxx 600 A&P index.

Below is a summary of stock market performance since the beginning of the year:



In 2021 Pirelli confirmed its commitment and contribution to a sustainable economy with a €400 million 3-year loan, parameterised on the Group’s environmental sustainability objectives (CO<sub>2</sub> emissions and sustainable management of natural resources). The loan - which follows the debut on the ESG loans market in March 2020 - demonstrates the financial community’s appreciation of Pirelli’s financial strength and the environmental commitments undertaken by the Group.

Pirelli’s commitment to the creation of sustainable value that characterizes the Company’s responsible management and its economic, social and environmental performance allows it to be included with top industry ratings in some of the world’s most prestigious sustainability stock market indices, including Dow Jones Sustainability Index World and Europe and FTSE4Good,

<sup>14</sup> Stock market trend 1 January - 31 December; the value is net of dividend distribution and/or other extraordinary transactions.

<sup>15</sup> Goodyear’s stock market trend also benefited from the acquisition of Cooper (announced on 22 February and completed on 7 June).

demonstrating in both their leadership in sustainability in their segments, MIBESG, Ethibel Sustainability Index (ESI) Excellence Europe, ECPI, ISS ESG Rating and MSCI ESG Rating.

With specific reference to the Dow Jones Sustainability indices, in 2021 as well as in February 2022 Pirelli was recognised as S&P Global Gold Class in the S&P Sustainability Yearbook, with a score of 77 compared to a sector average of 31. S&P Global's awards are based on S&P Global's Annual Corporate Sustainability Assessment for S&P Dow Jones Sustainability Indexes World and Europe, which in 2021 analysed the ESG performance of more than 7,500 companies in different sectors.

In December 2021, Pirelli was reconfirmed in the Climate A list of the CDP (formerly the Carbon Disclosure Project), making it one of the global leaders in the fight against climate change, as was also the case in 2020 and 2019. The "A" rating is the highest score that can be awarded and was assigned to only 200 companies out of the 13,000 that reported their greenhouse gas emissions in 2021 through the CDP (a non-profit organisation supported by over 590 institutional investors, who manage assets worth over US\$110 trillion) and by more than 200 large buyers with a purchasing power of US\$5.5 trillion).

## **OUR CUSTOMERS**

Pirelli is the only global tyre manufacturer entirely dedicated to the Consumer market, which includes tyres for cars, motorcycles and bicycles.

The company is focused on the High Value market and is committed to developing innovative tyres and Specialties and Superspecialties for a broad product portfolio. Sales channels include:

- Original Equipment, addressed directly to the world's leading car manufacturers;
- Replacement, for the replacement of tyres on vehicles already in circulation.

In the Original Equipment Vehicles, Sport Utility Vehicles (SUVs) and light commercial vehicles segment, Pirelli can count on a Premium customer market share of around 20% globally and more than 25% in Europe; in the Prestige segment, which ranks at the top of the range, Pirelli sits at around 50%.

In the Replacement segment, there are two broad types of customers: Specialised Resellers and Distributors. Specialised Resellers are tyre specialists operating on the market in the role of independent businesses, specialised dealers constitute a fundamental point of contact between the Group and the end consumer. Particular attention is devoted to specialised dealers in terms of shared development to enhance the product offering integrated with a high-quality level of service, in compliance with Pirelli values and consumer expectations. In 2021, Pirelli can count on around 18,000 Loyal Resellers globally, with a particular concentration in Europe, Asia-Pacific and South America (over 75% of the total points of sale). The degree of affiliation varies according to the market and the very presence of Pirelli, ranging from a softer loyalty (Fidelity Club), whose main objective for Pirelli is territorial coverage and for the dealer sales support; to franchise programmes, in which

through the exclusivity of the partnership there is strong focus on business development point of sale overall; up to the maximum degree of affiliation, represented by the presence of points of sale owned by Pirelli (301 points of sale worldwide).

Starting in 2016, and in line with Pirelli's "Prestige" strategy, a new retail concept called P ZERO WORLD™ was born, with the aim of offering the best services to satisfy the most demanding consumers. P ZERO WORLD™ offers its customers the entire range of Pirelli products (Car, P ZERO™ Trofeo®, Pirelli Collection, Moto and Velo) and a series of customer-oriented services such as car valets and courtesy cars, all immersed in an environment that allows you to fully experience the Pirelli World, being able to touch the most important assets such as F1®, the Calendar and the partnerships of Pirelli Design. By 2021, the P ZERO WORLD™ Network will identify over 100 stores in 2022 among Pirelli's best customers, located in the main countries of the world. Among these, 5 are already active Flagship Stores (Los Angeles, Munich, Monte Carlo, Dubai and Melbourne), while the remaining are authorised dealers, with about 30 new openings planned for 2022.

"Distributors" are partners who are fundamental to guaranteeing continuity in the supply of tyres to other specialised and non-specialised resellers. They do so by offering local delivery and distribution services throughout the entire territory. With this in mind, Pirelli is activating several programmes of close cooperation with the most important market distributors worldwide.

### **Customer focus**

Customer focus is a central element of the Group "Values" and "Ethical Code" and the "Quality Policy" and "Product Stewardship Policy" of Pirelli. These documents outline the company positioning and are therefore communicated to all employees in the local language and are available in many languages on the Pirelli website.

Among the essential elements of the Pirelli approach, the following are highlighted:

- consideration of the impact of its actions and behaviour on the customer;
- exploitation of every opportunity offered by doing business to satisfy the customer's needs;
- anticipation of customer needs;
- safety, reliability, high performance of products and services offered, in accordance with local regulations and more developed national and international standards applicable, as well as excellence of production systems and processes;
- information to customers and end users to guarantee an adequate understanding of the environmental impacts and safety features of Pirelli products, as well as of the safest ways of using the product.

Pirelli also adopted a clear procedure to grant a feedback to any customer claim, which involves immediate intervention with respect to the interlocutor.

### **Transparency, information and customer training**

In the context of advertising communication, Pirelli has defined a traceable and transparent process for decisions relating to advertising campaigns and related media planning, both in the case of promotional activities managed centrally and locally with central supervision.

In terms of production of advertising campaigns and media planning, Pirelli uses specific auditing and certification structures that place the Company at the highest levels in terms of transparency and traceability in its advertising investment strategies.

The Pirelli Group endorses the IAB (Interactive Advertising Bureau) and is associated with the UPA (Associated Advertising Users), among other things dedicating ongoing commitment to support the Advertising Code of Corporate Governance of the association. Through the UPA, Pirelli is a member of the WFA (World Federation of Advertisers), which commits participating firms to pursue honest, truthful and fair competition and communication in compliance with the code of conduct and self-regulation which they adopt. Consumer protection is also guaranteed by the choice of suppliers in the communication sector (creative agencies, media centres, production companies) that in turn belong to business and professional associations governed by ethical codes regarding communication.

Pirelli provides information to customer-distributors and end customers on a continual basis. This information concerns both the product and related initiatives, and is disseminated in a variety of ways, including digital channels, and this is complemented by information distributed in hard copy format, as well as the range of offline and online training activities.

With 58 Car websites (in 31 languages) and 20 Motorcycle websites (in 14 languages), online represents for Pirelli a fundamental point of contact with the customer in the tyre purchase process. These product websites, located not only by language, but also for content, offer and promotional activities, have the objective of informing and guiding the consumer, in all countries where Pirelli markets its products, to the points of sale where to buy the tyres. In 2021, these websites attracted 12.8 million unique users, for a total of 17.4 million sessions and around 41.4 million page views.

A further digital touchpoint that brings the consumer to the point of sale is represented by the Retail sites: present in 10 countries, it has intercepted 1.8 million users in 2021 (for a total of 7.8 million page views) and generated about 158,000 appointment bookings, more than 97,000 calls to the dealer, more than 24,500 contact requests via e-mail.

Also in 2020 Pirelli continued to inform its customers through a Direct E-mail Marketing (DEM) programme whose main objective is to provide an additional tool for communication, training and ongoing contact with the trade. The DEMs aim to inform trade customers of the main new products, the Company and the courses available to become Pirelli Product Experts.



In addition, during 2021, information about the introduction of new products was carried out through digital channels: the new Cinturato family in Europe, the Scorpion AS+3 in North America and the Seal Inside technology in Latin America were presented to customers with digital events that involved about 4,000 dealers and allowed Pirelli to convey its innovation and technology in a new, fast and effective way.

During 2021, due to the instability linked to the COVID health emergency, several of the major events (such as Autoshow, Concorso d'Eleganza, rallies, etc.) that usually populate the automotive world and that have always been the main focus of Pirelli's business plan were held "behind closed doors" or under the aegis of restrictive anti-Covid protocols, limiting the possibilities of activation, both in B2B and B2C terms. Nevertheless, Pirelli was able to participate as a partner of prestigious Car Manufacturers such as Pagani Automobili in the 2021 edition of the prestigious "Rolex Monterey Motorsport Reunion", one of the main events of the "Monterey Car Week", as well as create five appointments of the P Zero™ Experience, respectively at Silverstone, Mugello, Red Bull Ring, Hockenheim and Thermal Club, which hosted a total of 616 participants.

Pirelli continues its commitment alongside the sports most in line with the prestige and high performance positioning that characterise the Company and its products: this is the case of the partnership launched in 2018 with Luna Rossa, challenger of record in the America's Cup 2021, to which are added the sponsorship relations with FC Internazionale Milano, which in 2021 achieved its 19th national title and of which Pirelli will become Global Tyre Partner from the 2021-2022 season after 26 years on the nerazzurra jersey; as well as consolidated partnerships with the Italian Winter Sports Federation, the Ice Hockey World Championships and the Alpine Skiing World Championships held in Cortina d'Ampezzo in February 2021.

Customer training on the product was also intense in 2021 in all markets, through virtual delivery due to the persistence of the Covid-19 pandemic. During the year, almost 5,000 participations of dealers, belonging to the 30 main markets, in online training courses on the Pirelli product, technology and tyre sales were recorded.

In order to support the product trainers, Pirelli continues to develop a library of technical content developed for classroom courses and the "TYRE CAMPUS™ Case" instrument, which aims to concretely demonstrate the characteristics of Pirelli tyres, the raw materials used for their manufacturing and the benefits of the different treads. With these tools, Pirelli trainers around the world can have concrete and innovative support that allows customers to personally understand and verify the key characteristics and advanced technology of Pirelli products.

During 2021 there was an increase in the use of the online training site TYRE-CAMPUS™, which now covers 30 markets in 17 different languages. To date, over 18,500 active users on the training platform. Training on the product is provided in an engaging and customisable way on the various types of distribution channel, with more paths linked to the individual product families. In addition to being involved in a modern and intuitive environment, users are also involved in the obtaining of the

“Product Expert” certification which can be obtained and downloaded from the site once all the training courses assigned during the year have been completed.

### **Listening and exchanging ideas with Customers as sources of continuous improvement**

Customer relationships are managed by Pirelli principally through two channels:

- The local sales organization, which has direct contact with the customer network and which, thanks to advanced information management systems, is able to process and respond to all information requirements of the interlocutor on-site;
- the Pirelli Contact Centres, nearly 30 worldwide with more than 160 employees, performing business operations in IT support and order management (inbound), telemarketing and teleselling (outbound).

In 2021, the major social media channels of Pirelli have seen an increase in the fan base. Pirelli’s presence on Facebook has stabilised at over 2.6 million followers. On Twitter, the Pirelli accounts have seen an increase in followers, reaching around 444,000 people, over 29% more than in 2020. An important step forward was on Instagram, where the Pirelli channels reach nearly 960,000 followers, an increase, year-on-year, of more than 11%. Finally, there are more than 26,000 followers of Pirelli on the main online video platform, YouTube, and over 570,000 followers on LinkedIn.

As for [www.pirelli.com](http://www.pirelli.com), Pirelli’s *digital magazine*, more than 320 articles were published in 2021 - 70% of which related to product and motorsport issues and 30% to the dimensions of the brand and company - attracting over 5.5 million visits (55% of which were attracted through social networks) and more than 4.8 million unique users. There is no shortage of sustainability-related content in the publications, including the ‘Thinking Ahead’ column or the article on the first FSC-certified car tyre (“*FSC™, on the green side of the world since 1993*”).

As for the Motorcycle world, Pirelli and Metzeler brands boast a structured and widespread presence on the main social networks: Pirelli brand, as well as on the Facebook channel (with more than 988,000 fans connected to the Global Page which includes 18 local pages) is on Instagram with over 165,000 followers and has dedicated profiles on Twitter and YouTube. Significant for the business is the mobile application DIABLO™ Super Biker, which has been completely renewed and improved from the point of view of the usability and functionality offered to the motorcyclist. The Metzeler brand, in addition to its international website and geo-localised in 24 countries worldwide, which in 2021 intercepted 1.1 million unique users, with a total of 1.5 million sessions and 4.6 million page views, is present on Facebook with a Global Page that has more than 437,000 fans and includes 16 local pages in as many Countries. As with Pirelli brand, Metzeler has had active Instagram, Twitter and YouTube profiles for years. The CRM (Customer Relationship Management) project, in turn, has a priority position given the passion for Pirelli products by the registered community of motorcyclists: more than 473,000 for PIRELLI Moto and around 81,000 for Metzeler.

Pirelli Cycling, in turn, speaks with its consumers also through a dedicated website. Immediately active in Instagram, Pirelli Cycling bases its communication on digital activation in line with the propensities of its target consumer.

Also in 2021 direct customer listening activities were carried out both through the Brand Tracking survey in Pirelli's Top Market (Italy, Germany, United Kingdom, China and United States) and through surveys to consumers with whom Pirelli has a direct and constant dialogue thanks to structured CRM activities. The ongoing changes made to this study over the years have made it possible to refine and improve the precision of business insights into the brand role, image profile and characteristics of the different touchpoints that influence the end customer's purchase decision.

In terms of performance indicators, Pirelli considers *Top of Mind*, *Brand Awareness* and *Brand Consideration*. With reference to the *Target Premium 18" Up* represented by Premium car owners which can mount tyres with rims equal or higher than 18 inches, the analysis carried out in 2021 saw Pirelli positioned among the main tyre brands: in second place for *Top of Mind*, *Brand Awareness* and *Brand Consideration* in the United Kingdom, in first place for *Top of Mind* and *Brand Awareness* and second place for *Brand Consideration* in Italy, third place for *Top of Mind* and *Brand Awareness*, and fourth place for *Brand Consideration* in Germany. Outside Europe, Pirelli is in fourth place for *Top of Mind* and in fifth place for *Brand Awareness* and *Brand Consideration* in the USA; while in China it was in third place for *Brand Consideration*, and fifth place for *Top of Mind* and *Brand Awareness*.

### Quality and product certification

**ISO 9001:** since 1970, the Group has had its own Quality Management System introduced gradually at all its plants and, since 1993, Pirelli has obtained certification of its quality system under the ISO 9001 standard. The transition process of its plants and the Headquarters to certification according to the new ISO 9001: 2015 ended in September 2018. In 2019, all the certifications obtained were verified by third-party bodies and kept active. In 2020, following the pandemic situation related to Covid-19, the IAF (International Association Forum) admitted the possibility of implementing remote audits and extending the validity of expiring certificates. Pirelli has guaranteed the implementation of remote and field recertification and surveillance audits, where possible, in accordance with IAF rules and in compliance with the rules for the preservation of personnel health, established by the country and the company itself. Also in 2021, due to the continuation of the pandemic situation, the Company has continued to carry out surveillance audits in accordance with the procedures laid down by the relevant third-party bodies, ensuring the continuity of the certifications obtained.

**IATF 16949:2016:** since 1999 the Group has obtained the certification of its Quality Management System according to the automotive scheme and subsequent evolutions. Following the evolution of ISO 9001: 2015 and the new IATF 16949:2016 (Automotive Scheme became private), Pirelli achieved the Quality Management System certification in 100% of its eligible plants as at 31 December 2018. In 2020, due to the pandemic situation, the International Automotive Task Force allowed remote audits starting on October 30, 2020. In this case as well, Pirelli guaranteed the

implementation of surveillance and recertification audits in the field, and then remotely, in accordance with IATF rules and in compliance with the rules for the preservation of personnel health, established by the country of origin and by the Company itself.

Also in 2021, due to the continuation of the pandemic situation, the Company has continued to carry out surveillance audits in accordance with the procedures laid down by the relevant third-party bodies, ensuring the continuity of the certifications obtained.

**ISO/IEC 17025:** since 1993 the Materials and Experimentation Laboratory of Pirelli Tyre S.p.A. and since 1996 the Experimentation Laboratory of Pirelli Pneus (Latin America) hold the Quality Management System and have been accredited under the ISO/IEC 17025 standard. This system is maintained in accordance with the standard in force and the ability of the laboratories to perform accredited tests is evaluated annually. In accordance with the rules for transition to ISO/IEC 17025:2017, in 2019 Pirelli Tyre S.p.A. Laboratory successfully obtained accreditation for the new version. In 2020, the laboratory carried out its annual remote surveillance audit as required by the Accreditation Body Accredia and in 2021 in hybrid form.

The labs participate in proficiency tests organised by the International Standard Organisation, by European Tyre and Rim Technical Organisation (ETRTO) or by international circuits organised by auto manufacturers. Specifically with regard to car tyres, the focus on quality is confirmed by Pirelli's supremacy in numerous product tests. It is also guaranteed by its collaboration on product development and experimentation with the most prestigious partners (auto manufacturers, specialised magazines, driving schools, etc.).

The Product Certifications, which allow the marketing of the same in the various markets in accordance with the regulations laid down by the different Countries and, for some markets, are managed directly by the Quality Function. The prevailing certifications, obtained in Pirelli Group, concern the markets of Europe, North America, South America, China, Gulf Countries, India, Taiwan, Indonesia, South Korea, Argentina and Australia (the latter only "on demand", as it considers both the DOT - Department of Transportation - marking and the UNECE certificate valid), and involve all Pirelli factories. These Certifications periodically require factory audits by ministerial bodies of the countries concerned or bodies delegated by them, with the aim of verifying product compliance at Pirelli production sites.

In 2021 a number of Government and/or Type Approval Authorities (e.g. for the China, Brazil, Uruguay, India and Indonesia markets) carried out remote audits to verify production compliance.

Due to the continuation of the pandemic situation, some certifications were issued by third-party certification bodies with delays (e.g. India, Argentina) without any impact on business activities.

## Compliance

Also in 2021:

- no significant final penalties were levied and/or paid relating to infringement of laws or regulations, including those relating to the supply and use of the Group's products and/or services;
- no cases emerged of non-compliance with regulations or voluntary codes concerning information and labelling of products/services which have led to the imposition of sanctions and/or injunctions by the applicable authorities;
- no cases of non-compliance with regulations or voluntary codes concerning health and safety impacts of products/services during their life cycle;
- there were no documented complaints concerning both violation of privacy and/or the loss of consumers' data;
- no recall campaigns have been implemented;
- there were no bans or disputes on the sales of any Pirelli product;
- no non-compliance with regulations or voluntary codes concerning advertising and sponsorship activities was recorded. With regard to marketing-promotional activities, and in particular prize competitions, a fine was imposed for failure to comply in advance when an influencer offered on two tickets his social channels (worth a total of €149) provided by Pirelli for an event held at a motorbike circuit in Italy. The case was settled with a payment of €1,291, the legal minimum, with no further consequences.

## Product safety, performance and eco-sustainability

Pirelli's Eco&Safety strategy places Safety for people and technological solutions in support of the environment among the essential values of its product offering and commitment. In 2021 the Company confirmed its continued focus on the development and marketing of tyres and technologies that aim to increase safety and enhance the potential of cars in tandem with attention to the environment.

In 2021 Pirelli marketed several product lines. Several replacement products were introduced for the European market: CINTURATO ALL SEASON SF2, WINTER CINTURATO 2 and POWERGY. This concludes the renewal of the cinturato family after the introduction of the new CINTURATO P7 in 2020.

The CINTURATO ALL SEASON SF2 is the new generation All Season 3PMSF product, developed to offer maximum safety levels in all weather conditions, as well as high mileage. The product's

qualities have also been recognised in numerous tests by specialist magazines, such as the British magazine Tyre Reviews, which placed the product on the podium, describing it as an excellent and balanced product. The magazine also highlighted the product's excellent Rolling Resistance values, which confirm the company's focus on sustainability. In fact, the CINTURATO ALL SEASON SF2 has some of the highest label values in its category: over 75% of the range is in class B for rolling resistance, while the entire product range is in class B for braking on wet surfaces.

Pirelli's European offer has also been renewed for the Winter segment, with the introduction of the new Cinturato Winter 2, the latest product in the CINTURATO family introduced, intended for modern CAR and CUV vehicles. The product offers high performance on snow, excellent mileage as well as reliable and safe performance in winter conditions guaranteed by TÜV certification. The product is also equipped with Seal Inside and ELECT technologies; and labelled class B-C for rolling resistance values and B for wet grip values.

The POWERGY is the new Pirelli product line for urban cars and SUVs for summer applications: the smart choice for consumers looking for the quality of a premium brand, the safety of a Wet Grip class A product and at the same time attention to the environment (Rolling Resistance class B). In fact, the product offers excellent levels of safety and sustainability, providing the consumer with reduced fuel consumption in total safety on wet roads.

With the renewal of the range, Pirelli has strongly focused its efforts on products with the best rolling resistance values; in Europe the Pirelli portfolio in class A/B is represented by 23% of the range, up from the previous year (2020 - 16%). Specifically, the new labelled codes introduced by Pirelli worldwide in 2021 have a very strong low rolling resistance imprinting: 49% have A/B labels.

This large investment in products with excellent environmental performance did not come at the expense of safety (wet Grip); in Europe Pirelli's A/B portfolio is represented by 85% of the range, an improvement over the previous year (2020- 82%). The new codes introduced by Pirelli worldwide in 2021 strongly demonstrated the focus on safety: 87% have A/B labels.

In addition, the strong focus on renewing the product range also led to the introduction of the third generation of PLUS lines for the North American market focused on safety and high mileage: SCORPION ALL SEASON PLUS 3 for the SUV segment and P7 ALL SEASON PLUS 3 for the CAR segment.

SCORPION ALL SEASON PLUS 3 is the new All Season Touring product for crossovers, SUVs and Pick-ups. The product is developed to meet the needs of the North American consumer, offering high levels of safety in dry, wet and winter conditions. In addition, the product has also been tested by TIRE RACK magazine, which confirmed its safety and reliability features, underlining its precision and excellent road handling. The product has also been reviewed as best in class by TIRE RACK users (Tire Rack Consumer reviews at 21 January 2022), with outstanding performance recognised in all key performance areas, including Treadwear, wet and dry performance.

Also recently introduced to the North American market from Q4 2021 is the P7 ALL SEASON PLUS 3, the new touring tyre for sedans and coupes. The new tread pattern and innovative compound offer

excellent levels of safety in all weather conditions, best-in-class mileage and driving comfort. The product was also tested in August 2021 by TIRE RACK magazine and received first place; the magazine described the product as balanced with excellent performance.

The renewal of the lines also influenced the LATAM region, where Pirelli introduced the new SCORPION HT for the SUV/Pick-up on/off road segment. The product guarantees excellent levels of safety, driveability, and efficiency. In addition to the renewal of the product range, Pirelli was awarded excellent results by the most prestigious magazines in the sector (European, Nordic and Russian). In particular, Pirelli products achieved 9 podiums and 3 victories in 2021, including the victory of the flagship product P-Zero PZ4 in one of the most prestigious magazines: EVO. For the P-Zero PZ4, this is the third victory since its introduction on the market and even the 10th podium. Other top 2021 winners were the ICE ZERO 2 and the CINTURATO P1 VERDE. In North America, Pirelli products also achieved outstanding results in tests conducted by TIRE RACK magazine: P7 ALL SEASON PLUS 3, PZERO ALL SEASON PLUS and PZERO PZ4 took first place in tests conducted in 2021.

Attention to the evolution of mobility and the environment is also expressed in the ELECT tyre range, which distinguishes all tyres developed specifically, together with car manufacturers, for electric vehicles. The marking represents the clear identification of a tyre built through technological solutions and material packages capable of enhancing the technical features of electric cars, in particular in terms of:

- low rolling resistance, to increase the life of the car battery;
- low acoustic emissions, for greater driving comfort, in line with the silence of electric traction;
- greater resistance of the carcass to better support the weight increase of the car given by the batteries and, at the same time, guaranteeing better handling;
- greater resistance of the tread compound to support the higher torque generated by the electric motor, ensuring the necessary road grip.

Pirelli's growing role in the electric segment and strategic development partner is also made even clearer by the achievement of 191 (BEV) homologations from 17 different carmakers. Pirelli's strong OE investment was reflected in a strong increase in OE sales with ELECT technology: in 2021 Elect sales in the OE channel accounted for 5% of the channel total (vs. 1% in 2020). In the replacement channel, thanks to Pirelli's pull through strategy, Elect sales grew eight times over 2020 sales.

Particularly suitable for electric vehicles, but not only, is the PNCS™ technology, a crucial innovation for reducing noise inside the passenger compartment generated by tyre rolling as a result of stress between the road surface and the tread pattern. The benefits have been recognised by car manufacturers such as Volkswagen, Jeep, Alpina, Karma, Great Wall, Enovate, Jaguar-Land Rover, Bmw, Audi, Volvo, Polestar, Mercedes, Ford, Tesla, Lucid, Porsche, Bentley, McLaren, Aston Martin e Rolls Royce, with over 320 homologations. PNCS™ technology not only increased its impact on overall sales but also demonstrated its potential and interest on the part of OEMs and end users

during 2021, even during a year strongly characterised by the global macroeconomic context, marking a growth in sales of (quantity) both in the replacement channel (+81% vs 2020) and in the original equipment channel and marking a growth in the replacement channel (+13% vs 2020).

### **High Value approach to future mobility**

Pirelli carefully monitors the evolution of mobility and its main trends such as digitalisation, electrification, shared mobility and driving automation, elements that were already present before the health emergency and that are expected to evolve strongly in the coming years. The health emergency has indeed highlighted the importance of personal health and safety, and a recovery is expected to be oriented towards greater sustainability for people and the planet, in which technologies can play a fundamental role in making the mobility of the future safer, more accessible, more efficient and with less environmental impact.

The mobility of the future cannot ignore digitalisation, and in this area Pirelli is present with the Cyber™ project. The tyre sensor-fitting, an integral part of the Group's strategy that makes technological innovation a distinctive and key element in responding to the major issues that will transform the concept of mobility: self-driving cars, electric cars, shared cars and cars with 5G connectivity.

In fact, experimentation activities related to 5G connectivity and the enabling of V2V and V2X communication continue, where the tyre plays a fundamental role in recognising and communicating potentially dangerous situations related to road surface conditions. This trial, promoted by the Italian Ministry of Economic Development and led by Vodafone, sees Pirelli as the project's industrial partner with its Cyber Tyre technology, a key player in important use cases of future 5G connected mobility, with significant spin-offs in terms of transport safety, efficiency and sustainability.

In 2021, the development of Cyber Tyre technology saw the market launch of the first car with tyres natively integrated with the vehicle's electronic systems. This integration project, which has taken several years and involved the R&D teams of Pirelli and McLaren, opens the way to new developments and innovations. The new McLaren Artura with Cyber Tyre technology as standard, is equipped with an advanced tyre monitoring system that can check tyre conditions in real time and provide timely indications to increase safety and performance, both on the road and on the track.

The mobility of the future, in fact, will be characterised by an increasingly marked polarisation: on the one hand its service dimension, on the other the passion of those who, on the road or on the track, will continue to drive a car for the sheer pleasure of being behind the wheel. With these people in mind, Pirelli Track Adrenaline™ was created, an advanced telemetry and sensor-fitted tyre monitoring system for amateur drivers. Introduced in Italy in the summer of 2019, in 2020 Pirelli Track Adrenaline™ was introduced in Belgium, Germany, the UK, Austria and the United Arab Emirates. In Belgium, a partnership has also been launched with an international organiser of track events, with the aim of shifting the focus from pure speed, to the acquisition of increasingly refined driving skills.



In terms of fleets and reducing their management costs, Pirelli is pursuing the Cyber Fleet project, a system based on tyre sensors and constant monitoring of pressure and temperature parameters. Through a tyre management portal, Cyber Fleet makes it possible to predict and schedule maintenance operations, reducing the risk of breakdowns, as well as providing important KPIs on fuel consumption and CO<sub>2</sub> emissions. In 2021, Cyber Fleet technology was fully integrated into the Geotab platform, which is among the global leaders in the supply of telematic services for fleets, who wanted to enrich their offerings with the tyre management system developed by Pirelli.

The mobility of the future also partly consists of a return to the past, where bicycles, now electrified, play an important role, especially in urban mobility. This is why, since 2017, Pirelli has returned to the world of bicycle tyres (consider that the first Pirelli tyre at the end of the 1800s was a bicycle tyre) where it is present with several product lines: P ZERO™ for high-performance racing bikes and a user devoted to maximum performance, CINTURATO™ for Endurance and Gravel bikes, where the more playful component of exploration and sporting activity understood as wellness and lifestyle becomes preponderant over pure performance, the line dedicated to the off-road world of Mountain Bike SCORPION™ with all its variants, from Cross Country to E-MTB, and finally the Urban CYCL-e™ tyre line, ideal for all city and non-pedal commuting situations.

Pirelli has also dedicated itself to micro-mobility projects such as CYCL-e around™ which, through pedal-assisted bicycles, promotes a comfortable and sustainable mobility style on holiday and in daily life. It is a turnkey e-bike rental service for private communities, mainly hotels and companies. In 2020, activities in hotels were consolidated and experimentation in the corporate sector began with two tests involving the Fatebenefratelli Sacco hospital (pro bono) and Pirelli's headquarters. In the field of micro-mobility, Pirelli, with the CYCL-e around™ project, aims to bring innovation to urban mobility to provide a concrete response to the needs of increasingly smart citizens and workers. A turnkey service that includes a fleet of top-of-the-range e-bikes, an app to manage bookings, routine maintenance of the bicycles and marketing and communication support to promote their use in partner companies and hotels. The year 2021 saw the consolidation of activities on the hotel channel and the introduction of the first partner companies in Italy, such as Open Fiber, Accenture and NTT Data. Last but not least was the renewal of the collaboration with a school with a strong technological vocation, I.I.S. Volta in Pescara, as part of the Future Class project.

### **Tyre as a Service – Progetto Pirelli Care™**

Consumer-oriented services play and will continue to play a central role in Future Mobility.

The year 2021 saw the birth of the first initiative within the Tyre as a Service platform: Pirelli Care™, a new type of offering that combines the purchase of tyres with a wide range of mobility services in a single digital solution: simple to manage, independently or through dedicated customer care, and customised according to the needs of the end customer (type of user, driving style, number of kilometers travelled).

Through the [pirellicare.com](https://www.pirellicare.com) portal or by downloading the dedicated Pirelli Care™ app free of charge, it is possible to purchase packages of tyres and services related to tyre replacement and maintenance, car care and sustainable individual mobility, all through quick online registration, monthly payment based on the package selected and by conveniently booking a first service appointment with the dealer selected from the countrywide Driver network. The range of services being offered is set to grow and vary, with the intention of responding nimbly to market demands, particularly those related to sustainable mobility and servitisation.

Pirelli Care™ launched a first pilot phase in September 2021 on a geographical area limited to the city of Milan and some surrounding areas, engaging more than 50 selected Driver Centres.

The initiative was also designed to support Pirelli's commitment to a sustainable business strategy. For example, by supporting the transition to e-mobility through strategic industry partnerships and alliances and dedicated offers; by guaranteeing the end customer a 'Perfect Fit' in tyre and vehicle combinations, or by actively supporting performance and safety throughout the product lifecycle, from fitting to replacement; by monitoring driving styles and sending messages and push notifications to encourage the adoption of more eco-sustainable behaviour. By monitoring the driving style of its customers, Pirelli Care™ supports technological and product innovation that can draw on unique usage and performance data.

The pilot phase will be followed by gradual expansion throughout Italy, with the official presentation of the project to the market scheduled for April 2022.

## **MOTORSPORT AND SUSTAINABILITY**

Pirelli's sustainable approach to motorsport reflects the Sustainability Model adopted by the Company and is developed along the entire product life cycle, from production to logistics to the supply chain to the end of product life.

As far as the supply chain is concerned, a common vision and responsible management of the business form the basis on which commercial relations are based and can develop. Material suppliers must adhere to strict rules of quality, social and environmental sustainability. As early as the supplier qualification and homologation phase, Pirelli initiates a third-party sustainability audit at the supplier's site to track any nonconformities and initiate recovery plans (a mandatory condition for proceeding with homologation). There are also dedicated policies, as in the case of natural rubber, in respect of which the company has been committed for years both with its suppliers and with non-governmental organisations, and at the international level (Global Platform for Sustainable Natural Rubber) so that the rubber business can grow without deforestation and in a way that is prosperous for communities and the ecosystem.

Technological innovation and research and development are at the heart of Pirelli Motorsport, as evidenced by the new GT tyre, the P Zero DHF, which has benefited from the extensive use of virtual models that have allowed the production of physical prototypes to be reduced. The latest range of DHF tyres also includes new types of renewable materials.

Pirelli's commitment to reducing CO<sub>2</sub> emissions is a priority, both through energy efficiency measures and through the purchase of electricity from renewable sources: by 2021, all Pirelli's European plants, including the Motorsport factories in Slatina, Romania, and Izmit, Turkey, will purchase 100% of their electricity from renewable sources alone. In the future, Pirelli's environmental strategy will enable the Group, including the Motorsport department, to achieve Carbon Neutrality by 2030 through aggressive plans to replace fossil energy with 100% renewable energy.

In addition, since 2019, Pirelli has eliminated single-use plastic from its activities and consumption on the track, in compliance with the Group Policy Guidelines.

In terms of logistics, Pirelli uses the latest EURO 6 standard truck fleet, while for extra-European shipments it chooses as much as possible solutions by sea, which are proportionally less polluting than by air.

The cycle closes with the end of product life, an area in which Pirelli is involved in research projects for the recovery of high-quality material from end-of-life motorsport tyres and in the evaluation of innovative ideas for obtaining secondary raw materials from disposal processes. In order to increase the share of tyres involved in this virtuous process, the company has launched a programme to raise awareness among the Motorsport world and teams and to recover tyres used in all Motorsport competitions on an international scale.

Pirelli is also the first and only tyre manufacturer in the world to have obtained the three stars of the Environmental Accreditation Programme promoted by the FIA, a prestigious recognition for its commitment to sustainability in motorsport.

## **Supporting Young Talents**

Supporting the growth of young talent is another important aspect that has always characterised Pirelli's presence in motorsport and which boasts various programmes, both in the championships reserved for single-seaters and in World Rally and many other national series, both on the track and in the off-road world.

In 2022, Pirelli's commitment to young drivers will be renewed and intensified with its involvement not only in the ERC Junior and WRC Junior, which this year will experience its own revolution by switching to 4-wheel drive, but also in the FIA RALLY STAR programme, the new format devised and managed by the FIA to find new talent in rally driving, aimed at youngsters aged between 17 and 26, an evolution of what was previously Pirelli Star Driver at the start of 2009, later to become the WRC Academy, which launched talents such as Ott Tänak, Elfyn Evans and Craig Breen.

Young drivers are identified through a multi-phase selection process based on digital motorsport and real driving sessions in production vehicles. There is also no shortage of similar initiatives in the world of Formula 1 support racing. For example, for years now, Pirelli has been awarding a substantial cash prize to the winning driver in Formula 3 to support him on his way to the top series.

Another important project that Pirelli supports is the FIA Girls on Track, in this case aimed at young female drivers with the aim of promoting the growth and inclusion of women in motorsport with a view to inclusion and equality, themes that have always been close to Pirelli.

Finally, Pirelli collaborates extensively with national motorsport federations and clubs to provide support for young drivers, offering them the chance to grow and reach the peaks of international competition.

## **OUR SUPPLIERS**

### **Supply Chain Sustainable Management System**

The supply chain management model adopted by Pirelli fully complies with the provisions of the international guidelines for sustainable procurement ISO 20400 - “Sustainable Procurement Guidance”, as certified at the beginning of 2018 and reconfirmed at the end of 2021 by a third party (SGS Italia S.p.A.) following an in-depth evaluation. The analysis confirmed that the requirements of the ISO 20400 standard are fully met by Pirelli’s procurement model, both in terms of corporate policies and strategies and in terms of managing the internal processes needed to implement sustainability requirements in purchasing dynamics, and at a more operational level in the direct management of supplier ethical performance. The certification of full compliance with ISO 20400 is in addition to the certification of compliance obtained by the Company with the guidelines on social responsibility dictated by ISO 26000, issued by the auditor of this Report.

The Group’s relations with suppliers are based on loyalty, impartiality and respect for equal opportunities for all the subjects involved in the purchasing processes, as required by the Group Values and Code of Ethics and in line with the OECD Guidelines on the duty of vigilance.

The sustainable management of the supply chain is handled in the “Green Sourcing Policy”, the “Social Responsibility Policy on Occupational Health, Safety and Labour Rights, Environment”, the “Global Health, Safety and Environment Policy”, the “Global Human Rights Policy”, the “Global Quality Policy”, the “Product Stewardship Policy”, and in the Group’s “Sustainable Natural Rubber Policy” published in several languages on the Company’s website, so that they can be fully understood by the public at large. In all the documents cited, with reference to the specific social and environmental issues discussed from the individual Policies, Pirelli undertakes to establish and maintain the procedures necessary to evaluate and select its suppliers on the basis of their level of social and environmental responsibility, as well as to request their suppliers implement a similar management model, in order to extend its responsible management in the supply chain as far as possible back to the origin of the chain. The Policies mentioned are available to suppliers in their local languages.

The social, environmental and business ethics responsibilities of a Pirelli supplier are assessed together with the economic and product or service quality to be supplied, right from the selection as potential supplier stage.

Analysis of ESG performance (Environment, Social, Governance) continues through the qualification stage of the potential supplier pre-analysed (and audited on-site by a third party for all cases of potential raw material suppliers) at the assessment phase, and then is “contract bound” through the Sustainability and business ethics clauses included in every contract/purchasing order.

ESG compliance of those who join the Pirelli panel of suppliers is therefore verified through periodic on-site third-party audits.

The aforementioned Management Model and the related documentation are available on the institutional Pirelli website, in the “Suppliers Area” (Pirelli.com/suppliers), section devoted to the world of supply and accessible to current and potential Pirelli suppliers, as well as anyone with an interest in knowing the approach and procedures adopted by the Company in the areas of purchases of good and service around the world.

The detailed process follows.

### **ESG elements in the purchasing process**

Pirelli uses the same approach to assessing ESG performance throughout the entire process of interactions with a supplier, although in different ways among them, consistently with the intensity of the interactions characterising the specific procedural stages.

During a first phase of **scouting**, and thus assessment of potential suppliers of goods or services, a buyer who has been adequately trained is able to gain a first impression of the abidance by the ESG and product or service requirements by the potential supplier. This makes it possible to eliminate potential future suppliers that are clearly in possible violation of Pirelli expectations.

Pirelli asks suppliers who gain access to the **on-boarding** (pre-qualification and qualification) phase to fill in the questionnaire through which the supplier can view and simultaneously accept Pirelli’s requests in terms of economic, social, environment and business ethics responsibilities. Among the questions asked to the potential supplier, for example, the request to certify that its company checks workers’ ages before hiring them, and it ascertains that all of its employees satisfy the minimum legal working age; uses workers provided with a written labour contract and who work on a voluntary basis exclusively; abides by workers’ rights of freedom of association and participation in trade-union activities; pays wages that meet the minimum legal standards; manages disciplinary practices, if any, abiding by the law; abides by and applies legislative/contract provisions in the matter of work schedules, overtime and rest periods.

The process then continues with further questions aimed at identifying potential integrity and corruption risks in advance.

For all potential new suppliers and/or facilities of raw material and high value added parts, which by their nature can become development/long-term partners for the Company, and which are also granted much of the spending of purchases, Pirelli conducts a **third-party preliminary on-site audit**

during the qualification phase to verify the level of compliance of the potential supplier with respect to the principal national and international regulations on Work, Environment and Business Ethics. Loss prevention information is also analysed, a key element not only to prevent future business interruptions. The non-acceptance of the audit and/or not signing the corrective action plan shall block the qualification of the supplier.

The preventive assessment of new raw materials and process aids is particularly important, with a view to safeguarding the health of workers and the environment. These assessments of potential materials and auxiliaries are obviously conducted before the materials in question can be used extensively by the Group's operating units, and are carried out taking into account not only the requirements of the more restrictive European regulations on the management of hazardous substances (see, for example, the 'REACH' and 'CLP' Regulations), but also by virtue of the standards and knowledge acquired at international level (specific United Nations databases, etc.).

In recent months, the activities described above have also been supplemented by a specific request sent to all Suppliers of raw materials and process aids used by the Group in relation to an increasing commitment to quantifying the residual impurities contained in the above-mentioned commercial products, regardless of the legal requirements.

Finally, the consolidated activities of monitoring the producers and suppliers of the raw materials with regard to compliance with the requirements of Regulation (EU) 2017/821 (as modified by Regulation (EU) 2020/1588) on so-called "conflict minerals" (to which a paragraph is dedicated below).

With regard to the **contractual stage**, for more than a decade, Pirelli systematically includes the Sustainability and Business Ethics Clauses (including anti-corruption) in contracts and orders for the purchase of goods and/or services and/or works, both with private suppliers and with the Public Administration (or institutes/enterprises under public control) and also in agreements with NGOs, worldwide.

In particular, the clauses:

- require suppliers to be aware of the principles, commitments and values contained in Pirelli's sustainability documents, namely "The Values and Code of Ethics", the "Code of Conduct", the "Global Human Rights Policy", the "Health, Safety and Environment Policy", the "Anti-Corruption Programme" and the "Product Stewardship Policy", published and accessible on the web, which set out Pirelli's principles for managing its activities and its relations with third parties, contractual and otherwise;
- require that Suppliers confirm their commitment to:
  - not using or supporting the use of child labour and forced labour or any other form of exploitation;
  - ensuring equal opportunity, freedom of association and promotion of the development of each individual;

- opposing the use of corporal punishment, mental or physical coercion, or verbal abuse;
  - complying with the laws and industry standards concerning working hours and ensuring that wages are sufficient to cover the basic needs of personnel;
  - not tolerating any type of bribery in any form or manner and in any legal jurisdiction, even where such practices are effectively permitted, tolerated, or not subject to prosecution;
  - assess and reduce the environmental impact of its own products and services throughout their entire life cycle;
  - using resources responsibly with the aim of achieving sustainable development in compliance with the principles of respect for the environment and the rights of future generations;
  - establishing and maintaining the necessary procedures to evaluate and select suppliers and sub-suppliers on the basis of their commitments to social and environmental responsibility, regular overseeing compliance with this obligation on the part of the same;
- specify that Pirelli reserves the right to verify at any time through activities of audit, either directly or through third parties, that fulfilment of the duties taken on by a supplier has been achieved (see further details in the next paragraph).
  - include an invitation to use Pirelli's **Whistleblowing** Procedure (e-mail address [ethics@pirelli.com](mailto:ethics@pirelli.com)) to report in complete confidentiality any violation or suspected violation that suppliers identify in their relations with Pirelli, both with respect to the law and to the principles, commitments, and values contained in: "The Values and Ethical Code", the "Code of Conduct", the Group policies "Global Human Rights", "Health, Safety and Environment", "Anti-Corruption Programme", and "Product Stewardship".

During 2021, among the reports signed, one was sent by a Supplier. It is objectively not possible to confirm that the total number of reports from suppliers corresponds only to three as some reports were anonymous, as specified in the paragraph "Focus: Group Whistleblowing Procedure", to which reference should be made for further details.

For some categories of suppliers, the clauses are also supplemented by additional requirements aimed at regulating specific areas such as the existence of an adequate management model for conflict minerals and cobalt, and compliance with Pirelli's Policy on the sustainable management of natural rubber.

The Sustainability Clauses have been translated into 21 languages so as to ensure maximum clarity and transparency vis-à-vis a supplier in the matter of the contract duties that they assume, not only in respect of the Firm itself, but also at their own site in relations with their own suppliers.

### **Focus: ESG on-site audit**

Pirelli management model has been characterised by third-party on-site audits since 2009. Compared to self-assessment or remote assessments, this approach allows for a very high level of reliability of the audit results, as they are carried out on-site and in person by a specialised third party. In addition, the on-site audit is also a valuable opportunity for the supplier to train and analyse the compliance of its activities with local and international regulations on the environment, human and labour rights, and business ethics. The on-site audit is carried out during the pre-qualification phase for all potential new suppliers and/or plants of raw materials and high value-added goods, which by their very nature may become development/long-term partners for the Company, and to which a large part of procurement spending is destined.

In addition, every year Pirelli conducts an on-site third-party ESG audit campaign at active suppliers' sites to cover all product and geographic areas of purchase.

The annual Audit Campaign covers suppliers considered critical based on the results of economic materiality and ESG risk criteria. In particular, the Group's Purchasing and Sustainability Departments define and annually renew the parameters for the Risk Assessment which, carried out by the Purchasing Managers and Sustainability Managers of the Group's subsidiaries, will lead to the selection of suppliers to be audited on site. In the risk assessment and definition of the shortlist of Suppliers to be Audited, the following basic parameters must be considered:

- the supplier is bound to Pirelli by multi-year contracts;
- the replacement of the supplier and/or related product may be complex (the supplier holds more than 50% of the purchase for the specific product category);
- the economic burden of the purchase is significant;
- the supplier operates in a Country considered to be at risk under environmental, human rights and/or employment terms;
- the supplier has not yet undergone an ESG audit by Pirelli or special criticalities have been detected in previous audits;
- there is information, a perception or doubt concerning possible violations by the supplier in the matter of social, environmental and/or business ethics responsibilities.

Each audit lasts an average of two days in the field and includes factory visits, interviews with workers, management and trade union representatives. The external auditors carry out the audits



following a checklist of sustainability parameters deriving from the SA8000® standard (a benchmark tool officially adopted by the Group for managing social responsibility since 2004), the Pirelli Ethical Code, the Pirelli Group’s “Social Responsibility Policy for Health, Safety and Rights at Work, Environment” (in its turn consistently with the areas of social, environmental and governance sustainability dictated by the Global Compact of the United Nations and underlying OECD and ILO regulations), the Global Health, Safety and Environment Policy, the Equal Opportunities Policy and the Global Human Rights Policy. From 2019, KPIs relating to loss prevention issues have been added. For natural rubber suppliers, the on-site Audit checklist is enriched with additional and specific parameters, deriving from Pirelli’s Policy for the Sustainable Management of Natural Rubber and in line with the expectations of the Global Platform for Sustainable Natural Rubber (a specific paragraph is dedicated to the topic of Natural Rubber Sustainability below).

On the basis of audit findings, and where non-conformities are found, the supplier signs off a corrective action plan suggested by the independent auditor, to be implemented within specific deadlines. The implementation of the recovery plan is verified by a follow-up activity directly followed by the Auditor, who report to Pirelli.

The results of the on-site ESG Audit, together with additional assessments made during the supplier on-boarding phase, are integrated into the annual Vendor Rating process, on the basis of which a rating is assigned to the supplier that sums up ESG performance, the qualitative level of supplies, the quality of the commercial relationship and technical-scientific collaboration.

From 2020, following the evolution of the Covid-19 scenario, the third-party auditors used by Pirelli have developed and introduced a new methodology, in accordance with ISO/IEC 17021-1: 2015 (and related guidance), IAF MD4: 2018, IAF MD 5: 2019 and IAF ID 12: 2015 standards, which has made it possible to guarantee the continuity of auditing activities also through a hybrid approach (combination of remote and on-site audits).

Below is the number of third-party ESG audits carried out in the last three years:

Year	Audit Number
2019	90 <sup>16</sup>
2020	71 <sup>17</sup>
2021	93 <sup>18</sup>

In the year 2021, the audits involved Pirelli suppliers of all product categories operating in Argentina, Brazil, China, Germany, Indonesia, Italy, Mexico, United Kingdom, Romania, Russia, United States, Turkey, Malaysia, Thailand, the Czech Republic, India, Japan and Portugal.

<sup>16</sup> Of which 26 on potential new suppliers of raw materials.

<sup>17</sup> Of which 6 on potential new suppliers of raw materials.

<sup>18</sup> Of which 18 on potential new suppliers of raw materials.

The results of the audits carried out during the 2021 annual campaign:

- 32% of suppliers without any non-compliance;
- an incidence of non-conformities found at supplier sites down by 2% compared to 2020.

The non-conformities recorded in 2021 are essentially linked to the health and safety management processes, the use of overtime and the correct implementation of environmental management systems. The Suppliers with which non-conformities were found have signed a remedy plan to be implemented within precise time frames, which, as per the Procedure, will see follow-up by the third-party Auditor to evidence and confirm the return.

The results of the on-site ESG Audit together with the further assessments carried out during the supplier's on-boarding phase, are integrated into the annual Vendor Rating process based on which a rating is assigned to the supplier that adds up the ESG performances, the quality level of supplies, the quality of the commercial relationship and the technical-scientific collaboration.

The Group Internal Audit Department verifies the adequacy of the management and oversight of the ESG Audit on suppliers by the local responsible Functions (Sustainability and Purchasing).

### **Materiality of ESG impacts on the supply chain**

Health and safety at work, human rights and labour rights are material issues and therefore subject to monitoring (see previous section on operating procedures) in all categories of purchases, with a greater risk of negative impact in the case of suppliers operating in countries considered to be more at risk than others from the point of view of compliance with national and international labour legislation.

Considering the life cycle of the Pirelli product (which is specified in the "Environmental Dimension" chapter of this report), the environmental impacts of the supply chain are found prevalently in the category of raw materials, in terms of direct emissions by the supplier but also of indirect emissions by Pirelli. With reference to the water footprint along the life cycle of Pirelli products, impacts are prevalent again in the area of raw materials and specifically in the processing of natural rubber, a material on which particular attention is also paid in terms of preventing the risk of deforestation and protecting biodiversity.

Pirelli mitigates the risks mentioned through the Management Model adopted above described, which is completed with the engagement activities of the suppliers referred to below.

### ***Sustainability of the natural rubber supply chain***

With global demand for natural rubber expected to increase, sustainable management of the related supply chain is essential to preserve forests, biodiversity and to enable sustainable development for

local communities and economies. The economic, social and environmental sustainability of the natural rubber supply chain is among the priorities of Pirelli, with the full awareness that the origins of its rubber supply chain impact in forestry terms.

The natural rubber supply chain - from upstream to downstream - includes producers/farmers, traders, processors, distribution companies and manufacturing facilities. Pirelli is at the end of the chain, as a tyre manufacturer that does not own its own plantations or natural rubber processing plants. Pirelli intends to play an active role in the aforementioned context, contributing to the efforts that are globally dedicated to the sustainable management of natural rubber.

In October 2017, Pirelli issued its “Sustainable Natural Rubber Policy”, after a long process based on consultation with key Stakeholders and companies that have longstanding experience in terms of sustainable procurement of materials. During 2021 the policy was revised to align it with the Policy Framework of the Global Platform for Sustainable Natural Rubber, of which Pirelli is also a founding member.

As stated in the Policy, Pirelli continues to undertake to promote, develop and implement the sustainable and responsible procurement and use of natural rubber throughout its entire value chain. In particular, the Policy breaks down the positioning of the Company in terms of:

- defence of Human Rights and promotion of decent working conditions;
- promotion of the development of local communities and prevention of conflicts related to land ownership;
- protection of ecosystems, flora and fauna;
- no to deforestation, no to the exploitation of the peat land, no to the use of the fire, and adoption of the “High Conservation Value (HCV)” and “High Carbon Stock (HCS)” methodologies;
- efficient use of resources;
- ethics and anti-corruption;
- traceability and mapping of socio-environmental risks along the supply chain (so-called *risk-based* approach);
- clear indication of the governance model envisaged by the policy, and consideration of the risks identified in the definition of the purchasing strategies;
- encouragement of its suppliers and sub-suppliers to the adoption of solid certification systems, internationally recognised and verified by third parties, at all levels of the supply chain;

- promotion, support for the Company's active participation in cooperation initiatives at sector level and among Stakeholders that play a significant role in the value chain, in the belief that, in addition to the individual commitment of companies, a shared effort can accelerate and strengthen the path towards a sustainable development of the global natural rubber supply chain;
- activities aimed at the implementation of the policy;
- commitment to reporting on the results achieved;
- providing a dedicated grievance mechanism for natural rubber that allows stakeholders to address grievances and initiate remedial action.

In December 2018 the Company published the *Implementation Manual* for Pirelli Policy on Sustainable Natural Rubber. The aim of the manual is to facilitate the understanding of the principles, commitments and values expressed in the Policy, as well as provide guidance for its implementation to the supply chain. As already happened for the preparation of the Policy in 2017, also the process of preparation of the Manual has foreseen the involvement and the consultation of the main Stakeholders concerned, both locally, with the main actors of the supply chain (processors, retailers, small plantation owners), and globally.

At the same time, Pirelli defined its Action Plan, updating it periodically.

The Policy, the Implementation Manual and the 2019-2021 Action Plan and are published on the Group website, in the Policy area within the Sustainability section. The Plan up to 2025 will be published on the company website in early 2022.

In particular, since 2019 Pirelli has started through the support of central and local specialists of Earthworm Foundation, activities concerning the organisation of meetings with the management of supplier companies; the identification of the geographical areas from which rubber is purchased; the analysis of potential socio-environmental risks for the mapped geographical areas; training of suppliers on the contents of the Policy and its Implementation Manual; distribution of infographics on various sensitive issues in the natural rubber chain; definition of a roadmap by suppliers detailing activities to be implemented to fill identified gaps; on-site ESG audits covering around 100 % of our purchased volumes.

In 2020 and 2021 the evolution of the pandemic led to the temporary suspension of those activities planned for the period that, in order to achieve the expected level of effectiveness, would have had to be held on site with the actors in the supply chain (processors, traders, farmers).

Also during 2021:

- The Group and its supplier Kirana Megatara confirmed the continued awarding of scholarships to the children of local producers, in the belief that the future sustainability of the natural rubber business absolutely cannot ignore the adequate training and development of the new generations, and their right to study. A total of 65 scholarships were awarded.

- Pirelli is the first company to launch and produce the first Forest Stewardship Council (FSC) certified tyre line for natural rubber and rayon; FSC forest management certification confirms that plantations are managed in a way that preserves biological diversity and benefits the lives of local communities and workers, while ensuring economic sustainability. The complex FSC chain of custody certification process verifies that, along the processing chain from plantation to tyre manufacturer, FSC-certified material has been identified and separated from non-certified material.
- Pirelli, in partnership with BMW, is supporting Birdlife International in a three-year project that aims to encourage the long-term production of sustainable, deforestation-free natural rubber in Indonesia. The initiative involves part of the rainforest area of Hutan Harapan (Sumatra Island) and will be developed through a series of initiatives aimed at protecting the indigenous community, preserving a deforestation-free area of 2,700 hectares and protecting endangered animal species. The various activities will be carried out in line with the objectives of the Global Platform of Sustainable Natural Rubber (GPSNR).
- Pirelli continued to work with its suppliers to identify their supply chains. More than 95 per cent of natural rubber volumes purchased in 2021 will come from suppliers who have a roadmap in place and have monitored implementation progress in line with restrictions due to the health situation.

In 2022 Pirelli will continue on the path of engagement and partnership activities with its suppliers, supporting them in the implementation of their roadmap with ad hoc interventions and will continue to map the socio-environmental risks of the entire chain, strengthened by an increasingly close relationship with the various players involved.

### ***Together for the Sustainability of Natural Rubber - the GPSNR platform***

Pirelli Policy on the sustainable management of natural rubber, in point VIII, states: *“Pirelli believes that the global challenge of natural rubber sustainability requires engagement, cooperation, dialogue and partnership among all involved actors. In addition to engaging with its suppliers, Pirelli fosters and supports active cooperation at industry level and among stakeholders playing a material role in the natural rubber value chain, with the conviction that in addition to corporations’ individual engagement, a shared effort can result in stronger and faster progress towards sustainable development of the global natural rubber supply chain. Pirelli cooperates with national and international governmental, non-governmental, industry-wide and academic initiatives to develop global sustainable natural rubber policies and principles.”*

In line with the stated approach, in 2017 Pirelli played a proactive role in the creation of the Global Platform for Sustainable Natural Rubber - GPSNR, together with tyre manufacturers which are also part of the Tyre Industry Project Group, within the World Business Council for Sustainable Development. The development of the Platform benefited from the contribution, ideas and suggestions of the main categories of Stakeholders involved in the value chain, such as rubber

producers, processors, automobile manufacturers, and of the fundamental contribution deriving from the experience of important international NGOs.

The Platform, launched in Singapore in October 2018 with the participation of the first “founding members”, including Pirelli, is independent, based on multi-stakeholder dialogue and aims to support the sustainable development of the natural rubber business globally, for the benefit of the entire value chain through shared tools and initiatives based on respect for human and labour rights, prevention of land grabbing, respect for biodiversity and increased plant productivity, especially those of small owners. The first General Assembly of GPSNR was held in March 2019.

During 2021 Pirelli actively participated in four working groups launched by the platform, specifically:

- The “Smallholder Representation Working Group”, which Pirelli co-chairs, has identified a geographically diverse group of farmers capable of effectively representing the interests of smallholders within the platform and identified three representatives to sit on the Executive Committee. Work continues to support the smallholder community on the platform, with the aim of extending the geographical presence covered and achieving the new targets set;
- The “Capacity Building Working Group”, which Pirelli co-chairs, in 2021 has continued its activities aimed at developing a capacity building strategy in favour of smallholders and industrial plantations, identifying potential sources of financing;
- The “Traceability and Transparency Working Group” which aims to identify an appropriate tool to improve the large-scale traceability, and therefore transparency, of the complex natural rubber supply chain. During 2021, the group focused on mapping the traceability systems offered by the market, with a specific focus on those already used in the world of natural rubber. The work will continue in 2022, with the aim of defining the general characteristics that the traceability tool must have in order to meet the level of transparency required by the GPSNR platform.
- Pirelli also participates in the Shared Responsibility Working Group, which aims to define the principles and framework for implementing shared responsibility within the platform. The Pirelli representative was appointed as the platform’s most participating Co-Chair, demonstrating the company’s strong commitment to the project.

### **The “Green Sourcing” Policy**

Since 2012 Pirelli has had a “Green Sourcing Policy”, with the aim of stimulating and encouraging environmental awareness throughout the supply chain, as well as encouraging choices that could reduce the impact on the environment of Pirelli’s procurement of goods and services. The system

for implementing the Green Sourcing Policy, both within Pirelli and in relations with suppliers, is organised as follows:

- Pirelli Green Sourcing Manual, an internal document containing operating guidelines, intended to guide the activities of the Pirelli functions involved in the Green Sourcing process;
- Pirelli Green Purchasing Guidelines, a document intended for Pirelli suppliers as part of the Contract for supply and based on the Green Sourcing Manual containing the KPIs (Key Performance Indicators) for assessing the Green Performance of these suppliers.

Pirelli Green Sourcing Manual defines four areas of Green Sourcing: Materials, Capex, Opex and Logistics. Interdepartmental working groups, comprised of Purchasing, R&D, HSE and Sustainability analysed the Green Sourcing process associated with the purchasing categories falling within the four areas mentioned above. Green Engineering Guidelines were also defined for the Materials and Capex areas, where the design component (what is conceived in-house) is material to Pirelli core business.

For the Opex and Logistic areas characterised by goods categories in respect of which the design component is not equally significant, Green Operating Guidelines have in any event been defined by referring to internationally recognised best practices.

The Green Sourcing Manual is a unique document that contains:

- a general part on Green Sourcing topics;
- the Green Engineering Guidelines (Materials, Capex);
- the Green Operating Guidelines (Opex, Logistics).

On the basis of the Guidelines of the Green Sourcing Manual, Pirelli Green Purchasing Guidelines were published on the website [www.pirelli.com](http://www.pirelli.com), so making them available both to Pirelli suppliers and to other Stakeholders. In China, Mexico, the United States, Russia and Italy, by-invitation seminars have been held at Pirelli offices on the Green Sourcing Guidelines for local suppliers so as to inform and receive direct feedback on the way they work.

In addition to the “Green Sourcing Policy”, in 2019 the Group adopted a Single Use Plastic Free Policy, aiming at the elimination at Group level by 2021 of all single-use plastic used for offices and factory services. The company expects to reach the target by the first half of 2022, with a delay of about six months by virtue of the precautions that were adopted during the pandemic period, including in certain cases and for health and safety reasons it was not possible to replace single-use plastic in light of its insulating properties.

## Policy on Conflict Minerals

The concept of Conflict Minerals was introduced by Section 1502 of the Dodd-Frank Act, a United States federal law, in 2010. By “conflict minerals” is meant gold, columbite-tantalite (coltan) cassiterite, wolframite and their derivatives like tantalum, tin and tungsten that come from (or are extracted in) the Democratic Republic of Congo and/or bordering Countries.

The objective of the rules in respect of Conflict Minerals (Conflict Mineral Rules) is to discourage the use of minerals whose sale might finance violent conflicts in Central Africa where grave violations of human rights have been recorded for many years. Under Conflict Mineral Rules, listed companies in the United States are required to perform reasonable due diligence in tracing the provenance of these materials and reporting the findings to the SEC and publishing them on their website, with the first report to be published by 31 May 2014 (relating to 2013) and subsequently updated each year.

In turn, the European Institutions in May 2017 approved the 2017/821 Regulation (subsequently amended by Regulation (EU) 2020/1588) which “establishes duties in terms of due diligence in the supply chain for EU importers of tin, tantalum and tungsten, their minerals, and gold, originating in conflict zones or at high risk”. The new provisions came into force from January 2021.

Pirelli expresses its position on the management of the issue in a paragraph dedicated to it in its Global Human Rights Policy, where it is stated that the Company *“requires that its suppliers conduct proper due diligence within their supply chain in order to certify that the products and materials supplied to Pirelli are “conflict free” throughout the whole supply chain. Pirelli reserves the right to terminate relations with suppliers in cases where there is clear evidence of supplying conflict minerals and however in case of any violation of Human Rights.”*

The Policy is published in multiple foreign languages in the Sustainability section of [pirelli.com](http://pirelli.com) website.

In 2017 Pirelli also strengthened its management model, introducing the request for the following documentation among the qualification requirements of suppliers that can be associated with the possible use of conflict minerals:

- Conflict Minerals Reporting Template (CMRT);
- Conflict Minerals policy if present;
- description of the “Due Diligence” system to identify and trace the presence of 3TG minerals (Tantalum, Tungsten, Tin, Gold).

The management model then extends to the contractual phase, through the inclusion of a Conflict Minerals clause that recalls the supplier’s commitment to providing the Conflict Minerals Reporting Template on an annual basis and to maintain the results achieved in terms of chain transparency, in addition to reporting the further progress pursued and expected.



To give an idea of the scale of the phenomenon for Pirelli, it is worthwhile stating that the impact is very limited: the volume of minerals (3TG) used by Pirelli Tyre in one year in fact weighs less than a tonne, a quantity which is less than one millionth of the volume of raw materials used annually by the Company and which is equally distributed among most of the tyres produced. To give an example, a tyre weighing 10 kg contains about 10 mg (milligrams) equivalent of tin, in the extremely low concentration of 1ppm (one part per million).

With a view to procurement covering only minerals that are “conflict free”, Pirelli has conducted a comprehensive investigation on its supply chain, in order to have full visibility up to the mines or foundries in order to identify the existence of any “conflict minerals”. The company asked its suppliers to fill in the CMRT (Conflict Minerals Reporting Template) form developed by the Responsible Minerals Initiative (RMI) as developed in the past by the Electronic Industry Citizenship Coalition (EICC) and the GeSI (Global e-Sustainability Initiative).

The suppliers polled cover 100% of the “conflict minerals” risk tied to Group products. 100% of suppliers polled have already given precise indications concerning the source of the materials in question and listing foundries as required by the procedure and there was no evidence of the presence of conflict minerals.

### **Due diligence on new metals: Cobalt**

As is known, the Democratic Republic of the Congo (DRC) is the world’s largest producer of cobalt and holds more than 50% of the world’s reserves of this metal. Among the various uses of Cobalt is its use in Lithium batteries that are an integral part of electric vehicles, mobile phones and laptops. The demand for Cobalt is growing very rapidly and its extraction occurs both in a highly mechanised way and in a traditional way. Concerning this latter type of extraction, concerns have recently been raised about unsafe working conditions and child labour. In 2017, RMI (Responsible Minerals Initiative) launched a working group on the sustainable supply of cobalt, with particular regard to the risk of child labour in the DRC, with a supply chain monitoring approach similar to the one already in place for 3TG metals. The update of the Cobalt Reporting Template (CRT) was recently published (28 October 2020) by RMI. Pirelli uses some Cobalt salts, a type of raw material commonly used in the production of tyres. In 2019, Pirelli therefore decided to join the “Cobalt Initiative” launched by RMI and to ask its suppliers to fill in the CRT. The suppliers surveyed cover 100% of the “conflict minerals” risk associated with the use of raw materials using cobalt in tyres. 100% of suppliers surveyed responded: 72% of these suppliers excluded that foundries identified in their supply chain source their cobalt from conflict areas or, if in a conflict area, ensure due diligence in accordance with OECD guidelines.; the remaining 28% gave insufficiently precise indications of the source of cobalt, as required by the procedure defined in the “Cobalt Initiative”, Since adherence to the Cobalt Initiative is voluntary, Pirelli has undertaken a plan to raise awareness and provide support to improve monitoring by these Suppliers.

## **Engagement of suppliers**

Pirelli believes that activities involving suppliers are essential from the viewpoint of creating environmental and social value and that are inseparably tied to the creation of shared economic value. There are many activities operated by the Company to that effect.

## ***R&D Partnerships***

Pirelli has established several partnerships with strategic suppliers and universities for the development of innovative materials with low environmental impact (materials described in the paragraphs dedicated to environmental management of products of this Report). As part of the development of new nanofillers, for example, pursued since the early 2000s through research contracts with universities and collaborations with suppliers, Pirelli has begun to industrially introduce materials of mineral origin in partial replacement of precipitated silica and carbon black. Compared to the production processes of the replaced raw materials, the innovations mentioned have guaranteed a water saving, as well as a reduction of CO<sub>2</sub> emissions by more than 75%, saving respectively about 35,000 m<sup>3</sup> of water and about 580 tonnes of CO<sub>2</sub>.

These innovations provide economic benefits related directly to the material for about €199,000 a year, although the real sustainable business driver is the performance that the product acquires, thus becoming more competitive.

## ***CDP Supply Chain***

For years, Pirelli has participated in Climate Change and Water programmes promoted by CDP (ex Carbon Disclosure Project). Implementing its Green Sourcing Policy since 2014 Pirelli has in its turn decided to extend the request for CDP assessment to its own key suppliers at a Group level, identified in accordance with criteria of environmental and economic materiality. In 2021, the selection concerned the suppliers with the most impact on the Carbon Footprint of the Group in the Raw Materials, Logistics and Energy categories.

The CDP Supply Chain supports Pirelli in monitoring Scope 3 emissions from its supply chain and ensures adequate awareness of suppliers in matters relating to climate change so as to identify and activate all possible opportunities for reducing emissions of climate-altering gases. In 2021, the set of emission reduction actions implemented by Pirelli suppliers made it possible to avoid overall the emission of more than 59 million tonnes of CO<sub>2</sub> equivalent into the atmosphere, combined with estimated economic savings of US\$1.77 billion.

The first company among tyre manufacturers to have globally introduced the CDP Supply Chain in its own supply chain, Pirelli aims to achieve a response rate for suppliers of Raw Materials of 90% in 2022. The response rate recorded in 2021 was 88%, an upward trend compared to previous years (84% in 2020, 81% in 2019, 74% in 2018).

In addition, it should be noted that the Company is included in the Supplier Engagement Rating Leaderboard 2021 published by CDP, having obtained a score of A on an assessment of the management of climate issues along its supply chain.

### ***Training of suppliers on sustainability matters***

Since 2012, Pirelli has been providing training on environmental, social and business ethics issues to its suppliers, identifying each year the applicable pool of participants based on strategic issues, spending value and operations by suppliers in Countries considered at risk.

In 2021, given the continuation of the Covid-19 scenario, the Group had to put on standby the activities planned in the 2019-2021 Roadmap on the implementation of the Policy on Sustainable Natural Rubber Management. However, to support training actions, a programme of distribution of infographics was initiated to facilitate the continuous cascading throughout the supply chain of our sustainable natural rubber management policy. In 2021, the programme covered about 80% of our suppliers, with the remainder to be covered in early 2022.

### ***Supplier Award***

Pirelli Supplier Award, which is assigned each year to suppliers of excellence, aims to constantly improve relations with parties from the standpoint of shared development.

The 2021 edition of the Supplier Award, after a pause in 2020 due to the evolution of the Covid-19 scenario, was held virtually at the Pirelli Bicocca headquarters, in the presence of Pirelli's Vice Chairman and CEO and the Company's Chief Procurement Officer, who awarded prizes to nine suppliers operating internationally, particularly in China, Italy, Japan, Poland and Mexico, who distinguished themselves for quality, innovation, service level, performance and sustainability.

The presence of the prestigious 'Sustainability' award confirmed the importance of 'responsibility' strategies and the resulting tangible benefits along the entire value chain. In 2021, the award was given to a natural rubber supplier that in recent years has demonstrated a strong and growing commitment to and contribution to social and environmental sustainability along the entire supply chain, collaborating in the production of the first tyre with Forest Stewardship Council (FSC) certified natural rubber and rayon.

## Trend of purchases

The following tables show the value of purchases made by Pirelli Tyre and the percentage of the relative suppliers divided by geographical area. These figures show that the value of purchases, as well as the number of suppliers, is slightly higher in OECD area<sup>19</sup> with respect to non-OECD areas.

63% of suppliers (down from 79% in 2020) operate locally with respect to the Pirelli Tyre subsidiaries supplied, according to a local for local supply logic and excluding raw material suppliers as they generally operate where Pirelli does not have its own facilities.

<b>VALUE OF PURCHASES BY GEOGRAPHIC AREA</b>				
		<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>OECD COUNTRIES</b>	<b>Europe</b>	49.8%	49.1%	54.9%
	<b>North America</b>	6.8%	8.0%	6.7%
	<b>Others</b>	5.6%	4.6%	5.0%
<b>NON-OECD COUNTRIES</b>	<b>Latin America</b>	11.4%	12.1%	12.1%
	<b>Asia</b>	17.5%	17.3%	11.9%
	<b>Africa</b>	0.5%	0.5%	0.4%
	<b>Others</b>	8.4%	8.4%	9.0%

<b>NUMBER OF SUPPLIERS BY GEOGRAPHIC AREA</b>				
		<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>OECD COUNTRIES</b>	<b>Europe</b>	53.9%	55.2%	47.2%
	<b>North America</b>	4.5%	4.8%	5.5%
	<b>Others</b>	4.8%	4.5%	5.4%
<b>NON-OECD COUNTRIES</b>	<b>Latin America</b>	18.9%	19.7%	22.8%
	<b>Asia</b>	9.1%	6.9%	8.4%
	<b>Africa</b>	0.2%	0.2%	0.4%
	<b>Others</b>	8.6%	8.7%	10.3%

The following table shows the breakdown in percentage of the value of Pirelli Tyre's purchases by type. With a weight equal to 45% of the total, the purchasing category which is decidedly more relevant and significant, as in previous years, is that of raw materials.

<sup>19</sup> For the complete list of OECD Countries please refer to the official website <http://www.oecd.org/about/membersandpartners/>.

<b>VALUE OF PURCHASES BY CATEGORY</b>			
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Raw Materials</b>	45%	49%	47%
<b>Consumable Materials<sup>20</sup></b>	11%	8%	7%
<b>Services<sup>21</sup></b>	39%	40%	37%
<b>Capital goods<sup>22</sup></b>	5%	3%	9%

With reference to the percentage of Pirelli Tyre’s suppliers by type presented in the table below, it is noted that suppliers of consumables and services weigh about 95% of total number of suppliers, despite the weight on the total value of purchases is lower compared, for example, to that of raw material purchases which, on the other hand, show a substantial concentration on a few operators.

<b>NUMBER OF SUPPLIERS BY CATEGORY</b>			
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Raw Materials</b>	2%	2%	2%
<b>Consumable Materials</b>	37%	36%	35%
<b>Services</b>	58%	59%	58%
<b>Capital goods</b>	3%	3%	5%

The following table represents the percentage composition in the value of the mix of raw materials purchased by Pirelli Tyre in the three-year period 2019-2021. The volume of raw materials utilised for the production of tyres in 2021 amounted to approximately 898,000 tonnes, of which approximately 4% derives from recycled materials (in line with the previous year) and 22% of renewable materials<sup>23</sup>.

<sup>20</sup> Indirect materials, auxiliary materials.

<sup>21</sup> Energy, logistics services, shared services, ICT, R&D, marketing, trademarks and patents.

<sup>22</sup> Machinery, civil works, moulds.

<sup>23</sup> Pirelli aligns itself with the OECD, which defines “Renewable Natural Resources” as natural resources, which, after their exploitation, can return to their original stock levels through natural growth or regeneration processes.

<b>MIX OF RAW MATERIALS PURCHASED (VALUE)</b>			
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Natural Rubber</b>	14%	13%	13%
<b>Synthetic Rubber</b>	25%	26%	26%
<b>Carbon black</b>	11%	10%	12%
<b>Chemicals</b>	23%	23%	22%
<b>Textile</b>	16%	18%	17%
<b>Steel</b>	11%	10%	10%

## Targets

- CDP Supply Chain: increase in raw material suppliers' response rate from 88% in 2021 to 90% in 2022;
- Natural Rubber supply chain sustainability: implementation of the 2022-2025 roadmap published in the Sustainability section of the website [www.pirelli.com](http://www.pirelli.com). In 2022 Pirelli will continue on the path of engagement and partnership with its suppliers, focusing training on specific issues that meet the needs of the supply chain and dedicating it to players increasingly close to the origin of the chain. Pirelli will support suppliers in the implementation of their roadmap of activities to implement Pirelli Policy and will continue to map the socio-environmental risks of the supply chain, with increasingly precise traceability and an increasingly close relationship with the various players involved;
- reduction of CO<sub>2</sub> emissions from raw material suppliers by 8.6% by 2025 compared to 2018 (Science Based Target approved by SBTi):
- as per the Single Used Plastic Policy, the Company plans to eliminate all single-use plastic used for offices and factory services by the first half of 2022.

## ENVIRONMENTAL DIMENSION

Pirelli Group considers environmental protection as a fundamental value in the exercise and development of its activities.

Pirelli approach to environmental management is set forth in accordance with the United Nations Global Compact, of which Pirelli has been an active member since 2004, and pursuant to the “Rio Declaration on Environment and Development”.

Pirelli Values and Ethical Code states that *“key consideration in investment and business decisions is environmental sustainability, with the Group supporting eco-compatible growth, not least through the adoption of special technologies and production methods (where this is operationally feasible and economically viable) that allow for the reduction of the environmental impact of Group operations, in some cases even below statutory limits”*.

The environmental management model adopted is detailed in the Group Policies “Health, Safety and Environment”, “Product Stewardship”, “Quality”, “Social Responsibility for Occupational Health, Safety and Rights, and Environment”, “Green Sourcing”, based on which Pirelli undertakes to:

- assess and reduce the environmental impact of its own products and services throughout their entire life cycle, as of products and services purchased;
- develop products and production processes that are safe and designed to minimize polluting emissions, waste generation, consumption of natural resources available and the causes of Climate Change, in order to preserve the environment, biodiversity and ecosystems;
- manage its environmental activities in full compliance with applicable laws and in compliance with the highest international standards;
- monitor and communicate to its Stakeholders the environmental performance associated with processes, products and services throughout the entire life cycle, promoting its culture of environmental protection;
- monitor the environmental impacts of its suppliers by requesting them to adopt the same business model along the supply chain;
- support customers and end consumers in understanding the environmental impacts of its products, informing them of the safest use and disposal methods, facilitating recycling or re-use where possible;
- empower and train its workers in order to extend adequate culture of environmental capital conservation.

All the documents mentioned above are communicated to the Group's employees in the local language and published in multiple languages in the Sustainability section of [pirelli.com](http://pirelli.com) website, available to the external community.

### **Joining the Task Force on Climate-Related Financial Disclosures (TCFD)**

In September 2018, Pirelli formally joined the Task Force on Climate-Related Financial Disclosures (TCFD) set up by the Financial Stability Board<sup>24</sup>.

In supporting the initiative, Pirelli is committed to the voluntary disclosure of transparent reporting and the disclosure of all relevant information on risks and opportunities related to Climate Change as indicated in the TCFD recommendations. To this end, Pirelli publishes this information publicly both in this report and through the CDP Climate Change programme, where, once again in 2021, it has been confirmed as one of the leaders included in the A-List.

Since Pirelli publishes an integrated annual report, the four topics and the eleven recommendations identified by the TCFD are reported as follows.

**GOVERNANCE:** (concerning climate-related risks and opportunities).

The matters relating to Climate Change fall within the activities whose Governance is described in the paragraph "Management Model" of this report, and in the paragraph "Director responsible of sustainability topics" and "Audit, Risks, Sustainability and Corporate Governance Committee" of the "Report on the Corporate Governance and Share Ownership of Pirelli & C. S.p.A.", included in this report and to which reference should be made for further information.

#### a) Board of Directors' oversight

Pirelli Board of Directors, supported in its activities by the Control, Risk, Sustainability and Corporate Governance Committee, approves both the sustainable management objectives and targets integrated into the Industrial Plan and Pirelli Annual Report, including the Consolidated Non-Financial Statement. The Executive Vice Chairman and Chief Executive Officer is also appointed as Director in charge of Sustainability with the task of overseeing sustainability topics related to the Company's operations and its interaction with all Stakeholders, and implementing the guidelines defined by the Board of Directors.

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<sup>24</sup> The Task Force on Climate-related Financial Disclosures (TCFD) was established in 2015 by the Financial Stability Board (FSB) - a body that monitors the global financial system - with the goal of developing a set of recommendations on the reporting of Climate Change risks. The aim is to guide and encourage companies to align the information disclosed with investors' expectations and needs. In June 2017, the Task Force published 11 recommendations in the areas of governance, strategy, risk management, metrics and targets.



b) Management's role

The strategic development of Group Sustainability is entrusted to the Sustainability Strategic Committee, a body chaired by the CEO and composed of the Company's Top Management representing all organisational and functional responsibilities, which meets on an ordinary basis at least twice a year. In addition, an Operational Sustainability Committee was established in 2021, chaired by the Deputy CEO and consisting of the company's top management, with responsibility for the strategic and operational management of the Group's sustainability matters, including, among other things, climate change issues.

The organisational structure thus consists of a Sustainability and Future Mobility Department, reporting directly to the company's Deputy CEO, which oversees management at Group level and proposes sustainable development plans to the Sustainability Strategic Committee. The Group Sustainability & Diversity Officer works in the Sustainability and Future Mobility Department.

The Sustainability Department is supported by:

- a Sustainability Working Group made up of sustainability representatives within the various company departments to guarantee constant monitoring and coordination of strategic programmes with an impact on the competence of the specific departments;
- Country Sustainability & Diversity Managers in the oversight of activities covering all Group subsidiaries. The role of Country Sustainability Manager is covered by the Country CEOs, who report directly to them for the operational management of sustainability country plans.

**STRATEGY** (actual and potential impacts of climate-related risks and opportunities on business, strategy and financial planning).

With a view towards long-term management, Pirelli monitors the Carbon Footprint and Water Footprint of its entire organisation and is committed to the progressive reduction of the related impacts on resources, climate and ecosystems. As broadly described in the paragraph "Pirelli Group Environmental Strategy and Footprint" of this report, the Group has adopted a control and monitoring system that allows the qualitative and quantitative identification of the materiality of environmental impacts along the life cycle of the product on the basis of which the company defines the response strategy.

In addition, Pirelli periodically performs sensitivity analyses and risk assessments with respect to transition scenarios towards a low-carbon economy and climate scenarios<sup>25</sup>, in order to have a constantly updated picture of potential risks and opportunities linked to Climate Change which are of interest to the business and the related quantification of any potential financial impacts. For further

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<sup>25</sup> The latest Group Climate Change Risk Assessment considered the analysis of IPCC climate scenarios (RCP 4.5 and RCP 8.5) and IEA energy transition scenario (IEA 450).

details, see the section “Risks linked to Climate Change” in the “Directors’ Report on Operations” of this report, and Pirelli’s public responses to the CDP Climate Change questionnaire<sup>26</sup>.

a) Climate-related risks and opportunities (over the short, medium and long term)

In line with the results of the last Group Climate Change Risk Assessment, in the short-medium term (up to 5 years) there are no significant risks relating to production processes or to the markets in which Pirelli operates. On the other hand, regarding a medium-long term scenario (up to 30 years), the tyre sector could be subject to a series of risks, both physical (extreme weather events with potential impacts on plant production continuity) and regulatory (possible effects on operational costs). On the other hand, there are opportunities for growth in sales of Pirelli Eco & Safety Performance<sup>27</sup> products, which identify car tyres characterised by rolling resistance and wet grip belonging to the A, B, C values of the European labelling, which is used as an internal metric to classify all the products Pirelli produces not only in Europe but throughout the world.

b) Impacts of climate-related risks and opportunities

As discussed in the section “Risks linked to Climate Change” in the “Directors’ Report on Operations” of this report, to which reference should be made, in relation to internal metrics of potential financial impact, no risks with a significant impact in the short to medium term were identified in relation to production processes or the markets in which Pirelli operates.

c) Resilience of the strategy

The results of the scenario analyses carried out as part of the Climate Change Risk Assessment, were assessed for the definition of ambitious climate-related targets within the sustainable development strategy to 2022, 2025 and 2030, published in the current Industrial Plan. At process level, the targets for reducing energy consumption and absolute CO<sub>2</sub> emissions, the sourcing of 100% electricity from renewable sources by 2025 and Group carbon neutrality by 2030 are highlighted. In particular, the targets for reducing absolute CO<sub>2</sub> emissions were developed in accordance with the guidelines of the Science Based Targets initiative (SBTi), which validated them in June 2020, judging them to be consistent with the actions needed to keep global warming “well below 2°C”, as recommended by the Paris Agreement, and cover both the production process (Scope 1 and 2 emissions) and the reduction of emissions in the supply chain (Scope 3). At product level, among the several Eco & Safety performance targets, in terms of impact on the climate, it has to be mentioned the objective of having, by 2025, over 70% of new car products, i.e. new labelled IP codes considered at group level, classified as A or B for rolling resistance, according to the highest European labelling standards, and over 90% classified as A or B for “wet grip”. The business strategy based on development of the Eco & Safety Performance product line is designed to give Pirelli a competitive advantage over its competitors in the face of growing market demand for low-emission goods and services. Following the positive trend that has seen revenues from Eco & Safety

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<sup>26</sup> <https://www.cdp.net/en/responses>

<sup>27</sup> Eco & Safety Performance products identify car tyres that Pirelli produces not only in Europe but throughout the world and whose rolling resistance and wet grip performance fall within the A, B and C values of the European labelling.

Performance tyres over total Group revenues grow from 5% in 2009 to 63% in 2021, Pirelli has set the target to achieve 66% by 2025.

**RISK MANAGEMENT:** (identification, assessment and management of the climate-related risks).

a) Identification and assessment processes

The process adopted by Pirelli to identify and assess the possible financial impacts, in terms of risks and opportunities, related to Climate Change is based on the Group Climate Change Risk Assessment, which is updated at least once a year by the Sustainability and Future Mobility Department in collaboration with Enterprise Risk Management and other relevant corporate functions (Operations, Procurement, Environmental Governance, Compliance among others). The analysis assesses the evolution of any physical, regulatory, technological, reputational and market risks that may affect the company, with respect to transition scenarios towards a low-carbon economy and climate scenarios with short, medium and long-term time horizons. For the conclusions of the analysis, see the section “Risks linked to Climate Change” in the “Directors’ Report on Operations” of this report, and Pirelli’s public responses to the CDP Climate Change questionnaire<sup>28</sup>.

b) Management processes

The most relevant risks identified through the Climate Change Risk Assessment are assessed and classified against internal metrics of potential financial impact: for each risk or opportunity that has been recognised as material, a risk mitigation plan is prepared or an internal discussion is opened to capture the maximum benefit from the opportunity.

c) Integration into overall risk management

The process for identifying, assessing and managing risks related to Climate Change is fully integrated into Pirelli’s risk management model, as described in detail in the “Risk factors and Uncertainty” section included in the “Directors’ Report on Operations” of this report.

**METRICS AND TARGETS:** (metrics and targets used to assess and manage risks and opportunities related to Climate Change, where the information is material).

a) Metrics used

Pirelli reports the impacts and performance linked to Climate Change according to the metrics defined by the GRI Sustainability Reporting Standards and by the Sustainability Accounting Standard Board (SASB). In particular, see the “GRI Content Index” (GRI Standard 305 Disclosures: Emissions) and the “SASB Content Index” at the end of this Annual Report.

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<sup>28</sup> <https://www.cdp.net/en/responses>.

b) GHG emissions

Pirelli monitors and reports its direct (Scope 1) and indirect (Scope 2 and Scope 3) greenhouse gas emissions as described in the paragraph “GHG emissions management and carbon action plan” in this report, and the related values are subject to specific limited audit activity, by an independent company, according to ISAE 3000.

c) Targets

Pirelli reports its environmental and product targets that are most closely linked to Climate Change, in the present chapter “Environmental Dimension” and in the “Sustainability Planning and the United Nations Sustainable Development Goals (SDGs)” and “Our Suppliers” (“Target” section) paragraphs of this report.

### **Pirelli Group Environmental Strategy and Footprint**

Monitoring and management of environmental issues have always played a key role in the business strategy at Pirelli. With a view to long-term management, Pirelli each year monitors the Carbon Footprint and Water Footprint of its entire organisation and is committed to the progressive reduction of the related impacts on resources, climate and ecosystems.

The Group has adopted a control and monitoring system that allows the identification of the materiality of environmental impacts throughout the product life cycle. The infographic on the following pages shows Pirelli approach to environmental management and the specific long-term sustainability targets defined by the Industrial Plan, whose performance is reported in the present report.

The Pirelli Group’s Carbon and Water Footprint are updated to 2021. With regard to the carbon footprint, in 2021 there was an increase in absolute terms of about 15% over 2020 (a year that saw a significant reduction in production volumes, and consequently in all emissions associated with the various phases of the tyre life cycle, due to the effects of the health emergency linked to the Covid-19 pandemic), but a significant decrease of 7% compared to 2019 (a year not affected by the Covid-19 emergency). Similarly, with regard to the water footprint, growth in absolute terms is around 17% compared to 2020, but down 6% compared to 2019.

As immediately clear, the materiality of environmental impacts is concentrated in the use phase of the tyre. In terms of the Carbon Footprint, the use phase has a weight of about 91.3% of total impacts throughout the entire life cycle of the product, compared to a production phase that has a weight of only 2.4% of total impacts. As regards the impact of the Water Footprint, the use phase of the product is the most significant (53.1% of the total impacts), followed by the production phase of raw materials (34.2% of impacts).

The graph can be read either horizontally, following the stages of life of a tyre one by one, or vertically, thus being able to appreciate the targets of reducing the impacts that the Company has defined for each of the different stages of life, which will be explored later in this chapter.

At the methodological level, the phases of the life cycle have been analysed following the Life Cycle Assessment methodology as defined by the ISO 14040 family of standards. This approach is capable of validating the results and the strategic decisions related to it, as objectively as possible, integrated with the indications of the “Product Category Rule<sup>29</sup>” for tyres developed by the Tyre Industry Project Group of the World Business Council for Sustainable Development. This approach is based on the identification and quantification of all input and output flows of the various life cycle phases (resources, raw materials, emissions, waste), which are subsequently translated into environmental impact potentials by means of dedicated models. This approach makes it possible to consolidate the effects of a very large number of factors into a few synthetic quantitative parameters (for example, of all the types of emissions or waste that are generated in the production processes of the raw materials used). The reporting of the emission impacts also complies with the provisions of the GHG Protocol (Corporate Accounting and Reporting Standard) and the GRI Sustainability Reporting Standards. To determine the Carbon Footprint and the Water Footprint, Pirelli’s calculation model is respectively inspired by the ISO 14067 and ISO 14046 standards. The values are shown as a percentage, as the objective of this infographic is to show the difference in materiality between the various life stages.

The main environmental impacts are generated by various activities related to the different stages of the Life Cycle. In the case of raw materials procurement, the main impact derives from the related production and distribution. In the case of tyre production, the main impact is related to the consumption of electricity and natural gas: in particular the main pressure in terms of emissions into the atmosphere and water consumption is attributed to the production of the latter. In the case of the distribution of new tyres and their use by customers, the impact is indirect and derives from the fuel consumption of vehicles (only the fuel consumption related to the power absorbed by the rolling resistance of the tyres is allocated to the customers). Finally, in the last phase of life considered, the impact derives from the processing of end-of-life products for recovery thereof as energy or recycled raw material. With reference to the Carbon Footprint, the infographic (see the “Driver” part) also includes a breakdown of emissions in the three Scope categories provided by the GHG Protocol.

If the product life phases are considered according to what is indicated in the GHG Protocol standard (Corporate Value Chain - Scope 3) and as taken up by the Science Based targets initiative, emissions from the use phase of the tyre are evaluated as “indirect” since already included in the use phase of the vehicle, of which the tyre is a component (with indirect responsibility for the energy consumption of the vehicle during use). Therefore, these emissions do not fall within the boundary to be considered by tyre makers for value chain emissions reduction targets, which instead consider: Scope 1 and 2 emissions, generated by the group’s production activities, and Scope 3 emissions mainly related to the supply chain, logistics and end of life of the product. The Tyre Use Phase, as

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<sup>29</sup> Product Category Rule: Set of rules, requirements and specific guidelines for the development of environmental declarations, for one or more product categories, defined according to ISO 14025.

mentioned above, is part of the vehicle use phase and therefore of Scope 3 emissions in charge of Vehicle Manufacturer Customers.

As reported below, Pirelli has both emission reduction targets approved by the Science Based Targets initiative, covering its own Scope 1, 2 and 3 emissions, and indirect Scope 3 emissions reduction targets in the use phase, the benefit of which goes towards reducing Scope 3 emissions in the use phase of vehicle manufacturers.

The central part of the infographic shows the actual quantification, in percentage terms, of the Carbon Footprint and Water Footprint. These two aspects are summarised by four principal indicators: Primary Energy Demand (PED), Global Warming Potential (GWP), Water Depletion (WD) and Eutrophication Potential (EP). The values are calculated in GJ of energy, tonnes of CO<sub>2</sub> equivalent, cubic metres of water and kilograms of phosphate equivalents.

Primary Energy Demand refers to the quantity of renewable or non-renewable energy that is taken directly from the hydrosphere, the atmosphere or the geosphere.

The Global Warming Potential concerns the effect on the climate of anthropic activities and is calculated, as mentioned, in tons of CO<sub>2</sub> equivalent (the greenhouse effect potential of the gas considered is assessed in relation to CO<sub>2</sub>, considering a residence time in the atmosphere of 100 years).

The Water Depletion, based on the Swiss model for ecological scarcity, represents the volume of water used, compared to the availability of water resources locally, with the aim of giving greater weight to the volumes of water taken from areas characterised by a greater scarcity of this resource.

Eutrophication Potential is the enrichment of nutrients in a given ecosystem, whether aquatic or terrestrial: air pollution, emissions into water and agricultural fertilisers all contribute to eutrophication. The result in aquatic systems is accelerated growth of algae, which does not allow sunlight to penetrate the surface of the water basins. This reduces photosynthesis and thus reduces the production of oxygen. Low concentrations of oxygen may cause the alteration of the aquatic ecosystem with potential effects in terms of biodiversity.

In terms of environmental materiality, the use phase of the tyre is overall the most prevalent. In terms of economic materiality, instead, the amount of company spending in the process phase is the most relevant, which results in the opportunity to reduce impacts through investments in energy efficiency.

In the lower part of the infographic, the actions and targets adopted by Pirelli are indicated in order to reduce the environmental impacts in the various phases of the life cycle according to the current Industrial Plan.

STAGES OF LIFE CYCLE																																																						
RAW MATERIALS	MANUFACTURING	DISTRIBUTION	USE	END-OF-LIFE																																																		
DRIVERS																																																						
Suppliers	Pirelli	Suppliers	Customers	Waste Recovery Players																																																		
Raw Materials production and transport: the impact is due to the resources use by suppliers' plants.	Tyre manufacturing: at Pirelli's factories the impact mainly derives from the consumption of electricity and natural gas.	Consumption and related production of fuel used by trucks and ships of logistics providers, which deliver Pirelli tyres worldwide.	Production and consumption of the fuel of customers' vehicles due to rolling resistance.	End-of-life tyre management: old tyres are prepared by specialised companies to be reused either as energy or as regenerated raw material.																																																		
--> Scope 3	--> Scope 1+2+3	--> Scope 3	--> Scope 3	--> Scope 3																																																		
IMPACT: CARBON & WATER FOOTPRINT*																																																						
<p>Raw Materials</p> <table border="1"> <tr><th>Metric</th><th>Value</th></tr> <tr><td>PED</td><td>10.6%</td></tr> <tr><td>GWP</td><td>6.1%</td></tr> <tr><td>WD</td><td>34.2%</td></tr> <tr><td>EP</td><td>24.4%</td></tr> </table>	Metric	Value	PED	10.6%	GWP	6.1%	WD	34.2%	EP	24.4%	<p>Manufacturing</p> <table border="1"> <tr><th>Metric</th><th>Value</th></tr> <tr><td>PED</td><td>3.7%</td></tr> <tr><td>GWP</td><td>2.4%</td></tr> <tr><td>WD</td><td>12.6%</td></tr> <tr><td>EP</td><td>0.9%</td></tr> </table>	Metric	Value	PED	3.7%	GWP	2.4%	WD	12.6%	EP	0.9%	<p>Distribution</p> <table border="1"> <tr><th>Metric</th><th>Value</th></tr> <tr><td>PED</td><td>0.2%</td></tr> <tr><td>GWP</td><td>0.2%</td></tr> <tr><td>WD</td><td>0.0%</td></tr> <tr><td>EP</td><td>0.0%</td></tr> </table>	Metric	Value	PED	0.2%	GWP	0.2%	WD	0.0%	EP	0.0%	<p>Use</p> <table border="1"> <tr><th>Metric</th><th>Value</th></tr> <tr><td>PED</td><td>85.5%</td></tr> <tr><td>GWP</td><td>91.3%</td></tr> <tr><td>WD</td><td>53.1%</td></tr> <tr><td>EP</td><td>74.7%</td></tr> </table>	Metric	Value	PED	85.5%	GWP	91.3%	WD	53.1%	EP	74.7%	<p>End-of-life</p> <table border="1"> <tr><th>Metric</th><th>Value</th></tr> <tr><td>PED</td><td>0.0%</td></tr> <tr><td>GWP</td><td>0.0%</td></tr> <tr><td>WD</td><td>0.0%</td></tr> <tr><td>EP</td><td>0.0%</td></tr> </table>	Metric	Value	PED	0.0%	GWP	0.0%	WD	0.0%	EP	0.0%
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Environmental: MEDIA	Environmental: MEDIUM	Environmental: LOW	Environmental: HIGH	Environmental: LOW																																																		

RESPONSE STRATEGY				
<input type="checkbox"/> RAW MATERIAL INNOVATION <ul style="list-style-type: none"> <li>Research and development of raw materials with low environmental impact</li> <li>Gradual introduction of new materials from renewable and/or recycled sources</li> <li>Biomaterials such as high-performance silica from renewable sources, biofillers such as lignin and plant-based plasticisers/resins</li> <li>Natural rubber: search for sustainable alternative sources</li> <li>Functionalised polymers: research into innovative polymers that guarantee reduced environmental impact, better driving safety and improved production efficiency</li> </ul> <p><u>Target</u></p> <ul style="list-style-type: none"> <li>Reduction of CO<sub>2</sub> emissions from raw material suppliers by 8.6% by 2025 compared to 2018 (target validated by SBTi**)</li> </ul> <p><u>for new product lines:</u></p> <ul style="list-style-type: none"> <li>by 2025: &gt; 40% renewable materials, &gt; 3% recycled materials and &lt; 40% fossil-derived materials</li> <li>by 2030: &gt; 60% renewable materials, &gt; 7% recycled materials and &lt; 30% fossil-derived materials</li> </ul> <input type="checkbox"/> GREEN PURCHASING GUIDELINES/GREEN SOURCING POLICY  <input type="checkbox"/> CDP SUPPLY CHAIN  <input type="checkbox"/> THIRD-PARTY AUDITS OF CRITICAL SUPPLIERS	<input type="checkbox"/> PROCESS EFFICIENCY <p><u>Target 2025:</u></p> <ul style="list-style-type: none"> <li>100% renewable electricity sourcing</li> <li>Absolute CO<sub>2</sub> emissions -25% vs 2015 (target validated by SBTi**)</li> <li>Specific water withdrawal -43% vs. 2015</li> <li>Specific energy consumption -10% vs. 2019</li> <li>Waste sent for recovery 98%</li> </ul> <p><u>Target 2030:</u></p> <ul style="list-style-type: none"> <li>Group Carbon Neutrality (emissions from electric and thermal energy);</li> </ul> <input type="checkbox"/> ISO 14001 IN ALL FACTORIES  <input type="checkbox"/> SCRAP REDUCTION PROGRAMME	<input type="checkbox"/> GREEN SOURCING POLICY <ul style="list-style-type: none"> <li>Green Logistics Procedure</li> <li>Engagement to reduce Supply chain Carbon &amp; Water Footprint</li> </ul>	<input type="checkbox"/> PRODUCT INNOVATION <p><u>Target 2025</u></p> <ul style="list-style-type: none"> <li>Rolling Resistance A/B ≥ 70% of new car products (new labelled IP Codes)</li> <li>Wet Grip A/B ≥ 90% of new car products (new labelled IP Codes)</li> </ul> <input type="checkbox"/> ECO & SAFETY PERFORMANCE REVENUES <p><u>Target 2025</u></p> <ul style="list-style-type: none"> <li>≥ 66% of Group car tyre sales and ≥ 71% of High Value products***</li> </ul> <input type="checkbox"/> CYBER™ TECHNOLOGIES	<input type="checkbox"/> PRESENCE ON MAIN INTERNATIONAL WORKING GROUPS (WBCSD, ETRMA) to spread the culture of recovery  <input type="checkbox"/> REGENERATED RAW MATERIALS <p>Research projects in order to improve the quality of regenerated materials, with the aim of increasing their percentage portion of the new compounds</p>

\* Value expressed as % of impact at different stages of the life cycle

\*\* Science Based Targets initiative

\*\*\* High Value products are determined by rims equal to or greater than 18 inches and, in addition, include all "Specialties" products (RUN FLAT™, SEAL INSIDE™, PNCS™).



## **Pirelli's approach to the Circular Economy: the 5Rs**

As part of Pirelli's "Eco & Safety Design" Strategy, a decisive role is played by the continuous focus on the definition and implementation of increasingly circular solutions.

It is in this context that Pirelli has developed its own approach to the Circular Economy, which is based on rethinking (Rethink) the way products, processes and services are developed, with the goal of achieving ever-higher performance, continuously reducing environmental impacts, and protecting the health and safety of people.

Rethink is supported by the other four commitments in Pirelli's 5R approach:

**Refuse:** avoiding processes, products, services and materials that are redundant, while promoting an increase in the safety of the products used, through the replacement of those not considered suitable, in a preventive manner and even going beyond legislative requirements. The progressive elimination of single-use plastics is also part of this commitment.

**Reduce:** reducing the use of resources, especially non-renewable resources, both in terms of energy carriers and natural resources, and of raw materials, with the aim of reducing the Group's Environmental Footprint, also with a view to Carbon Neutrality. Reducing also means developing tyres with increasingly less rolling resistance that can help reduce vehicle consumption, as well as production processes that use fewer resources and generate less and more easily recyclable waste. Pirelli has expressed numerous public objectives in support of its reduction commitment, which include all 2025 targets for process efficiency in factories (-43% on specific water withdrawal compared to 2015; -10% on specific energy consumption compared to 2019 and -25% of absolute CO<sub>2</sub> emissions compared to 2015, as approved by the SBTi), the performance of new car products in terms of Rolling Resistance ( $\geq 70\%$  A/B labelling classification by 2025) and the SBTi validated target to reduce CO<sub>2</sub> emissions (-8.6% by 2025 compared to 2018) of its raw material suppliers.

**Reuse:** maximising the reuse of resources and products, consistent with the quality and safety levels required for tyres, with the aim of preventing waste generation and unnecessary consumption of resources, especially non-renewable resources. This commitment is reflected, for example, in the design of tyres with an increasing content of renewable or recycled raw materials, with public targets that envisage on some product lines to use over 40% renewable materials by 2025 (over 60% by 2030), over 3% recycled materials (over 7% by 2030) and to reduce the use of fossil-derived raw materials to less than 40% (less than 30% by 2030).

**Recycle:** recycling the waste derived from production processes, promoting, as far as possible and compatibly with the contexts in which it operates, the recovery of materials and favouring the recovery of end-of-life tyres, also through research and development actions aimed at maximising the quality of materials deriving from the recovery of end-of-life tyres (ELTs) both for "closed loop" applications and for use in other phases of the value chain through the promotion of industrial ecosystems. This commitment is reflected, for example, in the group's 2025 target to send at least 98% of the waste produced for recovery.

The main examples of the application of these commitments along all stages of the tyre life cycle and the relative performance in 2021 are reported in the following paragraphs.

### **Product: Research and Development of Raw Materials**

The Research and Development of innovative materials is essential in order to design and manufacture “Eco & Safety” tyres which are increasingly sustainable and which guarantee lower environmental impacts throughout their life cycle while ensuring greater driving safety.

In terms of raw materials, for the selected product lines, the current Industrial Plan envisages an increasing use of materials from renewable and recycled sources, with the aim of using more than 40% renewable materials by 2025 (more than 60% by 2030), more than 3% recycled materials (more than 7% by 2030) and reducing the use of fossil-derived raw materials to less than 40% (less than 30% by 2030).

In 2021, a significant R&D effort was made on innovative renewable and recycled materials, which led Pirelli to equip the Volvo Recharging Concept with a tyre containing 94% materials of non-fossil origin, such as silica from rice husks, carbon black from recycling and bio-resins. This concept paves the way for the introduction of such materials in normal production, as in the case of rice husk silica, which has been introduced in several production plants, making it possible to reach up to 28% of renewable materials in some IP codes by 2021 (up from 23% in 2020), together with 5% (about 1%, excluding metals) of recycled materials (a value in line with the 2020 figure).

In this context, Pirelli’s Research & Development focuses, for example, on:

- high-dispersion silica for wet grip, rolling resistance and mileage;
- new technologies applied to the development of polymers, fillers and plasticisers to improve the wear rate of tyres;
- biomaterials, such as silica from renewable sources, biofillers such as lignin and sepiolite, and plasticisers/resins of plant origin;
- textile reinforcements with fibres from renewable and/or recycled sources;
- nanofillers for more stable compounds, lighter structures and highly impermeable liners;
- new silica surfactants to guarantee performance stability and processability.

Pirelli has activated several Joint Development Agreements with leading suppliers for the study of new polymers, silicas, plasticisers and resins that are able to further improve the characteristics of tyres for rolling resistance, low temperature performance, mileage and road grip.

The Joint Labs agreement (2021-2024) between Pirelli and the Politecnico of Milan, aimed at research and training in the tyre industry, covers nanotechnology, the development of new synthetic

polymers, new biopolymers and new bifunctional chemicals (e.g. serinol-pyrrole for improving polymer-charge interaction with reduced emission of volatile organic compounds - VOCs).

In the field of biomaterials, in addition to the introduction of resins and plasticisers from natural origin, Pirelli has focused on silica deriving from the rice husk, namely the outer shell of rice grain. The husk is by weight 20% of the raw rice grain and it is the main waste of this crop, because, in many areas of the world, it is not used but burned in the open air. Thanks to a partnership with various producers, Pirelli is evaluating the diversified supply of high-performance silica from processes that start from rice husks used as feedstocks, contributing to the industrial application of a circular economy model concerning waste materials. The combustion of the carbon part of the husk also allows a reduction of more than 90% of the amount of CO<sub>2</sub> emitted per kilogram of silica, compared to the conventional process that instead exploits fossil energy sources. During 2021, the use in normal production of silica from rice husks was increased achieving a volume scale-up to 1% of total silica consumption involving plants in China and Europe, with the aim of reaching 7% during 2022.

Specific projects for the development of new materials from renewable sources, mainly focused on the use of waste feedstocks, are the subject of the framework agreement between Pirelli, CORIMAV (Consortium for Materials Research Advanced) and Bicocca University. In the context of the new nano-fillers, in production Pirelli has started to introduce process materials of mineral origin in a partial substitution of precipitated silica and carbon black, such as sepiolite. These innovations save water and reduce CO<sub>2</sub> emissions by more than 75% compared to the production processes of the raw materials being replaced.

With a view to the circular economy, in 2021 Pirelli filed patent applications for the use of recycled PET in the manufacture of tyres, resins from renewable sources, lignin and, in collaboration with the Milan Polytechnic, the synthesis of pyrroles from materials derived from renewable lignocellulosic biomass. Lignin, a low environmental impact additive of natural origin derived from waste from the cellulose production process, is already being used in a compound for Velo products.

Pirelli Research and Development constantly monitors the growing opportunities for the use (in increasing proportions) of materials from recycling. The development of innovative technologies for the production of materials from recycled end-of-life tyres (ELTs), such as powder obtained by fine grinding the tyre or carbon black obtained from tyre pyrolysis, allows them to be used in increasing quantities without compromising performance or safety, unlike the technologies of the past.

Some materials used in compound formulations (such as synthetic polymers, carbon-black and synthetic oils) can in turn be produced by feeding the synthesis process with certain quotas of feedstock from recycling (recycled polystyrene, oil from pyrolysis of ELTs): during 2021, Pirelli expanded the collaboration with partners aimed at developing, validating and applying these technologies in new materials.

There is constant research into the efficiency of materials, which makes it possible to reduce the volumes purchased, as well as the weight of the finished product, with a significant positive environmental impact throughout the entire life cycle of the material and product.

Research is also continuing aimed at diversifying the potential supply sources of natural rubber, to reduce pressure on biodiversity in producer Countries and allow the Company to manage the potential scarcity of raw materials with greater flexibility. At the same time, partnerships are being strengthened with suppliers of FSC-certified (Forest Stewardship Council) natural rubber. The sustainable management of the natural rubber supply chain, the so-called conflict minerals and the cobalt chain are specifically discussed in the “Our Suppliers” section of this report.

Further information on Pirelli’s Research & Development activities can be found in the paragraph “Our Suppliers” (R&D Partnership section) of this report and in the Directors’ Report on Operations (“Research and Development Activities” section).

### **Product: the objectives of Eco & Safety Performance**

In line with its position in the *Premium* and *Prestige* segments, Pirelli develops and introduces increasingly sophisticated products on the market, responding to a macroeconomic scenario in constant and rapid evolution. The significant corporate investment in research and development on materials, compounds, structures and tread patterns allows Pirelli products to achieve extremely high performance in terms of braking in dry and wet conditions and, at the same time, improved environmental performance such as:

- less rolling resistance – lower CO<sub>2</sub> emissions;
- less noise – reduced noise pollution;
- increased mileage – lengthening of tyre life and reduced exploitation of resources;

The targets to improve the environmental performances adopted by Pirelli for its products are objective, measurable and they consider the level of materiality of the impacts along the life cycle of the product with a perspective of the maximum effectiveness of the action. In this regard, Pirelli is constantly committed to reducing the rolling resistance of its car products, which, at the end of 2021, is 10.3% lower than the 2015 value (and down more than one percentage point from the 2020 figure), calculated as the weighted average of all car tyres. In addition, Pirelli has set the goal for 2025 of having over 70% of new car products, i.e. new labelled IP codes considered at group level, classified A or B for rolling resistance (according to the highest European labelling standards) and over 90% classified A or B for wet grip. In 2021, the new labelled IP code tyres placed on the market by Pirelli worldwide have 49% (up from 39% in 2020) A or B Rolling Resistance labels and 87% (in line with the 2020 figure) A or B Wet Grip labels, according to the European classification.

For an overview of product performance targets, please refer to the “Sustainability planning and the UN Sustainable Development Goals (SDGs)” section of this report.

Eco & Safety Performance<sup>30</sup> products include the CINTURATO™ P7™ Blue, with which solution Pirelli was the first manufacturer in the world present on the market with a tyre that, in some measurements, boasts the double A in the Eurolabel scale. This product is available, depending on the measurements, both in double A class and in B class of rolling resistance while always maintaining A class for wet grip. On average, the CINTURATO™ P7™ Blue guarantees 23% less rolling resistance than the Pirelli reference (rolling resistance class C), combined with lower fuel consumption and a reduction in the atmospheric emissions associated with it. A vehicle with CINTURATO™ P7™ Blue tyres that runs 15,000 km a year consumes 5.1% less fuel (equivalent to 52 litres), and reduces greenhouse gas emissions by 123.5 kilograms of CO<sub>2</sub> and has a braking distance on wet 9% lower than the Pirelli benchmark (class B of wet grip) in the same segment. Comparative TÜV SÜD tests showed that, at a speed of 80 km/h on a wet surface, the CINTURATO™ P7™ Blue reduces braking by 2.6 metres compared to a tyre classified B.

In 2021, Pirelli launched the new Pirelli Powergy, a summer tyre for crossovers, SUVs, sedans and MPVs, which is characterised by class A labelling for wet grip, class B for rolling resistance and low noise emission (minimum value on the label). To achieve the performance offered by the Pirelli Powergy, the latest virtual simulation technologies have been used to develop the tread pattern and the profile of the tyre with a view to optimising the footprint, with the benefit of limiting braking distances and maximising controllability and driving precision. These elements, combined with the use of compounds with balanced polymers, serve to improve performance on wet surfaces and mileage. The results were also achieved thanks to the analysis of the parameters obtained from the use of the static simulator at Pirelli's R&D centre in Milan and the final validation tests on the track, which made it possible to optimise the development times and processes of this tyre, designed in 18 months despite the difficulties of the global health context, with reduced production of physical tyre prototypes and consequent benefits in environmental terms.

In May 2021, Pirelli became the first company in the world to produce a range of FSC-certified tyres designed for the new BMW X5 xDrive45e Plug-In Hybrid. These tyres contain FSC-certified natural rubber and rayon and represent a new horizon for increasingly sustainable tyre production. FSC forest management certification confirms that plantations are managed in a way that preserves biological diversity and benefits the lives of local communities and workers, while ensuring economic sustainability. Also contributing to the environmental sustainability of this tyre, which is produced exclusively at the Pirelli factory in Rome (Georgia, USA), is its low rolling resistance (A value on the European label), which limits the vehicle's fuel consumption and related atmospheric emissions.

In 2021, Pirelli presented its first tyre with an HL (High Load) index dedicated to electric or hybrid cars and SUVs. Designed to support the increased weight of vehicles equipped with batteries, the new product is capable of supporting a ground weight more than 20% greater than a standard tyre. The new US luxury electric sedan Lucid Air is the first car to use Pirelli's new HL tyres, which also feature Pirelli Elect and PNCS technologies. The Elect marking identifies Pirelli tyres dedicated to electric and hybrid vehicles, whose performance is closely influenced by the tyres. Thanks to specific technical characteristics of the compound and structure, Pirelli tyres marked Elect offer several

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<sup>30</sup> Eco & Safety Performance products identify the car tyres that Pirelli produces throughout the world that fall exclusively into classes A, B, C of rolling resistance and wet grip according to the labelling parameters set by European regulations.

advantages: low rolling resistance to increase autonomy, low rolling noise to ensure excellent driving comfort, immediate grip for transmission stress during start-up and a structure suitable for supporting the weight of the battery-powered vehicle. To further increase interior comfort, PNCS technology, consisting of a special sound-absorbing material placed in the tyre cavity, dampens air vibrations that would otherwise be transmitted inside the vehicle with a consequent reduction in the noise generated by tyre rolling, with an additional benefit for the driver and passengers.

Attention to environmental sustainability is also fully integrated into the company's motorsport business model. In fact, Pirelli is the first and only tyre manufacturer in the world to have obtained three stars of the Environmental Accreditation Programme promoted by the FIA (International Automobile Federation), in recognition of its commitment to sustainability in motorsport and achieved them as a result of a supply chain that is fully managed according to environmental and social sustainability criteria. Among the measures Pirelli has taken to achieve this result in Formula 1™ are an increase in the use of renewable materials, the elimination of single-use plastic from track activities and a supply chain fully managed according to environmental and social sustainability criteria. In addition, Pirelli's motorsport activities have passed a series of rigorous audits that take into account various elements to reduce environmental impact, starting with carbon dioxide emissions. An issue that was also central to the development of the new GT tyre, the P Zero DHF, thanks to the extensive use of virtual models that made it possible to reduce the production of physical prototypes. Examples of Pirelli's sustainability objectives, in both business and manufacturing, include reducing absolute CO<sub>2</sub> emissions by 25% by 2025 (compared to 2015 levels) and sourcing 100% of electricity from renewable sources, a goal already achieved by all Pirelli European plants including the motorsport factories in Slatina, Romania, and Izmit, Turkey. As far as logistics are concerned, Pirelli uses the latest EURO 6D truck fleet and for extra-European shipments chooses sea solutions as far as possible, which are less polluting than air transport.

For further information on Motorsport, please refer to the paragraph "Motorsport and sustainability" of this report and the paragraph "Engagement in motorsport" in the Directors' Report on Operations.

With reference to the cycling, also in 2021 Pirelli launched new product lines (P ZERO Race, P ZERO Road, P7 Sport, SmartTUBE) renewing and expanding the range of products dedicated to sportspeople and cycling enthusiasts.

In 2021, Pirelli launched CYCL-e around™ for companies; a fleet of e-bikes that companies will be able to make available to their employees to ride to work and in their free time, fitting in as a complement to the ecosystem of urban transport and private vehicles to make mobility in the city more fluid, sustainable and accessible.

Pirelli's high-tech products include the development of technologies based on the introduction of sensors inside the tyre. In February 2021, for the first time in the world, a production car fitted as original equipment a sensor-fitted tyre that talks to the car: the Pirelli Cyber Tyre system, consisting of a sensor in each of the tyres that collects fundamental information for driving safety and software integrated into the car's electronics. This is the McLaren Artura, a hybrid supercar equipped with the latest technology aimed at making the driving experience as engaging and safe as possible. The Pirelli Cyber Tyre system will represent the future of tyres, providing cars with a "sense of touch",

able to detect or anticipate potentially dangerous situations such as loss of grip and aquaplaning, thus enabling the car's electronics to intervene promptly. The next step will see tyres networked, both with other vehicles and with the road infrastructure. Already by late 2019, Pirelli was the first company in the world in the tyre sector to share information on the 5G network about the road surface detected by smart tyres equipped with sensors, presenting in Turin the use-case "World-first 5G enhanced ADAS (Advanced Driver Assistance Systems) services". This is a continuously evolving system that will become essential as the level of autonomy of cars increases. In fact, the driver's current ability to perceive the grip conditions provided by the type of road surface and weather conditions will have to be fulfilled by the tyres, and the car will be able to slow down if the asphalt is found to be slippery, adapt the electronic controls to increase safety and, with inter-vehicle connectivity, warn other self-driving cars of a potential imminent danger. This is a true tactile sense offered by the only point of contact between the car and the road, the tyres.

In 2021, Pirelli and Geotab, a global leader in IoT and connected transport, announced an international collaboration to support the commercial transport sector in improving operational efficiency and sustainability, while also promoting greater safety for people and goods. Reducing tyre management costs, fuel consumption and emissions are the objectives to be achieved through the forthcoming use of Pirelli CYBER Fleet within Geotab's Marketplace application offering: a sensor placed inside the tyres detects their pressure and temperature, data that are collected by an app on tablets or smartphones and sent to Geotab's digital platform (MyGeotab), simplifying daily vehicle inspection and tyre control. This integrated solution allows the efficiency of the vehicle to be monitored remotely and any anomalies to be seen so that maintenance work can be scheduled efficiently.

For further information on Cyber™ technologies, please refer to the paragraph "High Value Approach to Future Mobility" in the "Our Customers" chapter of this report and to the paragraph "Product, material and production process innovation" in the Directors' Report on Operations.

Among the Open Innovation initiatives, the Joint Labs agreement between Pirelli and the Milan Polytechnic and the Milan Polytechnic Foundation should be highlighted. In 2021, ten years after the first signing, the continuation of the initiative focused on research projects for the continuous technological innovation of tyres was signed. The collaboration has been extended for a further 3 years, with new challenging objectives and innovative tools, including the static simulator, installed at Pirelli's R&D centre in Milan, and the dynamic simulator at the Milan Polytechnic. In addition to exploring the potential of virtual environments, this new phase of the agreement (2021-2023), which envisages a total investment of more than €2 million, focuses on two research macro-strands: the area of materials, with the development of innovative solutions and the modelling of mixing processes, and the area of Product Development and Cyber, with integrated static-dynamic simulation and innovative modelling. During the ten years of the collaboration agreement between the Milan Polytechnic, Milan Polytechnic Foundation and Pirelli, 14 patent families have been deposited and about thirty articles published in international scientific journals, as well as dozens of presentations at international congresses. Many topics have been addressed and results achieved in the area of tyre performance, safety and sustainability, thanks to the use of advanced materials identified within the framework of this collaboration. In particular, 15 research grants have been awarded to young graduates in the field of materials chemistry. In the last three years, for example,

research has focused mainly on the production and functionalisation of carbon allotropes; the preparation of modified silicate fibres; the study of alternative sources of natural rubber; and the synthesis of innovative polymers and self-repairing materials. Attention was also paid to the tyre mechanics sector where, since 2011, 12 research contracts have been activated in the Cyber Tyre™ and F1® fields, with the study of tyre-asphalt interaction. One area of particular interest was the study of low-noise tyres, especially for new hybrid and electric vehicles, where this component is important for driver comfort. In fact, innovative test methodologies have been applied for the indoor measurement of the acoustic field generated by the rolling tyre. The Tread Modeling Automation project, on the other hand, has studied tyre modelling and the characteristics of different summer, winter and all-season treads. In support of professional training, the second level university Master's degree "R&D Excellence Next" was also recently inaugurated, created in collaboration with the Milan Polytechnic, which involves 34 young engineers who have just been hired by the company, with the aim of training specialised technicians.

### ***Tyre and Road Wear Particles***

For many years, Pirelli has paid great attention to the theme of "Tyre and Road Wear Particles" (TRWP), the micrometric particles produced by the combined wear and tear of the road and tyre during vehicle circulation. The phenomenon of TRWP is complex, since the generation of these particles is not only linked to the combined wear of the road and tyre, but also substantially to the characteristics and conditions of use of the vehicle (weight, mass distribution, correct tyre pressure, etc.), the characteristics of the roads (material and roughness of the roads, being straight or winding, uphill or downhill, etc.), environmental conditions (dry or humid climate, hot or cold) and driving style (aggressive or relaxed, at high or moderate speeds, with sharp or progressive braking, etc.). Scientific studies (see "WBCSD" in this report) conducted so far have not shown significant risks to human health and the environment: however, the definition and implementation of effective actions for the mitigation of TRWP generation is strongly linked to the variety and number of causal factors mentioned above: it should be noted that some of them, such as driving style, road and vehicle characteristics, have more influence than the tyre considered individually.

The various causal factors extrinsic to the tyre and belonging to the sphere of influence of multiple stakeholders require combined action by all actors in order to define and implement the most effective mitigation actions. The need for multi-stakeholder engagement led to the creation of the "European TRWP Platform" launched by ETRMA (see more in the "ETRMA" section of this report), which saw, in addition to the Tyre Industry, the participation of Road Authorities, Automobile Manufacturers Association, Automobile Clubs, the waste water treatment industry, Universities and Research Centres, NGOs, European Institutions and national authorities. The platform will continue its work in 2022 and, as in the previous editions 2018-21 will be supported by CSR Europe.

In terms of tyre-specific actions, Pirelli's commitment to TRWPs is expressed both through active participation in the Tyre Industry's most important collaborative projects on TRWPs (see the "ETRMA" and "WBCSD" sections of this report) and through its R&D activities on materials and tyre design, aimed at continually improving tyre wear and, consequently, minimising its contribution to



the issue of TRWPs. Demonstrating this commitment, the new product lines launched in 2021 boast a wear rate improvement of up to 30% less than the previous generation of tyres. This is accompanied by collaboration with Public Authorities and the Tyre Industry to support the development of standardised methodologies for measuring tyre wear, for example within the European Union where a dedicated activity has begun.

## **Management of End-Of-Life Tyres**

In terms of materiality, the end-of-life phase of the product has a low proportion of the total impact of the tyre on the environment, as already highlighted in the infographic related to the Group's Carbon and Water Footprint.

End-of-life tyres, however, represent a valuable source of resources (secondary raw materials), which are already successfully used in several sectors of the value chain (e.g. in construction, infrastructure, asphalt, manufacturing of rubber products) and with a considerable potential for developing further applications in different industrial ecosystems, aimed at increasingly exploiting their properties,

In the world, it is estimated that one billion tyres reach the end-of-life each year. On a global scale, 60% of end-of-life tyres (ELTs) are recovered (Source: WBCSD 2019 - Global ELT Management – A global state of knowledge on regulation, management systems, impacts of recovery and technologies), while in Europe and the United States the recovery stands at 95% (Source: ETRMA 2021, data from 2019) and 76% (source: USTMA - 2019 US Scrap Tyre Management Summary).

For years, Pirelli has been engaged in the management of ELTs. The Company actively collaborates with the main reference entities at national and international level, promoting the identification and development of solutions to enhance and promote the sustainable recovery of ELTs, shared with the various Stakeholders and based on the Circular Economy model. In particular, Pirelli is active in the Tyre Industry Project (TIPG) of the World Business Council for Sustainable Development (WBCSD), in the ELT working groups of ETRMA (European Tyres and Rubber Manufacturers' Association) and, at national and local level, it interacts directly with leading organisations active in the recovery and recycling of ELTs, such as the consortia established to comply with regulations on Extended Producer Responsibility.

As a member of TIPG, Pirelli has collaborated on the publication of guidelines on the management of ELTs (WBCSD "A framework for effective management systems" in 2008 and "Managing End-of-Life Tires" in 2010), taking a proactive approach to raising the awareness both within Emerging Countries and those that do not yet have a system for ELTs recovery, in order to promote their recovery according to "best practices", i.e. defined management models which have already been launched successfully.

Potentially all tyres produced and sold by Pirelli can be destined for recovery activities, both in terms of material (recycling) and energy. The actual recovery/recycling rate varies depending on the markets and ELT management models in the various countries.

With regard to “closed-loop” Circular Economy applications, as already mentioned, tyres are a mixture of many valuable materials that at end-of-life allow two paths of recovery: recovery of material (such as “secondary raw materials”) or energy. In the recovery of material, the reclaimed rubber is already reused by Pirelli in the compounds for new tyres, thus contributing to the reduction of the related environmental impact. In order to increase this recovery rate, research activities following our Open Innovation model are continuing, aimed at improving the quality of recovered secondary raw materials in terms of affinity with the other raw materials and the other ingredients present in our ultra-high performance compounds, as well as in the search for innovative recovery solutions.

## **ENVIRONMENTAL IMPACT OF PIRELLI’S PRODUCTION SYSTEM**

### **Environmental Management System and Factory Performance Monitoring**

All the production facilities of Pirelli and the tyre testing field in Vizzola Ticino have Environmental Management Systems certified under International Standard ISO 14001. The International Standard ISO 14001 was adopted by Pirelli as a reference in 1997 and, since 2014, all the certificates have been issued with international accreditation ANAB (ANSI-ASQ National Accreditation Board: accrediting entity of the United States).

The certification of the environmental management system according to the ISO 14001 Standard is part of Pirelli’s Environmental Policy and, as such, is extended to new settlements that become part of the Group. The certification activity, together with control and maintenance of previously implemented and certified systems, is coordinated on a centralised basis by the Health, Safety and Environment Department.

Also thanks to the environmental certification of its motorsport tyre factory management systems, Pirelli is the first and only tyre manufacturer in the world to have been awarded three stars by the Environmental Accreditation Programme promoted by the FIA (International Automobile Federation). The three stars represent the maximum score level awarded by the programme, whose aim is to propose a series of measures that participants must implement to achieve the highest environmental standards.

The environmental, health and safety performance of every tyre manufacturing site is monitored with the web-based Health, Safety and Environment Data Management (HSE-DM) system, which is processed and managed centrally by the Health, Safety and Environment Department. Pirelli has also developed the CSR-DM (Corporate Social Responsibility Data Management), an IT system for managing Group Sustainability information, which is used to consolidate the environmental and social performance of all Group subsidiaries worldwide. Both systems support consolidation of the environmental performance accounted for in this report.

## Scope of Reporting

The performances reported in the following paragraphs concern the three-year period 2019-2020-2021 and cover the same scope of the Group's consolidation, including the impacts of all the units under operational control: from industrial realities to commercial and administrative sites.

The amount of finished product used in the calculation of the specific indices indicated below, in 2021 was over 772,000 tonnes.

## Environmental Performance Indices trend

In terms of materiality of environmental impacts (Carbon and Water Footprint) of the tyre along the entire life cycle, the production phase accounts for 2.4% of total greenhouse gas emissions impacts and for 12.6% of total water-related impacts.

Despite the continuing health emergency linked to the Covid-19 pandemic, the Group's production activity in 2021 was marked by an increase in tonnes of finished product of around 25% compared to the previous year (value calculated on a like-for-like basis).

As a result of the significant growth in volumes, together with the geographical redistribution of production, the indices calculated in absolute terms of energy consumption, water withdrawal and waste production increased compared to the 2020 figure (a year that saw a significant reduction in all absolute consumption due to the effects of the health emergency linked to the Covid-19 pandemic). On the other hand, the increase in the share of electricity from renewable sources used by Pirelli grew significantly in 2021, supporting the improvement in the index relating to absolute greenhouse gas emissions. The percentage of waste sent for recovery is stable with respect to 2020 at 97%. The return to a more stable production continuity favoured the reduction compared to 2020 of all specific indices (calculated on tonnes of finished product) relating to energy consumption, greenhouse gas emissions, water withdrawal and waste production. All the equivalent specific indicators weighted on the operating result (related to the EBIT Adjusted) also improved.

The trend reported rewards the intense effort dedicated to reducing environmental impacts, also considering the special features of Pirelli production, focused on Premium and Prestige tyres whose production processes are characterised by greater energy complexity, more restrictive quality specifications, more complex processing and smaller production batches than standard tyre production processes.

## **Energy Management**

Pirelli monitors, manages and reports its energy consumption through three main indicators:

- absolute consumption, measured in GJ, which includes the total consumption of electrical energy, thermal energy, natural gas and petroleum derivatives (fuel oil, gasoline, diesel, and LPG);
- specific consumption, as measured in GJ per tonne of finished product;
- specific consumption, as measured in GJ per euro of Operating Income.

The current Industrial Plan provides for a 10% reduction in specific energy consumption by 2025 compared to 2019 values.

In the course of 2021, the energy efficiency plan continued at all Group plants, already initiated in recent years and characterised by actions aimed at:

- improving energy management systems, through measurement consumption, a daily focus on technical indicators and continuous improvement of processes;
- optimising the procurement of energy resources, direct or indirect;
- improving the quality of energy transformation;
- improving the efficiency of distribution plants;
- improving the efficiency of production plants;
- recovering energy for secondary uses;
- applying targeted maintenance plans in order to reduce energy waste.

With regard to Life Cycle Assessment, the specific consumption of each plants is mapped, whether dedicated to production or dedicated to the generation of energy carriers in order to: increase the standard reference indicators, compare similar families of machinery, evaluate in detail the energy content of the plants' different families of products and sub-products and implement actions to improve their energy performance.

In terms of compliance, every industrial facility completely fulfils the indications of law regarding energy consumption and management. The legislative situation affecting the Company includes the introduction of periodic audit mechanisms on energy management and use, as well as possible tariff incentives. In this regard, there were no critical elements or non-conformities.

The Energy Management System, certified according to the ISO 50001 standard is under development and has already been adopted at the Breuberg (Germany) and Izmit (Turkey) plants.

Actions and investments for energy efficiency are alongside the assessment of environmental impacts to economic sustainability criteria normally applied to all Pirelli projects. The areas for technical action both concern the traditional themes applied to each industrial area, such as modernisation of thermal insulation, maintenance of distribution plants, use of technologies using inverters, the implementation of optimised control systems and special projects assessed according to the needs of each manufacturing site.

During the course of 2021, the installation of LED lighting systems continued at production sites to replace less efficient traditional systems, achieving coverage of the majority of the Group's plants. To speed up this replacement plan, Pirelli also uses "Light Service" contracts, which define guaranteed levels of both energy savings and the quality of light achieved. Great attention was paid to the efficiency in the transformation of thermal energy and the recovery of thermal waste for heating of premises and improved steam generation performance through flue gas recovery and combustion air pre-heating systems. There were also activities to improve the efficiency of both compressed air generation, using high-performance compressors, and energy flows, with a particular focus on cold management, starting with pilot initiatives in individual plants that will then be extended to all production units.

The activities to reduce compressed air and steam losses continued with excellent results, whether on machinery (generators and users) or on distribution lines, through monitoring and regular maintenance of the elements at greatest risk of malfunctioning (leak management). Moreover, the electrical absorption measurements performed on individual plants are on-going, in order to correlate specific consumption to production in greater detail, so as to optimise their operating conditions.

As regards the digitalisation of energy management, the production plants have been equipped with smart systems (Green Button), which modulating the energy consumption based on the state of operation of the machinery, provide to disable the auxiliaries up to a stand-by regime with the energy consumption at the minimum, but able to guarantee an immediate restart where necessary (Shutdown Management). In addition, the expansion of the real-time energy carrier measurement network and its interconnection with Building Energy Management Systems (BEMS) continues.

Despite the continuing health emergency linked to the Covid-19 pandemic, energy efficiency in 2021 benefited from a return to more stable production continuity compared to 2020, although, in response to an increasingly dynamic automotive market, the internal complexity of factories has increased in order to cope with a greater demand for flexibility and a production mix increasingly oriented towards High-Value products, characterised by higher energy intensity during production compared to standard tyres.

Compared to the previous year, 2021 recorded a reduction in the Group's specific energy index of 8.3%, returning in line with the 2019 figure (the year on which the 2025 reduction target is based).

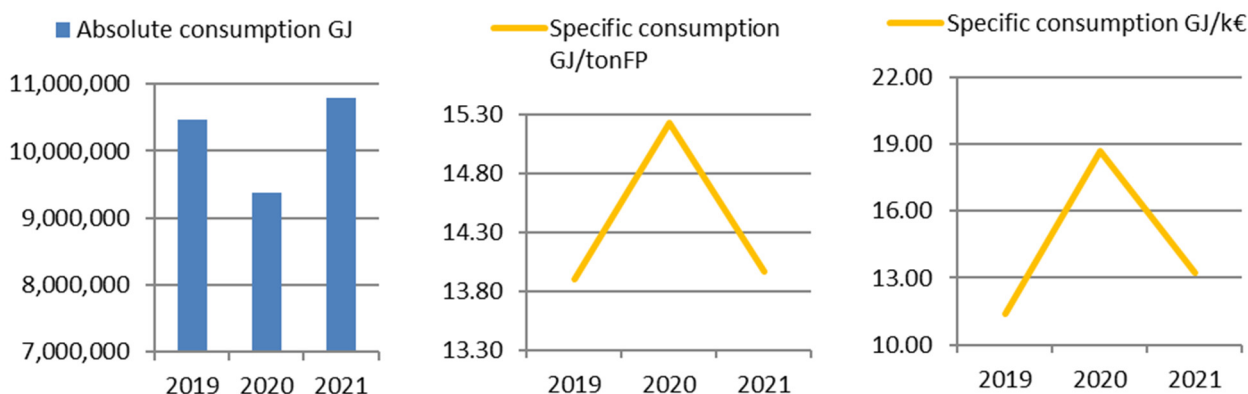
In absolute terms, energy consumption increased by 15% compared to 2020 (a year that saw a significant reduction in production volumes, and consequently in energy consumption associated with tyre manufacturing processes, due to the effects of the health emergency linked to the Covid-

19 pandemic) and by around 3% when compared to 2019. This had no impact on total CO<sub>2</sub> emissions, which fell significantly due to the strong increase in the use of renewable electricity.

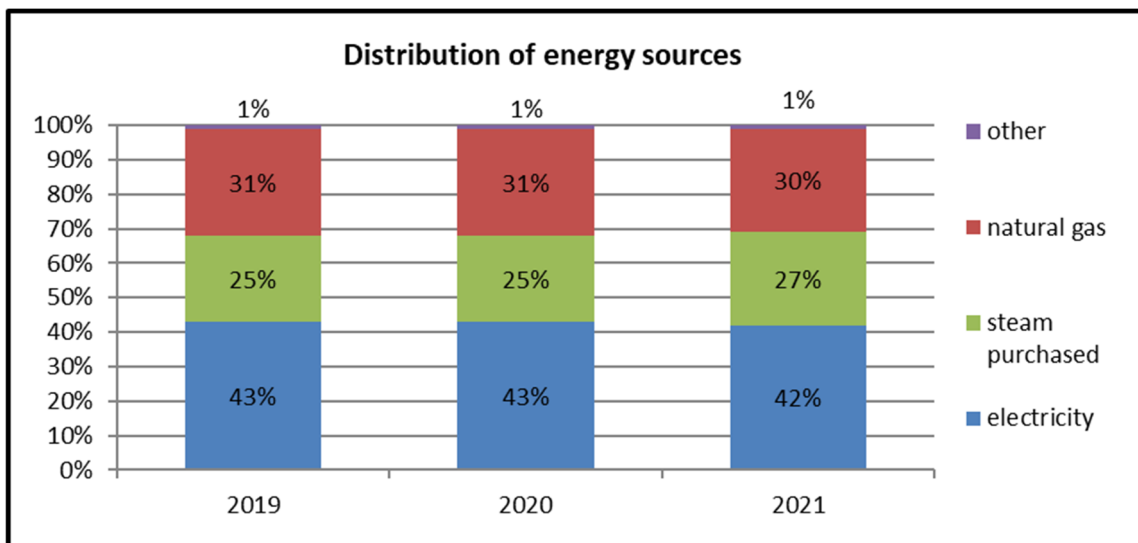
The application of energy management with a view to maximising industrial efficiency, implementing continuous improvement logics, has resulted in savings of approximately 871,434 GJ in absolute terms. This value was estimated for each factory on the basis of production volumes in the reporting year and the change in efficiencies achieved in 2021 compared to the previous year.

The absolute and specific energy consumption data reported in the following table were calculated by using direct measurements and were subsequently converted into GJ by using heating values from official IPCC sources.

		2019	2020	2021
<b>Absolute consumption</b>	GJ	10,467,443	9,373,179	10,789,138
	GJ/tonFP	13.90	15.22	13.97
<b>Specific consumption</b>	GJ/k€	11.41	18.70	13.23



The graph below highlights the “Distribution of energy sources” used in Pirelli production process: among the direct sources, all from non-renewable sources, which account for 31% of the total, are natural gas and, to a lesser extent, other liquid fuels such as oil, LPG and diesel (classified as “other”); indirect sources cover the remaining 69%, with 42% electricity (37.5% electricity taken from national distribution networks) and 27% steam purchased by the Group.



Of the total electricity used by the Group, more than 62%<sup>31</sup> derives from renewable sources (up from 52% in 2020 and 41% in 2019), while for purchased steam, the share generated from renewable sources is around 17%<sup>32</sup> of the total. Overall, compared to the total energy consumed, the renewable share calculated as above is around 31% (19% excluding the portion of the electricity mix from grids outside the Group’s control - i.e. purchased from national distribution networks).

The current Industrial Plan envisages sourcing 100% of electricity from renewable sources used on a group-wide basis by 2025.

With regard to all production sites in Europe and Turkey, 100% of the electricity supply from the grid in 2021 came from certified renewable sources.

### Management of Greenhouse Gas Emissions and Carbon Action Plan

Pirelli monitors and reports its<sup>33</sup> emissions of greenhouse gases through the calculation of CO<sub>2</sub>-equivalent (CO<sub>2</sub>e) – unit of measurement used for the emissions reported here below –, which takes into account the contribution of carbon dioxide, methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O). To quantify emissions, the energy consumption of all local units under operational control included in the scope of reporting are collected annually through the CSR-DM IT system.

Greenhouse gases are generated by the combustion of hydrocarbons at production sites, mainly used to operate heat generators that power Group plants, and particularly those that produce steam for vulcanisers, or by the consumption of electrical or thermal energy. The former are defined as

<sup>31</sup> Figure including both share from direct procurement (such as the purchase of energy from the grid certified with Energy Attribute Certificates withdrawn and cancelled in favour of Pirelli or production in on-site wind or photovoltaic plants) and national electric grid mix based on IEA data (International Energy Agency).

<sup>32</sup> It includes the supply of steam generated by biomass plants.

<sup>33</sup> GHG inventory perimeter as indicated in paragraph “Scope of Reporting”.

“direct emissions”, or Scope 1 emissions, as produced within the Company’s production sites, while the latter compose the so-called “indirect emissions”, or Scope 2 emissions, as they are generated in the plants that produce the energy and steam purchased and consumed by Pirelli. The Scope 2 emissions are reported in two separate ways: *location-based* and *market-based* (methodology introduced in 2015 with the guideline “GHG Protocol Scope 2 Guidance” and current reference for Pirelli’s targets).

With regard to “other indirect emissions” attributable to Pirelli Value Chain activities, or Scope 3 emissions, in addition to the information reported in this section, please refer to the paragraph “Our Suppliers” (“CDP Supply Chain” section) for further information about the specific activities of Pirelli Suppliers. Instead, reference is made to the Group Footprint infographics in the paragraph “Pirelli Group Environmental Strategy and Footprint” for the representation of the impacts of Scope 3 of the various phases of the life cycle.

Performance as measured by energy and greenhouse gas emissions is calculated on the basis of emission factors obtained from the following sources:

- IPCC: Guidelines for National Greenhouse Gas Inventories (2006)<sup>34</sup>;
- Within Scope 2 *location-based*:
  - National emission factors<sup>35</sup> taken from IEA Emission factors 2021<sup>36</sup>;
- Within Scope 2 *market-based*:
  - Specific emission factors of suppliers where available;
  - Residual-mix emission factors<sup>37</sup> taken from AIB European Residual Mixes (EU)<sup>38</sup> and Green-e Residual Mix Emissions Rates (US)<sup>39</sup>;
  - Emission factors used in the context of location-based if other sources of data are not available;

and are reported according to the models proposed by:

- GHG Protocol: Corporate Accounting and Reporting Standard;
- GHG Protocol Scope 2 Guidance.

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<sup>34</sup> Emission factors expressed in CO<sub>2</sub> equivalent, obtained by considering the GWP (Global Warming Potential) coefficients based on 100 years of the IPCC Fifth Assessment Report, 2014 (AR5).

<sup>35</sup> Emission factors expressed in CO<sub>2</sub>/kWh.

<sup>36</sup> 2021 Publication with update to the 2020 figure.

<sup>37</sup> Emission factors expressed in CO<sub>2</sub>/kWh.

<sup>38</sup> 2021 Publication with update to the 2020 figure.

<sup>39</sup> 2021 Publication with update to the 2019 figure.



Regarding Scope 2 emissions, the national average coefficients are defined with respect to the last year available on the above reports. It should be noted that the tyre production industry is not a carbon-intensive industry; in fact, it falls within the European Emission Trading Scheme only with reference to thermal power plants above 20 MW of installed capacity. The Company is not subject to other specific regulations at the global level.

As in the case of energy, Pirelli monitors and accounts for its direct CO<sub>2</sub>e (Scope 1) and indirect (Scope 2) by using three principal indicators:

- absolute emissions, as measured in tonnes;
- specific emissions, as measured in tonnes per tonne of finished product;
- specific emissions, as measured in tons per euro of Operating Income.

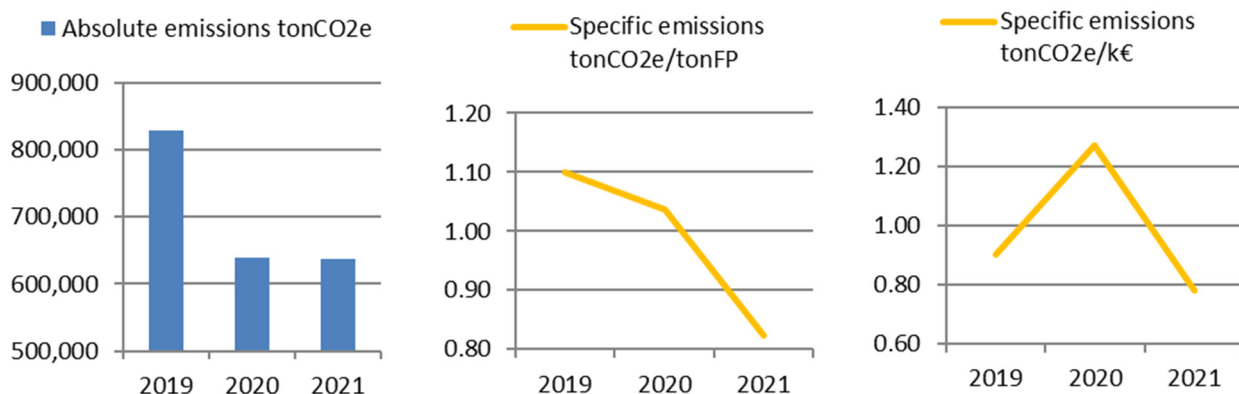
The management, calculation and reporting model of Pirelli’s greenhouse gas emissions has been defined according to the ISO 14064 standard and the related data have been subjected to specific limited audit activity by an independent third party company according to ISAE 3000.

According to the Guidelines of the GHG Protocol Guide, the level of inventory uncertainty was evaluated as “Good”.

The current Industrial Plan, in line with the decarbonisation strategy adopted by the company, envisages a 25% reduction in the group’s absolute CO<sub>2</sub> emissions (scope 1 and scope 2 market based) by 2025 compared to 2015 values and an 8.6% reduction in absolute CO<sub>2</sub> emissions related to the purchase of raw materials (scope 3) by 2025 compared to 2018 values. Both targets were validated in June 2020 by the Science Based Targets initiative (SBTi), which judged them to be consistent with the actions needed to keep global warming “well below 2°C”, as recommended by the Paris Agreement.

In addition, Pirelli expects to source 100% of electricity from renewable sources by 2025 and achieve Group carbon neutrality by 2030.

The following charts show the performance of the last three-year period:



In 2021, the Group’s absolute emissions were in line (-0.4%) with the figure for 2020, (a year that saw a significant reduction in production volumes, and consequently in emissions associated with tyre manufacturing processes due to the effects of the health emergency linked to the Covid-19 pandemic), and 23% lower than in 2019 and 31% lower than in 2015, the year in which the target (approved by SBTi) to reduce absolute emissions to 2025 is based. Having achieved in advance the target, validated by the Science Based Targets initiative in line with the “well below 2°C” scenario, Pirelli asked SBTi to upgrade it in line with the 1.5°C scenario.

Specific CO<sub>2</sub> emissions (weighted on tonnes of finished product) decreased by more than 20% in 2021 compared to the 2020 figure (25% compared to 2019), thanks to the implementation of new initiatives in the field of renewables, which allowed the share of electricity from renewable sources used by the group to increase to more than 62%<sup>40</sup> of the total (compared to 52% the previous year and 41% in 2019).

With regard to all production sites in Europe and Turkey, 100% of the electricity supply from the grid in 2021 came from certified renewable sources.

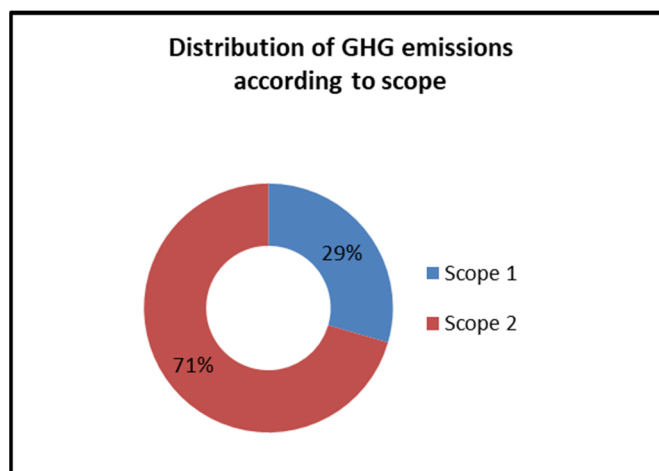
The portion of indirect emissions generated by the low-carbon projects (described below), was reported as prescribed by the Guidelines of the GHG Protocol, respectively for the procurement of electrical energy from renewable sources and steam from biomass.

The following table reports absolute and specific emissions distinguishing between market-based (target reference) and location-based methodology for Scope 2.

GHG EMISSIONS ACCORDING TO SCOPE		2019	2020	2021
<b>Absolute emissions (Scope 1 and Scope 2 market-based)</b>	tonCO <sub>2</sub> e	828,388	638,730	636,190
<b>Scope 1</b>	tonCO <sub>2</sub> e	192,149	168,158	187,510
<b>Scope 2 (market-based)</b>	tonCO <sub>2</sub> e	636,239	470,572	448,680
<b>Scope 2 (location-based)</b>	tonCO <sub>2</sub> e	574,349	508,390	528,332
<b>Specific emissions (Scope 1 and Scope 2 market-based)</b>	tonCO <sub>2</sub> e/tonFP	1.100	1.037	0.824
	tonCO <sub>2</sub> e/k€	0.90	1.27	0.78

<sup>40</sup> This figure includes both the share from direct procurement initiatives (such as the purchase of energy from the grid certified with Energy Attribute Certificates or the production in on-site wind or photovoltaic plants) and the contribution from national electricity distribution networks assessed on the basis of IEA (International Energy Agency) data.

The following infographic highlights the weight of direct emissions (Scope 1) and indirect emissions (Scope 2 market-based) of the total absolute emissions of Pirelli.



To support the aim of reducing climate-altering gas emissions, Pirelli has defined a “Carbon Action Plan” with the aim of making increasing use of renewable energy sources through specific projects, facilitating the company’s transition to low-carbon energy sources. These include:

- the cogeneration plant for the production of electricity, steam and hot water, present at the plant in Settimo Torinese (Italy). One of the two existing modules is a 1 MW internal combustion engine powered by vegetable oil, which ensures supply of thermal energy from renewable sources;
- the supply of steam generated by biomass plant, fuelled with waste wood from local supply chains, activated in Brazil for the plants in Campinas and in Feria de Santana. Thanks to this initiative, in the year 2021, the savings in terms of avoided CO<sub>2</sub>e emissions exceeded 26,000 tonnes (Scope 2);
- the procurement of electrical energy from renewable sources at the plant in Silao (Mexico). In 2021 the agreement continued for the dedicated supply of electricity generated from wind sources, which in the year allowed the replacement of 17 GWh of energy from fossil fuels, for a saving in terms of avoided CO<sub>2</sub>e emissions of around 6,000 tonnes (Scope 2);
- the supply of electricity from renewable sources at the plant in Slatina (Romania). In 2021, the share of electricity certified from renewable sources was 240 GWh, for a saving in terms of avoided CO<sub>2</sub>e emissions of more than 63,000 tonnes (Scope 2)
- the procurement of electrical energy from renewable sources at the plants in Burton and Carlisle (UK). In 2021 the share of electricity certified from renewable sources exceeded 56 GWh, for a saving in terms of avoided CO<sub>2</sub>e emissions of nearly 18,000 tonnes (Scope 2).
- the supply of electricity from renewable sources at the plant in Breuberg (Germany). In 2021, the share of electricity certified from renewable sources was 39 GWh, for a saving in terms of avoided CO<sub>2</sub>e emissions of almost 23,000 tonnes (Scope 2).

- the supply of electricity from renewable sources at the plant in Izmit (Turkey). In 2021, the share of electricity certified from renewable sources was 12 GWh, for a saving in terms of avoided CO<sub>2</sub>e emissions of around 5,000 tonnes (Scope 2).
- the supply of electricity from renewable sources at the headquarters in Milan and plants in Bollate and in Settimo Torinese (Italy). In 2021, the share of electricity certified from renewable sources exceeded 70 GWh, for a saving in terms of avoided CO<sub>2</sub>e emissions of around 33,000 tonnes (Scope 2).

The table below shows the emissions relating to Pirelli's Carbon Footprint (Scope 1, 2 and 3) distributed along the different phases of the value chain.

GHG EMISSIONS GROUP FOOTPRINT		2019 <sup>41</sup>	2020	2021
Raw Materials (Scope 3)	10 <sup>3</sup> tonCO <sub>2</sub> e	2,563.9	2,077.1	2,500.7
Manufacturing (Scope 1 + 2 + 3)	10 <sup>3</sup> tonCO <sub>2</sub> e	1,198.8	940.0	996.2
Distribution (Scope 3)	10 <sup>3</sup> tonCO <sub>2</sub> e	84.4	71.5	90.1
Customers (Scope 3)	10 <sup>3</sup> tonCO <sub>2</sub> e	40,220.9	32,576.8	37,527.8
End-of-Life (Scope 3)	10 <sup>3</sup> tonCO <sub>2</sub> e	2.2	1.9	2.2
<b>Total</b>	10 <sup>3</sup> tonCO <sub>2</sub> e	44,070.2	35,667.3	41,117.0

With regard to absolute CO<sub>2</sub> emissions related to the purchase of raw materials, for which the Scope 3 target approved by the Science Based Targets initiative is set, which envisages a reduction of 8.6% by 2025 compared to 2018, in 2021 there was an increase of 20% compared to 2020 (a year that saw a significant reduction in production volumes and therefore in raw materials purchased due to the effects of the health emergency linked to the Covid-19 pandemic), but also a decrease of 2.5% compared to 2019 and 6% compared to the 2018 (base year of the SBTi target).

In 2021, and as for several years now, Pirelli continued in the compensation project of CO<sub>2</sub> emissions produced the previous year by its fleet of company cars, through the purchase and retiring of carbon credits certified according to the VCS standard (Verified Carbon Standard). Direct issuance of Pirelli auto policy, which introduces an *Internal Carbon Price model* for the economic quantification of the impacts associated with car emissions, this initiative aims to promote the choice of vehicles with less impact on the environment and support environmental protection projects. The cars in the Italian corporate fleet emitted 785 tonnes of CO<sub>2</sub> in 2020. In order to offset this impact on the climate, Pirelli supported two sustainable forest management projects: an international one, carried out in Brazil, for the financing of activities under the REDD programme (Reducing emissions from deforestation and forest degradation) in an area very rich in biodiversity and recognised as an important ecological corridor and an Italian one, carried out in the forest areas of Ziano di Fiemme (TN), as part of the

<sup>41</sup> As from 2019, the value includes emissions generated by the Group's business air travel and commuting by employees at the Milan headquarters. The value also includes some primary data collected directly from suppliers.

initiative “Restoring Forests Destroyed by Storm VAIA”. The activities financed with Pirelli’s contribution were carried out in 2021.

### **Water Management**

Pirelli monitors the Water Footprint along the life cycle of the product (as extensively explained earlier in this chapter), and in terms of materiality, the production phase of the tyres is the third most influential, after the phases of use of the product and production of raw materials.

In the aforementioned environmental strategy of Pirelli, the efficient and responsible use of water in production processes and at workplaces is addressed comprehensively, with actions to improve water efficiency in production processes, from design of the machinery to Facility Management activities. Particular attention is paid to the local context of the use of this precious resource, with the use of specific analysis tools (such as the Global Water Tool of the World Business Council for Sustainable Development and the Aqueduct Water Risks Atlas of the World Resources Institute) and dedicated action plans.

In addition, the management of water resources, of relations with relevant stakeholders (local communities, authorities, etc.) and the related potential impacts of the local context in which the production plants are located, is ensured by the environmental management systems implemented and certified in each production unit. Environmental management and its continuous improvement are also driven by the mapping of the main stakeholders, their interests and expectations. These management systems also aim to ensure that the qualitative and quantitative characteristics of emissions are in line with the context and the regulations in force.

The current Industrial Plan envisages a target to reduce specific water withdrawal by 43% by 2025 compared to the 2015 value.

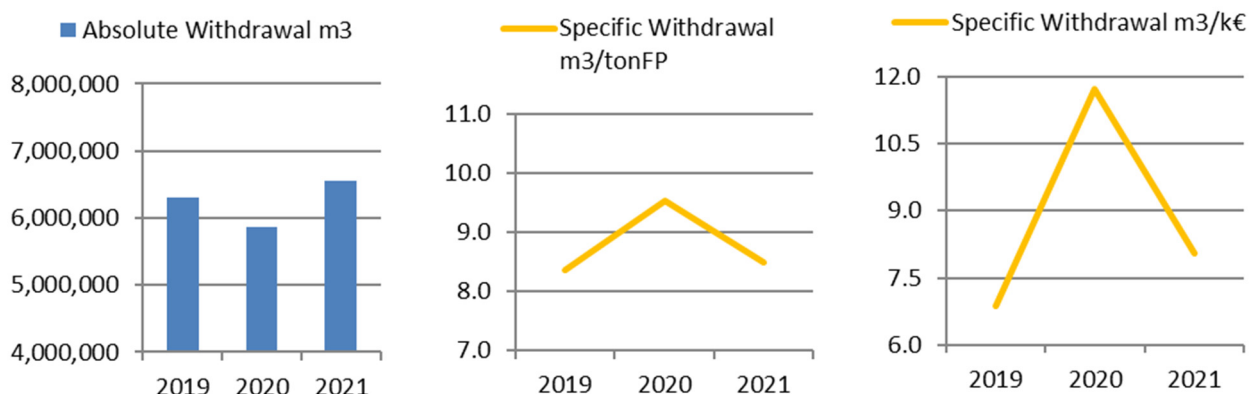
Compared to the previous year, 2021 showed a reduction in the Group’s specific withdrawal index of more than 11%, equal to approximately 8.5 cubic metres per tonne of finished product, returning in line with the 2019 figure. Compared to 2015, the base year for the 2025 reduction target, the specific water withdrawal index shows a reduction of 34%.

In absolute terms, water withdrawal was 6.6 million cubic metres, up 12% compared to 2020 (a year that saw a significant reduction in production volumes, and consequently in the water used by factories, due to the effects of the health emergency linked to the Covid-19 pandemic) but down 4% compared to 2019. Thanks to the actions implemented, since 2015 Pirelli has saved a total of more than 14 million cubic metres of water: an amount equivalent to the absolute withdrawal of about two and a half years by the entire Group.

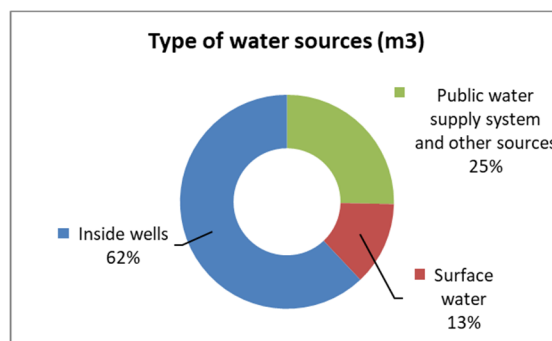
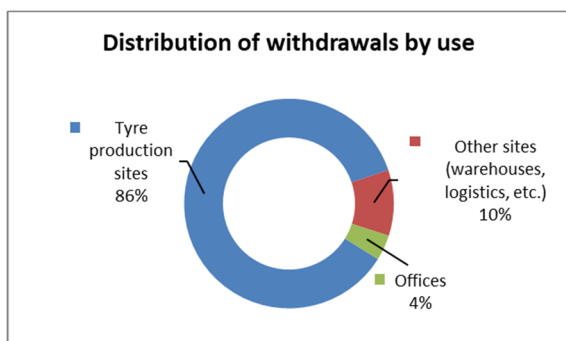
To give an overall view of performance in terms of water withdrawal over the last three years, the following tables report the indicators:

- absolute withdrawal, measured in cubic metres, which indicates the total withdrawal of water by the Group;
- specific withdrawal, measured in cubic metres per tonne of finished product, which indicates the withdrawal of water used to make one tonne of finished product;
- specific withdrawal, as measured in cubic metres per euro of Operating Income.

		2019	2020	2021
<b>Absolute Withdrawal</b>	m <sup>3</sup>	6,299,468	5,871,790	6,552,628
<b>Specific Withdrawal</b>	m <sup>3</sup> /tonFP	8.4	9.5	8.5
	m <sup>3</sup> /k€	6.9	11.7	8.0



All the figures reported in this paragraph have been collected by taking direct or indirect measurements and are communicated by the local units. The following two graphs show the distribution of absolute withdrawals by type of use and the weight of water supply by type of source.



62% of the water withdrawn is pumped from wells inside the plants and authorised by the competent authorities. In addition, Pirelli obtains 13% of its needs from surface water and storm-water. As for

water from aqueducts or third-party sources, around 60% is drawn from groundwater, while the remainder comes from surface water. The volume of water withdrawn from water stress areas<sup>42</sup> is equal to 46% of the total. In addition, about 176,000 cubic metres of water used, equivalent to about 2.5% of the total withdrawal, are obtained from the treatment of waste water from its production processes.

A total of about 4.6 million cubic metres of domestic and industrial waste water were discharged, with 57% of this into surface water bodies. The remaining amount was discharged into sewer networks.

Before being discharged into the final recipient, industrial waste water – adequately treated as necessary – is periodically subjected to analytical tests that certify substantial compliance with locally applicable statutory limits.

In particular, as regards the quality of industrial effluents of the production facilities, indicative average values are: 13.5 mg/l of BOD<sub>5</sub> (Biochemical Oxygen Demand), 45 mg/l of COD (Chemical Oxygen Demand) and 30 mg/l of Total Suspended Solids. It should also be noted that Pirelli does not use substances classified as “Substances of Very High Concern” as defined by EU Regulation no. 1907/2006, the so-called “REACH Regulation”.

SUMMARY	Water Type	Total		Water stress areas	
		Overall volume (m3)	Freshwater volume (m3)	Overall volume (m3)	Freshwater volume (m3)
WITHDRAWAL from	Surface water	828,100	828,100	775,300	775,300
	Wells	4,063,600	4,063,600	1,368,800	1,368,800
	Third parties	1,660,900	1,660,900	873,300	873,300
	Total	6,552,600	6,552,600	3,017,400	3,017,400
DISCHARGE to	Surface water	2,603,000	1,427,000	0	0
	Third parties	1,978,600	1,570,900	1,363,400	1,306,700
	Total	4,581,600	2,997,900	1,363,400	1,306,700
CONSUMPTION	Total	1,971,000	3,554,700	1,654,000	1,710,700

## Waste Management

Circularity of resource management is one of the tyre industry’s most pressing challenges, both in the design of its products and in the management of waste to minimise its generation, maximise its recovery and thus limit its impact on the environment.

<sup>42</sup> Water stress areas: this includes all areas with a water stress level equal to or greater than high according to the WRI Aqueduct classification (Aqueduct Water Risk Atlas wri.org), as of 24 January 2022.

The improvement of environmental performance connected with the management of waste is achieved through:

- innovation of production processes, with the aim of preventing the production of waste at the source, progressively reducing the processing of rejects and replacing current raw materials with new materials that have a lower environmental impact;
- operating management of generated waste, an integral part of the management systems of environmental certificates according to ISO 14001, aimed at identifying and ensuring the selection of waste treatment channels, in line with current local regulations, that can maximise recovery and recycling, gradually eliminating the amount sent to the landfill with the *Zero Waste to Landfill* vision;
- streamlining packaging management, both for the packaging of purchased products and the packaging for products made by the Group. Within this context, also fall the initiatives guided by the Pirelli's Single Use Plastic Free Policy.

Compared to the previous year, the 2021 recorded a 5% of reduction of the waste specific production index weighted on tonnes of finished product.

In absolute terms, the production of waste in 2021 grew by about 19% compared to 2020 (a year that saw a significant reduction in production volumes, and consequently in the waste produced, due to the effects of the health emergency linked to the Covid-19 pandemic) and about 7% when compared to 2019.

Of the total waste produced in 2021, 97% is sent for recovery at third party plants (for material recovery for about 2/3 of the quantity), in line with the current Sustainability Plan, which envisages sending 98% of the waste produced for recovery by 2025, with a "Zero Waste to Landfill" vision.

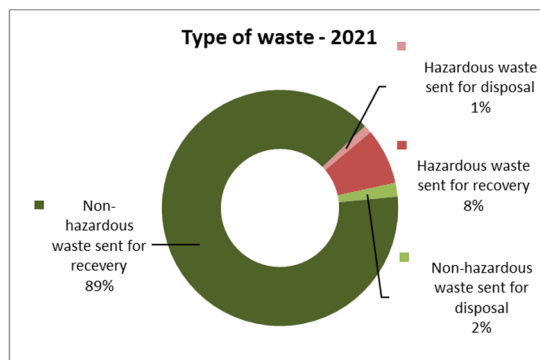
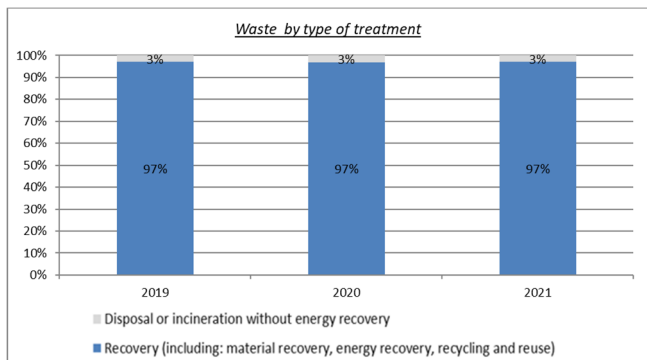
Hazardous waste<sup>43</sup> accounts for 9% (compared to 8% of 2020 and 10% of 2019) of total waste produced and is totally sent for treatment in third party facilities authorized in accordance with local regulations.

As regards the waste generated by the production sites, equal to 107,900 tons, approximately 9% is represented by hazardous waste, and 69% is sent for material recovery (recycling).

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<sup>43</sup> The hazardousness of waste is generally defined according to the applicable local regulations (for example in Europe it is made in accordance with the Waste Framework Directive 2008 / 9EC)

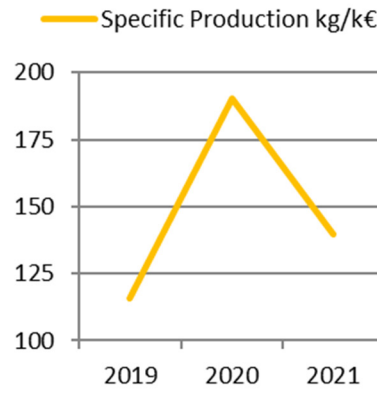
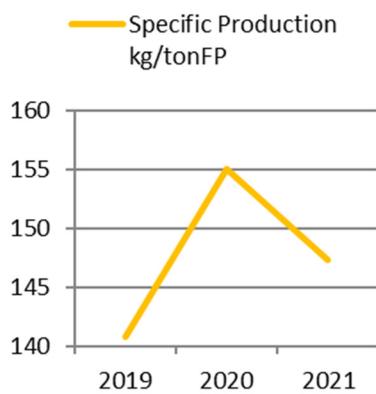
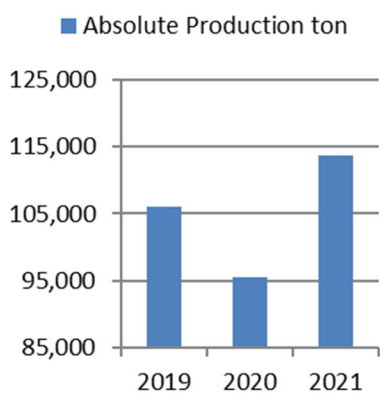




The graphs below detail waste production through three main indicators:

- absolute production, as measured in tonnes;
- specific production, as measured in kilograms per tonne of finished product;
- specific production, as measured in kilograms per euro of Operating Income.

		2019	2020	2021
<b>Absolute production</b>	ton	105,977	95,470	113,769
<b>Specific production</b>	kg/tonFP	141	155	147
	kg/k€	116	190	139



The following table summarizes the main data on the management of waste produced in 2021 which are entirely managed by external treatment plants.

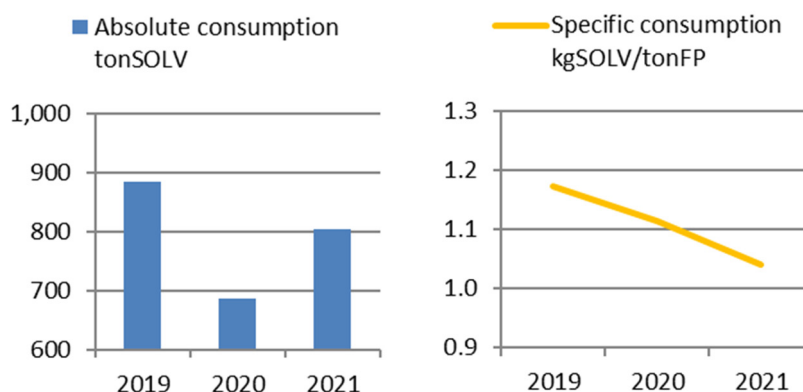
Type of treatment at external sites	Non-hazardous waste	Hazardous waste	Total
Preparation for reuse	325,978	84,609	410,587
Recycle	57,416,391	1,148,727	58,565,118
Other recovery operations	14,652,221	1,894,643	16,546,864
Waste not for disposal	72,394,590	3,127,979	75,522,569
Incineration (without energy recovery)	557,566	871,567	1,429,133
Incineration (with energy recovery)	29,228,920	5,610,056	34,838,976
Landfill Disposal	1,565,980	55,419	1,621,399
Other disposal operations	6,348	350,116	356,464
Waste destined for disposal	31,358,814	6,887,157	38,245,971
Waste sent to recovery (of material & energy)	101,623,510	8,738,035	110,361,544
<b>TOTAL</b>	<b>103,753,404</b>	<b>10,015,136</b>	<b>113,768,540</b>

### **Other Environmental Aspects**

#### *Solvents*

Solvents are used as ingredients in processing, mainly to reactivate vulcanised rubber, during the fabrication and finishing of tyres. Pirelli is committed to the progressive reduction of these substances, both by optimising their use, and by spreading solvent-free technologies for operations that may be performed even without their use. In 2021, the value of specific solvent consumption stabilised at 1.1 kg per tonne of tyres produced, a reduction of 7% compared to 2020, with emission of related VOCs slightly lower than total consumption.

		2019	2020	2021
<b>Absolute consumption</b>	tonSOLV	883	686	804
<b>Specific consumption</b>	kgSOLV/tonFP	1.2	1.1	1.0



### Biodiversity

Pirelli pays the utmost attention to ensuring that corporate activities do not interfere with the biodiversity characteristic of the contexts in which the Company operates. Currently, there are two Pirelli sites located within protected areas of high biological diversity: the site of Vizzola Ticino (Italy) and that of Elias Fausto (Brazil). Both are not production sites but test fields for testing tyres.

The Vizzola site hosting the tyre test track has an area of 0.37 square kilometres and is part of the Lombard area of the Parco del Ticino, MAB area<sup>44</sup> of UNESCO, characterised by the presence of 23 species included in the IUCN Red List (International Union for the Conservation of Nature) of which: 17 are classified as “of least concern (LC)”, 1 as “near threatened (NT)”, 3 as “vulnerable (V)”, 1 as “endangered (EN)” and one as “Critically Endangered (CR)”.

To ensure the utmost protection of the natural environment in which the Vizzola test track is located, Pirelli has implemented an ISO 14001 certified Environmental Management System in accordance with the “Parco del Ticino”. Environmental impact on biodiversity in the area are not significant; however, several interventions were carried out, both directly by the Company and by the Park Authority, to mitigate and improve the interactions of Pirelli’s activities with the natural environment, as stipulated in the agreement signed in 2001. In 2016, a campaign to monitor air quality was also carried out, which highlighted the substantial negligence of the impacts of the activity compared to the context in which the test field is inserted.

The site of Elias Fausto (Brazil) is the new Brazilian test track, with an area of 1,59 square kilometres, and is located in an area with a prevalent cultivation of sugar cane where there are two streams (Itapocu and Tietê rivers) that provide permanent protection areas. There are 162 species on the IUCN Red List, of which 1 is classified as ‘vulnerable’ (V), 2 as ‘near-threatened’ (NT), 158 as ‘of minor concern’ (LC) and 1 as ‘missing data’ (DD). In order to maximise environmental protection in the area, Pirelli manages environmental issues, monitors and implements measures to conserve

<sup>44</sup> Man and Biosphere is a group of biosphere reserves in many countries in the world protected by UNESCO with the aim of promoting socio-economic development and conservation of ecosystems and biological diversity.

fauna and water resources, including the planting of native species and the control of noise levels in accordance with the environmental impact study carried out prior to the project, according to which the environmental impact of the activities on the region’s biodiversity is not significant.

Pirelli’s focus on biodiversity is also very high with regard to the supply chain, as in the case of sustainable management of the natural rubber supply chain based on a no deforestation policy. As evidence of this commitment, Pirelli presented in 2021 the first tire in the world with natural rubber and rayon certified by the Forest Stewardship Council (FSC). FSC forest management certification confirms that plantations are managed in a way that preserves biological diversity and benefits the lives of local communities and workers, while ensuring economic sustainability. For an extensive description of the sustainable management of the natural rubber supply chain, please refer to the paragraph “Sustainability of the natural rubber supply chain” in the “Our suppliers” chapter within this report.

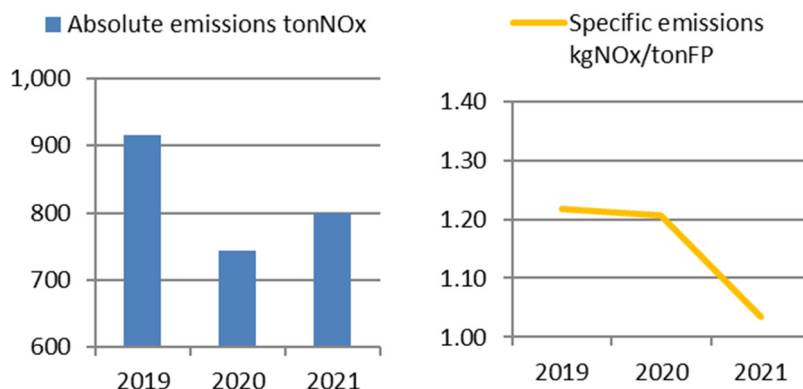
In 2021, Pirelli also announced the launch of a three-year project in the Indonesian forest of Hutan Harapan, in collaboration with BMW Group and BirdLife International, which includes activities to support local communities, forest conservation and the protection of animal species at risk.

### *NO<sub>x</sub> Emissions*

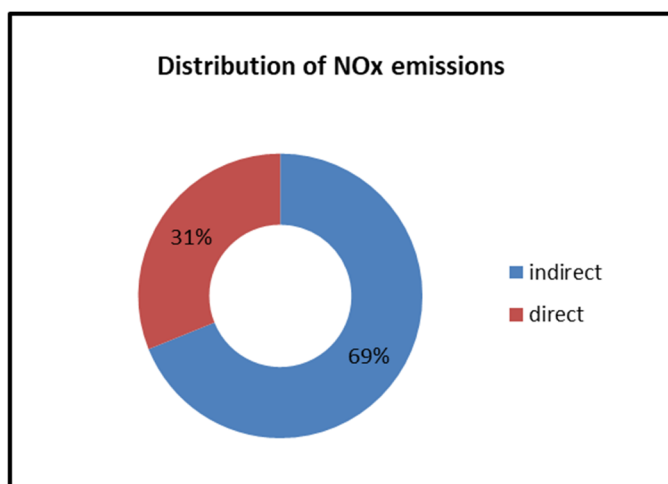
NO<sub>x</sub> emissions derive directly from the energy-generating processes used. In 2021, the index based on the tons of finished product fell by 14% compared to the 2020 figure, mainly due to a change of the mix of the energy consumed, which in particular saw an increase in the share of renewables, as described above. The emissions were calculated by applying the emission factors indicated by the EEA (European Environment Agency) to the energy consumption data.

In absolute terms, NO<sub>x</sub> emissions in 2021 grew by nearly 8% compared to 2020 (year that saw a significant reduction in production volumes, and consequently in energy consumption, due to the effects of the health emergency linked to the Covid-19 pandemic) but decreased by more than 12% when compared to 2019.

		2019	2020	2021
<b>Absolute emissions</b>	tonNO <sub>x</sub>	917	743	800
<b>Specific emissions</b>	kgNO <sub>x</sub> /tonFP	1.22	1.21	1.04



The following graph shows the 2021 weight of direct and indirect NO<sub>x</sub> emissions out of total NO<sub>x</sub> emissions.



*Other emissions and environmental aspects*

The production process does not directly use substances that are harmful to the ozone layer. These are instead contained in certain closed circuits of the cooling and air conditioning plants. Therefore, except for accidental and unforeseeable losses, there are no free emissions into the atmosphere that can be correlated with Pirelli manufacturing activities.

In 2021, direct emissions of SO<sub>x</sub>, caused by the combustion of diesel and fuel oil, came to 10.1 tonnes (respectively 10.7 tonnes in 2020 and 13.7 tonnes in 2019); the value is estimated based on EEA - European Environment Agency - emissions standards.

In terms of packaging management, the car tyre is a product generally sold without packaging.

The environmental management systems implemented at the production units and the implementation of procedures dedicated to the prevention and response to emergencies, assured constant and prompt monitoring and intervention regarding potential emergency situations that may

arise, as well as the reports received from Stakeholders. During 2021, no incidents, complaints or significant sanctions related to environmental issues were recorded.

### **Expenses and Investments**

In the three-year period 2019-2021, environmental expenditure related to the production process was around € 60 million, of which about 33% was allocated in 2021. About 84% of this amount concerned normal management and administration of factories, while the remaining 16% was dedicated to preventive measures and improvement in environmental management.

Lastly, it should be noted that, consistent with the materiality analysis at the beginning of this section of the report, the most significant expenses that Pirelli dedicates to the environment are those relating to Product Research & Development: in 2021, the Company invested € 240.4 million in research and innovation of its products, with a constant focus on safety performance and reduction of environmental impacts and, simultaneously, production efficiency.

In the Operations area, for the assessment of some new investments, the potential impacts associated with GHG emissions are highlighted, evaluating internally a Carbon Price. However, the environmental efficiency associated with projects is one of the guiding criteria to be considered in the context of investment management, as regulated by the relevant internal Group operating rule.

## THE EUROPEAN REGULATION ON THE TAXONOMY OF SUSTAINABLE ECONOMIC ACTIVITIES

### **EU Regulation 2020/852: purpose and regulatory context**

The European Union some time ago defined a strategic framework for the implementation of actions and policy initiatives consistent with the objectives of the UN 2030 Agenda and, in this context, in March 2018 the European Commission formalised for the first time an *Action Plan for Financing Sustainable Growth*, with the stated aim of redirecting capital flows towards sustainable investments, integrating sustainability into risk management and promoting transparency and long-term vision, in awareness of the important role that the financial sector can play in channelling private investment in support of sustainable development. Subsequently, in December 2019, the European Union issued the *European Green Deal*, a roadmap with the aim of meeting the challenges posed by climate change to drive the EU's green transition with the ultimate goal of achieving climate neutrality by 2050. In addition, during 2020, the European Union further increased its climate commitments by setting itself an interim target of reducing emissions by 55% by 2030 compared to 1990 levels.

In 2021, in the light of the climate change targets set, the negative impacts generated by the Covid-19 pandemic and the growing international focus on sustainability, the European Commission published a new "Strategy for financing the transition to a sustainable economy" which, in line with

the previous Action Plan, identifies four areas of action needed for the financial system to fully support the economy's transition to sustainability:

- financing the transition to sustainability;
- ensuring an inclusive financial system for all;
- improving the resilience of the financial sector and its contribution to sustainability;
- promoting international cooperation on sustainable finance.

The European Union's commitment to sustainable finance also includes EU Regulation 2020/852 (the so-called "Taxonomy"), which aims to provide investors and the market with a common language of sustainability metrics that can ensure comparability between operators, reduce the risk of greenwashing and increase the quantity and quality of information on the environmental and social impacts of business, thereby encouraging more responsible investment decisions.

Currently, the Taxonomy is focused on the identification of economic activities considered to be eco-sustainable, defined as those economic activities that contribute substantially to the achievement of at least one of the following environmental objectives, provided that they do not cause significant harm to any of the other environmental objectives and are carried out with minimum safeguards:

- climate change mitigation;
- climate change adaptation;
- the sustainable use and protection of water and marine resources;
- the transition to a circular economy;
- pollution prevention and control;
- the protection and restoration of biodiversity and ecosystems.

In June 2021, the European Commission formally adopted the Technical Delegated Acts (hereinafter referred to as the "Climate Delegated Acts") that define the list of economic sectors and activities currently included in the Taxonomy and the related technical screening criteria to verify whether they contribute substantially to the achievement of the environmental objectives of climate change mitigation and adaptation; further delegated acts are expected to be published during 2022 with reference to the remaining four environmental objectives.

The process of verifying the eco-sustainability of an economic activity (so-called "alignment" to the Taxonomy) involves the following steps of analysis:

- verification of the Technical Screening Criteria to assess the actual contribution of the economic activity to a given environmental objective, respecting the principle of

technology neutrality and taking into account the long- and short-term impact of the economic activity; and

- verification of the “DNSH” (Do No Significant Harm) criteria to ensure that the economic activity does not cause significant harm to any of the other environmental objectives.

In addition, there is also the verification of compliance with Social Minimum Safeguards, aimed at ensuring that economic activities are conducted in accordance with the main international human rights guidelines and treaties.

As mentioned above, the regulation on taxonomy is not yet complete as we are waiting for the publication of the delegated acts on the environmental objectives of sustainable use and protection of water and marine resources, transition to a circular economy, prevention and control of pollution and protection of biodiversity and ecosystems.

In addition, the European Commission is working on the inclusion in the Taxonomy of additional sectors to those currently foreseen (which are mainly energy, transport, forestry, water and waste management, some types of manufacturing and construction) as well as on the drawing up of a Social Taxonomy, which would allow us to broaden the assessment of sustainability of economic activities by considering additional aspects such as health and safety of workers, human rights, inclusion policies and attention to opportunities for growth and training of staff.

### **Reporting obligations and general principles for defining KPIs**

Article 8 of EU Regulation 2020/852 defines the reporting obligations under the taxonomy and, in particular, clarifies that these obligations fall on any company subject to the obligation to publish non-financial information pursuant to Article 19-bis or Article 29-bis of Directive 2013/34/EU. From 1 January 2022, therefore, these companies will have to include information in their non-financial reporting (or in their consolidated non-financial reporting) on how and to what extent their activities are associated with economic activities considered environmentally sustainable within the meaning of the Regulation.

With regard to non-financial corporations, the disclosure focuses on the following metrics (so-called Key Performance Indicators or KPIs):

- a) the share of turnover coming from products or services associated with economic activities considered to be environmentally sustainable;
- b) the share of capital expenditure and the share of operational expenditure related to assets or processes associated with economic activities considered to be environmentally sustainable.



In July 2021, EU Regulation 2021/2178 was published, supplementing Article 8 of EU Regulation 2020/852 in order to further specify the content and presentation of these “KPIs” as well as the methodology to be followed for their measurement and the qualitative information that needs to accompany their reporting<sup>45</sup>.

Non-financial undertakings<sup>46</sup> are required to determine KPIs by ensuring general consistency with financial reporting and by using the same currency as for the annual or consolidated financial statements, with the additional requirement to include references to the relevant balance sheet items for turnover and capital expenditure indicators in their non-financial statements.

Finally, EU Regulation 2178/2021 establishes reduced disclosure for the first year of full application of the regulation, which is focused exclusively on the indication of the share of turnover, capital expenditure and operating expenditure which are “eligible” for the taxonomy, i.e. those falling within one of the descriptions of economic activities contained in Annexes I and II of the Climate Delegated Act, with respect to the total value of turnover, capital expenditure and operating expenditure.

The additional considerations outlined above regarding compliance with the screening criteria for determining (a) the substantial contribution of an economic activity to the achievement of one or more environmental objectives (b) without causing significant harm to any of the other environmental objectives and the minimum safeguards will have to be made for the purpose of reporting on the share of turnover, capital expenditure and operating expenditure which is “aligned” with the taxonomy as at 1 January 2023.

## **Taxonomy for the Pirelli Group**

### ***Methodological note***

The Pirelli Group, understanding the relevance and innovative scope of the Taxonomy, immediately began a dedicated worksite to understand the new regulatory obligations and plan the preparatory activities for the reporting process as part of its consolidated non-financial statement in a timely and effective manner.

These activities were mainly concentrated in the second half of 2021 and involved the organisation as a whole, requiring the active participation of the company’s business structures for the identification of activities which are “eligible” for the taxonomy and for the management of the data collection process at all the companies included in the scope of consolidation.

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<sup>45</sup> See in particular Annex 1 “Key Performance Indicators (KPIs) of non-financial corporations” and Annex 2 “Templates for Key Performance Indicators (KPIs) of non-financial corporations” to EU Regulation 2021/2178.

<sup>46</sup> Pursuant to the legislation, a “non-financial undertaking” means an undertaking subject to the disclosure requirements set out in Articles 19-bis and 29-bis of Directive 2013/34/EU which is not a financial asset manager, credit institution, investment firm, insurance undertaking or reinsurance undertaking (see EU Regulation 2021/2178 Article 1(9)).

The methodological approach focused first on the regulatory analysis and contextualisation of the tyre sector for the purpose of its application. This preliminary activity immediately brought to light some unclear application and interpretation aspects both with reference to the general discipline<sup>47</sup> and above all with regard to the tyre sector, whose framework in the Climate Delegated Act on Taxonomy appears difficult to read.

In particular, within the scope of the transport-related manufacturing activities included in these delegated acts, there is only economic activity *3.3 Manufacture of low carbon technologies for transport*, the description and technical screening criteria of which, however, specifically refer to the production of transport equipment in its entirety, including vehicles and personal mobility devices, but not to the production of parts and/or components of the same<sup>48</sup>. Recent interpretations published by the European Commission have confirmed that the manufacture of automotive components is an economic activity automatically “eligible” and that therefore these companies, including tyre manufacturers, “*can qualify*” under the economic activity<sup>49</sup> *3.6 - Manufacture of other low carbon technologies* if their products meet the characteristics set out in the Climate Delegated Act. The same document published by the European Commission in February 2022 clarifies that the “eligibility” for the taxonomy under the aforementioned economic activity 3.6 is to be assessed exclusively in relation to the fact that the activity or product has the objective of enabling a substantial reduction of GHG emissions in another sector of the economy<sup>50</sup>, a circumstance that makes the interpretation questionable with reference to the tyre product, being the tyre a product conceived with the essential objective of serving mobility while taking multiple dimensions into account, starting with safety (e.g. wet grip, braking distances). Moreover, this economic activity includes a methodology for determining the substantial contribution to climate change mitigation that does not reflect processes, products and technologies commonly found and applicable in the tyre sector.

Given the complexity of the legislation and the fact that this is the first year of implementation, there is currently no official position from the industry associations, nor are there any emerging market practices that would allow a shared interpretation of how the Taxonomy should be applied to the tyre sector.

The Pirelli Group, albeit with the difficulties and limitations deriving from the regulatory context described, has evaluated its positioning with respect to the economic activity *3.6 Manufacture of other low carbon technologies*, by determining the Key Performance Indicators relating to turnover, capital expenditure and operating expenditure required by the regulations. However, the Pirelli Group reserves the right to reconsider its evaluations and interpretations in future reports in order to take

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<sup>47</sup> In the Assonime Circular no. 1/2022 “The European Regulation on the taxonomy of eco-sustainable activities: advertising obligations for companies” a series of aspects are explained for which clarification is requested from the European Commission.

<sup>48</sup> The NACE codes associated with this economic activity include C29.1 “Manufacture of motor vehicles” but not C29.3 “Manufacture of parts and accessories for motor vehicles” which, by its nature, could also include the manufacture of tyres.

<sup>49</sup> the FAQ published by the European Commission on 2 February 2022 clarified that “manufacturing specific car and vehicle components is not automatically eligible under the section ‘manufacture of low carbon technologies for transport’” (ref. FAQ 8).

<sup>50</sup> The above-mentioned FAQ clarified that “the activity or product needs to have the objective of enabling a substantial reduction of GHG emissions in another sector of the economy” (ref. FAQ 9).

into account any changes in the regulatory framework or further clarifications that may be made in the meantime by national and European authorities or trade associations.

Finally, it is highlighted that the assessments currently carried out on economic activities “not eligible” for the taxonomy could change as a result of the publication of the technical delegated acts relating to the remaining four environmental objectives envisaged by the Regulation (sustainable use and protection of water and marine resources, the transition towards a circular economy, pollution prevention and control, the protection of biodiversity and ecosystems) as well as the effect of the inclusion in the Climate Delegated Act of additional sectors and economic activities.

### **Eligible economic activities of the Pirelli Group**

#### *Turnover indicator*

Pirelli is one of the world’s leading tyre manufacturers, the only one to be entirely focused on the consumer market, which includes car, motorbike and bicycle tyres, from which it derives its total turnover.

The lack of a shared interpretative model with respect to the concrete method of applying the Taxonomy to the tyre sector, in the terms widely described in the previous paragraph, Pirelli has identified the share of “eligible” economic activities with the turnover from tyres for vehicles with low environmental impact and from tyres with high energy efficiency in terms of rolling resistance, considering the European labelling values as a reference.

The European tyre labeling<sup>51</sup> provides a clear and common classification of their performance for i) rolling resistance, ii) wet grip and iii) external noise. Since the taxonomy is focusing on the environmental impact, the labeling parameter deemed consistent is therefore only that relating to rolling resistance. Rolling resistance has an impact on vehicle fuel consumption and therefore indirectly on the fuel consumption and related greenhouse gas emissions, which is why high performance in terms of rolling resistance has a positive impact on the environmental objective of mitigating climate change.

In particular, the rolling resistance classes indicate the energy efficiency level of the tyre and they range from A (maximum energy efficiency) to E (minimum energy efficiency).

In this respect, the following turnover was considered, with the aim of giving a view as complete and transparent as possible:

- the view of the turnover from the sale of car and van tyres produced by the Group with European labelling in A, B and C classes of rolling resistance, thus focusing on very high, high and medium efficiency levels (excluding the lower efficiency levels D and E).

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<sup>51</sup> Regulation (EU) 2020/740.

of which

- the view of the turnover from the sale of car and van tires produced by the Group with European labeling considering only the rolling resistance classes A and B, therefore very high and high energy efficiency.

The turnover from the sale of bicycle tyres was added and consolidated in both values (A + B + C and only A + B).

The denominator of the KPI is made up of the consolidated revenues for the year 2021 as indicated in the explanatory note no. 29 “Revenues from sales and services” within the consolidated financial statements.

#### *Capital Expenditure indicator*

The share of “eligible” economic activities with reference to capital expenditure refers mainly to productive investments directly related to the above-mentioned “eligible” revenues, which have been determined using an allocation driver in the case of investments in manufacturing that are common to several types of products.

In addition, investments in energy efficiency at the Group’s factories related to the environmental objective of mitigating climate change have also been taken into account; these are therefore economic activities included in sector 7. *Construction and real estate activities of the Climate Delegated Act* that refer to the construction and rehabilitation of buildings or the installation of energy efficiency devices, instruments and devices for measuring, regulating and controlling the energy performance of buildings and renewable energy technologies.

The denominator of the KPI is the sum of the gross additions recognised in 2021 in respect of property, plant and equipment owned, rights of use and intangible assets, as disclosed in Explanatory Note no. 9 “Property, plant and equipment” and Explanatory Note no. 10 “Intangible assets” within the consolidated financial statements.

#### *Operational Expenditure indicator*

The share of “eligible” economic activities with regard to operating expenses refers mainly to production costs directly related to “eligible” revenues, which have been determined using an allocation driver in the case of manufacturing expenses common to several product types.

The costs incurred for research and development projects with the environmental objective of mitigating climate change by reducing CO<sub>2</sub> emissions and the operating costs related to investments in energy efficiency described above, which also relate to the environmental objective of mitigating climate change, were also considered.

The denominator of the KPI, as required by regulation, is non-capitalised direct costs related to research and development, building renovation, rent, maintenance, repairs and other direct expenses related to the day-to-day operation of assets incurred in 2021.

**CAR and Van tyres sales (with label in classes A-B-C of rolling resistance)**

*(very high, high and medium efficiency levels of rolling resistance)*

Indicators for EU Label products with Rolling Resistance A-B-C	Taxonomy eligible	Taxonomy not eligible
Share of turnover	<b>49%</b>	<b>51%</b>
Share of capital expenditure	<b>22%</b>	<b>78%</b>
Share of operational expenditure	<b>22%</b>	<b>78%</b>

**CAR and Van tyres sales (with label in classes A-B of rolling resistance)**

*(very high and high efficiency levels of rolling resistance)*

Indicators for EU Label products with Rolling Resistance A-B	Taxonomy eligible	Taxonomy not eligible
Share of turnover	<b>16%</b>	<b>84%</b>
Share of capital expenditure	<b>12%</b>	<b>88%</b>
Share of operational expenditure	<b>10%</b>	<b>90%</b>

It should also be noted that, also considering the turnover deriving from the sale of car and van tires produced by the Group with rolling resistance values consistent with the European labeling parameters by re-parameterizing the non-European labeling to the values of the European labeling, the share of turnover “eligible” would be respectively 59% (A-B-C classes) and 18% (A-B classes).

**Social Minimun Safeguards**

The Company promotes respect for Human Rights and adherence to international standards applicable to its Partners and Stakeholders. Pirelli aligns its governance with the United Nations Global Compact, the ISO 26000 Guidelines, the dictates of the SA8000® Standard and underlying ILO international regulations, the OECD Guidelines on the duty of supervision and the recommendations contained in the Business and Human Rights Guiding Principles of the United Nations, implementing the Protect, Respect and Remedy Framework.

For in-depth information on the Policies adopted, the Management model, risks, projects and performance in the field of Human and Labor Rights, please refer to the sections dedicated to this in this Report, in particular: “Respecting human rights”, “ ESG elements in the purchasing process”, “

Compliance with statutory and contractual obligations governing overtime, leave, association and negotiation, equal opportunities and non-discrimination, bans on child and forced labour”, “ Focus: Training on Sustainability and Corporate Governance” and “ Focus: Reporting Procedure - Whistleblowing Policy”.

### **Future developments**

As of 1 January 2023, it will be necessary to report on the shares of turnover, capital expenditure and operating expenditure “aligned” with the taxonomy. This requires verification, for each economic activity identified as “eligible”, of compliance with the criteria for technical screening which make it possible to determine a) the substantial contribution of an economic activity to the achievement of one or more environmental objectives b) without causing significant damage to any of the other environmental objectives and compliance with the minimum safeguards.

This is a particularly challenging process in light of both the difficulties and limitations deriving from the regulatory context described above and the complexities of applying the aforementioned criteria; pending further regulatory developments and in particular the publication of the delegated acts referring to the remaining four environmental objectives, the Pirelli Group has begun the preparatory activities necessary to ensure complete and accurate reporting for the 2022 financial year in accordance with the requirements of the regulations.

## **SOCIAL DIMENSION**

### **Respecting Human Rights**

Pirelli bases its activities on compliance with the universally established Human Rights, as fundamental and indispensable values of its culture and business strategy, working to manage and reduce potential risks of violations and in order to avoid causing – or contributing to causing – adverse impacts to these rights in the international, multicultural, socially and economically diverse context in which it operates.

The Company promotes respect for Human Rights and adherence to international standards applicable at its Partners and Stakeholders and aligns its governance to the Global Compact of the United Nations, to the ISO 26000 Guidelines, to the dictates of the SA8000® Standard and underlying ILO international standards, the OECD Due Diligence Guidelines, and the recommendations contained in the Guiding Principles Business and Human Rights of the United Nations, implementing the Protect, Respect and Remedy Framework.

The human rights management processes are handled by Pirelli Sustainability Department, which acts in concert with the affected and responsible functions, at central level and in the various Countries, with reference to both the Internal and External Community.

Pirelli's commitment on human rights is dealt with extensively in the Group "Global Human Rights" Policy, which describes the management model adopted by the Company in respect of core Rights and Values such as occupational health and safety, non-discrimination, freedom of association, refusal of child and forced labour (firmly condemning the trafficking in and exploitation of human beings in any form), guarantee of decent work conditions in economic and sustainable terms and in terms of working hours, protection of rights and values of local communities, refusal of any form of corruption and protection of privacy. Further references to respect for human rights are also found in other company documents: "*Values and the Code of Ethics*", the "*Social Responsibility Policy on Occupational Health, Safety and Rights and Environment*", the "*Global Health, Safety and Environment*" Policy, the "*Privacy*" Policy, the "*Equal Opportunities Statement*" and the "*Policy on the Sustainable Management of Natural Rubber*". All the documents were communicated to employees in the local language and published on Pirelli website in multiple languages, as well as to Group Suppliers for whom sustainability and business ethics clauses are included in every contract and purchase order.

To identify, assess, prevent and mitigate the risks of violation of Human Rights, the Company:

- ensures awareness among its employees through information and training starting from the course for new hires (in this regard, reference is made to the paragraph "Focus: Training on Sustainability and Corporate Governance");
- verifies the application of regulations on respect for human and labour rights at its affiliates through periodic audits carried out by the Internal Audit Department, in accordance with a three-year audit plan covering all Company sites. For further details, please refer to the section of this report entitled "*Compliance with statutory and contractual obligations*"

*governing overtime, leave, association and negotiation, equal opportunities and non-discrimination, bans on child and forced labour”.*

- manages its supply chain responsibly and specifically includes respect for human rights in the selection parameters of its suppliers, the contractual clauses and carries out due diligence by third-party audits. Pirelli also contractually requires its suppliers to implement a similar business model that is active on their supply chain, including adequate due diligence aimed at certifying that the products and materials provided to Pirelli are “conflict-free” throughout the supply chain. From 2019, Pirelli has also subscribed to the “Cobalt Initiative” launched by RMI. With specific reference to the natural rubber context, Pirelli promotes decent working conditions, development of local communities and prevention of conflicts related to land ownership, in line with its Policy for Sustainable Natural Rubber Management, and at the same time with the dictates of the Global Platform for Sustainable Natural Rubber (GPSNR) of which Pirelli is a founding member. Please refer to the section “Our Suppliers” in this Report for an in-depth look at the supply chain management model, audits performed and initiatives, including details on Natural Rubber;
- cooperates and sustains the importance of cooperation with government and non-government, sectoral and academic entities in relation to the development of global policies and principles aimed at protecting human rights; This is the context which sees the inserting, as an example, of the Group CEO signing the “*CEO Guide on Human Rights*” promoted by the WBCSD in 2019, the activity under the UN Global Compact Working Group “Decent Work in Global Supply Chains” and Pirelli’s active contribution to the creation of the Global Platform for Sustainable Natural Rubber (GPSNR);
- before investing in a specific market, conducts ad hoc assessments of any political, financial, environmental and social risks, including those related to the respect of human and labour rights. The internal and external context is monitored in those Countries where the Company does operate, in view of preventing negative impacts on human rights, and if so, remedying them;
- makes available to its Stakeholders a channel dedicated to the reporting, even anonymous, of any situations that constitute or may constitute a risk of violation of Human Rights as well as any Group Policy, law or regulation in dealing with the Group (in this regard and with reference to the reports received in the last three years, please refer to the paragraph “Focus: reporting procedure - Whistleblowing Policy” in this report).

In terms of materiality in the Company value chain, the respect for human rights and labour rights assumes particular importance in human resources and supply chain management.

Pirelli updated its analysis of the risk of violation of human rights on its own premises, in the related value chain (suppliers and customers) and in the local context external to Pirelli, asking the main Stakeholders to fill out a dedicated survey. With regard to the perception of internal risk at Pirelli’s sites and in the relative value chain, the survey was submitted to the function managers and to the Sustainability Managers of the Group’s sites, while regarding the perception of risk in the external



context the survey was submitted to both the aforementioned Pirelli functions and to local Non-Governmental Organisations of reference.

The survey asked for an indication of the current and potential (referring to the next 5-10 years) perceived risk value on a scale from 1 to 4 (1 = low risk, 2 = medium-low risk, 3 = medium-high risk and 4 = high risk) for each of the 20 indicated human rights, deriving from the Universal Convention of the Human Rights of the United Nations and the ILO Declaration on the Fundamental Principles and Rights of Labour. Among the rights covered: equality and non-discrimination; equal pay for equal work; freedom of thought, religion, opinion and expression; freedom of association and collective bargaining; not being subject to slavery, servitude or forced labour. We also mention the categories of stakeholders mapped: workers (employees, agency workers, and contractors); suppliers; and local communities in which Pirelli operates.

With reference to the internal situation at Pirelli's sites, the consolidation of the feedback received revealed not significant risks; the average values recorded are, in fact, less than 1.12 for current risks and less than 1.15 for medium-long-term risks. A similar situation is recorded with reference to the Group's value chain, whose average values recorded do not exceed 1.18 for current risks and 1.29 for potential risks.

The consolidation of the feedback received from Non-Governmental Organisations, with reference to the risk perceived in the local context external to Pirelli, showed, on average, low or medium-low risks; the average values recorded are, in fact, less than 1.74 for current risks, while they reach 1.98 for medium-long-term risks. The value of 1.98 corresponds to the risk of violation of the right to fair justice, which coincides, moreover, with the risk perceived as increasing the most in the coming years.

## INTERNAL COMMUNITY

### Pirelli Employees Around The World

The total Pirelli workforce as at 31 December 2021 - expressed in Full Time Equivalent and including agency workers - stood at 30,690 employees (vs. 30,510 in 2020 and 31,575 in 2019), recording a net increase of 180 employees compared to the previous year.

The following tables<sup>52</sup>, with reference to the last three years<sup>53</sup>, detail the composition of the workforce by category, geographical area, gender, type of contract, and the flow of employees by geographical area<sup>53</sup>, gender and age bracket.

To complete the information on the trend of the workforce during the year, please refer to the paragraph “Industrial Relations” in this Report.

Additional quantitative information with specific reference to the issue of diversity is provided in the “Diversity, Equity and Inclusion” section of this Report.

<b>BREAKDOWN OF WORKFORCE<sup>54</sup> BY CATEGORY</b>					
	<b>EXECUTIVES</b>	<b>CADRE</b>	<b>WHITE COLLARS</b>	<b>BLUE COLLARS</b>	<b>TOTAL</b>
<b>2021</b>	247	1,754	4,052	24,636	30,690
<b>2020</b>	257	1,752	4,060	24,441	30,510
<b>2019</b>	271	1,893	4,617	24,794	31,575

<sup>52</sup> Staff numbers are expressed in Full Time Equivalent; while respecting the totals, partial values entered in the table may be subject to rounding and the sums thereof may not coincide with the total.

<sup>53</sup> Europe: Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Poland, Czech Republic, United Kingdom, Romania, Slovakia, Spain, Switzerland, Turkey, Hungary. North America: Canada, Mexico, United States. South America: Argentina, Brazil, Chile, Colombia. Asia Pacific: Australia, China, Korea, Japan, Singapore, Taiwan. Russia, Nordics & MEA: Saudi Arabia, Egypt, India, Russia, South Africa, Sweden, UAE.

<sup>54</sup> These data include agency workers, corresponding to 0.2% of total workforce in 2019, 0.6% in 2020 and 0.8% in 2021.

**BREAKDOWN OF WORKFORCE<sup>55</sup> BY GEOGRAPHICAL AREA<sup>56</sup> AND GENDER**

	2021			2020			2019		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
<b>EUROPE</b>	11,022	1,816	<b>12,838</b>	10,951	1,774	<b>12,725</b>	11,295	1,803	<b>13,098</b>
<b>NORTH AMERICA</b>	2,746	451	<b>3,197</b>	2,752	480	<b>3,232</b>	2,758	507	<b>3,265</b>
<b>SOUTH AMERICA</b>	7,321	653	<b>7,975</b>	7,293	647	<b>7,940</b>	7,288	677	<b>7,964</b>
<b>APAC</b>	2,999	899	<b>3,898</b>	3,093	834	<b>3,927</b>	3,280	854	<b>4,134</b>
<b>RUSSIA, NORDICS &amp; MEAI</b>	2,190	593	<b>2,783</b>	2,110	576	<b>2,686</b>	2,431	684	<b>3,115</b>
<b>TOTAL</b>	<b>26,278</b>	<b>4,412</b>	<b>30,690</b>	<b>26,199</b>	<b>4,311</b>	<b>30,510</b>	<b>27,051</b>	<b>4,524</b>	<b>31,575</b>

<sup>55</sup> These data include agency workers, corresponding to 0.2% of total workforce in 2019, 0.6% in 2020 and 0.8% in 2021.

<sup>56</sup> Europe: Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Poland, Czech Rep, United Kingdom, Romania, Slovakia, Spain, Switzerland, Turkey, Hungary. North America: Canada, Mexico, United States. South America: Argentina, Brazil, Chile, Colombia. Asia Pacific: Australia, China, Japan, Singapore, South Korea, Taiwan. Russia. Nordics & MEAI: Saudi Arabia, Egypt, India, Russia, South Africa, Sweden, UAE.

**BREAKDOWN OF WORKFORCE<sup>57</sup> BY GEOGRAPHICAL AREA<sup>58</sup> AND CONTRACT**

2021				
	Permanent	Temporary	Agency	Total
EUROPE	11,636	1,192	10	12,838
NORTH AMERICA	3,166	0	31	3,197
SOUTH AMERICA	7,666	112	197	7,975
APAC	3,898	0	0	3,898
RUSSIA, NORDICS & MEAI	2,658	125	0	2,783
<b>TOTAL</b>	<b>29,023</b>	<b>1,429</b>	<b>238</b>	<b>30,690</b>
2020				
	Permanent	Temporary	Agency	Total
EUROPE	11,923	795	7	12,725
NORTH AMERICA	3,024	1	27	3,232
SOUTH AMERICA	7,750	54	136	7,940
APAC	3,923	4	0	3,927
RUSSIA, NORDICS & MEAI	2,562	124	0	2,686
<b>TOTAL</b>	<b>29,362</b>	<b>978</b>	<b>170</b>	<b>30,510</b>
2019				
	Permanent	Temporary	Agency	Total
EUROPE	12,513	565	20	13,098
NORTH AMERICA	3,237	0	28	3,265
SOUTH AMERICA	7,779	185	0	7,964
APAC	4,131	3	0	4,134
RUSSIA, NORDICS & MEAI	3,014	98	2	3,115
<b>TOTAL</b>	<b>30,674</b>	<b>851</b>	<b>50</b>	<b>31,575</b>

<sup>57</sup> These data include agency workers, corresponding to 0.1% of total workforce in 2018, 0.2% in 2019 and 0.6% in 2020.

<sup>58</sup> Europe: Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Poland, Czech Republic, United Kingdom, Romania, Slovakia, Spain, Switzerland, Turkey, Hungary. North America: Canada, Mexico, United States. South America: Argentina, Brazil, Chile, Colombia. Asia Pacific: Australia, China, Korea, Japan, Singapore, Taiwan. Russia, Nordics & MEAI: Saudi Arabia, Egypt, India, Russia, South Africa, Sweden, UAE. South America: Argentina, Brazil, Chile, Colombia. Asia Pacific: Australia, China, Korea, Japan, India, Singapore, Taiwan. Russia, Nordics: & MEAI: Saudi Arabia, Egypt, India, Russia, South Africa, Sweden, UAE..

**PERCENTAGE OF EMPLOYEES BY CATEGORY, GENDER AND AGE**

2021															
	Executives			Cadre			White collars			Blue collars			Total		
	M	F	tot	M	F	tot	M	F	tot	M	F	tot	M	F	tot
<30	0%	0%	0%	3%	4%	3%	20%	27%	23%	24%	16%	23%	22%	18%	22%
30 - 50	55%	61%	56%	67%	76%	69%	65%	60%	63%	64%	76%	65%	64%	71%	65%
>50	45%	39%	44%	30%	20%	28%	15%	13%	14%	12%	8%	12%	14%	11%	13%
2020															
	Executives			Cadre			White collars			Blue collars			Total		
	M	F	tot	M	F	tot	M	F	tot	M	F	tot	M	F	tot
<30	0%	0%	0%	2%	2%	2%	20%	29%	23%	23%	19%	23%	21%	20%	21%
30 - 50	50%	59%	51%	63%	73%	66%	63%	56%	61%	63%	73%	64%	63%	68%	63%
>50	50%	41%	49%	35%	25%	32%	17%	15%	16%	14%	8%	13%	16%	12%	15%
2019															
	Executives			Cadre			White collars			Blue collars			Total		
	M	F	tot	M	F	tot	M	F	tot	M	F	tot	M	F	tot
<30	0%	0%	0%	3%	4%	3%	22%	30%	25%	26%	24%	26%	24%	24%	24%
30 - 50	55%	69%	57%	66%	75%	68%	64%	56%	61%	62%	70%	63%	63%	66%	63%
>50	45%	31%	43%	31%	21%	29%	14%	14%	14%	12%	6%	11%	13%	11%	13%

**EMPLOYEES WITH PART TIME CONTRACT BY GENDER**

2021			2020			2019		
Male	Female	TOTAL	Male	Female	TOTAL	Male	Female	TOTAL
137	142	279	120	154	274	157	205	362

**Employee flows by geographic area<sup>59</sup>, gender and age**

The following data refer to incoming/outgoing employees. The entry and exit rates are calculated by comparing the number of entries and exits of each category to the total number of employees belonging to that category as of 31 December. The disposals and acquisitions of companies or business units, and changes in work schedules from full-time to part-time are not considered.

<sup>59</sup> Europe: Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Poland, Czech Rep United Kingdom, Romania, Slovakia, Spain, Switzerland, Turkey, Hungary. North America: Canada, Mexico, United States. South America: Argentina, Brazil, Chile, Colombia. Asia Pacific: Australia, China, India, Japan, Singapore, South Korea, Taiwan. Russia, Nordics & MEAL: Saudi Arabia, Egypt, India, Russia, South Africa, Sweden, UAE.

**2021 FLOWS: ABSOLUTE VALUES AND RATES**

	INCOMING						OUTGOING					
	<30	30 - 50	>50	M	F	Total	<30	30 - 50	>50	M	F	Total
EUROPE	918	575	50	1,341	202	<b>1,542</b>	562	522	360	1,290	154	<b>1,444</b>
	39%	7%	2%	12%	11%	<b>12%</b>	24%	7%	13%	12%	8%	<b>11%</b>
NORTH AMERICA	525	245	10	726	54	<b>781</b>	458	330	24	730	82	<b>812</b>
	36%	16%	7%	27%	12%	<b>25%</b>	32%	21%	16%	27%	19%	<b>26%</b>
SOUTH AMERICA	846	578	19	1,321	123	<b>1,443</b>	287	1,042	199	1,413	114	<b>1,527</b>
	52%	11%	3%	19%	19%	<b>19%</b>	18%	19%	27%	20%	18%	<b>20%</b>
APAC	98	182	3	179	104	<b>283</b>	81	207	2	244	46	<b>290</b>
	17%	6%	4%	6%	12%	<b>7%</b>	14%	6%	2%	8%	5%	<b>7%</b>
RUSSIA, NORDICS & MEAI	272	259	26	434	123	<b>557</b>	156	256	54	354	112	<b>466</b>
	49%	15%	6%	21%	21%	<b>21%</b>	28%	15%	13%	17%	19%	<b>17%</b>
TOTAL	<b>2,659</b>	<b>1,840</b>	<b>107</b>	<b>4,000</b>	<b>606</b>	<b>4,606</b>	<b>1,544</b>	<b>2,357</b>	<b>639</b>	<b>4,032</b>	<b>508</b>	<b>4,539</b>
	<b>40%</b>	<b>9%</b>	<b>3%</b>	<b>15%</b>	<b>14%</b>	<b>15%</b>	<b>24%</b>	<b>12%</b>	<b>16%</b>	<b>16%</b>	<b>12%</b>	<b>15%</b>

**2020 FLOWS: ABSOLUTE VALUES AND RATES**

	INCOMING						OUTGOING					
	<30	30 - 50	>50	M	F	Total	<30	30 - 50	>50	M	F	Total
EUROPE	678	437	42	1,018	139	<b>1,157</b>	471	430	289	1,067	123	<b>1,190</b>
	29%	6%	1%	9%	8%	<b>9%</b>	20%	6%	10%	10%	7%	<b>9%</b>
NORTH AMERICA	548	324	36	838	70	<b>908</b>	542	360	20	824	98	<b>922</b>
	36%	22%	21%	31%	15%	<b>28%</b>	35%	24%	12%	30%	21%	<b>29%</b>
SOUTH AMERICA	392	291	7	603	87	<b>690</b>	348	427	109	759	125	<b>884</b>
	30%	5%	1%	8%	13%	<b>9%</b>	27%	8%	12%	11%	19%	<b>11%</b>
APAC	45	43	2	59	31	<b>90</b>	109	142	11	221	41	<b>262</b>
	6%	1%	2%	2%	4%	<b>2%</b>	15%	5%	13%	7%	5%	<b>7%</b>
RUSSIA, NORDICS & MEAI	79	87	6	122	50	<b>172</b>	141	290	168	446	153	<b>599</b>
	15%	5%	1%	6%	9%	<b>7%</b>	26%	18%	38%	22%	27%	<b>23%</b>
TOTAL	<b>1,742</b>	<b>1,182</b>	<b>93</b>	<b>2,640</b>	<b>376</b>	<b>3,017</b>	<b>1,611</b>	<b>1,649</b>	<b>597</b>	<b>3,317</b>	<b>540</b>	<b>3,858</b>
	<b>27%</b>	<b>6%</b>	<b>2%</b>	<b>10%</b>	<b>9%</b>	<b>10%</b>	<b>25%</b>	<b>9%</b>	<b>13%</b>	<b>13%</b>	<b>13%</b>	<b>13%</b>

2019 FLOWS: ABSOLUTE VALUES AND RATES												
	INCOMING						OUTGOING					
	<30	30 - 50	>50	M	F	Total	<30	30 - 50	>50	M	F	Total
EUROPE	904	656	78	1,460	178	<b>1,638</b>	698	553	254	1,328	177	<b>1,505</b>
	35%	8%	3%	13%	10%	<b>13%</b>	27%	7%	10%	12%	10%	<b>12%</b>
NORTH AMERICA	982	406	26	1,252	162	<b>1,414</b>	750	377	27	1,001	153	<b>1,154</b>
	57%	29%	25%	46%	32%	<b>44%</b>	44%	27%	26%	37%	30%	<b>36%</b>
SOUTH AMERICA	199	212	12	349	74	<b>423</b>	271	425	91	715	72	<b>787</b>
	14%	4%	2%	5%	11%	<b>5%</b>	19%	7%	12%	10%	11%	<b>10%</b>
APAC	294	303	4	522	79	<b>601</b>	235	268	12	433	82	<b>515</b>
	26%	10%	5%	16%	9%	<b>15%</b>	21%	9%	16%	13%	10%	<b>12%</b>
RUSSIA, NORDICS & MEAI	159	117	7	221	62	<b>283</b>	150	161	70	288	93	<b>381</b>
	22%	6%	1%	9%	9%	<b>9%</b>	21%	9%	14%	12%	14%	<b>13%</b>
TOTAL	<b>2,538</b>	<b>1,694</b>	<b>127</b>	<b>3,804</b>	<b>555</b>	<b>4,359</b>	<b>2,104</b>	<b>1,784</b>	<b>454</b>	<b>3,765</b>	<b>577</b>	<b>4,342</b>
	<b>33%</b>	<b>9%</b>	<b>3%</b>	<b>14%</b>	<b>12%</b>	<b>14%</b>	<b>28%</b>	<b>9%</b>	<b>11%</b>	<b>14%</b>	<b>13%</b>	<b>14%</b>

At Pirelli there are 28 young people older than 15 and under 18 - before birthday - years old (15 in Germany, 9 in Switzerland and 4 in the UK), each for training and integration plans, in harmony with local laws.

### Diversity, Equity and Inclusion

Pirelli is characterised by a multinational context where individuals manifest a great diversity, whose conscious management simultaneously creates a competitive advantage for the Company and a shared social value. Pirelli's commitment to compliance with equal opportunities and the enhancement of diversity in the workplace is expressed in the main Group Sustainability documents: the "Ethical Code" approved by the Board of Directors, the "Social Responsibility Policy for Occupational Health, Safety and Rights, Environment", the "Equal Opportunities Statement" and the "Global Human Rights" Policy.

Pirelli has also actively participated in the "B20 - G20 Dialogue on Women Empowerment" Working Group and signed the related Manifesto; in addition, the Company will participate in the B20 "Women in Business Action Council" to be held in Indonesia in 2022.

The aforementioned Policies are the subject of training on Pirelli's Sustainable Management Model through the "Plunga" international onboarding programme, so that all new hires enter the Company aware of the value attributed to the issue of Diversity, Inclusion and Equity, as well as the related rules.

In the course of 2022 Pirelli will publish the update of the Equal Opportunities Statement, which flows into the new “Diversity, Equity and Inclusion” (DE&I) Policy, and will launch a global awareness and training campaign on the issues of diversity management and good inclusion practices, aimed at all Company employees and managers.

In past years including 2021, various awareness-raising campaigns on DE&I issues have been implemented in the various countries in which Pirelli operates, both with specific subject matter on Diversity and as part of Human Rights Training.

Internationality and multiculturalism are the distinguishing features of the Group: Pirelli operates in 160 countries on five continents and 90% of its employees (as of 31 December 2021) work outside of Italy. Awareness of the cultural differences that create the identity of the Company entails displaying the utmost confidence in management of local origin: most of the Senior Managers work in their country of origin, where Senior Managers are those reporting directly to the Executive Vice Chairman and CEO, and Region CEOs and Executives with strategic responsibilities as at 31 December 2021. In order to develop the innovative and managerial potential inherent in multiculturalism and in dealings with different professional environments, the Company promotes the growth of its managers through international mobility: more than half of active Senior Managers in 2020 have in fact experienced at least one experience as expat during their professional experience within the Pirelli Group.

Compared to the total number of employees, there were 23 new expatriates in 2021, compared to 15 in 2020 and 57 in 2019. Since Pirelli sees expatriation as a means of cultural inclusion and dissemination of different management cultures, despite the health emergency that all global economies have had to face, Pirelli has not stopped expatriating, but has simply reduced the number. About a third of new departures went to the main countries where Pirelli has an industrial presence, such as Germany and China, Russia and Romania. The total expatriate population at the end of 2021 is 85 people (vs. 114 in 2020 and 170 in 2019), belonging to 13 nationalities and moving to 24 different countries on five continents, of which 15% (vs. 11% in 2020) are women. 42% of the total expatriate population is made up of employees working in different premises compared to the central one (HQ).

Pirelli monitors the level of acceptance and appreciation of diversity perceived by employees within their own reality, as well as the priority given to the issue of Diversity and Equal Opportunities by employees. In this regard, the issue, as part of the materiality analysis conducted at the end of 2021, ranked in the top half of the 20 issues considered by employees. During 2022 Pirelli will launch the “My Voice for Wellbeing” Survey, which will include specific questions to monitor the level of inclusion and awareness of diversity elements among Pirelli employees. The results will be published in the 2022 Annual Report.

A very important tool for the management of equal opportunities and the prevention of risk of breach thereof is the Group Whistleblowing Reporting Procedure, through which employees and the external stakeholders can anonymously report any cases of equal opportunity violations within the Company or in relations with it. In 2021, no reports were received relating to cases of discrimination. For more



details on the reports received, see the paragraph “Focus: Reporting Procedure - Whistleblowing Policy”.

Regarding the composition of the corporate bodies by gender and Diversity Policies, reference is made to the “Report on the Corporate Governance and Share Ownership of Pirelli & C. S.p.A.”, within the present Annual Report, paragraphs “Diversity Policies”, “Board of Directors - *Composition*”, “Board of Statutory Auditors - *Composition*”.

With regard to the subdivision of the workforce by gender, with reference to the three-year period 2019-2021, the data show a substantial stability, with a percentage of women in the total population, which stands at 14.4%. The percentage of women continued to grow in relation to managerial positions (executives + cadres), standing at 24.8% in 2021 compared to 24% in 2019 and 22.4% in 2019.

**WOMEN’S INCIDENCE ON THE TOTAL WORKFORCE<sup>60</sup> BY CATEGORY**

YEAR	EXECUTIVES	CADRES	EXEC + CADRES (= Tot Manager)	WHITE COLLARS	BLUE COLLARS	TOTAL
<b>2021</b>	11.3%	26.6%	24.8%	33.2%	10.4%	<b>14.4%</b>
<b>2020</b>	10.5%	26.0%	24.0%	33.0%	10.2%	<b>14.1%</b>
<b>2019</b>	10.7%	24.1%	22.4%	33.8%	10.0%	<b>14.3%</b>

Analysing the breakdown by gender in terms of employment contract, the table below shows that also in 2021, and a substantial balance was maintained between men and women.

**WORKFORCE<sup>43</sup> BY GENDER AND BY TYPE OF CONTRACT**

	2021			2020			2019		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
<b>PERMANENT</b>	94.4%	95.6%	94.5%	96.1%	97.0%	96.2%	97.3%	96.6%	97.1%
<b>TEMPORARY</b>	4.7%	4.1%	4.7%	3.3%	2.8%	3.2%	2.6%	3.1%	2.7%
<b>AGENCY</b>	0.9%	0.3%	0.8%	0.6%	0.2%	0.6%	0.1%	0.3%	0.2%

In 2021 the number of parental leaves used by Pirelli employees corresponds to 176 for women and 659 for men. With reference to the post-maternity/paternity return rate, Pirelli figure for the total workforce in all the countries where the company is present shows that, in 2021, out of the total number of workers who have ended parental leave, 88% of women and 96% of men have returned to the Company. Also, during 2021, one year after the maternity and paternity event (begun in 2020), 76% of women and 86% of men are still employed at the Company. It should be noted that the

<sup>60</sup> These data include agency workers, corresponding to 0.2% of total workforce in 2019, 0.6% in 2020 and 0.8% in 2021.

difference in the data between genders should be considered natural in light of the different socio-cultural contexts in which female workers are inserted. In 2021, in the Italian perimeter, as a pilot initiative, an agreement has been signed that provides for a supplement to the provisions of local legislation on parental leave, which allows for a 100% pay adjustment which covers a period of 3 months.

In the context of gender diversity, Pirelli is particularly attentive to remuneration equality, constantly monitoring this issue and publishing the figures transparently for 11 years now. The countries considered in the analysis at the end of 2021 were Brazil, China, Germany, Italy, Romania, Mexico, Argentina, USA, Russia, France, Spain, UK, Turkey and Sweden, representing in terms of materiality over 3/4 of the total workforce subject to the remuneration policy (executives, cadres and employees). The pay gaps between men and women are calculated for each country and for the same roles, taking into account the “grade” assigned to each (i.e. the weight given to each organisational position on the basis of different factors) and the statistical significance of each cluster. This method of data collection allows for an objective investigation and evaluation, taking into account the structural differences of the various local markets and their specific remuneration logic.

The average of pay gaps between men and women white collars recorded in these countries is equivalent to 4% in favour of women, compared with 3% in 2020 and 2019 also in favour of women; for the cadre category there is an average pay gap of 3% in favour of men, compared with substantial pay parity in 2020 and 2% in favour of men in 2019. A few examples:

- Italy, which has a difference between average remuneration for men and average remuneration for women of around 3% in favour of women for the category of employees (in line with 2020 and 2019); and 3% in favour of men for the category of cadres (compared to 1% in 2020 and 4% in 2019 in favour of men);
- Romania, where for the category of white-collar employees there is 1% in favour of men (compared to 4% in 2020 and 2019, also in favour of men) and for the category of cadre there is 7% in favour of men (compared to 8% in favour of men in 2020 and 9% in 2019, also in favour of men);
- Brazil, where there is a pay gap of 1% in favour of women in the category of white-collar employees (compared to substantial parity in 2020 and 3% in favour of men in 2019) and 2% in favour of men in the cadre category (compared to 3% in favour of men in 2020 and 4% in favour of men in 2019);
- Germany, which shows a difference between average male and average female remuneration of 2% in favour of men for the category of white-collar employees (in line with 2020 and compared to 1% in 2019 in favour of men) and 2% in favour of men for the category of managers (compared to 2% in 2020 and 9% in 2019, both in favour of men).

With reference to the population of managers, of which women represent 11.3%, there is an average pay gap of 6% in favour of women (In line with 2020 and compared to 5% in 2019, again in favour of women).

With regard to the workers' population, all countries in which Pirelli is industrially present were analysed. For each country the pay gap between men and women has been calculated. The average, weighted by the number of employees, showed a 1% difference in favour of men. Here are a few examples:

- China presents a difference between average men's salary and average women's salary of 12% in favour of men, compared to 10% in 2020 and 7% in 2019, always in favour of men;
- Brazil has a pay gap of 4% in favour of women compared to 2% in favour of women in 2020 and 2% in favour of men in 2019;
- in Italy there is a gap of 2% in favour of men, in line with 2020 and 2019;
- in Romania there is substantial pay equity, compared with 2% in favour of women in 2020 and 2019.

With regard to the standard salary of new hires during their first year of work, this is shown to be greater than the minimum levels prescribed by different local legislation and there are no differences between men and women or related to other diversity factors.

Pirelli's inclusive culture towards different skills, as explained in the Pirelli policy on equal opportunities, is implemented by all the Group's affiliates. Under applicable local laws, approximately 1.7% of total employees in 2021 (a reduction of 0.2 pp from the figure for 2020 and unchanged from the figure for 2019) have some form of disability, net of the following considerations: the percentage measurement of disabled employees in the multinational context of the company clashes with the objective difficulty of measuring their number, both because in many countries where the Group is present, there are no specific laws or regulations promoting their employment and therefore disabilities are not automatically detected, and because in many countries this information is deemed confidential and protected by privacy laws; it is therefore likely that the actual percentage of disabled persons working at Pirelli could be higher than the above figure.

With reference to the “age” factor of the company population, subdivided by professional category, it is homogeneous between genders, as can be seen from the table below.

<b>AVERAGE EMPLOYEE AGE BY CATEGORY AND GENDER</b>					
<b>2021</b>					
	<b>Executives</b>	<b>Cadres</b>	<b>White collars</b>	<b>Blue collars</b>	<b>Group Average</b>
<b>Female</b>	50	44	38	38	39
<b>Male</b>	50	45	39	38	39
<b>Total</b>	50	45	39	38	39
<b>2020</b>					
	<b>Executives</b>	<b>Cadres</b>	<b>White collars</b>	<b>Blue collars</b>	<b>Group Average</b>
<b>Female</b>	50	44	38	37	38
<b>Male</b>	51	46	39	38	39
<b>Total</b>	50	45	39	38	39
<b>2019</b>					
	<b>Executives</b>	<b>Cadres</b>	<b>White collars</b>	<b>Blue collars</b>	<b>Group Average</b>
<b>Female</b>	48	43	37	36	37
<b>Male</b>	50	45	38	37	38
<b>Total</b>	49	45	38	37	38

The following table represents the average seniority of service per professional category and gender: also in 2021, there were no significant differences between men and women.

<b>AVERAGE EMPLOYEE SENIORITY OF SERVICE BY CATEGORY AND GENDER</b>					
<b>2021</b>					
	<b>Executives</b>	<b>Cadres</b>	<b>White collars</b>	<b>Blue collars</b>	<b>Group Average</b>
<b>Female</b>	18	14	9	8	9
<b>Male</b>	17	15	10	10	10
<b>Total</b>	17	14	10	10	10
<b>2020</b>					
	<b>Executives</b>	<b>Cadres</b>	<b>White collars</b>	<b>Blue collars</b>	<b>Group Average</b>
<b>Female</b>	16	14	9	7	9
<b>Male</b>	17	15	10	10	10
<b>Total</b>	17	15	10	10	10
<b>2019</b>					
	<b>Executives</b>	<b>Cadres</b>	<b>White collars</b>	<b>Blue collars</b>	<b>Group Average</b>
<b>Female</b>	14	14	9	7	8
<b>Male</b>	16	15	9	9	10
<b>Total</b>	16	15	9	9	9

The following procedures and activities to promote equal opportunities have been well-established for years:

- the use, as far as possible, of candidate lists with a significant presence of women in recruitment processes;
- introduction of initiatives aimed at respecting cultural and religious diversity (e.g. different and clearly marked diets in canteens, typical cuisine from cultures other than that of the host country etc.);
- “multilingual” bookshops at the factories;
- welfare and work-life balance initiatives (in regard, refer to the paragraph “Welfare and initiatives in favour of the Internal Community” in this report).

In 2021, among other initiatives, Pirelli set up a fund with Bocconi University called “Pirelli Women Awards” to support the university careers of deserving female students. Training initiatives aimed at

improving the management of cross-cultural communication provided during the “Plunga” international onboarding programme for new hires in the Group.

## **Remuneration and Sustainability**

The General Remuneration Policy, approved by the Board of Directors of Pirelli, establishes the principles and guidelines to which the Group adheres in order to determine and monitor the application of the remuneration guidelines relating to the Directors vested with particular delegations/offices, to the Managing Directors, to Executives with strategic responsibilities, to Senior Managers and to other Group Executives.

Specifically, the Guidelines of the remuneration for the abovementioned management figures will also cover:

- fixed and variable remuneration, both short and medium-long term;
- compensation in case of termination of employment;
- clawback clauses for Top Management.

The remuneration policies adopted by Pirelli aim to ensure fair remuneration in line with the individual’s contribution to the success of the Company, recognising the performance and quality of the individual’s professional input.

The purpose is twofold: on the one hand to attract, retain and motivate employees, while on the other to reward and promote conduct that is consistent with the corporate culture and values. Compensation policies and processes for Group management (intended as the overall executives) are managed by the Human Resources department, while for non-executive personnel they are handled on an individual Country basis, although supervised from central level.

The Management is covered by the Annual Incentive Plan (Short Time Incentive – STI), linked to the achievement of annual economic-financial or functional objectives, to which a sustainability objective is added, identified “Eco & Safety Performance Revenues”) with a weight of 10% of the total. In line with market best practices, the incidence of the variable component (short- and medium-term) on the total remuneration of each Group Manager is very high, signifying a close correlation between remuneration and performance.

The Annual Incentive Plan (STI) provides, with a view to retention, that for General Managers, Executives with Strategic Responsibilities (KM) and selected Senior Managers, a portion of the incentive accrued equal to a minimum of 25% and a maximum of 50% is deferred for three years. The relative payment, together with a company matching component, is subject to remaining in the company at the end of this period.

For the rest of the Management, the Plan provides for a deferred payment to the following year of a part (25%) of the annual incentive accrued, subject to the achievement of the following year's STI targets. The portion to be repaid is equal to the amount set aside, if the following year's objectives are achieved between entry level and target, or double the amount set aside, if these objectives are achieved at target level or above.

All Group Executives whose grade, as determined by the Korn Ferry method, is equal to or greater than 20, in line with the variable compensation mechanisms adopted at international level, are also beneficiaries of a Long-Term Incentive (LTI) Plan, which is totally self-financed as the related charges are included in the Industrial Plan economic data. In 2021, as well as in 2020, a Long-Term Incentive (LTI) cash plan was launched in line with market best practices, based on a rolling mechanism (a new three-year Incentive Plan will therefore be proposed each year), which does not provide for an ON/OFF access condition and with the following targets:

- Group Net Cash Flow (before dividends) with weighting 40%;
- Total Shareholder Return (TSR) relative to a panel of competitors (TIER1) with a weight of 40%;
- Positioning in the Dow Jones Sustainability Index World with a weight of 10%;
- Positioning in the CDP Climate Change Index with a weight of 10%.

For updates and details on the Remuneration Policy and related sustainability indicators, refer to the Governance section of Pirelli website, "Remuneration" sub-section.

## **Employer Branding**

In addition to disseminating the company principles, Employer Branding is also a valuable tool to give visibility to job opportunities aimed at recent graduates and profiles with experience, not only in the Italian market but globally. Considering the countries where Pirelli has a presence with one or more production plants, numerous events, projects and meetings were organised in 2021, where the Company promoted its own Employer Branding initiatives. These activities are carried out also thanks to the network of contacts and partnerships with important universities in the various countries.

In Italy, Pirelli actively collaborates with Polytechnic University of Milan, Polytechnic University of Turin, Bocconi University, UCSC Catholic University, University of Turin and the University of Milan-Bicocca. The latter Universities are located close to Pirelli offices and the Company has always considered them to be a benchmark for economic and engineering education of young people. With these institutions, Pirelli organises Careers Days, round tables, Job Fairs and company presentations, whether in-person or virtually.

In 2021, among other initiatives, Pirelli:

- set up a fund with Bocconi University called “Pirelli Women Awards” dedicated to supporting the university career of deserving female students;
- entered into collaboration with MIP to organise the “Master in Sustainable Industrial Management” and the “Master in Sustainability Management & Corporate Social Responsibility”.

Among the channels of Employer Branding used by Pirelli, the internet plays an important role: on *pirelli.com* website, the Company provides a channel dedicated to those wishing to propose their candidacy for specific open positions, as well as giving ample information on the company history, management models adopted, objectives and results achieved; targeted channels - including the best-known social media channels and the University portals - are also chosen by Pirelli to publish their job offers.

## **Development**

### ***Performance Management***

With the Performance Management process Pirelli defines and evaluates the contribution of each employee to the achievement of company objectives in terms of results obtained and behaviours applied. The process supports the definition and sharing of key indicators for the achievement of the corporate strategy and represents an important opportunity for the professional development and orientation of each individual.

A key element of the process is the transparent and open dialogue between the manager and the employee, from the phase of sharing individual objectives to that of evaluating the results achieved and the behaviours expressed for their attainment.

The main features in the process are:

- the entire process is managed within a platform accessible from all company devices;
- the process and the platform are active all year, so as to better support the continuity of dialogue between boss and employee and alignment of the priorities;
- the assessment is based on two dimensions: the “what” (results) and the “how” (key behaviours);
- the key behaviours are the same for the entire company population and are considered essential to the achievement of the company’s strategic objectives, namely: *Accountability, Teamwork and collaboration, Forward thinking, Agility, Cross-functional approach, and Initiative and drive.*



As usual, in 2021, the process was accompanied by digital training resources focused on the evaluation and feedback process.

The Performance Management process involves all staff worldwide (executives, cadres and white collar employees) and in 2021 saw a redemption rate (i.e., completed assessments compared to the total eligible people) of 100% for female and male executives, cadres and white-collars.

The percentages of completion by level are shown below:

Executives	Cadres	White collars
100%	100%	100%

In support of the quality of the Performance assessments, Pirelli process includes the so-called *Calibration Meetings*, i.e. meetings with the involvement of the managers of the individual functions, Business Unit and Country, with their first reporting and with the Human Resources managers of reference. During these meetings the evaluations of the people belonging to a specific organisational unit are put into common use with the aim of ensuring a balanced distribution and a process that is as coherent, homogeneous and objective as possible.

### **Talent Development**

The Talent Development process aims to ensure business continuity by supporting the identification and development of people with the potential to cover the positions of greater complexity, those who already hold strategic positions and so-called *critical know-how* (that is, people with key skills that are difficult to replace).

The current population of talent and *critical know-how* is around 580 people. As far as talent is concerned, the average seniority within the company is 8 years. The strong international character, represented by 22 nationalities, is confirmed.

In 2021, the assessment of the managerial skills of the talent population also continued. This activity enabled the activation of specific action plans dedicated to supporting the development path of the people involved.

In 2021, a mentoring programme was launched dedicated to the youngest members of the talent pool. Each of the participants in the initiative was associated with a senior leader in the role of mentor. Mentors and mentees were supported with several training sessions aimed at sharing methodologies and tools to support the effectiveness of the programme. The main objectives of the programme were to transfer experience and vision between current leaders and the next generation of leaders,

to support the professional development goals of young talents and to develop a greater awareness of the corporate culture and context.

## **Training**

All Pirelli affiliates have adopted the Learning@Pirelli training model, organised, structured and equipped system to respond to “Group” needs as well as any needs that may emerge locally at any time from the various affiliates.

Pirelli training offering is based on one hand on the strategic priorities of the organisation and the different functions, and on the other on the needs that arise each year from the Performance Management process as well as the training needs arising from the socio-economic context.

After a slowdown in 2020 due to the Covid health emergency, training activities resumed in 2021, confirming the prevalence of virtual participation by the staff population (employees, middle managers and executives). In addition to Health and Safety issues, the training focus was on professional “Upskilling” and improving digital knowledge in line with the advances in the company’s digitalisation processes.

Continuing the important digital transformation of the training offering already begun in previous years, the Pirelli training model is based on four main pillars: the Professional Academy, the School of Management, Global Activities and Local Education. The first three are designed centrally and delivered centrally and/or locally, while Local Education is entirely managed and implemented in individual countries to meet specific local needs. The above is also accompanied by training programmes organised by the Headquarters in English to support all colleagues in the foreign offices.

### ***Professional Academies***

Pirelli Professional Academies cater to the entire corporate population with the aim of providing continuous technical-professional training, encourage cross-functional collaboration, ensure the exchange of expertise and know-how among countries and support the implementation of tools and procedures within the organisation.

There are ten Pirelli Academies: Product Academy, Manufacturing Academy, Commercial Academy, Quality Academy, Supply Chain Academy, Purchasing Academy, Finance and Administration Academy, Planning & Control Academy, Human Resources Academy and Digital Academy.

Sustainable Management elements are throughout the Academies, with focus for example on environmental efficiency of the process, diversity, health and safety, sustainable management of the supply chain, risk management and diversity management. The new digitalisation processes are also recurring and transversal to the Academy training model.

The faculty of the Academy is mainly composed of internal trainers, experts from the specific functions who, based on the training needs and logistical needs, provide training at central, regional and local level. The Academy model involves a significant figure from the function guiding each Academy, supported by one or more professionals from the same function and from the Group Training function, which ensures consistency in the methods of approach, delivery and evaluation of learning in addition to ensuring collaboration with the local training teams. Pirelli Professional Academy trainers are also certified through a standard process in all countries and are periodically updated on their effectiveness in transmitting know-how and skills.

Each year the Professional Academies meet with both Top Management and local training contacts, with the objectives of strategic alignment, sharing of results achieved and determining of training priorities to be focused on in the following months.

During the 2021 the training digitalization process has continued (already started the pre-Covid era), leading all the Professional Academies to expand their training offerings, supplementing the traditional training delivered with a portfolio of online courses to be used in “asynchronous” mode and at the times chosen by the end user.

The expansion of the digital training offering was possible thanks to what had already been defined and launched in 2019, the year in which the central Learning team defined a strategy for the gradual digitalisation of training by following two main paths. The first involves the acquisition of already available digital content, typically on cross-cutting and generalist topics, from specialist providers; the second consists of the in-house creation of e-learning courses on highly specialised Pirelli content, which is often less well covered at peripheral level. This two-pronged strategy has made it possible to create a digital library in a short period of time, the content of which can be accessed at any time by all colleagues with access to the Learning Lab platform, which has been redesigned and updated to accommodate the new online content: “Customer Specific Requirements”, “Procurement Process: Standards & Rules”, which add to the list of online courses designed specifically for Pirelli content.

During 2021 the Professional Academies continued to organise “live” courses in virtual mode, thus ensuring the possibility of interacting with participants, guiding their understanding and learning, and managing to reach a higher number of colleagues globally more quickly. In this regard, mention should be made of the significant effort made by the Quality Academy, which, out of the approximately 70 training sessions organised, held more than half in English for the benefit of all colleagues in the foreign offices; the Digital Academy, which trained more than 440 colleagues in sessions dedicated to exploring the new functions of the Teams work and collaboration platform; and the HR Academy which, in continuation of what was started the previous year, trained more than 160 Internal Trainers on how to conduct effective and engaging online training sessions.

Among the new training initiatives conducted in 2021 is the *Ready to Develop* training programme, designed and implemented to support Research & Development professionals in acquiring and/or reinforcing skills considered strategic for the innovation challenges facing Pirelli’s researchers and developers. The programme is aimed both at researchers who have been with the company for years and at young engineers newly hired into the function. For the latter, the Ready to Develop programme

takes the form of a specialised second-level master's degree designed and co-taught by Pirelli and the Politecnico di Milano. For colleagues who have already been with the company for a few years, on the other hand, there is a wealth of Upskilling training available to reinforce the most critical and sought-after skills to meet future research trends at Pirelli, such as Industrial Internet of Things, Statistics, Data Analysis and Machine Learning.

Finally, special mention should be made of the major “reskilling” project launched in 2021 at the Bollate plant in Italy, due to the new destination of this production site for the production of bicycle tyres. The entire population of the plant will be involved in 2021 and 2022 in a massive training programme on the new business, new products and processes and the new work organisation that the new production envisages.

### ***Pirelli School of Management***

The School of Management (SoM) is the training structure dedicated to the development of the management culture within Pirelli and its target audience covers the populations of Executives, Talents, Middle Management/Senior Professionals and Recent Graduates/Juniors.

The focus of management training is calibrated and outlined every year based on the business challenges that the Company is required to face. The training model provides for a training offering consistent with the six *Key Behaviours* identified in the global performance management system, to which a paragraph is dedicated in this report.

In addition to the classroom training activities, the School of Management also offers constantly updated online tools through the section “Insights & Updates”, a collection of articles and videos published in the bi-monthly newsletter of the same name aimed at all managers on the LearningLab international platform and the “Warming Up learning platform” dedicated to all recent graduates.

In 2021, Pirelli School of Management courses accounted for 7% of total staff training.

In 2021 the School of Management's training offering was further enhanced, offering carefully selected online digital content for each of the six *Key Behaviours*, with the aim of providing Pirelli colleagues with opportunities to increase their awareness of how they can apply the key behaviours in the work context. In parallel with the expanded online training offer, as with the Professional Academies, we continued to organise virtual classes on managerial and employee management topics.

All School of Management courses are in English, with the aim of involving more and more foreign colleagues in training programmes dedicated to key behaviour and managerial skills. In 2021 there were 90 course participants from the 12 countries in which Pirelli operates, so as to allow value to be captured from the heterogeneity of managerial cultures typical of the Company's multinational context.

In 2021, the traditional annual “Developing Managerial Excellence” course for all new Group executives was again conducted in virtual mode.

As part of the School of Management’s offering, the traditional ‘Plunga’ onboarding programme was held in digital format for all new recruits to the Pirelli Group, involving 284 colleagues from 21 different countries.

In 2021 the WarmingUp@Pirelli course was also held in digital form, dedicated to new graduates from across the Group and lasting two years, involving 183 people from 11 countries.

### **Global Activities**

Global Activities includes all the training campaigns launched globally and designed to promote awareness of corporate guidelines while respecting local diversity. Topics such as Privacy and Information Security are the primary focus of these training activities.

In continuity with what was started in the last months of 2020, the international awareness campaign on Information Security issues continued in 2021. The initiative covered over 1,000 hours of training for employees in Italy and abroad through online mini-training pills. In continuity and in line with the corporate strategy of offering more and more training programmes in English delivered directly by HQ, an English language skills training programme was launched for the first time in 2021. The programme involved about 140 colleagues from 19 Pirelli countries who, distributed in subgroups that were heterogeneous in terms of starting language level, country of origin and time zone, participated in language training sessions, each sharing different points of view, perspectives and local specificities.

### **Local Education**

The training provided at the local level responds to the specific training needs of the Pirelli affiliates operating in the different Countries and is addressed to the entire company population. The seminars cover areas of expertise ranging from the improvement of interpersonal skills to stress management, from the development of IT, language and regulatory skills at seminars on issues of welfare and diversity at the Company.

Local training is also an important tool for covering content related to the implementation of new regulations or agreements.

During 2021, following the continuation of the health emergency, particular attention was paid to training on Covid-19 prevention issues, with specific courses for headquarters and travelling

personnel, periodically updated in relation to the evolution of the pandemic and related government regulations.

### ***Focus: Training on Sustainability and Corporate Governance***

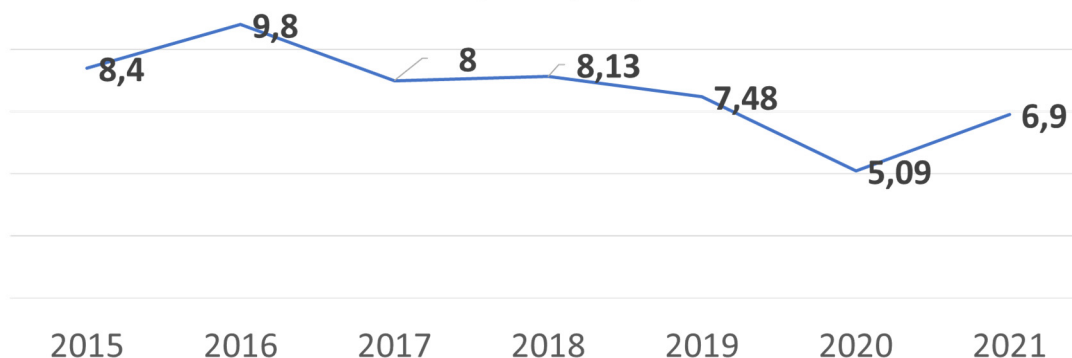
Also in 2021, training continued on Pirelli Sustainable Management Model, with update on the state of the Company's Sustainability Plan. In addition, there is institutional training in the International programme "Plunga", which presents the Group's Sustainable Management strategy (including in the new virtual version) to all new employees, starting from the multi-stakeholder approach contextualized in the integrated economic, environmental and social management. Training on the Pirelli Model also draws the attention of new recruits to Group Sustainability Policies and related commitments, expressed through the "Code of Ethics", the "Code of Conduct", the "Equal Opportunities Statement", the "Social Responsibility Policy for Occupational Health, Safety and Rights and Environment", the "Health, Safety and Environment" Policy, "Global Human Rights" Policy, in addition to the requirements of the SA8000® Standard, relating to human and labour rights both within the company and in the supply chain. As part of the Plunga recruits' course, a contribution on Compliance & Audit topics was included in addition to the Sustainability course in 2021.

In addition, during 2021, to complement the previous training campaign with the online course Procurement Anticorruption: Principles & Behaviours, all colleagues in the Procurement function were invited to attend the course Procurement Process: Standards & Rules, of which sustainable supply chain management is an integral part.

### ***Pirelli training performance***

Total training provided in 2021 was 6.9 average training days per capita. This figure reflects the centrality of training in Pirelli's culture, as well as its commitment to continuous investment even in emergency and difficult situations. In fact, at the same time as the gradual resumption of all activities at full capacity, in 2021 the numbers of training activities also returned to levels comparable with the year before the Covid emergency. Among the countries with the highest training investment are Mexico, Russia and Romania, which are particularly driven by production needs or the introduction of new resources.

### Average Training Days Group Employees



Following is the subdivision of average training days by gender and by professional category<sup>61</sup>:

GROUP	WOMEN	MEN	
	4.7	7.3	
6.9	EXECUTIVES	CADRES & WHITE COLLARS	BLUE COLLARS
	1.45	3.47	7.82

The high investment in training involved both men and women, with about 2.6 days more for men due to the clear prevalence of the male gender in the workforce, which is subject to more technical training.

Moreover, 98% of employees (considering the average workforce for the year) participated in at least one training activity in the year lasting more than one hour.

The investments made for the various categories of the company population (blue-collar workers, middle management and white-collar workers, and executives) are in line with those of previous years and balanced in proportion to the overall training strategies: the strong focus on manufacturing improvement processes (Manufacturing and Quality) in addition to the usual attention to health and safety issues, which are also particularly relevant in 2021, determine the largest investments on the blue-collar worker population.

On a global level, net of the specific training needs of each country, the *Professional Academies* cover the most significant portion (48.8%) of the training activities on the total non-worker population; this is because the Professional Academies are aimed at training and the continuous updating of technical skills linked to innovation processes, which are strategic for the company. In particular, with

<sup>61</sup> Data at Group level and by category calculated with average headcount for 2020; data by gender calculated with actual headcount as at 31/12/2020.

regard to employee training, again in 2021 reskilling campaigns in the areas of Quality, Manufacturing and Sales were particularly important.

Health, Safety and Environment topics accounted for 14% of the total training.

In line with the major digital transformation processes underway in the company, training processes have also been progressively involved in digitalising content relating to both basic skills and innovation, so as to allow it to be used more widely, quickly and in a more engaging way. In 2021, 62% (49% in 2020) of staff training hours were carried out in virtual mode, both synchronously and asynchronously, confirming the progressive importance assumed by the digital format in training activities.

### **Listening: Group Opinion Survey**

Pirelli has used the climate survey tool (internally called “My Voice”) for years as a tool for actively listening to its employees around the world, on the basis of which to set up group and local improvement plans.

During the years 2020 and 2021, characterized by the Covid-19 health emergency at a global level, the main effort of the company was to keep its employees engaged through the direct and more massive use of corporate welfare proposals both of collective type and with new services to support the person, to respond to the specific needs that emerged in this difficult period. In fact, new welfare services have been introduced, also offered in virtual mode, such as online edutainment programs for employees’ children, counseling “counters” to support care givers, training sessions, virtual and face-to-face, both on themes of mental and physical wellbeing and digital wellbeing, mindfulness and physical activity courses for wellbeing (yoga, stretching, ...).

In some countries, such as Brazil in the latter months of 2020, specific listening programs were also activated to collect perceptions of how people were experiencing the particular moment of the pandemic and what support actions could be implemented. A new survey was made after a few months, reporting important improvements on various satisfaction indicators (the factors increased

The trend already started in recent years of offering a broad and customisable corporate welfare, suitable for finding the best solutions to cover all people’s new needs, has therefore been further consolidated in 2021, characterising this area as a predominant lever of engagement with workers and a tool to help them adapt constructively and effectively to a constantly changing scenario.

The engagement activities for 2022 will still be focused on the wellbeing of people, also through targeted listening initiatives, on the basis of which specific actions will then be implemented. Other engagement programs, aimed at supporting motivation, passion and energy in people, may be gradually activated in relation to the challenges that the company will face.



## Welfare and Initiatives for the Internal Community

For years, Pirelli has had the organisational figure of the “Group Welfare Manager”, who is entrusted with the supervision of welfare activities, jointly with the many central and local functions concerned, including Health and Safety at Work, Industrial Relations, Sustainability, Human Resources and Organisation.

The welfare initiatives that Pirelli offers to its employees vary from country to country, in accordance with the specific regulatory, social and cultural environments in which the affiliates operate. In any case, they implement the shared guidelines at Group level since 2016, so that all the offices of the world are progressively committed to locally adopting activities, tools and welfare processes aimed at creating collaborative environments and ensuring adequate support for the needs of a personal life.

Welfare activities activated at Pirelli affiliates around the world are attributable to four macro areas of action:

- health and wellbeing (e.g. health care, information and awareness-raising campaigns, specific initiatives to improve the wellbeing of employees);
- family support (e.g. scholarships, summer camps for employees’ children, inter-company crèche and specific activities to support parenting);
- free time (e.g. open days, sporting and cultural activities, online portals of products and services with significant employee deals and discounts);
- working life and working environments (e.g. flexible working hours, individual development training, cultural growth and group celebrations).

All Group affiliates have the opportunity to share local best practices through a special section dedicated to welfare on the corporate Intranet.

Periodic surveys verify employee satisfaction with the services offered, and particular appreciation is expressed for health care. Pirelli has always provided infirmaries at all production units, where health workers and specialist doctors are available to all employees for visits and examinations during working hours. In addition to first aid and periodic health surveillance, these facilities also provide advice on non-work-related health problems.

A great deal of attention has been paid to preventive measures against Covid-19 at work sites worldwide. At production sites, where permitted by law, testing and/or vaccinations against COVID-19 were carried out at in-house medical facilities.

In addition, the pandemic period further confirmed the centrality of people’s wellbeing, which is a qualifying constituent element of the relationship between people and the company, as well as a generator, like other factors, of motivation and engagement, in addition to being a strategic lever for attracting and retaining people. In this regard, in 2021 the company will once again implement

specific strategies to provide psycho-physical support to people. These include online yoga, pilates and stretching courses, periodic conferences to raise awareness of health, wellbeing and prevention issues, and projects dedicated to parents, who are under particular pressure during periods of remote working and distance learning. New projects launched in 2021 in Italy and being proposed to the other countries in the Group include:

- “Parents in Action”: a parenting support course dedicated to parents/workers interested in enhancing, in the professional and personal spheres, the skills acquired through their experience and to all those interested in highlighting the key skills of the parent and how to make the most of them in their daily work;
- “Smart Living”: a course available to all employees based on Positive Psychology to regain confidence, personal and social energy and train to deal with changes and uncertainties with a mind-set capable of transforming critical situations into opportunities for growth.

## **Industrial Relations**

The Industrial Relations policy adopted by the Group is based on respect for constructive dialogue, fairness and roles. Relations and negotiations with trade unions are managed locally by each affiliate in accordance with the laws, national and/or company-level collective bargaining agreements, and the prevailing customs and practices in each country.

At this local level, these activities are supported by the central departments, which coordinate the activities and ensure that the aforementioned principles are observed throughout the Group.

Industrial Relations also have an active role in the Group’s commitment in terms of health and safety, with an equally active participation on the part of the unions and workers. In fact, 79% of the Group’s employees are covered by representative bodies that periodically, with the Company, monitor and address current topics as well as and awareness and intervention plans/programmes aimed the improvement of the activities carried out to safeguard the health and safety of employees.

In compliance with the principle of constructive and timely dialogue with employees, with the aim of a reduction of social impacts, in all cases of corporate reorganisation and restructuring, workers and their representatives are informed in advance, with deadlines that vary from Country to Country in full compliance with local legislation, current collective agreements and trade union agreements.

During the year, the Company worked at an international level to rebalance the level of employment, aligning it to the volume requirements resulting from the drop in the market relating to the Covid-19 pandemic. This organisational rationalisation action was managed in agreement with the trade unions, using natural turnover and the use of tools to minimise social impact, in full compliance with local legislation, collective contracts in force and trade union agreements.

During 2021, the Company proceeded to renew the collective agreements expiring in Romania, Argentina and Mexico, without any conflict.

### **European Works Council (EWC)**

Pirelli European Works Council (EWC), formed in 1998, holds its ordinary meeting once a year after presentation of the Group Annual Financial Report, where it is informed about the operating performance, operating and financial forecasts, investments made and planned, research progress and other matters concerning the Group.

The agreement establishing the EWC provides for the possibility of holding other extraordinary meetings to fulfil the information requirements of delegates, in light of transnational events concerning significant changes to the corporate structure: opening, restructuring or closing of premises, important and widespread changes in work organisation. EWC delegates are provided with the IT tools they need to perform their duties and a connection to the corporate Intranet system, for the real-time communication of official Company press releases.

### **Compliance with statutory and contractual obligations governing overtime, leave, association and negotiation, equal opportunities and non-discrimination, bans on child and forced labour**

Governance to protect Human Rights and Labour is the subject of Pirelli's Code of Ethics and specific Policies adopted by the Company, in particular the "Social Responsibility Policy for Health, Safety and Rights at Work, Environment", the "Global Human Rights" Policy, the "Equal Opportunities Statement" and the "Health, Safety and Environment" Policy. All the aforementioned Policies are public and have been communicated in the local language to employees. Moreover, from 2004 Pirelli has adopted the requirements of Standard SA8000® as a reference tool for managing Social Responsibility at its Affiliates and along the supply chain.

The Management of Diversity and Equal Opportunities, and responsible management of the supply chain in the field of human rights and labour are addressed in the sections "Diversity, Equity and Inclusion" and "Our Suppliers" in this Report, to which reference should be made for further details.

Pirelli approach has always promoted compliance with all legal and/or contractual requirements concerning working hours, the use of overtime and the right to regular days of rest. These requirements are often the subject of agreements with trade unions, in line with the regulatory situation in each country. The use of all holiday days, as a right of every worker, does not have any restrictions and the period is generally agreed between employee and company.

In addition to the trade union dialogue and coordination between the Headquarters and local functions, Pirelli verifies the application of the provisions on the respect of human and labour rights to its affiliates through periodic audits performed by the Internal Audit Department, in compliance

with a three-year auditing plan to cover all the Company’s sites. Normally every audit is carried out by two auditors and takes around three weeks on-site. The Internal Audit Team received training on the environmental, social, labour and business ethics elements of an audit from central function directors to enable them to carry out an effective, clear and structured audit, granting Pirelli effective control over all aspects of sustainability. Based on the results of these audits, an action plan is agreed between the local managers and central management, with precise implementation dates and responsibilities and follow-up verification. The auditors carry out verifications on the basis of a checklist of sustainability parameters deriving from the SA8000® Standard and the Pirelli Policies mentioned above. All managers from the affiliates involved in the audits are adequately trained and informed on the audit purpose and procedures by the applicable central functions, in particular Sustainability; Purchasing; Health, Safety and Environment; Industrial Relations, and Compliance.

**Focus: Internal audits**

Year	Countries
2014	Italy, United Kingdom and China
2015	Mexico, Russia (Voronezh plant) and United Kingdom
2016	Germany, Russia (Kirov plant) and United Kingdom (follow-up)
2017	Argentina, Brazil (Campinas and Feira de Santana plants), Mexico, Romania and USA
2018	France, China (Yanzhou plant)
2019	China (Jiaozuo plant), Russia (Voronezh plant) and Singapore
2020	Remote monitoring of action plans agreed in the preceding audits
2021	Germany, Russia (Voronezh plant)

Non-conformities identified as a result of audits carried out during 2021 are the subject of action plans agreed between local managers and central management and are followed up by the Internal Audit Function. It should be noted that in 2021 - as in the audits carried out in previous years - no violations of the ILO Core Labour Standards were found, with specific reference to forced labour, child labour, freedom of association and bargaining, and non-discrimination. Consequently, no remedial plan and related corrective actions were required.

**Labour and social security lawsuits**

In 2021, as in previous years, the level of work and social security litigation at Group level remained low. The level of litigation remains high in Brazil, as in previous years, to the point of representing more than 80% of all the labour lawsuits currently pending against the entire Group. Labour lawsuits

are extremely common in this country and depend on the peculiarities of the local culture. As such, they affect not only Pirelli but also other multinational companies operating there. Labour lawsuits are generally initiated when an employment contract is terminated, and they usually involve the interpretation of regulatory and contractual issues that have long been controversial. The Company has made a major commitment to prevent and resolve these conflicts – to the extent possible – including through settlement procedures.

### ***Unionisation levels and industrial action***

It is impossible to measure the precise percentage of union membership at Group companies, since this information is not legitimately available in all countries where Pirelli has a presence.

However, it is estimated that more than 50% of Pirelli employees are members of a trade union. As to the percentage of workers covered by collective agreement, in 2021, as in 2020 it stood at 79% (vs. 78% in 2019). This figure is associated with the historical, regulatory and cultural differences between each country. Collective agreements to be renewed in 2020 were renewed without any conflict and strikes.

### ***Supplementary pension plans, supplementary health plans and other social benefits***

The Group has defined contribution and defined benefit funds, with a substantial prevalence of the former kind over the latter. To date, the only defined benefit plans are:

- in the United Kingdom, where the fund relating to the tyre business has been closed to new employees since 2001 for the introduction of a defined contribution scheme (and closed to future accumulations for all active employees as at 1 April 2010), while the funds related to the cable business sold in 2005 were closed to future accumulations in the same year;
- in the United States, where the fund was closed in 2001 (since 2003, it has not been tied to salary increases) for the introduction of a contribution scheme (and only applies to retired employees);
- in Germany, where the fund was closed to new hires from 1982.

Other defined benefit plans exist in Holland and Sweden, but they represent a relatively insignificant liability for the Group.

The Group also maintains various supplemental Company medical benefit plans at its affiliates according to local requirements. These healthcare schemes vary from country to country in terms of allocation levels and the types of coverage provided. The plans are managed by insurance companies or funds created ad hoc, in which the Company participates by paying a fixed amount as is done in Italy, or an insurance premium as is done in Brazil and the United States. For the

economic-equity measurement of the above benefits, reference is made to the Consolidated Financial Statements, notes “Employee funds” and “Personnel Costs” within this Annual Report.

The social benefits recognised by Pirelli in favour of employees (including life insurance, invalidity/disability insurance and additional parental leave) are generally granted to all employees, regardless of the type of permanent, fixed-time or part-time contract, in compliance with company policies and local union agreements.

## **Occupational Health, Safety and Hygiene**

### ***Management model and system***

Pirelli’s approach to responsible management of occupational health, safety and hygiene is based on the principles and commitments expressed in “The Values and Ethical Code” of the Group, in the “Health, Safety and Environment Policy” in the “Global Human Rights Policy” and in the “Quality Policy”, in accordance with the Sustainability Model envisaged by the Global Compact of the United Nations, with the “Declaration of the International Labour Organization on fundamental Principles and rights at Work” and with the “Universal Declaration of Human Rights” of the United Nations. The reference tool since 2004 is also the SA8000<sup>®</sup> standard. In particular, the “Health, Safety and Environment Policy” makes Pirelli’s commitment to:

- manage its activities regarding health and safety protection at work in compliance with the laws and all the commitments entered into, as well as according to the most qualified management international standards;
- pursue objectives of “no harm to people”, by implementing actions for early identification, assessment and prevention of risks for health and safety at work aimed at a continuous reduction in the number and severity of injuries and occupational illnesses, activating health surveillance plans in order to protect workers from specific risks associated with their business duties;
- develop and implement emergency management programmes to prevent and avoid harm to persons;
- define, monitor and communicate to its Stakeholders specific objectives of continuous improvement of health and safety at work;
- empower, train and motivate its employees to work safely involving all levels of the organisation in an ongoing programme of training and information, aimed at promoting a culture of safety at work;
- promote information and awareness-raising on health and safety issues;

- provide its employees with ongoing and concrete support aimed at facilitating the work-life balance;
- manage its supply chain responsibly by including issues of health and safety at work in the supplier selection criteria, the contractual clauses and the audit criteria, also requiring suppliers to implement a similar management model in their supply chain (for an outline on responsible management of the supply chain, reference is made to the paragraph “Our Suppliers”);
- make available to all its Stakeholders a channel (the “Whistleblowing Policy” published on Pirelli’s website) dedicated to reporting, even anonymously, of any situations that constitute or may constitute a risk for the protection of the health, safety and well-being of people (reference is made to the Paragraph “Focus: Reporting Procedure - Whistleblowing Policy” of this Report for an outline of reports received in the last three years, none of which regarding health and safety).

All the Documents mentioned above are communicated to Group employees in their local languages and are published in the Sustainability section of Pirelli website, which should be consulted for full display of the content.

At all of its production sites, Pirelli voluntarily adopts an occupational health and safety management system structured and certified according to Standard ISO 45001:2018. All certificates are issued with ANAB international accreditation (ANSI-ASQ National Accreditation Board - US accrediting body). The occupational safety management system, applied without exclusion to all processes and activities at each production site, was developed in compliance with procedures and guidelines elaborated centrally in order to consolidate a “common language” that guarantees sharing, alignment and effective management in the Group. The development and continuous improvement of the management system is carried out both centrally and locally by the internal Health & Safety functions with the involvement of all relevant functions. Improvement is based on the continuous application of cycles of action planning, programme implementation, verification of results and, based on these, implementation of improvement.

In 2021, the migration of health and safety management systems from the OHSAS 18001:2007 standard to ISO 45001:2018 was completed, meaning that all production sites are now certified according to ISO 45001:2018.

In 2021, the coverage of the safety management system (certified according to ISO 45001/:2018) and subject to internal and third-party audits is as follows:

COVERAGE OF THE MANAGEMENT SYSTEM	Employees	Agency workers	Contractors
Number of workers covered by the management system	24,995	200	n.d. <sup>62</sup>
Percentage of workers covered by the management system out of total number of workers	82%	97%	100% <sup>63</sup>

### **Safety Culture and Governance**

The “Zero Accidents Objective” represents a precise and firm corporate position. From an industrial point of view, this objective is pursued through investments aimed at technical improvement of work conditions, while constantly insisting on the cultural and behavioural aspect of all Company players. This approach, together with the involvement and continuous internal dialogue between management and workers, has led over time to a sharp decline in injury rates.

In pursuit of this goal of zero accidents, through a process of continuous improvement and constant prevention, all leaders are involved and given responsibility, and are given a trend to improve the accident frequency index to pursue through action plans within their sites.

Business review meetings are held fortnightly at local, regional and global level, where health and safety issues, performance trends and improvement programmes are discussed - at the top of the agenda - to ensure continuous comparison and monitoring. These meetings allow information to be shared across the board and involve Human Resources, Health and Safety and Top Management at several levels (local, regional and global), including members of the Executive Board.

At local level, in each individual production unit, with a view to involvement and participation, periodic meetings are held with workers’ representatives (Health & Safety Committee), with the aim of illustrating, on the basis of the Health & Safety Management System, the activities carried out and those planned and to provide the results of risk assessments in the workplace.

To support this model, in 2013 the Company signed an agreement with DuPont Sustainable Solutions for the global implementation of the “Excellence in Safety” Programme. The Programme began in 2014 and has gradually been extended to all the Group’s production sites.

The most important areas of intervention of the “Excellence in Safety” Programme, relate to the improvement of the governance of safety, the clarity of the tasks and roles, empowering of all workers, improving communication within the organisation, the sharing of objectives, motivation with respect to a common strategy: all substantial issues for a work environment that is appropriate and

<sup>62</sup> Figure not available.

<sup>63</sup> This value is possible because the hours worked by employees of contractors at Pirelli sites refer exclusively to sites with a certified safety management system. Contractors working in offices are excluded from the calculation because their number is negligible compared to contractors working at production sites.



stimulating, in which workers feel involved and valued in safety management. Thanks to information, communication and training actions, everyone is encouraged to report any anomaly and/or unsafe condition in order to promote participation in continuous improvement and the removal of any potential cause of an accident. All reports, as well as real or potential accidents, are managed according to specific procedures aimed at analysing the causes and defining corrective and risk mitigation actions, involving all functions.

Each site sets up a *Central Safety Committee* made up of the heads of functions including Human Resources and Organisation, Health, Safety and Environment, and of which the Plant Manager is the coordinator. This Committee, which meets at least quarterly, analyses health and safety issues, directs the actions of the local Excellence in Safety programme and governs its progress. In a co-ordinated manner, various thematic sub-committees are also set up, which carry out continuous work in relation to the characteristic themes of the site.

The dissemination and sharing of the Safety Culture is also supported by the regular newsletters like the *Safety Bulletin*, and the sharing of significant events through the traditional channels of internal communication.

### ***Risk prevention, protection and management***

Specific procedures for managing all risk issues are developed in accordance with international standards and reference norms that are applied and translated at each site, integrating compliance with local regulations. The procedures, also developed with the collaboration of the relevant functions, systematically define the requirements for risk analysis, risk management methods and design requirements to ensure that hazards are reduced at source. The risk analysis activity leads to the definition of risk reduction programmes and actions pursued at each site and kept under control by specific site committees. In addition, processes of preventive analysis and release on new projects are applied in order to ensure risk management in all phases of development and implementation of new machines and plants. These approaches make it possible to implement risk elimination and reduction logics in priority to the mitigation and containment strategies implemented. The procedures are reviewed and updated in the event of regulatory changes, technological or process changes and following the analysis of incidents.

Risk management related to commercial supplies of raw materials, services and equipment is governed by safety and acceptability requirements included in the general conditions of supply. All chemical substances and products used are subject to prior HSE assessment (see section “ESG elements in the purchasing process” of this Report) and all equipment is subject to conformity analysis and risk assessment before being put into production. Safety management in supplier activities on sites is regulated by procedures specifying coordination requirements, prior risk analysis and work authorisation.

The year 2021, like 2020, was characterised by the Covid-19 pandemic, which saw a particular focus of Health & Safety activities on managing prevention measures, protecting the health of personnel

and ensuring safety conditions at all Pirelli sites. To manage the risk of Covid-19 infection, risk analysis procedures and action plans were developed and applied to ensure the health of workers and safe and secure work environments.

All Pirelli production sites are served by occupational medicine facilities that employees can access freely and which are managed by specialised medical and/or paramedical personnel with independent management (guaranteeing privacy) of the doctor-patient relationship. These services operate in coordination with the safety management functions and with company management to provide the necessary support for general risk prevention actions and guarantee the necessary health surveillance to protect workers. These services do not only focus on occupational medicine but also offer health care to all staff in compliance with local regulations. As for 2021, they focused on supporting employees in the particular pandemic context due to Covid-19, providing medical support and assistance (also outside the workplace) in health cases that occurred and with particular attention to employees with particular physical frailties.

### ***Safety training***

Around 14% of the total training provided by Pirelli in 2021 concerned occupational health and safety issues. Each site designs, plans and delivers safety training on the specific risks present, the particular need to update and comply with regulatory obligations, trends in accident indicators and the evolution of site activities and processes. The characteristic themes of this training concern general safety concepts including obligations, responsibilities and protection concepts, the treatment of all work-related risks present at the site, safety operating procedures, golden rules, emergency procedures, the Excellence in Safety programme mentioned above and the application of its operating tools, accident notification and management procedures, and safety procedures and standards for managing emergencies from Covid-19.

In addition to safety training offered locally at every Pirelli location (illustrated previously in the paragraph dedicated to Training), there are Group activities and projects, which simultaneously target several countries and which allow an alignment of culture and vision, fully benefiting pursuit of the Company's own improvement targets. The Manufacturing Academy merits a special mention. This is Pirelli Professional Academy dedicated to the sphere of factories, where health, safety and environment issues are discussed in detail.

### ***Monitoring of health and safety performance and main indicators***

Alongside establishing specific guidelines and procedures for implementing management systems, Pirelli uses the web-based Health, Safety and Environment Data Management (HSE-DM) system, prepared and managed centrally by the Health, Safety and Environment Department. This system makes it possible to monitor HSE performance and prepare numerous types of reports as necessary for management or operating purposes.

The HSE-DM system collects all information on accidents and special situations that occurred in factories, fitting units, sales centres, and warehouses managed directly by Pirelli, including the various categories of workers (agency workers and contractors operating at Pirelli sites). All sites have access to information on the most significant accidents or near misses through the receipt of Safety Alerts by the HSE-DM system, so that an internal analysis can be conducted to verify whether similar conditions exist and, if necessary, to implement appropriate corrective action.

The performances reported below are for the three-year period 2019-2021 and cover the same scope of the Group's consolidation.

In March 2021 Pirelli presented its 2021-2022 Industrial Plan with Vision 2025 indicating, for 2022, an accident frequency index  $IF \leq 0.15$  for 100,000 worked hours (or  $IF \leq 1.50$  for 1,000,000 worked hours<sup>64</sup>) and for 2025 an accident frequency index  $\leq 0.10$  for 100,000 hours worked (or  $IF \leq 1.00$  for 1,000,000 worked hours).

The frequency index is calculated as "Lost Time Index Frequency Rate - LTIFR" or considering the sum of injuries with at least one day of work lost<sup>65</sup>.

In 2021, Pirelli registered an LFITR of 0.21, when referring to 100,000 worked hours, or 2.07 if referred to 1,000,000 worked hours, with a decrease of 4.5% compared to 2020. The most representative accidents are those involving contusions, cuts, fractures and sprains.

The accident frequency index for accidents involving an absence from work of more than 6 months in 2021 is 0.28 for Pirelli employees (based on 1,000,000 worked hours) and zero for temporary workers.

In the mapping of all hazards and on the basis of the accident trend, the main hazard identified as potentially at risk of accidents with serious consequences relates to the mechanical risk, which was the main contributor to the accidents that occurred in 2021. Actions are constantly underway to reduce the mechanical risk at source, through investment in machinery safety, and to manage residual risks by defining safety operating procedures and continuous staff training.

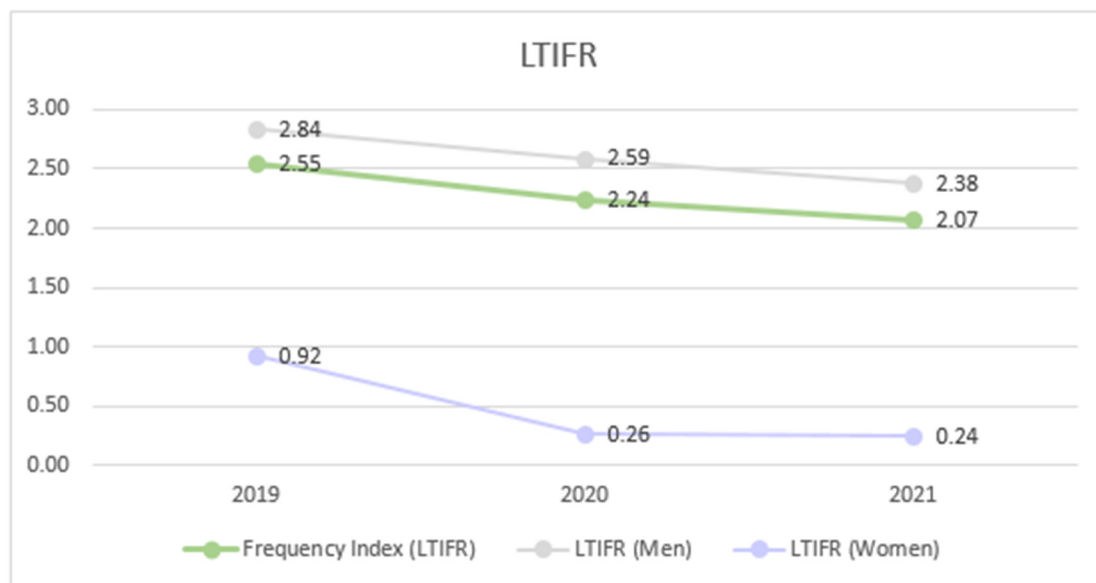
For 2021, in line with the previous financial years, the LTIFR index for women was decidedly lower than the value relating to men, also in relation to the fact that the female population is generally

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<sup>64</sup> In accordance with the GRI reporting standards, the frequency index and the resulting target value is reported with reference to 1,000,000 hours worked.

<sup>65</sup> Accidents without lost days are not considered in the calculation of the LTIFR.

engaged in activities with a lower risk than those of the male population. The graph below shows the trend of LTIFR values by gender over the last three years:



*LTIFR = number of injuries with at least one person/number of hours effectively worked x 1,000,000*

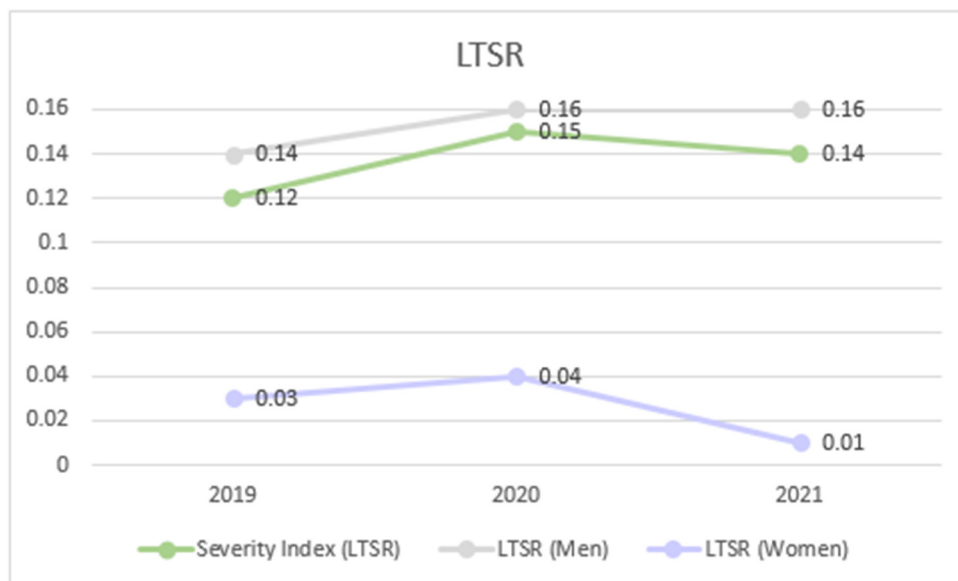
The following table summarises the distribution of the Frequency Index by geographical area:

FREQUENCY INDEX	Europe	North America	South America	Russia, Nordics & MEAI	Asia Pacific
<b>2019</b>	3.34	1.65	3.46	1.47	0.22
<b>2020</b>	3.18	2.04	2.69	1.31	0.11
<b>2021</b>	2.27	2.63	2.84	1.58	0.11

*LTIFR = number of injuries with at least one person /number of hours effectively worked x 1,000,000*

The injury **Severity Index**, or The Lost Time Severity Rate (**LTSR**) is calculated as the number of days of absence, starting from the first day after the accident / number of hours actually worked x 1,000.

The LTSR in the Group in 2021 was 0.14, decreasing of 6.7% from the previous year.



LTSR = number of days of absence, starting from the first day after the accident/number of hours effectively worked x 1,000

The following table summarises the distribution of the LTSR Severity Index by geographical area:

LTSR INDEX	Europe	North America	South America	Russia, Nordics & MEAI	Asia Pacific
2019	0.13	0.07	0.19	0.11	0.01
2020	0.20	0.11	0.20	0.09	0.00
2021	0.11	0.14	0.28	0.11	0.001

LTSR = number of days of absence, starting from the first day after the accident/number of hours effectively worked x 1,000

With reference to commuting accidents (not included in the calculation of the LTIFR and LTSR indices mentioned above), the following tables show the total number registered by the Group in the last three years and the distribution by geographical area of the cases.

COMMUTING ACCIDENTS	2019	2020	2021
	117	52	59

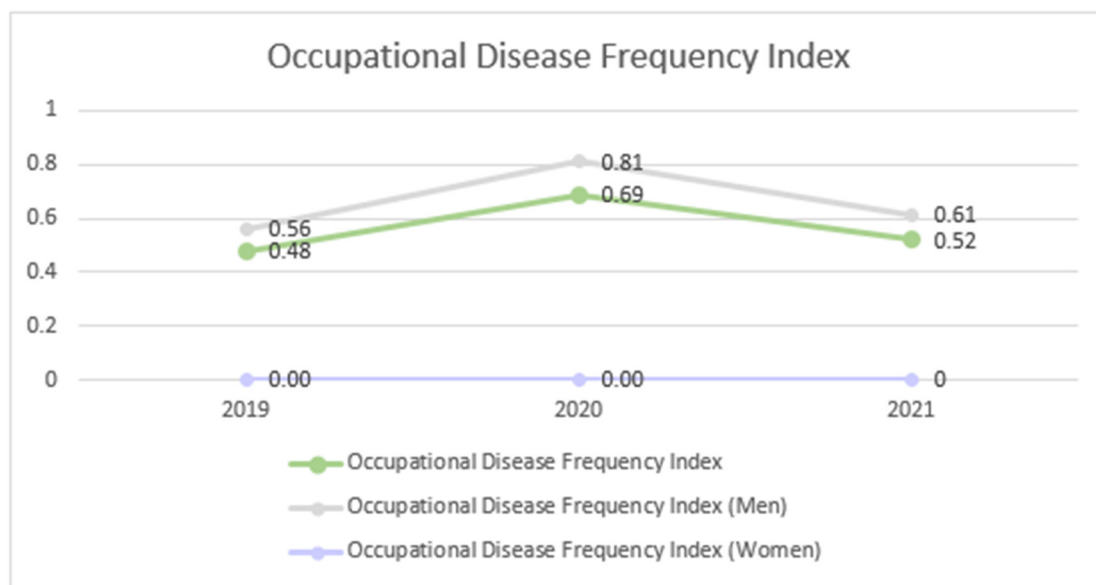
COMMUTING ACCIDENTS	Europe	North America	South America	Russia, Nordics & MEAI	Asia Pacific
2019	35	43	39	0	0
2020	15	3	34	0	0
2021	21	28	10	0	0

There are no activities with a high incidence of occupational diseases. The hazards identified as a potential source of occupational disease determined on the basis of risk assessments conducted concern the manual handling of loads, exposure to noise and the handling of chemicals. The main

types of occupational diseases recorded in Pirelli employees relate to musculoskeletal disorders and hearing loss. There are no known cases of death due to occupational diseases in the last three years, nor are there any cases of occupational diseases recorded in contractors.

With regard to the Occupational Diseases Frequency Index, it is calculated as the number of occupational diseases / number of hours actually worked x 1,000,000.

The Frequency Index for occupational diseases in 2021 stands at 0.52.



*Occupational Disease Frequency Index = number of occupational illnesses/number of hours effectively worked x 100,000,000*

The following table summarises the distribution by geographical area of the Frequency Index for occupational diseases:

OCCUPATIONAL DISEASES FI	Europe	North America	South America	Russia, Nordics & MEAI	Asia Pacific
<b>2019</b>	0.22	0	1.45	0	0
<b>2020</b>	0.26	0	2.23	0	0.11
<b>2021</b>	0.04	0	1.85	0.20	0

*Occupational disease frequency index = number of occupational diseases / number of hours actually worked x 1,000,000*

Continuous improvement programmes are aimed, with reference to the sources of occupational disease, at increasing the ability to identify ergonomic risk and consequent technological improvement, favouring where possible automation and design integrated with the ergonomic requirements of machines. These actions aimed at reducing the risk at source are in any case complemented by training and organisational measures to encourage safety and prevention behaviour.

With regard to accidents involving agency workers, the Frequency Index (FI) is calculated as the “Lost Time Index Frequency Rate - LTIFR”, i.e. considering the sum of accidents with at least one

lost working day. The tables below show the number of accidents<sup>66</sup> recorded in the last three years and the distribution of the index by gender and then by geographical area.

<b>ACCIDENTS OF AGENCY WORKERS</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Number</b>	5	3	5
<b>LTIFR agency workers - Men</b>	5.46	2.96	7.75
<b>LTIFR agency workers - Women</b>	4.38	0.00	0.00

*LTIFR = number of accidents with at least one person/number of hours effectively worked x 100,000,000*

<b>ACCIDENTS OF AGENCY WORKERS</b>	<b>Europe</b>	<b>North America</b>	<b>South America</b>	<b>Russia, Nordics &amp; MEAI</b>	<b>Asia Pacific</b>
<b>2019</b>	3	2	0	0	0
<b>2020</b>	0	2	1	0	0
<b>2021</b>	0	0	5	0	0
<b>LTIFR agency workers 2019</b>	59.98	48.00	0.00	0.00	0.00
<b>LTIFR agency workers 2020</b>	0.00	46.70	1.11	0.00	0.00
<b>LTIFR agency workers 2021</b>	0	0	13.50	0.00	0.00

*LTIFR = number of accidents with at least one person/number of hours effectively worked x 100,000,000*

The LTIFR index of injuries relating to employees of suppliers operating at the Group's production sites stood at 0.97 in 2021. The data for the last three years and the distribution of cases by geographical area are shown below.

<b>LTIFR CONTRACTORS</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
	1.28	1.30	0.97

*LTIFR = number of accidents with at least one person/number of hours effectively worked x 100,000,000*

<b>LTIFR CONTRACTORS</b>	<b>Europe</b>	<b>North America</b>	<b>South America</b>	<b>Russia, Nordics &amp; MEAI</b>	<b>Asia Pacific</b>
<b>2019</b>	1.95	0.93	0.82	1.04	0.00
<b>2020</b>	1.77	1.58	1.67	0.00	0.00
<b>2021</b>	1.40	1.03	0.33	1.11	0.00

*LTIFR = number of accidents with at least one person/number of hours effectively worked x 100,000,000*

<sup>66</sup> Calculated on 1,000,000 hours worked; The frequency index "Lost Time Index Frequency Rate - LTIFR" is calculated using the sum of accidents with at least one day of work lost.

Below are the figures relating to fatal accidents recorded in the last three years with reference to Pirelli employees, agency workers and employees of suppliers operating at Group production sites.

<b>FATAL ACCIDENTS (AND FATALITY RATE<sup>67</sup>)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Pirelli employees</b>	1 (0.017)	0 (0)	0 (0.017)
<b>Agency workers</b>	0 (0)	0 (0)	0 (1.420)
<b>Contractors</b>	0 (0)	0 (0)	0 (0.088)

The whole organisation is committed to ensuring that fatal accidents do not occur and reaction and improvement plans are constantly implemented and pursued.

**Focus: towards the “Zero Accident Objective”**

19 Pirelli manufacturing plants were named “sites of excellence” in 2021, since no employees were injured there during the year:

<b>Unit</b>	<b>Industrial sites</b>
Plants	Jiaozuo, Bollate, Bicocca Next Mirs, CMP
Fitting unit	Camacari, Sorocaba, Hurlingham, Goiana, Ibirite, Sao Jose dos Pinhais
Logistics - TLM	TLM Barueri, TLM Santo Andre, TLM Cabreuva, TLM Feira de Santana, TLM Gravatai, TLM Campinas
Other	St. Andrè HQ, Elias Fausto HQ, AGOM

**Health and safety investments**

In the three-year period 2019-2021, investments in health and safety by the Group exceeded €35 million, of which over €15 million was invested in 2021.

The investments made targeted improvements on machines and plants and, more in general, the workplace environment as a whole (including improvement of microclimate and lighting conditions, changes in layout for ergonomic improvement of activities, measures to protect the healthiness of the infrastructure).

<sup>67</sup> Fatality rate = number of deaths / total hours worked \* 1,000,000.



## EXTERNAL COMMUNITY

### **Institutional Relations of the Pirelli Group**

Pirelli's institutional relations are underpinned by criteria of maximum transparency, legitimisation and responsibility, both with regard to information disseminated in public offices, and to relationships managed with institutional interlocutors in line with the Code of Ethics, the *Institutional Relations - Corporate Lobbying Policy* and the *Group Anti-Corruption Compliance Programme* (documents published on Pirelli website) as well as in line with the principles of the *International Corporate Governance Network (ICGN)* and in compliance with the laws and regulations in force in the countries where Pirelli operates.

The goal of the Institutional Affairs Department is to create corporate value through the management of structured relations with reference stakeholders in all countries where Pirelli operates.

In the area of institutional relations, Pirelli acts above all via active monitoring and in-depth analysis of the institutional and legislative context, as well as identifying the applicable Stakeholders. The activity of Institutional Affairs also includes an in-depth analysis of the global political and economic dynamics, linked to the development of the main topics of corporate interest, and benefits from collaborations with selected think tanks of international prestige. Among these are the collaborations with the Institute for International Policy Studies, the Institute for International Affairs, the Trilateral Commission and the Aspen Institute.

**At an international level**, Pirelli interacts with the main interlocutors present in the countries in which it operates with its own production sites. When necessary, the Group promotes initiatives directed towards mutual understanding and with the purpose of promoting representation of its own values and interests through a strategy based on a clear perception of the industrial targets and the development of the business. Among the various instruments of "economic diplomacy", in addition to the promotion of bilateral initiatives, Pirelli is active in certain Business Forums, including the Italo-Russian Business Committee (CIIR), of which it has held the Co-Chairmanship since 2020, the China Business Forum (BFIC), the Council for Relations between Italy and the United States, the Italy Mexico Business Forum and the Italy Thailand Business Forum.

As proof of the Group's continued commitment to strengthening relations with the countries in which it operates, Pirelli took part in official visits in 2021 with institutional representatives in Italy and abroad. In a context marked by the Covid-19 health emergency, a series of bilateral meetings were held, both virtual and in-person where possible, aimed at deepening the Group's industrial and commercial issues with significant institutional impacts. These included meetings with several representatives of the EU, USMCA, APAC and CSI blocs.

In China, the Group is committed to enhancing relations with local institutional interlocutors, particularly in areas where it is present with industrial sites, such as the Shandong Province and the Henan Province. During 2021 Pirelli maintained a dialogue with the main local institutions on multiple areas of interest, especially with a view to improving the quality and efficiency of the tyre industry in Shandong, with particular regard to safety and environmental dynamics. In the wake of the Covid-

19 health emergency, the Group committed itself immediately and in liaison with local institutions, with the primary objective of protecting the health of its employees and the community in which it operates. During 2021, Pirelli also strengthened its dialogue with key local institutions on multiple areas of interest and participated in the China International Import Expo (CIIE) in Shanghai.

In the United States, Pirelli is present with industrial and commercial activities, and carries out institutional relations by monitoring legislative and regulatory developments with impacts on the production, import and distribution of tyres in the territory. Pirelli is a member of the following trade associations: United States Tire Manufacturers Association (USTMA), Original Equipment Suppliers Association (OESA), American Sustainable Business Network (ASBN), Public Affairs Council, and Automotive Industry Action Group (AIAG). Within these associations Pirelli is active in promoting strategies consistent with Group sustainability policies, particularly commitments against climate change and in favour of social responsibility in the supply chain. In particular, Pirelli sits on the USTMA Sustainability Task Force, the AIAG Corporate Responsibility Steering Committee, the CSR Network of the Public Affairs Council and the SASB Standards Advisory Group. Consistent with Group policies, it does not participate in any political action committees in the United States and more generally does not contribute to election campaigns. Pirelli undertakes to check from time to time that the sustainability positions of the associations of which it is a member are consistent with Group positions.

Also in Brazil, Pirelli continued to celebrate the country's strong links with Italy, promoting, among others, meetings with institutional representatives at federal and central level. Pirelli also maintains relations with local institutions and associations to protect its industrial sites, distributed among the states of Sao Paulo, Bahia and Rio Grande do Sul. In these states, a series of initiatives are also developed to raise awareness on issues such as urban mobility, road safety, the protection of the territory and social and cultural promotion. In May, the Pan-American Circuit was inaugurated in the presence of the Governor of the State of São Paulo, João Doria, and local authorities. In Brazil, Pirelli is associated with and holds the chairmanship of the Board of ANIP (National Association of the Tyre Industry) with the objective of developing its identity and promoting the interests of the sector in institutional dealings with local governments. The Group is also associated with Reciclanip, which is active in the management of end-of-life tyres. Pirelli has recently taken up the vice-presidency of the Italian-Brazilian Chamber of Commerce, Industry and Agriculture (ITALCAM).

In the European context, one significant activity concerns Romania, where Pirelli maintains a constant dialogue with the main institutional interlocutors in order to accompany the phases of industrial development at the Slatina plant. Of particular relevance in 2021 is the relationship with the UK, including at the Preparatory Event for the United Nations World Climate Conference (pre-COP26).

As part of its relations with Turkey, the Group promotes a constant dialogue with the country's institutional representatives to accompany industrial activities and keep the monitoring of the country's economic and political environment alive.

In Russia, Pirelli promotes dialogue with institutional interlocutors in order to support the Group's industrial and commercial activities in the country. In May 2021, Pirelli co-chaired the first plenary

meeting of the renewed Italo-Russian Business Committee (CIIR). In July, Pirelli participated in the Innoprom International Trade Fair held in Yekaterinburg and inaugurated by Prime Minister Mishustin with the participation of Minister of Economic Development Giorgetti and Minister of Industry Manturov. Finally, Pirelli co-chaired the second plenary meeting of the Italo-Russian Business Committee (CIIR), held in Rome at the Ministry of Foreign Affairs and International Cooperation on the occasion of the Italo-Russian Council for Economic, Financial and Industrial Cooperation (CIRCEIF).

Relations with European institutions are focused on consolidating relations with institutional counterparts and stakeholders of reference, monitoring legislation and constantly representing the Group in associations. The ongoing dialogue and discussion with representatives of the European Commission, the Council and the European Parliament covers a wide range of topics of interest to the company. In 2021, the activity focused on regulatory and policy developments relating to the subjects of industrial policy, research and innovation, energy, climate and environmental transition, circular economy, transport and sustainable and intelligent mobility, technical regulations, internal market and consumers, digital international trade and bilateral agreements. Of particular interest was the implementation of policies linked to the Green Deal, the strategy for sustainable growth launched by the European Commission at the end of 2019, with specific reference to the 'Fit for 55' package proposed by the Commission in July 2021 to achieve the 2030 climate targets. The monitoring activity also concerned the initiatives undertaken at European level to combat the pandemic crisis and, in particular, the implementation of Next Generation EU, the temporary instrument to stimulate recovery, and the definition by the Member States of national recovery and resilience plans, functional to accessing funding under the plan. In the various stages of drafting and defining European legislation, Pirelli represents Group interests to European stakeholders. Pirelli is listed in the European Transparency Register, established by an inter-institutional agreement between the European Parliament and the European Commission.

In **Italy**, the Group continues to interact with a system of relations that involve the main institutional bodies, both at central and local level. The relations with the Ministry of Foreign Affairs and International Cooperation are particularly important in both central and peripheral areas, with which the information activity is constant with respect to Pirelli's global presence to support the enhancement of the interests of the Country system abroad. The Group's relations with the Italian Presidency, the Presidency of the Council, the Ministry of Economic Development, the Ministry of Economics and Finance and the Regions of Lombardy and Piedmont.

In December, on the eve of the 150th anniversary of the company's foundation, a Pirelli delegation was received by the President of the Republic, Sergio Mattarella, to commemorate the company's anniversary. In Italy, the Group is also always engaged in customary in-depth analysis of institutional importance concerning, in particular, issues relating to the Group's industrial presence; the promotion and strengthening of international relations in the countries where the Group operates with industrial sites; the analysis and in-depth study of the impacts related to the regulatory discipline of tyres and their entire life cycle; and other issues of road safety and environmental sustainability related to both production processes and the product.

Finally, in line with what is stated in the Code of Ethics, Pirelli “does not make contributions, advantages or other benefits to political parties and workers’ trade unions, or to their representatives or candidates, without prejudice to compliance with any applicable legislation”. For this reason, there are no contributions in these areas (zero).

For further details on the Financing received from the Public Administration and the amounts disbursed in 2021 to Trade Associations, please refer to the Economic Dimension Chapter, where this information is provided.

## **MAIN INTERNATIONAL COMMITMENTS FOR SUSTAINABILITY**

The attention of Pirelli to sustainability is also expressed through participation in numerous projects and programmes promoted by international organisations and institutions in the area of social responsibility. A number of the principal commitments made by Pirelli worldwide are illustrated as follows.

### ***UN Global Compact***

Pirelli has been an active member of the Global Compact since 2004 and since 2011 has been part of the Global Compact Lead Companies. The Group endorses the “*Blueprint for Corporate Sustainability Leadership*”, which offers leadership guidelines envisaged in the Global Compact to inspire advanced and innovative sustainability performance in terms of management capacity for the creation of sustainable value. Since December 2019 Pirelli has also been on the Board of the Global Compact Network Italia.

In 2021, the Global Compact proposed a series of initiatives to provide support in the definition of strategies and partnerships for the pursuit of Sustainable Development Goals (SDGs) launched in September 2015 in New York with the aim of accompanying the activities of sustainable companies until 2030.

In this context, Pirelli participates to two action platforms:

- “*Decent Work in Global Supply Chain*”<sup>4</sup>: in December 2018 Pirelli and the other participating companies signed the “*Commitment to Action*”, publicly committing themselves to the sustainable management of their supply chains; as a result of the activities carried out by the working group in 2019, in February 2020 the digital platform “*Decent Work Toolkit for Sustainable Procurement*” was published, a tool aimed at supporting companies in integrating sustainability into the procurement process; during 2020 the group worked on several publications including the “*Leadership Brief Navigating Multi-tiered Supply Chains*” and “*Family-Friendly Workplaces*”; during 2021, the commitment continued and saw the publication of the report “*Nine Business Practices for Improving Safety and Health Through Supply Chains and Building a Culture of Prevention and Protection*”.

- “Sustainable Finance”: in September 2018 the working group presented its first publication “SDGs Bonds & Corporate Finance - A Roadmap to Mainstream Investments”; to this, several other publications on the subject were added during 2019. In December 2019 the platform launched the “CFO Taskforce for the SDGs”, which Pirelli joined as a Founding Member. The Taskforce is a collaborative platform that brings together leaders from different sectors and aims to develop innovative strategies for mobilizing finance towards sustainable development. In September 2020, the taskforce published the “CFO Principles on Integrated SDG investments and finance”, which aim to support the alignment of finance and investment practices with the SDGs through the implementation of best practices. In 2021, the “CFO Taskforce for the SDGs” was officially presented during the UN General Assembly.

Since 2014, Pirelli has been a Founding Participant of the SSE Corporate Working Group, the group of companies that provide their own evaluations and indications as part of the Sustainable Stock Exchanges (SSE) initiative promoted by UNPRI, United Nations Conference on Trade and Development, United Nations Environment Programme Finance initiative and the UN Global Compact. The initiative aims to increase the attention of world stock markets, investors, regulators and companies to the sustainable performance of companies.

Once again in 2021 Pirelli was recognised - the only one in the tyre sector worldwide - as part of the United Nations Global Compact Lead, which brings together the companies which have been identified as most committed at the global level to implementing the Ten Principles of the United Nations Global Compact as well as advancing global sustainability goals.

During 2021 Pirelli, with UNGCN Italy and other major Italian companies, worked on the drafting of the position paper “Italian Business and Decarbonization: a just and inclusive transition”, published in January 2022. The aim of the paper is to highlight the commitment of Italian companies adhering to the UN Global Compact on the issue of decarbonisation. Moreover, through an analysis of the governance and legislation on the matter at national and international level, the document also allows to focus on the challenges and opportunities for companies related to an action against climate change, as well as to formulate some guidelines for companies for the success of their Climate Action.

### **ETRMA – European Tyre and Rubber Manufacturers Association**

ETRMA is the main partner of the EU institutions for the sustainable development of new European policies for the sector and for their proper implementation. With the institutional support of the Pirelli Group, during 2021 ETRMA carried out intensive advocacy activities, presenting to the European Commission the contribution of the sector in pursuing the Green Deal objectives, highlighting the role of the sector in creating a more environmentally friendly, safe, and efficient mobility, specifically on the contribution to CO<sub>2</sub> reduction through improved rolling resistance of tyres, improved road safety through new wet grip performance limits also for worn tyres, which also leads to a positive impact on the Circular Economy. The industry is also strongly committed to the development of a

robust tyre abrasion test methodology to support the European Commission’s objectives of mitigating the emission of particulate matter into the environment.

The association continued to raise awareness of the European Commission and European Union Member Countries on the implementation of market surveillance for monitoring compliance with regulations on the general safety of vehicles and tyres and on energy efficiency, as well as the labelling of tyres in European Countries, labelling, which has been totally renewed since May 2021; also continuing was the strengthening of the partnership with the national associations of the sector of which Pirelli is an active member.

In 2021, the *Connected & Autonomous Driving* (CAD) group continued its intense work to respond to the new technological challenges affecting the mobility sector (connectivity, autonomous driving, cyber security, etc.) and their impact on tyres, with a particular focus on the methods for managing and exchanging data between the various players in the system, which led to high-level meetings with the European Commission in preparation for the enactment of related legislation.

To monitor and respond to the European Commission’s sustainable finance legislation, the Taxonomy working group was activated with Pirelli’s support.

The association ETRMA continues to work alongside the European Commission in defining policies on the Circular Economy with an impact on the sector and continues successfully to promote sustainable practices of producer responsibility for the management of tyres at the end of their life, thanks to which Europe maintains a recovery rate of over 90%, through strong collaboration with the various management consortia present in European countries. ETRMA’s (and European) best practices in fact continue to be an international benchmark.

ETRMA maintains a proactive role in the development of cognitive studies regarding environmental issues, e.g. Tyre Road Wear Particles (TRWPs), micrometric particles produced by combined road and tyre wear during vehicle circulation, and health issues, e.g. granulated filler material obtained from end-of-life tyres for sports fields. With regard to TRWPs, ETRMA launched in 2018, with the support of CSR Europe, the *“European TRWP Platform”*, a multi-stakeholder initiative aimed at sharing scientific knowledge and engaging relevant Sectors and Organisations to define possible actions to mitigate the impacts of TRWPs. In 2019, the *“European TRWP Platform”* published the State of Knowledge (*“Scientific Report on Tyre and Road Wear Particles, TRWP, in the aquatic environment”*) and possible mitigation actions that can be taken by the various stakeholders about TRWPs (*“The Way Forward Report”*). A micro-site was also created<sup>68</sup> to provide information on TRWPs to the general public from root causes to the definition/implementation of mitigation actions, highlighting the multi-stakeholder nature of the phenomenon. The Platform’s activities continued in 2021, with a series of three stakeholder meetings, which continued to share topics related to the scientific and policy aspects associated with TRWPs. In particular, the Platform hosted the theme of “lessons learned” from other sectors involved (e.g. textiles) on the issue of microplastics, a theme with which TRWPs have been associated, and of local authorities’ initiatives on these issues, in order to exchange “best management practices” and identify possible synergies. Finally, the Platform’s

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<sup>68</sup> <https://www.tyreandroadwear.com/>.

activities were presented by ETRMA at the European SDG Summit 2021, through its contribution to the “European SDG Roundtable” Session with the presentation “Multistakeholder Actions to Address the Tyre Sector Sustainability Challenges”.

A section in the Environmental Dimension chapter of this Report is also dedicated to TRWP, to which reference should be made for further details.

### **WBCSD – World Business Council for Sustainable Development**

Pirelli for years has been a member of the WBCSD (World Business Council for Sustainable Development). This is a Geneva-based association of about 200 multinational companies based in 8 regions of the world that have made a voluntary commitment to link economic growth to sustainable development. In particular, Pirelli endorses three projects: Tire Industry Project, Transforming Urban Mobility and Future of Work.

The Tire Industry Project (TIP), whose members account for approximately 65% of global production capacity of tyres, was founded in 2005 with the aim of meeting and anticipating the challenges related to the potential impacts on health and the environment of tyres throughout their life cycle. The project extends its evaluation activities to raw materials, TRWP (with research activities that have seen the completion of monitoring the impact of TRWP on air quality in the city of New Delhi, India) and nanomaterials. On the subject of TRWPs, in 2021 TIP continued its activity on the TRWPs characterisation methodologies to support their identification and quantification in environmental compartments (air, water, soil), whose results have been shared, as traditionally happens for TIP studies, with the scientific community through various publications in scientific journals with peer-reviewed editorial board. In 2021, TIP also supported the scientific community by defining a method for the preparation of rubber particles from tyre treads, in order to produce standard reference materials, very similar to TRWPs, to be used for further scientific studies: this initiative, which also saw the involvement of the United States Tire Manufacturers Association (USTMA) for the preparation of samples with this method, was presented at the 42nd International Conference of the Society of Environmental Toxicology and Chemistry (SETAC, US, 14-18 November 2021), with excellent reception from the research community.

On the issue of nanomaterials, in collaboration with the OECD (Organisation for Economic Cooperation and Development), TIP has developed a sector-specific guide<sup>69</sup> containing best practices of reference for the research, development and industrialisation of new nano-materials so as to ensure that the use of any nano-material is safe for people and the environment.

TIP supported the OECD by actively supporting the preparation of the guide “Moving Towards a Safe(r) Innovation Approach (SIA) for More Sustainable Nanomaterials and Nano-enabled Products” (published on 22 December 2020) which includes extremely topical elements, also related to the

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<sup>69</sup> <http://www.oecd.org/chemicalsafety/nanosafety/nanotechnology-and-tyres-9789264209152-en.htm>.

emerging Safe and Sustainable-by Design (SSbD) theme, of certain importance for the debate launched in 2021 at the European Commission level.

TIP's collaboration with the OECD on the topic of nanomaterials has therefore continued through active support of the preparation of the guide "*Moving Towards a Safe(r) Innovation Approach (SIA) for More Sustainable Nanomaterials and Nano-enabled Products*"<sup>70</sup> (published on 22 December 2020). The new guide has, among other aims, that of helping the industry - not only the tyre industry - to implement a "*Safe(r) Innovation Approach for nanomaterials and nano-enabled products*", as well as including issues related to regulatory and "governance" strategies. TIP contributed with a specific annex (Annex 1) describing the case-study of the Tyre Industry, approaching the topic in line with the previous OECD sector specification on tyres and nanotechnologies, and sharing the experience of TIP research according to a whole life cycle approach.

During 2021, TIP also worked on the updating, to be released in 2022, of the "*product category rules*" (PCR) published in 2018, necessary to carry out the *life cycle assessments (LCAs)* of the product, as well as to develop the "*environmental product declarations (EPDs)*" for tyres, so that the results are comparable between the various manufacturers. With reference to the aggregated sector environmental reports, TIP has published the "*Environmental Key Performance Indicators for Tire Manufacturing 2009-2019*" which presents the environmental performance related to CO<sub>2</sub> emissions, energy consumption, water withdrawal and ISO 14001 certification of the environmental management systems of the factories where the members of TIP produce the tyres.

During 2021, TIP also continued its activities aimed at the international promotion of best practices on end-of-life tyre management, in terms of valorisation of recovery and reuse as a second raw material, in line with the principles of the Circular Economy. In particular, TIP has organised three stakeholder dialogues in the United States, Europe and China, in collaboration with local trade associations, with the aim of contributing to the promotion of ELT management at regional and local level by promoting and strengthening communication between the multiple stakeholders involved. This ongoing commitment has resulted in the publication of an "End-of-life tyre (ELT) management Toolkit" in 2021 with the specific objective of supporting the development and improvement of end-of-life tyre management systems. These activities represent the natural consequence of the analysis presented in the report "*Global ELT Management - A global state of knowledge on regulation, management systems, impacts of recovery and technologies*" was published, a document that presents the current state of end-of-life tyre management in 45 countries, together with an analysis of regulations, management systems and recovery methods.

An important goal achieved by the TIP was the publication in May 2021 of the Sustainability Driven - Accelerating Impact with the Tire Sector SDG Roadmap, which is Sustainable Roadmap for the sector, developed with the consultation of international stakeholders, publication that was presented through a dedicated webinar. The Roadmap identifies how the value chain interacts with the UN Sustainable Development Goals (SDGs), the areas where the sector can contribute most and the key activities that can lead to an acceleration of this contribution.

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<sup>70</sup> [www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=env/jm/mono\(2020\)36/REV1&doclanguage=en](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=env/jm/mono(2020)36/REV1&doclanguage=en).



Important international stakeholders and TIP launched in October 2018 the “*Global Platform for Sustainable Natural Rubber*” (GPSNR), a voluntary multi-stakeholder platform aimed at promoting a more sustainable management of the natural rubber value chain, both in socioeconomic and environmental aspects. The first general meeting of the platform was held in March 2019. Pirelli is a founding member and actively contributes to the platform’s activities by co-chairing two of the working groups: the first dedicated to the representation of small landowners within the platform and the second dedicated to capacity building activities at plantation level. Platform members include manufacturers, processors and traders, tyre manufacturers/buyers, car manufacturers, financial institutions and civil society.

The Transforming Urban Mobility project, which brings together international companies from the automotive, auto parts, transportation, oil & gas, and information and communication technology sectors, aims to promote and accelerate the transition to safe, universally accessible and environmentally friendly urban mobility. The project is divided into workstreams to analyse in detail the new trends of future mobility such as electrification and data sharing, to which a new workstream has been added in 2021 focusing on commuting as a key element of urban mobility on which companies can make a strong sustainability contribution. Project members will also interface with cities to discuss the most suitable and concrete solutions for each context. Finally, during 2021, the project was finalised in collaboration with the ITF (International Transport Forum), with the publication of the document “*The Innovative Mobility Landscape: the case of mobility as a service*” which analyses the main challenges and indicates the direction for the development of sustainable mobility with a particular focus on the opportunities opened up by mobility as a service (Maas).

The Future of Work Project brings together leading companies from different sectors to combine their respective insights, innovations and influences to create strategies, business models and develop scalable business solutions to address the challenges that characterise the future of work, i.e. rapid technological change, socio-economic polarisation, changing workforce expectations. The aim is to pursue an equitable, diverse, inclusive and empowering future of work, with the interests of people at its core. For more information on the project and to access the documentation developed to date, please visit the “*Future of Work*” section of the WBCSD website.

Among the WBCSD initiatives supported in recent years is the signing by the Group CEO of the “*CEO Guide on Human Rights*”, published in 2019 with the aim of promoting respect for human rights by companies and their suppliers and business partners.

### ***IRSG – International Rubber Study Group***

Pirelli, in representation of the European Commission, is a member of the Industry Advisory Panel of the International Rubber Study Group (IRSG) based in Singapore, an intergovernmental organisation that brings together producers and consumers of rubber (both natural and synthetic), acting as a valuable platform for discussion on issues regarding the supply and demand for natural and synthetic rubber. It is the principal source of information and analysis on all aspects related to the rubber industry. Within IRSG, Pirelli participated in the Sustainable Natural Rubber Project, which

resulted in the management guidelines for the Sustainable Natural Rubber Initiative (SNRi) launched in 2014, during the World Rubber Summit.

During 2019 IRSG signed a Memorandum of Understanding with the Global Platform for Sustainable Natural Rubber (GPSNR), whose aim is to develop and consolidate cooperation between the two organisations. The MoU is fundamental in ensuring effectiveness in achieving the common objectives of the two organisations with regard to the sustainable production and consumption of natural rubber. In 2020, in cooperation with leading research institutes, IRSG organised the three-day workshop *“Climate Change and Rubber Economy”*, which discussed the impacts of climate change on the world of natural rubber. The workshop highlighted a number of climate change mitigation and adaptation initiatives to protect the communities operating in the sector, as well as the importance of dialogue between countries to achieve them.

### ***EU-OSHA – European Occupational Safety and Health Agency***

In 2021, for the thirteenth consecutive year, Pirelli continued its activity as an official partner of the European Agency for Safety and Health at Work (EU-OSHA), which tackles a different issue every two years. In particular, in 2020 Pirelli adhered to the 2020-2022 campaign *“Healthy Workplaces Lighten the Load”* dedicated to raising awareness of ergonomic risks in the workplace and the prevention of related musculoskeletal disorders.

The campaigns in which the Company has participated in recent years include the 2018-2019 *“Healthy Workplaces Manage Dangerous Substances”* campaign aimed at raising awareness of the risks posed by hazardous substances in the workplace, the 2016-2017 *“Healthy Workplaces for all Ages”* campaign dedicated to the importance of a sustainable working environment that ensures the health and safety of employees throughout their lives, and the 2014-2015 *“Healthy Workplaces Manage Stress”* campaign, focused on the issue of stress and psycho-social risks in the workplace, the main aim of which was to encourage employers, managers and workers and their representatives to work together to manage these risks.

### ***CSR Europe***

Since 2010, Pirelli has been a member of the Board of CSR Europe, a network of companies in Europe that are leaders in the area of corporate social responsibility. Its members include more than 27 multinational companies and 38 national partner organisations from several European countries.

Since 2016 Pirelli has been supported by CSR Europe in the organization and moderation of its Stakeholder Dialogue Stakeholders, which the Company holds at the local Affiliate level or internationally at Headquarters.

In this regard, reference should be made to the Stakeholder consultations held in Romania, Mexico, Germany, Turkey, Russia, Argentina, the United Kingdom and the United States. CSR Europe

moderated the two multi-stakeholder consultations held by Pirelli for the definition of the Company's Sustainable Natural Rubber Management Policy, the related Implementation Manual and the 2019-2021 Activity Roadmap, published on Pirelli website. For more information on Pirelli's sustainable management of natural rubber, please refer to the dedicated section in the "Our Suppliers" chapter of this Report.

### **International commitments against Climate Change**

For years Pirelli has shown its commitment to the fight against climate change, promoting the adoption of adequate energy policies aimed at the reduction of CO<sub>2</sub> emissions.

In 2021 the Company, together with UNGCN Italy and other major Italian companies, worked on the drafting and launch of the position paper "Italian Business and Decarbonization: a just and inclusive transition" with the aim of enhancing the commitment of Italian companies adhering to the UN Global Compact on the issue of decarbonisation.

In 2021, Pirelli expressed its commitment to the Science Based Targets initiative (SBTi) for the definition of targets on the reduction of absolute CO<sub>2</sub> emissions that are in line with the level that science is demanding to keep climate warming well below 2°C, as recommended by the Paris Agreement. In June 2020, the new targets for reducing absolute CO<sub>2</sub> emissions set by Pirelli for its production processes and supply chain were validated by SBTi, which judged them to be consistent with the actions needed to keep the increase in the planet's temperature well below 2 degrees.

In September 2018, the Company joined the Task Force on Climate-related Financial Disclosures (TCFD), established by the Financial Stability Board (FSB), committing to voluntarily disclose information on risks and opportunities related to Climate Change as outlined in the TCFD recommendations.

Over the years, Pirelli has also participated in numerous events and projects such as the Climate Conferences "COP24" in Katowice (2018), "COP23" in Bonn (2017) and "COP22" in Marrakech (2016), the "Business for COP 21 Initiative" (2015) and participated in several side events organised during the "COP21" Climate Conference in Paris (2015).

Throughout 2014, the Group joined the "Road to Paris 2015" project and signed three initiatives consistent with its sustainable development strategy: Responsible Corporate Engagement in Climate Policy, Put a Price on Carbon, Climate Change Information in Mainstream Filings of Companies Communication.

Also in 2014, the Company signed the "*Trillion Tonne Communiqué*", the document that requires global emissions over the next 30 years to remain below the trillion tonnes of greenhouse gases in order to avoid a rise in average global temperature higher than 2°C.

Pirelli has also signed numerous international agreements such as "*The Carbon Pricing Communiqué*" (2012), the "*2° Challenge Communiqué*" (2011), the "*Cancún Communiqué*" (2010),

the “*Copenhagen Communiqué*” as well as the “*Bali Communiqué*” (2007), the first document for the development of concrete strategies for a global climate agreement to be implemented through a joint government intervention.

## **COMPANY INITIATIVES FOR THE EXTERNAL COMMUNITY**

As specified in the Group “Code of Ethics”, Pirelli provides support to educational, cultural, and social initiatives for promoting personal development and improving living standards. The Company does not provide contributions or other benefits to political parties or trade union organisations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation. Since the founding in 1872, Pirelli has been aware that an important role in the promotion of civil progress in all the communities where it operates and, capitalising on the Company’s natural strengths, it has identified three focus areas: road safety, technical training and solidarity through sporting activities for young people. Pirelli for some years has adopted an internal procedure to regulate the distribution of gifts and contributions to the External Community by Group companies, in relation to the roles and responsibilities of the functions involved, the operational process of planning, realising and monitoring the initiatives and the disclosures regarding the same. Essential support in the identifying of the actions that best satisfy local requirements comes from the dialogue with locally operating NGOs. Priority is given to those initiatives whose positive effects on the External Community are tangible and measurable according to objective criteria. The internal procedure also specifies that no initiatives may be taken in favour of beneficiaries for whom there is direct or indirect evidence of violation of human rights, worker rights, environmental protection or business ethics.

The contributions to the External Community by Group companies are part of a broader strategy to support the achievement of the Sustainable Development Goals of the United Nations (SDGs), in the paragraphs “Sustainability Planning and the United Nations Sustainable Development Goals” and “UN Global Compact”.

The amount of the disbursements in support of the External Community incurred by Pirelli in 2021 is shown in the section “Contributions to the External Community”, of this report.

### ***Road safety***

Pirelli is synonymous worldwide not only with high performance, but also safety. Together with environmental protection, road safety is the key element of the Eco & Safety Performance strategy that inspires the Group’s industrial and commercial choices. Pirelli’s commitment to road safety takes the form of numerous training and awareness-raising activities, but above all it translates into research and the ongoing application of innovative technological solutions for sustainable transport.

Pirelli’s commitment to road safety passes first and foremost through the product: the tyre is in fact the only part of the vehicle that interfaces directly with the road and as such is a fundamental element

of road safety. Road safety has always been a cornerstone of the Pirelli brand. “*POWER IS NOTHING WITHOUT CONTROL™*” is Pirelli vision of mobility, which combines performance and safety. Structural and material improvements to improve traditional safety performance such as road grip, wet and dry braking, are combined with the most advanced technologies such as RUN FLAT™ and SEAL INSIDE™, which bring road safety to a higher level, allowing you to maintain control even in the most critical moments, such as a puncture.

Pirelli’s commitment to road safety does not stop with product innovations, but also extends to the promotion of the principles of road safety and safe driving through participation in dedicated projects and campaigns.

Bearing witness to this commitment, Pirelli in 2018 joined the United Nations “*Road Safety Fund*” which aims to support States to reduce the number of deaths and injuries caused by road accidents. The Fund supports the implementation of national plans, as well as concrete actions and projects aimed at improving the safety of infrastructure and vehicles, promoting the correct behaviour of road users and managing the post-accident period efficiently.

Also at Group level, as part of its collaboration with the WBCSD (World Business Council for Sustainable Development), Pirelli participated in the “*Transforming Urban Mobility*” project, which explores the major trends in mobility (electrification, data sharing and shared services) to promote solutions that are more sustainable and thus safer, cleaner and more efficient. For further details on Pirelli’s involvement in this project, please refer to the “WBCSD” section of this Report.

There are numerous road safety initiatives implemented in the countries where the Group operates.

In Italy, in 2021 the partnership with the University of Milan Bicocca was strengthened and the circle of contacts with neighbouring companies was widened, with whom an informal round table was set up on the subject of mobility management and road safety in the area, issues on which representatives of the city administration are constantly involved. This is also the background to the collaboration with the traffic police, which, together with the Red Cross, the Fire Brigade and a number of local NGOs, organised an online event on the subject of road safety on the occasion of the Day of Remembrance for Road Victims in November.

In the United States and Canada, “*Tire Safety Week*” was organised, a series of initiatives on safe driving that also involved other tyre manufacturers. In the United Kingdom Pirelli made a donation to TyreSafe, an organisation dedicated to spreading education about proper tyre maintenance and the danger posed by defective or illegal tyres.

Also in 2021, despite the limitations on events caused by the health situation, Pirelli continued with various initiatives to promote road safety education on two wheels. In particular, the commitment focused on collaboration with driving schools to develop practical and safe experience on the road, tracks and off-road. The various initiatives include partnerships with the Enduro Republic, Motorace People, *Tutti Pazzi per la Pista*, *Scuola Motociclismo* and Honda True Adventure Off-Road Academy, as well as the days of free practice on the track organised directly by Pirelli: the Pirelli Trackdays. Lastly, as in previous years, a section of the website was dedicated to driving tips, for

summer and winter, highlighting the important role played by the tyres in the active safety of vehicles and its occupants.

### **Training**

The promotion of technical education at all levels and training are very old values that are well-established in the history of Pirelli. The Group continues to benefit from technical and research cooperation with various Universities in the world including the Polytechnic University of Milan, the Polytechnic University of Turin, Bocconi University and the SDA Bocconi Business School and the Bicocca University of Milan in Italy, the University of Craiova, the University of Pitesti and the Polytechnic University of Bucharest in Romania, the University of Qingdao in China, and the Technical University of Darmstadt, the University of Applied Sciences of Würzburg, Aschaffenburg and Darmstadt, the DHBW of Mannheim and the Vocational School of Michelstadt, Germany, to name a few.

The company supports educational and didactic initiatives that can give disadvantaged young people the tools to improve their condition; it contributes to scholarships and research projects, firmly believing in education as the key to individual growth and to the economic growth of a country.

In China, Pirelli sponsored 40 scholarships for science and technology students at the University of Qingdao. In Turkey, the Company supported an institute that helps children in difficulty, the Turkish Education Foundation (TEV), through a full scholarship and a donation, as well as celebrating Mother's Day with dedicated greeting cards. In addition, the company donated tyres to university engineering students participating in international competitions. In Russia, in Kirov, Pirelli offered two internships to students at Vyatka State University.

In Romania, partnerships with the Universities of Craiova, Pitesti and the Polytechnic University of Bucharest concerned the awarding of scholarships and continued during the pandemic period. 2021 was the fourth year of a project at Pirelli Slatina (Romania) involving dual studies in which 27 mechanics and 28 electronics students received a monthly scholarship and did practice sessions at the factory. Four scholarships, the "Pirelli Excellence Scholarship," were dedicated to four high school graduates from Slatina who later went on to technical university. Pirelli makes monthly disbursements and the scholarships are renewed annually based on results. In the summer the students work in internships at Pirelli, and after graduation they can be hired at Pirelli. Also in Romania, Pirelli supported online classes for 100 children at the Coteana primary school in the Olt region, providing them with tablets and the necessary tools to participate in online classes during the health emergency.

In Spain Pirelli offered space to host a student workshop, where students made a design to build a single-seater racing car, and a motorcycle, to compete in the international race "Formula Student" which saw the participation of nearly 500 teams from all over the world. In addition, Pirelli Spain donated a robot (Staubli RX130) and related accessories to the Escola Diocesana de Navas school to be dedicated to the degree course in automation and industrial robotics. The robot was originally

dedicated to the manufacture of photovoltaic cells. Pirelli also organised a visit for high school students to the former factory and energy plant.

In the United States, Pirelli contributed to the Rise & Thrive project of the local Chamber of Commerce in Rome, Georgia, which aims to develop skills applicable in the local industrial fabric. In addition, Pirelli became a partner of the College & Career Academy at Rome Georgia High School, supporting the programme and offering collaboration on manufacturing courses.

In Italy, the *Percorsi per le Competenze Trasversali e per l'Orientamento* (PCTO) project, launched in 2017 and governed by the 2015 'Buona Scuola' law, came to an end during 2021. The project, designed on a three-year basis, involves three classes from chemical and technological high schools in the area and aims to accompany the children belonging to the classes involved throughout the three-year period, in order to guide them to discover what a company is, to support them in understanding the main dynamics of company management and to help them in the delicate phase of professional choice and orientation. Adhering to the project, Pirelli therefore facilitates schools in the regulatory compliance of the provisions of the Decree, supports the territory in the promotion of school excellence and internally promotes the management of generational diversity thanks to the involvement, within the project, of senior Pirelli colleagues in the role of mentors and guides for the young students involved. In 2021, through the "Fondazione Pirelli Educational" project, the Pirelli Foundation also allowed secondary schools that requested it to enter into an agreement for the recognition of useful training credits under the PCTO.

### ***Sport and social responsibility***

There is a close link between solidarity and sport, in a virtuous circle where commitment to sports becomes synonymous with the commitment to promoting solidarity and ethics, especially amongst young people. Getting young people involved in sport is a way to teach the notion of integration to children from different social groups and helps prevent negative situations like isolation and solitude. Pirelli's agreement as a partner in the global social project Inter Campus, promoted by the football club FC Internazionale Milano ("Inter") continued until June 2021.

Since 1997, Inter Campus has developed social, flexible cooperation and long-term actions, in 30 countries around the world with the support of nearly 300 local operators, using football as an educational tool to offer needy boys and girls aged between 6 and 13 the right to play.

Since 2008, Inter and Pirelli, along with a local partner, have been running the Inter Campus social project in Slatina, Romania. The sports and recreational activities are organised for the entire year, involving over 100 children from different social contexts who have been learning team spirit, social integration and the values of friendship through football for years.

Since 2012, Pirelli and Inter have replicated the experience of Inter Campus in Mexico: Inter Campus Silao, near the Pirelli factory, inaugurated by President Felipe Calderon, normally involves about 130 children in the area (number reduced to about 100 in the year 2021). Also in 2021, the coaches carried out the programme remotely due to the pandemic. In 2014, Pirelli and Inter launched an Inter

Campus project together in Voronezh, Russia, involving three local orphanages with about 100 children.

In Brazil Pirelli supports football and judo programmes, and also sponsors an F4 driver. The Seci Social football programme in Santo André involves about 400 children in after-school activities. Music and dance activities are also available, while judo classes were held online due to the pandemic involving more than 600 children.

In the United States, Pirelli sponsors a football programme at the YMCA in Rome, Georgia, while in Germany Pirelli has supported the “Pump for Peace” initiative to develop mountain bike trails, thus making the discipline more accessible to all. The Company in Germany also donated uniforms to a youth tennis team. In France, a donation was made to ‘Special Olympics France’ through participation in a running and walking activity lasting more than a month.

### **Solidarity**

Pirelli’s responsible approach of involvement and inclusion is reflected in social solidarity activities around the world. The pandemic has severely affected not only the health of millions of people around the world, but also the economy. Pirelli, like many other companies, has tried to help, not only by providing personal protective equipment and fans, but also by distributing food and other basic necessities.

In Spain, the Company supports the Santa Clara Convent Foundation, which manages programmes that provide food to needy families. Pirelli has made a warehouse available for the storage of food for the needy.

In Moscow, Pirelli contributed to the “Chance” project, which provides private lessons to about 600 orphans from various orphanages. In Kirov, Pirelli donated tyres to the Nadezhda orphanage, the “Druzhba” organisation for the rehabilitation of disabled children, and the Gorodec hospital (Nizhny Novgorod region). In addition, in Kirov Pirelli participated in the “Christmas Tree Wishes” project, buying bicycles and hockey equipment for children with disabilities.

In Romania, Pirelli participated in two projects during the Christmas season: ShoeBox, wrapping gifts for children in need, and Christmas is in Your Heart, donating presents to more than 50 families. In the school sector, Pirelli Romania provided school supplies to fill 60 backpacks; on Mother’s Day it supported 15 mothers in need by donating personal care items.

In China, the Company supported 32 orphaned and needy children in Yanzhou. In Turkey, Pirelli employees raised funds for a foundation working against cerebral palsy. Meanwhile in France, the Company made a donation to the UN refugee agency, UNHCR.

In the UK, Pirelli supported a number of social solidarity initiatives, including Miles for Meals, a non-profit organisation that provides food to people in need, hospitals and hospices, working in



Alzheimer's and cancer research. Pirelli also sponsored the Covid-19 Community Champion of the Year Award, honouring people regarded as local heroes in the Cumbria community.

In Brazil, Pirelli supported several social solidarity activities: "Aprender Brincando", an after-school project with activities for 260 children (run online during the pandemic); "Servico de Convivencia Meninos e Meninas", also an after-school activity involving 55 children; and "Projeto Guri", an important musical activity involving more than 130 children and young people.

In Mexico and the United States, donations were made to the non-profit organisation United Way.

Pirelli also contributed to disaster recovery activities by donating funds for flood victims in Henan Province in China, to the Jiaozuo Charity Federation and to Fucheng Sub District Office, Zhongzhan District, Jiaozuo City. In Germany, the Company also supported "Aktion Deutschland Hilft", an organisation that provided emergency assistance to flood victims, and the "Forderverein der Feuerwehr Swisttal-Heimerzheim", an organisation that supported the reconstruction of impacted areas. In Turkey, Pirelli responded to fire damage in the southwest of the country with a donation campaign. Meanwhile in Spain it donated materials for the victims of the volcanic eruption in the Canary Islands.

## **Health**

During 2021, the global emergency due to Covid-19 caused Pirelli to devote a portion of its contributions to the external community to initiatives supporting health, both aimed at the families of Group employees and at the local communities where the Company operates.

Many initiatives have been undertaken in the countries where the Company is present. Activities aimed at improving the health situation include, where permitted by law, administering vaccines at company sites, making Covid-test is available, and distributing personal safety devices. More specifically, we mention the following: in Milan, Italy, the opportunity to participate in the vaccination campaign for Pirelli employees and their families at the Hangar Bicocca Pirelli facility; the provision of shuttles at the Mexican plant to allow employees to travel more easily to the vaccination hubs; informative talks with specialised health personnel at the Russian plants; in Romania, the Company set up a Covid-19 prevention centre supported by medical personnel.

It should also be mentioned that in Brazil Pirelli supported the Pequeno Principe paediatric hospital. In Argentina, it donated personal protection and hygiene equipment and other supplies to the hospitals of Merlo, Hospital Heroes de Malvinas Argentinas and Hospital Eva Peron, as well as safety equipment to various school institutions to deal with the second wave of Covid-19.

### **Environmental initiatives**

In keeping with the company's vision of sustainability, Pirelli supports various environmental projects around the world.

In Mexico, even in times of pandemic Pirelli has coordinated a "*llantaton*" (or "tyreathon"), i.e. the collection of nearly 13,000 end-of-life tyres in the municipality of Leon, to promote local hygiene. The collected tyres were valorised as fuel for cement factories.

In Argentina, the company has also dedicated itself to a recycling project with the 'Reciclando Suenos' cooperative, including a project to collect recycled material for a fundraiser for the Garrahan hospital.

Reforestation is a core value for Pirelli, which led in 2021 to participation in reforestation projects in Romania, Turkey and Mexico. In Romania, Pirelli worked with an NGO to plant 200 trees around the factory, and another 500 trees in deforested areas of Romania. In Mexico, Pirelli renewed the agreement with the Institute of Ecology of the State of Guanajuato to care for 40 hectares in the "Cuenca de la Esperanza," a protected area. Over the years Pirelli has been responsible for planting 28,000 trees in the area.

In addition, in 2021, Pirelli in partnership with BMW will join Birdlife International in a three-year project that aims to encourage long-term sustainable and deforestation-free natural rubber production in Indonesia. The initiative involves part of the rainforest area of Hutan Harapan (Sumatra Island) and will be developed through a series of initiatives aimed at protecting the indigenous community, preserving a deforestation-free area of 2,700 hectares and protecting endangered animal species. The various activities will be carried out in line with the objectives of the Global Platform of Sustainable Natural Rubber (GPSNR).

### **Culture and social value**

The internationality of Pirelli also emerges from the love for culture, with initiatives in certain countries around the world also in 2020. The attention to culture, and even more the commitment to preserve it, spread it and enhance it, are part of the DNA of the creation of social value.

In Italy, the company's commitment to activities that generate value for the territory is demonstrated by its numerous and consolidated partnerships with prestigious national and international bodies and institutions: in particular, in the world of art, culture and history with FAI (Fondo Ambiente Italiano), Premio Campiello and Fondazione Isec - Istituto per la Storia dell'Età Contemporanea; in the world of theatre with Piccolo Teatro di Milano, Teatro Franco Parenti and Teatro No'hma Teresa Pomodoro; in the world of music, with Fondazione del Teatro alla Scala, Orchestra da Camera Italiana, Orchestra Sinfonica G. Verdi Symphony Orchestra, the Portofino International Opera Competition, the Ravenna Festival and the MITO SettembreMusica Festival.

In the field of music, Pirelli sponsors the Mozarteum project in Brazil, in which major international classical music orchestras participate. In 2021 the concerts were also broadcast online. Also in São Paulo, Pirelli sponsored in 2021 the Museum of Modern Art, one of the most important museums in Latin America, and the Pinacoteca de Sao Paulo, where Pirelli sponsored the exhibition “A Maquina do Mondo”, a demonstration of how industry has impacted art in the last century. Also in São Paulo, Pirelli will be involved in 2022 in the restoration of the organ of the Catedral da Sè, the largest musical instrument in the State of São Paulo. The sponsorship of the Italian Film Festival in São Paulo is also mentioned.

In Germany, Pirelli supported an initiative to preserve the Obrunnschlucht, a significant natural park.

Moving to Russia, the Company sponsored two exhibitions: in Yekaterinburg “Concept Cars: Nuccio Bertone One Hundred Years of Italian Cars Style, The Coupe” at the Museum of Architecture and Design, in St. Petersburg, the exhibition “The Two Avant-gardes: The Mattioli Collection in Dialogue With the Russian Avant-garde”.

## FONDAZIONE PIRELLI (PIRELLI FOUNDATION)

The Pirelli Foundation, established in 2008, counts among its objectives the safeguarding of the Group's historical and cultural heritage and the enhancement of its corporate culture, through projects with a strong social and cultural impact, also in collaboration with other institutions. During 2021, as the health emergency situation continued, the alternation of digital and in-person activities continued, with short periods of closure of exhibition and archive spaces. The last quarter of the year was also dedicated to planning the initiatives for the celebrations of the company's 150th anniversary, which will fall in 2022, and in particular: a new publishing project on the themes of research and innovation, the setting up of an exhibition in the Foundation's spaces, a website dedicated to the anniversary, the creation of commemorative coins minted by the Istituto Poligrafico e Zecca dello Stato and the issue of a postage stamp for the anniversary in collaboration with the Italian Post Office. The main initiatives in 2021 include:

Digital projects to enhance the historical heritage and corporate culture: in line with 2020, the enhancement of digital tools and the schedule of communication activities continued, in order to reach an increasing number of users in Italy and abroad. In particular, the [fondazionepirelli.org](https://fondazionepirelli.org) website with the virtual tour [fondazionepirelliexperience](https://fondazionepirelliexperience.com), which has been restyled, was visited a total of approximately 97,900 times (+ 1.6% vs. 2020). The new hub [www.storie-di-corse.fondazionepirelli.org](https://www.storie-di-corse.fondazionepirelli.org) was published in Italian and English, dedicated to Pirelli's history in the world of racing, tracing the company's participation in car, motorbike and veal competitions, highlighting the function of the track as a research laboratory for tyre development. An online editorial project with in-depth features on the great drivers and the most legendary races, accompanied by a chronology that, starting with the production of the first bicycle tubular in 1890, arrives at today's records. The monthly issues of the Pirelli Foundation e-news newsletter reached an average of 3,000 contacts. In addition, new podcasts were produced on the topics of work and sustainable mobility, and the "La Fondazione consiglia" section of the website was implemented with the publication of 89 book reviews. As part of the digital projects dedicated to promoting reading, the reviews and video-interviews published on social channels and Vimeo for the "**Premio Campiello 2021**", an initiative sponsored by Pirelli (post coverage: 36,295) are worthy of note. The social accounts of the Pirelli Foundation (Facebook, Instagram, Twitter, Pinterest) reached 14,145 followers (+8.1% vs 2020) with total coverage of 4,686,125 (+94.8% vs 2020). About 1,080 pieces of content were produced, including 77 videos, also distributed through the Vimeo channel, which had a total of 4,200 views. The Foundation also joined the project "**Nel tempo di una storia**", promoted by Assolombarda and Museimpresa: a "digital story" of Italian museums and business archives through the shots and videos of photographer Simone Bramante, known as Brahmino. Also in 2021 the Pirelli Foundation contributed to the implementation of editorial plans for the **Pirelli Corporate channels dedicated to heritage**.

The exhibition "Stories from the Skyscraper. I 60 anni del Pirellone tra cultura industriale e attività istituzionali di Regione Lombardia", promoted by the Pirelli Foundation and the Lombardy Region and set up in the Pirelli Tower, was open to the public from 30 June to 30 November 2021 and visited by about 1,000 people, including students, the general public and specialists. The inauguration on 29 June was attended by Marco Tronchetti Provera, Lombardy's governor Attilio Fontana and the president of the Regional Council Alessandro Fermi. The project set up, together with the dedicated

website 60grattacielopirelli.org and its catalogue published by Marsilio, was included in the ADI Design Index 2021, a publication that brings together the best Italian design projects selected by the ADI Permanent Design Observatory.

Initiatives for the promotion of reading:

- **Campiello Junior Prize:** as part of the sponsorship of the Campiello Prize, the first edition of the Campiello Junior Prize was inaugurated, an award for Italian works of fiction and poetry for children between the ages of 10 and 14. To promote the prize, which will be awarded in 2022, meetings dedicated to Pirelli employees and school teachers from all over Italy were organised, and on 10 December 2021 the Selection Ceremony for the three finalists of the Prize was held live via streaming from the Pirelli HQ Auditorium. The 2021 events related to Campiello Junior saw the participation of 290 people, in presence and online.
- **Pirelli's corporate libraries:** the number of books in the catalogue reached 8,500; more than 1,150 loans, over 1,600 movements and about 600 users were recorded. The Biblionews newsletter, with reviews and periodic updates on books and libraries, reaches around 400 subscribers;

**Pirelli Educational Foundation: educational and training projects for students and teachers**

- Educational workshops for primary and secondary schools: the online courses for the second quarter of the 2020/2021 school year and for the period October-December 2021 involved 3,236 students and 198 teachers from secondary schools. For the latter, where requested, and after the stipulation of an agreement, the training credits envisaged by the PCTO, formerly known as Alternanza Scuola-lavoro, were recognised. On 20 September, 60 teachers from all over Italy took part in the **online presentation of the 2021/2022 teaching programme**. In addition, more than 200 teachers attended the 9th edition of the **training course for Cinema & History teachers**, entitled "L'Europa siamo noi", organised in collaboration with Fondazione Isec and Fondazione Cinema Beltrade. For the first time this edition was also open to Pirelli employees.
- Projects aimed at **universities** and **postgraduate schools**: guided tours in person and online, involving students from various educational institutions such as the Milan Polytechnic (Faculty of Architecture) and the International School of Comics in Milan.
- Other educational projects: in January, in collaboration with **Pirelli Micromobility Solutions**, two online meetings were held with the students of the **Future Class** of the Istituto Volta in Pescara, the first school in Italy to choose Pirelli's e-bike rental solution **CYCL-e around**; in November, participation in the **#ioleggoperché** project with initiatives dedicated to reading aimed at students.

Loans of materials to the external community, historical and iconographic research and production of editorial content in support of the brand: there were 134 requests relating to: set-ups of plants,

trade fairs, events, Pirelli offices in Italy and abroad, loans of materials for exhibitions and publications curated by other institutions, historical videos and documentaries, interviews, theses by scholars and researchers. Among the main ones: the launch of the new Pirelli Collezione tyres for Mini brand cars, the creation of the “Meisterstück Great Masters Pirelli Limited Edition 1872” pen as part of the collaboration between Pirelli Design and Montblanc; Pirelli’s return to the WRC, Casa Pirelli, F1 Paddock Club in Monaco and Monza, the relationship between Pirelli and Vespa for the 75th anniversary of the Piaggio scooter. In addition: exhibition on Pirelli and Bertone in Ekaterinburg (Russia); documentary on the life of Enzo Ferrari for Zenit Arte Audiovisive; exhibition dedicated to Pirelli toys at the recently opened ADI Design Museum in Milan; exhibition on Italian emigration to Argentina at the Italian Cultural Institute in Buenos Aires (Argentina). Also in 2021, participation in seminars and conventions dedicated to Pirelli’s corporate culture.

Initiatives to promote business culture: in total, more than 1,000 people took part in Fondazione Pirelli initiatives to promote business culture, including: - Museocity, virtual tours focusing on the relationship between Pirelli and Milan; - Una Rete in viaggio and Archivi Aperti, digital and in-person events as part of the programme promoted by Rete Fotografia; - 20th Corporate Culture Week, with the initiatives “Pirelli in movimento”, guided tours with readings at the exhibition “Storie del Grattacielo” and tours of Fondazione Pirelli, focusing on the theme of travel. The Foundation’s guests included the visit of the United States Consul and the Governor of the State of Guanajuato (Mexico). Also in 2021 the Foundation supported the P Lunga training course, organised by the HR Department.

Processing and relocation of materials from the Historical Archive, digital heritage management:

- **Historical Archive:** about 1,600 documents catalogued and published online, almost 58,000 digitised, 5,500 restored (photographic, iconographic and audiovisual fonds, with a focus on rallies, product fairs, factory interiors, welfare; product data sheets relating to the Research and Development section). In 2021, a worksite-school was set up in collaboration with the Brera Academy for the restoration of part of the company’s photographic fund.
- Development, within the Historical Archive database, of a **thematic thesaurus** with about 800 entries to index documents by subject, starting from 6 macro entries (products, sports, vehicles and brands, headquarters and plants, exhibitions and fairs, welfare) and with the possibility of searching by subcategories.
- Uploading of more than 6,500 digital assets (photographs, videos, documents), for a total of 36,583 assets uploaded to the **Digital Asset Management** platform for long-term preservation of digital material.

## PIRELLI HANGARBICOCCA™

Pirelli HangarBicocca™, which with its 15,000 square metres is one of the largest exhibition venues in Europe, is a space dedicated to the production, exhibition and promotion of contemporary art, created in 2004 from the conversion of a vast industrial plant into an art centre.

The aim of Pirelli HangarBicocca™ is to be a place open to the city and the territory, an institution that combines its exhibition activities with a series of initiatives aimed at bringing contemporary art closer to an Italian and international public made up of art experts, representatives of the most important museum institutions, journalists from the sector and the general press, as well as an equally vast audience of enthusiasts, students, families and non-specialist users.

Pirelli HangarBicocca™'s exhibition and cultural activities underwent changes in 2021 due to the emergency situation caused by Covid-19, which required closure in the early months of the year. In addition, since 26 April the exhibition space housing Anselm Kiefer's *The Seven Heavenly Palaces* has been granted to the Lombardy Region and transformed into the Vaccinal Hub under the guidance of Asst Milano Nord, until the end of October. In the six months it has been open, the Vaccine Hub has administered around 346,000 vaccinations.

In line with its mission, Pirelli HangarBicocca™ nevertheless guaranteed the realisation of solo exhibitions by leading international artists and a programme that stood out for its research and experimentation character and for the particular attention paid to site-specific projects capable of dialoguing with the unique characteristics of the space. The artistic programme for 2021, curated by Artistic Director Vicente Todolí, presented artists with a high international profile, alternating solo exhibitions by established names with exhibitions by emerging artists.

During 2021, a total of about 75,500 visitors (in attendance) visited 4 large temporary exhibition projects, in addition to the permanent installations *I Sette Palazzi Celesti 2004-2015* by Anselm Kiefer, *La Sequenza* by Fausto Melotti and the *Efêmero mural* by OSGEMEOS:

- Trisha Baga, *"the eye, the eye and the ear"* (from 20 February 2020, closure extended to 10 January 2021). This is the artist's first exhibition in an Italian institution and covers her entire output. Pirelli HangarBicocca™ also co-produced the work *1620 (2020)*, part of the exhibition itinerary. In addition to five video installations, the exhibition presents a rich selection of ceramics and the *Seed Paintings (2017)*, paintings composed using sesame seeds;
- Chen Zhen, *"Short-circuits"* (from 15 October 2020, closing date extended to 6 June 2021): the exhibition is conceived as an immersive exploration of Chen Zhen's complex artistic research and brings together for the first time more than twenty large-scale installations created between 1991 and 2000, the year of the artist's untimely death;
- Neïl Beloufa, *"Digital Mourning"* (from 17 February 2021, closure extended to 9 January 2022): this is the first major solo exhibition dedicated to Beloufa in Italy and stems from a reflection on the concept of life in the digital world. Presenting a wide selection of works, the exhibition is configured as a new complex multimedia installation that includes the work

Screen Talk (2020), also accessible through an interactive site, and the new production Hosts (2021);

- - Maurizio Cattelan, “Breath Ghosts Blind” (from 15 July 2021, closing date 20 February 2022): the artist has conceived a specific exhibition project for the spaces of Pirelli HangarBicocca™, offering a vision of collective and personal history through a symbolic representation of the cycle of life. Combining a new sculpture with the reconfiguration of a historical work and the monumental installation Blind (2021) produced for the occasion, the exhibition develops in a sequence of distinct acts that address existential concepts.

Throughout the year, the presentation of exhibitions was accompanied by the publication of catalogues and specific texts. On the occasion of Trisha Baga’s exhibition, her first monograph (Skira Editore), the eye, the eye and the ear (2020), was published. It was conceived as a science fiction tale in the artist’s universe, bringing together literary, scientific and artistic references by Trisha Baga alternating with critical contributions.

For the exhibition “Short-circuits”, the homonymous catalogue (Skira Editore) focuses on Chen Zhen’s (1955-2000) research and installation practice in the period between 1991 and 2000. Together with an extensive documentation of the exhibition, the book is enriched by critical and in-depth texts, as well as a selection of preparatory sketches by the artist.

The Neil Beloufa exhibition is accompanied by the first monograph on the artist, People Love War Data & Travels (2021), produced by After8 Books with the support of Pirelli HangarBicocca™. The book, which opens with a chapter devoted to the “Digital Mourning” exhibition, is arranged thematically and illustrates the peculiarities of Beloufa’s production methods, outlining the artist’s ten-year career in over 500 pages.

Finally, in conjunction with Maurizio Cattelan’s solo exhibition, two volumes have been published (Marsilio Editori): the exhibition catalogue, Breath Ghosts Blind (2021), which explores the themes of the exhibition, including memory, the sense of individual and collective loss and the cycle of life, and INDEX (2021), an anthology of all the conversations Maurizio Cattelan has held for the last twenty years, Maurizio Cattelan has been conducting conversations for the past twenty years in the guise of an interviewer, together with other artists and creatives, including Alighiero Boetti, Massimo Bottura, Paola Pivi, Tino Sehgal, Chloë Sevigny, Dana Schutz and Frank Lloyd Wright.

In 2021 Pirelli HangarBicocca™ produced the second edition of the Annual Journal, which contains a report, through text and images, of the institution’s activities in relation to the communities it serves. The new edition underlined the institution’s digital turnaround: initially due to the pandemic situation, this turnaround later took on a value of openness to new communities, audiences and possible forms of content.

The Public Program 2021 was inaugurated with two events dedicated to the Chen Zhen exhibition: a cycle of five digital encounters in April on the relationship between Chinese art and Europe, involving international scholars and curators from China, Canada, the United States and Germany; a conversation on the exhibition between MAXXI director Hou Hanru and critic Marco Scotini on 26



May. For Neïl Beloufa's exhibition, an open-air screening of the artist's films was organised on the occasion of Miart, Milan's contemporary art fair (17 September) and a site-specific performance by the Ballet de Marseille-(LA)HORDE (21 October) in direct dialogue with the works on show.

The events produced to accompany the Maurizio Cattelan exhibition also proved to be highly attractive: a concert with the Orchestra Sinfonica Giuseppe Verdi of Milan and the Ensemble Strumentale e Vocale laBarocca, conducted by Ruben Jais (27 October), which gave rise to a co-production with Sky channel of an unreleased film; an evening in collaboration with Bookcity Milano (18 November) with the presence of philosophers Felice Cimatti and Federico Campagna and the preview screening of the video SPY by Yuri Ancarani. The year ended on 2 December with a meeting between the artist Maurizio Cattelan and the public for the signing of copies of his latest publication INDEX.

In the early months of 2021, during the lockdown period and when the schools were closed, the Education Department proposed a series of new remote digital activities for children between the ages of 6 and 10, involving movement, dance, sound and music in collaboration with the duo Luci su Marte and the musician Davide Tedesco; at the same time the offer of live digital learning pathways continued with the involvement of the Arts Tutors of Pirelli HangarBicocca™.

In June the Education Department presented "Edu Summer 2021 - Chronicles of Summer", a month-long project in collaboration with dancers Umberto Gesi and Roberta Piazza, writer Francesco Gungui, the directing duo Kinonauts, artist Rachele Maistrello, musician Davide Tedesco and illustrator Marco Zambelli, which consisted of workshops and summer camps involving more than 270 participants between the ages of 6 and 12.

In October, the in-person creative courses with Arts Tutors resumed with more than 25 activities and the involvement of more than 230 participants aged 5 to 12. In December, the special programme "Winter is coming!" was presented: three in-person workshops designed to explore Cattelan's exhibition through creative processes linked to storytelling with the writer Francesco Gungui, sound with the musician Davide Tedesco, and movement and dance with the Luci su Marte duo, which involved around 80 children aged between 6 and 10.

A new feature in 2021 was the creation of a new editorial product: the Kids Guide, a guide with text and images designed to accompany families in their exploration of the Museum.

In the autumn the School routes were enhanced with new formats, with workshop activities taking place within the exhibitions themselves, accompanied by new teaching tools that teachers can use before, during and after their visit to the Museum.

For adults there are live digital tours of the exhibition space enriched by audio-visual contributions with the involvement of Pirelli HangarBicocca™'s cultural mediators.

In addition to the usual communication activities - through social planning, WEB content, ADV, SEO, SEA - and press activities (through the training of international journalists, the creation of press strategies and press conferences) in support of the promotion and dissemination of the exhibitions and cultural events, during the course of 2021 Pirelli HangarBicocca™ intensified its digital

storytelling by strengthening its online activity of user involvement: the “Bubbles” project, online since 9 March 2021, saw the [pirellihangarbicocca.org](http://pirellihangarbicocca.org) website transform itself into a digital environment conceived to explore the universe of contemporary art and to rediscover, through a fluid navigation experience, the extensive production of content created by Pirelli HangarBicocca™. The website’s navigation is structured to encounter different types of “Bubbles”, veritable “bubbles” of textual, video and audio material offering different categories of experience. The new website aims to facilitate the use and retrieval of information and to make it easier to consult archive material, access in-depth topics and participate in digital initiatives, including live events. Part of the “Bubbles” project are the short films produced by Pirelli HangarBicocca™ and dedicated respectively to Chen Zhen’s artistic work, directed by Kinonauts, and to Maurizio Cattelan’s exhibition, directed by Yuri Ancarani. Also the podcast project, realised with Radio Rai Uno, which brought together personalities, critics, thinkers, collectors on the radio to describe the figure of Maurizio Cattelan, has become part of the website, within the “Bubbles”.

On 9 November 2021, Pirelli HangarBicocca™’s 2022-2023 programme was also presented inside Anselm Kiefer’s permanent installation by Chairman Marco Tronchetti Provera and Artistic Director Vicente Todolí: eight monographic exhibitions dedicated to international artists.

With the aim of automating and integrating communication and marketing actions aimed at visitors and a wider target of connoisseurs of Pirelli HangarBicocca™, the CRM (Customer Relationship Management) project was also launched, which will see its concrete development and implementation in 2022.

In 2021 the Pirelli HangarBicocca™ Membership programme continued its online activities during the period when the spaces were closed and froze the expiry dates of the cards for the entire first half of the year, thus keeping the community of Members on board. Since the reopening of the spaces, activities resumed in presence and from September 2021 the programme took the form of an annual or biennial subscription, thus unifying the expiry dates of all the cards. In 2021 the Membership reached over 290 active Members. There were 5 activities dedicated to Members in 2021: a digital preview tour of Chen Zhen’s exhibition, a preview visit to Maurizio Cattelan’s exhibition, two curatorial visits to Chen Zhen and Neïl Beloufa’s exhibitions and an online activity dedicated to children aged 6 to 10 focusing on Chen Zhen’s exhibition. There were 17 dedicated newsletters.

During the year Pirelli HangarBicocca™ also hosted a number of major events, including the presentation of the new Pirelli Calendar, the HR Trends and Salary Research Convention by Randstad Professionals, the Dinner for the 20 years of the Fondazione Pupi Solidale Onlus and the Charity Dinner of Progetto Itaca.

In 2021 the Pirelli HangarBicocca™ Bookshop was enlarged, with the creation of a direct entrance to the point of sale from the courtyard; the selection of editorial and exhibition merchandise was expanded. Finally, starting in September, the Pirelli HangarBicocca™ e-shop went online, with a large section devoted to exhibition catalogues, limited artist editions and merchandising.

## **REPORT ON THE CORPORATE GOVERNANCE AND SHARE OWNERSHIP OF PIRELLI & C. S.P.A.**

**PURSUANT TO ART. 123-BIS OF THE CONSOLIDATED LAW ON FINANCE (TUF)**

**(TRADITIONAL MODEL OF ADMINISTRATION AND CONTROL)**

**(REPORT APPROVED BY THE BOARD OF DIRECTORS OF PIRELLI & C. S.P.A. ON 17 March 2022 IN  
RELATION TO THE YEAR ENDED 31 DECEMBER 2020. THE REPORT IS ALSO AVAILABLE ON THE WEBSITE  
[WWW.PIRELLI.COM](http://WWW.PIRELLI.COM))**

## GLOSSARY

**Annual General Meeting:** the shareholders' meeting called to approve the financial statements as of 31 December 2021.

**Camfin:** Camfin S.p.A., a company established under Italian law controlled by Marco Tronchetti Provera through MTP&C, with registered offices in Milan, Via Larga no. 2, Tax Code, VAT and Milan-Monza Brianza-Lodi Companies Register number 00795290154.

**ChemChina:** China National Chemical Corporation Limited, a company established under Chinese law, directly controlled by Sinochem Holdings with registered offices at 62 West Beisihuan Road, Haidian district, Beijing (People's Republic of China), registered with the State Administration of Industry and Commerce of the People's Republic of China, registration number 100000000038808.

**CNRC:** China National Tire & Rubber Corporation Ltd., a company established under Chinese law directly controlled by ChemChina, with registered offices at 62 West Beisihuan Road, Haidian district, Beijing (People's Republic of China), registered with the State Administration of Industry and Commerce of the People's Republic of China, registration number 100000000008065.

**Civil Code:** the Italian Civil Code.

**Corporate Governance Code:** the edition of the Corporate Governance Code for listed companies approved in January 2020 by the Corporate Governance Committee, in effect as of 1 January 2021, with information to be reported in the Reports to be published in the course of 2022.

**Board of Directors:** the Board of Directors of Pirelli & C. S.p.A.

**Consob:** the National Commission for Companies and the Stock Exchange.

**Report Date:** indicates 17 March 2021, the date on which the Board of Directors approved this Report.

**First Trading Day:** 4 October 2017, being the date on which the shares of the Company were admitted to trading on the MTA - now Euronext Milan (EXM) - market organised and managed by Borsa Italiana S.p.A.

**Year:** the financial year to which this Report relates.

**Group:** collectively Pirelli and its subsidiaries, as defined in art. 2359 of the Civil Code and art. 93 TUF.

**IPO:** the procedure for the listing of Pirelli shares completed in October 2017 with the start of trading on the MTA.

**Longmarch:** Longmarch Holding S.à.r.l., a limited liability company under Luxembourg law, with its registered office at 14, Rue Edward Steichen, 2540, Luxembourg (Grand Duchy of Luxembourg).

**Marco Polo:** Marco Polo International Italy S.p.A., a company established under Italian law with registered offices at via San Primo 4, Milan, Tax Code, VAT and Milan-Monza Brianza-Lodi Companies Register number 09052130961; the company was terminated following the full demerger from Marco Polo, to the benefit of MPI Italy, among others, with effect from 8 August 2018.

**MPI Italy:** Marco Polo International Italy S.r.l., a company established under Italian law indirectly controlled by Sinochem Holdings through Chemchina, with registered offices at via San Primo 4, Milan, Tax Code, VAT and Milan Companies Register number 10449990968.

**MTP&C:** Marco Tronchetti Provera & C. S.p.A., a company established under Italian law with registered offices at via Bicocca degli Arcimboldi 3, Milan, with Tax Code, VAT and Milan-Monza Brianza-Lodi Companies Register number 11963760159.

**Shareholders' Agreement:** the agreement signed on 1 August 2019 by ChemChina, CNRC, SRF, SPV HK 1, SPV HK 2, SPV Lux, MPI Italy, MTP&C. with effect from 28 April 2020. The essential content of the Shareholders' Agreement, to which reference is made for further information, is available on the Website ([www.pirelli.com](http://www.pirelli.com)).

**PFQY:** PFQY S.r.l., a company established under Italian law controlled by SRF, with registered offices at via San Primo 4, Milan, with Tax Code, VAT and Milano-Monza Brianza-Lodi Companies Register number 11324920963.

**Pirelli:** Pirelli & C. S.p.A., a company established under Italian law with registered offices at viale Piero e Alberto Pirelli 25, Milan, with Tax Code, VAT and Milan-Monza Brianza-Lodi Companies Register number 00860340157.

**Pirelli International:** Pirelli International plc (now Pirelli International Limited), a company established under British law controlled by Pirelli, with registered offices in Derby Road, Burton on Trent (United Kingdom), registered with the Companies House of England and Wales, number 04108548.

**Pirelli Tyre:** Pirelli Tyre S.p.A., a company established under Italian law controlled by Pirelli, with registered offices at viale Piero e Alberto Pirelli 25, Milan, Milan-Monza Brianza-Lodi Companies Register number 07211330159.

**Pirelli International Treasury:** Pirelli International Treasury S.p.A., a company established under Italian law controlled by Pirelli, with registered offices at viale Piero e Alberto Pirelli 25, Milan, with Milan-Monza Brianza-Lodi Companies Register number 10523850963.

**Board Regulations:** the Regulations, adopted by the Board of Directors of Pirelli & C. S.p.A. on 22 June 2020, which govern the methods of organisation and internal functioning of the Board itself, in line with the recommendations of the Corporate Governance Code.

**Issuers' Regulation:** the Regulation approved by Consob resolution 11971/1999 (as amended) on the subject of issuers.

**Related Parties Regulation:** the Regulation issued by Consob by way of resolution no. 17221 of 12 March 2010 on related-party transactions, as subsequently amended.

**Report:** this report on corporate governance and the ownership structure prepared pursuant to art. 123-*bis* TUF.

**NFD Report:** constitutes the Consolidated Non-Financial Disclosure pursuant to Legislative Decree no. 254 of 30 December 2016, reported in the chapter “Report on Responsible Management of the Value Chain”.

**Remuneration Report:** the report prepared pursuant to art. 123-*Ter* TUF.

**Sinochem Holdings:** Sinochem Holdings Corporation Ltd., a Chinese state-owned enterprise (SOE), under the supervision of the State-owned Assets Supervision and Administrative Commission of the State Council (SASAC) of the People’s Republic of China, with its registered office at Xiong’an New District (People’s Republic of China), No. 001, Enterprise Headquarters Zone, Start-up Area, Hebei District, registered with the State Administration of Industry and Commerce of the People’s Republic of China under no. 91133100MA0GBL5F38. Sinochem Holdings – including through ChemChina and other subsidiaries of ChemChina, including MPI Italy – indirectly controls the Company pursuant to art. 93 of the Consolidated Law on Finance (TUF).

**Website:** the institutional website of Pirelli containing *inter alia* information about the Company, can be found at the Internet domain [www.pirelli.com](http://www.pirelli.com).

**Company:** Pirelli & C.

**SPV HK1:** CNRC International Limited, limited company under Hong Kong law (People’s Republic of China) indirectly controlled by Sinochem Holdings through Chemchina, with registered offices at RMS 05-15, 13A/F South Tower World Finance CTR Harbour City, 17 Canton Rd TST KLN, Hong Kong (People’s Republic of China), Hong Kong Companies Register number 2222516.

**SPV HK2:** CNRC International Holding (HK) Limited, limited company formed under the laws of Hong Kong (People’s Republic of China) indirectly controlled by Sinochem Holdings through Chemchina, with registered offices at RMS 05-15, 13A/F South Tower World Finance CTR Harbour City, 17 Canton RD TST KLN, Hong Kong (People’s Republic of China), Hong Kong Companies Register number 2228664.

**SPV Lux:** Fourteen Sundew S.à r.l., a limited liability company (société à responsabilité limitée) under Luxembourg law indirectly controlled by Sinochem Holdings through Chemchina, with registered offices at rue Robert Stümper 7A, L-2557, Luxembourg (Grand Duchy of Luxembourg), with Luxembourg Companies and Commerce Register number B-195473.

**SRF:** Silk Road Fund Co., Ltd., a company established under Chinese law with registered offices at F210-F211, Winland International Finance Center Tower B, 7 Financial Street, Xicheng, Beijing (People’s Republic of China), registered with the State Administration of Industry and Commerce of the People’s Republic of China, registration number 100000000045300(4-1).

**Articles:** the Articles of Association of Pirelli & C., available on the Website.

**TUF:** Legislative decree 58 of 24 February 1998, as subsequently amended (the Consolidated Law on Finance).

## INTRODUCTION

The Report presents the corporate governance system adopted by the Company. This system is consistent with the principles contained in the Corporate Governance Code adopted by the Company.

Pirelli is aware that an efficient system of corporate governance is an essential element for achieving the objective of sustainable value creation.

### 1. COMPANY PROFILE

Pirelli, with its 30,700 employees and revenues of around Euro 5.3 billion in 2021, ranks among the principal global manufacturers of tyres and supplier of ancillary services, being the only operator in the sector exclusively specialised in the Consumer segment (tyres for cars, motorcycles and bicycles), with a globally-recognised brand. The Company has a distinctive positioning with regard to High Value tyres, which are manufactured to achieve the highest levels of performance, safety, quietness and road grip, with significant input from technology and/or customisation (i.e.  $\geq 18''$ , Specialities, Super Specialities and Premium Motorcycle tyres). In addition, the Company currently holds a leadership position in the Car Prestige tyres segment, and in the radial segment of the motorcycle tyre replacement market. Pirelli is also a leader in Europe, China and Brazil in the Car  $\geq 18''$  tyre market in the replacement channel. For a profile of the issuer see also the Company's website. In its leadership of the Company, Pirelli's Board of Directors pursues the objective of sustainable success by:

- drawing up a sustainability plan which integrates the Company's strategic plans (for more details, see the NFD Report);
- including, as part of its Remuneration Policy, ESG indicators for measuring the Company's management performance in its medium/long-term remuneration plans (for more details see the Remuneration Report);
- appointing a director responsible of sustainability topics (for more details see paragraph 9.7);
- periodically assessing, on an ongoing basis, the risks associated with business activities so as to create long-term value for the benefit of shareholders (for more details see paragraph 9);
- adopting a specific policy for dialogue with shareholders and stakeholders in the financial market in which the Company operates (for further details see paragraph 14.1);

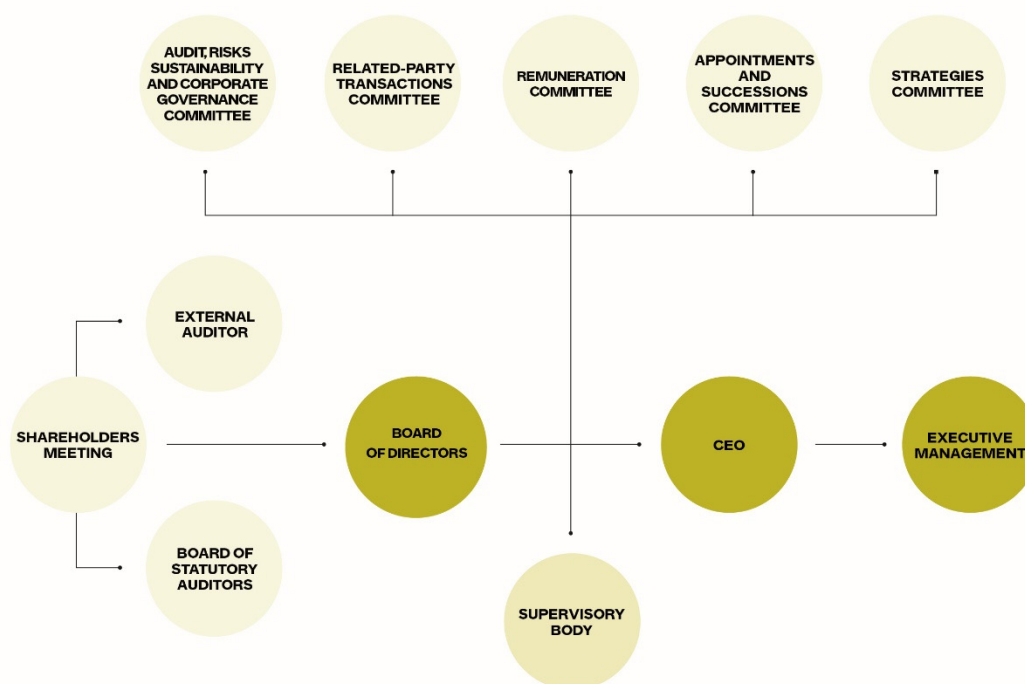


- setting up a Board Committee and supporting it in evaluating and making decisions in relation to the internal control and risk management system, as well as analysing sustainability issues that are important for long-term value creation (for further details see paragraph 9.2)<sup>71</sup>.

For the sake of completeness, it should be noted that, pursuant to the Corporate Governance Code, the Company falls within the definition of “companies with concentrated ownership” and “large company”. The Company did not use any flexibility options when applying the Corporate Governance Code.

### 1.1 MODEL OF CORPORATE GOVERNANCE

Pirelli uses the traditional governance and control system. The following diagram summarises the Company’s current governance structure.



The statutory auditing of the accounts is entrusted to PricewaterhouseCoopers S.p.A., an auditing firm included in the register of accounting auditors.

<sup>71</sup> The Company’s Board of Directors had already envisaged the support of a specific board Committee for the issues referred to this point prior to the publication of the Corporate Governance Code and, therefore, did not deem it necessary to set up a new specific Committee.

## 2. INFORMATION ON THE OWNERSHIP STRUCTURE

### 2.1 STRUCTURE OF SHARE CAPITAL

On the Report Date, the issued share capital of Pirelli amounts to Euro 1,904,374,935.66 fully paid, and is represented by 1,000,000,000 ordinary shares without nominal value. Each share grants the right to one vote. There are no other categories of shares.

The extraordinary shareholders' meeting of 24 March 2021 resolved to increase the share capital for cash for payment, in a divisible manner, with exclusion of the option rights pursuant to art. 2441, subsection 5 of the Italian Civil Code, for a total maximum amount, including any premium, of Euro 500,000,000.00, to service the conversion of the "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025", to be paid up in one or more tranches by the issue of ordinary shares of the Company with regular dividend entitlement, for a maximum amount of 500,000,000.00 euro, exclusively to service the bond issued by the Company named "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025", in accordance with the criteria determined by the related Regulation, without prejudice to the fact that the final deadline for subscription of the newly issued shares is established as 31 December 2025 and that if, as of that date, the share capital increase has not been fully subscribed it will in any case be intended as increased by an amount equal to the subscriptions collected and as of that date, with the specific authorisation for the directors to issue the new shares as they are subscribed. No parts of shares will be issued or delivered and no cash payment or adjustment will be made in lieu of said parts.

The conversion price of the bonds is Euro 6.235.<sup>72</sup>

Additionally, the Articles do not provide for the possibility of increased voting rights or the issue of shares with multiple voting rights.

### 2.2 SIGNIFICANT SHAREHOLDINGS OF CAPITAL

The Company is indirectly controlled, pursuant to art. 93 of the TUF, by Sinochem Holdings<sup>73</sup> through ChemChina which, in turn, indirectly holds the shareholding through CNRC and other subsidiaries of the latter, including MPI Italy, which directly holds the shareholding.

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<sup>72</sup> Subject to adjustments and except in cases where the conversion price has to be calculated differently than what is indicated in the Bond Regulations.

<sup>73</sup> On 10 September 2021, as part of the joint restructuring announced by Sinochem Group Co., Ltd. ("**Sinochem Group**") and ChemChina, the companies Sinochem Group and ChemChina came under the common control of Sinochem Holdings Corporation Ltd. ("**Sinochem Holdings**"), which from that date became the "ultimate parent company" of ChemChina (and therefore also of Pirelli).

Based on the communications received by the Company as at the Report Date pursuant to art. 120 TUF, or from other information available to the Company, the major direct and indirect shareholdings of Pirelli capital are indicated in Table 1, appended to this Report.

### **2.3 MANAGEMENT AND COORDINATION ACTIVITIES**

- In its meeting on 31 August 2017, the Board of Directors noted that, as of the First Trading Day, Pirelli is not subject to any of the activities typically involved in management and coordination by direct or indirect controlling shareholders or other companies or entities. These include but are not limited to: Pirelli conducts relations with customers and suppliers in full autonomy without any external interference;
- Pirelli prepares the strategic, industrial, financial and/or budget plans of the Company or the Group independently;
- Pirelli is not subject to any group regulations;
- no organisational-functional link exists between Pirelli on the one hand and MPI Italy and the companies that control it on the other;
- MPI Italy, CNRC, ChemChina and/or Sinochem Holdings have not carried out any deeds, adopted any resolutions or made any communications that might cause reasonable belief that the decisions of Pirelli are in some way imposed or required by MPI Italy, CNRC, ChemChina and/or Sinochem Holdings;
- MPI Italy, CNRC, ChemChina and/or Sinochem Holdings do not centralise treasury management activities or other financial support or coordination functions;
- MPI Italy, CNRC, ChemChina and/or Sinochem Holdings do not issue directives or instructions – and in any case would not coordinate initiatives – concerning the financial and borrowing decisions of Pirelli;
- MPI Italy, CNRC, ChemChina and/or Sinochem Holdings do not issue directives regarding any special transactions carried out by Pirelli including, for example, the listing of financial instruments, acquisitions, disposals, concentrations, contributions, mergers, spin-offs etc.;
- MPI Italy, CNRC, ChemChina and/or Sinochem Holdings do not make any crucial decisions regarding the operating strategies of Pirelli or formulate group strategic guidelines.

The Board of Directors has periodically reiterated these assessments, most recently at its meeting of 17 March 2021

Conversely, Pirelli exercises direction and coordination of numerous subsidiaries, having made the relevant publication where necessary.

## **2.4 RESTRICTIONS ON THE TRANSFER OF SECURITIES: SECURITIES THAT CARRY SPECIAL RIGHTS; EMPLOYEE SHARE OWNERSHIP: THE MECHANISM FOR EXERCISING VOTING RIGHTS; RESTRICTIONS ON VOTING RIGHTS**

The Articles do not impose any restrictions on the transferability of the shares issued by the Company.

No securities have been issued that carry special rights of control, nor the Company has adopted the option to increase voting rights.

With regard to the shares owned by employees, there are no specific procedures or restrictions governing the exercise of their voting rights.

There are no mechanisms that restrict the voting rights of shareholders, except for the terms and conditions governing the exercise of the right to attend and vote at Shareholders' Meetings, as discussed in the next paragraph 15 of the Report.

## **2.5 SHAREHOLDERS' AGREEMENTS**

For more information on the provisions contained in the shareholders' agreements referred to herein, please refer to the relevant extracts available on the Website, published pursuant to Article 130 of the Issuers' Regulation.

Below is a brief summary of these agreements.

### **2.5.1. SHAREHOLDERS' AGREEMENT**

The agreement (expiring on 28 April 2023) was entered into on 1 August 2019 between ChemChina, CNRC, SPV HK1, SPV HK2, SPV LUX, MPI Italy, SRF, MTP&C and Camfin (the "**Shareholders' Agreement**") and came into effect on 28 April 2020.

By signing the Shareholders' Agreement, the parties (i) reaffirmed the stability of the partnership between ChemChina/CNRC, SRF and Camfin/ MTP&C, in line with the governance principles previously expressed in the shareholders' agreement signed on 28 July 2017, which aims to preserve Pirelli's entrepreneurial culture by leveraging the long-term retention of management, and is inspired by the best international practice of listed companies; (ii) confirmed the role of ChemChina and Camfin/MTP&C as stable Pirelli shareholders with the latter maintaining the shareholding currently held in Pirelli at a level of more than 10% of the relative capital for the entire duration of the

Shareholders' Agreement; (iii) confirmed the central role played by Marco Tronchetti Provera, in his capacity as the Company's Executive Vice Chairman and Chief Executive Officer: (a) in his leadership of Pirelli's top management, ensuring the continuity of Pirelli's managerial culture; and (b) in the appointment of his successor, with the implementation of the succession procedure that must be completed by the end of October 2022 and, therefore, a few months before the renewal of Pirelli's Board of Directors scheduled for spring 2023.

The Shareholders' Agreement contains certain provisions regarding the composition of the Board of Directors and Committees, which are described in paragraphs 4.3 and 6 below.

As of the Report Date, MPI Italy, Camfin (following the Contribution described in paragraph 2.5.3 below) and PFQY (the latter following the SPV Lux Assignment described in the following paragraph) contributed approximately 60% of Pirelli's share capital to the agreement.

### 2.5.2. ACTING IN CONCERT

As part of a broader reorganisation of the chain of control of MPI Italy, as per the previous shareholder agreements signed by the parties<sup>74</sup> – which, *inter alia*, entailed the exclusion of SPV HK2 from said chain of control (the “**Reorganisation**”) – the partial non-proportional and asymmetrical split of MPI Italy in favour of PFQY was finalised on 29 September 2020. As a result, PFQY was assigned, *inter alia*, 90,212,508 Pirelli shares, making up 9.02% of the share capital (the “**SPV Lux Allocation**”). Following the above-mentioned split:

- the Equity Investment Agreement for Co-Involvement and Investment in Acquisition of Pirelli (the “**Investment Agreement**”), the Supplemental Agreement to the Investment Agreement, as amended on 28 April 2020, and the Second Supplemental Agreement to the Investment Agreement entered into on 5 June 2015, 28 July 2017 and 7 August 2018 respectively between CNRC, ChemChina and SRF no longer have any effect, since the co-participation – of ChemChina and CNRC on one hand, and SRF on the other – in Marco Polo has ceased to exist and, as such, SRF became a direct shareholder of Pirelli & C. S.p.A. through PFQY;
- the parties updated the essential information pursuant to art. 130 of the Issuers' Regulation relating to the Revised Acting-in-Concert Agreement entered into on 28 April 2020 by CNRC and SRF, which superseded and replaced the Acting-in-Concert Agreement entered into by the same parties on 28 July 2017, which contains shareholders' agreements relating to pursuant to which SRF assumed a lock-up commitment and a commitment to vote at Pirelli Shareholders' Meetings in accordance with CNRC's voting instructions, in relation to a number of Pirelli shares deriving from the SPV Lux Assignment making up 5% of Pirelli's share capital.

On 29 March 2021, SRF and CNRC signed the “Amended and Restated Acting-in-concert agreement”, which supersedes and replaces the previous “Revised Acting-in-concert agreement”

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<sup>74</sup> See previous Report on the corporate governance and share ownership for the year 2020 available on the Website.

signed by the parties on 28 April 2020, so that the shareholders' agreements can take in account the resolutions passed by the Shareholders' Meeting of Pirelli & C. S.p.A. on 24 March 2021 regarding the convertibility of the bond called "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025".

### 2.5.3. THE LONGMARCH AGREEMENT

On 13 May 2020, Camfin and Longmarch finalised the signing of an agreement ("**2020 Investment Agreement**") which contains, among other things, some shareholders' agreements relating to a potential equity investment, pursuant to art. 119 of the Issuers' Regulation, consisting of a "repurchase agreement" entered into by Longmarch and ICBC Standard Bank Plc ("**Repurchase Agreement**") regarding Longmarch's right to repurchase a total number of 76,788,672 of Pirelli shares, corresponding to approximately 7.68% of Pirelli's share capital ("**Pirelli Shares Subject to the Repurchase Right**").

It should be noted that, Camfin and Longmarch entered into a further agreement on 30 June 2021, amending the 2020 Investment Agreement, which relates to Longmarch's entry into Camfin's share ownership structure ("**2021 Investment Agreement**"), by virtue of which the share capital increase resolved by Camfin (reserved for Longmarch and fully subscribed by the latter through the contribution of 40,000,000 Pirelli shares – the "**Contribution**") was completed on 7 October 2021. Following the Contribution: (i) Camfin's shareholding in Pirelli amounts to approximately 14.1% of Pirelli's share capital, in addition to a potential shareholding of approximately 4.6% held through financial instruments known as "call spreads"; and (ii) Longmarch holds a shareholding in Pirelli of approximately 3.68%. It should be noted that, with the signing of the 2021 Investment Agreement, the commitments previously undertaken by Longmarch under the 2020 Investment Agreement in relation to its shareholding in Pirelli of approximately 3.68% remain in place and, in particular, to exercise its voting rights at the Pirelli Shareholders' Meeting in accordance with the outcome of the discussions concluded between the Parties and, in the event of disagreement, in accordance with the voting instructions provided by Camfin.

Furthermore, except with Camfin's prior written consent, Longmarch has committed not to transfer or assign the Repurchase Agreement (including its related rights) or any Pirelli Shares Subject to the Repurchase Right for a period of three years from the date of signing the Longmarch Agreement.

As expressly stipulated in the 2020 Investment Agreement, as amended by the 2021 Investment Agreement, the provisions therein (i) do not regulate, nor influence, nor have any impact whatsoever on Pirelli's governance, and (ii) shall in no way be deemed to be connected with or related to, nor have any effect and/or influence whatsoever on the Renewal of the Shareholders' Agreement referred to in paragraph 2.5.1 above.

## 2.6 CHANGE OF CONTROL CLAUSES

The most significant contracts containing clauses of this type are summarised below.

### 2.6.1 SYNDICATED LONG TERM LOAN

On 13 June 2017 Pirelli, on the one hand, and Banca IMI S.p.A., J.P. Morgan Limited and The Bank of Tokyo-Mitsubishi UFJ, Ltd., in their roles as mandated lead arrangers, bookrunners, underwriters and global coordinators signed a mandate letter regarding the grant of an unsecured loan to Pirelli and Pirelli International (the “**Beneficiaries**”) originally for a maximum amount of Euro 4,200,000,000 (the “**New Loan**”).

The New Loan agreement signed on 27 June 2017 (as subsequently amended) states, *inter alia*, that the Beneficiaries shall repay early the part of the New Loan made available by each lender should certain events occur, including changes in the control structure of Pirelli.

In particular, this change of control clause may be invoked solely in one of the following circumstances: (i) ChemChina ceases to hold, directly or indirectly, individually or together with Camfin or another company controlled by Marco Tronchetti Provera or his close family members, more than 25% of Pirelli post IPO; or (ii) ChemChina ceases to be, directly or indirectly, individually or together with Camfin or another company controlled by Marco Tronchetti Provera or his close family members, the relative majority holder of the voting rights in Pirelli (i.e. ceases to hold more voting rights than other parties that act individually or together); or (iii) any other party (or parties acting together) appoints or removes the majority of the Board of Directors.

Any takeover by Camfin (or another company directly or indirectly controlled by Marco Tronchetti Provera or his close family members) as the parent company of Pirelli would not represent a change of control on condition that certain requirements are met, including the requirement for Marco Tronchetti Provera or a person designated by him to be the Chairman and the CEO of that company and CEO of Pirelli.

### 2.6.2 PT EVOLUZIONE TYRES JOINT VENTURE

On 24 April 2012, Pirelli Tyre and PT Astra Otoparts tbk, an Indonesian company, signed a Joint Venture Agreement in relation to PT Evoluzione Tyres, an Indonesian company incorporated on 6 June 2012 and operating in the production of motorcycle tyres in the plant of Subang, West Java.

Pursuant to this contract, in the event of a change in the ownership structure of one of the shareholders that is deemed to be a change of control event, a put&call procedure could be activated that, in the extreme case, might lead to the acquisition by Pirelli Tyre of the entire equity investment

held by PT Astra Otoparts tbk in PT Evoluzione Tyres, with the consequent termination of the joint venture agreement.

### 2.6.3 SUPPLY CONTRACT WITH BEKAERT

The Company has a contract for the supply of steelcord with Bekaert, to which the Company sold the steelcord business unit in 2014, also in consideration of the contractual peculiarities connected with the sale transaction.

The contract with Bekaert includes a change of control clause whereby Bekaert has the right, *inter alia*, to withdraw within 90 days after becoming aware of a situation in which a third party acquires control of Pirelli.

### 2.6.4 EMTN PROGRAMME AND NOTES ISSUED IN 2018<sup>75</sup>

On 21 December 2017, in order to ensure the constant optimisation of the financial structure of the Company, the Board of Directors (i) approved an EMTN programme (Euro Medium Term Note Programme) for the issue of non-convertible, senior unsecured bonds for a maximum amount of Euro 2 billion and (ii) in the context of that programme, authorised the issue by 31 January 2019 of one or more bonds to be placed with institutional investors for a maximum total amount of Euro 1 billion. This resolution was subsequently supplemented on 22 June 2018, increasing the existing authorisation by a further Euro 800 million - bringing the total amount to a maximum of Euro 1.8 billion - and extending its time horizon to 31 December 2019 (inclusive).

Pursuant to the EMTN Programme, bondholders that subscribe for bonds issued under the programme will be entitled to request the early reimbursement of their securities (put option) in the case of a Change of Control event.

In particular, the change of control clause may only be invoked in one of the following circumstances, except in specific cases permitted under the EMTN Programme: (i) ChemChina ceases to hold, directly or indirectly, individually or together with Camfin or another company controlled by Marco Tronchetti Provera or his close family members, more than 25% of Pirelli; or (ii) ChemChina ceases to be, directly or indirectly, individually or together with Camfin or another company controlled by Marco Tronchetti Provera or his close family members, the relative majority holder of the voting rights in Pirelli (i.e. ceases to hold more voting rights than other parties that act individually or together); or (iii) any other party (or parties acting together) appoints or removes the majority of the Board of Directors.

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<sup>75</sup> For completeness, it is noted that in the context of the company's refinancing strategy the Board approved a new EMTN (Euro Medium Term Note) program for the issue of senior non-convertible unsecured to a maximum value of Euro 2 billion replacing the previous EMTN, currently being finalised.



Any takeover by Camfin (or another company directly or indirectly controlled by Marco Tronchetti Provera or his close family members) as the parent company of Pirelli, in place of ChemChina, would not give rise to a change of control on condition that certain requirements are met, including the requirement for Marco Tronchetti Provera or a person designated by him to be the CEO of both that company and Pirelli.

Under the EMTN Programme, on 25 January 2018, Pirelli issued a new, unrated 5-year fixed-rate bond guaranteed by Pirelli Tyre for an original total nominal amount of Euro 600 million (an amount that has now reduced to EUR 553 million following the Company's buybacks on the market) called "*Pirelli & C. S.p.A. €600,000,000 1.375% Guaranteed Notes due 2023*". This security is listed on the Luxembourg Stock Exchange.

The above-mentioned Change of Control clause applies to the new note.

For the sake of completeness, on 26 March 2018 Pirelli issued an unrated variable-rate bond secured by Pirelli Tyre for a total nominal amount of Euro 200 million due in September 2020 called "*Pirelli & C. S.p.A. €200,000,000 Floating Rate Notes due 2020*". This bond was repaid in full at maturity.

#### 2.6.5 SCHULDSCHEIN: MULTITRANCHE LOAN FOR A TOTAL OF EURO 525,000,000

On 26 July 2018 Pirelli concluded a "schuldschein" loan - guaranteed by Pirelli Tyre - for a total of Euro 525 million (as subsequently amended, the "**Schuldschein**"), divided as follows: (i) Euro 82 million maturing in 2021 (fully repaid in advance in January 2021); (ii) Euro 423 million maturing in 2023; and (iii) Euro 20 million maturing in 2025.

The Schuldschein prescribes, *inter alia*, that Pirelli must repay the loan in advance, if certain events occur, including the case of a change in the control structures of Pirelli, according to terms and conditions that are the same as those of the EMTN Programme.

#### 2.6.6 2019 BILATERAL LOAN WITH INTESA SANPAOLO

On 22 January 2019, the Board of Directors authorised Pirelli to enter into a medium-long term variable-rate loan guaranteed by Pirelli Tyre, in the amount of Euro 600 million, with Intesa Sanpaolo S.p.A. as the lending bank, and Banca IMI S.p.A. as the agent bank and organising bank (the "**Transaction**").

The loan agreement (as subsequently amended) signed on 24 January 2019 in relation to the Transaction prescribes, *inter alia*, that Pirelli must repay the Transaction early should certain events occur, including changes in the control structure of Pirelli.

Specifically, the change of control clause may only be activated in the case in which a subject or subjects acting in concert (and without prejudice to specific cases permitted under the loan agreement) other than ChemChina, Camfin, MTP&C (or any other company controlled by Marco Tronchetti Provera or his close family members) and/or their subsidiaries and/or any person or persons acting in concert with one of them should (a) hold a relative majority of votes in Pirelli; and (b) appoint or remove the majority of the members of the Board of Directors of Pirelli.

For clarification, the loan contract states that there will be no change of control if Camfin, MTP&C (or any other company controlled by Marco Tronchetti Provera or by one or more of his close family members) participate, directly or indirectly, in the control of Pirelli, or is entitled, by virtue of contractual agreement, directly or indirectly, individually or in concert with one or more subjects, to designate the CEO of Pirelli.

#### 2.6.7 LICENCE AGREEMENT WITH AEOLUS

On 28 June 2016, Pirelli Tyre concluded an agreement (subsequently amended on 31 January 2019) with Aeolus Tyre Co. Ltd, to licence patents and know-how for the production and sale of industrial tyres that expires on 31 December 2030, with automatic renewal unless cancelled by the parties. Pursuant to the agreement, either party has the right to terminate the agreement in advance, by notice to the other party, if CNRC should cease to be, directly or indirectly, the single largest shareholder of Pirelli.

#### 2.6.8 BILATERAL LOAN WITH MEDIOBANCA

On 1 August 2019, the Board of Directors approved the stipulation by Pirelli of a two-year variable rate loan of Euro 125 million with Mediobanca – Banca di Credito Finanziario S.p.A. (the “**Loan**”).

The loan agreement signed on 2 August 2019 stipulates, *inter alia*, that the Pirelli must repay the Loan early should certain events occur, including changes in the control structure of Pirelli.

Specifically, the change of control clause may only be triggered (except for the specific cases permitted under the loan agreement) where an entity, or entities, acting in concert, other than ChemChina, Camfin, MTP&C (or any other company controlled by Marco Tronchetti Provera or his close family members) and/or their subsidiaries and/or any person or persons acting in concert with one of them (a) hold a relative majority of votes in Pirelli; and (b) appoint or remove the majority of the members of Pirelli’s Board of Directors.

For clarification, the loan contract states that there will be no change of control if Camfin, MTP&C (or any other company controlled by Marco Tronchetti Provera or by one or more of his close family

members) participate, directly or indirectly, in the control of Pirelli, or is entitled, directly or indirectly, individually or in concert with one or more subjects, to designate the CEO of Pirelli.

#### 2.6.9 EUR 800 MILLION “SUSTAINABLE” CREDIT LINE

On 31 March 2020, Pirelli signed a new credit line in the amount of Euro 800 million, guaranteed by Pirelli Tyre, with a pool of leading Italian and international banks, with a maturity of five years. The new bank facility is entirely sustainable, i.e. it is subject to economic and environmental sustainability targets.

The New Loan agreement states, *inter alia*, that Pirelli shall be required to make early repayment of the part made available by each lender should certain events occur, including changes in Pirelli’s control structure.

Specifically, the change of control clause may only be triggered (except for the specific cases permitted under the loan agreement) where an entity or entities acting in concert, other than ChemChina, Camfin, MTP&C (or any other company controlled by Marco Tronchetti Provera or his family members) and/or their subsidiaries and/or any person or persons acting in concert with one of them (a) hold a relative majority of votes in Pirelli; and (b) appoint or remove the majority of the members of Pirelli’s Board of Directors.

For clarification, the loan contract states that there will be no change of control if Camfin, MTP&C (or any other company controlled by Marco Tronchetti Provera or by one or more of his family members) participate, directly or indirectly, in the control of Pirelli, or is entitled, directly or indirectly, individually or in concert with one or more subjects, to designate the CEO of Pirelli.

#### 2.6.10 EQUITY-LINKED BOND CALLED “EUR 500 MILLION SENIOR UNSECURED GUARANTEED EQUITY-LINKED BONDS DUE 2025”

On 22 December 2020, Pirelli completed the placement reserved for institutional investors of an equity-linked bond with a nominal amount of EUR 500,000,000, maturing on 22 December 2025, called “EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025” guaranteed by Pirelli Tyre. The bonds were admitted for trading on the Vienna MTF – a multilateral trading facility managed by the Vienna Stock Exchange.

As resolved by the Shareholders’ Meeting on 24 March 2021, the bonds, which are non-interest-bearing, will be able to be converted into ordinary shares of Pirelli subject to the approval by the latter’s extraordinary Shareholders’ Meeting of a capital increase, with the exclusion of option rights pursuant to art. 2441, paragraph 5, of the Italian Civil Code, to be reserved exclusively to service the conversion of said bonds.

The rules of the loan contained in the Trust Deed, including the Terms & Conditions (the “**Regulations**”) provide, *inter alia*, that during the period of time set out in the Regulations, each bondholder shall be granted, at their choice, if a certified Company change of control should occur or if the free float of the Company’s ordinary shares (calculated as specified in the Regulations) should drop below a pre-set threshold and should remain there for a certain number of open market days from the first day on which it has dropped below such level (so called free float event), alternatively: (i) the right to request early reimbursement at the bonds’ nominal value, by exercising a put option; or (ii) acknowledgement of a new conversion price (if applicable even regulated based on the so-called cash settlement amount mechanism), lower than the original and based on the time between the event and the bonds expiring; all based on terms and procedures established in the Regulations.

In particular, the change of control can only be triggered (except in specific cases permitted under the Regulation) if any entity, other than ChemChina, Sinochem Group, SRF, Camfin, MTP&C (or any other company controlled by Mr Marco Tronchetti Provera or his family members) and/or their subsidiaries and/or any person or persons acting in concert with some of them, acquires the absolute majority of the shares with voting rights following a public offering to the shareholders, such that they hold or control the absolute majority of the voting rights in Pirelli; or if any person or persons acting in concert with any of them, other than ChemChina, Sinochem Group, SRF or Camfin, MTP&C, or any other company controlled by Mr Marco Tronchetti Provera or his family members, and/or by their subsidiaries and/or by any person or persons acting in concert with the latter, holds/controls the absolute majority of the voting rights of Pirelli.

For clarification, the loan contract states that there will be no change of control if Camfin, MTP&C (or any other company controlled by Marco Tronchetti Provera or by one or more of his family members) participate, directly or indirectly, in the control of Pirelli, or is entitled, directly or indirectly, individually or in concert with one or more subjects, to designate the CEO of Pirelli.

#### 2.6.11 2021 BILATERAL LOAN WITH INTESA SANPAOLO

On 11 November 2021, the Board of Directors authorised Pirelli to enter into a medium-long term variable-rate loan of Euro 400 million with Intesa Sanpaolo S.p.A. (as the lending bank). The new credit line is secured by Pirelli Tyre and subject to predetermined economic and environmental sustainability targets.

The loan agreement signed on 23 December 2021 stipulates, *inter alia*, that the Pirelli must repay the credit line early should certain events occur, including changes in Pirelli’s control structure.

In particular, the change of control can only be triggered (except in specific cases permitted under the loan agreement) if any entity, other than ChemChina, Sinochem Group, SRF, Camfin, MTP&C (or any other company controlled by Mr. Marco Tronchetti Provera or his family members) and/or their subsidiaries and/or any person or persons acting in concert with some of them, becomes the owner, in aggregate, of more than 50% of the voting rights granted by the Company shares.

For clarification, the loan contract states that there will be no change of control if Camfin, MTP&C (or any other company controlled by Marco Tronchetti Provera or by one or more of his family members) participate, directly or indirectly, in the control of Pirelli, or is entitled, directly or indirectly, individually or in concert with one or more subjects, to designate the CEO of Pirelli.

#### 2.6.12 MULTICURRENCY TERM AND REVOLVING LOAN 2022

On 11 November 2021, the Board of Directors also authorised Pirelli and Pirelli International Treasury to enter into a new medium/long-term unsecured variable-rate loan, divided into two credit lines guaranteed by Pirelli Tyre: one ‘Term’ and one ‘Revolving’, based on predetermined economic and environmental sustainability objectives, for a total amount no greater than Euro 1.6 billion, with a pool of lending banks.

On 21 February 2022, the respective loan agreement was signed with Unicredit S.p.A, as the agent bank, and a further 15 national and international lending banks; the agreement provides – *inter alia* – that Pirelli and Pirelli International Treasury shall be required to repay in advance the portion of the loan made available by each lender should certain events occur, including a change in Pirelli’s control structure under terms and conditions which are the same as those set out in the bilateral loan signed with Intesa Sanpaolo on 23 December 2021

\* \* \*

For the sake of completeness, it should be specified that, in addition to the foregoing, as is common in the commercial context, some companies in the Pirelli Group have entered into contracts containing a change of control clause relating only to the shareholding that Pirelli holds in them, directly or indirectly. It should also be noted that, under the terms of certain local loans, any change of control of Pirelli could potentially trigger, in the absence of appropriate liability management initiatives, the early repayment of the respective amount disbursed locally and – in certain remote circumstances – may have a “cascading” effect on the central loan agreements, entailing the requirement to make early repayment of the respective amounts disbursed at Group level by virtue of the usual cross default/acceleration clauses provided therein.

#### 2.7 CLAUSES IN THE ARTICLES ABOUT PUBLIC OFFERS

The Articles do not provide for exceptions to the provisions regarding the passivity rule, or application of the neutralisation rule set out in art. 104-*bis* TUF.

## **2.8 MANDATE TO INCREASE SHARE CAPITAL AND AUTHORISATIONS TO PURCHASE OWN SHARES**

With regard to the financial year ending 31 December 2021, please refer to section 2.1 for details of the capital increase resolved by the Shareholders' Meeting of 24 March 2021, to fund the conversion of a bond loan, when the Board of Directors – and, on its behalf its legal representatives *pro tempore*, including separately – was authorised to carry out the share capital increase determining, *inter alia*, in compliance with the provisions of the Regulations: (i) the exact issue price of the shares, and, in turn, the determination of the issue price; (ii) the exact number of shares to be issued, and, therefore, the exact exchange ratio, as necessary for the precise application of the provisions and criteria of the Regulations; it being understood that, should the share capital increase referred to above not be fully subscribed on 31 December 2025, the share capital shall be deemed to be increased by an amount equal to the subscriptions received.

The Shareholders' Meeting of the Company did not authorise any purchases of own shares.

## **3. COMPLIANCE**

Pirelli adheres to the Corporate Governance Code, published on 31 January 2020, which is available to the public on the website of the Corporate Governance Committee, at the following link: <https://www.borsaitaliana.it/comitato-corporate-governance/codice/2020-eng.en.pdf>.

The Company also took into account in the Report the collection of useful Q&As for the application of the Corporate Governance Code; these were published by the Corporate Governance Committee on 4 November 2020.

During the Year, the Company examined – with the support of the Audit, Risks, Sustainability and Corporate Governance Committee – the content of the Corporate Governance Code, assessing the potential impact on Pirelli's corporate governance system and identifying the areas of specific interest and possible actions to adapt its corporate practices. The outcome of this analysis demonstrated compliance with the principles and recommendations of the Corporate Governance Code.

The Report has essentially been prepared using the Borsa Italiana format.

On the Report Date, Pirelli is not subject to any non-Italian laws that might influence the corporate governance structure of the Company.

## **4. BOARD OF DIRECTORS**

### **4.1 ROLE OF THE BOARD OF DIRECTORS**

The Board of Directors plays a central role in the guidance and management of the Company, and the pursuit of its sustainability success. Pursuant to art. 11 of the Articles, the Board of Directors manages the business and, for this purpose, exercises all the widest powers of management, except for those reserved by law or the Articles to the Shareholders' Meeting. Specifically, the Board of Directors:

- guides the Company in examining and approving the strategic, industrial and financial plans of the Company itself and of the Pirelli Group to achieve sustainable success, and monitor their implementation; for further details see section 4.4.3 of the Report regarding matters reserved for the exclusive competence of the Board of Directors (criteria for identifying operations of strategic importance);
- establishes the nature and level of risk compatible with the Company's strategic objectives (for further details see section 9 of the Report);
- adopts and sets the corporate governance guidelines and rules for the Company and Group companies (for further details see section 4.4.3 of the Report);
- ensures the correct management of corporate information through a structured compendium of rules and procedures for the internal management and external disclosure of documents and information concerning the Company, particularly regarding inside information (for further details see section 5 of the Report);
- promotes the most appropriate forms of dialogue with shareholders and other stakeholders relevant to the Company (for more details see section 14.1 of the Report).

## 4.2 APPOINTMENT AND REPLACEMENT OF DIRECTORS

Appointment: 22 June 2020 Expiration date: 2022 Financial Statement approval  <b>Directors:</b> 15 <b>Executive director:</b> 2 <b>Independent directors:</b> 8	<b>Board committees:</b> 5  Strategies Committee - Appointments and Successions Committee - Related-Parties Transactions Committee - Remuneration Committee - Audit, Risks, Sustainability and Corporate Governance Committee
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The provisions contained in the Articles, to which reference is made, regarding the appointment and replacement of directors are summarised below.

### 4.2.1 APPOINTMENT AND REPLACEMENT

Pursuant to art. 10 of the Articles, the Company is managed by a Board of Directors made up of a maximum of fifteen members, who remain in office for three years and who may be re-elected.

The Board of Directors is appointed on the basis of slates presented by the shareholders, in which the candidates must each be listed with a sequence number. The Bylaws do not allow the outgoing Board of Directors to submit a slate for the appointment of directors.

The slates presented by shareholders, signed by those submitting them, must be filed at the registered offices of the Company at least twenty-five days prior to the date fixed for the Shareholders' Meeting called to resolve in that regard. These slates are made available to the public at the registered offices, on the Website and in other ways prescribed by Consob regulation, at least twenty-one days prior to the date of the Meeting.

Each shareholder may present or contribute to the presentation of just one slate and each candidate may be included in just one slate, subject otherwise to becoming ineligible.

Shareholders are only entitled to present slates if, alone or together with other shareholders, they own shares in total representing at least 1% of the share capital entitled to vote at an Ordinary Meeting, or any lower amount specified in the applicable regulations, with the obligation to evidence their ownership of the number of shares needed for the presentation of slates by the deadline envisaged for the publication of such slates by the Company.

Each slate filed must be accompanied by acceptances of nomination and declarations from each candidate confirming, under their own responsibility, that there are no reasons making them ineligible for or incompatible with the role, and that they satisfy any requirements established for the role concerned. These declarations must be accompanied by the *curriculum vitae* of each candidate,



describing their personal and professional characteristics, indicating the administration and control appointments held by them in other companies and confirming their satisfaction of the independence requirements envisaged for the directors of listed companies by law or by the code of conduct adopted by the Company. In order to ensure gender balance, slates that contain three candidates must include candidates of different genders, whilst slates containing a number of candidates equal to or higher than four must contain a number of candidates of different gender at least matching the minimum laid down in current regulations, in accordance with the content of the notice of the Shareholders' Meeting. Any changes arising prior to the actual date of the Meeting must be promptly notified to the Company.

Any slates presented that do not comply with the above instructions will be treated as if not presented.

Each party entitled to vote may only vote for one slate.

The Board of Directors is appointed as follows:

- a) four-fifths of the directors to be elected are drawn from the slate that obtains the majority of the votes expressed by the shareholders, rounded down to the nearest whole number in the case of a fractional number;
- b) the remaining directors are drawn from the other slates, using the quotient method described in the Articles.

Should several candidates obtain the same quotient, the candidate elected will be drawn from the slate that has not yet elected a director or that has elected the smallest number of directors.

If none of those slates has elected a director yet or all of them have elected the same number of directors, the candidate elected will be drawn from the slate that obtains the largest number of votes. In the event of a voting tie, again with more than one candidate obtaining the same quotient, the Shareholders' Meeting will vote again and the candidate who receives the largest number of votes will be elected.

If only one slate is presented, all the directors will be elected from that slate.

Should application of the slate voting mechanism not ensure the minimum number of directors belonging to the less represented gender set out by applicable law, the candidate belonging to the most represented gender and elected, indicated in the slate that obtained the largest number of votes, shall be replaced by the first candidate belonging to the less represented gender not already elected, drawn from that slate pursuant to the sequential order of presentation and so on, for each slate (solely for slates that contain three or more candidates) until the minimum number of directors belonging to the less represented gender has been obtained. If the above procedure does not ensure the result specified above, the replacement shall be made by resolution of the Shareholders' Meeting, adopted by the relative majority of the votes expressed, following presentation of the candidacies of persons belonging to the less represented gender.

Should application of the slate voting mechanism not obtain the minimum number of independent directors envisaged by applicable law, the non-independent candidate elected indicated with the highest progressive number in the slate that obtained the largest number of votes shall be replaced by the first independent candidate not already elected from that slate following the sequential order of presentation, and so on for each slate until the minimum number of independent directors has been obtained, in all cases in compliance with the applicable law governing gender balance.

Loss of the independence requirements by a director is not a cause of removal if the number of directors still in possession of the legal independence requirements is not lower than the minimum specified by the laws and/or regulations in force.

For the appointment of directors who, for any reason, were not appointed in accordance with the slate voting mechanism, the Shareholders' Meeting shall adopt resolutions with the majorities required by law, without prejudice in all cases to compliance with the independence and gender balance requirements.

Should one or more directors cease to hold office during the financial year, they shall be replaced pursuant to art. 2386 of the Civil Code, without prejudice in any event to respect for the legislation on gender balance and the independence of the directors.

### **4.3 COMPOSITION**

The Board of Directors in office at the Report Date was appointed by the Shareholders' Meeting on 22 June 2020 and reflects the terms of the Shareholders' Agreement.

The Board of Directors is composed of 15. In particular:

- Chairman Ning Gaoning, Marco Tronchetti Provera (Executive Vice Chairman and Chief Executive Officer), Yang Xingqiang, Bai Xinping, Tao Haisu, Zhang Haitao, Domenico De Sole, Marisa Pappalardo, Giovanni Tronchetti Provera, Fan Xiaohua and Wei Yintao were appointed based on the slate submitted by MPI Italy S.r.l. together with Camfin, which obtained approximately 87% of the share capital votes represented at the Shareholders' Meeting;
- Directors Giovanni Lo Storto, Roberto Diacetti and Paola Boromei were appointed based on a slate submitted by a group of asset management companies and institutional investors that gained approximately 13% of the share capital votes represented at the Shareholders' Meeting;
- Director Giorgio Luca Bruno (Deputy CEO) was appointed – at the proposal of the Board of Directors – by the Shareholders' Meeting of 15 June 2021, obtaining around 84% of the share capital votes represented at the Meeting.

At the Report Date, 20% of Board members were female and the remaining 80% were male. Moreover, 27% are under the age of 50. The average age of the members of the Board is approximately 57 years of age and the average age of the female members is approximately 51 years of age. The Directors' average time in office is about 4 years<sup>76</sup>.

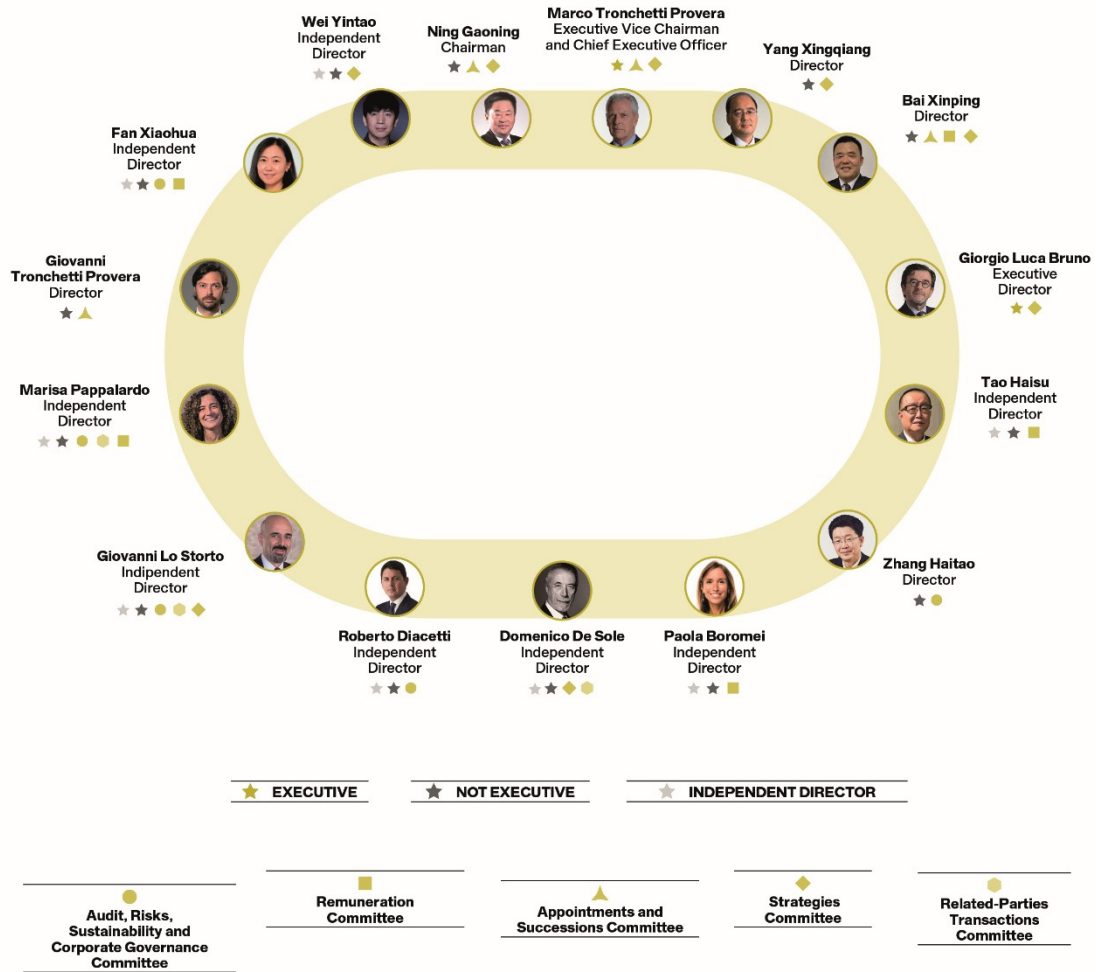
At the Report Date, the majority of the Board of Directors is made up of independent directors, ensuring that they have significant weight in the adoption of board resolutions.

Table 2, annexed, provides the significant information on each member of the Board of Directors in office at the Report Date. In addition, a summary of their professional profiles, periodically updated, is available on the Website.

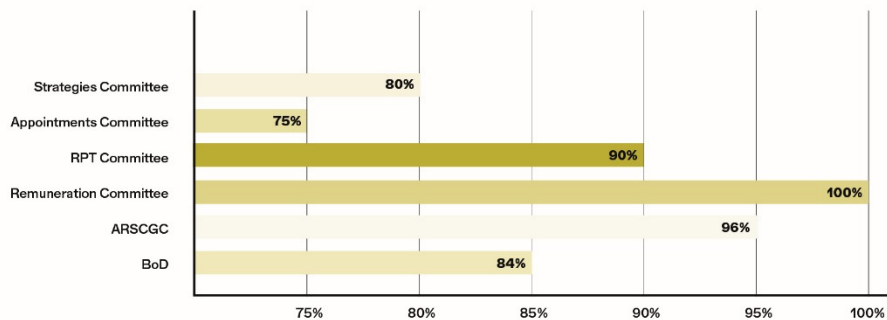
The following charts illustrate (i) the composition of the Board of Directors of the Company at the Report Date, as well as (ii) the average duration, (iii) the average shareholding and (iv) the number of meetings of the Board of Directors and each Committee during the Year.

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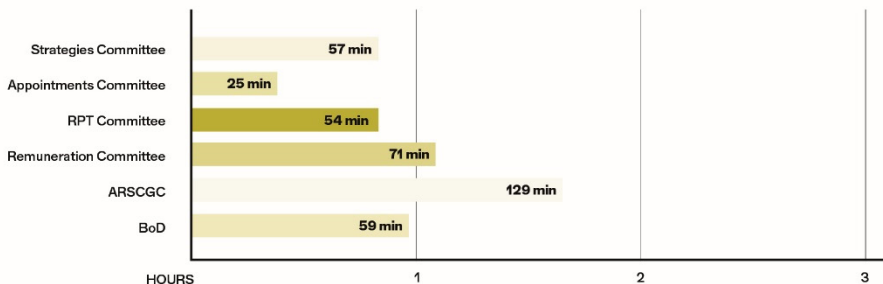
<sup>76</sup> It should be noted that for the purposes of calculating the tenure of the Board, the date of first appointment of each Director, indicated in Table 2, was considered.



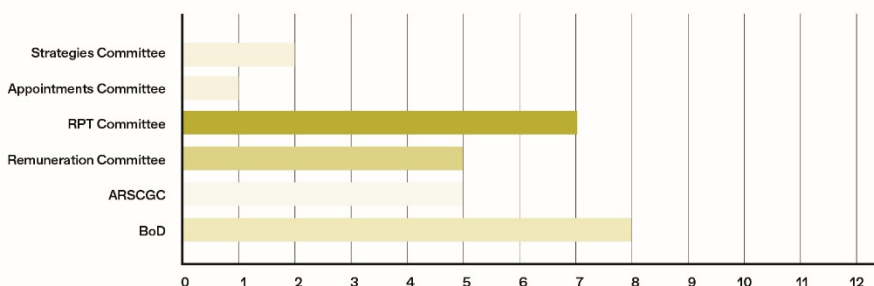
AVERAGE PERCENTAGE OF ATTENDANCE TO THE MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES



**AVERAGE LENGTH OF MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES**



**NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES**



**4.3.1 DIVERSITY POLICIES**

Pirelli is characterised by a multinational context in which people express a huge heritage of diversity. Conscious management of this diversity generates competitive advantages, opportunities for the development and enrichment of the business, and shared corporate values.

The respect of these values has always been guaranteed by the shareholders during the renewal of the Board of Directors - including the last renewal - in terms of age, gender, nationality, education and professional background and experience. This enables the Board to perform its duties in the most effective way, making use of the contributions made from different points of view, and to analyse individual situations from multiple perspectives.

On 14 February 2019, the Board of Directors – having obtained the favourable opinion of the Audit, Risks, Sustainability and Corporate Governance Committee and the Appointments and Successions Committee – adopted a Diversity and Independence Statement in relation to the composition of the Board of Directors and Board of Statutory Auditors. The Company recommends that these values are respected when its own corporate bodies are being renewed or integrated, in line with the stated diversity and independence criteria. On 22 June 2020, when the administrative body was renewed, the newly-elected Board of Directors adopted the “Diversity and Independence Statement”.

The Board of Directors - which avails itself of the opinions expressed by the Audit, Risks, Sustainability and Corporate Governance Committee and the Appointments and Successions

Committee - is responsible for the quali-quantitative assessment of the composition of the Board itself and the possible updating and amendment of the Diversity and Independence Statement.

In addition to the administration management and control bodies, the value of diversity characterises the entire business organisation, according to the terms and procedures outlined in the NFS Report published together with the Company's annual financial statements (which should be referred to for more information).

#### 4.3.2 LIMITATIONS ON THE NUMBER OF OFFICES HELD

Pursuant to the guidance adopted by the Board of Directors on 14 February 2019, subject to the favourable opinion of the Audit, Risks, Sustainability and Corporate Governance Committee and the Appointments and Succession Committee, it is not currently considered compatible with the duties of a Company director to be a director or statutory auditor of more than four other companies other than those subject to the direction and coordination of the Company, or its subsidiaries or affiliates, in the case of: (i) companies listed on the FTSE/MIB index (or equivalent foreign index); or (ii) Italian or foreign companies, subject to the supervision of the competent authorities, that carry out financial, banking or insurance activities. Furthermore, it is not considered compatible for the same director to hold more than three executive positions in companies of the types indicated in points (i) and (ii) above.

Positions held in several companies belonging to the same group are considered to be a single position and an executive position prevails over a non-executive position.

The Board of Directors is entitled to make a different assessment, properly motivated, to be published in the Report and explained appropriately therein.

The guidance regarding the maximum number of offices considered compatible with effective performance as a Company director was last supplemented with purely formal amendments to take into account the provisions of the Corporate Governance Code (replacing the previous provisions) and – together with the "Diversity and Independence Statement" referred to in the paragraph above – the documents were confirmed by the Board of Directors on 17 March 2022, subject to the favourable opinion by the Audit, Risks, Sustainability and Corporate Governance Committee.

Following review by the Audit, Risks, Sustainability and Corporate Governance Committee, each year the Board of Directors examines the positions held by each Director (based on the information provided by that person and/or on the other information available to the Company). At the Report Date, no Director holds a number of position higher than the number set out in the policy adopted by the Company on 14 February 2019.

Annex A indicates the principal appointments held by the Directors in companies that do not belong to the Group at the Report Date.

#### 4.3.3 INDUCTION PROGRAMME

The Directors perform their duties autonomously and with competence, pursuing the priority objective of creating sustainable value over the medium-long term. They are aware of the responsibilities pertaining to their role and, like the Statutory Auditors, they are kept periodically informed by the competent business functions about the principal regulatory and self-regulatory changes affecting the Company and the performance of their duties.

Also during the Year, induction sessions were arranged, also with the support of the top management and, given the recent renovation of the Board of Statutory Auditors, an explanation was provided of the main characteristics of the activities of Pirelli and its Group and (including through the work of the committees) the reference legislative and regulatory framework and specific rules and procedures adopted by the Company.

The specific initiatives undertaken during the Year include the induction activities, held on 27 January, 13 July, 18 October and 15 December, which respectively covered issues relating to internal organisation, and specifically: (i) a description of the organisational structure and a focus on the compensation institutes adopted by the Company; (ii) the integration of sustainability issues in the Company's strategy; (iii) communication and cyber security strategies; (iv) the Company's digitalisation strategies; (v) issues relating to Research and Product Development as well as an illustration of the Company's strategies for business risk management. In this context, Directors (independent directors in particular) and Statutory Auditors had the opportunity to have direct encounters with the Company's principal managers (who as a rule normally attend the meetings of the Board of Directors and the committees).

#### 4.4 FUNCTIONING OF THE BOARD OF DIRECTORS

Meetings of the Board of Directors are called by the Chairman or his deputy and held at the registered offices, or in any another location specified in the notice of call, whenever deemed appropriate by the Chairman in the interests of the Company, or when requested in writing by the Chief Executive Officer or by one-fifth of the appointed Directors. Meetings of the Board of Directors may also be called by the Board of Statutory Auditors, or by each standing auditor, following notification sent to the Chairman of the Board of Directors.

During the Year the Board of Directors in office at the Report Date met eight times. The average duration of each meeting was approximately 59 minutes, with attendance by around 84% of the Directors and 98% of the Independent Directors. The independent directors were able to have informal meetings in the terms illustrated in the preceding paragraph. In view of the health emergency, meetings during the year were held primarily via audio/video link.

For the 2021 financial year and for the current year, Pirelli disclosed a calendar of the main corporate events to the market (also available on the Website). For the 2022 financial year, the Board is scheduled to meet at least 5 times (at the Date of the Report two meetings had already been held).

The means of organisation and the internal functioning of the Board of Directors are governed by the Regulations on the Functioning of the Board of Directors adopted on 22 June 2020 in line with the recommendations of the Corporate Governance Code (“**Board Regulations**”) available on the Website. The Board Regulations establish the deadlines for the prior submission of information and procedures for protecting the confidentiality of the data and information provided so as not to compromise the timeliness and completeness of the information flows.

In line with the Board Regulations, the Directors and Statutory Auditors received the documentation and information needed to express an informed opinion on the matters submitted for discussion within a reasonable and appropriate period in advance. As a rule, the documentation to be examined by the Board and Committees is sent ten days prior to the meeting unless specific requirements do not allow such timeframe: in such case, the documentation shall be sent as soon as it is available. In the limited and exceptional cases in which documentation could not be transmitted so far in advance (or was transmitted closer to the meeting), full information on the issue to be considered was provided directly during the meeting, thus ensuring that the Directors could make informed decisions. Particular attention is paid to ensuring that information remains confidential, by sending the documentation relating to the activities of the board and its committees using specific software that guarantees that access is reserved to the directors and statutory auditors only. This is in line with best practice and with the recommendations of the Italian Corporate Governance Committee.

Taking account of the international composition of the Board of Directors, with the presence of multiple nationalities, it is also the Company’s practice to proceed to send the documents to be considered by the Board and its Committees in the three languages (Italian, English and Chinese) commonly used by the Directors. Furthermore, for each meeting of the Board of Directors and Committees, participants are able to use a simultaneous translation of interventions made in the languages spoken by the attendees.

In order to facilitate minute taking, the Board meetings may be recorded; said recordings shall then be destroyed once the minutes have been transcribed into the applicable corporate register.

If the Chairman is absent or unavailable, upon request by the Chairman, the meeting may be chaired by the Vice Chairman or CEO, where appointed; should the latter also be absent or unavailable, another director, appointed by the majority of the attendees, may assume the Chair.

For the resolutions of the Board of Directors to be valid, a majority of its members must be present, and resolutions must obtain a majority of the votes expressed.

The Directors’ growing awareness of the business reality and dynamics of the Company and the Group is enhanced by the attendance of top management at their meetings, which allows them to explore the matters on the agenda in appropriate depth.

The Articles establish that, until decided differently at a Shareholders’ Meeting, the Directors are not bound by the prohibition contained in art. 2390 of the Civil Code.



#### 4.4.1 SECRETARY OF THE BOARD

In line with the recommendations of the Corporate Governance Code, the Board Regulations allow the Board of Directors to appoint the Secretary by assessing that he/she satisfies the necessary professional requirements. The Board Secretary supports the activities of the Chairman and/or Vice Chairman and provides impartial assistance and advice to the Board of Directors on all aspects relevant to the proper functioning of the corporate governance system. In particular, the Secretary shall support the Chairman and/or Vice Chairman of the Board of Directors, in order to ensure that:

- a) the pre-meeting information is accurate, complete and clear and the complementary information provided during meetings allows directors to act in an informed manner;
- b) the activities of the board committees are coordinated with the activities of the Board of Directors;
- c) the top management of the Company and of companies of the same Group may participate in board meetings, as well as the heads of the company departments in order to provide appropriate updates on the items on the agenda;
- d) after their appointment and during the mandate of the board, all Directors may participate in specific induction activities;
- e) the board evaluation is adequate and transparent.

#### 4.4.2 BOARD OF DIRECTORS SELF-ASSESSMENT PROCESS

The analysis of the results of the aforementioned board performance evaluation evidenced a broadly positive situation. In fact, a very high level of overall appreciation was reported, in line with the previous financial year. In particular, the Directors expressed full satisfaction and appreciation of the size, composition and operation of the Board of Directors and its Committees. It was also highlighted that the Board operates in compliance with the Corporate Governance Code and with both Italian and international best practice. Moreover, the areas of excellence that had emerged during the previous financial year's self-assessment activities have been confirmed overall. The areas for which the most appreciation was reported are outlined below:

- the effectiveness of the support provided by the Secretary of the Board;
- appropriate preparation of the Agendas to support Board meetings, which prove to be complete with all the topics that need to be brought to the attention of the Board;
- high quality of the documentation supporting the Board of Directors' meetings, considered clear and complete;

- high quality of the minutes of the works of the Board of Directors and the Committees, which prove to be accurate and complete with respect to the progress of the meetings;
- a guarantee of confidentiality regarding the issues discussed during the meeting;
- effectiveness of the activities put in place to manage the pandemic situation;
- effectiveness, continuity and transparency of the exchange of information on corporate strategy between Directors and management;
- appropriate frequency and duration of meetings.

The Directors particularly appreciated: (i) the mix of skills, (ii) the authority and commitment by the VP and CEO in guiding the works of the Board and (iii) the relationship with management based on openness, transparency and positivity aimed at providing constant support to the needs put forward by the Directors concerning a progressive deepening of their knowledge of the business, achieved through the preparation of presentations focused on the most relevant aspects, and (iii) the Company's attention to sustainability topics, ensuring their systematic integration with Pirelli's development plans.

The investigation also produced a number of suggestions for further improving the operation of the Board, including, in particular, (i) striking an adequate balance in the time devoted to presentation and debate during Committee and Board meetings, and developing opportunities for informal meetings of the directors, so as to encourage reciprocal knowledge and further strengthen interpersonal relations and team spirit as well as a constant exchange of ideas and personal contributions and (ii) greater attention and focus by the Board on sustainability topics, including, in particular, occupational health and safety as well as responsible procurement and end-of-cycle tyre recycling issues.

The Audit, Risks, Sustainability and Corporate Governance Committee played a leading role in the board performance evaluation and shared the results in advance at the meeting of 14 March 2022, which were subsequently submitted to the Board of Directors.

#### 4.4.3 MATTERS FOR THE BOD

In accordance with the Articles, the Shareholders' Meeting requires a qualified majority (*i.e.* favourable votes by shareholders representing at least 90% of the share capital of the Company) for the Board to be authorised to resolve on the following issues:

- transfer of the operational and administrative headquarters outside of the municipality of Milan;
- any transfer and/or deed of disposition, in any form, of Pirelli know-how (including the granting of licences).

On 22 June 2020, the Board of Directors established that all resolutions regarding the following matters, proposed by Pirelli and/or by any company subject to direction and coordination by Pirelli (excluding intergroup transactions) must (also as an internal restriction of the power granted to the Chief Executive Office on that date) be approved by the Board of Directors of the Company:

- (i) assumption or concession of loans worth more than Euro 200,000,000 and with a term of more than 12 months;
- (ii) issue of financial instruments for listing on a European or non-European stock market for a value in excess of Euro 100,000,000 and revocation from listing of such instruments;
- (iii) concession of guarantees in the favour of third parties for amounts in excess of Euro 100,000,000. For the sake of completeness, please note that the concession of guarantees in the interests of third parties other than the Company, its subsidiaries and joint ventures, must be subject, in any case, to the approval of the Pirelli Board of Directors;
- (iv) signing derivative contracts (a) with a notional value higher than Euro 250,000,000 and (b) except for those having the sole object and/or effect of hedging corporate risks (e.g. interest-rate risk, exchange-rate risk, commodity market risk). For the sake of completeness, please note that the stipulation of speculative derivative contracts is in any case subject to the approval of the Pirelli Board of Directors;
- (v) purchase or sale of equity investments in subsidiary and affiliates for an amount higher than Euro 40,000,000, which involve entering into (or exiting from) geographical and/or commodity markets;
- (vi) purchase or sale of equity investments other than those described at point (v) above for an amount higher than Euro 40,000,000;
- (vii) purchase or sale of businesses or business units that have strategic importance or, in any case, a value of more than Euro 40,000,000;
- (viii) purchase or sale of fixed and other assets that have strategic importance or, in any case, a value of more than Euro 40,000,000;
- (ix) carrying out transactions of greater significance with related parties, using the term “related party transactions” to mean those satisfying the conditions envisaged in Annex 1 to the “Related Party Transactions Procedure” approved by the Pirelli Board of Directors on 3 November 2010, as amended over time;
- (x) definition of Pirelli’s remuneration policy;
- (xi) determination of the remuneration of CEOs and directors holding special offices, in compliance with Pirelli’s internal policies and applicable regulations

- (xii) and, where required, the allocation of the total remuneration set by the Shareholders' Meeting among Board members;
- (xiii) approval of the strategic, industrial and financial plans of Pirelli and the group;
- (xiv) adoption of corporate governance rules for Pirelli and defining guidelines for the corporate governance of the group;
- (xv) definition of guidelines for the internal control system, including the appointment of a Director responsible for overseeing the internal control system, determining the related powers and duties;
- (xvi) any other matter deemed to be responsibility of the board of directors of a listed company by the Corporate Governance Code promoted by Borsa Italiana<sup>77</sup>, as amended from time to time.

It being understood that the approval of the transactions listed above is reserved solely to the Board of Directors not only if the threshold indicated for each matter has been reached, but also if the matters listed from (i) to (vii) – whether considered a single action or as a series of coordinated actions (carried out in the context of a common executive programme or a strategic project) – exceed the amounts indicated in the annual budget/business plan or (solely for the matters listed from (i) to (viii) above) if they were not included, listed or envisaged in the annual budget/business plan.

As required by the Corporate Governance Code<sup>78</sup>, the Board of Directors gave a positive assessment of the adequacy of the Company's organisational, administrative and accounting systems and structure, with particular reference to the system of internal control and risk management, referring to the analytical work carried out by the Audit, Risks, Sustainability and Corporate Governance Committee.

The Board has also evaluated the general results of operations, taking into particular account the information received from delegated bodies and comparing periodically, at least every quarter, the results obtained with those planned.

The Board of Directors – also in light of the considerations set out in the Letter from the Chairman of the Borsa Italiana Corporate Governance Committee (see section 18 of the Report) – deemed the Company's current Bylaw provisions and practices to be adequate for effective governance of the Company and for achieving the Company's interests.

#### **4.5 EXECUTIVE DIRECTORS**

With resolution dated 22 June 2020, the Board of Directors granted the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera with all the powers necessary to carry out

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<sup>77</sup> Refer here to the Corporate Governance Code.

<sup>78</sup> See Recommendation 33 (a).

deeds relating to all aspects of corporate activity, without any exceptions aside from those that the law or the Articles reserve to the Board of Directors; all with the power to grant special and general powers of attorney that give the representative the right to sign on behalf of the Company, either separately or together with others, and all other powers deemed appropriate by him in the best interests of the Company, including the right to sub-delegate. In particular, the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera was granted:

- a) exclusive powers of ordinary management of Pirelli and the Group both for Pirelli and any other company (including non-listed foreign companies) under Pirelli's management and coordination, with the following internal limitations, i.e. with the attribution of the relevant competence to the Board of Directors where:
  - (i) the threshold amounts envisaged for each of the matters indicated in section 4.4.3 are exceeded; or
  - (ii) for the matters listed from (i) to (viii) in section 4.4.3 above, the amounts indicated in the business plan and/or the annual budget are exceeded; or
  - (iii) for the matters listed from (i) to (viii) in section 4.4.3 above, they were not included, listed or envisaged in the business plan or the annual budget; and
- b) the powers for the supervision and implementation by the General Manager and Management team of the business plan and the power to propose to the Board of Directors adoption of the following resolutions (together, the "**Significant Matters**"):
  - (i) approval of the business plan and the annual budget of the Company and the Group, as well as all significant changes to those documents. The business plan and annual budget must: (a) address certain operational and financial aspects of Pirelli including, but not limited to, identifying all sources of funding for such business plans and budgets, as well as the decisions about the industrial initiatives underlying the business plan and annual budget; and (b) be accompanied and supported by adequate and suitable documentation describing the items contained therein;
  - (ii) any resolutions regarding industrial partnerships or strategic joint ventures to which Pirelli and/or any Group company are party, in all cases following examination by the Strategies Committee,

it being understood that: (a) the power to pass resolution on Significant Matters is reserved solely for the Board of Directors and/or the Shareholders' Meeting, as applicable; and (b) should the Board of Directors not approve the proposal of the Executive Vice Chairman and Chief Executive Officer, the respective resolution must be justified and, in any case, take into account the Company's best interests.

The Executive Vice Chairman and Chief Executive Officer hold the power to propose to the Board the appointment and revocation from the office of Key managers of Pirelli, as identified in accordance with the related internal procedure and, therefore, the following Pirelli employees: (i) the General

Manager, (ii) the Manager responsible for drawing up corporate financial documents; (iii) all positions currently defined as Executive Vice President and (iv) the Secretary of the Company's Board of Directors.

The Chief Executive Officer ordinarily reports on the activity carried out during board meetings.

In light of the above, Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera is identified as executive director.

On 15 June 2021, by resolution of the Board of Directors, Mr Giorgio Luca Bruno was appointed Deputy CEO of the Company and, at the same time, was granted powers for the Company's operational management, to be exercised vicariously. As such, Deputy-CEO Giorgio Luca Bruno is qualified as an executive director.

At the Report Date, it should be noted that in addition to the Executive Vice Chairman, Chief Executive Officer and Deputy-CEO, Pirelli classifies as executive directors those directors who at the same time qualify as Key Managers of the Company where present, or Directors who also hold office as Chief Executive Officer or Executive Chairman of Pirelli's main subsidiaries.

It should also be noted that the office of the Chairman of the Board of Directors does not qualify as 'executive' given the governance structure and powers granted to the Executive Deputy Chairman and Chief Executive Officer.

#### **4.6 INDEPENDENT DIRECTORS**

At the Report Date, eight of the fifteen members (and therefore over 50%) of the Board of Directors<sup>79</sup> satisfied the requirements to qualify as independent pursuant to the Corporate Governance Code and the TUF, namely: Paola Boromei, Domenico De Sole, Roberto Diacetti, Tao Haisu, Giovanni Lo Storto, Marisa Pappalardo, Fan Xiaohua and Wei Yintao. Upon appointment and thereafter on at least an annual basis, the Board evaluates whether or not members meet and/or retain the requirements of independence specified in the Corporate Governance Code and the TUF for non-executive directors who qualify as independent. This check – which takes account not only of the information provided by the directors themselves but also further information that might be available to the Company, referring to the requirements set out in the TUF, as well as to those recommended in the Corporate Governance Code – was most recently carried out during the board meeting on [14] March 2022.

In making its assessments, the Board did not derogate from any of the criteria prescribed by the Corporate Governance Code.

At the same time as the assessments made by the Board of Directors, the Board of Statutory Auditors confirmed that, in line with the recommendations of the Corporate Governance Code, it had verified

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<sup>79</sup> For the sake of completeness, it should be noted that Giovanni Tronchetti Provera is a senior manager of the Company

the proper application of the assessment criteria and ascertainment procedures adopted by the Board of Directors to assess the independence of its members.

On 25 February 2021, the Board of Directors – upon the proposal of the Audit, Risks, Sustainability and Corporate Governance Committee – approved the “Statement regarding independence” to pre-establish the qualitative and quantitative criteria to be used in assessing the independence of Directors and Statutory Auditors.

Said Statement: (i) establishes the qualitative and quantitative criteria used to assess the independence of directors for the purposes of the Corporate Governance Code and, in particular, the parameters of significance of any economic, professional or financial relationship pertaining to directors whose independence is being assessed; and (ii) explains in detail certain interpretative criteria relating to the other cases of independence referred to in the Corporate Governance Code, including the notion of “significant additional remuneration”.

In particular, the Company’s Board of Directors has set the following thresholds of significance for the relationships under examination:

- With reference to the concept of “significant business, financial or professional relationship” as per letter c) above, this includes advisory roles or any other role – with the exception of non-executive corporate offices held within the group, relevant for the significant additional remuneration according to the criteria indicated below – that has led, for the director or statutory auditor whose independence is being examined, or their close family members, to economic compensation in the calendar year greater than (i) Euro 300 thousand in the case of relationships held with undertakings or organisations, over which the director, statutory auditor or close family member has control or is a relevant member, or of the professional firm or association or advisory company where such individuals are a partner, shareholder or associate, in the case of a relationship held with these undertakings, organisations, advisory companies or professional firms and associations; (ii) Euro 100 thousand for relationships held directly with natural persons. In the case of a partnership in a professional firm or consulting company, the possible impacts on the position and role of the person under examination should be assessed.
- with regard to the concept of “additional significant remuneration” referred to in Recommendation 7(d) of the Corporate Governance Code, this includes all remuneration paid for whatever reason during the calendar year, by the Company, by a (direct or indirect) subsidiary or parent company of the Company, that cumulatively exceeds the total amount of remuneration for the office or remuneration for participation in board committees paid to the director, and of remuneration for the office of member of the Board of Statutory Auditors, whose independence is being assessed.

None of the Directors qualified as independent at the date of their appointment had lost this status during their term of office.

Considering the above, the powers system, the share ownership structure and the provisions on this subject set out in the Corporate Governance Code, independent directors have not yet deemed it necessary to make a proposal to the Board of Directors to appoint a lead independent director.

The independent and non-executive directors contribute to the Board and committee discussions, bringing their specific skills, and, given their number, have a decisive weight in the decision-making process of the Board of Directors and the committees in which they take part.

Independent directors meet at least once a year in the absence of the other directors, in order to analyse issues of particular importance, such as the functioning of the Board of Directors or company management.

During the Year, the independent directors met for the induction sessions arranged by the Company (referred to in section 4.3.3 above).

## 5. PROCESSING OF CORPORATE INFORMATION

Pirelli has adopted and consolidated over time a compendium of rules and procedures for the proper management of corporate information, in compliance with the regulations applicable to the various types of data.

With reference to the prevention of market abuses, the Board of Directors of Pirelli has adopted a procedure for defining the principles and rules for preventing such abuses by Pirelli, Group companies and their related parties (the “**Market Abuse Procedure**”).

In particular, the Market Abuse Procedure (available on the Website) governs: (a) the management of “significant information”, meaning information that may become “inside information” pursuant to art. 7 of Regulation (EU) 596/2014 (“**Inside Information**”); (b) the management and communication to the public of Inside Information; (c) the creation, keeping and updating of the register of persons who, in view of their working or professional activities or the functions they perform, have access to Inside Information; (d) the obligations regarding transactions in the shares of the Company, credit instruments issued by the Company and the derivative or other financial instruments linked to them, by parties deemed to be senior decision-makers (“internal dealing”); (e) the operational procedures and scope of application of the prohibition imposed on the Company and the persons who perform administrative, control or management functions for the Company regarding the execution of transactions in Pirelli shares, credit instruments issued by Pirelli and the derivative or other financial instruments linked to them during predetermined periods (“black out periods”); (f) any market soundings carried out or received in compliance with art. 11 of Regulation (EU) 596/2014 and the related enabling regulations.

The Market Abuse Procedure also defines rules for transactions carried out by “*Significant Parties*” or by “*Persons Closely Related to Significant Parties*” in financial instruments issued by the Company, with an annual amount of at least Euro 20,000, in compliance with the applicable current regulations. In this regard, a black-out period of 30 calendar days is imposed prior to the



announcement by the Company of the data contained in the annual, half-yearly and periodic financial reports required by the legislation in force at the time,<sup>80</sup> during which the relevant persons referred to in the procedure are expressly forbidden from carrying out transactions on such financial instruments.

## 6. BOARD COMMITTEES

The role of the board committees is to carry out analyses for, make recommendations to and/or give advice to the Board in relation to matters deemed worthy of further investigation, in order to ensure that there is an effective and informed exchange of opinions about them.

Given also the recommendations and principles contained in the Corporate Governance Code, at the meeting on 22 June 2020 the Company's Board of Directors established the Strategies Committee, the Appointments and Succession Committee, the Audit, Risks, Sustainability and Corporate Governance Committee, the Remuneration Committee and the Related-Party Transactions Committee.

The composition of the Related-Party Transactions Committee was amended by way of a subsequent resolution passed on 5 August 2020 following the resignation of Director Secchi as of the same date. Moreover, the composition of the Strategies Committee was amended following the resignation of Angelos Papadimitriou (previously coopted) as of 24 March 2021 and, subsequently supplemented with the appointment of Director Giorgio Luca Bruno as a member of the Committee as of 15 June 2021.

When choosing the Committee members, the Board of Directors considered as a priority the skills and experience acquired by each director in the subjects under discussion, distributing the appointments in order to avoid an excessive concentration of appointments being held by a limited number of people and to encourage the exchange of multiple viewpoints and perspectives.

### 6.1 FUNCTIONING OF COMMITTEES

The Committees are appointed by the Board of Directors (which also designates its Chairman and approves its rules of procedure) and remain in office for the entire mandate of the Board, meeting whenever deemed appropriate by the Committee Chairman, or when requested by at least one member, by the Chairman of the Board of Directors or by the Chief Executive Officer and, in any case, with the frequency needed to properly carry out their functions.

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<sup>80</sup> Annually - as a rule by the end of the year - the Company publishes the calendar of principal corporate events for the next financial year and promptly updates this calendar in the event of subsequent amendments.

The Strategies Committee meets at least quarterly and in any case prior to the Board of Directors meeting called to approve the annual budget and/or the business plan, receiving the related documentation at least 3 days prior to the meeting.

The Secretary of each Committee is the Secretary to the Board.

The meetings of the Committees shall be convened by notice sent to the participants by its Chairman or by the Secretary of the Committee by the Chairman.

The documentation is sent in good time to all members of the relevant Committee so that they can participate in the meeting in an informed manner (as a rule 10 days prior to the meeting).

Committee meetings are quorate when attended by the majority of appointed members and resolutions are adopted by the majority of those present. With regard to the meetings of the Appointments and Succession Committee regarding the succession of the Chief Executive Officer, the CEO casts the deciding vote in the event of a voting tie.

Committee meetings may be held by conference call; their minutes are taken by the Committee Secretary and recorded in the related minute book.

Committees - which may make use of external advisers in carrying out their functions - are granted adequate financial resources to perform their tasks with spending autonomy. The Related-Party Transactions Committee is entitled to obtain assistance, at the expense of the Company, from one or more independent experts selected by the Committee.

Committees are entitled to access relevant business information and company departments in the performance of their tasks, with support from the Secretary to the Board of Directors for this purpose.

The entire Board of Statutory Auditors is entitled to participate in the activities of the Audit, Risks, Sustainability and Corporate Governance Committee, Remuneration Committee and RPT Committee.

One member of the Board of Statutory Auditors is invited to attend the meetings of the Appointments and Succession Committee and Strategies Committee (usually the Chairman).

Further information about the number of meetings held by each Committee during the Year and about the attendance of each member at those meetings can be found in [Table 3](#) annexed to this Report.

## 6.2 STRATEGIES COMMITTEE

### STRATEGIES COMMITTEE

	Name and Surname	Office
	Ning Gaoning	Chairman of the Board of Director
	Marco Tronchetti Provera	Executive Vice Chairman and Chief Executive Officer
	Yang Xingqiang	Director
	Bai Xinping	Director
	Giorgio Luca Bruno	Executive Director
	Domenico De Sole	Independent Director
	Giovanni Lo Storto	Independent Director
	Wei Yintao	Independent Director

At the Report Date, the Strategies Committee is made up of 8 directors (including 3 independent directors): Marco Tronchetti Provera (Committee Chairman), Ning Gaoning, Yang Xingqiang, Giorgio Luca Bruno, Bai Xinping, Domenico De Sole, Giovanni Lo Storto and Wei Yintao.

The Strategies Committee has consultative and advisory functions in the definition of strategic guidelines and for the identification and definition of the terms and conditions of the individual operations of strategic importance. In particular, the Strategies Committee:

- supports the Board of Directors in examining the business plans of the Company and the Group, also based on an analysis of the relevant topics for value generation in the long term;
- helps the Board to assess transactions, initiatives and activities of strategic importance including, in particular:
  - o entry into new geographical markets and businesses;
  - o industrial alliances (e.g. joint ventures);

- special transactions (mergers, spin-offs, capital increases and capital reductions, except for those to cover losses);
  - investment projects;
  - industrial and/or financial restructuring projects and programmes.
- examines periodically the organisational structure of the Company and the Group, presenting any suggestions and opinions to the Board;
  - monitors and assesses managements' achievement of the Group's economic-financial targets over time on the basis of the information flows procedure set out below, proposing to the Board of Directors any actions and/or the adoption of corrections to achieve the economic-financial targets approved by the Board of Directors.

It is required that the Strategies Committee be the recipient of a specific and continuous flow of information from the Chief Executive Officer, assisted by the Secretary of the Company's Board of Directors for such purposes.

### 6.3 RELATED-PARTIES TRANSACTIONS COMMITTEE

RPT COMMITTEE

	Name and Surname	Office
	Marisa Pappalardo	Independent Director
	Domenico De Sole	Independent Director
	Giovanni Lo Storto	Independent Director

At the Report Date, the Related-Parties Transactions Committee is made up of 3 independent directors: Marisa Pappalardo (Chairman of the Committee), Domenico De Sole, and Giovanni Lo Storto.

The Related-Parties Transactions Committee has consultative and advisory functions in relation to related-party transactions in the terms laid down in the current regulations and the Procedure for Related-Parties Transactions (see section 10).

## 7. SUCCESSION OF DIRECTORS - APPOINTMENTS AND SUCCESSION COMMITTEE

### APPOINTMENTS COMMITTEE

	Name and Surname	Office
	Ning Gaoning	Chairman of the Board of Director
	Marco Tronchetti Provera	Executive Vice Chairman and Chief Executive Officer
	Bai Xinping	Director
	Giovanni Tronchetti Provera	Director

At the Report Date, the Appointments and Succession Committee is composed of 4 members: Marco Tronchetti Provera (Chairman of the Committee), Ning Gaoning, Giovanni Tronchetti Provera and Bai Xinping. As an exception to the Corporate Governance Code, the majority of members of this committee are non-executive directors (albeit not independent). This is because the committee addresses not only matters relating to appointments, but also those regarding top management succession; in addition, committee membership takes account of the fact that the Shareholders' Agreement Renewal has established a structured procedure for identifying the successor to Marco Tronchetti Provera as the Chief Executive Officer of Pirelli (see section 7.1 below).

In particular, the Appointments and Succession Committee:

- prepares opinions for the Board of Directors on the size and composition of the Board and makes recommendations about the professional roles whose presence on the Board is deemed appropriate;
- prepares opinions for the Board of Directors on the adoption and/or amendment by the Board of its orientation towards the number of appointments considered compatible with effective performance as a director of the Company;
- makes recommendations to the Board of Directors about any issues regarding application of the prohibition of competition envisaged in art. 2390 of the Italian Civil Code, should the Shareholders' Meeting - for organisational reasons - authorise in advance, on a general basis, exceptions to this prohibition;
- recommends candidates to the Board of Directors where it is necessary to co-opt new Directors;

- makes recommendations to the Board of Directors on any “emergency” succession plans for the most senior decision-makers;
- prepares opinions for the Board of Directors on the appointment (by co-option or otherwise) of candidates to the position of Chief Executive Officer;
- upon proposal of the Chief Executive Officer, identifies criteria for the succession plans covering top and senior management in general, in order to guarantee the continuity of business strategies.

It is noted that the task of overseeing the self-assessment process of the Board of Directors and Board of Statutory Auditors has been assigned to the Audit, Risks, Sustainability and Corporate Governance Committee.

## 7.1 SUCCESSION PLANS

As per the Shareholders’ Agreement, and to ensure the continuity of the Pirelli business culture, Marco Tronchetti Provera has been granted a leading role in the procedure for identifying his successor as the CEO of Pirelli.

On 26 July 2019, the Board of Directors of Pirelli detailed the procedure for the succession of Marco Tronchetti Provera in relation to the position he currently holds (the “**Succession Procedure**”). In particular, Pirelli’s Executive Vice Chairman and Chief Executive Officer will continue and complete the procedure for identifying his successor by 31 October 2022 so as to ensure a smooth transition. Where: (i) Marco Tronchetti Provera does not specify a candidate to the Appointments and Succession Committee or (ii) Marco Tronchetti Provera is for any reason unable to complete the aforementioned activities and the member appointed by MTP&C to the Appointments and Succession Committee, as specified by MTP&C, does not specify a candidate to the Appointments and Succession Committee, the foregoing provisions will cease to be effective and, as a result, CNRC may freely choose and propose its own successor candidate and include that candidate on the slate for the appointment of Pirelli’s new Board of Directors.

Following the completion of the succession procedure referred to above and the identification of the candidate, CNRC (and MTP&C to the extent possible) must (i) ensure that Pirelli’s shareholders’ meeting for the approval the financial statements at 31 December 2022 and for the appointment of the new Board takes place before the end of the third year following publication of the notice of call issued for the Pirelli shareholders’ meeting for the approval of the Company’s financial statements at 31 December 2019<sup>81</sup>, (ii) include the proposed candidate on the slate for appointment of Pirelli’s new Board of Directors and (iii) ensure, to the extent possible, that the non-independent directors vote at the first board meeting – to be held by the aforementioned deadline – for the proposed candidate as Pirelli’s new Chief Executive Officer. The procedure for the succession of Mr Marco

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<sup>81</sup> Occurred on 28 April 2020.

Tronchetti Provera was most recently confirmed and adopted by the Board of Directors on 22 June 2020.

## 8. REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION

### REMUNERATION COMMITTEE

	Name and Surname	Office
	Bai Xinping	Director
	Paola Boromel	Independent Director
	Fan Xiaohua	Independent Director
	Marisa Pappalardo	Independent Director
	Tao Halsu	Independent Director

Information about the 2022 remuneration policy and remuneration paid in 2021, and about the duties performed by the Remuneration Committee, can be found in the Remuneration Report drawn up pursuant to art. 123-ter TUF, which is made available to the public as envisaged by current laws and regulations, including by publication on the Website. It should be noted that said document also includes the information required by Article 123-bis, paragraph 1, letter i) of the TUF.

## 9. SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT - AUDIT, RISKS, SUSTAINABILITY AND CORPORATE GOVERNANCE COMMITTEE

The Company's internal control and risk management system is designed to contribute to the operation of a healthy and proper business, consistent with the objectives established by the Board of Directors, by identifying, managing and monitoring the principal risks faced by the Company. The internal control and risk management system allows the principal risks, and the reliability, accuracy, trustworthiness and timeliness of financial reporting to be identified, measured, managed and monitored.

Responsibility for the adoption of an adequate internal control and risk management system lies with the Board of Directors which, with the support of the Audit, Risks, Sustainability and Corporate Governance Committee, carries out the tasks assigned to it in the Corporate Governance Code. In particular, after consulting with the Audit, Risks, Sustainability and Corporate Governance Committee, the Board of Directors:

- (i) analyses and approves the compliance and audit plans scheduled for the following financial year;
- (ii) supervises the risk management process to ensure that the risks assumed in the course of business are in line with the Company's strategies; to this end, it establishes a risk appetite and sets guidelines for managing risks that may jeopardise the achievement of the Company's objectives, assessing their adequacy at least once a year;
- (iii) takes note of the risk analysis carried out by the Company's offices on a quarterly basis and of the risk assessment at least on the launch of the annual business plans and budgets;
- (iv) takes note of the progress of the tax risk monitoring and mitigation activities, as well as (at least annually) the tax operating plan and (every three years) the strategic tax plan.

The implementation of the strategies and guidelines adopted by the Board of Directors is then ensured by a pyramid structure of the departments involved in drafting the plans and activities mentioned above, thanks to constant interaction between the Board itself and the Company's top management which directs its work.

A more complete description of Pirelli's internal control system can be found in the Directors' report on operations. Additionally, in this regard, the Board of Statutory Auditors has issued a statement on the administration and accounting systems adopted by the significant subsidiaries of Pirelli to ensure that the information on the company's assets, business and finances required for the preparation of the consolidated financial statements is regularly received by the Pirelli's senior management and external auditor.

### **9.1 DUTIES OF THE MANAGING DIRECTOR IN RELATION TO THE ESTABLISHMENT AND MAINTENANCE OF THE INTERNAL CONTROL SYSTEM**

In its meeting of 22 June 2020, the Board of Directors appointed Mr Marco Tronchetti Provera as the person in charge of setting up and maintaining the internal control and risk management system.

The Executive Vice Chairman and Chief Executive Officer is tasked with supervising the functioning of the system of internal control and risk management and implementing the respective guidelines established by the Board of Directors, with support from the Audit, Risks, Sustainability and



Corporate Governance Committee, ensuring that all actions necessary for the implementation of the system are taken. In line with the recommendations of the Corporate Governance Code, he/she:

- ensures that the principal business risks are identified, taking account of the characteristics of the activities carried out by the Company and its subsidiaries, and submits them periodically to the Board of Directors for review;
- authorises execution of the guidelines formulated by the Board of Directors, supervising the design, implementation and management of the internal control and risk management system and constantly monitoring its adequacy and effectiveness;
- ensures that this system is adapted to any changes in operating conditions and the legislative and regulatory framework;
- may ask the internal audit function to carry out checks on specific operational areas and on compliance with internal rules and procedures in the execution of corporate transactions, while simultaneously notifying the Chairman of the Board of Directors, the Chairman of the Audit, Risks, Sustainability and Corporate Governance Committee and the Chairman of the Board of Statutory Auditors; and
- reports promptly to the Audit, Risks, Sustainability and Corporate Governance Committee on issues and critical situations identified during his work or otherwise brought to his attention, so that the Committee can take appropriate action.

## 9.2 AUDIT, RISKS, SUSTAINABILITY AND CORPORATE GOVERNANCE COMMITTEE

### ARSCGC

	Name and Surname	Office
	Fan Xiaohua	Independent Director
	Zhang Haitao	Director
	Roberto Diacetti	Independent Director
	Giovanni Lo Storto	Independent Director
	Marisa Pappalardo	Independent Director

At the Report Date, the Audit, Risks, Sustainability and Corporate Governance Committee was made up of 5 directors (four of whom are independent): Fan Xiaohua (Committee Chair), Zhang Haitao, Roberto Diacetti, Giovanni Lo Storto and Marisa Pappalardo. Directors Fan, Diacetti and Lo Storto have adequate experience in accounting and finance or in risk management.

The Audit, Risks, Sustainability and Corporate Governance Committee, which incorporates the functions of the “control and risks committee”, helps the Board of Directors to assess and make decisions relating to the internal control and risk management system, as well as the approval of periodic financial reports. In particular, the Audit, Risks, Sustainability and Corporate Governance Committee:

- assists the Board of Directors with:
  - a) defining guidelines for the internal control and risk management system, in keeping with the Company’s strategies;
  - b) evaluating, at least once a year, the adequacy of the internal control and risk management system with respect to the characteristics of the business and the risk profile assumed, as well as its effectiveness;
  - c) appointing and removing the head of the Internal Audit department, defining the remuneration of this figure in line with the company’s policies, ensuring that the same has adequate resources to perform its duties;
  - d) approving, at least once a year, the work plan drawn up by the head of the internal audit department and the head of the compliance department, after consulting with the control body and Chief Executive Officer;
  - e) assessing the adoption of measures aimed to ensure the effectiveness and impartiality of judgement of the other company departments involved in the controls, checking that they have adequate professionalism and resources;
  - f) assessing, having consulted the Board of Statutory Auditors, the results presented by the external auditor in any letter of recommendations and in the additional report addressed to the Board of Statutory Auditors;
  - g) describing, in the report on corporate governance, the main characteristics of the internal control and risk management system and the methods used to coordinate the various parties involved in said system, indicating the models and best national and international practices of reference, expressing its opinion on the overall adequacy of the same;
- assessing, having consulted the manager responsible for the preparation of the corporate financial documents as well as the firm appointed to undertake the external audit of the accounts and the Board of Statutory Auditors, the proper and consistent application of the accounting standards within the Group when preparing the consolidated financial statements;

- assessing the suitability of the periodic, financial and non-financial information, correctly representing the business model, the Company's strategies, the impact of its activities and the performances achieved in coordination with the Strategies Committee;
- examining the content of the periodic non-financial information relevant for the internal control and risk management system;
- expressing opinions on specific aspects concerning identification of the main company risks and supporting the assessments and decisions of the Board of Directors on the management of risks deriving from adverse facts that have come to the attention of the Committee;
- examining the periodic reports prepared by the internal audit manager and the manager of the compliance function;
- monitoring the autonomy, adequacy, effectiveness and efficiency of the internal audit function;
- requesting that the internal audit department, if deemed appropriate, perform checks in specific operational areas, notifying the Chairman of the Board of Statutory Auditors at the same time;
- reporting to the Board of Directors on the work performed and on the adequacy of the internal control and risk management system, at least at the time of approving the financial statements and the half-year report;
- monitoring compliance with and the periodic update of corporate governance rules, as well as compliance with any codes of conduct adopted by the Company and its subsidiaries; in particular, it is responsible for proposing the procedures and timeframes for the Board of Directors' annual self-assessment;
- monitoring the operations of the business in terms of their sustainability and the dynamics of the interactions of the business with all stakeholders;
- defining and recommending "sustainability" guidelines to the Board of Directors and monitoring compliance with any codes of conduct adopted by the Company and its subsidiaries.

### **9.3 INTERNAL AUDIT DEPARTMENT**

The Company has an Internal Audit Department, which has been assigned functions that are essentially in line with those provided for by the Corporate Governance Code.

In particular, the department is tasked with assessing the adequacy and functioning of the audit, risk management and Corporate Governance processes, by providing independent and objective assurance and advice.

The Internal Audit Department:

- audits, both on a continuous basis and in relation to specific needs and in accordance with international standards, the effective operation and suitability of the internal control and risk management system - suggesting any corrective actions required - by implementing an audit plan approved each year by the Board of Directors, based on a structured process of analysis and prioritisation of the principal risks;
- carries out audits, also at the request of the Audit, Risks, Sustainability and Corporate Governance Committee, the Board of Statutory Auditors and the Responsible Director, of specific operating areas and compliance with the internal procedures and rules in the execution of business operations;
- prepares periodic reports on its assessment of the suitability of the internal control and risk management system. These reports are sent, at least once every quarter, to the Board of Statutory Auditors, the Audit, Risks, Sustainability and Corporate Governance Committee, and the Director responsible for the internal control system, and, at least every six months, to the Board of Directors;
- receives and analyses reports obtained in accordance with the whistle-blowing procedures established by the Group and regarding any cases of corruption/violation of the principles of internal control and/or the precepts of the Code of Ethics, equal opportunities, corporate rules and regulations, or any other actions or omissions that, directly or indirectly, might result in economic or financial losses for or damage to the reputation of the Group and/or its subsidiaries;
- provides adequate support to the Supervisory Bodies established pursuant to art. 6 of Decree 231/2001;
- provides advice and support to the relevant Company departments – without exercising any decision-making or authorisation responsibilities – regarding *inter alia*: (i) the reliability of their systems for safeguarding corporate assets; (ii) the adequacy of their procedures for recording, controlling and reporting administrative activities; (iii) the assignment of engagements to the external auditor and to other firms in its network.

As mentioned in paragraph 9.2, it should be noted that the Audit, Risks, Sustainability and Corporate Governance Committee expresses an opinion on proposals concerning the appointment, revocation, assignment of duties and determination of the remuneration, consistent with Company policies, of the head of the Internal Audit Department, as well as on the adequacy of the resources allocated to the department in order to carry out the assigned functions.

The internal audit manager reports hierarchically to the EVP Corporate Affairs, Compliance, Audit and Company Secretary and functionally to the Audit, Risks, Sustainability and Corporate Governance Committee and to the Board of Statutory Auditors.

#### **9.4 COMPLIANCE DEPARTMENT**

Operating within the Corporate Affairs, Compliance, Audit and Company Secretary Department, the Compliance Department works with the Legal departments and other competent company departments to ensure that the company's internal regulations, processes and activities are constantly aligned with the applicable regulatory framework, playing an active role in identifying any non-compliance risks that might give rise to judicial or administrative penalties, resulting in reputational damage. For more details on the work carried out by the Compliance Department, see the paragraph of the NFS Report titled “231 Compliance, Anti-Corruption, Privacy and Antitrust Projects”.

#### **9.5 SYSTEM OF RISK MANAGEMENT AND CONTROL OVER FINANCIAL INFORMATION**

Pirelli has implemented a specific and structured risk management and internal control system supported by a dedicated IT application, in relation to control over the process to prepare the separate and consolidated half-yearly and annual financial reports. In particular, the financial reporting process is carried out by applying appropriate administrative and accounting procedures created in accordance with the criteria established by the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The administrative/accounting procedures adopted for the preparation of financial statements and all other financial disclosures are created under the responsibility of the Manager responsible for the preparation of the corporate financial documents (as defined in section 9.10 below), who – with support from the Compliance Department – periodically (and in any case, when the separate/consolidated financial statements are drawn up) checks their adequacy and proper application.

In order to permit certification by the Manager responsible for the preparation of the corporate financial documents, the companies and the significant processes that generate information of an economic-nature, or about corporate assets, have been mapped. The companies that are members of the Group and the significant processes are identified each year on the basis of quantitative and qualitative criteria. Quantitative criteria include the identification of those Group companies that represent an aggregate value, in relation to the processes selected, that exceeds a predetermined threshold of materiality.

Qualitative criteria include the review of those processes and of those companies that, as determined after much discussion by the Manager responsible for the preparation of the corporate financial documents, may present potential areas of risk despite not falling within the quantitative parameters described above.

Risks/control objectives have been identified for each selected process involved in the preparation of the financial statements and related disclosures, as well as with regard to the effectiveness/efficiency of the internal control system in general.

Detailed verification work has been planned, and specific responsibilities have been defined for each control objective.

A system for supervising the verification work undertaken has been implemented through a chain-of-certifications mechanism; any problems that emerge during the assessment process are the subject of action plans whose implementation is monitored at subsequent reporting dates.

Finally, the Chief Executive Officers and Chief Financial Officers of subsidiaries issue half-yearly statements attesting the reliability and accuracy of the data submitted for the preparation of the Group's consolidated financial statements.

Shortly before the Board meetings held to approve the consolidated data as of 30 June and 31 December, the results of the verification work are shared with the *Group's* Manager responsible for the preparation of the corporate financial documents.

The Internal Audit Department periodically verifies the adequacy of the design and the effective operation of the controls carried out on samples of companies and processes, selected applying materiality criteria.

## 9.6 TAX RISK CONTROL SYSTEM

The Group's management of and approach to the tax risk are defined and indicated in the principles and values of its Global Tax Policy, the document approved by the Board of Directors and made public on the Company's website. The Board of Directors is periodically informed about the progress of the monitoring, management and mitigation of the tax risks identified as part of the business activities carried out by the Group.

Moreover, since 2017, the Company has implemented and adopted a Tax Control Framework (**TCF**) in line with *international* best practice and in compliance with the Principles dictated by the OECD, i.e. a system for the detection, management and control of tax risks based on rules, principles and processes, which reaffirms the Group's commitment to strict compliance with tax regulations.

The soundness of the Company's TCF has been endorsed by the Italian Revenue Agency and certified with the Company being admitted (as of 2017) to the "**Cooperative Compliance**" Scheme – the new course in the relationship between tax authorities and taxpayers, a rewarding scheme to which only a few large Italian industrial and banking groups have been admitted.

The results of the risk management, control and mitigation activities, and the progress of dialogue with the Italian tax authorities are periodically reported through the Tax Risk Officer – a new position provided for under the Collaborative Compliance scheme, who is responsible for implementing and overseeing the Tax Control Framework for the purpose of controlling and mitigating tax risks – and

the Tax Affairs Department to the Audit, Risks, Sustainability and Corporate Governance Committee which, in turn, reports to the Board of Directors.

### 9.7 DIRECTOR RESPONSIBLE FOR SUSTAINABILITY TOPICS

On 22 June 2020, the newly appointed Board of Directors confirmed Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera as the Director Responsible for sustainability topics.

In that role, he will be responsible for supervising sustainability topics associated with the conduct of the activities of the company, and its dynamics of interaction with all the stakeholders, and for implementing the guidelines defined by the Board of Directors, with assistance from the Audit, Risks, Sustainability and Corporate Governance Committee.

### 9.8 MODEL 231 AND CODE OF ETHICS

The Company has adopted the organisation and management model envisaged by Decree 231 of 8 June 2001, as subsequently amended (the “**Model 231**”), in order to create a system of rules designed to prevent unlawful conduct that might be significant for the purposes of applying the above regulations and, as a consequence, has established a supervisory body (the “**Supervisory Body**”).

Model 231 – periodically updated by the Company in light of legislative developments – is made up of: (a) a general part covering topics relating, *inter alia*, to the applicability and application of Decree 231/2001, the composition and functioning of the Supervisory Body, and the system of penalties applicable in the event of breaches of the standards of conduct specified in Model 231, and (b) special parts containing the general principles of conduct and the control protocols for each type of identified offence deemed significant for the Company.

The Supervisory Board – appointed by the Board of Directors on 22 June 2020 and reshuffled by the Board of Directors on 11 November 2020 – is made up of: Carlo Secchi (Chairman), Antonella Carù (Standing Auditor) and Alberto Bastanzio (by virtue of his position as Executive Vice President Corporate Affairs, Compliance, Audit and Company Secretary). The Supervisory Body satisfies the autonomy, independence, professionalism and continuity of action requirements specified by law for that body.

Pirelli has adopted a Code of Ethics that sets out principles for the required conduct of directors, statutory auditors, executives and employees of the Group and, in general, all those that work in Italy and abroad on behalf of or for the benefit of the Group, or that engage in business relations with the Group, each in the context of their own functions and responsibilities.

An extract from Model 231 is available on the Website.

## 9.9 EXTERNAL AUDITOR

The firm engaged to perform the external audit of the Company accounts is PricewaterhouseCoopers S.p.A. (the “**Auditing Firm**”), with registered and administrative offices at Piazza Tre Torri 2, Milan, recorded on the Register of Auditors established pursuant to arts. 6 *et seq.* of Legislative Decree No. 39/2010.

Pirelli’s Ordinary Shareholders’ Meeting held on 1 August 2017 confirmed the firm’s appointment to perform the external audit of the accounts (originally made for three financial years on 27 April 2017), establishing that, with effect from the admission of Pirelli shares to trading on the MTA (now Euronext Milan) as of 4 October 2017, such appointment would entail: (i) the external audit of the accounts (including verification that the accounting records are properly kept and that the results of operations are properly reflected in the accounting entries) pursuant to articles 13 and 17 of Decree 39/2010 for the financial years 2017-2025, in relation to the separate financial statements of the Company, the consolidated financial statements of the Group and the additional related activities; and (ii) the limited examination of the condensed half-year consolidated financial statements of Pirelli for the six-month periods ending on 30 June 2018-2025.

In addition to carrying out the statutory audit, the Auditing Firm is also responsible for the limited audit of the sustainability performance data reported in the DNF Report in accordance with the criteria set out in ISAE 3000<sup>82</sup>.

For the sake of completeness, it should be noted that the Company has adopted Operating Rules to assign tasks to the Auditing Firm<sup>83</sup> which concerns – among other things – the procedures for assigning tasks other than the statutory audit to PricewaterhouseCoopers S.p.A. and members of its network (“**Other Engagements**”; i.e. other audit services, audit-related services and non-audit services). The Operating Rules establish a detailed procedure that requires prior approval of the Board of Statutory Auditors for the assignment of Other Engagements. In compliance with the provisions of Article 17 of Legislative Decree No. 39/2010 on the independence of the Auditing Firm, the Company also has a procedure in place to ensure compliance with the thresholds set out in art. 4, paragraph 2 of Regulation 537/2014<sup>84</sup>. To this end, during the meetings of the Board of Statutory

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<sup>82</sup> International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. For further information, please refer to the Auditors’ Report at the end of the Annual Report.

<sup>83</sup> Operating Rules “Engagement of Auditing Firms” adopted pursuant to Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation 537/2014. Directive No. 2014/56 was transposed by Legislative Decree No. 135/2016, which amended Legislative Decree No. 39 of 27 January 2010.

<sup>84</sup> “Where the statutory auditor or auditing firm supplies the entity being audited, its parent company or companies it controls – for a period of three or more consecutive financial years – with non-audit services other than those referred to in art. 5, paragraph 1 herein, the total fees for said services shall be limited to 70% of the average fees paid during the preceding three consecutive financial years for the statutory audit of the entity being audited and, where applicable, its parent company, controlled companies and the consolidated



Auditors regarding the approval of Other Engagements, specific documentation is provided to certify compliance with said thresholds. The details of the fees paid to the Auditing Firm are reported in the Explanatory Note on the financial statements.

#### **9.10 MANAGER RESPONSIBLE FOR THE PREPARATION OF THE CORPORATE FINANCIAL DOCUMENTS**

Following Mr Francesco Tanzi's resignation from the Company tendered on 7 September 2021 and effective as of 31 December 2021, the Board of Directors, in their meeting of 11 November 2021, assigned Mr Giorgio Luca Bruno – after a positive evaluation by the Strategies Committee and a favourable opinion of the Board of Statutory Auditors – the role of Manager responsible for the preparation of the corporate financial documents pursuant to art. 154-*bis* TUF (the "**Manager in Charge**"). The Board of Directors also verified in advance that the Manager in Charge is an expert in administration, finance and control matters and satisfies the integrity requirements established for directors.

The Manager in Charge puts suitable administrative and accounting procedures in place for the preparation of the separate and consolidated financial statements, as well as of all other financial communications.

The Company deeds and communications made public to the market that contain accounting information, including interim data, must be accompanied by a written declaration from the Manager in Charge confirming that it corresponds to the supporting documentation, records and accounting entries.

The term of office of the Manager in Charge expires at the same time as that of the Board of Directors which appointed him/her.

#### **9.11 COORDINATION BETWEEN THE PARTIES INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

As part of the internal control and risk management system, the Company provides for and promotes close coordination between the parties involved in the system, scheduling meetings at least once every six months for the Audit, Risks, Sustainability and Corporate Governance Committee, during which Directors are able to interact directly with the managers of the departments involved (Compliance, Audit, Risk Management and Cyber Security). The results of the Committee meetings are reported directly to the meetings of the Board of Directors on a regular basis.

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*financial statements of said group of companies. For the purposes of the limitations set out in the first paragraph, non-audit services other than those referred to in art. 5, paragraph 1 required by EU or Italian law shall be precluded".*

In order to ensure coordination between the Company's control systems, the meetings of the Audit, Risks, Sustainability and Corporate Governance Committee are periodically held jointly with the Supervisory Board, the Board of Statutory Auditors and the Chairmen of the Boards of Statutory Auditors of the subsidiaries.

For further information, please refer to the dedicated section in the Report on Operations of the Financial Statements.

## **10. INTERESTS OF THE DIRECTORS AND RELATED-PARTIES TRANSACTIONS**

In compliance with the provisions of art. 2391-*bis* of the Italian Civil Code and the Related-Parties Regulations, on 15 June 2021 the Board of Directors – following the unanimous favourable opinion expressed by the Related-Parties Transactions Committee – passed resolution to adopt the procedure for related-party transactions (the “**RPT Procedure**”)<sup>85</sup> with effect from 1 July 2021.

The RPT Procedure establishes rules for the approval and execution of the related-parties transactions arranged directly by Pirelli or by its subsidiaries.

The full text of the RPT Procedure is available on the Website. Periodically and at least every three years, the Board of Directors - having received the opinion of the Related-Parties Transactions Committee - considers the need to revise the RPT Procedure.

A special section of the financial statements shows the principal transactions with related parties undertaken by the Company.

Every six months, a report on the application of the RPT Procedure, drawn up by the Compliance Department, is submitted to the Related-Parties Transactions Committee and subsequently the Board of Directors. The analyses carried out to date have shown due compliance with and the correct application of the aforementioned procedure in all cases falling within its scope of application.

## **11. BOARD OF STATUTORY AUDITORS**

### **11.1 APPOINTMENT, REPLACEMENT AND DURATION IN OFFICE**

At the Report Date, the Board of Statutory Auditors is composed of five standing auditors and three alternate auditors who satisfy current legislative and regulatory requirements; in this regard the activities indicated in the corporate purpose, with particular reference to companies or entities

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<sup>85</sup> For completeness, it should be noted that, on 17 March 2022, the Board of Directors, with the favourable opinion of the Board of Statutory Auditors, approved the proposed formal amendments to the RPT Procedure to take account of the changes in the Company's organisational structure at the end of 2021, which were approved during the Board of Directors' meeting held on 11 November 2021.

operating in the financial, industrial, banking, insurance and real estate fields and services in general, are qualified as subjects and sectors of activity closely related to those of the company.

The Ordinary Shareholders' Meeting appoints the Board of Statutory Auditors and determines its remuneration.

The statutory auditors act with autonomy and independence, also with regard to the shareholders that elected them.

In order to enable the minority to elect a standing auditor (who will be the Chairman of the Board of Statutory Auditors) and an Alternate Auditor, the Board of Statutory Auditors is appointed on the basis of slates presented by the shareholders, in which each candidate is listed with a sequence number. Each slate contains a number of candidates that does not exceed the number of members to be elected.

Shareholders are only entitled to present a slate if, alone or together with other shareholders, they hold at least 1% of the shares entitled to vote at an Ordinary Shareholders' Meeting, or any lower amount required by a regulation issued by Consob for the presentation of slates of candidates for appointment to the Board of Directors. Each shareholder may present or contribute to the presentation of just one slate.

The slates of candidates, signed by those presenting them, must be filed at the registered offices of the Company at least twenty-five days prior to the date fixed for the Meeting called to appoint the members of the Board of Statutory Auditors, without prejudice to any extension in the cases envisaged by the applicable legislation. These slates are made available to the public at the registered offices, on the Website and in other ways prescribed by Consob regulation, at least twenty-one days prior to the date of the Meeting.

Each candidate may be included on just one slate, subject otherwise to becoming ineligible.

Each slate comprises two sections: one for candidates for the office of standing auditor and the other for candidates to the position of alternate auditor. The first candidate in each section shall be selected from among those registered in the Register of Chartered Accountants who has worked on external audits for a period of not less than three years. In order to ensure gender balance, slates that - taking account of both sections - present a number of candidates equal to or exceeding three, must include candidates of each gender at least to the minimum extent required by law and / or *pro tempore* regulations in force, as specified in the notice of call of the Shareholders' Meeting, both in the section for standing statutory Auditors and in the section for alternates.

Each party entitled to vote may only vote for one slate. The members of the Board of Statutory Auditors are elected as follows:

- 1) four standing auditors and two alternate auditors are drawn, in the sequence listed, from the slate that obtained the largest number of votes (the majority slate);

- 2) the remaining standing auditor and alternate auditor are drawn, in the sequence listed, from the slate that obtained the second largest number of votes (the minority slate); should several slates obtain the same number of votes, a new vote limited to just those slates is held by all those entitled to vote that are present at the Shareholders' Meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

Should application of the slate voting mechanism not obtain, considering the standing and alternate auditors separately, the minimum number of statutory auditors belonging to the less represented gender envisaged by the regulations in force at the time, the candidate belonging to the most represented gender and elected, indicated with the highest sequential number of each section from the slate that obtained the largest number of votes, will be replaced by the candidate belonging to the less represented gender not already elected from the same section of that slate, according to the sequential order of presentation.

An auditor is replaced, in the event of death, resignation or forfeiture, by the first alternate auditor drawn from the same slate. If this replacement does not allow the Board of Statutory Auditors to be reconstructed in compliance with current regulations, including those governing gender balance, recourse is made to the second alternate auditor drawn from the same slate. If, subsequently, it becomes necessary to replace another Auditor drawn from the slate that obtained the largest number of votes, recourse is made to the other alternate auditor drawn from the same slate. Should it be necessary to replace the Chairman of the Board of Statutory Auditors, the chair is taken by the second auditor on the same slate as the Chairman to be replaced, following the order of that slate, always provided that the replacement satisfies the requirements for the position established by law and/or the Articles and complies with the gender balance requirements envisaged by the regulations in force; if it is not possible to make replacements in accordance with the above criteria, a Shareholders' Meeting will be called to supplement the Board of Statutory Auditors with resolutions adopted by a relative majority of the votes cast.

When the Shareholders' Meeting must appoint the standing and/or alternate auditors necessary for the supplementing of the Board of Statutory Auditors, the procedure is the following: if it is necessary to replace auditors elected from the majority slate, the appointment is made by a relative majority of the votes cast, without any slate requirements and without prejudice, in all cases, to compliance with the gender balance requirements envisaged by the regulations in force; if, on the other hand, it is necessary to replace auditors elected from the minority slate, the Shareholders' Meeting replaces them by a relative majority of the votes cast, choosing them - where possible - from among the candidates indicated on the slate from which the auditor to be replaced was drawn and, in all cases, in compliance with the principle guaranteeing representation for the minorities that, pursuant to the Articles, are entitled to participate in the appointment of the Board of Statutory Auditors, without prejudice in all cases to compliance with the gender balance requirements envisaged by the regulations in force. The principle guaranteeing representation for the minorities is respected if the auditors elected were previously candidates on the minority slate or on slates other than that which, at the time of appointing the Board of Statutory Auditors, obtained the largest number of votes.

If only one slate is presented, the Shareholders' Meeting votes on it; if the slate obtains a relative majority of the votes cast, the candidates named in the respective sections of the slate are elected

as standing auditors and alternate auditors; the person named first on the above slate becomes the Chairman of the Board of Statutory Auditors.

For the appointment of statutory auditors who, for any reason, were not appointed in accordance with the above procedure, the Shareholders' Meeting adopts resolutions with the majorities required by law, without prejudice in all cases to compliance with the gender balance requirements envisaged by the regulations in force. Outgoing Statutory Auditors may be re-elected.

## 11.2 COMPOSITION

The Board of Statutory Auditors in office at the Report Date was appointed by the ordinary Shareholders' Meeting held on 15 June 2021 and is made up of the following members: Riccardo Foglia Taverna (Chairman of the Board of Statutory Auditors, appointed by the minorities), Francesca Meneghel, Teresa Naddeo, Antonella Carù, and Alberto Villani, as Standing Auditors, and Franca Brusco (appointed by the minorities), Marco Taglioretti and Maria Sardelli, as alternate auditors until the date of the Shareholders' Meeting called for the approval of the financial statements for the year ending 31 December 2023. The Board of Statutory Auditors is composed of a majority of female auditors.

The professional profiles of the members of the incumbent Board of Statutory Auditors are summarised on the Website.

The remuneration of the statutory auditors is discussed in the Remuneration Report.

All Statutory Auditors may be qualified as independent based on the criteria specified for Directors as set out in the Corporate Governance Code and as expressly ascertained by the Board of Statutory Auditors based on the information provided by the Statutory Auditors and the information available thereto. This ascertainment is carried out annually.

During the Year, Pirelli's Board of Statutory Auditors (before and after its renewal) met 10 times, with each meeting having an average duration of about 103 minutes.

At the Report Date, of the eight members of the Board of Statutory Auditors (five standing auditors and three alternate auditors), approximately 63% were female (the percentage is 60% of the standing Auditors only). Moreover, the average age of the members of the Board of Statutory Auditors is approximately 58 years.

During the course of the Year, the Board of Statutory Auditors, like the Board of Directors, again carried out the process for assessing its performance, with assistance from the independent consulting firm Spencer Stuart, in line with what was done in the previous year and in compliance with the code of conduct for listed companies published by the Italian national association of chartered accountants and auditors ("**Rules of Conduct**"). That self-assessment process, like the process in place for the Board of Directors, is carried out through individual interviews, with questions about the suitability, size, composition and functioning of the Board of Statutory Auditors itself, in

order to verify suitability, fairness and effectiveness in its functioning. Positive outcomes of the Board of Statutory Auditors' self-assessment process are included in the Statutory Auditors' report at 31 December 2021.

Table 4, annexed, provides the significant information about each member of the Board of Statutory Auditors in office at the Report Date.

## **12. GENERAL MANAGEMENT OPERATIONS**

It should be noted that the General Manager Operations role was established in May 2018 and is entrusted to Andrea Casaluci.

As of 1 August 2020, the role of co-CEO General Manager was established, and entrusted to Angelos Papadimitriou until 28 February 2021, which was the effective date of the consensual termination of his employment relationship as a manager. The office of Co-CEO General Manager was superseded at the Shareholders' Meeting of 15 June 2021 following Giorgio Luca Bruno's appointment as a Director of the Company and as Deputy-CEO.

## **13. INFORMATION FLOWS TO THE DIRECTORS AND STATUTORY AUDITORS**

The Board of Directors of Pirelli adopted a procedure for information flows to the Directors and Statutory Auditors, in order to (i) guarantee the transparent management of the business, (ii) establish conditions for the effective and efficient management and control of the activities of the Company and the operations of the business by the Board of Directors, and (iii) provide the Board of Statutory Auditors with the sources of information needed for the efficient performance of its supervisory role.

The flow of information to the directors and statutory auditors is assured, preferably, by the transmission of documents on a timely basis and, in any case, with sufficient frequency to ensure compliance with the disclosure requirements, and in accordance with deadlines consistent with the timetables set for each board meeting. These documents may be supplemented by explanations provided in the context of the board meetings, or at specific informal meetings organised to examine topics of interest relating to the management of the company.

When the information flows relate to Inside Information and/or Significant Information, they must take place in accordance and compliance with the procedures indicated in the Market Abuse Procedure.

It is required that the Strategies Committee be the recipient of a specific and continuous flow of information from the Chief Executive Officer, assisted by the Secretary of the Company's Board of Directors for such purposes.

## 14. RELATIONS WITH SHAREHOLDERS

Pirelli attributes strategic importance to Financial Reporting. In accordance with the Group's Values and Code of Ethics, Pirelli maintains constant dialogue with Shareholders, Bondholders, Institutional and Individual Investors and Analysts from major investment banks through the *Investor Relations* department and the Group's *Top Management* in order to promote fair, transparent, timely and accurate reporting.

In line with international best practice, the "Investors" section of the website is constantly updated with content of interest to the financial market, including: strategy ("Equity Story"), economic-financial data on previous years, analysts' opinions of Pirelli, and their estimates for the principal economic-financial indicators ("Consensus"), monthly developments in the principal automotive tyre market ("Tyre Market Watch"). The Investor Relations Department also promotes periodic meetings with Shareholders and Investors in Italy and abroad.

### 14.1 POLICY FOR MANAGING DIALOGUE WITH SHAREHOLDERS AND THE MAIN FINANCIAL MARKET STAKEHOLDERS

On 23 February 2022, the Board of Directors – after obtaining the favourable opinion of the Audit, Risks, Sustainability and Corporate Governance Committee and in accordance with the recommendations of the Corporate Governance Code<sup>86</sup> – adopted a specific policy which, changing the existing practices, governs the rules for managing the dialogue held by the Board of Directors, through the VP and CEO and with the assistance of the departments concerned (primarily Investor Relations and Corporate Affairs), with shareholders and with the main stakeholders of the financial market in which the Company operates (the "**Engagement Policy**").

This policy covers – *inter alia* – the following issues:

- business and financial strategies and performance;
- corporate governance (e.g. appointment and composition of the administrative body, including in terms of size, professional aspects, respectability, independence and diversity, board committees, etc.);
- social and environmental sustainability;
- policies on the remuneration of directors and key managers and on their implementation; and
- system of internal control and risk management.

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<sup>86</sup> Recommendation 3 of the Corporate Governance Code.

For further information on the Engagement Policy, please refer to the Website.

## 15. SHAREHOLDERS' MEETINGS

Pursuant to art. 7 of the Articles, ordinary and extraordinary Shareholders' Meetings of the Company are held in single call. Their resolutions are adopted with the majority required by law, with the sole exception of the authorisation of the Board of Directors to carry out the deeds listed below, which requires a qualified majority (votes in favour of shareholders representing at least 90% of the share capital of the Company):

- transfer of the operational and administrative headquarters outside of the municipality of Milan;
- any transfer and/or deed of disposition, in any form, of Pirelli know-how (including the granting of licences).

Parties entitled to vote may be represented by proxy, given in accordance with the procedures envisaged by law and the regulations in force.

The notice of call may also limit to one of the above methods the specific procedure usable in relation to the Meeting called by that notice.

For each Meeting, the Company designates one or more persons to which those entitled to vote may grant proxy, with voting instructions for all or just some of the motions on the agenda. The proxy does not apply to motions for which no voting instructions were given. The persons designated to receive proxies for the Meeting are specified in the related notice of call, together with relevant procedures and deadlines.

The Ordinary Shareholders' Meeting for the approval of the financial statements must be called, in accordance with the law, no later than 180 days from the end of the financial year.

In the situations envisaged by law and in accordance with the related procedures, the directors must call a Shareholders' Meeting without delay when requested by shareholders representing at least one-twentieth of share capital.

The shareholders requesting the Meeting must prepare a report on their proposals regarding the matters to be discussed. At the time of publishing the notice of call for the Meeting and in accordance with the procedures envisaged by law, the Board of Directors must make the report prepared by the shareholders available to the public, together with its considerations, if any.

In the cases, in the manner and with the timing envisaged by law, shareholders that, individually or together, represent at least one-fortieth of share capital may request the integration of the items of the agenda, indicating in their request the additional topics proposed by them, or proposing resolutions on matters already on the agenda.



A notice is published about the addition of items to the agenda or the presentation of additional proposed resolutions on matters already on the agenda, by the legal deadlines, in the manner established for publication of the notice of call.

Shareholders requesting additions to the agenda must prepare and send to the Board of Directors, by the final deadline for the presentation of requests for additions, a report explaining their reasons for the proposed resolutions on the matters they wish to discuss, or their reasons for the additional proposed resolutions presented in relation to matters already on the agenda. At the time of publishing the notice about the additions to the agenda and in accordance with the procedures envisaged by law, the Board of Directors must make the report prepared by the shareholders available to the public, together with its considerations, if any.

The right to attend Meetings and vote is governed by the relevant current legislation and is certified by a communication sent to the Company, by an authorised intermediary with reference to its accounting records, on behalf of the party entitled to vote. This certification is based on the evidence existing at the end of the accounting day on the seventh trading day prior to the date fixed for the Meeting. The additions and deductions recorded on those counts subsequent to that deadline are not relevant when determining the legitimacy of the right to vote at the Meeting. The communication must be received by the Company by the end of the third trading day prior to the date fixed for the Meeting, or by any different deadline established by the applicable regulations. Shareholders are still entitled to attend and vote if the communication is received by the Company after the above deadlines, on condition that it is received before business commences at the Meeting.

Ordinary and Extraordinary Shareholders' Meetings are chaired by the Chairman of the Board of Directors or, if absent or unavailable, by the Chief Executive Officer. If the above persons are absent, the chair is taken by another person appointed by a majority of the share capital represented at the Meeting.

The Chairman of the Meeting is assisted by a Secretary, appointed by a majority of the share capital represented at the Meeting, who does not need to be a shareholder; assistance from the Secretary is not necessary when the minutes of the Meeting are taken by a Notary.

The Chairman of the Meeting chairs the Meeting and, in accordance with the law and the Articles, moderates its course. For this purpose, the Chairman - *inter alia* - verifies that the Meeting has been properly convened, verifies the identity of those attending and their right to attend, directly or by proxy; verifies the legal quorum for voting; directs the proceedings, with the right to change the order of discussion of the items indicated in the notice of call. The Chairman also adopts suitable measures to ensure orderly discussions and voting, determining the related procedures and checking the results.

Meeting resolutions are evidenced by the minutes signed by the Chairman of the Meeting and by the Secretary of the Meeting or the Notary. The minutes of Extraordinary Meetings must be taken by a Notary designated by the Chairman of the Meeting. All copies of and extracts from minutes not prepared by a Notary are certified true by the Chairman of the Board of Directors.

The conduct of such meetings is governed by the general meeting regulations approved by the Shareholders' Meeting held on 1 August 2017 (available on the Website), as well as by the law and the Articles of Association.

For the sake of completeness, it should be noted that, in order to minimise the risks related to the health emergency tied to the Sars-CoV 2 (Covid-19) virus, in 2021 the Company used the option – in compliance with the statutory provisions and governmental indications<sup>87</sup>, *inter alia* – to: (i) extend the time limits for convening the Shareholders' Meeting; (ii) only conduct the Shareholders' Meeting remotely without the physical attendance of those entitled to vote; and (iii) allow those entitled to vote in the Shareholders' Meeting to attend solely through a representative appointed pursuant to art. 135-undecies TUF.

## 16. CHANGES SINCE THE END OF THE YEAR

There have not been any changes to the structure of corporate governance since the end of the Year, except as already indicated in the previous paragraphs, if applicable.

## 17. THE PIRELLI WEBSITE

For Pirelli, the Website - in English and in Italian - represents a fundamental tool to ensure the prompt and total dissemination of information about the Company and the Group to all Stakeholders.

Pirelli ensures that it is promptly and thoroughly updated, so as to guarantee the transparency of information and compliance with the current laws and regulations applicable to companies listed on the Italian Stock Exchange.

The Company's objective is to provide simple and clear information for investors and, in general, all its Stakeholders, through the Site, in line with common practice. For this reason, also taking account of the periodic results of assessments by independent agencies and in line with the Stakeholders' expectations, the Company uses its best endeavours to constantly implement the Website.

## 18. CONSIDERATIONS ON THE LETTER BY THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE

With a letter of 03 December 2021 (the "**Chairman's Letter**"), in the context of the usual monitoring of the application of the provisions of the Corporate Governance Code, the Chairman of the

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<sup>87</sup> Decree-Law No. 18 of 17 March 2020, as converted with amendments into Law No. 27 of 24 April 2020, the application of which was last extended by Decree-Law No. 183 of 31 December 2020, as converted with amendments into Law No. 21 of 26 February 2021.

Corporate Governance Committee of Borsa Italiana has provided listed companies with a further six recommendations (the “**Committee Recommendations for 2022**”) listed below:

1. in pursuit of the “sustainable success” objective of the Corporate Governance Code: (i) to provide, in the Corporate Governance Report, adequate and concise information on the methods adopted to pursue said goal and the approach taken to promote dialogue with relevant stakeholders; and (ii) to provide concise information on the content of the policy for dialogue with all shareholders;
2. in the light of the new approach to proportionality laid down in the Corporate Governance Code and the structural changes introduced, to assess the company’s classification with respect to the new categories envisaged and the simplification options available to “non-large” and/or “concentrated” companies, and to adequately indicate the choices made;
3. with regard to the application of independence criteria: (i) the corporate governance report should include the criteria used to assess the significance of professional, commercial or financial relationships and additional remuneration, including with reference to the Chairman of the Board of Directors, if he/she has been classified as independent pursuant to the Code;
4. with regard to pre-meeting information: (i) to explicitly determine the deadlines deemed appropriate for sending documentation; (ii) to provide a clear indication of the terms identified and their actual compliance in the corporate governance report, (iii) not to allow these deadlines to be waived for mere confidentiality reasons;
5. with respect to the appointment and succession of directors and with reference to non-concentrated ownership companies, to examine the recommendations made to them concerning the renewal of the board of directors. In particular, this recommendation requires those submitting slates containing candidates for more than half of the directors to be elected, to provide adequate information demonstrating that the slate matches the guidance expressed by the outgoing board, and to indicate their own candidate for the office of Chairman;
6. with regard to gender equality, ensure adequate information in the corporate governance report on the concrete measures established and implemented to promote gender equality and equal opportunities within the entire corporate organisation;
7. with regard to remuneration policies: (i) to improve the definition of clear and measurable rules for the disbursement of the variable component and any end-of-office indemnities; (ii) to adequately consider whether the parameters set for variable remuneration are consistent with the strategic objectives of the business and pursuit of sustainable success, assessing non-financial parameters where appropriate; (iii) with particular regard to remuneration parameters tied to the achievement of environmental and social objectives, to ensure that such parameters are predetermined and measurable.

The Committee’s Recommendations for 2022 were brought to the attention of (i) the Audit, Risks, Sustainability and Corporate Governance Committee and Board of Statutory Auditors on 18 February 2022 and (ii) the Board of Directors on 23 February 2022.

The Board of Directors of the Company – having also obtained the favourable opinion of the members of the competent Committees and Board of Statutory Auditors on this matter – believes that, as promptly highlighted in this Report, no specific interventions to its own corporate governance system are needed in relation to the issues highlighted in the Committee's Recommendations for 2022 given that they have already been adequately implemented by the Company for some time, also given the fact that the Board of Directors approved the Engagement Policy in its meeting of 23 February 2022.

The company considers it appropriate to provide the following summary of the considerations formulated by the Board of Directors on the aforementioned Committee's Recommendations for 2022.

It is deemed that the systems of corporate governance rules adopted by Pirelli is already in line with the foregoing recommendations, for the reasons outlined below:

- the sustainability of the business activities has long represented a pillar of Pirelli's strategy which aims to create long-term value for the benefit of shareholders, taking into account all relevant stakeholders for the Company. In order to contribute to the sustainable success of the Company, the internal control and risk management system, whose guidelines are defined by the Board of Directors in line with the Company's strategies, allows for the main risks to be identified, measured, managed and monitored. In addition, the Company's remuneration policy includes long-term variable components of remuneration aimed at encouraging the achievement of corporate strategic objectives and the sustainable growth of the company; the Report on the Corporate Governance and Share Ownership included in the annual financial Report as at 31 December 2021 will provide succinct information on the content of the "Policy for managing the dialogue with shareholders and the main financial market stakeholders with the Board of Directors of the company" adopted by the Company, which will also be published on the website [www.pirelli.com](http://www.pirelli.com), in the Governance section;
- though, pursuant to the Corporate Governance Code, the Company fits the definition of a "concentrated ownership company", considering the presence of the Shareholders' Agreement, it did not avail itself of any flexibility options when applying the Corporate Governance Code, though foreseen therein;
- the Pirelli Board of Directors has a number of independent directors who normally make up the absolute majority of its members. For the periodical review of the independence requirements of its members and statutory auditors, in 2021 the Company adopted a "Statement" on independence which defines the qualitative/quantitative criteria to be used to assess the independence of directors for the purposes of the Corporate Governance Code and, in particular, the relevant parameters of any economic, professional or financial relationship pertaining to the directors whose independence is being examined. The "Statement" (also applied to members of the Board of Statutory Auditors) details some interpretation criteria related to the other types of independence mentioned in the Corporate Governance Code, including the notion of "significant additional remuneration";

- pre-board reporting (of a continuous nature or relating to specific topics) also took place in 2021 in compliance with an advance that was deemed adequate to allow the Directors to express informed opinions on the matters submitted for examination by the Board and consistent with quality standards that are in line with international best practices and broad guarantees as to the confidentiality and traceability of the information and documents sent; as established in the Regulations on the functioning of the Board of Directors (approved most recently at the meeting held on 22 June 2020), the documentation examined by the Board and the Committees is sent out in the ten days prior to the meeting, unless specific requirements do not allow this: in such cases the documentation is sent as soon as it is available and during the board meeting full information on the issue to be considered is provided. Said Regulation does not establish that those terms may be waived for mere confidentiality requirements;
- Pirelli is characterised by a multinational context in which people express a huge heritage of diversity. Conscious management of this diversity generates competitive advantages, opportunities for the development and enrichment of the business, and shared corporate values. The respect of these values has always been guaranteed by the shareholders during the renewal of the Board of Directors in terms of age, gender, nationality, education and professional background and experience. This enables the Board to perform its duties in the most effective way, making use of the contributions made from different points of view, and to analyse individual situations from multiple perspectives. During 2019, the Company adopted a Diversity and Independence Statement in relation to the make-up of the Board itself and the Board of Statutory Auditors, recommending that these values be respected when its own corporate bodies are being renewed or integrated, in line with the diversity and independence criteria. On 22 June 2020, when the administrative body was renewed, the newly-elected Board of Directors adopted the “Diversity and Independence Statement”;
- the Company’s remuneration policy establishes the short and medium/long term variable remuneration parameters, maintaining strong alignment with company strategies, the medium/long term interests and sustainability; in order to promote the creation of long term sustainable success and achieve the goals of the Company’s strategic plans. The variable components of Management remuneration include non-financial parameters (easily measurable) consistent with Group strategy.

**TABLE 1: SIGNIFICANT SHAREHOLDINGS OF CAPITAL**

The subjects which, according to the information published by Consob at the date of publication of this Report and/or according to further information available to the Company, possess shares with voting rights in Ordinary Shareholders' Meetings that represent more than 3% of the ordinary share capital are listed below.

SIGNIFICANT SHAREHOLDINGS OF CAPITAL			
Declaring party	Direct Shareholder	% of ordinary capital	% of voting capital
SINOCHEM HOLDINGS CORPORATION LTD <sup>[1]</sup>	MARCO POLO INTERNATIONAL ITALY S.R.L.	37.015	37.015
TRONCHETTI PROVERA MARCO	CAMFIN S.P.A.	14.10 <sup>[2]</sup>	14.10
SILK ROAD FUND CO LTD	PFQY SRL <sup>[3]</sup>	9.021	9.021
BOMBASSEI ALBERTO	NEXT INVESTMENT SRL BREMBO SPA	0.210 4.777	0.210 4.777
NIU TENG	LONGMARCH HOLDING S.à.r.l	4.987	4.987
TACTICUM INVESTMENTS S.A.	TACTICUM INVESTMENTS S.A.	3.68	3.68
		4.271	4.271

Note: The data relating to shareholders who, directly or indirectly, hold ordinary shares representing more than 3% of the share capital with voting rights in ordinary meetings of the Company, are taken from Consob's website. In this regard, it is useful to note that the information published by Consob on its website by virtue of the communications made by the parties bound by the obligations of Article 120 of the TUF and the Issuers Regulation, could differ appreciably from the real situation, because the obligations to communicate changes in the percentages of holdings arise not when there is a simple change in this percentage but only when the holdings exceed or fall below predetermined thresholds (3%, 5%, and subsequent multiples of 5% up to a 30% threshold and, beyond this threshold, 50%, 66.6% and 90%). It follows, for example, that a shareholder (i.e. a declaring subject) that has declared ownership of 5.1% of the share capital with voting rights may increase their stake up to 9.9% without thereby having any obligation to notify Consob under Article 120 of the TUF. Finally, the Company Bylaws do not provide for the possibility of increased voting rights or the issue of shares with multiple voting rights.

<sup>[1]</sup> Following the completion of the transfer of the entire share capital of ChemChina to Sinochem Holdings as part of the joint restructuring of Sinochem Group Co. and China National Chemical Corporation Ltd. (see section 2.2).

<sup>[2]</sup> Following completion of the increase in the share capital of Camfin S.p.A., fully subscribed by Longmarch Holding S.à.r.l., through the contribution of 40,000,000 Pirelli shares to Camfin S.p.A.. For the sake of completeness, it should be noted that in September 2019 Camfin S.p.A. informed the market that it had taken out instruments called "Call Spreads" with major financial institutions, the original maturity of which was extended (on 29 June 2021) from September 2022 to September 2023, with an underlying equivalent to approximately 4.6% of Pirelli's share capital (see section 2.5).

<sup>[3]</sup> Allocation of Lux SPVs following the Reorganisation referred to in paragraph 2.5.2.

**TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AT THE END OF THE YEAR**

Board of Directors												
Office	Members	Year of birth	Date first appointed (*)	In office since	In office until	State (**)	Exec.	Non-exec.	Indep. Code	Indep. TUF	No. other offices (***)	(****)
Chairman	Ning Gaoning	1958	07 August 2018	18 June 2020	Shareholders' meeting to approve financial statements at 31 Dec. 2022	M		x			Cf. Annex A	0/8
Executive Vice Chairman and Chief Executive Officer	Marco Tronchetti Provera	1948	7 May 2003 <sup>88</sup>	18 June 2020	Shareholders' meeting to approve financial statements at 31 Dec. 2022	M	x				Cf. Annex A	8/8
Director	Yang Xingqiang	1967	20 October 2015	18 June 2020	Shareholders' meeting to approve financial statements at 31 Dec. 2020	M		x			Cf. Annex A	1/8
Director	Bai Xiping	1968	02 September 2015	18 June 2020	Shareholders' meeting to approve financial statements at 31 Dec. 2022	M		x			Cf. Annex A	8/8
Director	Giorgio Luca Bruno	1960	15 March 2016	15 June 2021	Shareholders' meeting to approve financial statements at 31 Dec. 2022	M	x				Cf. Annex A	2/2
Director	Zhang Haitao	1971	18 June 2020 <sup>89</sup>	18 June 2020	Shareholders' meeting to approve financial statements at 31 Dec. 2022	M		x			Cf. Annex A	8/8
Director	Tao Haisu	1949	1 August 2017 <sup>90</sup>	18 June 2020	Shareholders' meeting to approve financial statements at 31 Dec. 2022	M		x	x		Cf. Annex A	8/8
Director	Paola Boromei	1976	18 June 2020	18 June 2020	Shareholders' meeting to approve financial statements at 31 Dec. 2022	m		x	x		Cf. Annex A	8/8
Director	Domenico De Sole	1944	01 August 2017	18 June 2020	Shareholders' meeting to approve financial statements at 31 Dec. 2022	M		x	x		Cf. Annex A	7/8
Director	Roberto Diacetti	1973	18 June 2020	18 June 2020	Shareholders' meeting to approve financial statements at 31 Dec. 2022	m		x	x		Cf. Annex A	8/8
Director	Giovanni Lo Storto	1970	15 May 2018	18 June 2020	Shareholders' meeting to approve financial statements at 31 Dec. 2022	m		x	x		Cf. Annex A	8/8
Director	Marisa Pappalardo	1960	01 August 2017	18 June 2020	Shareholders' meeting to approve financial statements at 31 Dec. 2022	M		x	x		Cf. Annex A	8/8
Director	Giovanni Tronchetti Provera	1983	01 August 2017	18 June 2020	Shareholders' meeting to approve financial statements at 31 Dec. 2022	M		x			Cf. Annex A	88
Director	Fan Xiaohua	1974	01 August 2017	18 June 2020	Shareholders' meeting to approve financial statements at 31 Dec. 2022	M		x	x		Cf. Annex A	8/8
Director	Wei Yintao	1971	01 August 2017	18 June 2020	Shareholders' meeting to approve financial statements at 31 Dec. 2022	M		x	x		Cf. Annex A	8/8

<sup>88</sup> Marco Tronchetti Provera assumed the office of General Partner of Pirelli & C. Accomandita per Azioni on 29 April 1986. On 7 May 2003 it was resolved to transform the Company from a "joint stock partnership" to a "limited liability company", and in consequence, there no longer being the role of general partner, directors were appointed.

<sup>89</sup> Zhang Haitao was a Director of Pirelli from 15 March 2016 to 31 August 2017. He was appointed by the Board of Directors on 18 June 2020.

<sup>90</sup> Tao Haisu was a Director of Pirelli from 20 October 2015 to 15 March 2016. He was appointed as Director again on 1 August 2017.

<b>DIRECTORS WHO CEASED TO HOLD OFFICE DURING THE YEAR</b>						
Angelos Papadimitriou ceased to be a Director of the Company on 24 March 2021.						
Director	1966	05 August 2020	05 August 2020	Shareholders' meeting to approve financial statements at 31 Dec. 2020	X	3/3
<b>Indicate the quorum required for minority shareholders to submit a slate for the election of one or more directors (pursuant to art. 147-ter TUF): 1% of the share capital with the right to vote in ordinary shareholders' meetings.</b>						

**NOTES**

The following symbols must be inserted in the "Office" column:

- This symbol indicates the director responsible for the internal control and risk management system.
- This symbol indicates the Lead Independent Director (LID).

\* The date of first appointment of each director means the date on which the director was appointed for the first time (in absolute terms) to the BoD of the Issuer.

(\*\*) This column indicates whether the slate from which each director was drawn is a majority slate ("M"), or minority slate ("m").

(\*\*\*) This column shows the number of offices as director or statutory auditor held by the person in question in other listed companies or companies of significant size. The offices are shown in full in the Report on Corporate Governance.

(\*\*\*\*) This column shows the directors' attendance at Board of Director meetings (specify the number of meetings the person attended out of the total number of meetings he or she could have attended, e.g. 6/8, 8/8, etc.).



**TABLE 3: STRUCTURE OF THE BOARD COMMITTEES AT THE END OF THE YEAR**

BoD	Office/Qualification	Members	Strategies Committee		RPT Committee	Audit, Risks, Sustainability and Corporate Governance Committee		Remuneration Committee		Appointments Committee	
			(*)	(**)		(*)	(**)	(*)	(**)		(*)
	Chairman of the BoD non-executive - non-independent	Ning Gaoning	0/2	M						0/1	M
	Executive Vice Chairman and Chief Executive Officer	Marco Tronchetti Provera	2/2	C						1/1	C
	Non-executive director - non-independent	Yang Xingqiang	1/2	M							
	Non-executive director - non-independent	Bai Xinping	2/2	M				5/5	M	1/1	M
	Non-executive director - non-independent	Giorgio Luca Bruno	-								
	Non-executive director - non-independent	Zhang Haitao				5/5	M				
	Non-executive Director – independent as per the TUF and Code	Tao Haisu						5/5	C		
	Non-executive Director – independent as per the TUF and Code	Paola Boromei						5/5	M		
	Non-executive Director – independent as per the TUF and Code	Domenico De Sole	2/2	M	5/7	M					
	Non-executive Director – independent as per the TUF and Code	Roberto Diacetti				4/5	M				
	Non-executive Director – independent as per the TUF and Code	Giovanni Lo Storto	2/2	M	7/7	M	5/5				
	Non-executive Director – independent as per the TUF and Code	Marisa Pappalardo			7/7	C	5/5		5/5	M	
	Non-executive director - non-independent	Giovanni Tronchetti Provera								1/1	M
	Non-executive Director – independent as per the TUF and Code	Fan Xiaohua				5/5	C		5/5	M	
	Non-executive Director – independent as per the TUF and Code	Wei Yintao	2/2	M							
----- DIRECTORS LEAVING OFFICE DURING THE YEAR -----											
	Executive Directors	Angelos Papadimitriou	1/1	M							
<b>No. of meetings held during the Year:</b>			2		7		5		5		1

**NOTES**

(\*) This column shows the directors' attendance at committee meetings (specify the number of meetings the person attended out of the total number of meetings he or she could have attended, e.g. 6/8, 8/8, etc.).

(\*\*) The office held by the person on the Committee is indicated in this column: "C": chairman; "M": member.

**TABLE 4: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS**

Board of Statutory Auditors														
Office	Members	Year of birth	Date first appointed*	In office since	In office until	State **	Indep. Code	Attendance at meetings of the Board of Statutory Auditors ***	Attendance at meetings of the BOD ARSCGC	Attendance at meetings of the Remuneration Committee	Attendance at meetings of the Strategies Committee	Attendance at meetings of the RPT Committee	No. other offices ****	
Chairman	Riccardo Foglia Taverna	1966	15 June 2021	15 June 2021	Shareholders' meeting to approve financial statements at 31 Dec. 2023	m	x	3/3	2/2	2/2	-	3/3	Cf. Annex A	
Standing auditor	Antonella Carù	1961	10 May 2012	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2023	M	x	10/10	5/5	5/5	-	7/7	Cf. Annex A	
Standing auditor	Francesca Meneghel	1961	15 June 2021	15 June 2021	Shareholders' meeting to approve financial statements at 31 Dec. 2023	M	x	3/3	2/2	2/2	-	3/3	Cf. Annex A	
Standing auditor	Teresa Naddo	1958	15 June 2021	15 June 2021	Shareholders' meeting to approve financial statements at 31 Dec. 2023	M	x	3/3	2/2	2/2	-	2/3	Cf. Annex A	
Standing auditor	Alberto Villani	1962	05 September 2017	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2023	M	x	10/10	4/5	5/5	-	7/7	Cf. Annex A	
Alternate auditor	Franca Brusco	1971	15 May 2018	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2023	m	x	-	-	-	-	-	Cf. Annex A	
Alternate Auditor	Marco Taglioretti	1960	15 June 2021	15 June 2021	Shareholders' meeting to approve financial statements at 31 Dec. 2023	M	x	-	-	-	-	-	Cf. Annex A	
Alternate auditor	Maria Sardelli	1965	15 June 2021	15 June 2021	Shareholders' meeting to approve financial statements at 31 Dec. 2023	M	x	-	-	-	-	-	Cf. Annex A	
<b>AUDITORS WHO CEASED TO HOLD OFFICE DURING THE YEAR</b>														
Chairman	Francesco Fallacara	1964	10 May 2012	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2020	m		7/7	5/5	3/3	1/1	2/2	3/4	Cf. Annex A
Standing auditor	Fabio Artoni	1960	14 May 2015	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2020	M		7/7	5/5	3/3	-	-	4/4	Cf. Annex A
Standing auditor	Luca Nicodemi	1973	05 September 2017	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2020	M	x	6/7	5/5	3/3	-	-	3/4	Cf. Annex A
Alternate Auditor	Elenio Bidoggia	1963	15 May 2018	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2020	M	x	-	-	-	-	-	Cf. Annex A	
Alternate auditor	Giovanna Oddo	1967	14 May 2015	15 May 2018	Shareholders' meeting to approve financial statements at 31 Dec. 2020	M	x	-	-	-	-	-	Cf. Annex A	
<b>Number of meetings of the Board of Statutory Auditors held during the year: 10</b>														
Indicate the quorum required for minority shareholders to submit a slate for the election of one or more directors (pursuant to art. 148 TUF): 1% of the shares with the right to vote in ordinary shareholders' meetings.														

\* The date of first appointment of each auditor means the date on which the auditor was appointed for the first time (in absolute terms) to the Board of Statutory Auditors of the issuer.

\*\* Slate from which each auditor was elected ("M": majority slate; "m": minority slate).

\*\*\* This column shows the attendance of the auditors at meetings of the Board of Statutory Auditors (number of meetings the person attended out of the total number of meetings he or she could have attended, e.g. 6/8, 8/8, etc.).

\*\*\*\* The number of offices as director or statutory auditor held by the person in question pursuant to art. 148-bis TUF and its implementing provisions in the Consob Issuers' Regulation. The complete list of offices is published by Consob on its website, pursuant to art. 144-quinquiesdecies of the Consob Issuers' Regulation.

## ANNEX A

## SECTION I: LIST OF OFFICES HELD BY DIRECTORS, AT THE REPORT DATE, IN OTHER COMPANIES THAT ARE NOT PART OF THE PIRELLI GROUP

First and last name	Company	Office held in the company
Ning Gaoning	Sinochem Corporation Ltd:	Chairman of the Board of Directors
	• Sinochem Group Co.,	Chairman of the Board of Directors
	• Ltd.China National Chemical Corporation Ltd.	Chairman of the Board of Directors
	• China Jinmao Holdings Group Ltd.	Chairman of the Board of Directors
	• Far East Horizon Ltd.	Chairman of the Board of Directors
	• Syngenta AG	Chairman of the Board of Directors
	• Syngenta Group Co. Ltd.	Chairman of the Board of Directors
	• Adama Agricultural Solutions Ltd.	Director
	• Sinochem Hong Kong (Group) Co., Ltd.	Chairman of the Board of Directors
	• Luxi Chemical Group Co., Ltd	Chairman of the Board of Directors
Marco Tronchetti Provera	Marco Tronchetti Provera & C. S.p.A.:	Chairman of the Board of Directors
	• Camfin S.p.A.	Chairman of the Board of Directors
Yang Xingqiang	RCS MediaGroup S.p.A.	Director
	China National Salt Industry Corporation Ltd.	Chairman of the Board of Directors

Bai Xinping	<p>Sinochem Holdings:</p> <ul style="list-style-type: none"> <li>• China National Tire &amp; Rubber Company Ltd.</li> <li>• CNRC International Holding (HK) Ltd.</li> <li>• CNRC Capital Ltd.</li> <li>• CNRC Capitale Limited</li> <li>• CNRC International Ltd.</li> <li>• Fourteen Sundew S.à.r.l.</li> <li>• Marco Polo International Italy S.r.l.</li> <li>• TP Industrial Holding S.p.A.</li> <li>• Prometeon Tyre Group S.r.l.</li> </ul>	<p>Chairman of the Board of Directors</p> <p>Director</p> <p>Director</p> <p>Director</p> <p>Director</p> <p>Director</p> <p>Chairman of the Board of Directors</p> <p>Director</p> <p>Chairman of the Board of Directors</p>
Giorgio Luca Bruno	<p>Camfin S.p.A.:</p> <ul style="list-style-type: none"> <li>• Camfin Alternative Assets S.p.A.</li> </ul> <p>CAAM 1 S.r.l.</p> <p>Istituto Europeo di Oncologia S.r.l.</p> <p>GB &amp; Co. S.r.l.</p>	<p>Director</p> <p>Chairman</p> <p>Chairman</p> <p>Director</p> <p>Sole Director</p>
Paola Boromei	<p>Snam Rete Gas S.p.A.</p> <p>Grifal S.p.A.</p>	<p>Director</p> <p>Director</p>
Domenico De Sole	<p>Tom Ford International Inc.</p> <p>Ermenegildo Zegna S.p.A.</p>	<p>Chairman of the Board of Directors</p> <p>Director</p>
Roberto Diacetti	<p>Banca IFIS:</p> <p>Saipem S.p.A.</p>	<p>Director</p> <p>Director</p>
Giovanni Lo Storto	<p>Banca Mediolanum S.p.A.</p> <p>Luiss Guido Carli</p> <ul style="list-style-type: none"> <li>• LUISS ALUMNI 4 Growth S.r.l.</li> <li>• Luiss X S.r.l.</li> </ul>	<p>Director</p> <p>Director</p> <p>Director</p> <p>Director</p> <p>Director</p> <p>Director</p>

Tao Haisu	-	-	-
Zhang Haitao	Sinochem Holdings: <ul style="list-style-type: none"> <li>• CNRC International Holding (HK) Ltd.</li> <li>• Marco Polo International Italy S.r.l.</li> <li>• TP Industrial Holding S.p.A.</li> <li>• Prometeon Tyre Group S.r.l.</li> <li>• Fourteen Sundew S.à.r.l.</li> </ul>	<p>Director</p> <p>Director</p> <p>Director</p> <p>Director</p> <p>Director</p>	
Marisa Pappalardo	BPER Banca S.p.A.	Director	
Giovanni Tronchetti Provera	Marco Tronchetti Provera & C. S.p.A.: <ul style="list-style-type: none"> <li>• Camfin S.p.A.</li> <li>• Camfin Alternative Assets S.p.A.</li> </ul>	<p>Director</p> <p>Director</p> <p>Director</p>	
Fan Xiaohua	-	-	
Wei Yintao	-	-	

## SECTION II: LIST OF OFFICES HELD BY STATUTORY AUDITORS IN OTHER COMPANIES AT THE DATE OF THE REPORT

First and last name	Company	Office held in the company
<b>Riccardo Foglia Taverna</b>	Achille Pinto S.p.A.	Sole Auditor
	Ankorgaz S.r.l.	Sole Auditor
	Banca Sella Holding S.p.A.	Alternate Auditor
	B&C Speakers S.p.A. (Listed)	Chairman of the Board of Statutory Auditors
	Boutique Italia S.p.A.	Director
	Cabeco S.r.l.	Sole Auditor
	Cedis S.r.l.	Director
	Consorzio Vigilanza Sella S.C.P.A.	Alternate Auditor
	Double R S.r.l. (Former Ruffini Partecipazioni Srl)	Statutory Auditor
	Gamma Topco S.p.A.	Chairman of the Board of Statutory Auditors
	Gamma Bidco S.p.A.	Chairman of the Board of Statutory Auditors
	Gestimm S.p.A.	Chairman of the Board of Statutory Auditors With Legal Audit
	Guglielmi S.p.A. Rubinetterie	Alternate Auditor
	Jakil S.p.A.	Statutory Auditor
	Illimity Bank S.p.A.	Alternate Auditor
	Industries S.p.A.	Alternate Auditor
	In-Pao S.r.l.	Sole Auditor
	Lampugnani Farmaceutici S.p.A.	Statutory Auditor
	Officine Rigamonti S.p.A.	Alternate Auditor
	Neprix S.r.l.	Statutory Auditor
	Prosino S.r.l.	Sole Auditor
	Ruffini Partecipazioni Holding S.r.l.	Statutory Auditor
	Rubimetterie Ritmonio S.r.l.	Statutory Auditor
Sella Fidiciaria (Former Selfid S.p.A.)	Statutory Auditor	
Sigla S.r.l.	Chairman of the Board of Statutory Auditors	
Autogrill S.p.A.	Standing Auditor	
Autogrill Advanced Business Service S.r.l.	Standing Auditor	
Fondazione Accademia Teatro alla Scala	Director	
Geox S.p.A.	Independent Director	
Avon Cosmetics S.r.l.	Chairman of the Board of Statutory Auditors	
Digitalia'08 S.r.l.	Chairman of the Board of Statutory Auditors	
Direct Channel S.p.A.	Standing Auditor	
<b>Antonella Carù</b>		
<b>Francesca Meneghel</b>		

First and last name	Company	Office held in the company	
<b>Teresa Naddeo</b>	Electronica Industriale S.p.A.	Standing Auditor	
	Flowe S.p.A.	Standing Auditor	
	Immobiliare Idra S.p.A.	Standing Auditor	
	Mediamond S.p.A.	Chairman of the Board of Statutory Auditors	
	Mediaset S.p.A.	Standing Auditor	
	Mediolanum Comunicazione S.p.A.	Standing Auditor	
	Mediolanum Fiduciaria S.p.A.	Chairman of the Board of Statutory Auditors	
	Mediolanum Gestione Fondi Sgr S.p.A.	Chairman of the Board of Statutory Auditors	
	Webuilid S.p.A.	Director	
	Vera Vita S.p.A.	Standing Auditor	
	Dufrital S.p.A.	Standing Auditor	
	<b>Alberto Villani</b>	AGB Nielsen Media Research Holding S.p.A.	Chairman of the Board of Statutory Auditors
		AREEF 2 PALIO SICAF	Standing Auditor
		EDRA S.p.A.	Chairman of the Board of Statutory Auditors
		Nuova GS S.p.A.	Standing Auditor
BBC Italia S.r.l.		Director	
BTSR International S.p.A.		Chairman of the Board of Statutory Auditors	
Fratelli Consolandi S.r.l.		Chairman of the Board of Statutory Auditors	
HDP S.p.A.		Chairman of the Board of Statutory Auditors	
Selecta Industrial Operations S.p.A.		Chairman of the Board of Statutory Auditors	
Selecta Digital Services S.p.A.		Chairman of the Board of Statutory Auditors	
Quattrodue S.p.A.		Chairman of the Board of Statutory Auditors	
Tenuta Montemagno Soc. Agricola S.p.A.		Chairman of the Board of Statutory Auditors	
Bennet S.p.A.		Standing Auditor	
Bennet Holding S.p.A.		Standing Auditor	
Carcano Antonio S.p.A.		Standing Auditor	
DE' Longhi S.p.A.	Standing Auditor		
DE' Longhi Capital Services S.r.l.	Chairman of the Board of Statutory Auditors		
DE' Longhi Appliances S.r.l.	Chairman of the Board of Statutory Auditors		
EFFE 2005 Gruppo Feltrinelli S.p.A.	Standing Auditor		
FINMEG S.r.l.	Standing Auditor		
Gallerie Commerciali Bennet S.p.A.	Standing Auditor		
S.r.l. Immobiliare Rimini	CEO		
Meg Property S.p.A.	Standing Auditor		
Over Light S.p.A.	Standing Auditor		

First and last name	Company	Office held in the company
<b>Marco Taglioretti</b>	Vetus Mediolanum S.p.A.	Chairman of the Board of Statutory Auditors
	San Remo Games S.r.l.	Sole Auditor
	Impresa Costruzioni Grassi&Crespi S.r.l.	Alternate Auditor
	Impresa Luigi Notari S.p.A.	Alternate Auditor
	Compagnia Padana per Investimenti S.p.A.	Alternate Auditor
	Royal Immobiliare S.r.l.	Sole Director
	SO.SE.A. S.r.l.	Director
	Vianord Engineering Société par action simplifiée	Director
	Zenato azienda vitivinicola S.r.l.	Chairman of the Board of Statutory Auditors
	Euricom S.p.A.	Standing Auditor
	Garzanti Specialties S.p.A.	Standing Auditor
	Saint Andrews S.p.A.	Standing Auditor
	Commercio Prodotti Industriali S.r.l.	Standing Auditor
	Relife Recycling	Alternate Auditor
	Focus Investments S.p.A.	Alternate Auditor
	De Wave Srl	Standing Auditor
	Marco Tronchetti Provera & C. S.p.A.	Standing Auditor
	Associazione Insieme Per I Bambini	Alternate Auditor
	Tecnopool S.p.A.	Standing Auditor
	Isoltema S.p.A.	Standing Auditor
	Relife Spa	Standing Auditor
	Ems Group S.p.A.	Standing Auditor
	Mimac Italia S.r.l.	Standing Auditor
	Logiudice Forni S.r.l.	Standing Auditor
	Xpn S.p.A.	Standing Auditor
	Panapesca S.p.A.	Standing Auditor
	Mega Surgelati S.r.l.	Standing Auditor
	Xpp Seven Two S.p.A.	Standing Auditor
	Xpp Seven S.p.A.	Standing Auditor
	Quake S.r.l.	Standing Auditor
	Cbg Acciai S.p.A.	Standing Auditor
	Zuma S.r.l.	Standing Auditor
Koverflux S.r.l.	Standing Auditor	
Rav Italy Sicaf S.p.A.	Standing Auditor	
Lame Italia S.r.l.	Standing Auditor	



First and last name	Company	Office held in the company
<b>Maria Sardelli</b>	Telco S.r.l.	Alternate Auditor
	Sp Plast S.r.l.	Standing Auditor
	Milano Lame S.r.l.	Standing Auditor
	F2i Re S.p.A.	Standing Auditor
	Trabaldo Togna S.p.A.	Director
	Condorpelli S.p.A.	Alternate Auditor
	Camfin S.p.A.	Alternate Auditor
	Camfin Industrial Spa In Liq.Ne	Alternate Auditor
	Cartiera Di Bosco Marengo	Alternate Auditor
	Banca Profilo S.p.A.	Standing Auditor and member of the Supervisory Body
	International Sport Capital	Standing auditor
	Milano Serravalle – Milano Tangenziali S.p.A.	Director
	Boato Holding S.p.A.	Chairman of the Board of Statutory Auditors.
	Telepass Sp.A.	Alternate auditor
	Intersistemi Italia S.p.A.	Member of the Supervisory Body
	Pro Recco Waterpolo 1913 S.r.l.	Member of the Supervisory Body
	Spezia Calcio S.r.l.	Member of the Supervisory Body
	GSE S.p.A.	Member of the Supervisory Body
	Green Arrow SGR S.p.A.	Member of the Supervisory Body
	Fintecna S.p.A.	Chairman of the Supervisory Body and Chairman of the Board of Statutory Auditors
<b>Franca Brusco</b>	Demag Cranes e Components S.p.A.	Chairman of the Supervisory Body
	Donati S.r.l.	Chairman of the Supervisory Body
	ENAV S.p.A.	Chairman of the Board of Statutory Auditors
	Biancamano S.p.A.	Standing Auditor
	D-Flight S.p.A.	Chairman of the Board of Statutory Auditors
	CDP Industria S.p.A.	Standing Auditor
	Cassa Depositi e Prestiti S.p.A.	Standing Auditor
	Autorità di Sistema portuale del Mare Mediterraneo meridionale	Member of the Association of Auditors
	Galleria Borghese National Museum	Member of the Association of Auditors
	Gruppo Garofalo Health Care S.p.A.	Independent Director

## REPORT ON THE REMUNERATION POLICY AND COMPENSATION PAID

### PREAMBLE

This Report on remuneration policy and compensation paid (the “**Report**” or the “**Remuneration Report**”), approved by the Board of Directors on 17 March 2022, on the proposal of the Remuneration Committee, subject to the opinion of the Board of Statutory Auditors, is structured into two sections:

- Section I: “Remuneration Policy” for FY 2022 (the “**2022 Policy**” or the “**Policy**”) and;
- Section II: “Report on Compensation Paid” in FY 2021 (the “**2021 Compensation Report**” or the “**Compensation Report**”).

The Report is prepared in accordance with Art. 123-*ter* of the Consolidated Law on Finance (“**TUF**”), as amended and supplemented by Art. 3 of Italian Legislative Decree no. 49 of 10 May 2019 (the “**Decree**”), as well as art. 84-*quater* and Scheme 7-*bis* of Annex 3A to the Consob regulation (no. 11971 of 14 May 1999 on issuers), as also amended by Consob Resolution no. 21623 of 10 December 2020 (the “**Issuers’ Regulation**”).

For the purposes of the Report, due consideration was given to the European Commission recommendations on the remuneration of directors of listed companies, as well as to the recommendations on remuneration adopted by the Corporate Governance Code for listed companies, approved by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria, to which Pirelli has adhered, as well as the more recent recommendations of the Corporate Governance Committee.

The Policy has also been drafted in accordance with and for the effects of Pirelli’s Related-Parties Transactions Procedure.

The Report is made available to the public at the company’s registered office, at the authorised storage mechanism ([www.emarketstorage.com](http://www.emarketstorage.com)) and on the Pirelli & C. S.p.A. (“**Pirelli & C.**” or the “**Company**”) website at [www.pirelli.com](http://www.pirelli.com).

The 2022 Policy submitted for the binding vote to the Shareholders’ Meeting called to approve the financial statements for the year ended 31 December 2021 pursuant to art. 123-*ter*, paragraph 3-*bis* and 3-*ter*, TUF defines the principles and guidelines for the 2022 financial year:

- for determining the remuneration of the Company Directors, in particular Directors holding specific offices, General Managers and KM, as well as, without prejudice to the provisions of art. 2402 of the Italian Civil Code, for determining the remuneration of members of the control body;
- to which Pirelli & C. refers in defining the remuneration of Senior Managers and, more generally, Group Executives.

The 2022 Policy: (i) sets out its contribution to the company strategy, the pursuit of long-term interests and the sustainable success of Pirelli & C., understood as the creation of long-term value to the benefit of shareholders, taking into account the other relevant stakeholders of the Company; (ii) also takes account of the need to have, retain and motivate people with the expertise and professional standing required by the role held in the Company; and (iii) indicates the purposes, methods of operation and the beneficiaries of the remuneration, as well as the bodies involved and the procedures used for its adoption and implementation.

The 2021 Compensation Report, submitted for the advisory and non-binding vote of the Shareholders' Meeting in accordance with art. 123-*ter*, paragraph 6, TUF, provides, by name, for the Directors, Statutory Auditors and General Managers and, in aggregate form, for the KM:

- adequate information about each component of their remuneration, including payments prescribed in the event of resignation from office or termination of employment, pointing out their compliance with the remuneration policy adopted by the Company for the 2021 financial year;
- an analytical indication of the sums paid in the 2021 financial year for any reason and in any form by the Company and its subsidiaries or affiliates, indicating any components of payments that are referable to activities undertaken in years preceding 2021 (and also highlighting the payments to be made in one or more subsequent years for activity undertaken in the 2021 financial year, providing, if applicable, estimates for the components that cannot be objectively quantified in the 2021 financial year);
- an illustration of how the Company took account of the votes cast by the Shareholders' Meeting in 2021.

## EXECUTIVE SUMMARY

<b>Purposes and principles of the Policy</b>	The Policy aims to achieve long-term interests, thereby contributing to the achievement of strategic objectives and sustainable growth of the company as well as bringing the interests of the Management into line with those of the shareholders.		
	<b>PURPOSE</b>	<b>HOW IT OPERATES</b>	<b>BENEFICIARIES IN OFFICE ON THE DATE OF THE REPORT</b>
<b>Fixed Remuneration</b>	To reward managerial and professional competence and experience, and the contribution made to the role.	It is defined in relation to the characteristics, responsibilities and powers, if any, assigned to the role, taking account of the market references, in order to assure that it is competitive.	<b>Chairman:</b> € 400,000 <b>Executive Vice Chairman and CEO:</b> € 2,400,000 <b>Deputy-CEO:</b> € 1,100,000 <b>General Manager:</b> € 750,000 <b>KM:</b> no more than 50% of Annual Total Direct Compensation on-Target <b>Senior Managers and Executives:</b> no more than 60% (Senior Manager) and 75% (Executive) of the Annual Total Direct Compensation on-Target
<b>Annual variable remuneration STI</b>	Intended to motivate managers to achieve the Company's annual objectives, maintaining strong alignment with the business strategy and the Company's interests and medium-long term sustainability, including through a sustainability target and a partial deferral mechanism together with a business matching component.	Directly linked to the achievement of performance objectives, assigned to each beneficiary in coherence with the role they cover: <ul style="list-style-type: none"> <li>• EBIT (Group/Region/BU)</li> <li>• Net Cash Flow (Group/Region)</li> <li>• Group Net Income</li> <li>• Two sustainability objectives</li> <li>• Unit/department objectives (for Senior Managers and Executives)</li> </ul> In addition to an on-off condition (which determines access to the Plan), represented by a cash indicator (typically Net Cash Flow).  There will be a minimum level for each objective, below which the related pro-quota of the incentive is not accrued.  There is also a maximum cap to the incentive that can be achieved (if all maximum performance objectives are achieved), equal to twice the incentive that can be achieved at target performance.  Finally, for General Managers, KM and selected Senior Managers, with a view to retention, a portion of the incentive accrued ranging from a minimum of 25% to a maximum of 50% is subject to three-year deferral. The relative payment, together with a corporate matching component, is subject to the continuation of employment at the company at the end of this period. For the rest of the Management, on the other hand, 25% of the incentive accrued is deferred and its payment, together with any increase, is subject to the achievement of the following year's STI objectives.	<b>Chairman:</b> not one of the beneficiaries of the plan. <b>Executive Vice Chairman and CEO:</b> <ul style="list-style-type: none"> <li>• <i>Minimum:</i> 80% of fixed remuneration</li> <li>• <i>Target:</i> 125% of fixed remuneration</li> <li>• <i>Cap:</i> 250% of fixed remuneration</li> </ul> <b>Deputy-CEO:</b> <ul style="list-style-type: none"> <li>• <i>Minimum:</i> 65% of fixed remuneration</li> <li>• <i>Target:</i> 100% of fixed remuneration</li> <li>• <i>Cap:</i> 200% of fixed remuneration</li> </ul> <b>General Manager:</b> <ul style="list-style-type: none"> <li>• <i>Minimum:</i> 50% of the GABS</li> <li>• <i>Target:</i> 75% of the GABS</li> <li>• <i>Cap:</i> 150% of the GABS</li> </ul> <b>KM:</b> <ul style="list-style-type: none"> <li>• <i>Minimum:</i> 35% of the GABS</li> <li>• <i>Target:</i> 50% of the GABS</li> <li>• <i>Cap:</i> 100% of the GABS</li> </ul> <b>Senior Managers and Executives:</b> <ul style="list-style-type: none"> <li>• <i>Minimum:</i> from 10% to 25% of the GABS</li> <li>• <i>Target:</i> from 15% to 40% of the GABS</li> <li>• <i>Cap:</i> from 30% to 80% of the GABS</li> </ul>

	PURPOSE	HOW IT OPERATES	BENEFICIARIES IN OFFICE ON THE DATE OF THE REPORT
<b>Medium-long term variable remuneration (LTI)</b>	<p>The intention is to promote the creation of success that is sustainable in the long-term and achievement of the objectives in the Company's strategic plans, while also promoting management engagement and retention.</p>	<p>2020-2022 LTI Plan, 2021-2023 LTI Plan and 2022-2024 LTI Plan: a monetary incentive dependent on achievement of the following, independent long term objectives:</p> <ul style="list-style-type: none"> <li>Cumulative Group Net Cash Flow (before dividends)</li> <li>Relative TSR versus a panel of peers (TIER1: Continental, Michelin, Nokian, Goodyear and Bridgestone)</li> <li>a third objective linked to two Sustainability indicators for the 2020-2022 and 2021-2023 LTI Plans; Dow Jones Sustainability World Index ATX Auto Component sector and CDP Ranking, for the 2022-2024 LTI Plan: Dow Jones Sustainability World Index ATX Auto Component sector and CO2 Emissions Reduction.</li> </ul> <p>There will be an "access threshold" level for each objective, equal to 75% of the target premium, below which the related pro-quota of the incentive is not accrued.</p> <p>There is also a maximum cap to the incentive that can be achieved, if all maximum performance objectives are achieved.</p> <p>The plans are rolling ones and have a vesting period of 3 years.</p> <p>A potential move from cash-based to equity-based LTI Plans is being considered for future rolling cycles.</p>	<p><b>Chairman:</b> not one of the beneficiaries of the Plan.</p> <p><b>Executive Vice Chairman and CEO (annual opportunities)</b></p> <ul style="list-style-type: none"> <li>"Access threshold": 52.5% of fixed remuneration</li> <li>Target: 70% of fixed remuneration</li> <li>Cap: 200% of fixed remuneration</li> </ul> <p><b>Deputy CEO (annual opportunities):</b></p> <ul style="list-style-type: none"> <li>"Access threshold": 45% of fixed remuneration</li> <li>Target: 60% of fixed remuneration</li> <li>Cap: 160% of fixed remuneration</li> </ul> <p><b>General Manager (annual opportunities):</b></p> <ul style="list-style-type: none"> <li>"Access threshold": 45% of the GABS</li> <li>Target: 60% of the GABS</li> <li>Cap: 160% of the GABS</li> </ul> <p><b>KM (annual opportunities):</b></p> <ul style="list-style-type: none"> <li>"Access threshold": 37.5% of the GABS</li> <li>Target: 50% of the GABS</li> <li>Cap: 130% of the GABS</li> </ul> <p><b>Senior Managers and Executives (annual opportunities):</b></p> <ul style="list-style-type: none"> <li>"Access threshold": from 11.25% to 37.5% of the GABS</li> <li>Target: from 15% to 50% of the GABS</li> <li>Cap: from 40% to 130% of the GABS</li> </ul>
<b>Other tools</b>	<p>To assure organisational stability and the contribution made to the implementation of the Company's strategic plans, also for the purpose of promoting sustainable success over the long-term.</p> <p>Safeguard company know-how and protect it from competitors.</p> <p>Promote attractiveness of the Company and loyalty of managerial staff.</p>	<ul style="list-style-type: none"> <li><b>Non-competition agreements:</b> constraint regarding the market sector in which the Group operates and the territorial coverage. The extent varies according to the role covered. The Chairman and Executive Vice Chairman and CEO are not included among the beneficiaries of the non-competition agreements.</li> <li><b>Welcome bonus:</b> one-off bonuses that can be assigned with a view to attracting managerial resources exclusively during the hiring phase.</li> <li><b>Benefit:</b> non-monetary benefits currently assigned on the basis of market practices.</li> </ul>	

## **REMUNERATION POLICY FOR THE 2022 FINANCIAL YEAR**

### **1. STAKEHOLDERS IN THE PROCESS OF POLICY PREPARATION, ADOPTION AND IMPLEMENTATION**

#### **Stakeholders in the process**

The definition of the remuneration policy and any amendments made thereto are the result of a clear and transparent process in which the Remuneration Committee and the Board of Directors play a central role. It is, in fact, adopted and approved by the Board of Directors annually – based on a proposal by the Remuneration Committee – and the Board then submits it to the Shareholders' Meeting for a vote.

The Board of Statutory Auditors issued its opinion on the policy, including the part regarding the remuneration of Directors holding specific offices.

The Remuneration Committee, the Board of Statutory Auditors and the Board of Directors supervise the application thereof. To such purpose, at least once per year, when the report on compensation paid is submitted, the Head of the Human Resources & Organisation Department reports on the application of the remuneration policy to the Remuneration Committee, the chairman of which in turn reports to the Board of Directors.

For the sake of completeness, it should be noted that, in accordance with current legislation, it is the role of the Board of Directors to propose to the Shareholders' Meeting the adoption of incentive mechanisms for members of the board of directors, employees or collaborators via the attribution of financial instruments or options on financial instruments, which, if approved, are later made public by the legal deadline (without prejudice to any further transparency requirements laid down in the applicable regulations). As at the date of this Report, the Company has no incentive plans based on financial instruments in place<sup>91</sup>.

A potential move from cash-based to equity-based LTI Plans is being considered for future rolling cycles.

In preparing the 2022 Policy, the Company was assisted by Willis Towers Watson and Korn Ferry for the preparation of national and international benchmarks used to define the structure of the remuneration of the Directors holding specific offices, General Managers and KM, in addition to Senior Managers and Executives.

Amongst the measures aimed at avoiding or managing conflicts of interest, it is noted that, in compliance with the recommendations of the Corporate Governance Code, no member of the Board

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<sup>91</sup> It should be noted that the Board of Directors' meeting of 17 March 2022, in application of the "rolling" mechanism introduced with the 2020-2022 LTI Plan, established the objectives of the 2022-2024 LTI Plan, related to the objectives contained in the 2021-2022/2025 Strategic Plan. Such LTI plan will be submitted for approval of the Shareholders' Meeting as regards the part establishing determination of the incentive on the basis of a target total shareholder return, calculated as the performance of the Pirelli share, compared to a panel of selected peers from the Tyre sector. For a more extensive description, reference is made to paragraphs 2, 4, 5 and 6 below.

of Directors shall attend meetings of the Remuneration Committee during which proposals are made to the Board of Directors regarding their remuneration.

Below is a summary of the activities carried out by the parties involved in the process of policy preparation, adoption and implementation:

BODY	ROLE AND COMPETENCE ACTIVITIES
Shareholders' Meeting	<ul style="list-style-type: none"> <li>- determines at the time of appointment the gross annual remuneration to be paid to members of the Board of Directors, except for the remuneration to be attributed, by the Board, to Directors holding specific offices;</li> <li>- determines at the time of appointment the gross annual remuneration to be paid to the members of the Board of Statutory Auditors;</li> <li>- approves the first section of the remuneration report;</li> <li>- issues an advisory vote on section 2 of the remuneration report;</li> <li>- decides, upon the proposal of the Board of Directors, on any incentive mechanisms based on the attribution of financial instruments or options on financial instruments.</li> </ul>
Board of Director	<p>defines:</p> <ul style="list-style-type: none"> <li>- the breakdown of the total remuneration defined for Directors by the Shareholders' Meeting;</li> <li>- the policy on remuneration of members of the Board of Directors, General Managers, KM and, without prejudice to the provisions of art. 2402 of the Italian Civil Code, members of the Board of Statutory Auditors;</li> <li>- the remuneration of Directors holding specific offices in accordance with art. 2389, paragraph 3 of the Italian Civil Code, and that of General Managers;</li> <li>- the performance objectives related to the variable part of the remuneration of executive directors, General Managers and KM;</li> <li>- the remuneration of the Head of the Internal Audit department upon a proposal by the Audit, Risk, Sustainability and Corporate Governance Committee.</li> </ul>
Related-Parties Transactions Committee	<p>In the cases envisaged by law and the procedures for related-parties transactions adopted by the Company in implementation of the Consob regulation in force pro-tempore, the Related-Parties Transactions Committee expresses the relevant opinions.</p>

## Remuneration Committee

The Remuneration Committee is appointed by the Board of Directors (which also appoints the chairman thereof) and remains in office for the entire duration of the mandate granted by the Board of Directors.

As at the date of this Report, the Committee, consistently with the recommendations of the Corporate Governance Code, is composed of five members, all of whom are non-executive and the majority of whom are independent. The Chairman of the Committee is an independent director.

As at the date of this Report, the Committee members are as follows:

REMUNERATION COMMITTEE

	Name and Surname	Office
	Bai Xiping	Director
	Paola Boromei	Independent Director
	Fan Xiaohua	Independent Director
	Marisa Pappalardo	Independent Director
	Tao Halsu	Independent Director

Director Paola Boromei was considered by the Board of Directors as having sufficient experience in matters of accounting, finance and remuneration policies.

The entire Board of Statutory Auditors is entitled to participate in the work of the Remuneration Committee.

The Secretary to the Board of Directors acts as the Secretary to the Remuneration Committee.

The Committee has investigatory, advisory, propositional and supervisory functions and ensures the definition and application, within the Group, of remuneration policies that, on the one hand, aim at pursuing the sustainable success of the Company/Group and aligning the interests of management with those of the shareholders and, on the other, at attracting, retaining and motivating human resources with the expertise and professional standing required of the role held in the Company.

In particular, the Remuneration Committee:

- assists the Board of Directors with defining the remuneration policy;
- assesses periodically the adequacy and overall consistency of the remuneration policy for directors of the Company and in particular Directors holding specific offices, General Managers and KM;
- with regard to the executive directors, other Directors holding specific offices and General Managers, it makes recommendations or expresses opinions to the Board:
  - o about their remuneration, in compliance with the remuneration policy;
  - o about setting performance objectives linked to the variable part of that remuneration;



- o about the definition of any no-competition agreements;
- o about the definition of any agreements for the termination of working relationships, on the basis of the principles established in the remuneration policy;
- monitors the correct application of the remuneration policy and checks the actual achievement of performance objectives;
- verifies compliance of the remuneration of executive directors, other Directors holding specific offices, General Managers and KM with the remuneration policy and expresses an opinion on this, also in accordance with the related party transaction procedure adopted by the Company in application of the Consob regulation in force at the time<sup>92</sup>;
- assists the Board of Directors in the examination of proposals to the Shareholders' Meeting for the adoption of remuneration plans based on financial instruments;
- examines and submits to the Board of Directors the report on compensation paid, on behalf of the governing and supervisory bodies, of the General Managers and in aggregate form the KM:
  - o provides adequate information about each component of their remuneration;
  - o explains in detail the remuneration paid during the financial year in question, for whatever reason and in whatever form, by the Company and its subsidiaries or affiliates;
- in any case, provides the Related-Parties Transactions Committee with opinions if the responsibilities of said Committee regarding related-parties transactions do not cover issues pertaining to the remuneration of executive directors, including Directors holding specific offices, General Managers and KM;
- assesses whether there are exceptional circumstances that allow for a derogation from the remuneration policy. Where derogations to the Policy on the matters indicated in paragraph 10 below exist, they are approved by the Remuneration Committee, as the Related-Parties Transactions Committee, or by the Related-Parties Transactions Committee, on the basis of the procedures adopted by the Company for related-parties transactions, in implementation of the applicable Consob regulation *pro-tempore*.

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<sup>92</sup> In accordance with the Procedure for Related-Parties Transactions adopted by the Company on 15 June 2021 and effective from 1 July 2021, the Board of Directors resolved to assign to the Remuneration Committee the functions of the Committee for Transactions with Related Parties in relation to transactions with related parties that refer to the remuneration and treatment of directors and other KM and, more generally, to the matters covered by the report on the remuneration policy and remuneration paid (including any exceptions), within the limits and according to the criteria allowed by Consob Regulation no. 17221 of 12 March 2010 and by the applicable legal or regulatory provisions. The Procedure for Related-Parties Transactions was most recently updated on 17 March 2022 only to take into account the changes made to the Company's organisational structure at the end of 2021.

A timetable of the Remuneration Committee’s main activities in 2022 is shown below.

2022	SUBJECT	ACTIVITIES
1Q	2022 Remuneration Policy and Variable Incentive Plans	<ul style="list-style-type: none"> <li>• Presentation of the timetable</li> <li>• Draft 2022 Remuneration Policy</li> <li>• Approval of the incentive plan by the Remuneration Committee:                             <ul style="list-style-type: none"> <li>○ Review of the 2021 STI closure targets and definition of 2022 targets</li> <li>○ 2022-2024 LTI</li> </ul> </li> <li>• Analysis of market remuneration benchmarks</li> <li>• Analysis for adoption of the LTI equity based plan</li> </ul>
2Q	Shareholders’ Meeting and publication of the 2022 Remuneration Policy	<ul style="list-style-type: none"> <li>• Remuneration Report Approval</li> <li>• Shareholders’ vote on 2022-2024 LTI incentive plans</li> <li>• Analysis for adoption of the LTI equity based plan</li> </ul>
3Q	Analysis of votes received from Shareholders and review of Governance	<ul style="list-style-type: none"> <li>• Analysis of votes received from Shareholders</li> <li>• Analysis of 2022 Remuneration Policy and quality benchmark</li> <li>• Analysis of Remuneration Policy and assessment of potential changes</li> <li>• Analysis for adoption of the LTI equity based plan</li> </ul>
4Q	Market analysis and review of Remuneration Policy	<ul style="list-style-type: none"> <li>• Guidelines for the new Remuneration Policy</li> <li>• Analysis of variable incentive plans and assessment of potential changes (e.g. Equity Based LTI)</li> </ul>

In relation to the operating methods of the Remuneration Committee, see the Report on Corporate Governance and the Ownership Structure.

## 2. PURPOSES AND PRINCIPLES OF THE 2022 REMUNERATION POLICY

### **Purposes of the 2022 Policy and guiding principles**

The aims of the Policy are to attract, motivate and retain resources in possession of 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.

The Policy is intended to strengthen the pay for performance link and, as better explained below, provides for the objectives underlying the incentive plans in place to be set consistently with those disclosed to the market.

The Policy is valid for one year and in any case until the Shareholders' Meeting approves a new remuneration policy.

It is defined taking into account various factors such as remuneration, which in turn is defined on the basis of market benchmarks aiming at a level of attractiveness differentiated according to the company role and skills, the compensation mix and the working conditions of Company employees.

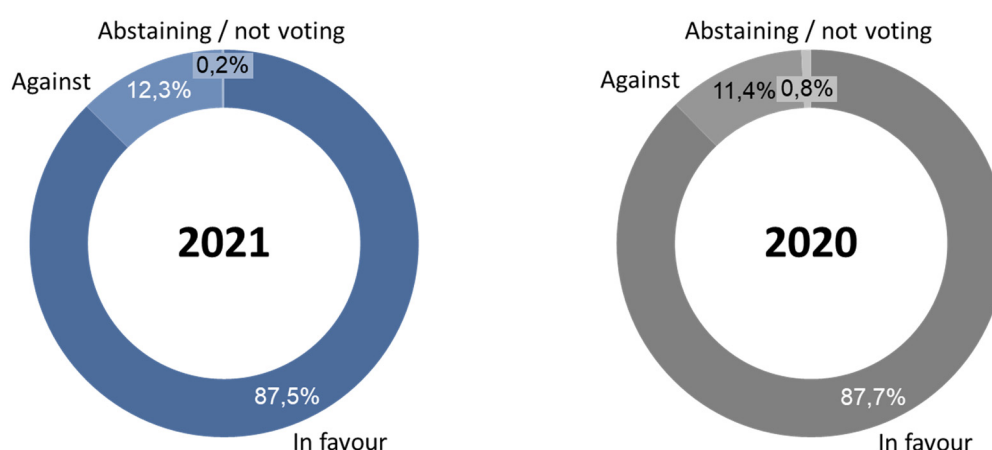
With reference to this last aspect, the 2022 Policy also in fact refers to the remuneration of the Senior Managers and Executives of the Group. Moreover, Pirelli:

- applies and complies with, where existing, the national collective bargaining agreements applicable from time to time to which it adheres.
- adopts for all the Group's managers and the remaining employees meritocratic policies, variable incentive systems, welfare initiatives and services to benefit employees or their families, as well as, in order to protect the company assets, non-competition agreements for specific individuals.

### Results of the voting and feedback from investors

The Policy is established taking into account the analysis and investigations made of the results of the Shareholders' Meeting vote and the feedback received from shareholders and key proxy advisors on the 2021 Remuneration Policy and the Report on Compensation paid in FY 2020.

The diagram below presents the result of the binding vote expressed by the Shareholders' Meeting on 15 June 2021 compared to the result of the voting in 2020.



Pirelli attaches great importance to analysing this voting result and the feedback received and, following the analysis of the results of the 2021 voting and the main rationale for the votes against,

in the course of 2021 and in the first months of 2022, took the action required to ensure the consistency of the 2022 Policy with the shareholders' expectations for the future.

### **Description of the changes with respect to the 2021 Policy**

With respect to the 2021 Remuneration Policy, the following aspects of the 2022 Policy were reviewed:

- the reference panel used to compare the Annual Total Direct Compensation on-Target of the Executive Vice Chairman and Chief Executive Officer was redefined by excluding Cooper Tyre, given its delisting following the acquisition by Goodyear, and FCA, following the merger with Stellantis. Brembo was also added, thus maintaining the focus on the size and sector in which Pirelli operates;
- increased weight of sustainability objectives in the STI, taking it from 10% to 15% with the introduction of the "Diversity and Inclusion (D&I): Women Hiring objective;
- replacement, starting from the LTI 2022-2024 cycle, of the CDP Ranking objective with the CO<sub>2</sub> Emissions Reduction objective;
- benchmarking of the Chairman conducted by Willis Towers Watson in line with what was done for the Executive Vice Chairman and Chief Executive Officer;
- in the event of the hiring of a new General Manager, in addition to Willis Towers Watson and Korn Ferry, other leading firms specializing in executive compensation may be engaged;
- the possibility of revising the targets or closing the STI and LTI plans early is limited to circumstances in which extraordinary transactions affecting the Group perimeter and/or profound changes in the macroeconomic and geopolitical scenario take place;
- increase in the value of the consideration under the non-competition agreement up to a maximum of 80% of the GABS (compared to the previous 60%) to include roles with a high technical content and specialist know-how, consequently an increase in the regular payment percentages to a maximum of 15% of the GABS (compared to the previous 10%);
- the quantification of the objectives of the STI and LTI plans (at minimum level/access threshold, target and maximum) have been set on the assumption that the prices of energy and oil will remain at the levels they were in February 2022 until the end of the year 2022, this quantification does not take into account the potential impacts on local operations of imports and exports from and to Russia of raw materials and finished products, not even the possibility of a total interruption of import and export flows from and to Russia and a recession in Europe due to worsening geopolitical tensions. Referring to the STI and LTI plans in force<sup>93</sup> in implementation

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<sup>93</sup> Including the LTI plan for the 2022-2024 cycle.

for the latter of the option to modify the objectives in the event of deep changes in the macro-economic scenario to ensure alignment between the corporate objectives and the objectives underlying the Management incentive systems, the Board of Directors, upon proposal of the Remuneration Committee, with favourable opinion from the Board of Statutory Auditors has established adjustment criteria of the sole quantification of the objectives of these plans (which for the rest are unchanged) to make allowance for any negative effects resulting from a worsening geopolitical and macroeconomic referring scenario. In particular, the approved criteria allow to reduce the quantification of the objectives in a less than proportional way the negative effects generated (in order to push Management towards compensatory actions) by factors resulting from the deepening of the crisis and affecting, for example, the trend of sales of products produced in Russian plants, the increase of the landed cost in Europe due to productions in alternative plants and the substitution of suppliers of raw materials or the use of alternative raw materials.

The 2022 Policy takes into account the definition of the objectives of the LTI Plan for the three-year period 2022-2024, applying the rolling mechanism already provided for in the 2020 Policy, in support of the objectives of the 2021-2022/2025 Strategic Plan.

The 2022 Policy no longer includes the medium-long-term Retention Plan approved on 26 February 2018 and terminated in 2021 for the General Manager Operations, the KM and selected Senior Managers/Executives.

The 2022 Policy also provides for the launch of an analysis process for the possible adoption of equity-based long-term plans (LTI).

### **Market references and peer group**

Pirelli defines and applies a policy:

- for the Chairman, aiming for the reference market median;
- for the remaining of Top Management and Senior Managers, with reference to the third quartile;
- for Executives, aiming for the median.

The Annual Total Direct Compensation on-Target constitutes the benchmark for market comparison.

The analysis of the positioning, the make-up and more generally the competitiveness of the remuneration of Directors holding specific offices is conducted by the Remuneration Committee and the Board of Directors with the assistance of companies specialised in executive compensation, on the basis of methodological approaches that allow the full assessment, if within the typical limits of benchmark analyses, of the complexity of their positions from an organisational point of view, the specific duties assigned thereto and any individual's impact on the final business results.

In regard to the comparative market, in the definition of the panel of reference companies updated annually by the Remuneration Committee, it takes account of various components such as business sector, geography, specific features and size of the company.

The reference sample of companies used to analyse the competitiveness and for the possible review of the remuneration of the Chairman of Pirelli & C. has been established with the assistance of Willis Towers Watson and consists of twelve FSEMIB companies, excluding financial companies.

The sample of reference companies used for the competitiveness analysis and possible review of the remuneration of the Executive Vice Chairman and Chief Executive Officer of Pirelli & C. has been defined with the assistance of Willis Towers Watson, also taking into account the main recommendations on pay for performance, and consists of the 14 companies shown in the table below, all belonging to the Vehicles, Auto Component & Tyre industry, thus restricting the comparison to companies operating in the same sector as Pirelli.

Aston Martin	BMW	Brembo	Continental
Ferrari	Goodyear	Harley-Davidson	Magna International
Michelin	Navistar	Renault	Stellantis
Volkswagen		Volvo Car	

The sample of reference companies used for the competitiveness analysis and for the possible review of the Deputy-CEO's remuneration was established with the help of Korn Ferry; in this regard, it should be noted that the source used for the market comparison is the European Top Executive Compensation Survey covering 250 listed European companies included in the FTSE500 list, which includes the 500 biggest European companies by capitalisation.

Finally, the remuneration structure for General Managers, KM, Senior Managers and Executives is defined on the basis of national and international benchmarks which, in view of the complexity and specific nature of the role, were prepared by Willis Towers Watson and/or Korn Ferry and agreed with the Remuneration Committee.

### **Elements of the 2022 Policy**

In keeping with previous remuneration policies, the 2022 Policy provides for the Management remuneration to consist of various elements:

- gross annual base salary;
- an annual variable component (STI);

- medium-long term variable component (LTI);
- non-monetary benefits.

### **Fixed component**

The base salary is established on the basis of the complexity of the position, professional seniority, the skills required to perform in the role, performance over time, and the trend in the comparison remuneration market related to the position held by the individual.

### **Variable components**

The STI and LTI variable components are established - taking account of the benchmarks for each - as a percentage of base salary which increases according to the position held by the beneficiary.

### **Annual variable component (STI)**

The STI component, except for specific cases, is extended to all the Management - except for the Chairman - and is intended to reward the beneficiaries' short term performance; moreover, it can be extended to managers who joined the Group during the year. The STI objectives for Directors holding specific offices to whom further specific duties have also been attributed, for General Managers and for KM are established by the Board of Directors upon a proposal by the Remuneration Committee (see §4 and §5).

The objectives underlying the STI plan represent performance consistent with the corresponding objectives disclosed to the market, in particular the objectives for obtaining the incentive at minimum level are set as equal to the value disclosed to the market. For 2022, the targets assigned to the Directors holding specific offices to whom further specific duties have also been attributed, to General Managers and KM in the context of the STI plan are the following:

Weight <b>35%</b>	Weight <b>30%</b>	Weight <b>20%</b>	Weight <b>10%</b>	Weight <b>5%</b>
<b>EBIT Adj. Group level</b>	Group Net Cash Flow (before dividends)	<b>Net income</b>	<b>Eco &amp; Safety Rev.</b>	D&I: Women Hiring

The STI objectives of the Senior Managers and Executives are, instead, defined by the hierarchical manager in accordance with the Human Resources & Organisation and Planning and Controlling departments and envisage, amongst others, also objectives connected with the economic performance of the relevant business unit/geography/department (cf. §6).

At the end of the year and based on the finalised performance figures (and included in the draft financial statements approved by the Board of Directors), the Department of Human Resources & Organization, with the assistance of the Planning, Controlling and Administration Department, checks the level to which the objectives have been achieved, on which basis the Board of Directors then resolves, after examination by the Remuneration Committee, having obtained the opinion of the Board of Statutory Auditors, on the amount of the variable compensation to be disbursed.

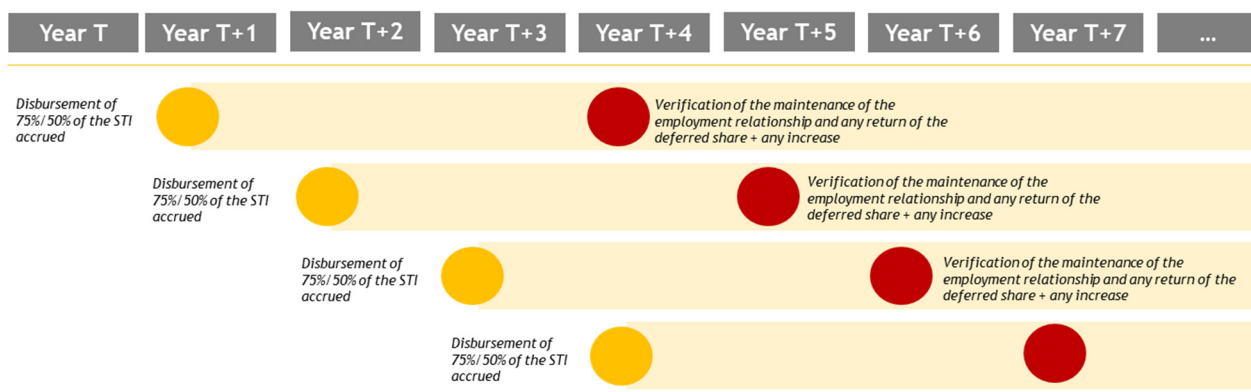
In the event of extraordinary transactions affecting the scope of the Group and/or major changes in the macroeconomic and geopolitical scenario, the Remuneration Committee may adjust the targets in the STI plan, in order to protect the plan's value and aims and ensure that the objectives of the company and the objectives that underpin the Management incentive systems are constantly aligned, or close the plan early.

The quantification of STI 2022 objectives (at minimum, target and maximum) have been set on the assumption that the prices of energy and oil will remain at the levels they were in February 2022 until the end of the year 2022, this quantification does not take into account the potential impacts on local operations of imports and exports from and to Russia of raw materials and finished products, not even the possibility of a total interruption of import and export flows from and to Russia and a recession in Europe due to worsening geopolitical tensions. Referring to the STI 2022 plan and to ensure alignment between the corporate objectives and the objectives underlying the Management incentive systems, the Board of Directors, upon proposal of the Remuneration Committee, with favourable opinion from the Board of Statutory Auditors, has established adjustment criteria of the sole quantification of the objectives of this plan (which for the rest is unchanged) to make allowance for any negative effects resulting from a worsening geopolitical and macroeconomic referring scenario. In particular, the approved criteria allow to reduce the quantification of the objectives in a less than proportional way the negative effects generated (in order to push Management towards compensatory actions) by factors resulting from the deepening of the crisis and affecting, for example, the trend of sales of product produced in Russian plants, the increase of the landed cost in Europe due to productions in alternative plants and the substitution of suppliers of raw materials or the use of alternative raw materials.

Achievement of the individual objectives will be assessed by the Remuneration Committee, neutralising the effects of any extraordinary decisions that could have impacted the results (either positively or negatively). The Board of Directors resolves on any review proposal submitted for its examination.

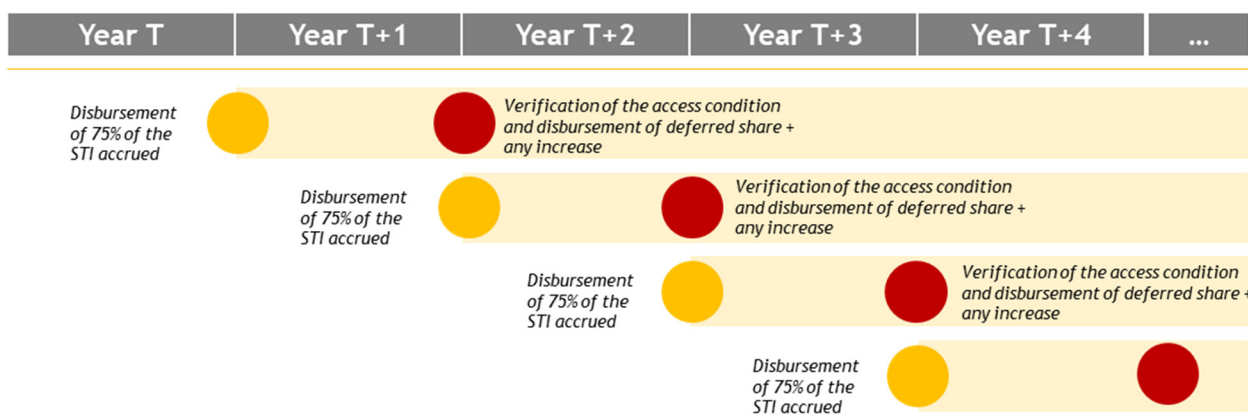
For 2022, for General Managers, KM and selected Senior Managers, part of the remuneration accrued as STI, from a minimum of 25% to a maximum of 50%, is deferred, with a view to retention, and disbursed at the end of a three-year period subject to the continuation of employment and together with a corporate matching component which can vary from a minimum of 1 time to a maximum of 1.5 times the amount of the deferred STI (see the diagram below).





For the rest of the Management, on the other hand, part of the variable remuneration accrued as STI is deferred to the benefit of continued results over time and thereby the creation of sustainable value for shareholders in the medium-long term. Indeed, 75% of any STI accrued is paid, since the remaining 25% is deferred by 12 months and subject to achievement of the STI objectives for the following year. More specifically (see graph below):

- in the event that no STI is accrued in the following year, the deferred STI share of the previous year is definitively “lost”;
- in the event that the payout percentage of the STI accrued in the following year is below target level, the STI share deferred from the previous year is paid;
- in the event that the payout percentage of the STI accrued in the following year is equal to or higher than target value, the STI share deferred from the previous year is paid, together with an additional amount equal to the portion deferred (increase).



### Medium-long term variable component (LTI)

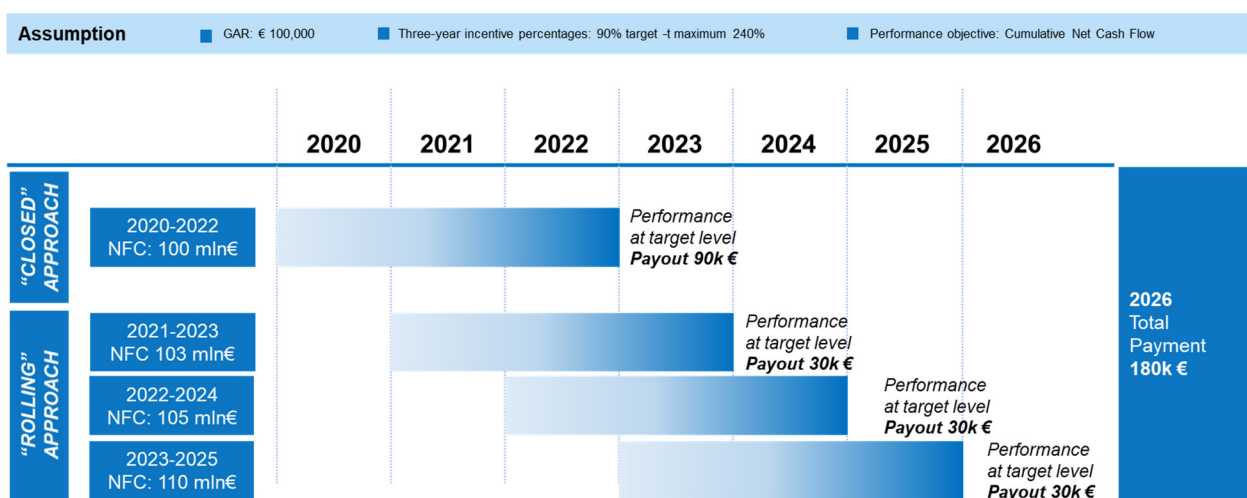
As for the medium to long term variable remuneration (LTI), it is assigned to Top Management – except for the Chairman – and extended, except in specific cases, to all Executives whose grade, determined with the Korn Ferry method, is equal to or above 20.

The medium-long term incentive plans (LTI) are intended to:

- link Management remuneration with the medium-long term performance of the Group;
- promote the creation of shareholder value and sustainable success for the Company;
- align the interests of shareholders with those of the Management;
- retain Managers.

The “rolling” mechanism introduced starting from the LTI Plan for the 2020-2022 period allows flexibility to be guaranteed by ensuring that, for each new three-year period, the performance indicators are aligned with the evolution of the market and the company and, therefore, the Company’s Strategic Plan.

Below is an example diagram showing how the rolling mechanism works:



The LTI plans assign each beneficiary an incentive opportunity (the “**LTI Bonus**”), equal to a percentage of the gross annual fixed component in place in the first year of the plan. This incentive percentage increases in relation to the position held and takes into account the benchmarks for each role.

The full cost of the LTI plans is included in the economics of the Strategic Plan, so that their cost is “self-funded” by achievement of the expected results.

The risk governance process is fully integrated into the strategic planning process in order to ensure that the objectives envisaged for achieving the variable incentive do not expose Pirelli to managerial behaviour inconsistent with an acceptable level of risk (“risk appetite”) as defined by the Board of Directors when approving the Plans.

The targets set in the LTI plans represent a performance consistent with the corresponding targets disclosed to the market. In particular, the objectives for obtaining the incentive at “access threshold” level are set as equal to the value disclosed to the market (net of the sustainability objectives).

The targets assigned to the Directors holding specific offices to whom further specific duties have also been attributed, to General Managers and KM in the context of the 2022-2024 LTI Plan are the following:

Weight <b>40%</b>	Weight <b>40%</b>	Weight <b>10%</b>	Weight <b>10%</b>
<b>Group Net Cash Flow</b>	<b>Related TSR vs TIER 1 Panel</b>	<b>DJS Index</b>	<b>CO2 Emissions Reduction</b>
<b>KPI</b>			
Value disclosed to the market	Performance equal to panel average*  <small>* The period of comparison is the second half of 2024 vs the second half of 2021.</small>	From -1% to -5% vs Top Industry cluster	Value disclosed to the market

In the event of extraordinary transactions affecting the Group’s perimeter and/or profound changes in the macroeconomic and geopolitical scenario, the Board of Directors, on a proposal from the Remuneration Committee, subject to the opinion of the Board of Statutory Auditors, may decide:

- any adjustment of the targets (both upward or downward) of the 2022-2024 LTI Plans, so as to protect their value and relative targets, thus ensuring constant alignment between the company’s objectives and the objectives underlying the Management incentive schemes;
- possible early closure thereof.

The quantification of the LTI plans objectives for 2022 (access threshold, target and maximum) have been set on the assumption that the prices of energy and oil will remain at the levels they were in February 2022 until the end of the year 2022, this quantification does not take into account the potential impacts on local operations of imports and exports from and to Russia of raw materials and finished products, not even the possibility of a total interruption of import and export flows from and to Russia and a recession in Europe due to worsening geopolitical tensions. Referring to the LTI plans in force<sup>94</sup> in implementation for the latter of the option to modify the objectives in the event of deep changes in the macro-economic scenario, to ensure alignment between the corporate objectives and the objectives underlying the Management incentive systems, the Board of Directors, upon proposal of the Remuneration Committee, with favourable opinion from the Board of Statutory Auditors, has established adjustment criteria of the sole quantification of the objectives of these plans (which for the rest are unchanged) to make allowance for any negative effects resulting from a worsening geopolitical and macroeconomic referring scenario. In particular, the approved criteria allow to reduce the objectives in a less than proportional way (in order to push Management towards compensatory actions) by factors resulting from the deepening of the crisis and affecting, for example, the trend of sales of product produced in Russian plants, the increase of the landed cost

<sup>94</sup> Including the LTI plan for the 2022-2024 cycle.

in Europe due to productions in alternative plants and the substitution of suppliers of raw materials or the use of alternative raw materials.

The diagram below shows the link between the corporate strategy and the KPIs of the incentive systems.

STRATEGIC PLAN PILLARS	SHORT TERM INCENTIVE (STI)	LONG TERM INCENTIVE (LTI)
High-end focus	Net Result	Relative TSR
Competitiveness Plan	EBIT	
Cash flow generation	Net Cash Flow	Cumulative Group Net Cash Flow
Sustainability	Eco & Safety Performance Revenues D&I: Women Hiring	Dow Jones Sustainability Index CO <sub>2</sub> Emissions Reduction

### **Non-monetary benefits**

When a new General Manager or an KM is hired, the Company may define, in line with market practice, the experience gained and the conventional seniority that may be due to such person.

Lastly, non-monetary elements of remuneration are benefits provided to beneficiaries, depending on the position held, as a result of contractual provisions/company policies or aimed at reinforcing attraction during the recruitment phase (e.g. accommodation and student grants for limited periods of time).

## 3. REMUNERATION OF THE BOARD OF DIRECTORS AND THE BOARD OF STATUTORY AUDITORS

### **The Board of Directors**

Within the Board of Directors, a distinction can be made between:

- (i) Directors holding specific offices to whom further specific duties have also been attributed;
- (ii) Directors holding no specific offices.

The attribution to Directors of powers for specific matters, which are not covered by the duties delegated under Art. 2381 of the Italian Civil Code, does not per se make them directors to whom specific duties are attributed.

The total gross annual salary established by the Shareholders' Meeting<sup>95</sup> was allocated by the Board of Directors as follows for the years 2020, 2021 and 2022:

Directors' remuneration		
Body	Office	Remuneration
Board of Directors	Director	€65,000
Audit, Risks, Sustainability and Corporate Governance Committee	Chairman	€35,000
	Member	€30,000
Remuneration Committee	Chairman	€35,000
	Member	€30,000
Strategies Committee	Chairman	€50,000
	Member	€30,000
Appointments and Successions Committee	Chairman	€50,000
	Member	€30,000
Related-Parties Transactions Committee	Chairman	€75,000
	Member	€50,000

In line with best practice, Directors with no specific offices do not receive a variable part of their salary. Expenses incurred for official reasons are also reimbursed to the directors.

In any case, the compensation granted to non-executive directors is determined in such an amount as to guarantee adequacy in terms of the skill, professionalism and effort required by their appointment. In deciding said allocation, the Board of Directors takes into account the effort required for the directors' attendance of the individual board committees, on the basis of the previous mandate.

In the event that during the current term of office the Board of Directors is called on to resolve again on the allocation of the remuneration established by the Shareholders' Meeting, and unless the Shareholders' Meeting provides otherwise, an allocation of said remuneration that envisages the attribution (i) of a remuneration that is at most +25% of the Directors' remuneration attributed during the previous term of office and (ii) +25% of the remuneration for the office held in the committees in the previous term of office for committee members, should be considered compliant with the policy. If new committees should be established, the maximum limit is that of the highest remuneration envisaged for the corresponding office in other committees.

<sup>95</sup> On 18 June 2020, the Pirelli & C. Shareholders' Meeting resolved to establish, for the years 2020, 2021, 2022 and until cessation of office with the approval of the financial statements as at 31 December 2022, a maximum of euro 2 million as the total annual salary of the Board of Directors in accordance with Art. 2389, paragraph 1 of the Italian Civil Code, excluding the remuneration to be assigned by the Board to Directors holding specific offices, as envisaged by Art. 2389 of the Italian Civil Code.

Again in line with best practices, a Directors & Officers Liability (“**D&O**”) insurance policy is envisaged to cover the third party liability of the corporate bodies, the General Managers, the KM, the Senior Managers and Executives, in going about their duties. Consequent to the provisions established on the matter by the applicable national collective bargaining agreement and rules governing mandates, this policy aims to indemnify Pirelli from any expenses deriving from the related compensation, excluding cases of wilful misconduct or gross negligence.

No insurance coverage, whether for social security or pensions, other than the obligatory coverage is provided for Directors holding specific offices.

## Supervisory Body

On 22 June 2020, the Board of Directors confirmed the remuneration paid to members of the Supervisory Body during the previous term of office.

Supervisory Body	Chairman	€60,000
	Member	€40,000

For completeness, it is reported that the remuneration assigned to members of the Supervisory Body is not included in the total gross annual salary established by the Shareholders’ Meeting.

## The Board of Statutory Auditors

The remuneration of members of the controlling body is determined by the Shareholders’ Meeting as a fixed annual amount, appropriate to the competence, professionalism and commitment required by the importance of the position held and the size and sector characteristics of the company.

The Shareholders’ Meeting of 15 June 2021, called to resolve on the renewal of the Board of Statutory Auditors, whose mandate expired with the approval of the financial statements as of 31 December 2020, determined a gross annual fixed remuneration, pursuant to Art. 2402 of the Italian Civil Code - for its Chairman, for the years 2021, 2022, 2023 and until cessation of office with the approval of the financial statements as of 31 December 2023, of €90,000 and for the other regular members of €75,000.

For the Statutory Auditor called to be part of the Supervisory Body, following the Shareholders’ Meeting of 15 June 2021, in line with the resolutions passed by the Board of Directors’ meeting of 22 June 2020, the Board of Directors confirmed for the years 2020, 2021, 2022 and until the end of the term of office of the current Board of Directors and in any case until renewal by the next Board of Directors, a gross annual remuneration of €40,000.

Expenses incurred for official reasons are also reimbursed to the Statutory Auditors.

In line with best practices, a D&O insurance policy is envisaged to cover the third party liability of the corporate bodies, including the members of said controlling bodies.

#### 4. REMUNERATION OF DIRECTORS HOLDING SPECIFIC OFFICES

The remuneration of Directors holding specific offices is proposed by the Remuneration Committee to the Board of Directors when they are appointed, or at the first useful meeting thereafter.

##### **Chairman of the Board of Directors**

If a Director has been appointed to hold specific offices, but no further specific duties have been assigned (at the date of the Report, this applies to Chairman Ning Gaoning) the remuneration consists solely of a fixed gross annual component, as well as the compensation for the office of director and any participation in committees.

At the time of appointment, the Board of Directors determines the remuneration for the Chairman of the Board of Directors, considering the remuneration assigned during the previous mandate (if the same holder) and the market benchmark (if a different person).

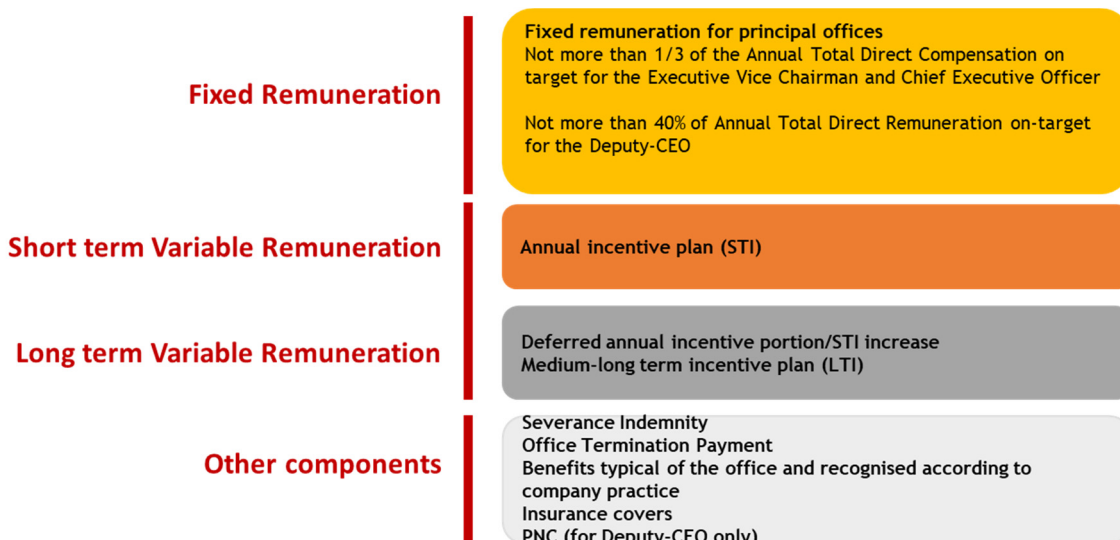
Chairman Ning Gaoning will receive an annual gross remuneration of €400,000 for the years 2020, 2021 and 2022 and until cessation of office with the approval of the financial statements as of 31 December 2022.

In the event that the Board of Directors is called on to resolve again on the compensation of the Chairman during the current term of office, a Chairman's compensation that is at most equal to +10% of the remuneration assigned during the previous term of office (in the case of the same holder) or with respect to the market benchmark - median - (in the case of a different person), is considered compliant with the Policy.

For those Directors holding specific offices to whom no further specific duties have been assigned, no non-monetary benefits, social security or pension cover is provided other than the obligatory schemes.

### Directors holding specific offices to whom further specific duties have also been attributed

The remuneration of Directors holding specific offices to whom further specific duties have also been attributed (as of the date of this Report this applies to the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera) consists of the following elements:



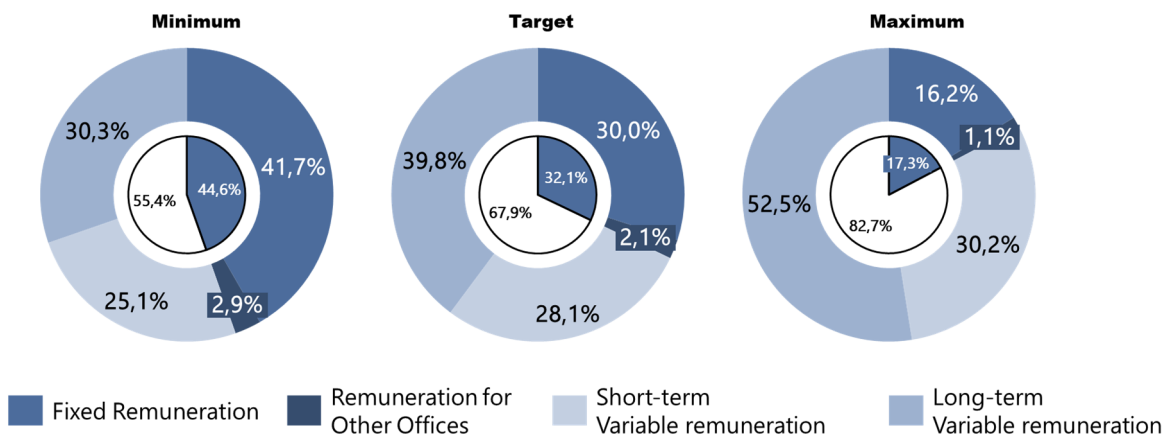
Directors holding specific offices to whom further specific duties have also been attributed, shall also be due the compensation for the office of director and any participation in committees<sup>96</sup>.

With regard to the incidence of the various components, the structure of the compensation package of the current Executive Vice Chairman and Chief Executive Officer and Deputy-CEO in the event of achievement of the minimum target and maximum 2022 STI 2022 and 2022-2024 LTI targets is shown below.

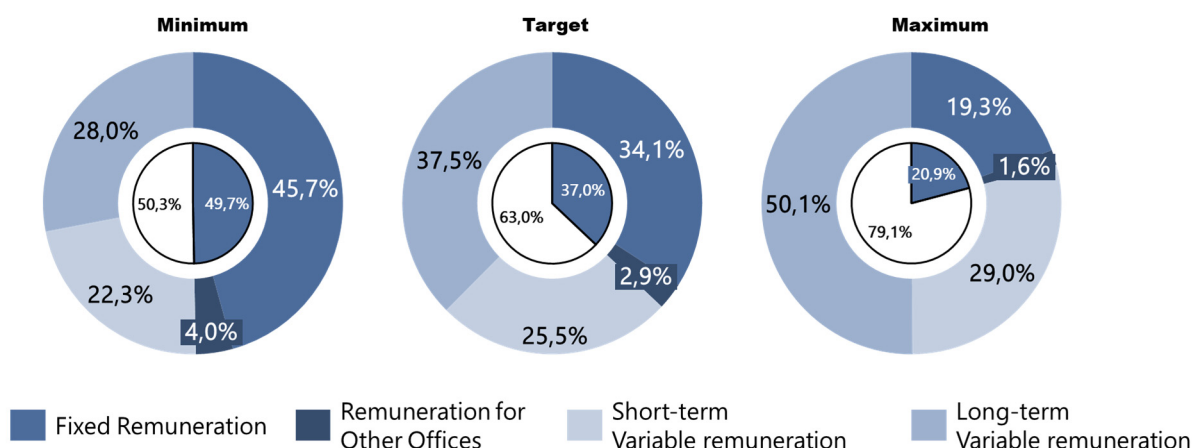
<sup>96</sup> The Executive Vice Chairman and Chief Executive Officer is also entitled to the compensation for serving as a Director (€65,000), and as Chairman of the Strategies Committee (€50,000) and Appointments and Successions Committee (€50,000). The Deputy-CEO is entitled to the compensation for serving as a Director (€65,000) and member of the Strategies Committee (€30,000).



**PAY MIX - EXECUTIVE VICE CHAIRMAN AND CEO**



**PAY MIX - DEPUTY-CEO**



**Fixed Remuneration**

The gross annual base salary for the office of Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO is determined at the time of appointment, taking into account the compensation attributed during the previous mandate (in the case of the same holder) and the market benchmark (in the case of a different person), in an amount that would ensure a balance between the fixed component and the variable component that is adequate and consistent with the strategic objectives and the risk management policy, taking into account the characteristics of the business and the sector in which the Company operates, in any case establishing that the variable component represents a significant part of the total remuneration.

The gross annual fixed component for financial years 2020, 2021 and 2022 and up until approval of the financial statements for the year ended 31 December 2022 attributed to the Executive Vice Chairman and Chief Executive Officer is €2,400,000.

The gross annual fixed component for financial years 2021 and 2022 and up until approval of the financial statements for the year ended 31 December 2022 attributed to the Deputy-CEO is €1,100,000.

In the event that during the current term of office the Board of Directors is called on to resolve again on the gross annual fixed component of the Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO, the allocation of a gross annual base salary or a review of such, which, considering the annual and medium-long term incentive percentages, determines an Annual Total Direct Compensation on-Target equal to (i) at most +5% of the value assigned during the previous mandate (in the case of the same holder) or with respect to the market benchmark third quartile (if the office is assumed by a different person) for the Executive Vice Chairman and Chief Executive Officer and (ii) 10% of the value assigned during the previous mandate (in the case of the same holder) or with respect to the market benchmark third quartile (if the office is assumed by a different person) for the Deputy-CEO, is compliant with the Policy.

### ***Annual variable component (STI)***

The Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO are entitled to an annual variable remuneration (STI) equal to a percentage of the fixed remuneration determined at the time of appointment and thereafter when launching the individual annual plans.

In the event that during the current term of office the Board of Directors is called on to resolve again on the STI incentive percentages for the Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO, the allocation of an STI incentive percentage no higher than the previous financial year is considered compliant with the Policy.

For each objective there is a minimum and a maximum (cap) to the amount of the incentive that can be achieved; for performance below the minimum level, no payment is envisaged.

The on/off condition is represented by the Group Net Cash Flow (before dividends) and is established as an amount equal to the value announced to the market. Failure to achieve the on/off condition shall result in the cancellation of the STI incentive regardless of the level of achievement of the other objectives.

The finalisation of the bonus between the minimum value and target and between the target and maximum is carried out by linear interpolation.

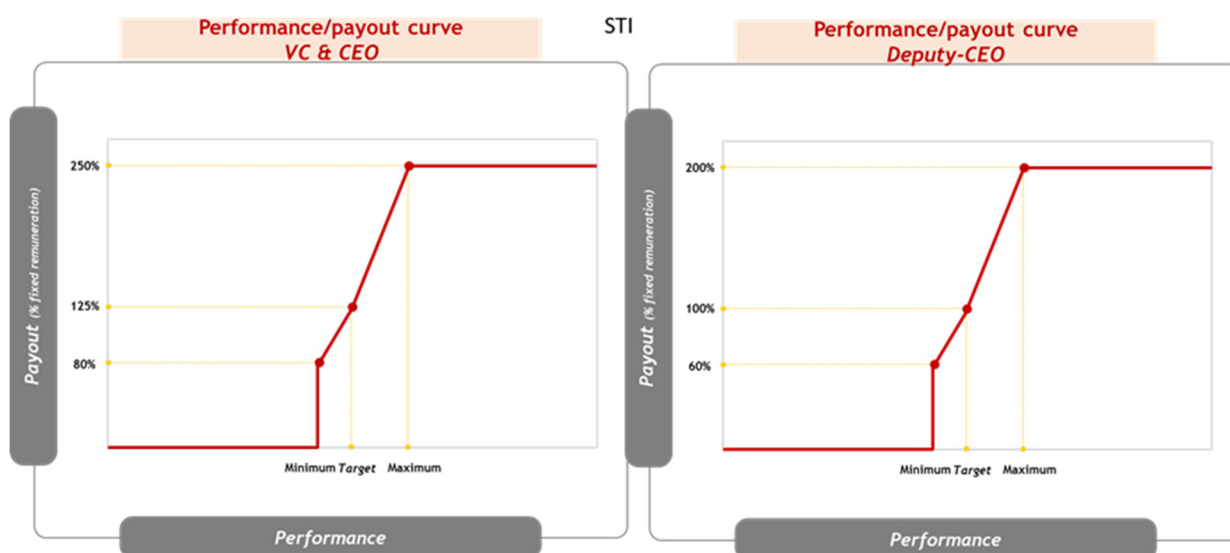
Depending on the level of performance achieved, the Executive Vice Chairman and Chief Executive Officer will be paid an incentive of 80% of fixed remuneration for minimum level performance,

amounting to 125% of the fixed remuneration in the case of on-target performance and 250% for maximum level performance.

Depending on the level of performance achieved, the Deputy-CEO will be paid an incentive of 65% of fixed remuneration for minimum level performance, amounting to 100% of the fixed remuneration in the case of on-target performance and 200% for maximum level performance.

Once the on/off condition has been achieved, all the objectives envisaged on the STI scorecard shall apply independently, according to the incentive curve shown below. Therefore, according to the performance achieved, each objective will go towards calculating the total payout, on the basis of the weighting shown on the scorecard.

*Example curve if all objectives are achieved at minimum, target and maximum level by the Executive Vice Chairman and CEO and the Deputy-CEO.*



Part of the remuneration accrued by to the Executive Vice Chairman and CEO and by the Deputy-CEO as STI is deferred to support the continuity of results over time as stated in paragraph 2. In the event that the payout percentage of the STI accrued in the following year is equal to or higher than target value, the STI share deferred from the previous year is paid, together with an additional amount equal to the portion deferred (increase).

**Medium-long term variable component (LTI)**

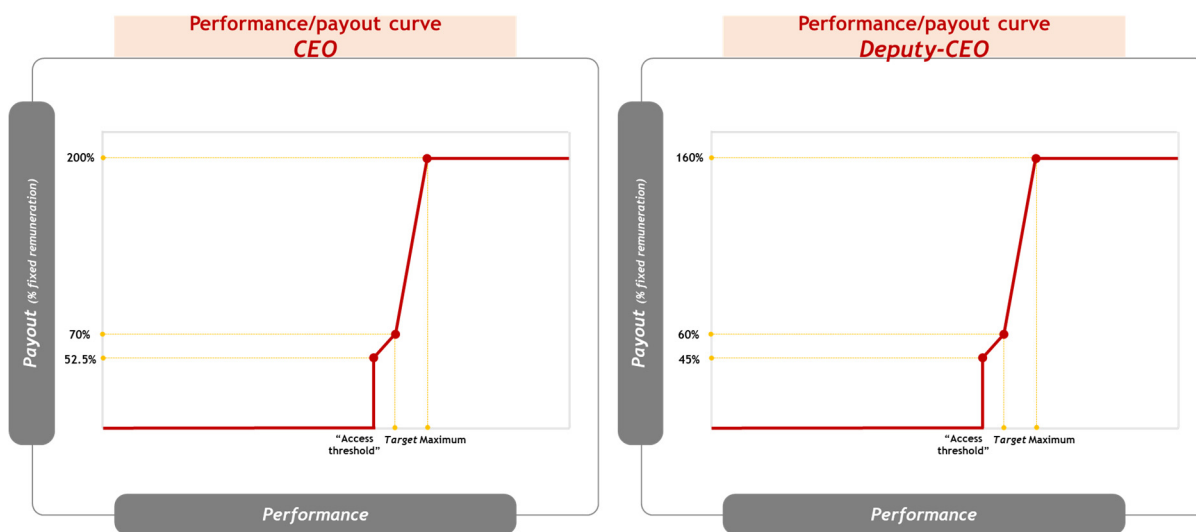
The Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO will be assigned a medium-long term incentive plan so as to contribute to the Company’s strategy and sustainability, and the pursuit of its long-term interests. For 2022, the Executive Vice Chairman and Chief Executive

Officer is a beneficiary of the 2022-2024 LTI Plan related to the goals of the 2021-2022/2025 Strategic Plan and the 2021-2023 and 2020-2022 LTI Plan. For 2022, the Deputy-CEO is a beneficiary of the 2022-2024 LTI Plan and the 2021-2023 LTI Plan. He is also a beneficiary of the 2020-2022 LTI Plan on a pro quota basis.

An “access threshold” level – associated with payment of 75% of the bonus achievable on-target – and a maximum (cap) are envisaged for each objective of the LTI plans.

The performance range for the economic-financial objectives is defined as the more challenging out of the target and maximum level with respect to that envisaged between the “access threshold” level and target. In order to offer an incentive for achieving results above target, the incentive curve is fixed in such a way that the incentive opportunity grows faster between the target and the maximum than in the range between the “access threshold” and the target (see graph below). All the objectives envisaged on the LTI scorecard shall apply independently, according to the incentive curve shown below. Therefore, according to the performance achieved, each objective will go towards calculating the total payout, on the basis of the weighting shown on the scorecard.

*Example curve if all objectives are achieved at minimum, target and maximum level by the Executive Vice Chairman and CEO and the Deputy-CEO.*



For the TSR and cumulative Group Net Cash Flow (before dividends) objectives, for results falling between the “access threshold” and the target, or between the target and the maximum, performance will be calculated by linear interpolation.

For the sustainability objectives, except for the CO<sub>2</sub> emissions indicator, which will be assessed as described above, performance will be calculated in three steps: “access threshold”, target and maximum, without considering intermediate performances.

Within the scope of the 2022-2024 LTI Plan, depending on the level of performance achieved, the Executive Vice Chairman and Chief Executive Officer will be recognised an annually based bonus opportunity of 70% of fixed remuneration for on-target performance, 52.5% of fixed remuneration if the “access threshold” performance is achieved (75% of the on-target bonus), and 200% of the fixed remuneration (cap) in the case of maximum performance.

Within the scope of the 2022-2024 LTI Plan, depending on the level of performance achieved, the Deputy-CEO will be granted an annual bonus opportunity of 60% of fixed remuneration for on-target performance, 45% of fixed remuneration if the “access threshold” performance is achieved (75% of the on-target bonus), and 160% of the fixed remuneration (cap) in the event of maximum performance.

In the case of lapsing from office at the end of mandate or cessation of the entire Board of Directors, and subsequent non-appointment even as director, the LTI Bonus is to be paid pro-quota.

### **Office Termination Payment and non-monetary benefits**

In addition, the Board of Directors has made the following provision for Directors holding specific offices to whom further specific duties have also been attributed, in the event that said duties are not related to their executive employment relationship (on the date of this Report, the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera and the Deputy-CEO Giorgio Luca Bruno), as guaranteed by the law and/or national collective employment agreement for the Group’s Italian executives:

- an Office Termination Payment (TFM) pursuant to Art. 17, subsection 1, letter c) of the TUIR (Italian consolidated law on income tax) no. 917/1986, with similar characteristics to those typical of Severance Indemnity Payment (TFR) pursuant to Art. 2120 of the Italian Civil Code, comprising:
  - a) an amount equal to the amount that would be due as manager by way of TFR; the basis for calculation consists of the gross annual fixed compensation received for the specific role held in the Company;
  - b) an amount equal to the contributions paid by the employer that would be due to social security and welfare institutes or funds in the event of a contract of employment as manager *ex lege* and/or National Collective Bargaining Agreement for the Italian Managers of the Group with the same degree of seniority of employment; the basis for calculation consists of the gross annual fixed compensation received for the specific role held in the Company, in addition to any other payments due by way of medium-long term annual variable component.

TFM, including the relevant value adjustment of such amounts, will be due as a lump sum to the beneficiary at the end of the current mandate or, in the event of premature death, their assignees;

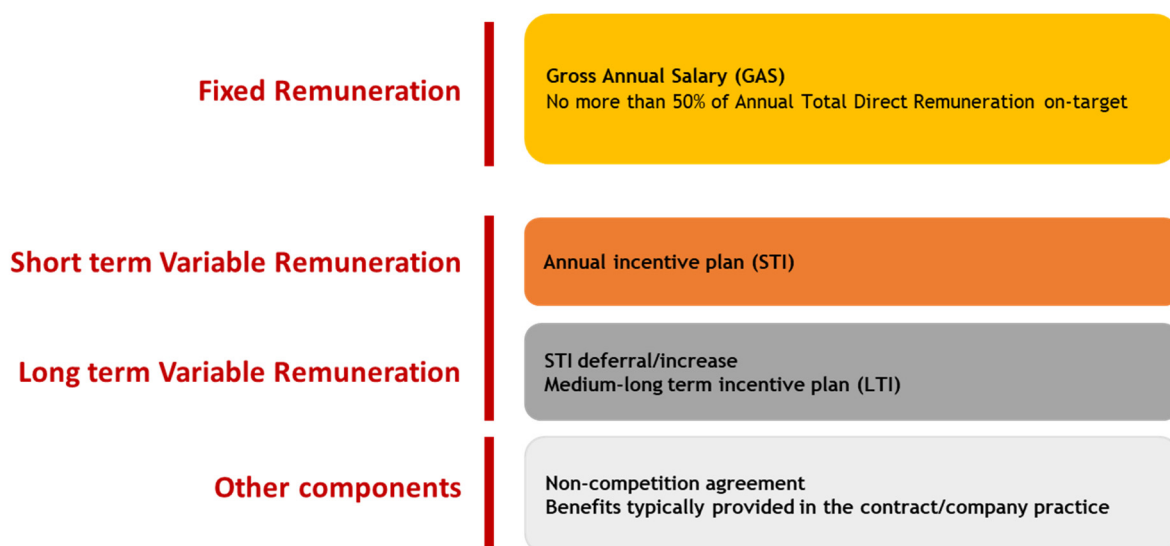
- a compensation allowance for death from any cause and permanent invalidity following illness as well as a compensation allowance for death from any cause and permanent invalidity

following accidents, the terms, limits and conditions of which are in line with what was guaranteed for the previous mandate for the Executive Vice Chairman and CEO and with Pirelli policies for executives for the Deputy-CEO;

- further benefits typical of the role and currently paid within the Group to General Managers, KM and Executives (e.g. company car).

## 5. GENERAL MANAGERS AND KM

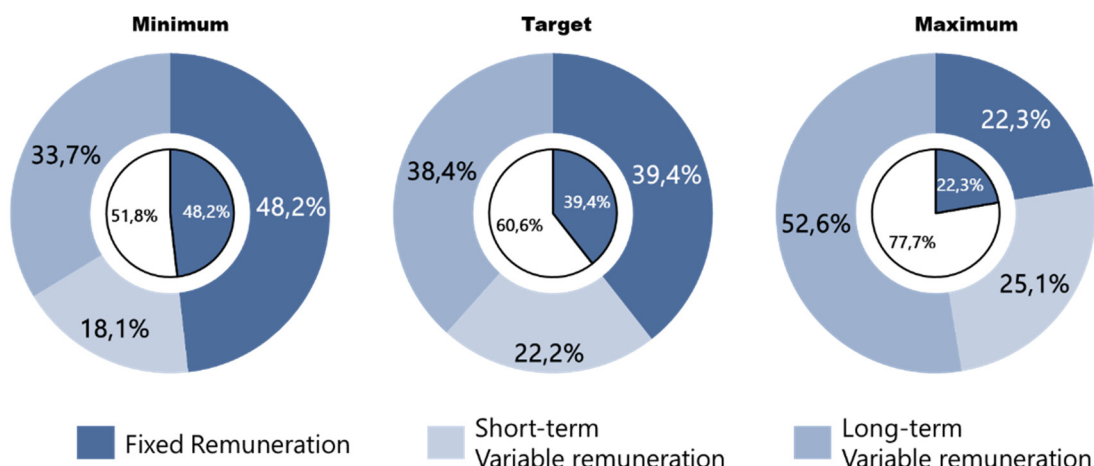
The remuneration of the General Managers (at the date of the Report the General Manager Operations is Andrea Casaluci) and the KM has the following elements:



With regard to the incidence of the various components, the structure of the compensation package of the General Manager Operations and KM in the event of achievement of the minimum, target and maximum 2022 STI and 2022-2024 LTI targets is shown below.

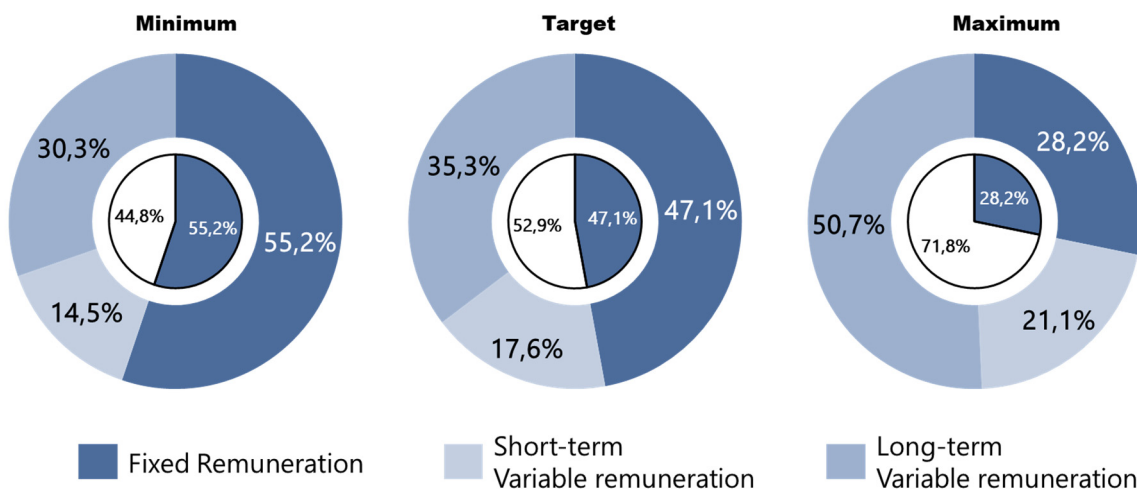
**PAY MIX - GENERAL MANAGER OPERATIONS**

(IN THE EVENT OF DEFERRAL OF 25% OF THE STI ACCRUED)



**PAY MIX - KM**

(IN THE EVENT OF DEFERRAL OF 25% OF THE STI ACCRUED)



The comparative analysis of the remuneration of the General Manager Operations and the KM, yearly carried out, is carried out with the help of an independent company specialised in executive compensation (Korn Ferry). The method used is “Job Grading”, which compares the roles on the basis of three different components (know-how, problem solving and accountability), whereby the weighting of each role is determined within the organisation.

The market benchmark used to verify the competitiveness of the related remuneration includes approximately 400 listed European companies selected by Korn Ferry, included on the FTSE500 list - which includes the 500 highest cap European companies.

In the case of hiring a new General Manager, in addition to the company mentioned above, Pirelli may also use the services of other leading companies specialised in executive compensation with the relative methodology and comparison market in view of the complexity and specific nature of the role, after obtaining the agreement of the Remuneration Committee, in compliance with the Procedure for Related-Parties Transactions.

### ***Fixed remuneration of the General Managers and KM***

The fixed remuneration of the General Managers is determined at the time of appointment by the Board of Directors, based on an opinion provided by the Remuneration Committee, in line with the Policy.

The fixed remuneration of KM is determined by the Executive Vice Chairman and Chief Executive Officer in accordance with the Policy, assessed by the Remuneration Committee.

If a new General Manager or a new KM is appointed, the Remuneration Committee determines the grade and benchmark of reference based on their role and responsibilities, with the support of selected external partners.

In case of hiring of a new General Manager, a fixed remuneration not exceeding 85% of that of the Executive Vice Chairman and Chief Executive Officer and an Annual Total Direct Compensation on-Target which, taking into account the annual and medium-long term percentages, does not exceed 80% of the Annual Total Direct Compensation on-Target of the Executive Vice Chairman and Chief Executive Officer.

In case of hiring a new KM, a fixed remuneration not exceeding that of the General Manager Operations and an Annual Total Direct Compensation on-Target not exceeding +20% of the market benchmark (third quartile) are deemed to comply with the Policy.

The proposed revisions of the fixed remuneration are carried out with reference to the purpose of the Policy to attract, retain and motivate key resources to achieve the company's objectives. Subject to the above, a review that, considering the annual and medium-long term incentive percentages, determines an Annual Total Direct Compensation on-Target equal to at most + 10% of the market benchmark (third quartile), is compliant with the Policy. Otherwise the Procedure for Related-Parties Transactions is applicable.



### **Annual variable component (STI)**

The General Managers and KM are beneficiaries of the STI plan, defined according to the same structure and objectives as for the Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO.

On the basis of the performance level achieved, the following shall be paid:

- an incentive of 50% of the GABS for the General Manager Operations and an incentive of 35% of the GABS for KM if the minimum performance level is achieved;
- an incentive of 75% of the GABS for the General Manager Operations and an incentive of 50% of the GABS for KM if the on-target performance is achieved;
- an incentive of 150% of the GABS for the General Manager Operations and an incentive of 100% of the GABS for KM if the maximum performance is achieved (double the on-target incentive).

In the event of hiring a new General Manager, the Remuneration Committee, having as reference the purpose of the Policy to attract key resources for the achievement of corporate objectives, may set incentive percentages higher than those indicated above, provided that they are not higher than those of the Executive Vice Chairman and Chief Executive Officer. In such case the Procedure for Related-Parties Transactions applies.

For General Managers and KM a percentage of the STI accrued, from a minimum of 25% to a maximum of 50%, is deferred at the end of the three-year period, as stated in paragraph 2.

### **Medium-long term variable component (LTI)**

In order to contribute to the Company's strategy, the pursuit of long-term interests and the sustainability of the Company, General Managers and KM are beneficiaries of medium-long term incentive plans and, in particular, of the 2020-2022, 2021-2023 and 2022-2024 LTI Plans. The LTI plans have the same structure, mechanisms and objectives as those envisaged for the Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO. Within the scope of the LTI Plan for the period 2022-2024, on the basis of the performance level achieved, the following is paid:

- an annually based bonus opportunity of 45% of the GABS for the General Manager Operations and 37.5% of the GABS for KM if the "access threshold" performance level is achieved (75% of the on-target incentive);
- an annually based bonus opportunity of 60% of the GABS for the General Manager Operations and 50% of the GABS for KM if the on-target performance is achieved;

- an annually based bonus opportunity of 160% of the GABS for the General Manager Operations and 130% of the GABS for KM if the maximum performance is achieved.

In the event of appointment of a new General Manager, the Remuneration Committee, having as reference the purpose of the Policy to attract key resources for the achievement of corporate objectives, may set incentive percentages higher than those indicated above, provided that they are not higher than those of the Executive Vice Chairman and Chief Executive Officer. In such case the Procedure for Related-Parties Transactions applies.

In the event of termination of the employment relationship for any reason before the end of the three-year period, the General Managers and KM will no longer form part of the LTI plans and no award nor pro-rated award will be paid.

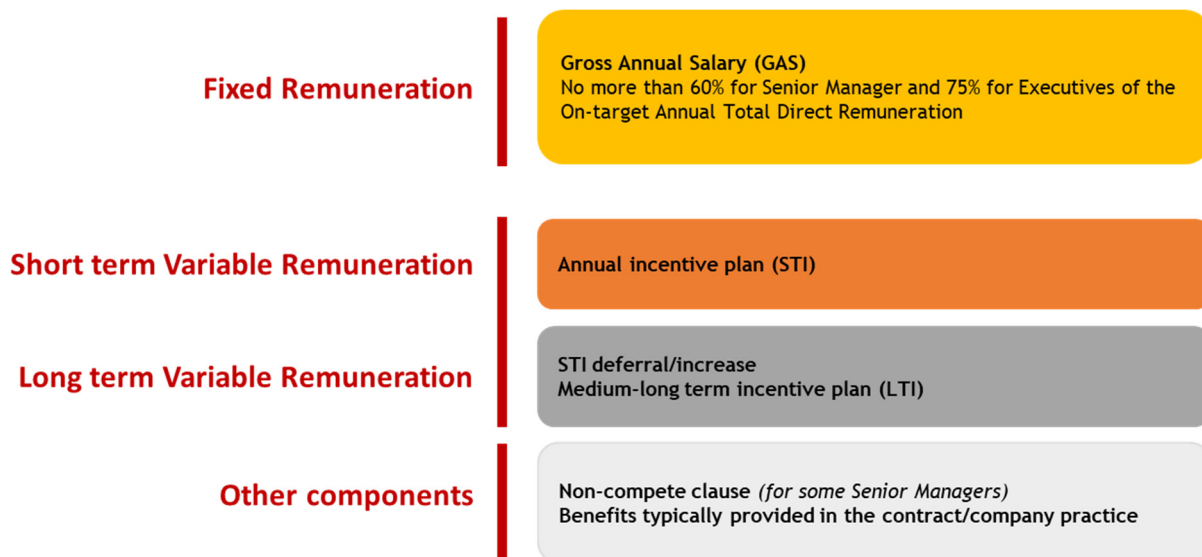
### ***Non-monetary benefits, conventional seniority and welcome bonus***

Non-monetary elements of remuneration are benefits provided to General Managers and KM as a result of contractual provisions/company policies or aimed at reinforcing attraction during the recruitment phase (e.g. accommodation and student grants for limited periods of time).

Moreover, if a new General Manager or KM is hired, the Remuneration Committee in compliance with the Procedure for Related-Parties Transactions, may establish (i) an agreed seniority recognised on the basis of previous experience in similar roles, (ii) the allocation of a one-off bonus not exceeding 100% of the beneficiary's fixed gross annual remuneration, taking into account the Policy's objective of attracting key resources to achieve the company's objectives.

## 6. SENIOR MANAGERS AND EXECUTIVES

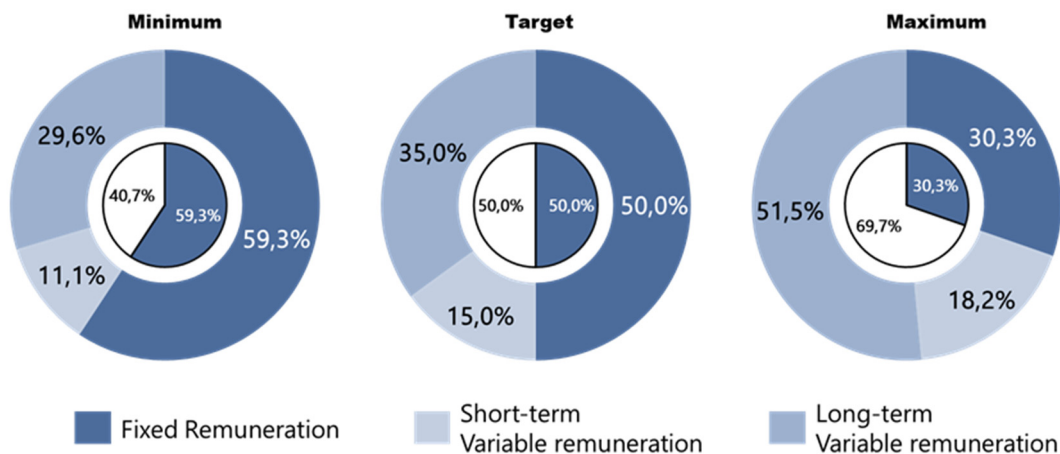
The remuneration of Senior Managers and Executives consists of the following elements:



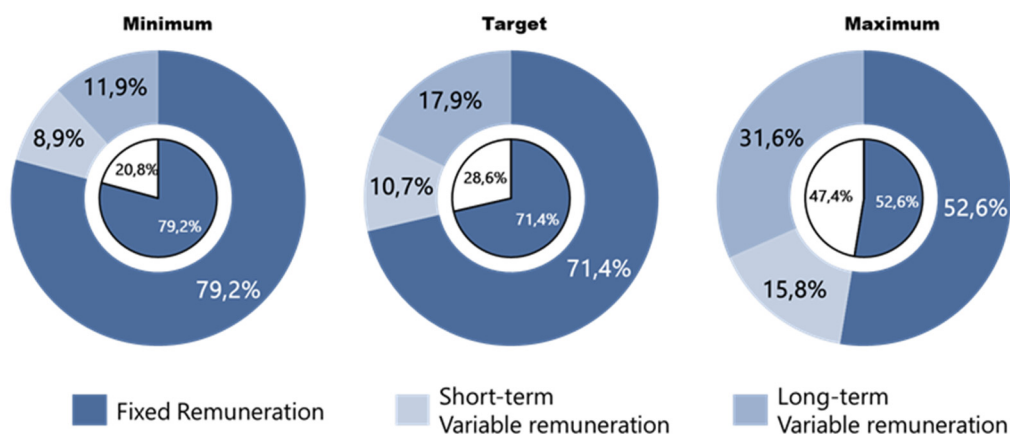
The remuneration structure for Senior Managers and Executives (as a whole) with evidence of the incidence of the various parts of their compensation packages, in the event that they achieve the minimum, target and maximum levels of the 2022 STI and 2022-2024 LTI objectives is shown below.

### PAY MIX - SENIOR MANAGERS

(IN THE EVENT OF DEFERRAL OF 25% OF THE STI ACCRUED)



**PAY MIX – EXECUTIVES**



Also, the analysis of the remuneration of Senior Managers and Executives is carried out with the help of an independent company specialised in executive compensation (Korn Ferry) with the same methodology as described previously with regard to General Manager Operations and KM.

For managers of the Internal Audit department, it should be noted that, in line with best practices, the fixed component has a higher incidence than the variable.

**Annual variable component (STI)**

Senior Managers and Executives are beneficiaries of the STI plan, defined according to the same structure as for the Executive Vice Chairman and Chief Executive Officer, the Deputy-CEO, the General Managers and the KM.

For the year 2022, the objectives assigned to Senior Managers and Executives are as shown in the table below:

STI DATA SHEET SENIOR/EXECUTIVE HEADQUARTERS		WEIGHT OF OBJECTIVES	STI DATA SHEET SENIOR/EXECUTIVE OF REGIONS/BU <sub>s</sub>		WEIGHT TARGET
Group Net Cash Flow (before dividends)		ON/OFF condition	Group - BU - Region Net Cash Flow (before dividends) Region DSO for Sales Managers*		ON/OFF condition
Group adjusted EBIT		From 25% to 30%	Adjusted EBIT of Region/BU/Country		From 25% to 35%
Group Net Cash Flow (before dividends)		20%	Group/Region Net Cash Flow (before dividends)		From 10% to 20%
Functional objective/s with Group scope		40%	Functional objective/s with Region/BU/Group scope		40%
Sustainability objective - value of the «Eco & Safety Performance Revenues» on the whole range		10%	Sustainability objective - value of the «Eco & Safety Performance Revenues» on the whole range		10%
D&I: Women Hiring[**]		5%	D&I: Women Hiring**		5%

\*If the on/off NCF Region or DSO condition is not met, the on/off NCF Group condition will apply with a 25% reduction of the total payout accrued.

\*\* Objective assigned to Senior Managers

According to the performance level achieved, the Senior Managers and Executives are assigned:

- a bonus ranging between 10% and 25% of the GABS, depending on the position held, if minimum performance is achieved;
- a bonus ranging between 15% and 40% of the GABS, depending on the role held if on-target performance is achieved;
- a bonus ranging between 30% and 80% of the GABS, depending on the position held, if maximum performance is achieved (200% of the on-target bonus).

For selected Senior Managers, as for General Managers and KM, a percentage of the STI accrued is deferred as stated in paragraph 2.

For the remaining Senior Managers and Executives, 75% of the accrued bonus is paid, and the remaining 25% is deferred by 12 months and payable upon the achievement of the STI objectives of the following year, according to the same parameters specified for the Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO.

### ***Medium-long term variable component (LTI)***

Senior Managers and Executives (with a Korn Ferry grade of 20 or more) are beneficiaries of the medium-long term incentive plan so as to contribute to the Company's strategy and sustainability, and the pursuit of its long-term interests. The 2020-2022, 2021-2023 and 2022-2024 LTI Plans are defined according to the same structure, mechanisms and objectives as envisaged for the Executive Vice Chairman and Chief Executive Officer, the Deputy-CEO, the General Managers and the KM.

Within the scope of the LTI plan for the period 2022-2024, on the basis of the performance level achieved, Senior Managers and Executives are paid:

- an annually based bonus opportunity ranging between 11.25% and 37.5% of the GABS, depending on the position held if "access threshold" performance is achieved (75% of the on-target bonus);
- an annually based bonus opportunity ranging between 15% and 50% of the GABS, depending on the position held if on-target performance is achieved;
- an annually based bonus opportunity ranging between 40% and 130% of the GABS, depending on the position held if maximum performance is achieved.

In the event of termination of the employee-employer relationship for any reason before the end of the three-year period, the beneficiary will no longer form part of the LTI plan and no award nor prorated award will be paid.

### ***Non-monetary benefits***

Non-monetary elements of remuneration are benefits provided to Senior Managers and Executives as a result of contractual provisions/company policies or aimed at reinforcing attraction during the recruitment phase (e.g. accommodation and student grants for limited periods of time).

## **7. CLAWBACK CLAUSES**

The annual STI and multi-year (LTI) incentive plans for Directors holding specific offices to whom further specific duties have also been attributed, General Managers and KM provide inter alia for clawback mechanisms.

In particular, without prejudice to the possibility of any other action permitted by the order to protect the interests of the Company, contractual agreements will be signed with the aforementioned persons, enabling Pirelli to claim back (in whole or in part), within three years of the payment thereof, incentives paid to persons who, due to wilful misconduct or gross negligence, are held responsible for (or are accomplices to) the facts, as indicated below, related to economic and financial indicators included in the Annual Financial Report that involve subsequent comparative information adopted as parameters for the determination of the variable awards in the aforementioned incentive plans:

- (i) proven significant errors resulting in non-compliance with the accounting standards applied by Pirelli, or
- (ii) proven fraudulent conduct aimed at obtaining a specific representation of Pirelli's financial and equity situation, economic result, or cash flow.

#### 8. COMPENSATION IN THE EVENT OF RESIGNATION, DISMISSAL OR TERMINATION OF RELATIONS

It is Pirelli Group policy not to enter into with Directors, General Managers, KM, Senior Managers or Executives agreements regulating economic aspects related to any early termination of relations in retrospect at the initiative of the Company or the individual.

Pirelli aims at agreements to “terminate” relations in a consensual manner. Without prejudice to any legal and/or contractual obligations, agreements to end relations with the Pirelli Group are inspired by the benchmarks in the matter and are within the limits laid down in case law and by the practices in the country in which the agreement was signed.

The Company sets its own internal criteria, with which the other Group companies also comply, for managing early termination agreements of relations with executives and/or those of Directors holding specific offices. If an executive director or General Manager should cease to hold office and/or their employment be terminated, the Company will, upon completion of the internal processes that lead to the attribution or award of indemnities and/or other benefits, provide detailed information on the issue, by means of a press release disseminated to the market.

With regard to Directors holding specific offices to whom further specific duties have been attributed and who are not bound by executive employment relationships, Pirelli does not pay compensation or extra bonuses in relation to the end of their mandate. Specific compensation may be paid subject to assessment by the competent corporate bodies, in the following cases:

- termination by the Company for other than just cause;
- termination by the director for just cause, including but not limited to substantial changes to the role or duties attributed and/or cases of a “hostile” takeover bid.

In such cases, the indemnity amounts to 2 years of gross annual salary, i.e. the sum of (i) the gross annual base salary for the duties performed in the Group, (ii) the average annual variable remuneration (STI) accrued in the previous three years and (iii) severance pay on the aforementioned amounts.

As regards General Managers and KM, agreements for consensual termination of employment are submitted to the Remuneration Committee, which assesses their compliance with the Policy and authorises their negotiation by setting the maximum amounts that can be disbursed, including the maintenance of non-monetary benefits for a predetermined period.

The closure amounts are determined with reference to the applicable category national collective bargaining agreements. In particular, as regards General Managers and KM, reference is made to the contract for Industry managers in Italy and the incentive to take voluntary redundancy is determined with reference to the number of months of notice reimbursable by entities and supplementary indemnity in the event of arbitration, depending on the employee's length of service in the Group. Below is an explanatory table:

NO. MONTHS		ARBITRATION PANEL	
YEARS OF SENIORITY	NOTICE	MIN	MAX
more than 15 years	12	18	24
up to 15 years	10	12	18
up to 10 years	8	8	12
up to 6 years	6	4	8
up to 2 years	6	4	4

After review, evaluation and approval by the competent Committee, it may also be granted to General Managers and KM:

- an additional amount by way of general and novative transaction, within the limits of the low thresholds established for related parties transactions
- a period of paid leave or equivalent substitute indemnity between the stipulation of the exit agreement and the effective date of termination of employment.

Finally, a consultancy (or collaboration) agreement may be stipulated between General Managers and KM and a Group company, which is predefined in the term subsequent to termination of the employment contract and subject, in this case too, to the assessment and approval of the competent Committee.



Remuneration due to General Managers and KM by virtue of positions occupied on the Board of Directors is not included in the calculation of severance pay and is due in the amount determined solely for the period during which the position was held on the Board of Directors.

Finally, as regards the medium-long term incentive system (LTI):

- for the Executive Vice Chairman and CEO and the Deputy-CEO, in the event of termination of office due to completion of term or termination of office of the entire Board of Directors, and subsequent non-appointment even as director, the bonus is paid pro-quota;
- for General Managers, KM, Senior Managers and Executives, in the event of termination of the employment relationship for any reason before the end of the three-year period, no award nor pro-rated award will be paid.

## 9. NON-COMPETITION AGREEMENT

The Group enters into non-competition agreements with the Deputy-CEO, General Managers and KM and, for particularly crucial duties, with Senior Managers and Executives, which provide for the payment of a consideration in proportion to the GABS in relation to the duration and extent of the constraints arising from the agreement itself.

The constraints refer to the market sector in which the Group was operating when the agreement was made and to territorial size. The extent varies according to the position held when the agreement was completed and can in some highly critical cases, as in the case of the Deputy-CEO, General Managers and KM, extend to a wider geographical area covering the main countries where the Group operates.

The Executive Vice Chairman and Chief Executive Officer are not subject to a non-competition agreement.

In the case of the Deputy-CEO, General Managers and KM, the non-competition agreement has the following characteristics:

- the list of competitors: companies operating in the tyre sector and, according to the role held, identification of more specific clusters;
- geography: all the main countries in which the Pirelli Group operates;
- the duration of the non-competition agreement: 24 months from when the employment contract ends;
- the fee: from a minimum of 30% to a maximum of 80% of the GABS on the basis of the role held, the technical skills, the specialised know-how and the reason for leaving for each year of the duration of the clause following a potential redundancy, less any portion disbursed during

the contract of employment, amounting to between 10% and 15% of the GABS per year of validity of the agreement (usually 5 years). When hiring a new General Manager, the consideration for the non-competition agreement may be determined as a percentage also above 80% of the GABS and in any case not above 100% and, in this case, the annual payment during employment may be a maximum of 20% of the GABS.

## 10. EXCEPTIONS TO THE REMUNERATION POLICY

In compliance with Art. 123-*ter* of the TUF and Art. 84-*quater* of the Issuers' Regulation, the Company may adopt any decisions that temporarily make an exception to the Policy.

With reference to parties for whom the Board of Directors defines remuneration in accordance with the Policy, in the presence of exceptional circumstances, it is possible to make a temporary exception to the fixed or variable remuneration criteria indicated in the Policy or the structure of non-competition agreements and the attribution of non-monetary benefits.

Exceptional circumstances are situations in which an exception to the Policy is necessary for the purposes of pursuing the long-term interests and sustainability of the Company as a whole or to ensure its ability to stay on the market, such as, for example (i) the need to replace, due to unforeseen events, the chief executive officer, general managers or key managers and to negotiate a remuneration package quickly, without limits to the possibility of attracting managers with the most suitable professional skills to manage the business and to ensure that the same levels of sustainable success and market positioning are at least maintained; (ii) significant changes in the scope of the company's business during the term of the policy, such as the sale of a company/business unit or acquisition of a significant business.

The Remuneration Committee assesses the existence of exceptional circumstances that allow for a derogation from the Policy. In exceptional circumstances, derogations to the Policy are approved in compliance with the procedures adopted by the Company for related parties transactions, in implementation of the applicable current Consob regulation *pro-tempore*.

The Company provides information about any derogations to the Policy applied in exceptional circumstances, in accordance with the terms and conditions of current provisions of law and regulations *pro-tempore*.

## 11. OTHER INFORMATION

Pursuant to Scheme 7-*bis* of Annex 3A of the Issuers' Regulations, introduced by Consob Resolution no. 18049 of 23 December 2011 and amended thereafter by resolution no. 21623 of 10 December 2020, it should be noted that:

- Pirelli has no shareholder incentive plans in place;

- in defining the 2022 Policy, Pirelli has not used the specific remuneration policies of other companies as a benchmark. The Policy has been prepared on the basis of scheme no. 7-bis adopted by Consob and in force as at the date on which the Policy was approved. This scheme establishes that the section of the Report provided for by Art. 123-ter with reference to members of the governing bodies, General Managers and KM, shall contain at least the information set out in the scheme referred to above.

## **ANNEX 1– GLOSSARY**

**Directors:** members of the Board of Directors of Pirelli & C.

**Directors holding specific offices:** the Directors of Pirelli & C. holding the office of Chairman, Executive Vice Chairman and Chief Executive Officer and Deputy-CEO. The Directors holding special offices in other Group companies, who are also managers, are, for the purpose of the Policy, Executives or Senior Managers, depending on the role held and, unless otherwise resolved by the Board of Directors of Pirelli & C. which classifies them as KM.

**Directors with no specific offices:** are the Directors of Pirelli & C. other than those holding special offices. Directors not holding special offices in other Group companies, who are also managers, are, for the purpose of the Policy, Executives or Senior Managers, depending on the role held and unless otherwise resolved by the Board of Directors of Pirelli & C., which classifies them as KM.

**Annual Total Direct Compensation on-Target:** means the sum total of the following components, regardless of whether they were disbursed by Pirelli & C. or by another Group company:

- (i) gross annual base salary of the remuneration;
- (ii) annual variable short-term incentive (STI), if target objectives are achieved;
- (iii) medium-long term variable component consisting of:
  - a. annual value of the long-term incentive (LTI) plan if multi-year target objectives are achieved;
  - b. pro-quota value of the STI accrued and deferred, to be paid if the underlying conditions are met;
  - c. an additional value of an equal or higher amount in respect of the pro-quota of the STI accrued and deferred, to be paid if the underlying conditions are met.

**Shareholders' Meeting:** means the meeting of the shareholders of Pirelli & C..

**Remuneration Committee:** the Remuneration Committee of Pirelli & C..

**Board of Directors:** indicates the Board of Directors of Pirelli & C..

**General Manager(s):** the persons chosen by the Pirelli & C. Board of Directors to be assigned extensive powers of business segment management. The subjects holding the office of General Manager in other Group companies are, for the purpose of the Policy, Executives or Senior Managers, depending on the role held and unless otherwise resolved by the Board of Directors of Pirelli & C., which classifies them as KM.

**KM:** executives, chosen by the Pirelli & C. Board of Directors in accordance with the procedure confirmed and adopted by Board resolution passed on 22 June 2020, having the power or responsibility for planning, directing and controlling the Company's activities or the power to make

decisions that can impact its evolution or future prospects and, more generally, those of Pirelli. In accordance with the procedure, in any case all employees holding the following positions must be classified as KM: (i) General Manager; (ii) Executive Vice President; (iii) Manager responsible for the preparation of financial and corporate documents; (iv) Company Secretary.

**Executives:** managers of the Italian companies or employees of the Group's foreign companies with a position or role that is comparable to that of an Italian manager.

The **Pirelli Group** or **Pirelli** or the **Group**: means all the companies included in the Pirelli & C. consolidation scope.

**Management:** means all Directors holding specific offices, General Managers, KM, Senior Managers and Executives.

**2020-2022 LTI Plan:** means the Long-Term Incentive plan relating to the three-year period 2020-2022 supporting achievement of the objectives set by the 2020-2022 Strategic Plan approved by the Board of Directors' meeting of 19 February 2020 and, subsequently, by the Shareholders' Meeting held on 18 June 2020, as subsequently amended by the Board of Directors' meeting of 31 March 2021 (amendment submitted to the Shareholders' Meeting of 15 June 2021).

**2021-2023 LTI Plan:** means the Long-Term Incentive plan for the three-year period 2021-2023 approved by the Board of Directors' meeting of 31 March 2021 and subject to the approval of the Shareholders' Meeting scheduled for 15 June 2021, in support of the achievement of the new objectives set by the 2021-2022/2025 Strategic Plan.

**2022-2024 LTI Plan:** means the Long-Term Incentive plan relating to the three-year period 2022-2024, approved by the Board of Directors' meeting of 17 March 2022, to support the achievement of the objectives set by the 2021-2022/2025 Strategic Plan.

**2021-2022/2025 Strategic Plan:** means the business plan approved by the Pirelli & C. Board of Directors on 31 March 2021.

**GABS:** means the gross annual base remuneration of the compensation for those employed by a Pirelli Group company.

**Senior Managers:** means the persons to whom the following shall first report, except where they are KM (i) Directors holding special offices to whom further specific duties have also been attributed; (ii) General Managers, where the work of the Senior Manager significantly impacts business results.

**Statutory Auditors:** members of the Board of Statutory Auditors of Pirelli & C.

The **Company** or **Pirelli & C.:** means Pirelli & C. S.p.A.

**STI:** means the annual variable component of remuneration that can be achieved if the predefined corporate objectives are achieved, as more fully described in paragraphs 2, 4, 5 and 6.

**Top Management:** means all Directors holding specific offices, General Managers and KM.

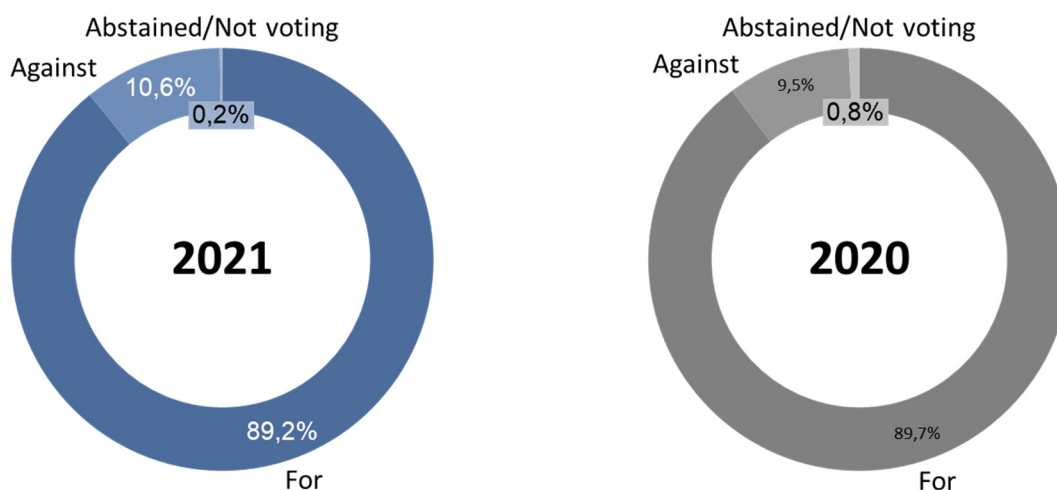
## REPORT ON COMPENSATION PAID IN 2021

### 1. ILLUSTRATION OF REMUNERATION COMPONENTS

The Remuneration Report illustrates the Policy implemented by the Pirelli Group during the 2021 financial year in relation to remuneration and provides a summary of the same in relation to the different types of persons involved, without prejudice to the transparency obligations provided for by other applicable legal or regulatory provisions, highlighting compliance with the Remuneration Policy approved the previous year (“**2021 Policy**”).

The subject appointed to carry out the external audit of the financial statements verifies that the Directors have prepared the Report on Compensation paid. The Shareholders’ Meeting deliberates on the second section of the Report with an advisory vote.

In implementing the 2021 Policy, the Company took into account the vote in Shareholders’ Meeting held on 15 June 2021, which voted in favour of the Report on Compensation Paid in 2020. The chart below illustrates the outcome of advisory votes in 2021 on the compensation paid in 2020 and in 2020 on the compensation paid in 2019.



### 1.1 TOTAL REMUNERATION

#### **Fixed Remuneration**

The remuneration of the Directors not holding special offices for 2021 includes the remuneration for the office and the additional remuneration for participation in the board committees, as resolved by the Board of Directors on 22 June 2020.

The remuneration paid to Chairman Ning Gaoning includes the remuneration for his main office, equal to an annual gross remuneration equal to euro 400,000, and the remuneration for the office of

Director and for participation in the Strategies Committee, determined by the Board of Directors on 22 June 2020.

The Executive Vice Chairman and Chief Executive Officer was paid the gross annual fixed component for the main office of euro 2,400,000 and the remuneration for the office of Director, Chairman of the Strategies Committee and Chairman of the Appointments and Succession Committee as resolved by the Board of Directors on 22 June 2020.

The remuneration paid to the Deputy-CEO for the year 2021 includes - pro-rata, as of the date of his appointment - the gross annual fixed component for the main office, of euro 1,100,000, determined by the Board of Directors on 15 June 2021, and the remuneration for the office of Director and member of the Strategies Committee as resolved by the Board on 22 June 2020.

The General Manager co-CEO, who ceased to hold office as of 28 February 2021, was paid pro-rata the gross annual remuneration determined by the Board of Directors on 23 July 2020. He also received pro-rata, until 24 March 2021, the remuneration for the office of Director and member of the Strategies Committee as resolved by the Board of Directors on 22 June 2020.

The General Manager Operations received a gross annual remuneration of euro 750,000, in line with the resolution of the Board of Directors, after consulting the Remuneration Committee.

KM received gross annual remuneration, in line with that determined by the Executive Vice Chairman and Chief Executive Officer, amounting, at an aggregate level, to euro 3,139,615<sup>97</sup>.

The Statutory Auditors appointed by the Shareholders' Meeting of 15 May 2018, whose term of office expires with the approval of the financial statements for the year ended 31 December 2020, were paid pro-rata the fixed remuneration approved by the Shareholders' Meeting that appointed them (euro 75,000 for the Chairman and euro 50,000 for the Standing Auditors). The remuneration paid to the Statutory Auditors appointed by the Shareholders' Meeting of 15 June 2021 includes, pro-rata, the fixed annual gross remuneration set for the Chairman at euro 90,000 and that of the other regular members at euro 75,000. The Statutory Auditor appointed to the Supervisory Board also received a gross annual remuneration of euro 40,000, established by the Board of Directors on 22 June 2020.

The amounts relating to fixed remuneration are shown in the respective columns of Table 1.

For more details, please refer to paragraphs 3, 4 and 5 of Policy 2021.

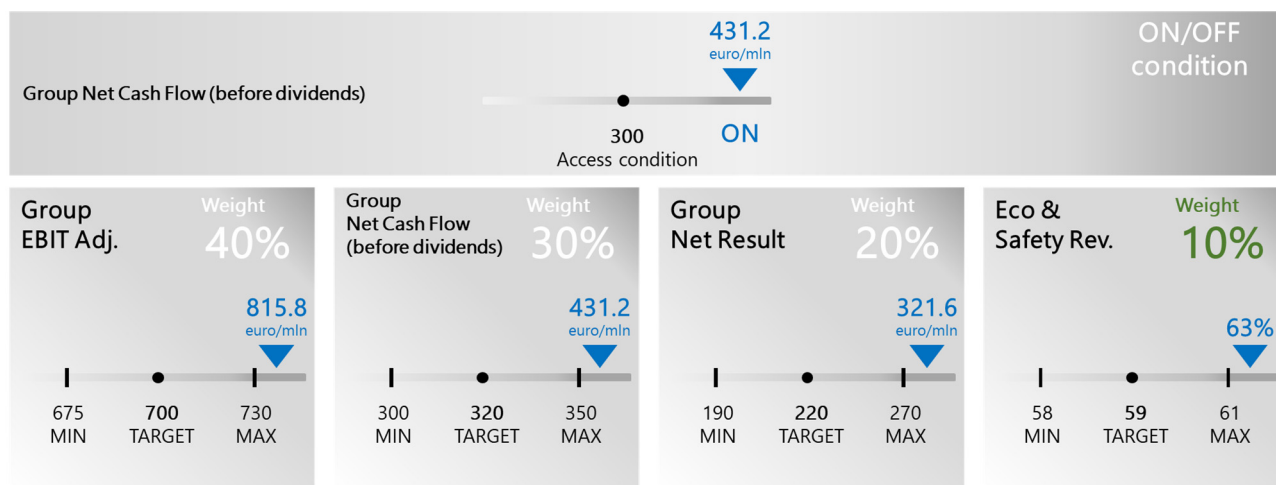
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<sup>97</sup> As of 31 December 2021, in addition to the General Manager Operations, 6 KM have been identified. The aggregate remuneration also includes, *pro-rata temporis*, the remuneration received by 2 KM who ceased to hold office in June 2021 and 1 KM identified on the same date.

### Annual variable remuneration STI

Management remuneration achieved in FY 2021 contributed to the sustainability of the Company’s long-term results thanks to the variable components (both short and medium-long term) represented by the STI plan and the deferral mechanism of a portion of it.

With reference to the 2021 STI plan, the table below summarises the achievement of the performance targets for the year in relation to the targets set out in the 2021 STI plan, which represent a performance consistent with the corresponding targets disclosed to the market.



In light of the results achieved, the payout percentage accrued by each beneficiary in respect of the STI 2021 plan is at the maximum value (*cap*) as shown in the table below.

Role	% achieved on fixed component
Exec. Vice Chairman and CEO	250%
Deputy-CEO	200%
General Manager Operations	150%
KM*	98%

\* It should be noted that one KM, as a result of being appointed with effect from 15 June 2021, held different percentages for the first part of the year.



Note that the amounts accrued under the 2021 STI shall be paid with the following procedures and mechanisms, in accordance with Policy:

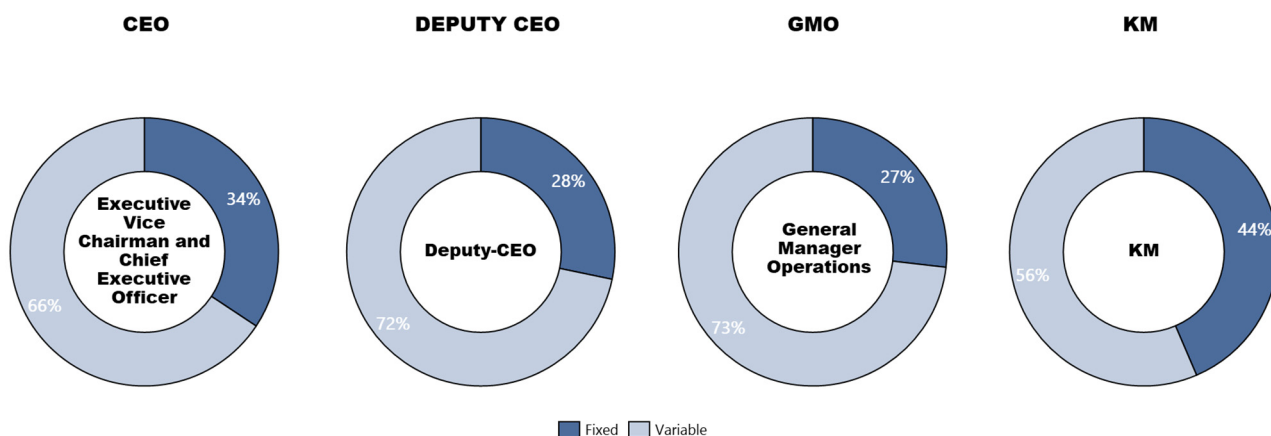
- the Executive Vice Chairman and Chief Executive Officer and the Deputy-CEO are paid 75% of the accrued incentive upfront while payment of the remaining 25% is deferred for 12 months and put at risk/opportunity as it is subject to the achievement of the 2022 STI targets as defined in the 2022 Policy. For this reason, both the deferral quota and any bonus are not represented in the column “Bonuses and other incentives” in Table 1;
- the General Manager Operations and the KM are instead subject to the co-investment mechanism as defined in the 2021 Policy, which provides for the deferral of a portion of the accrued incentive that can vary from a minimum of 25% to a maximum of 50%, depending on the individual choice. This deferred portion will be paid in 2025 subject to the permanence of the employment relationship until 31 December 2024 and together with a company matching component that may vary from a minimum of 1 to a maximum of 1.5 times the deferred amount. Since the deferred amount and the company matching are already determined in their amount as they are not subject to further performance conditions, both components are represented in the column “Bonuses and other incentives” of Table 1.

It should also be noted that pursuant to the resolution adopted by the Board of Directors of 3 April 2020, the instalments of STI 2019 that had been deferred were disbursed in 2021.

For further details please refer to paragraph n. 2, 3, 4 and 5 of 2021 Policy.

The above amounts for the STI plans are shown in the respective headings of Tables 1 and 2.

Finally, the following graph shows the proportion of fixed and variable remuneration<sup>98</sup> achieved in relation to the results of the year 2021 for top management figures.



<sup>98</sup> Corresponding for the fixed part to the items represented in the columns “Fixed remuneration” and “Remuneration for participation in committees” and for the variable part in the column “Bonuses and other incentives” of Table 1.

### **Other remuneration**

It should be noted that Pirelli has non-competition agreements in place for the Deputy-CEO, the General Manager Operations, the KM and, more generally, for selected Senior Managers and Executives, to protect the Group's strategic and operational know-how.

On the other hand, it should be noted that the Executive Vice Chairman and Chief Executive Officer does not have a non-competition agreement.

Finally, it should be noted that during 2021, the last instalment of the four-year Retention Plan launched in 2017 was paid to all participants in this plan (General Manager Operations, KM and selected Senior Managers/Executives). A stability bonus was also paid to the General Manager Operations, as provided for in the 2021 Policy.

Please refer to paragraph 9 of Policy 2021 for more details.

## **1.2 INDEMNITIES IN THE EVENT OF TERMINATION OF OFFICE AND/OR TERMINATION OF EMPLOYMENT DURING THE 2021 FINANCIAL YEAR**

It should be noted that on 28 February 2021, the agreement for the consensual termination of the employment relationship with the General Manager co-CEO Angelos Papadimitriou became effective; he also ceased to be a Director at the Shareholders' Meeting of 24 March 2021.

As announced to the market, pursuant to the agreement for consensual termination of the executive employment relationship, in accordance with 2021 Policy, Angelos Papadimitriou was paid during the year, in addition to the amounts due as compensation (pro-rata for his position as Director and as a member of the Strategies Committee) and other legal benefits accrued up to the date of termination: (i) 10 months' gross annual salary as a redundancy incentive, equal to the value of what would have been the indemnity in lieu of notice on the basis of the agreed seniority granted to him upon his recruitment as an executive; (ii) euro 100,000 gross as a general novation settlement; (iii) non-monetary benefits granted upon his recruitment as an executive, quantifiable in an amount not exceeding euro 95,000.

In accordance with 2021 Policy, Angelos Papadimitriou did not have any rights in relation to the incentive plans in place at the time of his leaving the position of co-CEO.

Angelos Papadimitriou will be bound, for the two years following his termination of office as Director (March 24, 2021), by a non-competition agreement, valid for the main countries in which Pirelli operates, in exchange for payment, for each year in office, equal to 100% of his gross annual salary, to be paid in 8 quarterly instalments in arrears starting from July 1, 2021; the non-competition agreement includes a *non-solicit* clause as well as penalties in the event of breach of the obligations arising from the agreement.

During 2021, there were no further cases of termination of office of directors or members of the Board of Statutory Auditors and/or termination of employment with General Managers and KM leading to the allocation of indemnities and/or other benefits.

For the sake of completeness, it should be noted that on 31 December 2021, the resignation of the KM Francesco Tanzi took effect, with no allocation of indemnities and/or other benefits. On the other hand, the non-competition agreement he held will be automatically apply. For further details see paragraph 9 of the 2021 Policy.

### **1.3 EXCEPTIONS TO THE 2021 POLICY**

It should be noted that there were no cases of exemption from the 2021 Policy for Directors (including Directors holding special offices), General Managers, KM and members of the Board of Statutory Auditors.

### **1.4 CLAWBACK CLAUSES**

It should also be noted that during the year the conditions for the application of the mechanisms for *ex post* repayment of the variable component (clawback clause) envisaged by the STI annual and LTI multi-year incentive plans did not occur.

## 1.5 COMPARISON INFORMATION

Below is a summary of comparative information for the last three years: (i) the remuneration of each of the persons for whom the information in this section of the Report is provided by name, (ii) the Company's results, (iii) the average remuneration of employees of Pirelli & C..

### Annual variation in remuneration and performance

Values in €

	2021	2021 vs 2020	2020 vs 2019	2019 vs 2018
<b>Executive Vice Chairman and Chief Executive Officer</b>	<i>Actual Total Cash<sup>[1]</sup></i>		<i>Change</i>	
Marco Tronchetti Provera	7.474.184	234%	-47%	-11%
<b>Deputy-CEO</b>	<i>Actual Total Cash<sup>[1]</sup></i>		<i>Change</i>	
Giorgio Luca Bruno <sup>[2]</sup>	2.300.347	-	-	-
<b>General Manager of Operations</b>	<i>Actual Total Cash<sup>[1]</sup></i>		<i>Change</i>	
Andrea Casaluci	2.795.472	292%	-33%	23%
<b>Board of Directors</b>				
<b>Name</b>	<b>Office</b>	<i>Actual Total Cash<sup>[1]</sup></i>	<i>Change</i>	
Ning Gaoning <sup>[3]</sup>	Chairman	525.000	20%	-11%
Yang Xingqiang	Director	95.000	20%	-12%
Bai Xiping	Director	155.000	20%	-11%
Tao Haisu	Director	100.000	22%	-9%
Haitao Zhang	Director	95.000	100%	-
Paola Boromei	Director	95.000	100%	-
Domenico De Sole	Director	145.000	19%	-19%
Roberto Diacetti	Director	95.000	100%	-
Giovanni Lo Storto	Director	175.000	38%	15%
Marisa Pappalardo	Director	200.000	58%	27%
Angelos Papadimitriou <sup>[4]</sup>	Director	273.750	-59%	-
Giovanni Tronchetti Provera	Director	526.036	92%	3%
Fan Xiaohua	Director	130.000	34%	8%
Wei Yin Tao	Director	95.000	20%	-12%
<b>Board of Statutory Auditors</b>				
<b>Name</b>	<b>Office</b>	<i>Actual Total Cash<sup>[1]</sup></i>	<i>Change</i>	
Francesco Fallacara	Chairman (outgoing)	34.375	-54%	0%
Riccardo Foglia Taverna	Chairman	48.750	-	-
Antonella Carù	Standing auditor	108.097	8%	0%
Fabio Artoni	Standing Auditor (outgoing)	32.325	-54%	0%
Luca Nicodemi	Standing Auditor (outgoing)	27.500	-54%	0%
Alberto Villani	Standing auditor	63.542	27%	0%
Francesca Meneghel	Standing auditor	40.625	-	-
Teresa Cristiana Naddeo	Standing auditor	40.625	-	-
<b>Results</b>				
	<i>Actual Result</i>	<i>Change</i>		
Relative TSR <sup>[5]</sup>	-	12,1%	-7,6%	-2,2%
Group Adjusted EBIT (mln euros)	815,8	62,8%	-45,4%	-4,0%
<b>Average remuneration of employees</b>				
	<i>Actual Total Cash<sup>[1]</sup></i>			
Employees of Pirelli & C. S.p.A. active at 31/12	108.719	39%	-11%	-3%

<sup>[1]</sup> Corresponds to the sum of "Fixed remuneration", "Fees for participation in committees" and "Bonuses and other incentives" of Table 1

<sup>[2]</sup> Appointed as of 15 June 2021

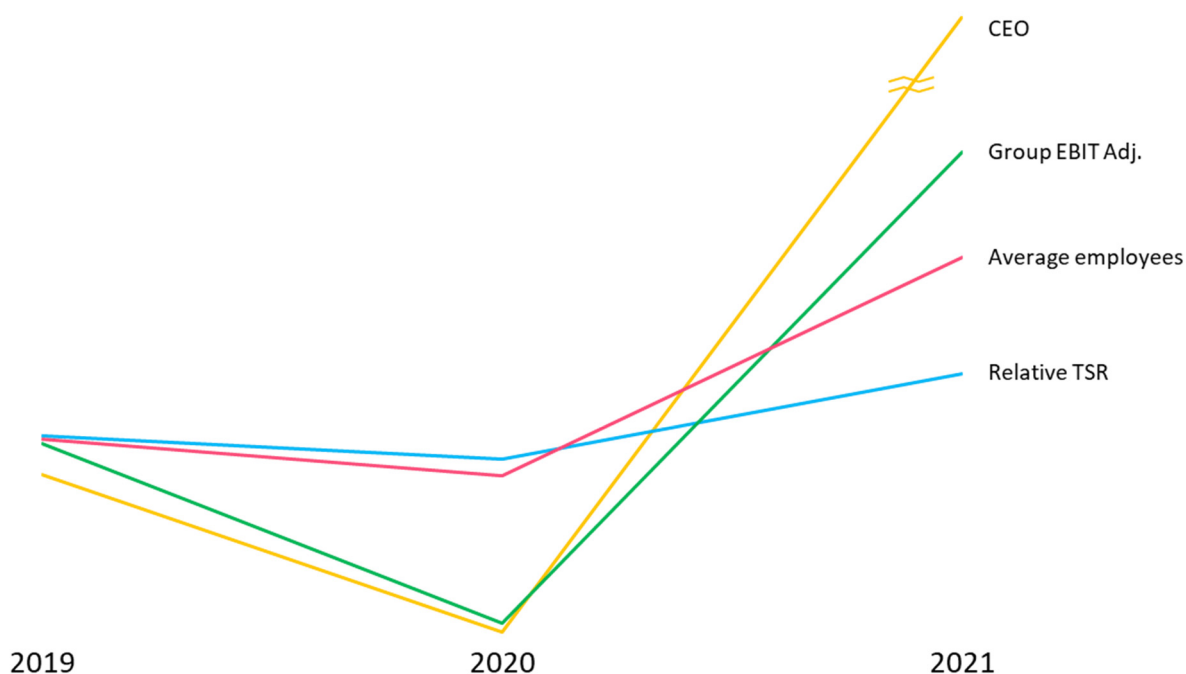
<sup>[3]</sup> Appointed Chairman in 2018

<sup>[4]</sup> Ceased to hold office as General Manager Co-CEO on 28 February 2021 and as Director from 24 March 2021

<sup>[5]</sup> Calculated as [(average market cap. current year - average market cap. previous year + dividends paid current year) / average market cap. previous year].

The percentages indicated represent, for each year, the difference in percentage points between Pirelli's TSR and the peers' average: Nokian, Michelin, Continental, Goodyear and Bridgestone. Goodyear's TSR was normalised following the acquisition of Cooper.

The graph below compares the above changes in the Executive Vice Chairman and Chief Executive Officer, employees of Pirelli & C. S.p.A. and the Group’s Relative TSR and Adjusted EBIT performance.



**2. THE “TABLE”: REMUNERATION PAID TO MEMBERS OF THE BOARD OF DIRECTORS, GENERAL MANAGERS AND KM.**

The following tables set out:

- by name, the remuneration paid to Directors, Statutory Auditors and General Managers;
- in aggregate form, that of KM<sup>99</sup>. As at 31 December 2021, in addition to the General Manager Operations (Andrea Casaluci), 6 KM had been identified.

Remuneration is reported on an accruals basis and the notes to the tables indicate the office for which the remuneration is received (for example, where a director is a member of more than one

<sup>99</sup> Subparagraph (b) of Section II of Schedule 7-bis of Annex 3A of the C.C.. Issuers’ Regulation provides that the so-called Report on Remuneration paid is in two parts:

- a) the remuneration of the members of the administrative and supervisory bodies and of the general managers;
- b) the remuneration of any other key management personnel who received during the financial year total remuneration (obtained by adding the monetary remuneration and the remuneration based on financial instruments) higher than the highest total remuneration attributed to the persons indicated in letter a).

For executives with strategic responsibilities other than those indicated in letter b), the information is provided at an aggregate level, indicating instead of the name of the persons to whom it relates” aggregate level in special tables, indicating instead of the name the number of persons to whom it refers”.

Board Committee) and the company Pirelli & C. or subsidiary and/or investee company thereof paying it (not for remuneration waived or transferred to the Company).

The tables include all persons who held the above-mentioned offices during the financial year 2021, even if only for a fraction of the year<sup>100</sup>. Non-monetary benefits, where received, are also reported on an accrual basis and reported in accordance with the 'tax basis' of the *benefit* granted.

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<sup>100</sup> In this case the fees are represented *pro rata temporis*.

First and last name	Office	Period office held	Expiry of term of office	Fixed remuneration	Remuneration for membership of committees	Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	End of employment or office indemnity
						Bonus and other incentives	Profit sharing					
Marco Tronchetti Provera	Executive Vice Chairman and CEO	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2022	2,465,000.00	100,000.00	4,909,184.00	0.00	670,863.00	0.00	8,145,047.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.				2,465,000.00 (1)	100,000.00 (2)	4,909,184.00 (3)		670,863.00 (4)		8,145,047.00		
Of which remuneration by subsidiary and affiliated Companies												
Ning Gaoning	Chairman	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2022	465,000.00	60,000.00	0.00	0.00	0.00	0.00	525,000.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.				465,000.00 (5)	60,000.00 (6)					525,000.00 (7)		
Of which remuneration by subsidiary and affiliated Companies												
Yang Xingqiang	Director	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2022	65,000.00	30,000.00	0.00	0.00	0.00	0.00	95,000.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.				65,000.00 (8)	30,000.00 (9)					95,000.00 (7)		
Of which remuneration by subsidiary and affiliated Companies												
Bai Xinping	Director	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2022	65,000.00	90,000.00	0.00	0.00	0.00	0.00	155,000.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.				65,000.00 (8)	90,000.00 (10)					155,000.00 (7)		
Of which remuneration by subsidiary and affiliated Companies												
Paola Boromei	Director	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2022	65,000.00	30,000.00	0.00	0.00	0.00	0.00	95,000.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.				65,000.00 (8)	30,000.00 (11)					95,000.00		
Of which remuneration by subsidiary and affiliated Companies												
Giorgio Luca Bruno	Deputy-CEO	15/06/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2022	634,097.00	16,250.00	1,650,000.00	0.00	6,973.00	150,000.00	2,457,320.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.				634,097.00 (12)	16,250.00 (9)	1,650,000.00 (13)		6,973.00 (14)	150,000.00 (15)	2,457,320.00		
Of which remuneration by subsidiary and affiliated Companies												
Domenico De Sole	Director	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2022	65,000.00	80,000.00	0.00	0.00	0.00	0.00	145,000.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.				65,000.00 (8)	80,000.00 (16)					145,000.00		
Of which remuneration by subsidiary and affiliated Companies												

First and last name	Office	Period office held	Expiry of term of office	Fixed remuneration	Remuneration for membership of committees	Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	End of employment or office indemnity
						Bonus and other incentives	Profit sharing					
<b>Roberto Diacetti</b>	Director	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2022	65,000.00	30,000.00	0.00	0.00	0.00	0.00	95,000.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
<b>Fan Xiaohua</b>	Director	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2022	65,000.00	65,000.00	0.00	0.00	0.00	0.00	130,000.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
<b>Giovanni Lo Storto</b>	Director	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2022	65,000.00	110,000.00	0.00	0.00	0.00	0.00	175,000.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
<b>Marisa Pappalardo</b>	Director	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2022	65,000.00	135,000.00	0.00	0.00	0.00	0.00	200,000.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
<b>Tao Haisu</b>	Director	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2022	65,000.00	35,000.00	0.00	0.00	0.00	0.00	100,000.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
<b>Giovanni Tronchetti Provera</b>	Director	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2022	291,923.08	30,000.00	204,113.00	0.00	14,070.00	0.00	540,106.08	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
<b>Wei Yin Tao</b>	Director	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2022	65,000.00	30,000.00	0.00	0.00	0.00	0.00	95,000.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												



First and last name	Office	Period office held	Expiry of term of office	Fixed remuneration	Remuneration for membership of committees	Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	End of employment or office indemnity
						Bonus and other incentives	Profit sharing					
Haitao Zhang	Director	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2022	65,000.00	30,000.00	0.00	0.00	0.00	0.00	95,000.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
Angelos Papadimitriou	Director and General Manager co-CEO	01/01/2021 - 24/03/2021 (26)	Shareholders' meeting of 24 March 2021	266,250.00	7,500.00	0.00	0.00	5,885.00	0.00	279,635.00	0.00	4,442,534.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
Andrea Casaluci	General Manager Operations	/	/	750,000.00	0.00	2,045,472.00	0.00	16,641.00	1,155,000.00	3,967,113.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
No. 6 Key Managers	(32)	/	/	3,139,615.38	40,000.00	4,120,468.00	0.00	103,361.00	4,400,303.00	11,803,747.38	0.00	89,000.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
Riccardo Foglia	Chairman of the Board of Statutory Auditors	15/06/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2023	48,750.00	0.00	0.00	0.00	0.00	0.00	48,750.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
Francesco Fallacara	Chairman of the Board of Statutory Auditors	01/01/2021 - 15/06/2021	AGM to approve the financial statements for the year to 31 December 2020	34,375.00	0.00	0.00	0.00	0.00	0.00	34,375.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
Francesca Meneghel	Standing auditor	15/06/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2023	40,625.00	0.00	0.00	0.00	0.00	0.00	40,625.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
				40,625.00						40,625.00		

First and last name	Office	Period office held	Expiry of term of office	Fixed remuneration	Remuneration for membership of committees	Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	End of employment or office indemnity
						Bonus and other incentives	Profit sharing					
Fabio Artoni	Standing auditor	01/01/2021 - 15/06/2021	AGM to approve the financial statements for the year to 31 December 2020	32,325.00	0.00	0.00	0.00	0.00	0.00	32,325.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
Teresa Naddo	Standing auditor	15/06/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2023	40,625.00	0.00	0.00	0.00	0.00	0.00	40,625.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
Luca Nicodemi	Standing auditor	01/01/2021 - 15/06/2021	AGM to approve the financial statements for the year to 31 December 2020	27,500.00	0.00	0.00	0.00	0.00	0.00	27,500.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
Antonella Carù	Standing auditor	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2023	68,097.00	40,000.00	0.00	0.00	0.00	0.00	108,097.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
Alberto Villani	Standing auditor	01/01/2021 - 31/12/2021	AGM to approve the financial statements for the year to 31 December 2023	63,542.00	0.00	0.00	0.00	0.00	0.00	63,542.00	0.00	0.00
Of which remuneration in Pirelli & C. S.p.A.												
Of which remuneration by subsidiary and affiliated Companies												
*****												
<b>Total remuneration in Pirelli &amp; C. S.p.A.</b>				<b>7,333,409.23</b>	<b>958,750.00</b>	<b>9,711,903.00</b>	<b>0.00</b>	<b>762,541.00</b>	<b>2,833,053.00</b>	<b>21,599,656.23</b>	<b>0.00</b>	<b>4,531,534.00</b>
<b>Total remuneration by subsidiary and affiliated Companies</b>				<b>1,749,315.23</b>	<b>0.00</b>	<b>3,217,334.00</b>	<b>0.00</b>	<b>55,252.00</b>	<b>2,872,250.00</b>	<b>7,894,151.23</b>	<b>0.00</b>	<b>0.00</b>
<b>Total</b>				<b>9,082,724.46</b>	<b>958,750.00</b>	<b>12,929,237.00</b>	<b>0.00</b>	<b>817,793.00</b>	<b>5,705,303.00</b>	<b>29,493,807.46</b>	<b>0.00</b>	<b>4,531,534.00</b>

- (1) Of which: euro 65,000 as a Director of Pirelli & C. S.p.A. and euro 2.4 as Executive Vice Chairman and Chief Executive Officer of Pirelli & C. S.p.A.
- (2) Of which euro 50,000 as Chairman of the Appointments and Successions Committee of Pirelli & C. S.p.A. and euro 50,000 as Chairman of the Strategies Committee of Pirelli & C. S.p.A.
- (3) The amount includes 75% of the 2021 STI incentive accrued and paid out (upfront amount) and 25% of the 2019 STI incentive paid out in 2021. 25% of the 2021 STI incentive deferred and assigned for risks/opportunities according to the results of the 2022 STI is not indicated (see the following table for details on the amounts).
- (4) Of which: euro 666,302 for insurance policies in line with the provisions of the 2021 Policy, and euro 4,561 for a company car.
- (5) Of which euro 400,000 as a Chairman of Pirelli & C. S.p.A. and euro 65,000 as a Director of Pirelli & C. S.p.A.
- (6) Of which euro 30,000 as member of the Appointments and Successions Committee of Pirelli & C. S.p.A. and euro 30,000 as member of the Strategies Committee of Pirelli & C. S.p.A.
- (7) Remuneration transferred to employer company.
- (8) As a Director of Pirelli & C. S.p.A.
- (9) As a member of the Strategies Committee of Pirelli & C. S.p.A.

- (10) Of which: euro 30,000 as a member of the Remuneration Committee of Pirelli & C. S.p.A., euro 30,000 as a member of the Appointments and Successions Committee of Pirelli & C. S.p.A., and euro 30,000 as a member of the Strategies Committee of Pirelli & C. S.p.A.
- (11) As member of the Remuneration Committee of Pirelli & C. S.p.A.
- (12) Of which: euro 35,208 as a Director of Pirelli & C. S.p.A. and euro 598,889 as Deputy-CEO of Pirelli & C. S.p.A. from 15 June 2021.
- (13) The amount includes 75% of the 2021 STI incentive accrued and paid out (upfront amount), 25% of the same incentive deferred and assigned for risks/opportunities according to the results of the 2022 STI is not indicated (see the following table for details on the amounts).
- (14) Of which: euro 1,402 for insurance policies, euro 3,625 for a company car and euro 1,946 for health insurance.
- (15) Deriving from the consulting agreement entered into with Pirelli & C. S.p.A. effective as of 1 January 2019 and terminated on 15 June 2021. Note that the non-competition agreement paid upon termination of the previous office of Director of Pirelli & C. (18 June 2020) and terminated by mutual agreement on 15 June 2021, is not shown as its total value is already indicated in the Report on Remuneration paid in 2018.
- (16) Of which: euro 30,000 as member of the Strategies Committee of Pirelli & C. S.p.A. and euro 50,000 as member of the Related-Parties Transactions Committee of Pirelli & C. S.p.A. ("RPT Committee").
- (17) As member of the Audit, Risks, Sustainability and Corporate Governance Committee of Pirelli & C. S.p.A. ("ARSCGC").
- (18) Of which: euro 35,000 as Chairman of the ARSCGC and euro 30,000 as member of the Remuneration Committee of Pirelli & C. S.p.A.
- (19) Of which: euro 30,000 as a member of the ARSCGC, euro 30,000 as a member of the Strategies Committee of Pirelli & C. S.p.A., and euro 50,000 as a member of the RPT Committee.
- (20) Of which: euro 30,000 as member of the ARSCGC, euro 30,000 as member of the Remuneration Committee of Pirelli & C. S.p.A. and euro 75,000 as Chairman of the RPT Committee.
- (21) As Chairman of the Remuneration Committee of Pirelli & C. S.p.A.
- (22) As a member of the Appointments and Successions Committee of Pirelli & C. S.p.A.
- (23) As Senior Manager of Pirelli Tyre S.p.A. for the whole of 2021.
- (24) The amount includes the full amount of the accrued 2021 STI incentive (including the deferred portion), the company matching component that will be paid at the end of the deferral period (3 years) and 25% of the 2019 STI incentive paid in 2021.
- (25) Of which: euro 462 for insurance policies, euro 3,072 for a company car, euro 7,200 for supplementary pension contributions and euro 3,336 for health insurance.
- (26) Ceased to hold office as General Manager co-CEO of the Company on 28 February 2021 and as Director from 24 March 2021.
- (27) Of which: euro 16,250 as a Director of Pirelli & C. S.p.A. and euro 250,000 as General Manager co-CEO of Pirelli & C. S.p.A.
- (28) Of which: euro 1,553 for a company car, euro 1,200 for supplementary pension contributions, euro 556 for health insurance and euro 1,846 for accommodation assigned on loan for use and euro 730 for insurance policies.
- (29) Of which: euro 1.25 million as a redundancy incentive, euro 100,000 as general novation settlement, euro 3 million as total consideration for a non-competition agreement (of which euro 750,000 was paid in 2021), euro 92,534 related to non-monetary benefits after termination of employment.
- (30) Of which: euro 3,630 for a company car, euro 7,200 for supplementary pension contributions, euro 3,336 for health insurance and euro 2,475 for insurance policies.
- (31) Of which: euro 330,000 for the last tranche of the Retention Plan, euro 75,000 as payment during the employment contract of a portion of the fee for the non-competition agreement and euro 750,000 as a stability bonus.
- (32) As of 31 December 2021, 6 KM had been identified, of which 1 is represented pro-rata temporis as of 15 June 2021. The table also shows pro-rata temporis the remuneration of two KM who held this office until 15 June 2021. Note, lastly, that the remuneration paid to the General Manager co-CEO who ceased to hold office on 28 February 2021 and the General Manager Operations are not included in this item, as these figures are indicated separately in the table.
- (33) As a member of the 231 Supervisory Body.
- (34) The amount includes, for the respective holders, the full amount of the accrued 2021 STI incentive (including the deferred portion), the company matching component that will be paid at the end of the deferral period (3 years) and 25% of the 2019 STI incentive paid in 2021. For Mr Francesco Tanzi, the deferred portion of the 2021 STI and the company matching opportunity are not shown as they have been definitively lost due to the termination of employment.
- (35) The amounts, for the respective holders, are for a company car, supplementary pension contributions, health insurance, insurance policies and housing benefit.
- (36) The amounts, for the respective holders, are for payment during the employment contract of a portion of the fee for the non-competition agreement, the last instalment of the Retention Plan, a one-off bonus and reimbursement for school fees.
- (37) As a fee for the non-competition agreement after termination of the employment relationship
- (38) The amount includes, for the respective holders, the full amount of the accrued 2021 STI incentive (including the deferred portion), the company matching component that will be paid at the end of the deferral period (3 years) and 25% of the 2019 STI incentive paid in 2021.
- (39) As standing auditor of Pirelli Industrie Pneumatici S.r.l., Chairman of the Board of Statutory Auditors of Pirelli Tyre S.p.A. until 14 June 2021, Chairman of the Supervisory Board of Pirelli International Treasury S.p.A. as of 4 June 2021.
- (40) As a standing auditor of Pirelli Tyre S.p.A.

### 3. MONETARY INCENTIVE PLANS FOR MEMBERS OF THE BOARD OF DIRECTORS, GENERAL MANAGERS AND KM

For a description of the monetary incentive plans, please refer to the 2021 Policy.

First and last name	Office	Plan	Bonus for the year				Bonus for the previous years			Other bonuses		
			Payable/ Paid out	Deferred		Deferment period	No longer payable	Payable /Paid out	Still deferred			
Marco Tronchetti Provera	Executive Vice Chairman and CEO	2019 STI						409,184.00	(1)	-	-	
		2021 STI	4,500,000.00	1,500,000.00	(2)	1 year	-			-	-	
		LTI Plan 2020-2022	-	-		-	-	-			-	-
		LTI Plan 2021-2023	-	-		-	-	-			-	-
Giorgio Luca Bruno	Deputy-CEO (7)	2021 STI	1,650,000.00	550,000.00	(2)	1 year	-	-		-	-	
		LTI Plan 2020-2022	-	-	-	-	-	-	-	-	-	-
		LTI Plan 2021-2023	-	-	-	-	-	-	-	-	-	-
Giovanni Tronchetti Provera	Director (8)	2019 STI	-	-		-	-	4,613.00	(1)	-	-	
		2021 STI	105,000.00	94,500.00	(3)	3 years	-	-		-	-	
		LTI Plan 2020-2022	-	-		-	-	-			-	-
		LTI Plan 2021-2023	-	-		-	-	-			-	-
Andrea Casaluci	General Manager Operations	2019 STI	-	-		-	-	76,722.00	(1)	-	-	
		2021 STI	562,500.00	1,406,250.00	(3)	3 years	-	-		-	-	
		LTI Plan 2020-2022	-	-		-	-	-			-	1,080,000.00
		LTI Plan 2021-2023	-	-		-	-	-			-	-
No. 6 Key Managers	(9)	2019 STI	-	-		-	-	259,708.00	(1)	-	-	
		2021 STI	1,725,700.00	2,135,060.00	(5)	3 years					-	
		LTI Plan 2020-2022	-	-		-	-	-			-	-
		LTI Plan 2021-2023	-	-		-	-	-			-	-
(I) Remuneration in the Company that has prepared the financial statements		2019 STI	-	-		-	-	576,143.00		-	-	
		2021 STI	7,625,700.00	3,560,060.00		1 year 3 years		-		-	-	
		LTI Plan 2020-2022	-	-		-	-	-			-	-
		LTI Plan 2021-2023	-	-		-	-	-			-	-
(II) Remuneration from Subsidiary and Affiliated Companies		2019 STI	-	-		-	-	174,084.00		-	-	
		2021 STI	917,500.00	2,125,750.00		3 years	-	-		-	-	
		LTI Plan 2020-2022	-	-		-	-	-			-	-
		LTI Plan 2021-2023	-	-		-	-	-			-	-
(III) Total			8,543,200.00	5,685,810.00		-	-	750,227.00		-	5,207,250.00	

(1) The amount relates to 25% of the 2019 STI which had been deferred and which, in execution of the specific resolution of the Board of Directors of 3 April 2020, was paid in 2021 subject to continued employment on the payment date. This amount is shown in the "Bonuses and other incentives" column of Table 1.

(2) The amount in the "Deferred Year Bonus" column refers to 25% of the 2021 STI deferred and assigned to risk/opportunity subject to the results of the 2022 STI. This amount is not shown in the "Bonuses and other incentives" column of Table 1.

(3) The amount in the "Deferred Year Bonus" column refers to the sum of the deferred 2021 STI portion and the company matching component, which will be paid at the end of the deferral period (3 years). This amount is shown in the "Bonuses and other incentives" column of Table 1.

(4) The amount refers to the sum of the last tranche of the Retention Plan and of the stability bonus. This amount is shown in the "Other remuneration" column in Table 1.

(5) The amount in the "Deferred Year Bonus" column refers to the sum of the deferred portion of the 2021 STI and the company matching component which will be paid at the end of the deferral period (3 years) for the KM in office at 31/12/2021, net of Mr Francesco Tanzi, who definitively loses the deferred

portion of the 2021 STI and the company matching opportunity due to the termination of his employment. This amount is shown in the “Bonuses and other incentives” column of Table 1.

(6) The amount refers, for the respective holders, to the last tranche of the Retention Plan and a one-time bonus. This amount is shown in the “Other remuneration” column in Table 1.

(7) The Deputy-CEO, appointed on 15 June 2021, participates in the 2021 Annual Incentive (STI), the 2021-2023 Long Term Incentive (LTI) plan and, pro-rata, the 2020-2022 Long Term Incentive (LTI) plan.

(8) Giovanni Tronchetti Provera is included in the LTI and STI variable incentive plans as Senior Manager of Pirelli Tyre S.p.A.

(9) As of 31 December 2021 there were 6 ESRs. It should be noted that the remuneration paid to the General Manager Operations is not included in this item, as it is indicated separately in the table.

#### **4. TABLE OF EQUITY INVESTMENTS OF THE MEMBERS OF THE BOARD OF DIRECTORS, GENERAL MANAGERS AND KM**

The table below provides disclosures on any equity investments held in Pirelli & C. and in its subsidiary companies, by those who, even for a fraction of the year, have held the position of:

- member of the Board of Directors;
- member of the Board of Statutory Auditors;
- General Manager;
- KM.

In particular, it indicates, for each member of the Board of Directors and Board of Statutory Auditors and General Managers, by name, and cumulatively for KM, with regard to each company in which shares are held, the number of shares, by category:

- held at the end of the prior year;
- purchased during the reporting year;
- sold during the reporting year;
- held at the end of the reporting period.

In this regard, the title of possession and the manner in which it is held are also specified.

This includes all persons who, during the year in question, held the position of member of the administrative and control bodies, General Manager or KM, even if only for a fraction of a year.

## 1) EQUITY INVESTMENTS OF MEMBERS OF BOARD OF DIRECTORS AND CONTROLLING BODIES AND GENERAL MANAGERS

First and last name	Office	Investee company	No. of shares owned at 31.12.2020	No. of shares purchased/ subscribed	No. of shares sold	No. of shares owned at 31.12.2021
Marco Tronchetti Provera (i)	Executive Vice Chairman and Chief Executive Officer	Pirelli & C.	100,959,399	40,000,000 (ii)	-	140,959,399 (iii)
Angelos Papadimitriou	Director	Pirelli & C.	170,000 (iv)	-	-	170,000 (iv)
Giorgio Luca Bruno	Director	Pirelli & C.	500 (v)	-	-	500 (v)

(i) Shares held by the indirect subsidiary Camfin S.p.A.

(ii) Shares acquired by Camfin S.p.A. on 7 October 2021 following completion of the share capital increase of Camfin S.p.A. fully subscribed by Longmarch Holding S.à.r.l. through the contribution of 40,000,000 Pirelli shares.

(iii) For the sake of completeness, it should be noted that Camfin S.p.A. informed the market that it had taken out instruments called "Call Spreads" with major financial institutions, the original maturity of which was extended from September 2022 to September 2023, on 29 June 2021, with an underlying equivalent to approximately 4.6% of Pirelli's share capital.

(iv) Shares purchased on 6 August 2020 and held at the date of termination of office (24 March 2021).

(v) Shares purchased when the Company was listed on 4 October 2017.

## 2) EQUITY INVESTMENTS OF OTHER KM

Number of managers with strategic responsibility	Involved company	No. of shares held at 31.12.2020	No. of shares purchased/ subscribed	No. of shares sold	No. of shares held at 31.12.2021
-	-	-	-	-	-

## **CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2021**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** (in thousands of euro)

	Note	12/31/2021		12/31/2020	
			of which related parties (note 43)		of which related parties (note 43)
Property, plant and equipment	9	3,288,914		3,159,767	
Intangible assets	10	5,485,665		5,582,033	
Investments in associates and joint ventures	11	80,886		72,588	
Other financial assets at fair value through other Comprehensive Income	12	56,907		42,720	
Deferred tax assets	13	137,643		109,378	
Other receivables	15	362,944	6,664	402,148	5,826
Tax receivables	16	27,564		4,761	
Other assets	22	153,205		80,422	
Derivative financial instruments	27	4,612		-	
<b>Non-current assets</b>		<b>9,598,340</b>		<b>9,453,817</b>	
Inventories	17	1,092,162		836,437	
Trade receivables	14	659,209	19,474	597,669	12,790
Other receivables	15	470,577	105,942	469,194	111,325
Other financial assets at fair value through Income Statement	18	113,901		58,944	
Cash and cash equivalents	19	1,884,649		2,275,476	
Tax receivables	16	17,773		29,153	
Derivative financial instruments	27	46,562		17,900	
<b>Current assets</b>		<b>4,284,833</b>		<b>4,284,773</b>	
<b>Total Assets</b>		<b>13,883,173</b>		<b>13,738,590</b>	
<b>Equity attributable to the owners of the Parent Company:</b>	<b>20.1</b>	<b>4,908,112</b>		<b>4,447,418</b>	
Share capital		1,904,375		1,904,375	
Reserves		2,700,941		2,513,262	
Net income / (loss)		302,796		29,781	
<b>Equity attributable to non-controlling interests:</b>	<b>20.2</b>	<b>134,527</b>		<b>104,432</b>	
Reserves		115,730		91,540	
Net income / (loss)		18,797		12,892	
<b>Total Equity</b>	<b>20</b>	<b>5,042,639</b>		<b>4,551,850</b>	
Borrowings from banks and other financial institutions	23	3,789,369	13,210	4,970,986	14,693
Other payables	25	76,485	213	77,280	213
Provisions for liabilities and charges	21	81,170	22,028	73,257	5,926
Deferred tax liabilities	13	1,033,892		1,006,799	
Provisions for employee benefit obligations	22	220,598	7,157	243,931	2,408
Tax payables	26	11,512		10,795	
Derivative financial instruments	27	3,519		87,601	
<b>Non-current liabilities</b>		<b>5,216,545</b>		<b>6,470,649</b>	
Borrowings from banks and other financial institutions	23	1,489,249	2,751	883,567	2,192
Trade payables (*)	24	1,626,367	144,122	1,316,971	134,597
Other payables (*)	25	314,203	13,376	325,266	6,719
Provisions for liabilities and charges	21	43,594		48,083	
Provisions for employee benefit obligations	22	-		5,013	3,017
Tax payables	26	134,388		99,505	
Derivative financial instruments	27	16,188		37,686	
<b>Current liabilities</b>		<b>3,623,989</b>		<b>2,716,091</b>	
<b>Total Liabilities and Equity</b>		<b>13,883,173</b>		<b>13,738,590</b>	

(\*) At December 31, 2021, payables for investments in property, plant and equipment and intangible assets are classified under Trade payables. In order to ensure compatibility with the previous financial year, payables for investments in property, plant and equipment and intangible assets at December 31, 2020, to the amount of euro 49,000 thousand, were reclassified from Other payables to Trade payables.



**CONSOLIDATED INCOME STATEMENT** (in thousands of euro)

	Note	2021		2020	
			of which related parties (note 43)		of which related parties (note 43)
<b>Revenues from sales and services</b>	<b>29</b>	<b>5,331,450</b>	23,659	<b>4,302,131</b>	15,074
Other income	30	303,868	56,294	306,313	49,392
Changes in inventories of unfinished, semi-finished and finished products		157,813		(160,223)	
Raw materials and consumables used (net of change in inventories)		(1,820,615)	(3,577)	(1,280,361)	(4,917)
Personnel expenses	31	(1,101,913)	(23,085)	(949,678)	(14,959)
- of which non-recurring events		(2,537)		(11,205)	
Amortisation, depreciation and impairment	32	(517,192)		(517,152)	
Other costs	33	(1,770,518)	(312,465)	(1,466,294)	(241,764)
Net impairment loss on financial assets	34	(7,950)		(17,385)	
Increases in fixed assets due to internal works		2,111		1,788	
<b>Operating income/(loss)</b>		<b>577,054</b>		<b>219,139</b>	
Net income/(loss) from equity investments	35	3,978		(5,271)	
- share of net income/(loss) of associates and joint ventures		1,697	1,697	(5,629)	(5,629)
- gains on equity investments		27		1,140	
- losses on equity investments		(20)		(847)	
- dividends		2,274		65	
Financial income	36	35,000	3,651	149,134	2,338
Financial expenses	37	(179,281)	(1,505)	(305,636)	(921)
<b>Net income / (loss) before taxes</b>		<b>436,751</b>		<b>57,366</b>	
Taxes	38	(115,158)		(14,693)	
- of which non-recurring events		23,223		-	
<b>Net income / (loss)</b>		<b>321,593</b>		<b>42,673</b>	
<b>Attributable to:</b>					
Owners of the Parent Company		302,796		29,781	
Non-controlling interests		18,797		12,892	
<b>Total earnings / (losses) per share (in euro per basic share)</b>	<b>39</b>	<b>0.303</b>		<b>0.030</b>	

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** (in thousands of euro)

	Note	2021	2020
<b>A</b>			
<b>Net income / (loss)</b>		<b>321,593</b>	<b>42,673</b>
- Remeasurement of employee benefits	22	91,168	18,946
- Tax effect		(30,173)	(5,271)
- Fair value adjustment of other financial assets at fair value through Other Comprehensive Income	12	13,764	(16,129)
<b>B</b>			
<b>Total items that may not be reclassified to Income Statement</b>		<b>74,759</b>	<b>(2,454)</b>
Exchange differences from translation of foreign Financial Statements			
- Gains / (losses)	20	119,201	(373,552)
- (Gains) / losses reclassified to Income Statement	35	-	(932)
- Tax effect		-	-
Fair value adjustment of derivatives designated as cash flow hedges:			
- Gains / (losses)	27	95,523	(119,247)
- (Gains) / losses reclassified to Income Statement	27	(72,380)	124,345
- Tax effect		(4,638)	(482)
Cost of hedging			
- Gains / (losses)	27	1,175	4,496
- (Gains) / losses reclassified to Income Statement	27	(6,870)	(7,104)
- Tax effect		878	81
Share of other comprehensive income related to associates and joint ventures, net of taxes	11	6,694	(2,093)
<b>C</b>			
<b>Total items reclassified / that may be reclassified to Income Statement</b>		<b>139,583</b>	<b>(374,488)</b>
<b>D</b>			
<b>Total other comprehensive income (B+C)</b>		<b>214,342</b>	<b>(376,942)</b>
<b>A+D</b>			
<b>Total comprehensive income / (loss)</b>		<b>535,935</b>	<b>(334,269)</b>
<b>Attributable to:</b>			
- Owners of the Parent Company		505,837	(336,516)
- Non-controlling interests		30,098	2,247

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2021

(in thousands of euro)	Attributable to the Parent Company (note 20.1)					Non-controlling interests (note 20.2)	Total (note 20)
	Share Capital	Translation reserve	Other O.C.I. reserves *	Other reserves/ retained earnings	Total attributable to the Parent Company		
<b>Total at 12/31/2020</b>	<b>1,904,375</b>	<b>(679,737)</b>	<b>(89,893)</b>	<b>3,312,673</b>	<b>4,447,418</b>	<b>104,432</b>	<b>4,551,850</b>
Other components of Comprehensive Income	-	114,594	88,447	-	203,041	11,301	214,342
Net income / (loss)	-	-	-	302,796	302,796	18,797	321,593
<b>Total comprehensive income / (loss)</b>	<b>-</b>	<b>114,594</b>	<b>88,447</b>	<b>302,796</b>	<b>505,837</b>	<b>30,098</b>	<b>535,935</b>
Dividends approved	-	-	-	(80,000)	(80,000)	-	(80,000)
Effects of hyperinflation accounting in Argentina	-	-	-	33,647	33,647	-	33,647
Other	-	-	38	1,172	1,210	(3)	1,207
<b>Total at 12/31/2021</b>	<b>1,904,375</b>	<b>(565,143)</b>	<b>(1,408)</b>	<b>3,570,288</b>	<b>4,908,112</b>	<b>134,527</b>	<b>5,042,639</b>

(in thousands of euro)

## OTHER O.C.I. RESERVES \*

	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Reserve for cash flow hedge	Remeasurement of employee benefits	Tax effect	Other O.C.I. reserves
<b>Total at 12/31/2020</b>		<b>(16,357)</b>	<b>7,290</b>	<b>(26,228)</b>	<b>(25,104)</b>	<b>(29,494)</b>
Other components of Comprehensive Income		13,764	(5,695)	23,143	91,168	(33,933)
Other changes		(4)	-	-	43	(1)
<b>Total at 12/31/2021</b>		<b>(2,597)</b>	<b>1,595</b>	<b>(3,085)</b>	<b>66,107</b>	<b>(63,428)</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2020

(in thousands of euro)	Attributable to the Parent Company (note 20.1)					Non-controlling interests (note 20.2)	Total (note 20)
	Share Capital	Translation reserve	Other O.C.I. reserves *	Other reserves/ retained earnings	Total attributable to the Parent Company		
<b>Total at 12/31/2019</b>	<b>1,904,375</b>	<b>(313,805)</b>	<b>(89,424)</b>	<b>3,223,303</b>	<b>4,724,449</b>	<b>102,182</b>	<b>4,826,631</b>
Other components of comprehensive income	-	(365,932)	(365)	-	(366,297)	(10,645)	(376,942)
Net income / (loss)	-	-	-	29,781	29,781	12,892	42,673
<b>Total comprehensive income / (loss)</b>	<b>-</b>	<b>(365,932)</b>	<b>(365)</b>	<b>29,781</b>	<b>(336,516)</b>	<b>2,247</b>	<b>(334,269)</b>
Convertible bond reserve	-	-	-	41,200	41,200	-	41,200
Effects of Hyperinflation accounting in Argentina	-	-	-	20,041	20,041	-	20,041
Other	-	-	(104)	(1,652)	(1,756)	3	(1,753)
<b>Total at 12/31/2020</b>	<b>1,904,375</b>	<b>(679,737)</b>	<b>(89,893)</b>	<b>3,312,673</b>	<b>4,447,418</b>	<b>104,432</b>	<b>4,551,850</b>

(in thousands of euro)

## OTHER O.C.I. RESERVES \*

	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Reserve for cash flow hedge	Remeasurement of employee benefits	Tax effect	Other O.C.I. reserves
<b>Total at 12/31/2019</b>		<b>(228)</b>	<b>9,898</b>	<b>(31,326)</b>	<b>(43,946)</b>	<b>(23,822)</b>
Other components of comprehensive income		(16,129)	(2,608)	5,098	18,946	(5,672)
Other changes		-	-	-	(104)	-
<b>Total at 12/31/2020</b>		<b>(16,357)</b>	<b>7,290</b>	<b>(26,228)</b>	<b>(25,104)</b>	<b>(29,494)</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)

	Note	2021		2020	
			of which related parties (note 43)		of which related parties (note 43)
Net income / (loss) before taxes		436,751		57,366	
Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	32	517,192		517,152	
Reversal of Financial (income) / expenses	36/37	144,281		156,502	
Reversal of Dividends	35	(2,274)		(65)	
Reversal of gains / (losses) on equity investments	35	(7)		(293)	
Reversal of share of net income from associates and joint ventures	35	(1,697)	(1,697)	5,629	5,629
Reversal of accruals and other		133,963		64,781	
Net Taxes paid	38	(125,634)		(90,692)	
Change in Inventories		(222,495)		140,645	
Change in Trade receivables		(51,352)	(6,359)	(35,324)	(4,029)
Change in Trade payables		214,512	19,478	(184,604)	390
Change in Other receivables		23,745	(1,197)	21,926	(6,868)
Change in Other payables		(59,096)	(5,158)	60,555	2,524
Uses of Provisions for employee benefit obligations		(48,751)	(3,017)	(37,173)	(2,257)
Uses of Other provisions		(40,064)		(58,053)	
<b>A Net cash flow provided by / (used in) operating activities</b>		<b>919,074</b>		<b>618,352</b>	
Investments in owned tangible assets		(256,092)		(177,879)	
Disposal of owned tangible assets		8,534		5,405	
Investments in intangible assets		(30,579)		(15,527)	
Disposal of intangible assets		243		279	
(Investments) in other financial assets at fair value through Other Comprehensive Income		(450)		-	
Loss of control in subsidiaries		4,407		69	
Change in Financial receivables from associates and joint ventures		15,272	15,272	(64,093)	(64,093)
Dividends received	35	2,274		65	
<b>B Net cash flow provided by / (used in) investing activities</b>		<b>(256,391)</b>		<b>(251,681)</b>	
Change in Borrowings from banks and other financial institutions due to draw down	23	886,242		2,577,182	
Change in Borrowings from banks and other financial institutions due to repayments and other	23	(1,649,448)		(1,806,690)	
Change in Financial receivables / Other current financial assets at fair value through income statement		(21,079)		(192,666)	
Financial income / (expenses)		(115,071)		(38,504)	
Dividends paid		(79,935)		-	
Repayment of principal and payment of interest for lease liabilities		(105,355)	(3,830)	(99,924)	(2,856)
<b>C Net cash flow provided by / (used in) financing activities</b>		<b>(1,084,646)</b>		<b>439,398</b>	
<b>D Total cash flow provided / (used) during the period (A+B+C)</b>		<b>(421,963)</b>		<b>806,069</b>	
<b>E Cash and cash equivalents at the beginning of the financial year</b>		<b>2,269,683</b>		<b>1,600,627</b>	
<b>F Exchange rate differences from translation of cash and cash equivalents</b>		<b>35,824</b>		<b>(137,013)</b>	
<b>G Cash and cash equivalents at the end of the period (D+E+F) (*)</b>	19	<b>1,883,544</b>		<b>2,269,683</b>	
(*) of which:					
cash and cash equivalents		1,884,649		2,275,476	
bank overdrafts		(1,105)		(5,793)	

## **EXPLANATORY NOTES**

### **1. GENERAL INFORMATION**

Pirelli & C. S.p.A. is a company whose legal status is governed by the laws of the Italian Republic.

Founded in 1872, Pirelli & C. S.p.A. is - also by way of its subsidiaries in Italy and abroad - a Pure Consumer Tyre Company (which includes tyres for cars, motorcycles and bicycles) whose particular focus is on the High Value tyre market, that is, products created to reach the highest levels of performance, safety, quietness and adherence to the road surface.

The Company's registered office is in Milan, at Viale Piero e Alberto Pirelli n. 25.

These Financial Statements have been prepared using the euro as the reporting currency, with all values rounded to the nearest thousand euro, unless otherwise indicated.

The audit of the Financial Statements has been entrusted to PricewaterhouseCoopers S.p.A. pursuant to Legislative Decree No. 39 of January 27, 2010, and execution of the resolution passed by the Shareholders' Meeting of August 1, 2017, which conferred the mandate to the aforesaid company for each of the nine financial years with closings from December 31, 2017 to December 31, 2025.

Pirelli & C. S.p.A. is directly controlled by Marco Polo International Italy S.r.l., which in turn, through China National Chemical Corporation ("*ChemChina*") and other subsidiaries of the latter, is indirectly controlled by Sinochem Holdings Corporation Ltd, a Chinese state-owned enterprise (SOE) controlled by the State-owned Assets Supervision and Administrative Commission of the State Council (SASAC) of the People's Republic of China.

As of the starting date of trading on the Stock Exchange (October 4, 2017), there are no entities that exercise management and coordination activities on the Company.

On March 17, 2022 the Board of Directors authorised the publication of these Consolidated Financial Statements.

### **2. BASIS OF PRESENTATION**

#### **COVID -19**

During 2021, the car tyre market recorded growth globally, despite volumes still remaining below the pre-pandemic levels of 2019. There was growth for the Original Equipment channel, even if far from pre-pandemic levels, impacted by the shortage in semi-conductors, particularly during the third and fourth quarters of 2021. There was sustained growth for the Replacement channel, supported by the recovery in mobility following the easing of restrictions put in place to combat contagions.

Pirelli's results for 2021 reflect the recovery in demand, and the implementation of the key programmes of the 2021-2022|2025 Industrial Plan with revenues amounting to euro 5,331.5 million (+23.9% compared to 2020), and an operating result amounting to euro 577.1 million.

As regards the medium-term Outlook and the elements of risk and uncertainty, reference should be made to the relevant sections in this document.

Considering the results for 2021 and those estimated for 2022, as reported in the "Outlook for 2022" section of the *Directors' Report on Operations*, the conditions required for the going concern assumption underlying the preparation of the Consolidated Financial Statements have been met, using a future period of at least 12 months from the closing date of the financial year as reference.

## Financial Statements

The Consolidated Financial Statements at December 31, 2021 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement and the Explanatory Notes, which are accompanied by the *Directors' Report on Operations*.

This document has not been prepared pursuant to EU Delegated Regulation 2019/815 (ESEF Regulation), which was adopted in implementation of the Transparency Directive. The document prepared pursuant to the ESEF Regulation is available (only in Italian) on the website of the authorised storage mechanism eMarket Storage (emarketstorage.com) and on the Company's website [www.pirelli.com](http://www.pirelli.com).

The format adopted for the Statement of Financial Position provides for the distinction of assets and liabilities according to whether they are current or non-current.

The Group has opted to present the components of gains/losses for the financial year in a separate Income Statement, rather than include these components directly in the Statement of Comprehensive Income. The Income Statement format adopted provides for the classification of costs by nature.

The Statement of Comprehensive Income includes the results for the financial year and, for homogeneous categories, income and expenses are recognised directly in equity, in accordance with the IFRS.

The Group has opted to present the tax effects and reclassifications to the Income Statement of the gains/losses which had been recognised in equity in previous financial years, directly in the Statement of Comprehensive Income and not in the Explanatory Notes.

The Statement of Changes in Equity sets forth, in addition to the total gains/losses of the period, the amounts from transactions with equity holders and the movements which occurred during the financial year in the reserves.

In the Statement of Cash Flow, the cash flows from operating activities are reported using the indirect method, whereby the gains or losses for the financial year are adjusted by the effects of non-monetary transactions, by any deferrals or accruals of past or future collections or payments for operating activities, and by revenue or expense item, connected with the cash flows derived from any investment or financing activity.

### **Scope of Consolidation**

The scope of consolidation includes the subsidiaries, associates and agreements for joint arrangements.

Subsidiaries are defined as all the companies over which the Group contemporarily holds:

- the power of decision-making, or the ability to direct the relevant activities of the subsidiary, that is activities that have a significant influence on the results of the subsidiary itself;
- the right to the variable (positive or negative) results from the investment in the entity;
- the capacity to utilise its decision-making power to determine the amounts for results arising from the investment in the entity.

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements as of the date when control is assumed until such time when control ceases to exist. The share of equity and of the results attributable to non-controlling interests, are separately reported in the Statement of Financial Position, the Income Statement and the Statement of Comprehensive Income, respectively.

All companies for which the Group is able to exercise significant influence as defined by IAS 28 – Investments in Associates and Joint Ventures, are considered associates. This influence is legally presumed to exist when the Group holds a percentage of voting rights of between 20% and 50%, or when - even in the case of a lower share of voting rights – it has the power to participate in determining financial and operating policies by virtue of specific legal relationships, such as, for example, the participation in Shareholders' agreements together with other forms of significant exercise of governance rights.

Joint arrangements are agreements whereby two or more parties have joint control under a contract. Joint control is the shared control of a business activity, established by agreement which exists only when decisions relative to the activity require the unanimous consent of all parties who share control. These agreements may give rise to joint ventures or joint operations.

A joint venture is an agreement for the joint control of an entity whereby the parties that have joint control, have rights to the net assets of the said entity. Joint ventures are distinguished from joint operations which instead are configured as agreements which give the parties of the agreement, which have joint control of the initiative, the rights to the individual assets and the obligations of the

individual liabilities relative to the agreement. In the case of joint operations, it is mandatory that the assets, liabilities, costs and revenues subject to the agreement be recognised in accordance with the applicable accounting standards. The Group does not currently have any agreements in place for joint operations.

The main changes in the scope of consolidation are summarised as follows:

- incorporation on May 19, 2021 of the company Pirelli Logistics (Yanzhou) Co., Ltd. which is wholly owned by Pirelli Tyre Co., Ltd.
- incorporation on December 20, 2021 of the company Pirelli Digital Solutions S.r.l., which is wholly owned by Pirelli Tyre S.p.A.

It should also be noted that the Mexican companies Pirelli Servicios S.A. de C.V. and Pirelli Neumaticos de Mexico S.A. de C.V. were merged by incorporation into Pirelli Neumaticos S.A. de C.V. effective December 31, 2021. The merger had no impact on the Group's Consolidated Financial Statements.

### Information on Subsidiaries

The Consolidated Financial Statements include the assets and liabilities of 88 legal entities. The following is a list of the significant subsidiaries:

	Headquarter	12/31/2021		12/31/2020	
		% group	% non-controlling interests	% group	% non-controlling interests
Pirelli Tyre Co. Ltd	Yanzhou (China)	90.00%	10.00%	90.00%	10.00%
Pirelli Deutschland GmbH	Breuberg/Odenwald (Germany)	100.00%		100.00%	
Pirelli Tyre S.p.A.	Milan (Italy)	100.00%		100.00%	
Pirelli Industrie Pneumatici S.r.l.	Settimo Torinese (Italy)	100.00%		100.00%	
Pirelli International Treasury S.p.A.	Milan (Italy)	100.00%		100.00%	
Pirelli Neumaticos S.A. de C.V.	Silao (Mexico)	100.00%		100.00%	
Pirelli Pneus Ltda	Campinas (Brazil)	100.00%		100.00%	
Pirelli Comercial de Pneus Brasil Ltda	Sao Paulo (Brazil)	100.00%		100.00%	
Pirelli UK Tyres Ltd	Burton-on-Trent (United Kingdom)	100.00%		100.00%	
Pirelli Tire LLC	Rome (USA)	100.00%		100.00%	
S.C. Pirelli Tyres Romania S.r.l	Slatina (Romania)	100.00%		100.00%	
Limited Liability Company Pirelli Tyre Russia	Moscow (Russia)	65.00%	35.00%	65.00%	35.00%

The complete list of subsidiaries is contained in the attachment “*Scope of Consolidation – Companies Consolidated on a Line-by-line Basis*”.

Non-controlling interests in the subsidiaries of the Group are not relevant either individually or in aggregate form.



## Consolidation Principles

For consolidation purposes, the financial statements of the companies included in the Scope of Consolidation were used, which were prepared at the reporting date of the Financial Statements of the Parent Company and appropriately adjusted in order to render them compliant with the IAS/IFRS accounting standards applied by the Group.

The financial statements expressed in foreign currencies have been translated into euro at period-end exchange rates for the items in the Statement of Financial Position, and at average exchange rates for the items of the Income Statement, with the exception of the financial statements of companies operating in hyperinflationary countries, whose Income Statements have been translated at period-end exchange rates.

The differences arising from the conversion of the initial equity at period-end exchange rates are recognised in the translation reserve, together with the difference arising from the translation of the results for the period at period-end exchange rates, instead of the average exchange rate. The translation reserve is reversed to the Income Statement at the time of the disposal of the company which generated the reserve.

The criteria for consolidation can be summarised as follows:

- subsidiaries are consolidated on a line-by-line basis, according to which:
  - the assets and liabilities, costs and revenues of the Financial Statements of subsidiaries are assumed in their entirety, regardless of the percentage of investment held;
  - the carrying amount of investments is de-recognised against the related portion of equity;
  - equity and income related transactions between fully consolidated companies, including dividends distributed within the Group, are eliminated;
  - non-controlling interests are reported under the appropriate equity item, and similarly, the share of gains or losses attributable to non-controlling interests is reported separately in the Income Statement;
  - at the time of disposal of the subsidiary and the consequent loss of control, any goodwill allocable to the subsidiary in determining the capital gains or losses arising from the disposal, is taken into account;
  - in the case of an equity investments acquired after the assumption of control, any difference between the purchase cost and the corresponding portion of equity acquired, is reported in equity. Similarly, the effects deriving from the disposal of non-controlling interests without loss of control are also recognised in equity.

- investments in associates and joint ventures are evaluated using the equity method, whereby the carrying amount of the investments is adjusted to take into account:
  - the investor's share of the post-acquisition results of the associate or joint venture;
  - the pertinent share of gains and losses are which reported directly in the equity of the subsidiary, in accordance with the applicable accounting standards;
  - the dividends paid by the subsidiary;
  - when the Group's pertinent share in the losses of the associate/joint venture exceeds the carrying amount of the investment in the Financial Statements, so then the carrying amount of the investment is reset to zero and the share of any further losses is recognised under "*Provisions for liabilities and charges*", to the extent to which the Group is contractually or implicitly obligated to cover the losses;
  - the margins resulting from sales carried out by subsidiaries to joint ventures or associates which are eliminated only to the extent of the ownership stake in the acquiring company.

### 3. ADOPTED ACCOUNTING STANDARDS

Pursuant to Regulation No. 1606 issued by the European Parliament and the European Council in July 2002, the Consolidated Financial Statements of the Pirelli & C. Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) in force, as issued by the International Accounting Standards Board (IASB) and approved by the European Union at December 31, 2021, as well as the provisions issued with the implementation of Article 9 of Legislative Decree no. 38/2005. The term IFRS and IAS signifies the IFRS and IAS international accounting standards in force as issued by the International Accounting Standards Board (IASB) and approved by the European Union at December 31, 2021 and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).

The Consolidated Financial Statements have been prepared using the historical costs method with the exception of the following items which have been measured at their fair value:

- derivative financial instruments;
- other financial assets at fair value through other Comprehensive Income;
- other financial assets at fair value through the Income Statement

### **Business Combinations**

Corporate acquisitions are accounted for using the acquisition method.

When a controlling interest in a company is acquired, goodwill is calculated as the difference between:

- the fair value of the consideration plus any non-controlling interests in the acquired company, measured at fair value (if this option is chosen for the acquisition in question) or in proportion to the non-controlling interest's share of the net assets of the acquired company;
- the fair value of the assets acquired and the liabilities assumed.

In cases where the aforesaid difference is negative, the difference is immediately recognised in the Income Statement under income.

In the case of the acquisition of the control of a company in which a non-controlling interest is already held (step acquisition), the previously held investment is measured at fair value, and the effects of this adjustment is recognised the Income Statement.

The costs of business combination operations are recognised in the Income Statement.

Contingent considerations, that is, the obligations of the acquiring company to transfer additional assets or shares to the seller in cases if certain future events occur, or specific conditions are fulfilled, are recognised at fair value at the acquisition date as part of the amount transferred in exchange for the acquisition itself. Any subsequent changes in the fair value of these agreements are recognised in the Income Statement.

### **Intangible Assets**

Intangible assets with finite useful lives are valued at cost, net of any accumulated amortisation and impairment.

Amortisation is calculated on a straight-line basis and begins when the asset becomes available for use or capable of operating in the manner intended by management and ceases on the date when the asset is classified as held for sale or is de-recognised.

Capital gains and capital losses deriving from the divestment or disposal of an intangible asset are determined as the difference between the net proceeds from disposal and the carrying amount of the asset.

**Goodwill**

Goodwill is an intangible asset with an indefinite useful life and is therefore not subject to amortisation. Goodwill is subject to evaluation, aimed at identifying any impairment losses, at least annually or whenever there are indicators of impairment.

**Trademarks and Licenses**

Trademarks and licenses for which the conditions for classification as intangible assets with an indefinite useful life have not been met, are evaluated at cost, net of the accumulated amortisation and impairment. This cost is amortised for whichever period is shorter between, the duration of the contract and the useful life of the asset. The trademarks for which the conditions for classification as intangible assets with an indefinite useful life have been met, are not systematically amortised, and are subjected to an impairment test at least once a year.

**Software**

Software license costs, including incidental expenses, are capitalised and recognised in the Financial Statements net of any amortisation and net of any accumulated impairment. Software is amortised on the basis of its useful life.

**Customer Relationships**

Customer relationships mainly refer to intangible assets acquired in a business combination, and are recognised in the Financial Statements at their fair value at the purchase date, and amortised on the basis of their useful life.

**Technology**

The value of Technology refers mainly to product, process and product development technology acquired in a business combination. It is recognised in the Financial Statements at fair value at the date of acquisition, and is amortised on the basis of its useful life.

## Research and Development Costs

Research costs refer to product innovation, innovation in production processes and research into new materials. These are expensed as they are incurred. There were no development costs that satisfied the requisites for capitalisation as provided for by IAS 38.

## Owned Tangible Assets

Property, plant and equipment are recognised at their purchase cost or production cost, including any directly attributable incidental expenses.

Any costs incurred subsequent to the acquisition the assets, plus the cost of replacing any parts or portions of the assets of this category, are capitalised only if they increase the future financial benefits inherent to the asset to which they relate. All other costs are recognised in the Income Statement as they are incurred. When the cost of replacing any parts or portions of the asset is capitalised, the residual value of the replaced parts is recognised in the Income Statement.

Property, plant and equipment are recognised at cost, net of any accumulated depreciation, except for land which is not depreciated but which is recognised at cost net of any accumulated impairment.

Depreciation is accounted for starting from the month in which the asset is available for use, or is potentially capable of providing the financial benefits associated with it.

Depreciation is recognised on a monthly basis and on a straight-line basis at rates that allow for the depreciation of assets until the end of their useful life or, in the case of disposals, until the last month of use.

**Depreciation rates** were as follows:

Buildings	3% - 10%
Plants	7% - 20%
Machinery	5% - 20%
Equipment	10% - 33%
Furniture	10% - 33%
Motor vehicles	10% - 25%

The Group annually revises the expected useful life of property, plant and equipment.

Government capital grants relative to property, plant and equipment are recorded as deferred revenue, and accredited to the Income Statement for the duration of the depreciation period of the relevant assets.

Improvements to third-party assets (leasehold improvements) are classified under tangible assets, consistent with the nature of the cost incurred. The depreciation period corresponds to whichever is

shorter between the remaining useful life of the tangible asset, and the remaining duration of the lease contract.

Replacement parts of significant value are capitalised and depreciated for the duration of the estimated useful life of their respective assets.

Any decommissioning costs are estimated and added to the cost of property, plant and equipment, as a counter entry to the provisions for liabilities and charges, if the requirements for setting up a provision for liabilities and charges are met. They are then depreciated for the duration of the remaining useful life of the respective asset.

Property, plant and equipment are derecognised from the Statement of Financial Position at the time of their disposal or their permanent retirement from use and, as a consequence, no future financial benefits can be expected to be derived from their disposal or use.

Any capital gains or capital losses resulting from the divestment or disposal of property, plant and equipment are determined as the difference between the net proceeds from disposal, and the carrying amount of the asset.

## **Right of Use**

Starting on the date on which the assets which are the subject of a lease contract become available for use by the Group, lease contracts are accounted for as a right of use under non-current assets with a counter entry under financial liabilities.

The cost of lease payments is separated into two components; as a financial expense which is recognised in the Income Statement for period of the duration of the contract, and as the reimbursement of capital which is recorded as a reduction of the financial liability. The right of use is depreciated on a monthly basis at constant rates, for whichever period is shorter, between the useful life of the asset and the duration of the contract.

Right of use and financial liabilities is initially valued at the present value of future payments.

The present value of financial liabilities for lease contracts includes the following payments:

- fixed payments;
- variable payments based on an index or rate;
- the exercise price of a redemption option, in the event that the exercise of the option is considered reasonably certain;
- the payment of penalties for the termination of the contract, if the exercise of the option to terminate the contract is considered reasonably certain;

- optional payments subsequent to the non-cancellable period, if the extension of the contract beyond the non-cancellable period is considered reasonably certain.

Future payments are discounted using the incremental borrowing rate. This rate consists of the risk free rate of the country in which the contract is negotiated and is based on the duration of the contract. It is then adjusted according to the Group's credit spread and the local credit spread.

The right of use is valued at cost, and composed of the following elements:

- initial amount of the financial liability;
- payments made before the start of the contract net of the leasing incentives received;
- directly attributable incidental expenses;
- estimated costs for decommissioning or restatement.

Lease payments associated with the following types of lease contracts are recorded in the Income Statement on a linear basis for the duration of the respective contracts:

- contracts with a duration of less than twelve months for all asset classes;
- lease contracts for which the underlying asset is configured as a low-value asset, that is, the unit value of the underlying assets is not greater than euro 8 thousand when new;
- contracts for which the payment for the right of use of the underlying asset varies in accordance with any changes in the facts or circumstances (not related to sales performances), which are not foreseeable at the starting date.

Low-value contracts are mainly relative to the following categories of goods:

- computers, telephones and tablets;
- office and multi-function printers;
- other electronic devices.

## **Impairment of Assets**

### ***Property, Plant and Equipment excluding Right of Use***

Whenever there are specific indicators of impairment, at least on an annual basis, intangible assets with an indefinite useful life including goodwill, property, plant and equipment, intangible assets and right of use, are subjected to an impairment test.

The test consists of an estimate of the recoverable amount for the asset compared to its carrying amount.

The recoverable amount of an asset corresponds to the higher amount between the fair value less the costs of sale, and the value in use.

It is not necessary to estimate both amounts in order to verify the absence of any impairment, as it is sufficient that one of the two configured amounts is higher than the carrying amount.

The value in use for property plant and equipment and intangible assets, is the present value of the estimated future cash flows originating from the use of the asset, plus those deriving from its disposal at the end of its useful life, net of taxes and the application of a discount rate, which reflects the current market assessment of the time-value of money and the risks specific to the asset.

For the right of use, the value in use is the present value of the estimated future cash flows originating from the right of use for period of the duration of the lease contract, and of the outgoing right of use which is to be replaced in accordance with the terms of the lease contract (for example, the cost of purchasing an asset to replace the one that is leased).

If the recoverable amount of an asset is lower than the carrying amount, the latter is reduced and adjusted to the recoverable amount. This reduction in value constitutes an impairment which is then recorded in the Income Statement.

In order to evaluate an impairment, assets are aggregated at the lowest level at which their independent cash flows are separately identifiable (cash generating units).

Specifically, for the purpose of the impairment test, the allocation is made at Group level of CGU (Cash Generating Unit), "Consumer Activities". The latter represents the minimum level at which goodwill is monitored for internal management control purposes.

In the presence of indications that any impairment recognised in previous financial years for property, plant and equipment or intangible assets other than goodwill or right of use, may no longer exist or may have been reduced, the recoverable amount for the activity is estimated again, and if it results as higher than the net carrying amount, then the net carrying amount is increased up to, but not exceeding, the recoverable amount.

The restatement of a value must not exceed the carrying amount that would have been determined (net of impairment, depreciation or amortisation) had no impairment been detected in previous financial years.

The restatement of the value of an asset other than goodwill is recognised in the Income Statement.

Any impairment which has been detected for goodwill cannot be restated in subsequent financial years.



Any loss due to the impairment of any goodwill recorded in the interim (half-yearly) Financial Statements cannot be restated in the Income Statement in subsequent financial years.

### **Investments in Associates and Joint Ventures**

Following the application of the equity method, in the presence of the indication of an impairment, the value of investments in associates and joint ventures must be compared with the recoverable amount (the so-called impairment test). The recoverable amount corresponds to the higher amount between the fair value less the costs of sale, and the value in use.

For the purposes of impairment testing, the fair value of an investment in an associate or joint venture with shares listed on an active market, is always equal to its market value, irrespective of the percentage of ownership. In the case of investments in unlisted companies, the fair value is determined using estimates based on the best available information.

The value in use of an associate or joint venture is determined by estimating the future net operating cash flows discounted from the associate's or joint venture's net financial position at the measurement date (the so-called Discounted Cash Flow – Asset side criteria).

When there is evidence that an impairment recognised in previous financial years may no longer exist or may have been reduced, the recoverable amount of the investment is estimated again, and if it results as higher than the amount of the investment, then the latter amount is increased up to and not exceeding the recoverable amount.

The restatement of a value may not exceed the value of the investment that would have been determined (net of impairment) had no impairment been recognised in previous financial years.

The restatement of the value of investments in associates and joint ventures is recognised in the Income Statement.

### **Other Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)**

The equity instruments for which the Group - at the time of their initial detection - exercised the irrevocable option to present the gains and losses deriving from the changes in their fair value in equity (FVOCI), fall under this evaluation category, as these are financial assets that do not belong to the Group's usual activity. They have been classified as non-current assets under the item "*Other financial assets at fair value through other Comprehensive Income*".

They were initially recognised at fair value, including the transaction costs directly attributable to the acquisition.

They were subsequently measured at their fair value, and any gains and losses deriving from any changes in their fair value were recognised in a specific equity reserve. These reserves were not

reversed to the Income Statement. In the event of the disposal of the financial asset, the amount suspended in equity is reclassified to retained earnings.

Dividends deriving from these financial assets are recognised in the Income Statement when the right to collect is established.

### **Other Financial Assets at Fair Value through the Income Statement (FVPL)**

The items which fall under this evaluation category are:

- equity instruments for which the Group - at the time of their initial detection - did not exercise the irrevocable option to present the gains and losses deriving from the changes in their fair value in equity. They are classified as non-current assets under the item *“Other financial assets at Fair Value through the Income Statement”*;
- debt instruments for which the Group’s business model for asset management provides that the sale of the debt instruments and the cash flows associated with the financial asset, represent the payment of the outstanding capital. They are classified as current assets under item *“Other financial assets at Fair Value through the Income Statement”*;
- derivative instruments, with the exception of those designated as hedging instruments.

These are initially recognised at fair value. Transaction costs directly attributable to their acquisition are recognised in the Income Statement.

They are subsequently measured at fair value, and any gains or losses deriving from any changes in their fair value are recognised in the Income Statement.

### **Inventories**

Inventories are valued either at cost or their estimated realisable value, whichever is lower.

Costs are determined as follows:

- Raw materials: the purchase cost is calculated using the FIFO method;
- Finished and semi-finished goods: the direct costs of materials and labour and indirect costs.

The cost of inventories includes the transfer, from other Comprehensive Income, of income and losses derived from qualified cash flow hedging transactions related to the purchase of raw materials, typically natural rubber.

The cost is increased by incremental expenses similarly to that described with respect to property, plant and equipment.

Their realisable value is the estimated selling price, net of all costs estimated for the completion of the asset including any sales and distribution costs that will be incurred.

The impairment provisions for obsolete and low rotation inventories are calculated by taking their estimated future use and their realisable value into account.

## **Receivables**

Receivables are initially recorded at their fair value, which normally corresponds to the agreed consideration or to the present value of the amount that will be collected. They are subsequently measured at amortised cost, which is reduced in the case of impairment. Amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate which, when applied to future cash flows, renders the present value of such cash flows equal to the initial fair value. Receivables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates with a counter entry in the Income Statement. Receivables are de-recognised when the right to receive cash flows is extinguished, when all the risks and rewards connected with holding the receivable have essentially been transferred, or in cases when the receivable is considered definitively irrecoverable after all the necessary recovery procedures have been completed. At the same time that the receivable is de-recognised, the relative provision is also reversed, if the receivable had previously been impaired.

## **Impairment of Receivables**

For trade receivables, the Group applies a simplified approach, by calculating the expected losses over the life of receivables from the moment of initial recognition. The Group uses a matrix based on historical experience, linked to the ageing of the receivables themselves and the credit rating of the customers, adjusted to take into account forecast factors specific to certain creditors. Trade receivables are grouped on the basis of similar risk characteristics. This grouping is based on the original credit maturity date and on the customer's credit rating, as attributed by independent market assessors. For financial receivables, the calculation of the impairment is made with reference to expected losses for the next twelve months. These calculations are based on a matrix which includes the credit ratings of customers provided by independent assessors. In the event of any significant increase in credit risk subsequent to the original date of the receivable, the expected loss is calculated for the entire life of the receivable. The Group assumes that the credit risk of a financial instrument has not increased significantly after its initial recognition, if it is determined that the financial instrument has a low credit risk at the reporting date of the financial statements. The Group assesses whether there has been a significant increase in credit risk when the customer's credit rating, as attributed by independent assessors, undergoes a change that shows an increase in the probability of default. The Group considers that a financial asset is in default when internal or external

information indicates that it is improbable that the Group will receive the full expired contractual amount (for example, when receivables have been referred to the legal department).

## **Payables**

Payables are initially recorded at their fair value, which normally corresponds to the agreed consideration or to the present value of the amount that will be paid. They are subsequently valued at the amortised cost. Amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate which, when applied to future cash flows, renders the present value of such cash flows equal to the initial fair value. Payables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates with a counter entry in the Income Statement. Payables are de-recognised from Financial Statements when the specific contractual obligation is extinguished. In the event of a change in a financial liability that does not entail its derecognition, the gain or loss resulting from the change is calculated by discounting the change in the contractual cash flows using the original effective interest rate, and is immediately recognised in the Income Statement. The fair value of the debt component of a convertible bond is equal to the fair value of a liability issued on substantially equivalent market terms, without the right of conversion. This component is subsequently measured at the amortised cost until extinguished, at the time of conversion or until the maturity of the bonds. The residual portion is recognised, up to the amount collected, as a component of equity. Issuance costs are allocated proportionally to the debt component and equity component.

## **Cash and Cash Equivalents**

Cash and cash equivalents include bank deposits, postal deposits, cash and cash equivalents on hand, and other forms of short-term investment whose original maturity is three months or less and which are readily convertible into a given amount of money and subject to an insignificant risk of change in value.

Bank overdrafts are classified under financial payables as current liabilities.

The amounts included in cash and cash equivalents are measured at their fair value and any relative changes are recognised in the Income Statement.

For the purposes of the presentation in the Consolidated Cash Flow Statement and cash equivalents are represented by cash and cash equivalents as defined above, net of bank overdrafts.

## Potential Assets

Any potential assets, which arise as a result of past events and whose generation is linked to the occurrence or otherwise of unpredictable future events, are not recognised in the Financial Statements, unless the realisation of revenue is virtually certain.

## Provisions for Liabilities and Charges

Provisions for liabilities and charges include accruals for current obligations (legal or implicit) deriving from a past event, the fulfilment of which will likely require the necessary use of resources, and whose amounts can be estimated in a reliable manner. Changes in estimates are recognised in the Income Statement for the financial year in which the change occurs. If the effect of discounting is significant, provisions are stated at their present value. A provision for restructuring is recognised only if, in addition to meeting the requisite conditions for provisions for liabilities and charges, there exists a detailed formal restructuring plan so that any concerned third parties can maintain a valid expectation that the restructuring will take place.

## Employee Benefits

Employee benefits paid after the termination of the employment relationship under defined benefit plans and other long-term benefits are subject to actuarial evaluations. The liability recognised in the Financial Statements is the present value of the Group's obligation, net of the fair value of any plan assets. For defined benefit plans, the actuarial gains and losses deriving from adjustments based on past experience and from any changes in the actuarial assumptions are fully recognised in equity for the financial year in which they occur. For other long-term benefits, the actuarial gains and losses are immediately recognised in the Income Statement.

The provision for employees' leaving indemnities (TFR) for Italian companies with at least 50 employees, is considered a defined benefit plan only for the portions matured prior to January 1, 2007 (and not yet paid at the reporting date), while after that date it qualifies as a defined contribution plan.

The net interest calculated on net liabilities is classified under financial expenses.

Costs relative to defined contribution plans are recognised in the Income Statement as they are incurred.

In the event that the plan assets of defined benefits outweigh the liabilities, the asset is recognised to the extent that the financial benefit in the form of a reimbursement or a reduction in future contributions, and is available to the Group in accordance with the regulations of the plan itself, and pursuant to the provisions in force in the jurisdiction in which the plan operates.

In the case of the purchase of qualifying insurance policies through the use of plan assets, any additional contributions requested by the insurance company are recognised in equity.

Insurance policies are recognised in the financial statements as plan assets and are evaluated on the same basis as the liabilities to which they refer.

### **Derivative Financial Instruments designated as Hedging Instruments**

In accordance with the provisions of IFRS 9, derivative financial instruments are accounted for in accordance with the methods established for hedge accounting only when:

- the hedged items and the hedging instruments meet the eligibility requirements;
- at the beginning of the hedging relationship, there is the formal designation and documentation of the hedging relationship of the Group's objectives for the management of risk, and of the strategy for implementing the hedge cover;
- the hedging relationship meets all the following efficiency requirements:
  - o there is a financial relationship between the hedged item and the hedging instrument;
  - o the effect of credit risk is not dominant compared to any changes associated with the hedged risk;
  - o the hedge ratio defined in the hedging relationship is respected, also by way of rebalancing measures, and is coherent with the risk management strategy adopted by the Group.

These derivative instruments are measured at fair value.

The following accounting treatments are applied on the basis of the type of coverage:

- Fair value hedge – if a derivative financial instrument is designated as a hedge against exposure to any changes in the fair value of an asset or liability attributable to a specific risk, the gain or loss deriving from any subsequent changes in the fair value of the hedging instrument is recognised in the Income Statement. For the portion attributable to the hedged risk, the gain or loss on the hedged item modifies the carrying amount of that asset or liability (basis adjustment), and it too is recognised in the Income Statement;
- Cash flow hedge – if a derivative instrument is designated as a hedge against exposure to the variability in the cash flows of an asset or liability recognised in the Financial Statements, or against a highly probable future transaction, the effective portion of the change in the fair value of the hedging instrument is recognised directly in equity, while the ineffective portion is immediately recognised in the Income Statement. The amounts recognised directly in equity are reclassified to the Income Statement for the financial year in which the hedged item produced an

effect on the Income Statement. If the hedge of a highly probable future transaction subsequently entails the recognition of a non-financial asset or liability, the amounts that are suspended in equity are included in the initial value of the non-financial asset or liability.

When future transactions are hedged through forward contracts, the Group may designate to hedge accounting;

- the full fair value (including forward points): the effective portion of the changes in fair value of the entire derivative instrument is recognised in equity (cash flow hedge reserve);
- the single spot component (excluding forward points): the effective portion of the changes in fair value relative to the single spot component, is recognised in equity under the cash flow hedge reserve, while the change in forward points for the hedged item is recorded under the cost of hedging reserve, always in equity.

When a hedging instrument matures or is sold, terminated early, exercised, or no longer meets the conditions to be designated as a hedge, then hedge accounting is discontinued. The fair value adjustments accumulated in equity (either in the cash flow hedge reserve or in the cost of hedging reserve) remain suspended in equity until the hedged item manifests its effects in the Income Statement. Subsequently they are reclassified to the Income Statement for the financial years during which the acquired financial asset or the assumed financial liability manifests an impact on the Income Statement. When the hedged item is no longer expected to have any impact on the Income Statement, the fair value adjustments accumulated in equity (both in the cash flow hedge reserve and in the cost of hedging reserve) are immediately recognised in the Income Statement. For the derivative instruments that do not satisfy the prerequisites provided for by IFRS 9 for the adoption of hedge accounting, reference should be made to the section *“Financial assets at fair value through the Income Statement”*. The acquisitions and sales of derivative financial instruments are recorded at the settlement date.

### **Determination of the Fair Value of Financial Instruments**

The fair value of financial instruments listed on an active share market is based on market prices at the reporting date. The market price used for financial assets is the bid price, while for financial liabilities it is the ask price. The fair value of instruments not listed on an active market is determined by using evaluation techniques based on a series of methods and assumptions which are tied to market conditions at the reporting date. The fair value of interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves. The fair value of forward foreign exchange contracts is determined by using the forward exchange rate at the reporting date. The fair value of the cross currency interest rate swaps is calculated by discounting the estimated future cash flows based on observable yield curves and converting them into euro using the exchange rate at the reporting date of the Financial Statements. The fair value of natural rubber

futures is determined by using the closing price of the contract at the reporting date of the Financial Statements.

## **Taxes**

Current taxes are determined on the basis of a realistic forecast of the tax expenses payable in accordance with the applicable tax regulations of the country.

The Group periodically evaluates the choices it has made when determining taxes with reference to situations where the tax legislation in force lends itself to interpretation, and if deemed appropriate, adjusts its exposure to the tax authorities on the basis of the taxes it expects to pay. Any interest and penalties accrued on these taxes are recognised under Income tax in the Income Statement.

Deferred taxes are calculated according to the temporary differences which exist between the asset and liability amounts in the Financial Statements and their tax value (global allocation method), and are classified under non-current assets and liabilities.

Deferred tax assets on tax losses carried forward, as well as on temporary differences, are only recognised when there is a likelihood of future recovery.

Current and deferred tax assets and liabilities are offset when income taxes are applied by the same tax authority and when there is a legal right to offset. Deferred tax assets and liabilities are determined at the tax rates that are expected to be applicable to taxable income in the respective jurisdictions of the countries in which the Group operates, for the financial years during which the temporary differences will arise or be extinguished.

With regard to temporary taxable differences associated with investments in subsidiaries, associates and joint ventures, the relative deferred tax liabilities are not recognised in cases where the investing entity is able to control the reversal of the temporary differences and it is likely that it will not occur in the foreseeable future.

Deferred taxes are not discounted.

Deferred tax assets and liabilities are credited or debited to equity if they refer to items that have been credited or debited directly in equity during the financial year or during previous financial years.

## **Equity**

### ***Treasury Shares***

Treasury shares are classified as a reduction in equity.



If they are sold, reissued or cancelled, the resulting earnings or losses are recognised in equity.

### **Costs of Capital Transactions**

Costs that are directly attributable to the capital transactions of the Parent Company are accounted for as a reduction in equity.

### **Share Based Payments (Cash Settled)**

The additional cash settled benefits granted to some Group executives are recognised under Provisions for employee benefit obligations with a counter entry under “*Personnel expenses*”. This cost is estimated to be equal to the fair value and is recognised for the duration of the plan in accordance with the vesting conditions at the reporting date. The estimate is revised at each reporting date up until the settlement date.

### **Recognition of Revenues**

Revenues are recognised for an amount that reflects the consideration to which the Group believes it is entitled to in exchange for the transfer of goods and/or services to its customers. The variable considerations that the Group deems necessary as payable to direct or indirect customers are recognised as a reduction to revenues.

The Group generally acts as the principal for most of the agreements that generate revenues. However, there are contracts with customers in which the Group acts as an agent and these revenues are recognised net of costs incurred under the commercial agreements.

### **Product Sales**

Revenues from product sales are recognised when the performance obligations towards customers have been satisfied. A performance obligation is deemed to have been met when the control of goods has been transferred to the customer, that is, generally when the goods are delivered to the customer.

If the products are ready to be delivered, but delivery is postponed to a future date, sales revenues are recognised only if control of the products has been transferred to the customer. Control is considered to have been transferred to the customer when the following conditions have been met:

- the reasons for delivering at a future date are real (for example: the customer has requested delivery at a future date in writing);

- the products in the warehouse are separately identified as being owned by the customer;
- the products are ready to be physically delivered to the customer;
- the Group does not have the possibility to use the product or to deliver it to other customers.

Retrospective discounts are applied to product sales based on the achievement of the objectives defined within the framework of commercial agreements. Revenues from sales are recognised net of these discounts, and estimated on the basis of historical experience with the expected valuation method and for amounts which are not expected to be reversed.

Sales do not include a financial component, in that the average terms of payment applied to customers fall within the standard commercial terms for the country in which the sales occur.

### ***Provision of Services***

Revenues from services are recognised when the rendered service has been completed, or based on the stage of completion of the service, at the reporting date.

### **Financial Income and Expenses**

Financial income and expenses are recognised on an accrual basis.

### **Royalties**

Royalties are recognised over time on an accrual basis, according to the provisions of the relevant agreement, which provides for the transfer to the customer of the rights of access to intellectual property. The amounts for royalties are estimated using the output method. Royalties invoiced for each period directly correlate with the value transferred to the customer.

### **Dividends**

Dividends are recognised when the right to collect is established, which normally corresponds to a resolution approved by the Shareholders for the distribution of dividends.

## Earnings/(Losses) per Share

**Earnings/(losses) per ordinary share - basic:** basic earnings/(losses) per share are calculated by dividing the earnings/(losses) attributable to the Group by the weighted average number of ordinary shares outstanding during the financial year excluding treasury shares.

**Earnings/(losses) per share - diluted:** diluted earnings per share are calculated by dividing the earnings/(losses) attributable to the Group by the weighted average number of ordinary shares outstanding during the financial year, excluding treasury shares. For the purposes of calculating the diluted earnings/(losses) per share, the weighted average number of outstanding shares is adjusted by assuming the exercise of all the rights of the assignees for the financial year, which could potentially have a dilutive effect, while the Group's net income/(loss) is adjusted to take into account any effects, net of taxes, of the exercise of these rights.

## Operating Segments

An operating segment is one part of the Group that engages in business activities from which it may earn revenues and incur costs, and whose operating results are periodically reviewed by the Chief Executive Officer, in his role as Chief Operating Decision Maker (CODM), for the purposes of taking decisions on the resources to be allocated to the sector, and the evaluation of results, for which financial information is made available.

The business carried out by the Group is identifiable as a single operating “*Consumer Activities*” sector.

## Foreign Currency Transactions

Foreign currency transactions are recorded at the prevailing exchange rates on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the prevailing exchange rates at the reporting date. Exchange rate differences arising from the extinguishment or extinction of monetary items or their translation at rates other than those of their initial recognition at the beginning of the financial year, or different to those at the end of the previous financial, are recognised in the Income Statement.

Whenever the conditions for the designation of inter-company monetary items such as “*Net Investment in Foreign Operations*” are met, the differences in exchange rate as of the date of the designation are recognised directly in the Consolidated Statement of Comprehensive Income.

## Accounting Standards for Hyperinflationary Countries

Companies, operating in countries where the cumulative inflation rate over a three-year period approximates or exceeds 100%, adopt inflation accounting and discontinue it in the event that the cumulative inflation rate over a three-year period falls below 100%.

Group companies operating in hyperinflation countries recalculate the values for the non-monetary assets and liabilities present in their original individual Financial Statements in order to eliminate the distorting effects caused by the loss of purchasing power of the currency.

The inflation rate used to implement inflation accounting corresponds to the consumer price index, with a balancing entry in Financial income and expenses.

Gains or losses on the net monetary position are recognised in the Income Statement.

The financial statements of companies prepared in currencies other than the euro which operate in hyperinflation countries, are translated into euro by applying the period-end exchange rates to the items of both the Statement of Financial Position and the Income Statement.

During the course of the third quarter of 2018, the inflation rate accumulated over the previous three year period in Argentina exceeded 100%. This, together with other characteristics of the country's economy, led the Group to adopt, as of July 1, 2018, the accounting standard IAS 29 - Financial Reporting in Hyperinflationary Economies, for the Argentinian subsidiary Pirelli Neumaticos S.A.I.C.

## Environmental Certificates

In some European countries, the Group receives greenhouse gas emission allowances free of charge, as provided for by the European Emission Trading Schemes. These rights are received on an annual basis and must be surrendered to the relevant national authority based on actual emissions.

If the rights received for free are not sufficient to cover actual emissions, the Group purchases the missing rights.

The rights received either for free or purchased are recognised at cost.

Costs related to greenhouse gas emissions are recognised on an accrual basis, in proportion to the emissions produced during the financial year and are recognised under other costs.

A provision is recognised for the obligation to deliver allowances in an amount equal to the actual emissions. These rights reduce the provision when they are used to meet the Group's obligations to deliver these rights to the competent authority.

The Group also purchases renewable energy certificates (for example, Guarantees of Origin - GO, Renewable Energy Certificates - REC, International Renewable Energy Certificates - IREC,

Renewable Energy Guarantee of Origin - REGO), which are instruments that certify the renewable origin of the energy sources used. The cost of purchasing these certificates is recognised in other expenses.

### 3.1 Approved Accounting Standards and Interpretations in Force as of January 1, 2021

Pursuant to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the IFRS standards that came into force as of January 1, 2021 were as follows:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Benchmark interest rate reform - IBOR reform - phase 2).

These amendments introduce a temporary relaxation of the manner in which the impact of replacing an interest rate offered on the interbank market (IBOR) with an alternative risk-free rate must be managed. Specifically, the amendments provide for the following practical approaches:

- treating contractual changes or changes in cash flows which are directly required by the reform as changes in a variable market interest rate;
- the introduction of certain exemptions relative to the termination of hedging relationships;
- the temporary exemption from the requirement to separately identify a risk component (where that separate hedged component is an alternative interest rate);
- the introduction of some additional disclosures regarding the impacts of the reform.

These changes do not impact on the Group's Financial Statements in that the maturity of the potentially impacted instruments is scheduled to occur prior to the transition to the new IBOR.

- Amendment to IFRS 16 Leases - COVID-19 Related Rent Concessions

These amendments extend by one year the possibility of applying an optional accounting treatment for lessees in the presence of reductions in permanent lease payments (rent holidays) or temporary lease payments linked to COVID-19. The amendments were intended to be applicable until June 30, 2021, but because the impact of the pandemic continues, this option has been extended until June 30, 2022.

Lessees can choose to account for reductions as variable lease payments, recognised directly in the Income Statement for the period in which the reduction applies, or treat them as an amendment to the lease, with the consequent obligation to re-measure the lease liability based on the revised consideration using a revised discount rate. The Group expects to apply this optional accounting treatment if it occurs within the permitted period of application. There were no impacts on the Group's Financial Statements.

### 3.2 International Accounting Standards and/or Interpretations Issued but not yet In Force in 2021

Pursuant to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors - the new standards and interpretations that were issued but had not yet come into force, or had not yet been approved by the European Union at December 31, 2021, and which were therefore not applicable, along with any expected impacts on the Consolidated Financial Statements, were as follows:

None of these standards and interpretations were adopted in advance by the Group.

- Amendments to IAS 1 — Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

The amendments clarify the criteria to be applied in classifying liabilities as current or non-current and specify that the classification of a liability is not affected by the probability that settlement of the liability will be delayed for 12 months following the financial year in which it is incurred. The Group's intention to liquidate in the short-term had no impact on their classification. These amendments, whose entry into force has been scheduled on January 1, 2023, have not yet been approved by the European Union. No impacts on the classification of financial liabilities are expected as a result of these amendments.

- Amendments to IAS 16 – Property, Plant and Equipment - Proceeds before Intended Use

These amendments prohibit the deduction of amounts received from the sale of products from the cost of property, plant and equipment, while the asset is being prepared for its intended use. Revenues from sales of products and the relative production cost must be recognised in the Income Statement.

These amendments, approved by the European Union, came into force on January 1, 2022. No impacts on the Group's financial statements are expected as a result of these amendments.

- Amendments to IAS 37 - Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract

These amendments specify that the costs to be taken into account when measuring onerous contracts are both the incremental costs of fulfilling the contract (for example, direct labour and materials) and a proportion of other costs that relate directly to fulfilling the contract (for example, an allocation of the depreciation rate of the assets used in fulfilling the contract).

These amendments, approved by the European Union, came into force on January 1, 2022. No impacts on the Group's financial statements are expected as a result of these amendments.

- Annual Improvements (2018 - 2020 cycle) issued in May 2020

These amendments are limited to some standards (IFRS 1 - First time adoption of the International Financial Reporting Standards, IFRS 9 - Financial instruments, IAS 41 – Agriculture,

and explanatory examples of IFRS 16 - Leases) which clarify the wording or correct omissions or conflicts between the requirements of the IFRS standards. These amendments, approved by the European Union, came into force on January 1, 2022. No impacts on the Group's financial statements are expected as a result of these amendments.

- Amendments to IAS 1 - Presentation of Financial Statements, and IFRS Practice Statement 2: Disclosure on Accounting Standards

These amendments provide guidance on the application of materiality judgements to accounting standard disclosures in a way that is more useful; particularly:

- the requirement to disclose “*significant*” accounting standards has been replaced with a requirement to disclose “*relevant*” accounting standards;
- guidance has been added on how to apply the concept of materiality to accounting standard disclosures.

In assessing the relevance of accounting standard disclosures, entities must consider both the size of transactions, other events or conditions and their nature.

These amendments, which will come into force on January 1, 2023, have not yet been approved by the European Union. No impacts on the disclosures in the Group's Financial Statements are expected as a result of these amendments.

- Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

These amendments introduce a new definition of “*accounting estimates*”, by distinguishing them more clearly from accounting policies, and provide guidance on whether changes should be treated as changes in estimates, changes in accounting standards or errors.

These amendments, which will come into force on January 1, 2023, have not yet been approved by the European Union. No impacts on the Group's Financial Statements are expected as a result of these amendments.

- Amendments to IAS 12 - Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

These amendments eliminate the possibility of not recognising deferred taxes at the time of the initial recognition of transactions that give rise to taxable and deductible temporary differences (e.g. lease contracts).

With respect to lease contracts, these amendments also clarify that, when lease payments are deductible for tax purposes, it is a matter of judgement (after considering the applicable tax law) whether such deductions are attributable for tax purposes to the lease liability recognised in the Financial Statements, or to the related right of use. If the tax deductions are allocated to the right of use, the tax values of the right of use and the lease liability are the same as their carrying

amounts, and no temporary differences arise at initial recognition. However, if tax deductions are allocated to the lease liability, the tax values of the right of use and the lease liability are zero, giving rise to taxable and deductible temporary differences, respectively. Even if the gross temporary differences are equal, a deferred tax liability and a deferred tax asset must nevertheless be recognised.

These amendments, which will come into force on January 1, 2023, have not yet been approved by the European Union. The impact on the Group's Financial Statements as a result of these amendments is currently being analysed.

#### 4. FINANCIAL RISK MANAGEMENT POLICIES

The Group is exposed to financial risks which are principally associated with foreign exchange rates trends, with fluctuations in interest rates, with the price of financial assets held in portfolio, with the ability of Pirelli's customers to meet their obligations to the Group (credit risk), and with the procurement of financial resources on the market (liquidity risk).

Financial risk management is an integral part of the Group's business management, and is performed centrally in accordance with the guidelines issued by the Finance Department as part of the risk management strategies which are more defined on a more general level by the Managerial Risk Committee.

##### 4.1 Types of Financial Risks

###### Exchange Rate Risk

The geographical distribution of Group production and commercial activities entails exposure to exchange rate risks such as transaction risk and translation risk.

###### **a) Transactional Exchange Rate Risk**

This risk is generated by the commercial and financial transactions of the individual companies which are executed in currencies other than the functional currency of the Company. Fluctuations in the exchange rate between the time when the commercial or financial relationship is established and the time when the transaction is completed (collection or payment) may generate exchange rate gains or losses.

The Group aims to minimise the impact of transaction risks tied to exchange rate volatility. In order to achieve this objective, the Group's procedures provide that the Operating Units are responsible for the collection of all information inherent to positions subject to transaction risk, whose hedging is then provided in the form of forward contracts which are entered into with the Group Treasury.



The positions subject to managed exchange rate risk are mainly represented by receivables and payables in foreign currencies.

The Group Treasury is responsible for hedging the resulting net position for each currency and, in accordance with the established guidelines and predetermined restrictions, it in turn closes all risk positions by trading derivative hedging contracts on the market, which typically take the form of forward contracts.

For such contracts, the Group did not consider it necessary to avail itself of the option for hedge accounting as provided for by IFRS 9, in that the representation of the impacts on the Income Statement and the Statement of Financial Position of a hedging strategy for transaction risk is nevertheless substantially guaranteed even without the Group availing itself of the aforementioned option.

With reference to some loans denominated in foreign currencies, the Group has entered into derivative contracts (cross currency interest rate swaps) in order to hedge not only interest rate risk, but also transactional exchange rate risk for which hedge accounting has been activated pursuant to the requirements of IFRS 9.

Of note is that, as part of the annual and three-year planning process, the Group formulates exchange rate forecasts for these time horizons based on the best information available on the market. Fluctuations in the exchange rate between the time when the forecast is made and the time when the commercial or financial transaction occurs represents the transaction risk for future transactions.

From time to time the Group evaluates the opportunity to carry out hedging transactions on future transactions for which it typically makes use of either forward buy or sell operations, or optional operations such as risk reversal (for example; zero cost collars). Hedge accounting, as provided for by IFRS 9, is activated if and when the requirements are met.

The impacts on the Group's equity and Income Statement, deriving from changes in the exchange rates calculated on outstanding hedging instruments at December 31, 2021, are described in Note 27 - "*Derivative Financial Instruments*".

#### ***b) Translation Risk***

The Group owns controlling interests in companies that prepare their Financial Statements in currencies other than the euro, which is the currency used to prepare the Consolidated Financial Statements. This exposes the Group to currency translation risk, which is generated by the conversion into euro of the assets and liabilities of these subsidiaries. The main exposures to translation risk are constantly monitored, however it is not currently deemed necessary to adopt specific policies to hedge this exposure.

At December 31, 2021 approximately 36.3% of the total consolidated equity was expressed in euro (36.3% at December 31, 2020). The most significant currencies for the Group other than the euro were the Brazilian real (8.5%; 9.8% at December 31, 2020), the Turkish lira (0.4%; 0.4% at December 31, 2020), the Chinese renminbi (17.7%, 15.2% at December 31, 2020), the Romanian leu (12.5%; 14.7% at December 31, 2020), the British pound sterling (4.0%, 3.8% at December 31, 2020), the US dollar (4.4%; 4.2% at December 31, 2020) the Mexican peso (10.1%, 10.4% at December 31, 2020), and the Russian rouble (2.2%; 1.8% at December 31, 2020).

The effects on consolidated equity which derive from a hypothetical appreciation / depreciation of the above listed credit notes the euro - all other conditions being equal were as follows:

<i>(in thousands of euro)</i>	Appreciation of 10%		Depreciation of 10%	
	12/31/2021	12/31/2020	12/31/2021	12/31/2020
Brazilian Real	47,609	49,534	(38,953)	(40,528)
Turkish Lira	2,013	2,073	(1,647)	(1,696)
Chinese Renmimbi	98,871	76,782	(80,894)	(62,822)
Romanian Leu	70,086	74,158	(57,343)	(60,675)
Russian Rouble	12,061	9,337	(9,868)	(7,640)
British Pound Sterling	22,528	19,402	(18,432)	(15,875)
Argentinian Peso	13,767	8,874	(11,264)	(7,260)
US Dollar	24,675	21,081	(20,189)	(17,248)
Mexican Peso	56,501	52,697	(46,228)	(43,116)
<b>Total on consolidated equity</b>	<b>348,111</b>	<b>313,938</b>	<b>(284,818)</b>	<b>(256,860)</b>

It should be noted that, during the course of 2021, the Turkish lira and the Argentinian peso suffered a depreciation of more than -10%. For information on the effect on equity, reference should be made to Note 20 – “Equity”.

## Interest Rate Risk

Interest rate risk is represented by the exposure to variability in the fair value or the future cash flows of financial assets or liabilities, due to changes in market interest rates. The Group evaluates, based on market conditions, whether to enter into derivative contracts, in order to hedge interest rate risk, for which hedge accounting is activated when the conditions as provided for by IFRS 9 are met.

The table below shows the effects on the net income/(loss) resulting from an increase or decrease of 0.50% in the level of interest rates of all currencies to which the Group is exposed – all other conditions being equal:

<i>(in thousands of euro)</i>	+0,50%		-0,50%	
	12/31/2021	12/31/2020	12/31/2021	12/31/2020
Impact on Net income / (loss)	(5,986)	(7,332)	5,986	7,332

The effects on the Group's equity resulting from changes in the LIBOR and EURIBOR rates, calculated on the hedging instruments for interest rates which are outstanding at December 31, 2021, are described in Note 27 - "Derivative Financial Instruments".

### Price Risk Associated with Financial Assets

The Group's exposure to price risk is limited to the volatility of financial assets such as listed and unlisted equities and bonds, which constituted approximately 1.23% of the total consolidated assets at December 31, 2021 (0.74% at December 31, 2020). These assets were classified as other financial assets at fair value through other Comprehensive Income, and other financial assets at fair value through the Income Statement.

No derivatives were put in place to limit the volatility risk for these assets.

These financial assets are subdivided as follows:

- assets whose fair value is recognised through other Comprehensive Income is represented by listed equity securities which amounted to euro 21,855 thousand (euro 14,076 thousand at December 31, 2020) and those represented by securities indirectly associated with listed equity securities (Fin. Priv. S.r.l.) amounted to euro 21,171 thousand (euro 15,902 thousand at December 31, 2020);
- assets whose fair value is recognised through the Income Statement amounted to euro 85,912 thousand and are represented by Argentinian dollar-linked bonds (euro 34,571 thousand at December 31, 2020).

Financial assets at fair value through other Comprehensive Income constituted 25.2% of the total financial assets subject to price risk (29.5% at December 31, 2020). A positive change of +5% in the prices of the aforesaid listed securities, all other conditions being equal, would result in a positive change to the Group's equity of euro 1,093 thousand (a positive change of euro 704 thousand at December 31, 2020) while a negative change of -5% in the prices of the aforesaid listed equities, all other conditions being equal, would result in a negative change to the Group's equity of euro 1,093 thousand (a negative change of euro 704 thousand to the Group's equity at December 31, 2020).

Financial assets at fair value through the Income Statement constituted 50.3% of the total financial assets subject to price risk (34% at December 31, 2020). A change positive of +5% in the prices of the aforesaid listed securities, all other conditions being equal, would result in a positive change to the Group's net income of euro 4,041 thousand (euro 1,706 thousand at December 31, 2020), while a negative change of -5% in the prices of the aforesaid listed equities, all other conditions being equal, would result in a negative change to the Group's net income of euro 3,882 thousand (euro 1,668 thousand at December 31, 2020).

## Credit Risk

Credit risk represents the Group's exposure to potential losses resulting from the non-fulfilment of the commercial and financial obligations undertaken by counterparties. As regards these commercial counterparties, in order to limit this risk, Pirelli has put in place procedures to assess the potential and financial creditworthiness of customers, to monitor expected cash flows, and to take any recovery action. The aim of these procedures is to define customer credit limits, whereby in the event that those limits are exceeded, the rule to withhold further supplies is activated. In some cases customers are asked to provide guarantees, mainly bank guarantees issued by parties of the highest credit or personal standing. Less frequently, mortgage guarantees may be requested.

Other instruments used for commercial credit risk management is the taking out of insurance policies. A master agreement has been in place for more than 10 years with a leading insurance company with an AA credit rating according to Standard & Poor's ratings, which was recently renewed for the 2021-2022 two-year period, for worldwide coverage for credit risk mainly relative to sales on the Replacement channel (the coverage ratio at December 31, 2021 exceeded 70%).

However, as regards the financial counterparties for the management of its temporary cash surpluses, or for trading in derivative instruments, the Group deals only with entities of the highest credit standing. Pirelli does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system, and does not have any significant concentrations of credit risk.

Expected losses on trade receivables are calculated throughout the life of the receivables, starting from the moment of initial recognition, using a matrix linked to the customer's credit rating and credit ageing which is adjusted to take into account forecasting factors specific to certain creditors as well as the presence of any collateral and other credit enhancement instruments, such as the insurance policies mentioned above. The calculation of expected losses is based on (i) a matrix which includes the credit ratings of customers provided by independent market assessors, and on (ii) the value of receivables, which takes the collateral and related insurance coverage into account. This calculation also includes an updated assessment of expected losses due to exogenous events, such as COVID-19 and climate change, in the specific markets in which the counterparties operate, impacting their probability of default and the ceiling levels granted by the insurance company. The provision for bad debts at December 31, 2021 was calculated according to the method described above, and is composed as follows:

(in thousands of euro)	Current	Past due > 30 days	Past due > 90 days	Past due > 180 days	Total
<i>Expected loss rate</i>	3.0%	6.2%	10.6%	64.2%	10.9%
Exposure net of credit enhancements	518,807	53,413	13,964	81,945	668,129
Bad debt provision	(15,621)	(3,302)	(1,477)	(52,580)	(72,979)

The situation at December 31, 2020 was as follows:

(in thousands of euro)	Current	Past due > 30 days	Past due > 90 days	Past due > 180 days	Total
<i>Expected loss rate</i>	2.9%	6.8%	10.2%	68.9%	12.0%
Exposure net of credit enhancements	426,267	39,000	15,751	72,346	553,364
Bad debt provision	(12,191)	(2,658)	(1,614)	(49,882)	(66,345)

At December 31, 2021, the exposure gross of credit enhancements amounted to euro 900,303 thousand, and the provision for bad debts, which was calculated without considering the presence of any collateral securities and other credit enhancement instruments, amounted to euro 75,632 thousand.

The difference between the exposure gross of credit enhancements amounting to euro 900,303 thousand, and the value of the trade receivables amounting to euro 732,188 thousand reported in Note 14 - “*Trade receivables*”, was mainly due to credit notes to be issued, that were not taken into account in the calculation of the provision for bad debts.

## Liquidity Risk

Liquidity risk represents the risk that the Company’s available financial resources may be insufficient to meet its financial and commercial obligations pursuant to contractual terms and conditions.

The main instruments used by the Group to manage liquidity risk are constituted by one-year and three-year financial plans as well as treasury plans, in order to allow for the complete and correct detection and measurement of cash inflows and outflows. The differences between the plans and the final data are subjected to constant analysis.

The Group has implemented a centralised system for the management of collection and payment flows in compliance with the various local currency and tax regulations. The negotiation and management of banking relationships is carried out centrally, in order to ensure hedging for short and medium-term financial needs at the lowest possible cost. Even the procurement of medium to long-term resources on the capital market is optimised through centralised management.

The prudent management of the aforementioned risk requires the maintenance of an adequate level of cash or cash equivalents and/or highly liquid short-term securities, and the availability of funds obtainable through an adequate amount of committed credit facilities and/or the possibility of resorting to the capital market, and diversifying products and maturities to seize the best opportunities available.

Furthermore, the Group has adopted an extremely prudent approach to the maturities of its financial debt, refinancing them well in advance in order to minimise the risks associated with liquidity crises or market shut-downs.

At December 31, 2021 the Group had, a liquidity margin of euro 2,698,550 thousand, calculated as the sum of cash and cash equivalents and other financial assets at fair value through the Income Statement – current to the amount of euro 1,998,550 thousand (euro 2,334,420 thousand at December 31, 2020), and unused credit facilities to the amount of euro 700,000 thousand (euro 700,000 thousand at December 31, 2020). The aforementioned liquidity margin is sufficient to cover financial debt maturities until February 2024. In addition, considering the Company's optional right to extend the maturity of the unsecured "Facilities" loan by a further two years (therefore until June 2024), this coverage would be guaranteed until June 2024.

**Maturities for Financial Liabilities at December 31, 2021** were composed as follows:

<i>(in thousands of euro)</i>	<b>within 1 year</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>	<b>over 5 years</b>	<b>Total</b>
Trade payables	1,626,367	-	-	-	1,626,367
Other payables	314,203	11,509	26,310	38,666	390,688
Derivative financial instruments	18,936	1,769	148	-	20,853
Borrowings from banks and other financial institutions	1,543,592	1,220,559	2,535,452	226,980	5,526,583
<i>of which lease liabilities</i>	98,638	86,353	193,246	226,980	605,218
	<b>3,503,098</b>	<b>1,233,837</b>	<b>2,561,910</b>	<b>265,646</b>	<b>7,564,491</b>

**Maturities for Financial Liabilities at December 31, 2020** were composed as follows:

<i>(in thousands of euro)</i>	<b>within 1 year</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>	<b>over 5 years</b>	<b>Total</b>
Trade payables	1,316,971	-	-	-	1,316,971
Other payables	325,266	13,734	24,326	39,220	402,546
Derivative financial instruments	38,641	67,289	2,835	-	108,765
Borrowings from banks and other financial institutions	1,143,948	1,758,008	3,225,910	239,521	6,367,387
<i>of which lease liabilities</i>	94,982	79,673	172,514	239,521	586,690
	<b>2,824,826</b>	<b>1,839,031</b>	<b>3,253,071</b>	<b>278,741</b>	<b>8,195,669</b>

## 5. INFORMATION ON FAIR VALUE

## 5.1 Fair Value Measurement

In relation to financial instruments measured at fair value, the following table shows the classification of these instruments on the basis of the hierarchy of levels as provided for by IFRS 13, which reflects the significance of the inputs used in determining their fair value. The levels are defined as follows:

- level 1 – unadjusted prices quoted on an active market for assets or liabilities subject to evaluation;
- level 2 – inputs other than the quoted prices referred to in the previous point, which are observable on the market either directly (as in the case of prices) or indirectly (because they are derived from prices);
- level 3 – inputs that are not based on observable market data.

The following table shows **assets and liabilities measured at fair value at December 31, 2021**, subdivided into the three levels defined above:

<i>(in thousands of euro)</i>	Note	Carrying amount at 12/31/2021	Level 1	Level 2	Level 3
<b>FINANCIAL ASSETS:</b>					
<b>Financial assets at fair value through Income Statement:</b>					
Other current financial assets at fair value through Income Statement	18	113,901	85,912	27,989	-
Current derivative financial instruments	27	17,345	-	17,345	-
<b>Derivative hedging instruments:</b>					
Current derivative financial instruments	27	29,217	-	29,217	-
Non-current derivative financial instruments	27	4,612	-	4,612	-
<b>Other financial assets at fair value through Other Comprehensive Income:</b>					
Securities and shares		54,082	21,855	21,171	11,056
Investment funds		2,825	-	2,825	-
	12	56,907	21,855	23,996	11,056
<b>TOTAL ASSETS</b>		<b>221,982</b>	<b>107,767</b>	<b>103,159</b>	<b>11,056</b>
<b>FINANCIAL LIABILITIES:</b>					
<b>Financial assets at fair value through Income Statement:</b>					
Current derivative financial instruments	27	(15,209)	-	(15,209)	-
<b>Derivative hedging instruments:</b>					
Current derivative financial instruments	27	(979)	(77)	(902)	-
Non-current derivative financial instruments	27	(3,519)	-	(3,519)	-
<b>TOTAL LIABILITIES</b>		<b>(19,707)</b>	<b>(77)</b>	<b>(19,630)</b>	-

The following table shows **assets and liabilities measured at fair value at December 31, 2020**, subdivided into the three levels defined above:

<i>(in thousands of euro)</i>	Note	Carrying amount at 12/31/2020	Level 1	Level 2	Level 3
<b>FINANCIAL ASSETS:</b>					
<b>Financial assets at fair value through Income Statement:</b>					
Other current financial assets at fair value through Income Statement	18	58,944	34,571	24,373	-
Current derivative financial instruments	27	17,900	-	17,900	-
<b>Other financial assets at fair value through Other Comprehensive Income:</b>					
Securities and shares		39,934	14,076	15,902	9,956
Investment funds		2,786	-	2,786	-
	12	42,720	14,076	18,688	9,956
<b>TOTAL ASSETS</b>		<b>119,564</b>	<b>48,647</b>	<b>60,961</b>	<b>9,956</b>
<b>FINANCIAL LIABILITIES:</b>					
<b>Financial assets at fair value through Income Statement:</b>					
Current derivative financial instruments	27	(37,314)	-	(37,314)	-
<b>Derivative hedging instruments:</b>					
Current derivative financial instruments	27	(372)	(372)	-	-
Non-current derivative financial instruments	27	(87,601)	-	(87,601)	-
<b>TOTAL LIABILITIES</b>		<b>(125,287)</b>	<b>(372)</b>	<b>(124,915)</b>	-

The following table shows **changes in the financial assets that occurred at level 3 during the course of 2021**:

<i>(in thousands of euro)</i>	
<b>Opening balance 01/01/2021</b>	<b>9,956</b>
Translation differences	8
Increases	450
Decreases	(39)
Fair value adjustments through Other Comprehensive Income	677
Other changes	4
<b>Closing balance 12/31/2021</b>	<b>11,056</b>

These financial assets are mainly represented by equity investments in the European Institute of Oncology (euro 8,006 thousand), Telco S.r.l (euro 450 thousand), Genextra (euro 635 thousand and Ticom I LP (euro 193 thousand).

The **fair value adjustments through other Comprehensive Income** equalled a positive net amount of euro 677 thousand, and mainly refers to the fair value adjustment of the investment in the Genextra.

During the course of 2021 there were no transfers from level 1 to level 2 or vice versa, nor from level 3 to other levels and vice versa.



The fair value of financial instruments traded on active markets is based on the price quotations published at the reporting date of the Financial Statements. These instruments, included in level 1, primarily comprise of equity investments classified as financial assets at fair value through other Comprehensive Income.

The fair value of financial instruments not traded on active markets (for example, derivatives) is determined by the use of evaluation techniques widely used in the financial sector, which maximise the utilisation of observable and available market data:

- market prices for similar instruments;
- the fair value of interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves;
- the fair value of foreign exchange derivatives (forward contracts) is determined by using the forward exchange rate at the reporting date of the Financial Statements;
- the fair value of cross currency interest rate swaps is calculated by discounting the estimated future cash flows based on observable yield curves and converting them into euro using the exchange rate at the reporting date of the Financial Statements;
- the fair value of natural rubber futures is determined by using the closing price of the contract at the reporting date of the Financial Statements.

## 5.2 Categories of Financial Assets and Liabilities

The table below shows the carrying amounts for each class of financial assets and liabilities as identified by IFRS 9:

<i>(in thousands of euro)</i>	Note	Carrying amount at 12/31/2021	Carrying amount at 12/31/2020
<b>FINANCIAL ASSETS</b>			
<b>Financial assets at fair value through Income Statement</b>			
Other financial assets at fair value through Income Statement	18	113,901	58,944
Current derivative financial instruments	27	17,345	17,900
		<b>131,246</b>	<b>76,844</b>
<b>Financial assets at amortised cost</b>			
Other non-current receivables	15	362,944	402,148
Current trade receivables	14	659,209	597,669
Other current receivables	15	470,577	469,194
Cash and cash equivalents	19	1,884,649	2,275,476
		<b>3,377,379</b>	<b>3,744,487</b>
<b>Financial assets at fair value through other comprehensive income (FVOCI)</b>			
Other financial assets at fair value through Other Comprehensive Income	12	56,907	42,720
<b>Financial hedging derivative instruments</b>			
Current derivative financial instruments	27	29,217	-
Non-current financial derivative instruments	27	4,612	-
<b>TOTAL FINANCIAL ASSETS</b>		<b>3,599,361</b>	<b>3,864,051</b>
<b>FINANCIAL LIABILITIES</b>			
<b>Financial liabilities at fair value through Income Statement</b>			
Current derivative financial instruments	27	15,209	37,314
<b>Financial liabilities valued at amortised cost</b>			
Non-current borrowings from banks and other financial institutions (excl. lease liabilities)	23	3,376,573	4,580,537
Other non-current payables	25	76,485	77,280
Current borrowings from banks and other financial institutions (excl. lease liabilities)	23	1,397,638	808,163
Current trade payables	24	1,626,367	1,316,971
Other current payables	25	314,203	325,266
		<b>6,791,266</b>	<b>7,108,217</b>
<b>Lease liabilities</b>			
Non-current lease liabilities	23	412,796	390,449
Current lease liabilities	23	91,611	75,404
		<b>504,407</b>	<b>465,853</b>
<b>Derivative financial hedging instruments</b>			
Non-current derivative financial instruments	27	3,519	87,601
Current derivative financial instruments	27	979	372
		<b>4,498</b>	<b>87,973</b>
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>7,315,380</b>	<b>7,699,357</b>

## 6. CAPITAL MANAGEMENT POLICY

The Group's objective is to maximise the return on net invested capital while maintaining the ability to operate over time, guaranteeing adequate returns for shareholders and benefits for other stakeholders, foreseeing a gradual deleverage of the Group's financial structure to be achieved over the short to medium-term period, as reported in the "Outlook for 2022" section of the Directors' Report on Operations.

The main indicator that the Group uses for capital management is the R.O.I.C which is calculated as the ratio between the EBIT adjusted net of tax effects, and the average net invested capital which does not include "*Investments in associated companies and joint ventures*", "*Other financial assets at fair value through other Comprehensive Income*", "*Other financial assets at fair value through the Income Statement*", "*Other non-current assets*", the intangible assets relative to assets recognised as a consequence of Business Combinations, the deferred tax liabilities relative to the latter, and "*Provisions for employee benefit obligations current and non-current*".

The R.O.I.C. for the 2021 financial year stood equal to 17.6% compared to 10.4% for 2020. This increase compared to the previous financial year, was mainly due to the increase in the EBIT adjusted thanks to the recovery in demand, following the fall in 2020 due to the effects of the COVID-19 pandemic on the sector in which the Group operates.

## 7. ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated Financial Statements entails the necessity of *Management* in making estimates and assumptions which, under certain circumstances are based on difficult and subjective evaluations and estimates based on historical experience, as well as assumptions that are from time to time considered reasonable and realistic in light of the circumstances. It is possible that the actual results could therefore differ from these estimates. The estimates and assumptions are reviewed periodically and the effects of any changes made to them are reflected in the Income Statement for the period in which the estimate is revised. If such estimates and assumptions, based on the best valuation available at the time, should differ from actual circumstances, they are consequentially modified for the period in which the change of circumstances occurred. The estimates and assumptions refer mainly to assessments of the recoverability of goodwill and other intangible assets with an indefinite useful life, to the definition of the useful lives of property, plant and equipment and intangible assets, to the recoverability of receivables, to the determination of taxes (current and deferred), to the evaluation of pension plans and other post-employment benefits, and to the recognition/valuation of the provisions for liabilities and charges.

### **Goodwill**

In accordance with the accounting standards adopted for the preparation of the Financial Statements, goodwill is tested annually in order to ascertain the existence of any impairment to be

recognised in the Income Statement. Specifically, testing involves the allocation of goodwill to the groups of cash generating units (which for the Group coincide with the business sector or the Consumer Activities), and the subsequent determination of the relative recoverable amount, being the higher amount between the fair value and the value in use.

If the recoverable amount proves to be lower than the carrying amount of the group of cash generating units to which goodwill has been allocated, the goodwill allocated to them is impaired.

With reference to the impacts derived from the adoption of the accounting standard IFRS 16 - Leases, the carrying amount of the cash generating units includes the value of the right of use of the CGUs themselves. In determining the present value of future flows, any flows relative to the repayment of lease liabilities are excluded, in that they represent flows deriving from financing activities. Consequently, the value of lease liabilities is excluded from the carrying amount of the CGU at the date of the impairment test.

The configuration of the value used to determine the recoverable amount for Consumer Activities at December 31, 2021 was the fair value determined using the stock market capitalisation of the Parent Company at the date of the impairment test (December 31, 2021), where the stock market capitalisation was calculated on the number of outstanding shares, and adjusted upwardly or downwardly according to the fair value of the financial statement items not included in the carrying amount of the Consumer Activities, mainly the net financial position.

### **Pirelli Brand (Intangible Asset with an Indefinite Useful life)**

The Pirelli Brand is an intangible asset with an indefinite useful life not subject to amortisation, but pursuant to IAS 36, is tested for impairment on an annual basis or more frequently, if specific events or circumstances arise that may indicate an impairment.

The impairment test at December 31, 2021 was performed using the assistance of an independent third-party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2021 was the fair value, calculated on the basis of the income approach (the so-called Level 3 of the IFRS 13 hierarchy – Fair Value measurement).

The key assumptions used by Management were the estimates for future increases in sales, their growth rate beyond the explicit forecast period for the purposes of estimating the terminal value, in the royalty rate, and in the discount rate which is based on the weighted average cost of capital increased by a premium determined on the basis of the riskiness of the specific asset.

## Owned Tangible Assets

In accordance with the relevant accounting fixed assets are tested, in order to ascertain whether there has been any impairment when there are indicators that signal that difficulties are to be expected for the recovery of their relative net carrying amount, through their use. The verification of the existence of the aforesaid impairment indicators requires that the Directors make subjective judgements based on the information available from both internal and external sources as well as on historical experience. Also if it is determined that a potential impairment may have been generated, the impairment is calculated using the suitable evaluation techniques. The correct identification of the indicators of a potential impairment, as well as the estimates used to determine the impairment, depend on a subjective evaluation as well as on factors that may change over time which influence the valuations and estimates made by Management.

## Right of Use and Lease Liabilities

As regards the estimates and assumptions used for the determination of lease liabilities and the right of use, the application of IFRS 16 has introduced some elements of professional judgement as well as the use of assumptions and estimates in relation to the lease term and the definition of the incremental borrowing rate.

The main are summarised as follows:

- contract renewal clauses are considered for the purposes of determining the duration of the contract, that is, when the Group has the option to exercise these clauses without the need to obtain the consent of the other party, and when their exercise is considered reasonably certain. In the case of clauses which provide for multiple renewals that can be exercised unilaterally by the Group, only the first extension period was considered;
- automatic renewal clauses in contracts, in which both parties have the right to terminate the contract, were not considered for the purposes of determining the duration of the contract, as the ability to extend its duration, is not under the unilateral control of the Group, and the penalty to which the lessor could be exposed to is not significant. However, in the event that the lessor is exposed to a significant penalty, the Group evaluates the inclusion of the renewal option in the determination of the duration of the contract. This assessment is also carried out considering the degree of personalisation of the leased asset. If personalisation is high, the lessor could incur a significant penalty if they oppose the renewal;
- early termination clauses in contracts: not taken into account when determining the duration of the contract if they are exercisable only by the lessor and not by both parties. In cases where they can be unilaterally exercised by the Group, specific assessments are made contract by contract (for example, the Group is already negotiating a new contract or has already given notice to the lessor);

- The incremental borrowing rate is the risk-free rate of the country in which the contract is traded, and is based on the duration of the contract itself. It is then adjusted according to the Group's credit spread and the local credit spread.

### **Income Taxes (current and deferred)**

Income taxes (current and deferred) are determined in each country in which the Group operates according to a prudent interpretation of the tax regulations in force. This process sometimes involves complex estimates in determining taxable income and temporary deductible and taxable differences between carrying amounts and tax amounts. Specifically, deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which they can be recovered. The assessment of the recoverability of deferred tax assets, recorded in relation both to tax losses that may be used in subsequent financial years, and to temporary deductible differences, takes into account the estimate of future taxable income and is based on prudent tax planning. As regards the situations in which the tax legislation in force lends itself to interpretation, if the Group considers it probable (more than 50%), that the tax authority will accept the tax treatment adopted, the net income/(loss) before tax is determined in accordance with the tax treatment applied in the tax return, otherwise the effect of any uncertainty is reflected in the determination of the net income/(loss) before tax. The probability refers to the probable fact that the tax authority will not accept the tax treatment adopted, and not to the probability of the assessment.

### **Pension Funds**

The companies of the Group have in place, pension plans, health insurance plans and other defined benefit plans for their employees, primarily in the United Kingdom and the United States. These funds have been closed to new participants, and therefore the actuarial risk refers only to the previous deficit. Management, through the use of a leading consulting firm, uses actuarial assumptions to calculate the liabilities and assets servicing these pension plans. The actuarial assumptions of a financial nature concern the discount rate, the rate of inflation and the trend in medical costs. The actuarial assumptions of a demographic nature are essentially concerned with mortality rates. The Group has identified discount rates which it has deemed are balanced, given their context.

### **Provisions for Liabilities and Charges**

In view of the legal and tax risks relative to indirect taxes, provisions for the risk of unfavourable outcomes have been recognised. The value of provisions recognised in the Financial Statements relative to these risks represent the best estimate to date made by Management for legal and tax issues regarding a vast range of problematic issues that are subject to the jurisdiction of different countries. This estimate entails the adoption of assumptions which depend on factors that may

change over time and which could therefore have a significant impact on the current estimates made by Management in preparing the Consolidated Financial Statements.

## 8. OPERATING SEGMENTS

IFRS 8 - Operating segments, defines an operating segment as a component:

- which involves entrepreneurial activities which generate revenues and costs;
- whose operating income is periodically reviewed by the Chief Executive Officer, in his role as Chief Operating Decision Maker (CODM);
- for which separate income, financial position, and equity data is available.

For the purposes of IFRS 8, the activities performed by the Consumer Activities are identifiable in a single operating sector.

For 2021, the Group has adopted the same organisational model used in 2020 composed of five Regions.

Revenues from **sales and services according to geographical region** were as follows:

<i>(in thousands of euro)</i>	2021	2020
Europe and Turkey	2,058,539	1,756,112
North America	1,145,656	870,511
APAC	1,018,817	865,988
South America	667,567	458,617
Russia, Nordics and MEAI	440,871	350,903
<b>Total</b>	<b>5,331,450</b>	<b>4,302,131</b>

**Non-current assets by geographic region** which are allocated on the basis of the country where the assets are located, were as follows.

<i>(in thousands of euro)</i>	12/31/2021		12/31/2020	
Europe and Turkey	5,352,217	61.00%	5,440,542	62.24%
North America	416,304	4.74%	389,634	4.46%
APAC	539,778	6.15%	486,468	5.56%
South America	384,362	4.38%	358,383	4.10%
Russia, Nordics and MEAI	198,153	2.26%	182,828	2.09%
Non-current unallocated assets	1,883,765	21.47%	1,883,945	21.55%
<b>Total</b>	<b>8,774,579</b>	<b>100.00%</b>	<b>8,741,800</b>	<b>100.00%</b>

The **non-current allocated assets** reported in the preceding table consist of property, plant and equipment and intangible assets, excluding goodwill. The **non-current unallocated assets** are relative to goodwill.

## 9. PROPERTY, PLANT AND EQUIPMENT

Their composition was as follows:

<i>(in thousands of euro)</i>	12/31/2021	12/31/2020
<b>Total Net Value:</b>	<b>3,288,914</b>	<b>3,159,767</b>
- Owned Tangible Assets	2,823,765	2,725,755
- Right of use	465,149	434,012

### 9.1 – Owned Tangible Assets

The composition and changes were as follows:

<i>(in thousands of euro)</i>	12/31/2021			12/31/2020		
	Gross Value	Accumulated Depreciation	Net Value	Gross Value	Accumulated Depreciation	Net Value
Land	144,121	-	<b>144,121</b>	147,406	-	<b>147,406</b>
Buildings	848,138	(196,180)	<b>651,958</b>	787,489	(150,793)	<b>636,696</b>
Plants and machinery	2,704,531	(949,926)	<b>1,754,605</b>	2,458,722	(763,568)	<b>1,695,154</b>
Industrial and trade equipment	574,926	(361,250)	<b>213,676</b>	500,443	(303,197)	<b>197,246</b>
Other assets	124,286	(64,881)	<b>59,405</b>	111,179	(61,926)	<b>49,253</b>
<b>Total</b>	<b>4,396,002</b>	<b>(1,572,237)</b>	<b>2,823,765</b>	<b>4,005,239</b>	<b>(1,279,484)</b>	<b>2,725,755</b>

NET VALUE <i>(in thousands of euro)</i>	12/31/2020	Hyperinflation Argentina	Currency translation differences	Increases	Decreases	Depreciation	Devaluation	Recl./Other	12/31/2021
Land	<b>147,406</b>	(831)	(2,412)	-	(39)	-	-	(3)	<b>144,121</b>
Buildings	<b>636,696</b>	3,777	20,956	26,456	(287)	(33,798)	(1,882)	40	<b>651,958</b>
Plants and machinery	<b>1,695,154</b>	7,023	45,514	188,405	(1,924)	(176,971)	(2,505)	(91)	<b>1,754,605</b>
Industrial and trade equipment	<b>197,246</b>	4,835	4,176	79,239	(1,789)	(70,229)	(1,278)	1,476	<b>213,676</b>
Other assets	<b>49,253</b>	2,410	131	20,875	(330)	(9,879)	(46)	(3,009)	<b>59,405</b>
<b>Total</b>	<b>2,725,755</b>	<b>17,214</b>	<b>68,365</b>	<b>314,975</b>	<b>(4,369)</b>	<b>(290,877)</b>	<b>(5,711)</b>	<b>(1,587)</b>	<b>2,823,765</b>

NET VALUE <i>(in thousands of euro)</i>	12/31/2019	Change in consolidation scope	Hyperinflation Argentina	Currency translation differences	Increases	Decreases	Depreciation	Devaluation	Recl./Other	12/31/2020
Land	<b>189,417</b>	(666)	740	(20,540)	-	(1,560)	-	-	(19,985)	<b>147,406</b>
Buildings	<b>725,908</b>	(3,624)	3,253	(68,647)	12,428	(1,125)	(33,069)	(33)	1,605	<b>636,696</b>
Plants and machinery	<b>1,965,870</b>	(503)	6,268	(155,297)	58,419	(2,247)	(176,389)	(7,074)	6,107	<b>1,695,154</b>
Industrial and trade equipment	<b>246,476</b>	-	1,083	(27,099)	48,874	(1,395)	(69,237)	(1,974)	518	<b>197,246</b>
Other assets	<b>59,519</b>	(35)	546	(4,895)	4,787	(100)	(10,683)	(57)	171	<b>49,253</b>
<b>Total</b>	<b>3,187,190</b>	<b>(4,828)</b>	<b>11,890</b>	<b>(276,478)</b>	<b>124,508</b>	<b>(6,427)</b>	<b>(289,378)</b>	<b>(9,138)</b>	<b>(11,584)</b>	<b>2,725,755</b>

**Hyperinflation Argentina** refers to the revaluation of the assets held by the Argentinian company as a consequence of the application of the accounting standard IAS 29 - Financial Reporting in



Hyperinflationary Economies. This was partially offset by a negative **translation difference** of euro 4,573 thousand.

**Increases**, totalling euro 314,975 thousand, were primarily aimed at the High Value segment, to the continuous improvement in the mix and quality in all manufacturing plants, and increased production capacity in Mexico, China, Russia and Romania.

The ratio of investments to depreciation for 2021 was equal to 1.08, (0.43 for the financial year 2020).

**Devaluation** refers mainly to property, plant and machinery that are obsolete and no longer used.

**Property, plant and equipment in progress** at December 31, 2021, included in the individual fixed asset categories, amounted to euro 183,468 thousand (euro 138,012 thousand at December 31, 2020). The main projects included under property, plant and equipment in progress were the initiation of new projects to increase production capacity, the constant technological upgrading of manufacturing plants and of machinery, also aimed at increasing their safety from an Environmental, Health and Safety (EHS) perspective and at investments in machinery for the development of new product lines and the improvement of existing products.

It should be noted that the companies of the Group did not pledge any property, plant and equipment as collateral.

## 9.2 - Right of Use

The net value of the assets for which the Group has entered into lease contracts, is detailed as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
Right of use land	17,312	13,730
Right of use buildings	366,512	336,740
Right of use plants and machinery	27,382	26,012
Right of use other assets	53,943	57,530
<b>Total net right of use</b>	<b>465,149</b>	<b>434,012</b>

The item **right of use buildings** mainly refers to contracts relative to offices, warehouses and points of sale.

The item **right of use other assets** mainly refers to contracts relative to motor vehicles and transport equipment. These contracts also include the service component (non-lease component).

Lease contracts are negotiated on an individual basis and include a wide variety of terms and conditions.

Increases in the right of use for the 2021 financial year, also including remeasurements, amounted to euro 122,416 thousand (euro 87,698 thousand for 2020), mainly for new lease contracts for logistics warehouses signed mainly in Europe and North America.

During the course of 2021, the following contracts were subject to reassessment and amendments:

- the lease agreement for a warehouse in the UK was extended for 5 years, with a corresponding increase in the right of use to the amount of euro 10,847 thousand;
- the lease agreement for a warehouse in Romania was extended for 4 years, with a corresponding increase in the right of use to the amount of euro 3,115 thousand.

**Depreciation of the right of use** recognised in the Income Statement, and included under the item “*Depreciation, Amortisation and Impairments*” (Note 32), was composed as follows:

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
Land	1,154	1,121
Buildings	61,014	60,505
Plants and machinery	7,374	7,644
Other assets	18,866	19,356
<b>Total depreciation of right of use</b>	<b>88,408</b>	<b>88,626</b>

For interest on lease liabilities, reference should be made to Note 37 - “*Financial Expenses*”.

Information on the costs for lease contracts with a duration of less than twelve months, lease contracts for assets with a low unit value, and lease contracts with variable lease payments, is included in Note 33 - “*Other Costs*”.

## 10. INTANGIBLE ASSETS

The composition and changes were as follows:

<b>NET VALUE</b> <i>(in thousands of euro)</i>	12/31/2020	Currency translation differences	Increase	Decrease	Amortisation	Recl./Other	12/31/2021
Concessions, licenses and trademarks - finite useful life	73,694	2,375	303	-	(3,872)	88	72,588
Pirelli Brand - indefinite useful life	2,270,000	-	-	-	-	-	2,270,000
Goodwill	1,883,945	57	-	(237)	-	-	1,883,765
Customer relationships	273,870	189	180	-	(34,607)	7	239,639
Technology	1,045,467	-	-	-	(76,850)	-	968,617
Software applications	26,181	(9)	26,548	-	(12,669)	(483)	39,568
Patents and design patent rights	7,689	-	3,548	-	(1,043)	-	10,194
Other intangible assets	1,187	(11)	-	(5)	(352)	475	1,294
<b>Total</b>	<b>5,582,033</b>	<b>2,601</b>	<b>30,579</b>	<b>(242)</b>	<b>(129,393)</b>	<b>87</b>	<b>5,485,665</b>

NET VALUE (in thousands of euro)	12/31/2019	Currency translation differences	Increase	Decrease	Amortisation	Riclass./Other	12/31/2020
Concessions, licenses and trademarks - finite useful life	59,834	(1,608)	430	(6)	(5,061)	20,105	73,694
Pirelli Brand - indefinite useful life	2,270,000	-	-	-	-	-	2,270,000
Goodwill	1,886,988	(2,765)	-	(278)	-	-	1,883,945
Customer relationships	308,585	(168)	-	-	(34,547)	-	273,870
Technology	1,122,317	-	-	-	(76,850)	-	1,045,467
Software applications	18,971	(394)	11,172	(3)	(10,219)	6,654	26,181
Patents and design patent rights	4,490	-	3,925	-	(726)	-	7,689
Other intangible assets	8,990	(448)	-	-	(646)	(6,709)	1,187
<b>Total</b>	<b>5,680,175</b>	<b>(5,383)</b>	<b>15,527</b>	<b>(287)</b>	<b>(128,049)</b>	<b>20,050</b>	<b>5,582,033</b>

Intangible assets were composed as follows:

- the Pirelli Brand (indefinite useful life) amounted to euro 2,270,000 thousand. It should be noted that the evaluation of the useful life of brands is based on a series of factors including the competitive environment, market share, history of the Brand, life cycles of the underlying product, operating plans and the macroeconomic environment of the countries in which the related products are sold. Specifically, the useful life of the Pirelli Brand was assessed as indefinite on the basis of its history of over one hundred and fifty years of success (established in 1872), and on the intention and ability of the Group to continue investing in order to support and maintain the Brand;
- the Metzeler Brand (useful life of 20 years) amounted to euro 46,677 thousand included under the item “*Concessions, licenses and trademarks – finite useful life*”;
- Customer relationships (useful life of 10-20 years) which mainly includes the value of commercial relationships both for the Original Equipment channel and the Replacement channel;
- Technology which includes the value of both product and process technologies as well the value of the *In-Process R&D* (being formed at the time of the acquisition of the Group in 2015 by Marco Polo Industrial Holding S.p.A.) amounted to euro 913,617 thousand and euro 55,000 thousand respectively. The useful life of product and process Technology was determined to be 20 years, while the useful life for In-Process R&D was 10 years.
- Goodwill to the amount of euro 1,883,765 thousand, of which euro 1,877,363 thousand was recorded at the time of acquisition of the Group in September 2015. The residual portion refers to the goodwill provisionally determined as part of the acquisition of the company JMC Pneus Comercio Importação e Exportação Ltda which occurred in 2018.

During the course of 2021, investments were also made in software applications (26,548 additions in total) as part of the Digitisation Programme to transform the Group’s key processes by 2023. This aim of this programme is to enable the real-time integration of the exchange of information between the exchange of information between different business functions and their external partners/customers through digital platforms, using artificial intelligence models.

### *Impairment Testing of Goodwill*

Goodwill, amounting to euro 1,883,765 thousand, was allocated to the group of “Consumer Activities” CGUs, which represent the only sector of activity in which the Group operates, and considers to be the minimum level at which goodwill should be monitored for internal management control purposes.

The impairment testing of goodwill consists of comparing the recoverable value of the Consumer Activities to which goodwill is allocated and their carrying amount, including its operating assets and goodwill.

The configuration of the value used to determine the recoverable amount for Consumer Activities (including goodwill) at December 31, 2021 is the fair value determined by using the market capitalisation of the Parent Company at the date of the impairment test (December 31, 2021), where the market capitalisation is calculated on the number of outstanding shares without consideration of any control premium, adjusted upwards or downwards by the fair value of Financial Statement items not included in the carrying amount of Consumer Activities, mainly the Net Financial Position.

The impairment test at December 31, 2021 did not reveal any impairment, as the fair value of Consumer Activities was significantly higher than the carrying amount.

The difference between the recoverable amount and the carrying amount of the group of CGUs related to Consumer Activities was reset to zero, against a potential contraction of -20% in the stock market price of Pirelli & C. S.p.A. ordinary shares.

### *Impairment Testing of the Pirelli Brand (Intangible Asset with an Indefinite Useful Life)*

The Pirelli Brand, valued at euro 2,270,000 thousand is an intangible asset with an indefinite useful life and as such is not subject to amortisation, but pursuant to IAS 36, is tested for impairment annually or more frequently, if specific events or circumstances arise that may suggest an impairment.

The impairment test at December 31, 2021 was performed using the assistance of an independent third-party professional.

The configuration of the recoverable amount for the purposes of impairment testing purposes at December 31, 2021 is the fair value, calculated on the basis of the income approach (the so-called Level 3 of the IFRS 13 hierarchy – Fair Value measurement) and is based on:

- management’s forecasts which are based, with reference to 2022, on the Guidance presented to the financial community on 23 February 2022 and, with reference to the years 2023 - 2025, on the Industrial Plan at 31 March 2021. It should be noted that analysts’ consensus forecasts for the period 2022 - 2024 are higher than management’s projections and therefore have not been considered for the purposes of the financial statements. The

revenue growth rate for the period 2022 - 2025, calculated with respect to 2021 revenues, is 4.5%;

- a sum-of-parts valuation criterion which also takes into account the contribution of royalties from the Prometeon Tyre Group for the use of the Pirelli trademark in relation to the Industrial segment;
- the royalty rate applied to the revenues of the Consumer High Value and Consumer Standard segment was deduced from the royalty rates implicit in the valuations made by an independent entity relative to the main brands of the listed companies of the Tyre sector, and was equal to an average royalty rate of 3.94%. With reference to the contribution in terms of royalties from the Prometeon Tyre Group, the royalty rates used were those already forecast;
- a discount rate of 7.90% which included a premium compared to the WACC which is determined on the basis of the risk level of the specific asset;
- a growth rate of “g” in the terminal value assumed to be equal to zero;
- the TAB (Tax Amortisation Benefit) that is, the tax benefit that could potentially benefit the market participant which acquired the asset separately as a result of the possibility of amortising the asset for tax purposes.

For the purposes of impairment testing, the recoverable amount of the Pirelli Brand *cum* TAB was compared with the carrying amount (*cum* TAB) and no impairment emerged.

The recoverable amount is greater than the carrying amount of the Brand (12.5%), while, in order for the Fair Value to be equal to the carrying amount, a downward change in the key parameters is necessary, particularly:

- a decrease in the royalty rates for the Consumer valuation units of 45 basis points, and the simultaneous resetting to zero of the balance for royalties from the license agreement with Prometeon Tyre Group;
- an increase in the discount rate by 89 basis points;
- a negative “g” growth rate of -141 basis points.

## 11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The changes in investments in associates and joint ventures were as follows:

<i>(in thousands of euro)</i>	12/31/2021			12/31/2020		
	Associates	JV	Total	Associates	JV	Total
<b>Opening balance</b>	<b>8,395</b>	<b>64,193</b>	<b>72,588</b>	<b>8,703</b>	<b>72,143</b>	<b>80,846</b>
Distribution of dividends	(186)	-	(186)	(192)	-	(192)
Share of net income / (loss)	716	981	1,697	228	(5,857)	(5,629)
Share of other components recognised in Equity	-	6,694	6,694	-	(2,093)	(2,093)
Other	93	-	93	(344)	-	(344)
<b>Closing balance</b>	<b>9,018</b>	<b>71,868</b>	<b>80,886</b>	<b>8,395</b>	<b>64,193</b>	<b>72,588</b>

## 11.1 Investments in Associates

The details were as follows:

<i>(in thousands of euro)</i>	12/31/2020	Distribution of dividends	Share of net income / (loss)	Other	12/31/2021
Eurostazioni S.p.A.	<b>6,395</b>	-	180	-	<b>6,575</b>
Joint Stock Company Kirov Tyre Plant	<b>1,121</b>	-	127	91	<b>1,339</b>
Investments in other associates	<b>879</b>	(186)	409	2	<b>1,104</b>
<b>Total</b>	<b>8,395</b>	<b>(186)</b>	<b>716</b>	<b>93</b>	<b>9,018</b>

The investments in associated companies evaluated using the equity method, were not relevant in terms of the impact on total consolidated assets, either individually or in aggregate form.

## 11.2 Investments in Joint Ventures

The details were as follows:

<i>(in thousands of euro)</i>	12/31/2020	Share of net income / (loss)	Share of other components recognised in Equity	12/31/2021
PT Evoluzione Tyres	<b>12,103</b>	1,049	1,040	<b>14,192</b>
Xushen Tyre (Shanghai) Co., Ltd	<b>52,090</b>	(68)	5,654	<b>57,676</b>
<b>Total</b>	<b>64,193</b>	<b>981</b>	<b>6,694</b>	<b>71,868</b>

The Group holds:

- an investment of 63.04% in PT Evoluzione Tyres, an entity which operates in Indonesia and is active in the production of tyres for motorcycles. Even though the company is 63.04% owned, as a result of contractual agreements between Shareholders, it falls under the definition of a joint venture, in that the governance regulations explicitly require unanimous consensus for significant business decisions. The investment is evaluated using the equity method;

- a 49% stake in the company Xushen Tyre (Shanghai) Co., Ltd, a joint venture which, through the company Jining Shenzhen Tyre Co., Ltd owns a Consumer tyre manufacturing plant in China. The plant provides the necessary production flexibility for the High Value segment, given the evolution of the Chinese market, the expected developments in the electric car segment and the increasing share of homologations obtained for the Original Equipment channel in China, Japan and Korea. The investment is evaluated using the equity method. As announced on August 1, 2018, the joint venture agreement relative to Xushen Tyre (Shanghai) Co., Ltd. provides for a for a call option in favour of Pirelli Tyre S.p.A., exercisable as of January 1, 2021 until March 31, 2026, which - if exercised - would allow Pirelli Tyre S.p.A. to increase its interest in the company to up to 70%. During the course of 2020, Pirelli Tyre S.p.A. notified the shareholders of Xushen Tyre (Shanghai) Co., Ltd. of its intention to not exercise the option until December 31, 2022.

The **share of net income/(loss)**, positive to the amount of euro 981 thousand, refers to the euro - 68 thousand pro-rata share of the loss attributable to the joint venture Xushen Tyre (Shanghai) Co., Ltd. and to the euro 1,049 thousand pro-rata share of net income attributable to the joint venture PT Evoluzione Tyres.

The investments in joint ventures were not relevant in terms of their impact on the total consolidated assets.

## 12. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The movements in other financial assets at fair value through other Comprehensive Income amounted to euro 56,907 thousand at December 31, 2021 (euro 42,720 thousand at December 31, 2020), and were as follows:

*(in thousands of euro)*

<b>Opening balance at 01/01/2021</b>	<b>42,720</b>
Translation differences	12
Increases	450
Decreases	(39)
Fair Value adjustment through Other Comprehensive income	13,764
<b>Closing balance 12/31/2021</b>	<b>56,907</b>

The composition of the item according to the individual securities is as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
<b>Listed securities</b>		
RCS MediaGroup S.p.A.	21,855	14,076
<b>Total</b>	<b>21,855</b>	<b>14,076</b>
<b>Unlisted securities</b>		
Fin. Priv. S.r.l.	21,171	15,902
Fondo Anastasia	2,825	2,786
Istituto Europeo di Oncologia S.r.l.	8,006	7,962
Euroqube	-	10
Ticom I LP	193	185
Telco S.r.l.	450	-
Other companies	2,407	1,799
<b>Total</b>	<b>35,052</b>	<b>28,644</b>
<b>Total other financial assets at Fair Value through Other Comprehensive Income</b>	<b>56,907</b>	<b>42,720</b>

The **fair value adjustments through other Comprehensive Income** equalled a positive net value of euro 13,764 thousand, and mainly refers to the fair value adjustment of the investment in the RCS MediaGroup S.p.A. (positive to the amount of euro 7,779 thousand), and in Fin. Priv S.r.l (positive to the amount of euro 5,269 thousand). For listed securities, the fair value corresponds to the stock market price at December 31, 2021. For unlisted securities, the fair value was determined by using estimates based on the best available information.

### 13. DEFERRED TAX ASSETS AND LIABILITIES

Their composition is as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
Deferred tax assets	137,643	109,378
Deferred tax liabilities	(1,033,892)	(1,006,799)
<b>Total</b>	<b>(896,249)</b>	<b>(897,421)</b>

Deferred tax assets and deferred tax liabilities are offset when the deferred taxes refer to the same legal entity and the same taxation authority.

The item **deferred tax liabilities** mainly refers to the difference between the tax value and the carrying amount of assets identified at the date of acquisition of the Pirelli Group by Marco Polo Industrial Holding S.p.A., recorded in the Consolidated Financial Statements following the merger by incorporation of the Parent company, Marco Polo Industrial Holding S.p.A. into Pirelli, which took place during the course of 2016.



Their composition, gross of the offsets carried out was as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
<b>Deferred tax assets</b>	<b>330,936</b>	<b>348,534</b>
- of which within 12 months	210,568	171,435
- of which beyond 12 months	120,368	177,099
<b>Deferred tax liabilities</b>	<b>(1,227,185)</b>	<b>(1,245,955)</b>
- of which within 12 months	(111,378)	(114,624)
- of which beyond 12 months	(1,115,807)	(1,131,331)
<b>Total</b>	<b>(896,249)</b>	<b>(897,421)</b>

The composition of deferred taxes, related to temporary differences and tax losses carried forward, is shown in the following table:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
<b>Deferred tax assets</b>		
Provisions for liabilities and charges	54,262	50,369
Property, plant and equipment	9,825	5,189
Leases	2,129	-
Provisions for employee benefit obligations	43,869	55,672
Inventories	37,902	48,670
Tax losses carried forward	53,647	50,094
Trade receivables and other receivables	38,866	30,894
Trade payables and other payables	5,071	5,047
Other	85,365	102,599
<b>Total</b>	<b>330,936</b>	<b>348,534</b>
<b>Deferred tax liabilities</b>		
Intangible assets	(975,326)	(1,006,521)
Property, plant and equipment	(157,851)	(155,339)
Leases	-	(720)
Provisions for employee benefit obligations	(37,605)	(22,439)
Other	(56,403)	(60,936)
<b>Total</b>	<b>(1,227,185)</b>	<b>(1,245,955)</b>

The item “**Other**” relative to **deferred tax assets**, mainly includes deferred tax assets recognised on surplus non-deducted interest expense (euro 10,879 thousand), and on the ACE benefit (Allowance for Corporate Equity) (euro 71,669 thousand).

The item “**Other**”, relative to **deferred tax liabilities**, mainly includes deferred tax liabilities recognised on the undistributed gains of subsidiaries for which distribution in future financial years is probable (euro 54,748 thousand).

At December 31, 2021 the value of deferred tax assets not recognised on tax losses amounted to euro 76,913 thousand, while those related to temporary differences amounted to euro 33,224 thousand. This latter item mainly includes deferred tax assets not recognised on interest payables. Deferred tax assets were not recognised, in that no taxable income is expected to justify their recovery.

The value of tax losses according to their maturity, against which deferred tax assets were not recognised, are as follows:

<i>(in thousands of euro)</i>	12/31/2021	12/31/2020
<b>Year of maturity</b>		
2020	-	2,663
2021	2,775	2,771
2022	2,295	2,291
2023	5,121	5,121
2024	1,280	1,280
2025	2,563	2,557
2026	5,073	5,073
2027	3,731	3,696
2028	779	770
2029	26	25
2030	5	4
No expiry date date	277,452	291,885
<b>Total</b>	<b>301,100</b>	<b>318,136</b>

Of the total tax losses without an expiry date, euro 270,512 thousand refer to losses attributable to subsidiaries in the UK, Spain and Brazil.

The tax effect of gains and losses recognised directly in equity was negative to the amount of euro 33,933 thousand (negative to the amount of euro 5,672 thousand for 2020), and is reported in the Statement of Comprehensive Income. These changes were mainly due to tax effects connected to actuarial gains/losses on employee benefits, and to the fair value adjustment of cash flow hedge derivatives.

#### 14. TRADE RECEIVABLES

Trade receivables were analysed as follows:

<i>(in thousands of euro)</i>	12/31/2021			12/31/2020		
	Total	Non-current	Current	Total	Non-current	Current
Trade receivables	732,188	-	732,188	664,014	-	664,014
Provision for bad debts	(72,979)	-	(72,979)	(66,345)	-	(66,345)
<b>Total</b>	<b>659,209</b>	<b>-</b>	<b>659,209</b>	<b>597,669</b>	<b>-</b>	<b>597,669</b>

The gross value of trade receivables amounted to euro 732,188 thousand (euro 664,014 thousand at December 31, 2020). At the reporting date, receivables which were past due by more than 30

days gross of credit notes to be issued, and net of credit enhancement instruments, amounted to 22% of the total exposure (23% at December 31, 2020).

Receivables which were past due and not yet due were evaluated in accordance to the Group's policy described in the section on the adopted accounting standards.

The item impaired receivables includes both significant individual positions subject to individual impairment, and positions with similar credit risk characteristics which were grouped together and impaired on a collective basis. The calculation of the impairment is based on (i) a matrix which includes the credit ratings of customers provided by independent market assessors, and on (ii) the value of receivables, which takes the collateral and related insurance coverage into account. This calculation also includes an updated assessment of expected losses due to exogenous events, such as COVID-19 and climate change, in the specific markets in which the counterparties operate, impacting their probability of default and the ceiling levels granted by the insurance company.

The **changes in the provision for bad debts** were as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
<b>Opening balance</b>	<b>66,345</b>	<b>65,967</b>
Translation differences	917	(9,636)
Accruals	14,089	22,358
Decreases	(1,212)	(6,788)
Releases	(7,160)	(5,515)
Other	-	(41)
<b>Closing balance</b>	<b>72,979</b>	<b>66,345</b>

**Accruals** to the provision for bad debts are recognised net of releases, in the Income Statement under "*Net Impairment of Financial Assets*" (Note 34).

The carrying amount for trade receivables is considered to approximate their fair value.

For the fully impaired trade receivables which were subject to legal action, it is estimated that an amount not exceeding 10% of their gross value might be recovered.

## 15. OTHER RECEIVABLES

Other receivables were analysed as follows:

<i>(in thousands of euro)</i>	12/31/2021			12/31/2020		
	Total	Non-current	Current	Total	Non-current	Current
Financial receivables	352,658	269,658	83,000	377,024	273,198	103,826
Trade accruals and deferrals	39,633	6,709	32,924	36,485	11,174	25,311
Receivables from employees	3,977	708	3,269	5,038	1,094	3,944
Receivables from social security and welfare institutions	781	-	781	1,402	-	1,402
Receivables from tax authorities not related to income taxes	356,936	64,851	292,085	328,654	93,917	234,737
Other receivables	89,366	29,152	60,214	131,986	30,018	101,968
	<b>843,351</b>	<b>371,078</b>	<b>472,273</b>	<b>880,589</b>	<b>409,401</b>	<b>471,188</b>
Bad debt provision for other receivables and financial receivables	(9,830)	(8,134)	(1,696)	(9,247)	(7,253)	(1,994)
<b>Total</b>	<b>833,521</b>	<b>362,944</b>	<b>470,577</b>	<b>871,342</b>	<b>402,148</b>	<b>469,194</b>

**Financial receivables - non-current** (euro 269,658 thousand) refer mainly to, euro 54,353 thousand, the sum deposited as guarantees for tax and legal disputes in relation to the subsidiary Pirelli Pneus Ltda (Brazil) and remunerated at market rates, to the sum of euro 179,277 thousand deposited into escrow accounts in favour of the pension funds of Pirelli UK Ltd. and Pirelli UK Tyres Ltd., to euro 14,464 thousand in contributions paid in cash at the time of signing an association in participation contract, and to euro 6,664 thousand in loans disbursed in favour of the Indonesian joint venture PT Evoluzione Tyres.

**Financial receivables - current** (euro 83,000 thousand) refer mainly to euro 81,402 thousand for the short-term portion of loans granted to the joint venture Jining Shenzhou Tyre Co., Ltd. for which there was no significant credit risk increase compared to the date of disbursement. These loans will be extended, at maturity, for a further 12 months.

The item **bad debt provision for other receivables and financial receivables** (euro 9,830 thousand) mainly includes euro 9,315 thousand relative to the impairment of financial receivables.

The item **receivables from tax authorities not related to income taxes** (euro 356.936 thousand compared to euro 328,654 thousand for 2020) is mainly comprised of receivables for VAT (Value Added Tax) and other indirect taxes whose recovery is expected in future financial years.

**Other receivables - non-current** (euro 29,152 thousand) refer mainly to amounts deposited as guarantees for legal and tax disputes for the Brazilian companies (euro 26,726 thousand).

**Other receivables - current** (euro 60.214 thousand) include:

- advances to suppliers amounting to euro 19,813 thousand mainly for logistics costs;
- receivables from associates and joint ventures to the amount of euro 11,026 thousand, mainly for royalties, and the sale of materials and moulds;
- receivables from the Prometeon Group to the amount of euro 11,513 thousand mainly in relation to royalties;

- receivables to the amount of euro 4,895 thousand in yet to be collected government grants.

For other receivables - current and non-current the carrying amount is considered to approximate their fair value.

## 16. TAX RECEIVABLES

**Tax receivables** refers to income taxes which amounted to euro 45.337 thousand (of which euro 27.564 thousand was non-current) compared to euro 33.914 thousand at December 31, 2020 (of which euro 4,761 thousand was non-current). In more detail, it mainly refers to receivables for advances paid on taxes for the financial year, and to income tax receivables from previous financial years recorded by the Brazilian companies.

The change in **non-current tax receivables** compared to the previous financial year was mainly due to the recognition, by Pirelli Pneus Ltda of tax credits amounting to euro 23,223 thousand for income taxes unduly sustained in previous financial years by the Brazilian subsidiary and recorded following the 2021 decision of the Federal Supreme Court (“*STF*”). Specifically, this decision established the unconstitutionality of including the monetary adjustments - calculated on the basis of the SELIC system (Special System for Settlement and Custody)– applied to tax credits for taxes paid but not owed, when calculating income tax (“*IRPJ*”) and social security contributions, on net income (“*CSSL*”).

## 17. INVENTORIES

The following is an inventories analysis:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
Raw and auxiliary materials and consumables	176,795	108,306
Sundry materials	6,354	6,638
Unfinished and semi-finished products	69,413	51,534
Finished products	838,186	669,433
Advances to suppliers	1,414	526
<b>Total</b>	<b>1,092,162</b>	<b>836,437</b>

The restatement of the value of inventories, which was recognised net of impairments, amounted to euro 1,549 thousand (an impairment of euro 14,044 thousand for 2020).

The increase in the value of inventories compared to December 31, 2020 was attributable to an increase in raw materials, offset by stable levels in terms of their share of sales.

Inventories were not subject to any guarantee pledges.

## 18. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT - CURRENT

Other financial assets at fair value through the Income Statement - current amounted to euro 113,901 thousand at December 31, 2021 compared to euro 58,944 thousand at December 31, 2020. For unlisted securities, the fair value was determined by using estimates based on the best available information. This increase compared to December 31, 2020 was mainly due to investments made by the Argentinian subsidiary in dollar-linked bonds, with the aim of mitigating the effects of the depreciation of the local currency. Changes in fair value for the period were recognised in the Income Statement as “*Financial Income*” (Note 36).

## 19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went from euro 2,275,476 thousand at December 31, 2020 to euro 1,884,649 thousand at December 31, 2021.

Details of the change in the balance are provided in the Consolidated Cash Flow Statement.

These were concentrated in the treasury centres of the Group, and in companies that generate liquidity and use it locally. They are mainly invested, in accordance with risk diversification principles and minimum rating levels, in the market for short-term deposits with banking counterparties, at interest rates that are consistent with the prevailing market conditions. The credit risk associated with cash and cash equivalents is considered to be limited as the counterparties are leading national and international banks.

For the Statement of Cash Flow, the balance of cash and cash equivalents was recorded net of bank overdrafts, to the amount of euro 1,105 thousand at December 31, 2021 (euro 5,793 thousand at December 31, 2020).

## 20. EQUITY

### 20.1 Attributable to the Owners of the Parent Company

**Equity attributable to the Owners of the Parent Company** went from euro 4,447,418 thousand at December 31, 2020 to euro 4,908,112 thousand at December 31, 2021.

The subscribed and paid up **share capital** at December 31, 2021 amounted to euro 1,904,375 thousand and was represented by 1,000,000,000 registered ordinary shares without indication of their nominal value.

The **translation reserve**, which is generated by the conversion into euro of the Financial Statements of subsidiaries that have a functional currency other than the euro, amounted to a loss of euro 565,143 thousand at December 31, 2021. Movements during the financial year included a positive change of euro 114,594 thousand related mainly to the subsidiaries in China and Mexico, which was partially offset by a negative change in Turkey and Argentina.

**Changes in other reserves through other Comprehensive Income** went from a negative value of euro 89,893 thousand at December 31, 2020 to a negative value euro 1,408 thousand at December 31, 2021, due to the positive effect of actuarial gains on pension funds (euro 91,168 thousand), financial assets at fair value through other Comprehensive Income (euro 13,764 thousand) and the cash flow hedge reserve (euro 23,143 thousand), which was partially offset by the tax effect (negative to the amount of euro 33,933 thousand).

Other **reserves/retained earnings** went from euro 3,312,673 thousand at December 31, 2020, to euro 3,570,288 thousand at December 31, 2021, essentially due to the net income/(loss) for the financial year (positive to the amount of euro 302,796 thousand), due to hyperinflation in Argentina (positive to the amount of euro 33,647 thousand, which was partially offset by a negative translation reserve of euro 8,631 thousand) and due to approved dividends to the amount of euro 80,000 thousand).

## 20.2 Attributable to Non-Controlling Interests

**Equity attributable to Non-Controlling Interests** went from euro 104,432 thousand at December 31, 2020 to euro 134,527 thousand at December 31, 2021. This positive change was mainly due to the results for the financial year which amounted to euro 18,797 thousand, and exchange rate gains to the amount of euro 11,301 thousand.

## 21. PROVISIONS FOR LIABILITIES AND CHARGES

**Movements in the non-current portion of provisions** that occurred during the period are shown below:

PROVISION FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION (in thousands of euro)	12/31/2020	Currency translation differences	Increases	Uses	Releases	Reclass.	12/31/2021
Provision for labour disputes	14,697	6	3,510	(5,356)	(299)	300	12,858
Provision for tax risks not related to income taxes	4,987	(32)	118	(936)	-	-	4,137
Provision for environmental risks	3,641	13	7,145	(1,127)	-	-	9,672
Provision for restructuring and reorganisation	8,385	-	400	(5,265)	-	(2,161)	1,359
Provision for other risks	41,547	195	17,056	(2,031)	(45)	(3,578)	53,144
<b>Total</b>	<b>73,257</b>	<b>182</b>	<b>28,229</b>	<b>(14,715)</b>	<b>(344)</b>	<b>(5,439)</b>	<b>81,170</b>

**Increases** mainly refer to accruals to the provisions for labour disputes mainly for the Brazilian subsidiaries to the amount of euro 3,467 thousand, and to accruals to the provisions for environmental risks. With regard to other risks, the increase for the financial year mainly refers to

the STI (Short Term Incentive) and LTI (2020-2022 and 2021-2023 Long Term Incentive) for Directors, reflects the improved performances on the underlying parameters of the plans.

**Uses** were mainly attributable to rationalisation measures in Italy to the amount of euro 5,265 thousand, and to litigation regarding occupational diseases.

**Reclassifications** refer mainly to the reclassification of from non-current provisions to payables to social security institutions relative to accruals to the provisions for rationalisation measures in Italy. Under other risks, mainly of note was the reclassification of a provision for the commercial risks of the subsidiary Pirelli Tyre S.p.A. from non-current to current.

**Movements in the current portion of provisions** that occurred during the period, are shown below:

<b>PROVISION FOR LIABILITIES AND CHARGES - CURRENT PORTION</b> (in thousands of euro)	<b>12/31/2020</b>	<b>Currency translation differences</b>	<b>Increases</b>	<b>Uses</b>	<b>Releases</b>	<b>Reclass.</b>	<b>12/31/2021</b>
Provision for labour disputes	78	(55)	274	(13)	(61)	-	223
Provision for tax risks not related to income taxes	7,303	207	619	(3,500)	(1,139)	-	3,490
Provision for environmental risks	3,165	-	101	(156)	-	-	3,110
Provision for restructuring and reorganisation	15,918	32	2,865	(14,907)	(377)	-	3,531
Provision for claims and warranties	7,827	559	3,936	(499)	(229)	-	11,594
Provision for other risks	13,792	394	10,728	(4,114)	(2,433)	3,279	21,646
<b>Total</b>	<b>48,083</b>	<b>1,137</b>	<b>18,523</b>	<b>(23,189)</b>	<b>(4,239)</b>	<b>3,279</b>	<b>43,594</b>

**Increases** were mainly attributable to the purchase of greenhouse gas emission allowances in compliance with the requirements of the European Emission Trading Schemes, to the amount of euro 6,076 thousand, to accruals to the provisions for insurance risks, work accidents and to accruals to the provision for commercial risks that emerged following the reorganisation of the UK manufacturing plant.

**Uses** refer to rationalisation measures in Brazil and the United Kingdom, and to the insurance and commercial risks of the subsidiary Pirelli Tyre S.p.A.

**Releases** relative to other risks mainly refer to adjustments for insurance risks.



## 22. PROVISIONS FOR EMPLOYEE BENEFIT OBLIGATIONS AND OTHER ASSETS

**Provisions for Employee Benefit Obligations and Other Assets – non-current portion**

The item is composed as follows

<i>(in thousands of euro)</i>	12/31/2021	12/31/2020
Pension funds in surplus	153,205	80,422
<b>Total other assets</b>	<b>153,205</b>	<b>80,422</b>
Pension funds in deficit	85,493	148,658
Employee leaving indemnities (TFR - Italian companies)	26,123	31,486
Healthcare plans	15,597	16,026
Other benefits	93,385	47,761
<b>Total provisions for employee benefit obligations</b>	<b>220,598</b>	<b>243,931</b>

**Pension Funds**

The following table shows the **composition of pension funds at December 31, 2021.**

<i>(in thousands of euro)</i>	Germany	Sweden	Total unfunded pension funds	12/31/2021			Total funded pension funds	Total
				USA	UK	Switzerland		
Present value of liabilities	75,005	2,957	77,962	105,578	1,203,187	34,203	1,342,968	1,420,930
Fair value of plan assets				(100,942)	(1,356,392)	(31,308)	(1,488,642)	(1,488,642)
<b>Total Assets in surplus</b>					<b>(153,205)</b>		<b>(153,205)</b>	<b>(153,205)</b>
<b>Total Liabilities in deficit</b>	<b>75,005</b>	<b>2,957</b>	<b>77,962</b>	<b>4,636</b>		<b>2,895</b>	<b>7,531</b>	<b>85,493</b>
<b>Total pension funds</b>								<b>(67,712)</b>

The following table shows the **composition of pension funds at December 31, 2020.**

<i>(in thousands of euro)</i>	Germany	Sweden	Total unfunded pension funds	12/31/2020				Total funded pension funds	Total
				USA	UK surplus	UK deficit	Switzerland		
Present value of liabilities	80,454	3,176	83,630	107,059	749,527	465,946	34,384	1,356,916	1,440,546
Fair value of plan assets				(92,526)	(829,949)	(421,933)	(27,902)	(1,372,310)	(1,372,310)
<b>Total Assets in surplus</b>					<b>(80,422)</b>			<b>(80,422)</b>	<b>(80,422)</b>
<b>Total Liabilities in deficit</b>	<b>80,454</b>	<b>3,176</b>	<b>83,630</b>	<b>14,533</b>		<b>44,013</b>	<b>6,482</b>	<b>65,028</b>	<b>148,658</b>
<b>Total pension funds</b>									<b>68,236</b>

The characteristics of the main pension funds in place at December 31, 2021 were as follows:

- **Germany:** this is an unfunded defined benefits plan based on final salary. This fund guaranteed a pension in addition to the state pension. The plan was closed in October 1982. Consequently the participants to this plan are employees whose employment had begun prior to that date;
- **USA:** this is a funded defined benefits plan based on final salary, and is administered through a Trust. This fund guaranteed a pension in addition to the state pension. The plan was closed in

2001 and frozen in 2003 for employees who then transferred to a defined contribution scheme. All participants to this plan have since retired;

- **UK:** these are funded defined benefits plans based on salary trends. It guarantees a pension in addition to the state pension and is administered through a Trust. These plans, managed by the subsidiary Pirelli Tyres Ltd. were closed in 2001 to new participants and frozen during the course of 2010 for employees hired prior to 2001, who were then offered a transfer to a defined contribution plan. The plan was operated by the subsidiary Pirelli UK Ltd., and included the employees in the Cables and Systems sector which was sold in 2005, and was already frozen in 2005 at the date of the disposal. At the end of October 2017, three of the smaller UK pension funds - Pirelli General Executive Pension and Life Assurance Fund, Pirelli Tyres Limited Executive Retirement Benefits Scheme and Pirelli General Overseas Retirement Benefits Scheme, entered into buy-in contracts which consist of the purchase of bulk annuity insurance policies. For the first two aforementioned funds, the buy-out (insurance out-sourcing) process was subsequently finalised in January 2021, followed by the wind-up (closure) of the funds in June the same year. This wind-up led to a reduction in the liabilities and in the plan assets of pension funds to the amount of euro 86,048 thousand. The surplus recognised at December 31, 2021 in respect of provisions still outstanding is equal to the recoverable amount, assuming the gradual extinguishment of the plan liabilities over time;
- **Sweden:** this a defined benefits plan (ITP2), which is closed to new participants. The only participants are retired employees and the recipients of deferred pensions. It is based on percentages applied to different wage and salary ranges;
- **Switzerland:** these are funded defined benefit plans that guarantee a pension in addition to the state pension and are open to new employees. They are based on final salary reduced by a fixed amount.

**Movements for 2021 in defined benefits pension funds** (refers to funded and unfunded pension funds) were as follows:

<i>(in thousands of euro)</i>	<b>Present value of gross liabilities</b>	<b>Fair value of plan assets</b>	<b>Total</b>
Opening balance at January 1, 2021	1,440,546	(1,372,310)	68,236
Currency translation differences	92,720	(97,026)	(4,306)
Movements through Income Statement:			
- current service cost	1,421	-	1,421
- cost of services rendered for previous years	1,417	-	1,417
- interest expense / (income)	19,674	(19,543)	131
	<b>22,512</b>	<b>(19,543)</b>	<b>2,969</b>
Remeasurements recognised in equity:			
- actuarial (gains) / losses from change in demographic assumptions	41,117	-	41,117
- actuarial (gains) / losses from change in financial assumptions	(4,894)	-	(4,894)
- experience adjustment (gains) / losses	(10,760)	-	(10,760)
- return on plan assets, net of interest income	-	(114,269)	(114,269)
	<b>25,463</b>	<b>(114,269)</b>	<b>(88,806)</b>
Employer contributions	-	(43,533)	(43,533)
Employee contributions	525	(525)	-
Benefits paid	(74,912)	69,424	(5,488)
Employer settlement payment	(86,048)	86,048	-
Other	124	3,092	3,216
<b>Closing balance at December 31, 2021</b>	<b>1,420,930</b>	<b>(1,488,642)</b>	<b>(67,712)</b>

**Movements for 2020 in defined benefits pension funds** (refers to funded and unfunded pension funds) were as follows:

<i>(in thousands of euro)</i>	<b>Present value of gross liabilities</b>	<b>Fair value of plan assets</b>	<b>Total</b>
Opening balance at January 1, 2020	1,429,002	(1,313,077)	115,925
Currency translation differences	(74,152)	73,292	(860)
Movements through Income Statement:			
- current service cost	1,783	-	1,783
- cost of services rendered for previous years	11,403	-	11,403
- interest expense / (income)	27,508	(26,533)	975
	<b>40,694</b>	<b>(26,533)</b>	<b>14,161</b>
Remeasurements recognised in equity:			
- actuarial (gains) / losses from change in demographic assumptions	(3,297)	-	(3,297)
- actuarial (gains) / losses from change in financial assumptions	130,989	-	130,989
- experience adjustment (gains) / losses	(8,051)	-	(8,051)
- return on plan assets, net of interest income	-	(138,788)	(138,788)
	<b>119,641</b>	<b>(138,788)</b>	<b>(19,147)</b>
Employer contributions	-	(37,702)	(37,702)
Employee contributions	534	(534)	-
Benefits paid	(74,118)	68,496	(5,622)
Other	(1,055)	2,536	1,481
<b>Closing balance at December 31, 2020</b>	<b>1,440,546</b>	<b>(1,372,310)</b>	<b>68,236</b>

Current service costs for services rendered by employees and for services rendered in previous years, are included under “*Personnel Expenses*” (Note 31), and interest payables are included under “*Financial Expenses*” (Note 37).

The following table shows the **composition of funded pension fund assets /plan assets**:

(in thousand of euro)	12/31/2021				12/31/2020			
	listed	unlisted	total	%	listed	unlisted	total	%
Shares	50,045	320,610	370,655	24.9%	57,638	315,104	372,742	27.1%
Bonds	66,546	101,428	167,974	11.3%	40,240	94,284	134,524	9.8%
Insurance policies	3,101	4,914	8,015	0.5%	2,835	91,330	94,165	6.9%
Deposits	30,257	34,433	64,690	4.3%	94,300	8,950	103,250	7.5%
Balanced funds	489	192,147	192,636	12.9%	(349)	233,147	232,798	17.0%
Real Estate	-	53,199	53,199	3.6%	5,112	47,843	52,955	3.9%
Derivatives	594,839	32,246	627,085	42.2%	385,012	(16,490)	368,522	26.8%
Other	4,388	-	4,388	0.3%	13,354	-	13,354	1.0%
<b>Total</b>	<b>749,665</b>	<b>738,977</b>	<b>1,488,642</b>	<b>100.0%</b>	<b>598,142</b>	<b>774,168</b>	<b>1,372,310</b>	<b>100.0%</b>

The main risks to which the Group is exposed in relation to the pension funds are detailed as follows:

- the volatility of plan assets: in order to be able to balance liabilities, the investment strategy cannot limit its horizons exclusively to risk free assets. This implies that some investments, such as listed securities represent high volatility in the short-term, and this exposes the plans to the risk of short-term declines in asset values, and consequently increased imbalances. However, this risk is mitigated by diversifying investments into numerous asset classes, through different investment managers, through different investment styles and with exposures to multiple factors which are not perfectly correlated to each other. In addition, the investments are continually revised in response to market conditions, and adjusted in order to maintain the overall risk at acceptable levels;
- changes in bond yields and forecast inflation: expectations of declining bond yields and/or rising inflation brings about an increase in the value of liabilities. The plans reduce this risk through investments in liability hedging assets. In the United Kingdom, the protection guaranteed by a portfolio of this type has been built up over the years, and as of the second quarter of 2014 it had reached a coverage of between 100% and 115% of the value of the liabilities covered by the assets;
- life expectancy: the increase in life expectancy brings about an increase in the value of a plan’s liabilities. The UK plans completed a process during 2016 that allowed them, through longevity swaps entered into with a pool of insurers, to cover approximately 50% of this risk. However, prudent assumptions are used to assess residual risks and the adequacy of these assumptions is reviewed periodically.

In the UK the management of the plan assets has been delegated, under the supervision and within a precise mandate attributed by the Trustees, to a Fiduciary Manager who operates in accordance with a Liability Driven Investment (LDI) model, that is, using the liability benchmark so as to minimise

the volatility (and therefore the risk) of the deficit, which has in fact been reduced to more than one third of the levels which existed prior to its introduction (at the beginning of 2011).

The key parameters of this mandate were as follows:

- an asset mix managed dynamically over time, rather than the the allocation of a fixed strategy;
- hedged coverage of approximately 100% -115% of the interest rate and inflation risk - expressed as the percentage of the value of the assets - through the use of debt instruments (government bonds) and derivatives;
- the management of exchange rate risk with the objective of hedging at least 70% of the exposure to the foreign currencies in the portfolio through the use of forward contracts.

In the UK, the funding arrangements and funding policies are revised every three years. The next funding evaluation is expected in 2023. In the United States funding evaluations are carried out on an annual basis.

The contributions which are expected to be paid into unfunded pension funds during the 2022 financial year amount to euro 5,228 thousand, while for funded pension funds the amount expected is euro 19,860 thousand.

### Employees' Leaving Indemnities (TFR)

**Movements for the year** in the provision for employees' leaving indemnities were as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
<b>Opening balance</b>	<b>31,486</b>	<b>32,680</b>
Movements through Income Statement:		
- current service cost	52	41
- interest expense	204	240
Remeasurements recognised in equity:		
- actuarial (gains) / losses arising from changes in financial assumptions	336	292
- effect of experience adjustments	(1,365)	-
Liquidation/advances	(4,248)	(1,273)
Other	(342)	(494)
<b>Closing balance</b>	<b>26,123</b>	<b>31,486</b>

The current service cost for services rendered by employees is included in the item "*Personnel Expenses*" (Note 31), and interest payables are included in the item "*Financial Expenses*" (Note 37).

## Healthcare plans

This item refers exclusively to the healthcare plan in place in the United States.

<i>(in thousands of euro)</i>	<b>USA</b>
Liabilities recognised in the Financial Statements at 12/31/2021	15,597
Liabilities recognised in the Financial Statements at 12/31/2020	16,026

Movements for the period were as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
<b>Opening balance</b>	<b>16,026</b>	<b>17,825</b>
Translation differences	1,262	(1,485)
Movements through Income Statement:		
- current service cost	1	2
- interest expense	340	505
Remeasurements recognised in equity:		
- actuarial / (gains) losses arising from changes in financial assumptions	(415)	1,061
- actuarial / (gains) losses arising from changes in demographic assumptions	57	(467)
- effect of experience adjustments	(735)	(307)
Benefits paid	(939)	(1,108)
<b>Closing balance</b>	<b>15,597</b>	<b>16,026</b>

The cost for services rendered by employees is included under “*Personnel Expenses*” (Note 31), while interest payables are included under “*Financial Expenses*” (Note 37).

The contributions which are expected to be paid into the healthcare plan during the 2022 financial year amount to euro 1,381 thousand.

## Additional Information regarding Post-Employment Benefits

Net actuarial gains accrued during 2021 and recorded directly in equity amounted to euro 91,168 thousand, (net actuarial gains at December 31, 2020 had amounted to euro 18,946 thousand).

The main actuarial assumptions used at **December 31, 2021** were the following:

	<b>Italy</b>	<b>Germany</b>	<b>Sweden</b>	<b>UK</b>	<b>USA</b>	<b>Switzerland</b>
Discount rate	0.90%	1.00%	1.55%	1.80%	2.55%	0.40%
Inflation rate	1.70%	1.50%	2.25%	3.56%	N/A	0.50%

The main actuarial assumptions used at **December 31, 2020** were the following:

	<b>Italy</b>	<b>Germany</b>	<b>Sweden</b>	<b>UK</b>	<b>USA</b>	<b>Switzerland</b>
Discount rate	0.60%	0.80%	0.75%	1.40%	2.20%	0.15%
Inflation rate	1.00%	1.50%	1.50%	2.85%	N/A	0.50%

The following table provides an analysis of payment schedules for subsequent post-employment benefits:

<i>(in thousands of euro)</i>	<b>within 1 year</b>	<b>1 to 2 years</b>	<b>3 to 5 years</b>	<b>over 5 years</b>	<b>Total</b>
Pension funds	67,243	67,673	204,753	351,646	691,315
Employees' leaving indemnities (TFR)	2,218	2,067	5,892	8,815	18,992
Healthcare plans	1,381	1,348	3,810	5,278	11,817
<b>Total</b>	<b>70,842</b>	<b>71,088</b>	<b>214,455</b>	<b>365,739</b>	<b>722,124</b>

The weighted average duration of post-employment benefit obligations equalled 15.23 years (14.97 years at December 31, 2020), 8.44 years for employees' leaving indemnities (8.65 years at December 31, 2020) and 8.22 years for medical assistance plans (8.65 years at December 31, 2020).

The sensitivity analysis for the relevant actuarial assumptions at the end of the financial year was as follows:

<i>(in %)</i>	<b>Change in assumptions</b>	<b>Impact on post employment benefits</b>			
		<b>Increase in assumptions</b>		<b>Decrease in assumptions</b>	
Discount rate	0.25%	decrease of	3.72%	increase of	3.87%
Inflation rate (only UK plans)	0.25%	increase of	2.97%	decrease of	2.91%

At the end of 2020 the situation was as follows:

<i>(in %)</i>	<b>Change in assumptions</b>	<b>Impact on post employment benefits</b>			
		<b>Increase in assumptions</b>		<b>Decrease in assumptions</b>	
Discount rate	0.25%	decrease of	3.59%	increase of	3.80%
Inflation rate (only UK plans)	0.25%	increase of	2.43%	decrease of	2.29%

The sole purpose of the above analysis is to estimate the change in liability, with changes in the discount rates and the UK inflation rates with reference to the central rate assumption, rather than to an alternative set of assumptions.

This sensitivity analysis on the liabilities related to post-employment benefits is based on the same methodology used to calculate the liability recognised in the Financial Statements.

## Other Long Term Benefits

The composition of other benefits was as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
Long Term Incentive plans	52,571	11,238
Jubilee awards	18,650	19,210
Leaving indemnities	9,513	10,366
Other long-term benefits	12,651	6,947
<b>Total</b>	<b>93,385</b>	<b>47,761</b>

The item **Long Term Incentive plans** refers to the amount earmarked for the three-year monetary 2020-2022 and the 2021–2023 Long Term Incentive plans aimed at the management sector of the Group, and correlates with the Guidance for 2020 and with the objectives contained in the 2021 – 2022|2025 Industrial Plan. The increase compared to the previous financial year reflects the improved performances on the underlying parameters of the plans.

### **Provisions for Employee Benefit Obligations - current portion**

This decrease compared to December 31, 2020 of euro 5,013 thousand is due to the payment of the fourth and final instalment of the retention plan approved, by the Board of Directors on February 26, 2018, which is aimed at Key Managers and a selected number of Senior Managers and Executives.

## 23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Borrowings from banks and other financial institutions were as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>			<b>12/31/2020</b>		
	<b>Total</b>	<b>Non-current</b>	<b>Current</b>	<b>Total</b>	<b>Non-current</b>	<b>Current</b>
Bonds	1,453,762	1,453,762	-	1,524,559	1,442,650	81,909
Borrowings from banks	3,269,732	1,922,771	1,346,961	3,793,780	3,137,857	655,923
Borrowings from other financial institutions	34,390	-	34,390	43,930	-	43,930
Lease liabilities	504,407	412,796	91,611	465,853	390,449	75,404
Accrued financial expenses and deferred financial income	13,787	-	13,787	13,512	-	13,512
Other financial payables	2,540	40	2,500	12,919	30	12,889
<b>Total</b>	<b>5,278,618</b>	<b>3,789,369</b>	<b>1,489,249</b>	<b>5,854,553</b>	<b>4,970,986</b>	<b>883,567</b>

The item **bonds** refers to:

- the senior unsecured guaranteed equity-linked non-interest-bearing bond with a nominal value of euro 500 million maturing on December 22, 2025. This bond loan, reserved for institutional investors, was issued by Pirelli & C. S.p.A. on December 22, 2020, guaranteed by Pirelli Tyre S.p.A., and admitted for trading on the Vienna MTF, a multilateral trading facility



operated by the Vienna Stock Exchange. The bond loan is convertible, at the discretion of the bondholders, into new ordinary shares of the Company at a price of euro 6.235 per share, subject to the adjustments provided for by the loan regulations. At December 31, 2021, the component recorded under financial payables amounted to euro 461 million. The difference in the nominal value refers to the fair value of the call option sold to the subscribers of the loan, which is represented by the optional right to convert the bond loan into new ordinary shares of the Company at a pre-determined price, and is accounted for under equity reserves to the amount of euro 41.2 million;

- the unrated bond loan for the nominal amount of euro 553 million (originally for euro 600 million which was partially repurchased for the total amount of euro 47 million during the last quarter of 2018), placed on January 22, 2018 with a fixed coupon of 1.375% and an original maturity period of 5 years. This bond loan, guaranteed by Pirelli Tyre S.p.A and placed with international institutional investors, was issued as part of the EMTN (Euro Medium-Term Note) programme approved by the Board of Directors at the end of 2017, signed on January 10, 2018 and updated on December 19, 2018;
- the floating rate (EURIBOR + spread) “*Schuldschein*” loan for the total nominal value of euro 443 million placed on July 26, 2018. This bond loan, guaranteed by Pirelli Tyre S.p.A., and signed by leading market operators, consists of one tranche for the amount of euro 423 million with a 5 year maturity, and another for euro 20 million with a 7 year maturity. The loan, placed on July 26, 2018, also includes a tranche of euro 82 million with an original maturity date of July 31, 2021, that was repaid in advance in January 2021.

The **carrying amount for bond loans** was determined to be as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
Nominal value	1,496,000	1,578,000
Equity component of the convertible bond loan	(41,791)	(41,791)
Transaction costs	(14,957)	(15,133)
Bond loan discount	(2,988)	(2,988)
Amortisation of the effective interest rate	9,282	6,275
Non-monetary interest on convertible bond loan	8,216	196
<b>Total</b>	<b>1,453,762</b>	<b>1,524,559</b>

The item **borrowings from banks**, which amounted to euro 3,269,732 thousand, mainly refers to:

- the use of unsecured (“*Facilities*”) loan granted to Pirelli & C. S.p.A. for the amount of euro 949,182 thousand, classified under current payables. The nominal amount of the refinancing operation, signed on June 27, 2017 (with a closing date of June 29, 2017), equalled euro 1.65 billion (net amount of repayments made since the date of signing - the original amount of euro 4.2 billion granted for the credit facility). This loan is guaranteed by Pirelli Tyre S.p.A., Pirelli Deutschland GmbH, Pirelli Tyres Romania S.r.l., Pirelli Pneus Ltda, Pirelli International Treasury S.p.A. and Pirelli Neumaticos S.A. de C.V. On November 29, 2018 the loan was amended to insert the right for the Pirelli Group to extend, at its own discretion, the expiry of the individual

credit facilities of the loan for up to 2 years, with respect to their original contractual maturity of 3 and 5 years. The credit facilities are denominated in euros and US dollars and carry a floating interest rate of EURIBOR + spread and LIBOR + spread, respectively. In February 2021, a portion of the loan was repaid to the amount of euro 756 million. It should also be noted that all credit facilities with an original maturity period of 3 years were fully repaid. The value of the outstanding loan at December 31, 2021 therefore refers only to the credit facilities with an original maturity period of 5 years;

- the “Sustainable Credit Facility” for euro 795,993 thousand relative to the euro 800 million credit facility with a floating interest rate (EURIBOR + spread) guaranteed by Pirelli Tyre S.p.A. and signed on March 31, 2020 with a pool of leading Italian and international banks, with a 5 year maturity. This bank credit facility consists of a sustainable tranche of euro 600 million, which is geared towards the Group’s financial and environmental sustainability objectives (sustainable KPIs), as well as a circular economy tranche, which is indexed to the Group’s circular economy objectives. It should be noted that following the first reporting of the sustainable KPIs, and having achieved the objectives for the year, the Group is benefiting from the relative incentives to reduce the cost of the sustainable tranche of the credit facility. Reporting for the circular economy tranche is expected to occur only in 2023;
- euro 722,622 thousand relative to two bilateral loans granted to Pirelli & C. S.p.A. by leading banks, of which a nominal euro 600 million (the “Bilateral 600”) with a floating rate (EURIBOR + spread), guaranteed by Pirelli Tyre S.p.A., matures in February 2024, and euro 125 million (the “Bilateral 125”) with a floating rate (EURIBOR + spread), matures in August 2023;
- euro 498,728 thousand relative to two new bilateral loans granted in December 2021 to Pirelli & C. S.p.A. by leading banks, of which, a nominal euro 400 million (the “Bilateral 400”), guaranteed by Pirelli Tyre S.p.A. is geared towards some of the sustainability targets of the Group, with a floating rate (EURIBOR + spread), matures in December 2024, and euro 100 million at a fixed rate matures in December 2022;
- euro 180,362 thousand mainly relative to floating rate loans disbursed in Brazil by local and international banking institutions of which euro 1,002 thousand has been classified under non-current borrowings from banks;
- borrowings from banks and the use of credit facilities in local currency by subsidiaries in Russia, (equivalent to euro 65,591 thousand of which euro 3,127 thousand is classified non-current borrowings from banks) and in China (equivalent to euro 51,655 thousand), classified entirely as current borrowings from banks.

At December 31, 2021 the Group had a liquidity margin equal to euro 2,698,550 thousand, composed of euro 700,000 thousand in the form of non-utilised committed credit facilities and of euro 1,884,649 thousand in cash and cash equivalents, in addition to financial assets at fair value through the Income Statement to the amount of euro 113.901 thousand.

The item **lease liabilities** represents the financial liabilities relative to leasing contracts. The change compared to the previous financial year refers to increases in the right of use during the financial year, deriving from the signing of new contracts and the remeasurement of existing contracts, partially offset by lease instalments.

Non-discounted future payments for lease contracts for which the exercise of extension options is not considered to be reasonably certain, amounted to euro 115,473 thousand at December 31, 2021 and were not included in the item “*Borrowing from banks and other financial institutions*” (euro 90,373 thousand at December 31, 2020).

**Accrued financial expenses and deferred financial income**, to the amount of euro 13,787 thousand mainly refers to the accrual of interest matured on bond loans to the amount of euro 8,510 thousand (euro 8,990 thousand at December 31, 2020), and to the accrued interest matured on borrowings from banks to the amount of euro 3,618 thousand (euro 2,062 thousand at December 31, 2020).

The **change in total borrowings from banks and other financial institutions for 2021** is composed as follows:

<i>(in thousands of euro)</i>	
<b>Borrowings from banks and other financial institutions at December 31, 2020</b>	<b>5,854,553</b>
Bond repayment (EMTN program)	(82,000)
Drawdowns of unsecured financing (Facilities)	368,549
Repayments of unsecured financing (Facilities)	(1,337,656)
New bilateral borrowings	500,000
Financial inflows for the local credit facilities of Group companies	30,501
Financial outflows for the local credit facilities of Group companies	(229,791)
Repayment of lease liabilities	(105,355)
<b>Cash changes</b>	<b>(855,752)</b>
Amortised cost for the period	26,289
Translation differences and other changes for the period	112,728
Increases in lease liabilities	108,702
Remeasurement and early termination	32,098
<b>Non-cash changes</b>	<b>279,817</b>
<b>Borrowings from banks and other financial institutions at December 31, 2021</b>	<b>5,278,618</b>

The change in total borrowings from banks and other financial institutions for 2020 is shown below:

<i>(in thousands of euro)</i>	
<b>Borrowings from banks and other financial institutions at December 31, 2019</b>	<b>5,369,239</b>
Bond issuance (Convertible bond)	500,000
Bond repayment (EMTN program)	(200,000)
Drawdowns of unsecured financing (Facilities)	1,127,978
Repayments of unsecured financing (Facilities)	(1,342,297)
New bilateral borrowings	800,000
Financial inflows for the local credit facilities of Group companies	149,204
Financial outflows for the local credit facilities of Group companies	(250,732)
Transaction costs	(13,661)
Repayment of lease liabilities	(99,924)
<b>Cash changes</b>	<b>670,568</b>
Reclassification to equity of convertible option at issuance date	(41,200)
Amortised cost for the period	9,813
Translation differences and other changes for the period	(254,287)
Increases in lease liabilities	89,557
Remeasurement and early termination	10,863
<b>Non-cash changes</b>	<b>(185,254)</b>
<b>Borrowings from banks and other financial institutions at December 31, 2020</b>	<b>5,854,553</b>

At December 31, 2021 there were no financial payables secured by collateral guarantees (pledges and mortgages).

For current financial payables, it is considered that their carrying amount approximates their relative fair value. For non-current financial payables, their fair value is shown below, compared with their carrying amount:

<i>(in thousands of euro)</i>	12/31/2021		12/31/2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,453,762	1,469,529	1,442,650	1,465,120
Borrowings from banks	1,922,771	1,926,002	3,137,857	3,164,333
Other financial payables	412,836	412,836	390,479	390,479
<b>Total non-current financial payables</b>	<b>3,789,369</b>	<b>3,808,367</b>	<b>4,970,986</b>	<b>5,019,932</b>

The public bond loan issued by Pirelli & C. S.p.A. under the EMTN programme is listed and its relative fair value was measured with reference to year-end prices. It has therefore been classified in level 1 of the hierarchy provided for by IFRS 13 – Fair Value Measurement. The fair value of the debt component of the convertible bond of the “*Schuldschein*” loan and of current borrowings from banks, was calculated by discounting each expected debt cash flow at the market swap-rate for the currency and the maturity date, increased by the Group’s credit rating for other debt instruments similar by nature and technical characteristics, which therefore placed it at level 2 of the hierarchy as provided for by IFRS 13 - Fair Value Measurement.

The **apportionment of borrowings from banks and other financial institutions according to the currency of origin for the debt**, was as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
EUR	3,884,307	3,857,077
USD (US Dollar)	1,159,808	1,770,024
CNY (Chinese Renmimbi)	75,408	62,784
RUR (Russian Rouble)	68,354	66,798
RON (Romanian Leu)	929	196
BRL (Brazilian Real)	31,690	35,992
SEK (Swedish Krona)	23,823	29,841
GBP (British Pound Sterling)	25,091	16,024
TRY (Turkish Lira)	950	8,708
JPY (Japanese Yen)	1,168	1,449
MXN (Mexican Peso)	465	581
Other Currencies	6,625	5,079
<b>Total</b>	<b>5,278,618</b>	<b>5,854,553</b>

At December 31, 2021 there were hedging derivatives in place for interest rates and exchange rates on floating rate debt in foreign currencies.

Considering the effects of the aforementioned hedging derivatives, the Group's exposure to changes in interest rates on financial payables, both in terms of the type of interest rate and in terms of the date of the renegotiation of the same (resetting) was subdivided as follows:

- floating rate payables to the amount of euro 2,143,307 thousand, whose interest rate is subject to renegotiation during the course of 2022;
- fixed rate payables to the amount of euro 3,082,028 thousand, whose interest rate is not subject to renegotiation until the natural maturity of the debt to which it refers (euro 1,142,216 thousand with maturity in the next twelve months, and euro 1,939,812 thousand euro with maturity beyond twelve months).

The cost of debt year-on-year stood at 2.38% compared to 1.94% at December 31, 2020.

The change mainly reflects the slight increase in financial expenses related to financial debt (euro +4.3 million) combined with the significant reduction in gross debt realised during the year thanks to the generation of cash and financial debt repayments made in the first months of 2021 for euro 838 million.

With regard to the existence of financial covenants, it is to be noted that (i) the Group's main bank credit facility ("*Facilities*"), granted to Pirelli & C. S.p.A. and Pirelli International Ltd. (formerly Pirelli International Plc) (to date to be utilised solely by Pirelli & C. S.p.A.), (ii) the "*Schuldschein*" loan, (iii) the bilateral euro 600 million credit facility granted to Pirelli & C. S.p.A. during the course of the first quarter of 2019 (the "*Bilateral 600*"), (iv) the bilateral euro 125 million credit facility granted to Pirelli

& C. S.p.A. during the course of the third quarter of 2019 (the “*Bilateral 125*”), (v) the “*Sustainable Credit Facility*” signed on March 31, 2020, and (vi) the euro 400 million “*ESG linked*” bilateral credit facility granted to Pirelli & C. S.p.A. in December 2021 (the “*Bilateral 400*”), require the observance of a maximum ratio (“*Total Net Leverage*”) between net debt and the gross operating margin, as reported in the Consolidated Financial Statements of Pirelli & C. S.p.A.

For all of the loans indicated above, any failure to comply with the financial covenant is identified as a default event.

Specifically, any such default or non-fulfilment event will have the following consequences, if the lending banks exercise their remedies: (i) for the “*Facilities*” loan, only if requested by a number of the lending banks which represents at least 66 ⅔% of the total commitment, the early repayment (partial or total) of the loan with the simultaneous cancellation of the relative commitment; (ii) for the “*Schuldschein*” loan, individually and independently if requested by each lending bank for their own share, the early repayment of the loan only for that share; (iii) for the “*Bilateral 600*”, the “*Bilateral 125*” and the “*Bilateral 400*”, if requested by the sole bank which had granted each of the loans, the termination of the contract and early repayment of the full amount disbursed and (iv) for the “*Sustainable Credit Facility*”, only if requested by a number of the lending banks representing at least 50% of the total commitment (or at least 60% if an additional lending bank is added to the current four), the termination of the contract and early repayment of the loan.

In relation to the above, it should be noted that, at December 31, 2021, no default or non-fulfilment event had occurred.

Other financial payables outstanding at December 31, 2021 were not subject to financial covenants.

The “*Facilities*”, “*Schuldschein*”, “*Bilateral 600*” and “*Bilateral 125*” loans, the “*Sustainable Credit Facility*”, the “*Bilateral 400*” loan, as well as the euro 100 million bilateral credit facility granted to Pirelli & C. S.p.A. in December 2021, also include *Negative Pledge* clauses and other customary provisions whose terms and conditions are consistent with market standards, for each of the aforementioned types of credit facility.

## 24. TRADE PAYABLES

Trade payables were composed as follows:

(in thousands of euro)	12/31/2021			12/31/2020		
	Total	Non-current	Current	Total	Non-current	Current
Trade payables	1,516,488	-	1,516,488	1,273,863	-	1,273,863
Bill and notes payable	109,879	-	109,879	43,108	-	43,108
<b>Total</b>	<b>1,626,367</b>	<b>-</b>	<b>1,626,367</b>	<b>1,316,971</b>	<b>-</b>	<b>1,316,971</b>

For trade payables, it is considered that their carrying amount approximates their relative fair value.

The increase in trade payables, compared to the previous financial year, was mainly due to the recovery of business and the low level of investments made in the last quarter of 2020

Trade payables for 2021 included, the portion relative to payables for the purchase of intangible assets and property, plant and equipment, which amounted to euro 109,060 thousand. For comparative purposes, the 2020 balances were adjusted by including the portion of payables for the purchase of intangible assets and property, plant and equipment that had been reported under “Other payables” to the amount of euro 49,000 thousand. Refer to Note 25 for further details.

## 25. OTHER PAYABLES

Other payables were as follows:

(in thousands of euro)	12/31/2021			12/31/2020		
	Total	Non-current	Current	Total	Non-current	Current
Accrued expenses and deferred income	75,142	45,877	29,265	82,119	52,292	29,827
Tax payables not related to income taxes	82,449	5,410	77,039	120,470	5,178	115,292
Payables to employees	128,810	3,927	124,883	83,074	2,038	81,036
Payables to social security and welfare institutions	61,345	20,368	40,977	55,010	17,008	38,002
Dividends payable	152	-	152	254	-	254
Contract liabilities	4,434	12	4,422	4,198	-	4,198
Other payables	38,356	891	37,465	57,421	764	56,657
<b>Total Other payables</b>	<b>390,688</b>	<b>76,485</b>	<b>314,203</b>	<b>402,546</b>	<b>77,280</b>	<b>325,266</b>

**Accrued expenses and deferred income - non-current** refers to euro 44,724 thousand in capital contributions received for investments made mainly in Romania, whose benefits are recognised in the Income Statement in proportion to the costs for which the contribution was disbursed.

**Accrued expenses and deferred income - current** includes euro 8,264 thousand for various trade initiatives realised in Germany and Brazil, euro 9,387 thousand in government grants and tax incentives received mainly in Italy and Romania, and euro 1,059 thousand for insurance costs coverage in some European countries.

The item **tax payables not related to income taxes** is mainly comprised of VAT payables (Value Added Tax), other indirect taxes, withholding tax for employees, and other taxes not related to income taxes. This change compared to the previous financial year, refers mainly to the postponement of the settlement of indirect tax payables for 2020 by some Group companies, due to the possibility granted by various countries to postpone the payment of settlements as a measure to contain the financial impact of the pandemic.

The item **payables to employees** mainly includes amounts accrued during the period but not yet paid. The increase compared to the previous financial year mainly refers to the STI (Short Term Incentive) plan that was cancelled in 2020 following the COVID-19 pandemic.

The item **contract liabilities** refers to advance payments from customers for which the performance obligation has not yet been completed, pursuant to the provisions of IFRS 15.

The item **other payables** (euro 38,356 thousand) mainly includes:

- euro 11,044 thousand in payables to representatives, agents, professionals and consultants;
- euro 4,348 thousand in advance payments from customers on tyre sales;
- euro 915 thousand in payables to Directors, Auditors and supervisory bodies.

The item other payables for 2020 included the portion related to payables for the purchase of intangible assets and property, plant and equipment amounting to euro 49,000 thousand, reclassified among trade payables as shown in Note 24 - “Trade Payables”.

## 26. TAX PAYABLES

**Tax payables** were for the most part for national and regional income taxes in different countries, and amounted to euro 145,900 thousand (of which euro 11,512 thousand was for non-current payables), compared to euro 110,300 thousand at December 31, 2020 (of which euro 10,795 thousand was for non-current payables), which is substantially consistent with the current taxes recorded for the financial year. Income tax payables include the assessments made by Management with respect to the possible effects of uncertainty regarding the treatment of income taxes.

## 27. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes the fair value measurement of derivative instruments. The **details** are as follows:

(in thousands of euro)	12/31/2021				12/31/2020		
	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Current assets	Non-current liabilities	Current liabilities
<b>Without adoption of hedge accounting</b>							
Foreign exchange derivatives - commercial positions	-	7,713	-	(5,856)	4,561	-	(4,815)
Foreign exchange derivatives - included in net financial position	-	9,633	-	(9,353)	12,995	-	(32,499)
Interest rate derivatives - included in net financial position	-	-	-	-	344	-	-
<b>Hedge accounting adopted</b>							
<b>- cash flow hedge:</b>							
Interest rate derivatives - included in net financial position	4,612	-	(3,519)	(979)	-	(10,623)	-
Other derivatives - included in net financial position	-	29,216	-	-	-	(76,978)	-
Other derivatives - commercial positions	-	-	-	-	-	-	(372)
	<b>4,612</b>	<b>46,562</b>	<b>(3,519)</b>	<b>(16,188)</b>	<b>17,900</b>	<b>(87,601)</b>	<b>(37,686)</b>
Total derivatives included in net financial position	4,612	38,849	(3,519)	(10,332)	13,339	(87,601)	(32,499)

At 31 December 2021, the derivatives of Brazil were presented by netting the assets and liabilities on the same instrument. To ensure comparability with the previous year, derivative financial



instruments present in current assets, amounting to euro 21,427 thousand, were reclassified to derivative financial instruments in current liabilities.

The **composition of the items according to the type of derivative instrument** is as follows:

<i>(in thousands of euro)</i>	12/31/2021	12/31/2020
<b>Current assets</b>		
Forward foreign exchange contracts - fair value recognised in the Income Statement	17,346	17,556
Interest rate swaps - fair value recognised in the Income Statement	-	344
Cross currency interest rate swaps - cash flow hedge	29,216	-
<b>Total current assets</b>	<b>46,562</b>	<b>17,900</b>
<b>Non-current assets</b>		
Interest rate swaps - cash flow hedge	4,612	-
<b>Total non-current assets</b>	<b>4,612</b>	-
<b>Current liabilities</b>		
Forward foreign exchange contracts - fair value recognised in the Income Statement	(15,209)	(37,314)
Interest rate swaps - cash flow hedge	(979)	-
Commodity Futures in natural rubber - cash flow hedge	-	(372)
<b>Total current liabilities</b>	<b>(16,188)</b>	<b>(37,686)</b>
<b>Non-current liabilities</b>		
Interest rate swaps - cash flow hedge	(3,519)	(10,623)
Cross currency interest rate swaps - cash flow hedge	-	(76,978)
<b>Total non-current liabilities</b>	<b>(3,519)</b>	<b>(87,601)</b>

#### *Derivative Financial Instruments not in Hedge Accounting*

The value of **exchange rate derivatives** included in current assets and liabilities corresponds to the fair value measurement of forward currency buy/sell contracts outstanding at closing date for the period. These are transactions which mirror the commercial and financial transactions of the Group, and for which the hedge accounting option has not been adopted. Their fair value was determined by using the forward exchange rate at the reporting date.

#### *Derivative Financial Instruments in Hedge Accounting*

The value of **interest rate derivatives** recognised under non-current assets to the amount of euro 4,612 thousand, under non-current liabilities to the amount of euro 3,519 thousand, and under current liabilities to the amount of euro 979 thousand, refers to the fair value measurement of 14 interest rate swaps.

Derivative	Hedged element	Notional amount (Euro million)	Start date	Maturity	
IRS	Term loan in EUR	250.0	June 2019	June 2022	receive floating / pay fixed
IRS	Term loan in EUR	62.5	August 2019	August 2023	receive floating / pay fixed
IRS	Schuldschein	180.0	July 2020	July 2023	receive floating / pay fixed
IRS	Schuldschein	20.0	July 2020	July 2025	receive floating / pay fixed
IRS forward start	Pre-hedge	500.0	March 2022	March 2026	receive floating / pay fixed
<b>Total</b>		<b>1,012.5</b>			

During the first half-year of 2021, an IRS receive floating EURIBOR / pay fixed EURIBOR was closed early following the partial repayment of the unsecured (“*Facilities*”) loan to the amount of euro 756 million amount (refer to Note 23).

For these derivatives, hedge accounting of the cash flow hedge type was adopted. Items subjected to hedge accounting are:

- 1) future interest flows on floating rate liabilities in EUR;
- 2) future interest flows on the “*Schuldschein*” loan (refer to Note 23);
- 3) future financing transactions (pre-hedge).

The change in the fair value for the period which was positive to the amount of euro 4,964 thousand, was entirely suspended in equity, while euro 4,624 thousand in net interest payables was reversed to the Income Statement under the item “*Financial Expenses*” (Note 37), correcting the financial expenses recognised on the hedged liability, and euro 1,089 thousand for the ineffectiveness related to the early liquidation of the IRS.

A change of +0.5% in the EURIBOR curve, all other conditions being equal, would result in a positive change of euro 11,973 thousand in the equity of the Group, while a change of -0.5% in the EURIBOR curve, all other conditions being equal, would result in a negative change of euro 12,274 thousand in the equity of the Group.

The value of **other derivatives**, recognised under current assets to the amount of euro 29,216 thousand, refers to the fair value measurement of 4 cross currency interest rate swaps with the following characteristics:

Derivative	Notional amount (USD million)	Notional amount (USD million)	Start date	Maturity	
CCIRS	1,079	920	July 2019	June 2022	pay fixed EUR / receive floating LIBOR USD
<b>Total</b>	<b>1,079</b>	<b>920</b>			

During the first half-year of 2021, two CCIRS pay floating EURIBOR/receive floating LIBOR contracts were closed early following the partial repayment of the unsecured loan (“*Facilities*”) to the amount of euro 756 million, (refer to Note 23). The exchange of notional amounts generated exchange rate losses of euro 15,598 thousand.

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, was to hedge the Group against the risk of cash flow fluctuations associated with changes in the LIBOR rate and changes in the US\$/euro exchange rate generated by a liability in USD at a floating rate.

The positive change in fair value for the period was suspended in equity to the amount of euro 91,570 thousand, (the cash flow hedge reserve was positive to the amount of euro 90,395 thousand, and the cost of hedging reserve was positive to the amount of euro 1,175 thousand), while to the Income Statement were reversed:

- income of euro 83,860 thousand to offset unrealised net exchange rate losses recorded on the hedged liability;
- net interest payables of euro 52 thousand to correct the financial expenses recognised on the hedged liability;
- effectiveness which amounted to euro 1,363 thousand following the early liquidation of two CCIRS in February 2021.

A parallel change of +0.5% in the EURIBOR and LIBOR curves, all other conditions being equal, would result in a positive change of euro 1,853 thousand in the equity of the Group, while a change of -0.5% in the same curves, all other conditions being equal, would result in a negative change of euro 1,867 thousand in the equity of the Group.

A +10% change in the USD/EUR exchange rate, all other conditions being equal, would result in a negative change of euro 205 thousand in the Group's equity, while a negative change of -10%, would instead result in a positive change of euro 427 thousand in the Group's equity.

Hedging relationships relative to any IRS and CCIRS are considered prospectively effective when the following conditions are met:

- there exists a financial relationship between the hedging instrument and the hedged item, in that the characteristics of the hedging instrument (the nominal interest rate, the reset of the interest rate and the frequency of interest liquidation), are substantially aligned with those of the hedged item. As a consequence, any changes in the fair value of the hedging instrument regularly offsets that of the hedged item;
- the effect of credit risk is not predominant within the hedging relationship. Based on the Group's operating policy, derivatives are traded only with financial counter-parties with an elevated credit standing, while the credit quality of the outstanding derivatives portfolio is constantly monitored;
- the designated hedge ratio is aligned with that used for financial risk management purposes and is equal to 100% (1:1).

The ineffectiveness of the hedging relationship is calculated at each reporting date using the Dollar Offset method, which involves comparing any changes in the risk-adjusted fair value of the hedging

instrument (with the exception of those attributable to the currency basis spread) with changes in the risk-free fair value of the hedged item, by identifying a hypothetical derivative with the same characteristics as the underlying financial liability.

The possible causes of ineffectiveness are as follows:

- the application of credit risk adjustments only to the hedging instrument but not to the hedged item;
- the hedged item incorporates a floor that is not reflected in the hedging instrument;
- the misalignment between the effective contractual conditions of the future transaction and those of the hedging instrument.

For further details reference should be made to Note 37 - “Financial Expenses”.

## 28. COMMITMENTS AND RISKS

### **COMMITMENTS FOR THE PURCHASE OF TANGIBLE AND INTANGIBLE ASSETS**

The commitments to purchase property, plant and equipment and intangible assets amounted respectively to euro 104,143 thousand and euro 3,489 thousand, and refer mainly to subsidiary companies in Italy, Romania, Germany, Brazil, China, Russia and Mexico.

### **LEASING CONTRACT COMMITMENTS**

At December 31, 2021, the total amount for non-discounted future payments for lease contracts not yet in force and against which no financial debt was recognised, equalled euro 2,171 thousand and mainly referred to a rental contract for a test track for summer tyres in Sweden.

### **COMMITMENTS FOR THE PURCHASE OF EQUITY INVESTMENTS/FUND SHARES**

These refer to commitments to purchase shares in Equinox Two S.C.A., a private equity company, for a maximum amount of euro 2,158 thousand.

**OTHER RISKS***Litigation against the Companies of the Prysmian Group before the Court of Milan*

A case is currently pending before the Court of Milan (arising from the joinder of two separate proceedings - see below) following the decision issued on April 2, 2014 by the European Commission (as confirmed in the final instance by the Court of Justice of the European Union on October 28, 2020) at the conclusion of the antitrust investigation into conduct restricting competition in the European high voltage electric cables market. The decision had imposed a sanction on Prysmian Cavi e Sistemi S.r.l. ("*Prysmian CS*") as it was directly involved in the cartel, a portion of which (euro 67 million) Pirelli, despite not having been found directly involved in the activities of the cartel, had been held to be jointly and severally liable with Prysmian CS, based solely on the application of the so-called parental liability principle, since during part of the period of the infringement, the share capital of Prysmian CS was held, either directly or indirectly by Pirelli.

On December 31, 2020, Pirelli proceeded to pay its share of the aforementioned sanction to the European Commission (corresponding to 50% of the sanction, plus interest), for which it had previously made appropriate provisions.

Pending the settlement of the aforementioned EU Court proceedings, in November 2014, Pirelli brought an action before the Court of Milan in order to obtain an assessment and declaratory judgement of the obligation of Prysmian CS to hold Pirelli harmless and indemnified against any claim relating to the alleged anti-competitive cartel in the energy cables sector, including the sanction imposed by the European Commission.

Prysmian CS filed an appearance in the aforementioned proceedings requesting the dismissal of Pirelli's claims, as well as, by way of a counterclaim, as well as to be held indemnified by Pirelli in relation to the consequences arising from or in any way connected to the Decision of the European Commission. The proceedings had been suspended pending the final ruling of the EU Courts and were resumed by Pirelli on November 30, 2020 following the ruling of the Court of Justice.

In October 2019, Pirelli brought a further action before the Court of Milan against Prysmian CS. and Prysmian S.p.A. requesting the assessment and declaratory judgement of Prysmian CS's obligation to also indemnify and hold Pirelli harmless from any charges, expenses, costs and/or damages resulting from claims by private and/or public third parties (including authorities other than the European Commission) relating to, connected with and/or consequential to the facts that were subject to the decision of the European Commission, as well as the consequent order that Prysmian CS reimburse any charges, expenses, costs or damages incurred or suffered by Pirelli.

In these proceedings, Pirelli also requested that Prysmian CS and Prysmian S.p.A. be held liable for certain unlawful conduct connected with the abovementioned anti-competitive cartel and accordingly, that they be ordered to pay compensation for all damages suffered and to be suffered by Pirelli.

Pirelli lastly, requested the assessment and declaratory judgement on the joint and several liability of Prysmian S.p.A. with Prysmian CS in relation to the amounts that will be paid in this new action and in the action commenced in November 2014, if they should not be satisfied by the latter.

Prysmian CS and Prysmian S.p.A. entered an appearance in the above proceedings in November 2020, seeking the dismissal of Pirelli's claims and, by way of a counterclaim, to be held harmless and indemnified by Pirelli in relation to any consequences arising from claims by private and/or public third parties relating to, connected with and/or consequential to the facts which are the subject of the decision of the European Commission.

In April 2021, the two judgments were joined.

Based on careful analyses supported by authoritative external legal opinions, the assessment of the risk related to the disputes described above is such as to not require the allocation of any specific provision in the Consolidated Financial Statements at December 31, 2021.

#### *Other Disputes Related to the European Commission Decision*

In November, 2015, a number of companies of Prysmian Group served Pirelli with a summons for the action damages brought before the London High Court of Justice against them and other defendants of the Decision of the European Commission of April 2, 2014, by National Grid and Scottish Power, the companies who claim to have been harmed by the cartel. Specifically, the companies of the Prysmian Group have requested that Goldman Sachs and Pirelli, the latter due to its role as Parent Company for part of the period of the cartel, hold them harmless with respect to any obligations to pay damages (as yet unquantifiable) to the National Grid and Scottish Power. As the aforementioned action, brought before the Court of Milan in November 2014, is still pending, Pirelli has challenged the lack of jurisdiction of the London High Court of Justice claiming that, that any decision on the merits must be referred to the Court that had previously heard the case. In April 2016, the High Court of Justice, at the request of Pirelli and the companies in the Prysmian Group, suspended the proceedings until a final judgment was passed that would settle the Italian proceedings already pending.

In April 2019, before the Court of Milan, Terna S.p.A. - Rete Elettrica Nazionale ("Terna") jointly and severally sued Pirelli, three Prysmian Group companies and another company of the aforementioned European Commission decision, in order to obtain compensation for the damage allegedly suffered as a consequence of the anti-competitive conduct, currently quantified by the plaintiff as euro 199.9 million. Pirelli appeared in court contesting Terna's claims, and like the other defendants and against them filed a counterclaim for damages in the unlikely event that it is held jointly and severally liable for the anti-competitive cartel. In October 2021, the Judge excised from the proceedings the portion of the dispute consisting of the "overlapping" indemnity claims brought by Pirelli, on the one hand and Prysmian CS and Prysmian S.p.A. on the other, ordering their joinder with the proceedings pending between them before the Court of Milan (see above).

Lastly, also in April 2019, the Electricity & Water Authority of Bahrain, GCC Interconnection Authority, Kuwait Ministry of Electricity and Water and Oman Electricity Transmission Company, served a writ of summons against Pirelli, some of the Prysmian Group companies and other defendants of the aforementioned decision of the European Commission, suing them jointly and severally to obtain compensation for the damages allegedly suffered as a result of the alleged anti-competitive conduct. These proceedings were brought before the Court of Amsterdam, who with its ruling dated November 25, 2020, upheld the objection raised by Pirelli and excluded its own jurisdiction over Pirelli. In February 2021, the plaintiffs appealed against this ruling before the Amsterdam Court of Appeal and the related proceedings are ongoing.

Based on careful analyses supported by authoritative external legal opinions, the assessment of the risk related to the disputes described above is such as to not require the allocation of any specific provision in the Consolidated Financial Statements at December 31, 2021

### *Tax Disputes*

#### Brazil

The subsidiary Pirelli Pneus Ltda is involved in tax litigations and proceedings. The most significant are described below:

#### *Litigation concerning the ICMS tax credits assigned by the State of Santa Catarina*

With reference to the dispute concerning the ICMS tax credits (Imposto Sobre Operações Relativas à Circulação or state value added tax on transactions related to the movement of goods and the rendering of interstate, intermunicipal and communication transport services) assigned by the State of Santa Catarina, Pirelli Pneus Ltda, had received tax assessments which disavowed the ICMS tax credits. The claim was made by the State of São Paulo, according to which Pirelli Pneus Ltda had benefited from ICMS tax credits allocated by the State of Santa Catarina and which were deemed illegitimate by the former because they were allocated by the latter in violation of the Brazilian Constitution, in the absence of a previous agreement between the various States. This dispute was brought before the competent administrative-tax commissions and though the initial decisions were not favourable to Pirelli Pneus Ltda, on August 8, 2017 a legislative provision (Complementary Law No. 160) came into force, aimed at ending this dispute between the various states in Brazil. This regulation validates the incentives, which had previously been considered illegitimate, and therefore also extinguished the relative sanctions imposed by the Brazilian tax authorities.

The implementative aspects of this new provision have been defined by the Brazilian States, and therefore even Pirelli Pneus Ltda has also filed a petition for amnesty regarding the dispute in question. Specifically, between May and June 2021, the claims of the tax authorities were withdrawn in three different cases and, therefore, the risk previously estimated at euro 122 million has now been reduced to approximately euro 5.7 million, including taxes, interest and sanctions.

The risk of losing the case has not been assessed as probable and, therefore, as a result no liability has been accrued in the Financial Statements for this dispute.

*Litigation concerning the IPI tax rate applicable to certain types of tyres*

The subsidiary Pirelli Pneus Ltda is party to a tax dispute with the Brazilian tax authorities concerning the IPI tax rate (Imposto sobre Produtos Industrializados or tax on industrialised products) particularly with reference to the tax rate applicable to the production and importation of tyres for the Sports Utility Vehicle (SUV), vans and other industrial transportation vehicles (such as, for example, trucks). According to statements by the Brazilian tax authorities in the tax assessment notices issued during the course of 2015, 2017 and 2021 the aforementioned tyres should have been subjected to the IPI tax rate for the production and importation of tyres for cars – with an applicable rate of 15% - instead of the 2% rate applied by Pirelli Pneus Ltda, as is required for the production and importation of tyres destined for heavy industrial use vehicles. To date, the dispute is pending before the competent administrative and tax commissions and, also in light of the recent judgement in favour of Pirelli Pneus Ltda, the Group maintains that it has a good chance of winning. This position is also supported by an appraisal prepared by a Brazilian government institution (the INT - National Institute of Technology) specifically commissioned by Pirelli Pneus Ltda, who concluded their analysis by comparing the tyres discussed, in light of their similar characteristics, with those used for heavy industrial vehicles.

The risk is estimated at approximately euro 32 million, inclusive of tax, interests and penalties.

The risk of losing the case has not been assessed as probable and, therefore, as a result no liability has been accrued in the Financial Statements for this dispute.

*Litigation concerning transfer pricing applied to some intra-group transactions*

Pirelli Pneus Ltda is involved in a dispute with the Brazilian tax authorities for income tax purposes (IRPJ - Imposto sobre a renda das pessoas jurídicas) and social security contributions (CSLL - Contribuição Social sobre o Lucro Líquido) due from the company for the 2008, 2011 and 2012 tax periods, deriving from the application of transfer pricing regulations to import transactions with related parties. Based on the notices of the assessment served on the company during the course of 2013, 2015 and 2016, the Brazilian tax authorities are mainly contesting the incorrect application by the company, of the methodology provided for by the administrative practice in force at the time (IN - Instrução Normativa 243), for the assessment of transfer prices applied to the importation of goods from related parties. To date, the dispute filed by the company is pending before the competent administrative-judicial courts. The Group maintains that it has a good chance of winning and, in this regard, Pirelli Pneus Ltda has already obtained a favourable ruling from the administrative court, which has recognised the company's arguments by reducing the amount originally contested by the Brazilian tax authorities.



In light of the above, the risk is estimated at approximately euro 13 million inclusive of taxes, sanctions and interest.

The risk of losing the case has not been assessed as probable and, therefore, as a result no liability has been accrued in the Financial Statements for this dispute.

*Litigation concerning the IPI tax rate with respect to the sale of tyres to the automotive sector*

Pirelli Pneus Ltda is also party to a dispute concerning the IPI tax rate, (Imposto sobre Produtos Industrializados or tax on industrialised products), concerning the sale of components to companies operating in the automotive sector. According to the Brazilian tax authorities in a notice of assessment issued in 2013, Pirelli Pneus Ltda was not entitled to benefit, with reference to its secondary office located in the city of Ibitirama in the Federal State of Minas Gerais, from the IPI exemption provided for by law in the case of sales of particular components to companies operating in the automotive sector. The dispute is under discussion before the competent administrative-judicial courts, however the Group maintains that it has well founded reasons to object to the tax administration's claim.

The risk is estimated at approximately euro 17 million, inclusive of tax, interests and penalties.

The risk of losing the case has not been assessed as probable and, therefore, as a result no liability has been accrued in the Financial Statements for this dispute.

*Litigation concerning the tax impact deriving from the so called "Plano Verão"*

Pirelli Pneus Ltda is involved in a dispute over taxes with the Brazilian tax authorities, which, in the company's opinion, levied more tax than was actually due - for the period from 1989 to 1994 - following the so called "Plano Verão", an economic measure introduced by the then Brazilian government, in order to control the hyperinflation that was affecting the country, by freezing prices. However, the difference between the actual and the indexed inflation had the effect of creating significant distortions in the financial statements of companies and ultimately, the amount of taxes paid by them. Pirelli Pneus Ltda used the actual inflation rate for its financial statement assessments, and, at the same time, initiated legal proceedings to assert its arguments regarding the correct amount of taxes due. During the course of the aforementioned proceedings, Pirelli Pneus Ltda first adhered to an amnesty for tax disputes in order to settle the dispute in question and, only subsequently, on the basis of a ruling with binding effect erga omnes by the Brazilian Supreme Court, did it request the annulment of the effects of the amnesty, to which it had previously adhered.

Proceedings are underway before the competent judicial courts and the risk is estimated to be up to a maximum euro 30 million, inclusive of taxes, interest and sanctions.

The risk of losing the case has not been assessed as probable and, therefore, as a result no liability has been accrued in the Financial Statements for this dispute.

#### *Litigation regarding the PIS and COFINS Tax Base*

Pirelli Pneus Ltda is party to new and significant tax proceedings regarding federal taxes, namely the PIS - Programa de Integração Social, the COFINS tax- Contribuição para Financiamento de Seguridade Social and the ICMS state value added tax. Specifically, Pirelli Pneus Ltda is a party to a dispute concerning the methods for calculating the tax base for PIS and COFINS taxes and the right to deduct the ICMS reported on invoices, based on the tax authorities' interpretation provided in the Solução - COSIT Internal Consultation Solution No. 13.

Proceedings are underway before the competent jurisdictions with the risk estimated as being up to a maximum euro 15 million, inclusive of taxes, interest and sanctions.

The risk of losing the case has not been assessed as probable and, therefore, as a result no liability has been accrued in the Financial Statements for this dispute.

#### Italy

In June 2021, the Regional Directorate of Lombardy served the Company a notice of assessment for the 2015 tax period contesting the amount of tax credit for taxes paid abroad.

The Company initiated a dispute with the Agenzia delle Entrate (Italian Tax Office), which recognised the technical merits of the Company's position and reduced its claim to a non-material amount, which was settled in 2021.

## 29. REVENUES FROM SALES AND SERVICES

Revenues from sales and services were as follows:

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
Revenues from sales of goods	5,192,948	4,191,752
Revenues from services	138,502	110,379
<b>Total</b>	<b>5,331,450</b>	<b>4,302,131</b>

These revenues refer to contracts with customers.

For further information on the performance of revenues from sales and services, refer to the section “Group Performance and Results” in the *Directors’ Report on Operations* which is an integral part of this document.

### 30. OTHER INCOME

The item is composed as follows:

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
Other income from the Prometeon Group	40,836	38,897
Sales of Industrial products	145,247	136,305
Gains on disposal of property, plant and equipment	1,794	6,187
Rental income	3,307	2,907
Income from sub-leasing rights of use assets	867	922
Recoveries and reimbursements	21,557	38,598
Government grants	13,578	13,613
Other income	76,682	68,884
<b>Total</b>	<b>303,868</b>	<b>306,313</b>

The item **other revenues from the Prometeon Group** includes royalties recorded in respect of the trademark licence agreement in the amount of euro 16,436 thousand, in respect of the know-how agreement to the amount of euro 10,000 thousand, for the rendering of services to the amount euro 11,020 thousand, and for the sales of raw materials, semi-finished and finished products to the amount of euro 3,382 thousand.

The item **sales of industrial products** mainly refers to revenues generated by the sale of tyres for trucks and agricultural vehicles, purchased mainly from the Prometeon Group, and which are sold by the distribution network controlled by the Pirelli Group.

The item **recoveries and reimbursements** includes, in particular:

- refunds for taxes and customs duties totalling euro 3,271 thousand, received mainly from the Brazilian subsidiary;
- tax refunds totalling euro 3,769 thousand deriving from tax incentives obtained mainly in Germany for excise duties on electricity and gas;
- income from the sale of tyres and scrap materials carried out in the United Kingdom for a total of euro 1,160 thousand;
- income from the sale of tyres for testing and the recovery of transport expenses in Germany to the amount of euro 1,039 thousand;

The item **other** includes income related to the sale of goods and services for sporting activities linked to sponsorship contracts to the amount of euro 34,916 thousand, and royalties from the Aeolus Tyre Co., Ltd. in the amount of euro 7,000 thousand.

### 31. PERSONNEL EXPENSES

The item is composed as follows:

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
Wages and salaries	861,638	721,058
Social security and welfare contributions	165,302	140,469
Costs for employee leaving indemnities and similar	8,627	11,474
Costs for defined contribution pension funds	23,461	23,143
Costs for defined benefit pension funds	2,299	13,210
Costs for jubilee awards	10,495	6,630
Costs for defined contribution healthcare plans	2,847	3,180
Other costs	27,244	30,514
<b>Total</b>	<b>1,101,913</b>	<b>949,678</b>

The item **other costs** includes the portion of the retention plan (equal to euro 4,662 thousand for 2021 and euro 8,423 thousand for 2020) which was approved by the by the Pirelli Board of Directors on February 26, 2018, and intended for Key Managers, as well as a selected number of senior Managers and Executives whose contribution to the implementation of the Strategic Plan is considered particularly significant.

Personnel expenses for 2021 included **non-recurring events** for a total of euro 2,537 thousand (euro 11,205 thousand for 2020), and refers to the buy-out of the UK pension funds.

### 32. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

The item is composed as follows:

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
Amortisation	129,393	128,049
Depreciation (excl. right of use)	290,877	289,379
Depreciation of right of use	88,408	88,626
Impairment of property, plant and equipment and intang. assets (excl. right of use)	5,711	9,138
Impairment of right of use	2,803	1,960
<b>Total</b>	<b>517,192</b>	<b>517,152</b>

For the composition of the depreciation of the right of use, refer to Note 9.2 - “Right of Use”.

### 33. OTHER COSTS

The item is subdivided as follows:

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
Selling costs	323,545	255,395
Purchases of goods for resale	395,301	326,737
Advertising	207,794	193,039
Fluids and energy	180,815	142,214
Warehouse operating costs	69,281	67,045
IT expenses	55,752	38,376
Consultants	49,076	48,038
Maintenance	57,278	41,436
Insurance	32,471	30,401
Leases and rentals	31,073	24,281
Outsourcing	41,495	24,561
Stamp duties, levies and local taxes	28,944	24,190
Other provisions	40,675	32,673
Travel expenses	20,721	16,676
Remuneration for Key Managers	28,194	7,469
Cleaning expenses	16,174	13,092
Canteen	18,228	12,811
Security expenses	10,950	10,214
Waste disposal	9,887	8,010
Telephone expenses	5,232	5,427
Other	147,632	144,209
<b>Total</b>	<b>1,770,518</b>	<b>1,466,294</b>

The total increase for this item is mainly attributable to the resumption of production activity following the temporary lockdown of manufacturing plants during the course of the previous financial year, and is mainly reflected in the items “Selling costs”, “Purchases of goods for resale” and “Fluids and energy”.

The item **Fluids and energy** includes the cost of purchasing greenhouse gas emission allowances and renewable energy certificates.

The item **leases and rentals** is composed as follows:

- euro 13,935 thousand for lease contracts with a duration of less than twelve months (euro 12,358 thousand for 2020);
- euro 6,727 thousand for lease contracts for low unit value assets (euro 6,820 thousand at December 31, 2020);

- euro 10,411 thousand for lease contracts with variable payments (euro 5,103 thousand at December 31, 2020);

The item **other** includes, amongst others, labour provided by third parties to the amount of euro 25,648 thousand, (euro 27,230 thousand for 2020), and expenses for technological testing to the amount of euro 17,780 thousand (euro 11,974 thousand for 2020);

#### 34. NET IMPAIRMENT OF FINANCIAL ASSETS

This item which amounted to a loss of euro 7,950 thousand, compared to a loss of euro 17,385 thousand for 2020, mainly includes the net impairment of trade receivables to the amount of euro 7,906 thousand (euro 16,843 thousand for 2020).

#### 35. NET INCOME/(LOSS) FROM EQUITY INVESTMENTS

##### 35.1 Share of Net Income/(Loss) of Associates and Joint Ventures

The share of the net income/(loss) from equity investments in associates and joint ventures is evaluated using the equity method, and amounted to an income of euro 1,697 thousand, and refers mainly to investments in the joint venture Xushen Tyre (Shanghai) Co., Ltd. which recorded a loss of euro 68 thousand (a loss of euro 4,558 thousand for 2020), and in the joint venture PT Evoluzione Tyres in Indonesia which amounted to an income of euro 1,049 thousand (a loss euro 1,299 thousand for 2020).

##### 35.2 Dividends

For 2021, this item amounted to euro 2,274 thousand, and mainly included dividends received from the RCS MediaGroup S.p.A. (euro 741 thousand), from Fin.Priv. S.r.l. (euro 1,292 thousand), and from Genextra S.p.A. (euro 154 thousand). For 2020, the item had amounted to euro 65 thousand.

## 36. FINANCIAL INCOME

The item is composed as follows:

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
Interest	21,453	21,000
Other financial income	1,767	86
Fair value measurement of other financial assets	11,499	2,750
Fair value measurement of foreign exchange derivatives	-	124,631
Fair value measurement of other derivatives	281	667
<b>Total</b>	<b>35,000</b>	<b>149,134</b>

The item **interest** includes euro 3,886 thousand for interest on fixed income securities, and euro 9,426 thousand for interest receivables due from financial institutions and from associates and joint ventures. The item also includes euro 3,039 thousand in interest matured on tax credits and on security deposits provided by the Brazilian subsidiaries as a guarantee for legal and tax disputes.

The **fair value measurement of other financial assets** was positive to the amount of 11,499 thousand euro and refers to the fair value measurement of dollar-linked bonds in which the Argentinian subsidiary has invested in order to mitigate the effects of depreciation of the local currency. The exchange rate component of the fair value measurement of dollar-linked bonds equalled euro 8,769 thousand, and partially offset the effect of hyperinflation on the Argentinian subsidiary Pirelli Neumaticos SAIC. Reference should be made to Note 37 - “*Financial Expenses*” for further details.

The **fair value measurement of other derivative instruments** mainly includes;

- the effectiveness of cross currency interest rate swaps to the amount of euro 1,363 thousand, following the early liquidation of two CCIRS in February 2021;
- the ineffectiveness of the IRS in the amount of euro 1,089 thousand following early liquidation in February 2021.

Refer to Note 27 - “*Derivative Financial Instruments*”.

## 37. FINANCIAL EXPENSES

The item is composed as follows:

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
Interest	102,764	101,602
Commissions	12,601	11,712
Hyperinflation effect	15,024	10,054
Other financial expenses	6,297	11,108
Interest expense on lease liabilities	19,529	21,334
Net losses on exchange rates	2,339	147,683
Net interest expense on provisions for employee benefit obligations	1,241	2,142
Fair value measurement of foreign exchange derivatives	19,486	-
<b>Total</b>	<b>179,281</b>	<b>305,636</b>

**Interest** which totalled euro 102,764 thousand included:

- euro 48,147 thousand for bank credit facilities held by Pirelli & C. S.p.A
- euro 22,522 thousand in financial expenses relative to bond loans, of which euro 9,104 thousand refers to unrated bonds, euro 4,112 thousand to the “*Schuldschein*” loan, and euro 9,305 thousand to the senior unsecured guaranteed equity-linked bond loan, all of which were issued by Pirelli & C. S.p.A.;
- euro 4,676 thousand in net interest payables for interest on Cross Currency Interest Rate Swaps and Interest Rate Swaps, for which hedge accounting has been adopted, to rectify the flow of financial expenses for the bank credit facilities and bond loans mentioned above. For further details reference should be made to Note 27 - “*Derivative Financial Instruments*”;
- euro 15,647 thousand in financial expenses related to bank loans held by foreign subsidiaries.

The item **commissions** includes, in particular, euro 2,146 thousand in costs for the assignment of receivables with non-recourse clauses mainly in South America, Italy and Germany and euro 10,455 thousand relative to expenses for sureties and other bank commissions.

The item **hyperinflation effect** refers to the effect on monetary items deriving from the application of IAS 29 - Hyperinflation, on the part of the subsidiary company Pirelli Neumaticos SAIC. Reference should be made to Note 41 - “*Hyperinflation*” or more details.

The item **net losses on exchange rates** which amounted to euro 2,339 thousand (a net income of euro 559,472 thousand and a loss of euro 561,811 thousand), refers to, the adjustment of period-end exchange rates for items expressed in currencies other than the functional currency and still outstanding at the closing date of the Consolidated Financial Statements, and to the net losses realised on items closed during the course of the period. They also include income to the amount of euro 83,860 thousand due to the exchange rate component of the fair value valuation of the cross



currency interest rate swaps, for which hedge accounting of the cash flow hedge type was adopted, to offset both realised and unrealised exchange rate losses recorded on the hedged liability.

The item **fair value measurement of exchange rate derivatives** refers to forward foreign exchange buy/sell transactions to hedge commercial and financial transactions, in accordance with the Group's exchange rate risk management policy. For transactions still open at period-end, the fair value is determined by applying the forward exchange rate at the reporting date of the Consolidated Financial Statements. The fair value measurement is composed of two elements: the interest component related to the interest rate differential between the hedged currencies, equal to a net cost of euro 18,379 thousand and the exchange rate component equal to a net cost of euro 1,107 thousand. In comparing the net losses on exchange rates, which equalled euro 2,339 thousand, recognised on receivables and payables in currencies other than the functional currency of the various subsidiaries, with the fair value measurement of the exchange rate component of the exchange rate derivatives used for hedging, which amounted to a net cost of euro 1,107 thousand, the result is a negative difference of euro 3,446 thousand.

### 38. TAXES

Taxes were composed as follows:

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
Current taxes	143,910	106,938
Deferred taxes	(28,752)	(92,245)
<b>Total</b>	<b>115,158</b>	<b>14,693</b>

**Taxes** for 2021 amounted to euro 115,158 thousand against a net income before tax of euro 436,751 thousand, compared to the amount of euro 14,693 thousand for 2020 against a net income before tax of euro 57,366 thousand. The tax rate for 2021 stood at 26.4% compared to 25.6% for 2020.

The reconciliation between theoretical and effective taxes is as follows:

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
<b>A) Net income/(loss) before taxes</b>	<b>436,751</b>	<b>57,366</b>
<b>B) Theoretical taxes</b>	<b>112,279</b>	<b>5,924</b>
Main causes for changes between estimated and effective taxes:		
Taxes incentives	(18,008)	(9,710)
Non-deductible costs	15,913	12,965
Non-recoverable withholding taxes	2,282	2,175
Other	2,692	3,339
<b>C) Effective taxes</b>	<b>115,158</b>	<b>14,693</b>
Theoretical tax rate (B/A)	25.7%	10.3%
Effective tax rate (C/A)	26.4%	25.6%

The negative impact on the tax rate resulting from non-deductible costs and other items, including non-recoverable withholding taxes, was substantially offset by tax incentives.

The Group's theoretical tax burden is calculated by taking into account the nominal tax rates of the countries where the Group's main companies operate, as shown below:

	2021	2020
<b>Europe and Turkey</b>		
Italy	27.90%	27.90%
Germany	30.00%	30.00%
Romania	16.00%	16.00%
Great Britain	19.00%	19.00%
Turkey	25.00%	22.00%
<b>Russia, Nordics and MEAI</b>		
Russia	20.00%	20.00%
<b>North America</b>		
USA	25.00%	25.00%
Mexico	30.00%	30.00%
<b>South America</b>		
Argentina	35.00%	30.00%
Brazil	34.00%	34.00%
<b>APAC</b>		
China	25.00%	25.00%

The incidence of taxes paid according to geographical Region during the course of the financial year, equal to euro 125,633 thousand, (90,692 thousand euros for 2020), was as follows:

- 30% APAC (36% in 2020);
- 29% Europe and Turkey (13% in 2020);
- 22% South America (38% in 2020);
- 12% North America (8% in 2020);
- 7% Russia, Nordics and MEAI (5% in 2020).

Taxes paid means the total amount of income taxes effectively paid during the tax period by the Group companies to their respective jurisdictions of tax residence, to income tax advances paid in 2021, to income taxes paid during the course of 2021 but relative to previous financial years (e.g. income tax balances relative to 2020), or payments relative to tax assessments for previous financial years. Taxes paid also include withholding taxes incurred on cross-border payments such as dividends, interest and royalties which have been reported in the jurisdiction of the recipient's tax residence. Taxes paid in the South American region included the withholding taxes paid by the Brazilian subsidiary Pirelli Pneus Ltda on cash flows collected when closing out derivative contracts entered into, to hedge exchange rate risks.

Taxes include **non-recurring events** of euro 23,223 thousand related to tax credits recorded by the Brazilian subsidiary. For further information, please refer to the note “Tax receivables” (Note 16).

### 39. EARNINGS/(LOSSES) PER SHARE

Basic earnings/(losses) per share are calculated by dividing the earnings/(losses) attributable to the Parent Company by the weighted average number of ordinary shares outstanding for the period, excluding of treasury shares.

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
Net income/(loss) attributable to the Parent Company	302,796	29,781
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	1,000,000
<b>Earnings /(losses) per ordinary share (in euro per share)</b>	<b>0.303</b>	<b>0.030</b>

It should be noted that the basic and diluted earnings/(losses) per share are the same. It should also be noted that the option to convert the shares relating to the bond loan has no dilutive effect, as the average market price of the shares was lower than the exercise price of the option itself during 2021.

### 40. DIVIDENDS PER SHARE

During 2021, Pirelli & C. S.p.A. distributed to its shareholders, also by way of withdrawing part of the earnings accrued during previous financial years, euro 0.08 per share equal to a total dividend payout of euro 80 million before withholding taxes.

### 41. HYPERINFLATION

Based on the provisions of the Group’s accounting standards, regarding the entry/exit criteria for inflation accounting, the Argentinian subsidiary Pirelli Neumaticos SAIC has adopted inflation accounting since July 1, 2018 and is the only Group company operating under hyperinflation. The price index used for this purpose was the national consumer price index (CPI) published by the National Institute for Statistics and Census (INDEC).

For the Consolidated Financial Statements at December 31, 2021 the official inflation index of 50.9% was used.

Losses on the net monetary position were recognised in the Income Statement as “*Financial Expenses*” (Note 37), to the amount of euro 15,024 thousand.

## 42. NON-RECURRING EVENTS

Pursuant to CONSOB Communication No. DEM/6064293 of July 28, 2006, information on the impact of non-recurring events and transactions on the Group's Income Statement, Statement of Financial Position and Financial Statement for the 2021 financial year is shown below:

<i>(in millions of euro)</i>	<b>Equity</b>	<b>Net income/(loss)</b>	<b>Cash flow</b>
<b>Financial statement (a)</b>	<b>5,042.6</b>	<b>321.6</b>	<b>(422.0)</b>
Operating costs	(2.5)	(2.5)	(3.0)
Taxes	23.2	23.2	-
<b>Total impact non-recurring items (b)</b>	<b>20.7</b>	<b>20.7</b>	<b>(3.0)</b>
<b>Total adjusted (a-b)</b>	<b>5,021.9</b>	<b>300.9</b>	<b>(419.0)</b>

The impact on the individual items of the Consolidated Income Statement was as follows:

<i>(in millions of euro)</i>	<b>2021</b>	<b>2020</b>
<b>Personnel expenses:</b>		
- UK pension fund buy-out	(2.5)	(11.2)
<b>Impact on operating income</b>	<b>(2.5)</b>	<b>(11.2)</b>
<b>Impact on net income/(loss) before taxes</b>	<b>(2.5)</b>	<b>(11.2)</b>
<b>Taxes:</b>		
- Brazilian tax receivables	23.2	-
<b>Impact on net income/(loss)</b>	<b>20.7</b>	<b>(11.2)</b>

## 43. RELATED-PARTY TRANSACTIONS

Related party transactions, including intra-group transactions, do not qualify as either atypical or unusual, but are part of the ordinary course of business for companies of the Group. Such transactions, when not carried out under standard conditions or indicated by specific regulatory conditions, are in any case regulated by conditions consistent with those of the market and carried out in compliance with the provisions of the Procedure for Related Party Transactions which the Company has adopted.

The following table summarises the items from the Statement of Financial Position, the Income Statement and the Cash Flow Statement that include related party transactions and their relative impact.

STATEMENT OF FINANCIAL POSITION (in millions of euro)	12/31/2021	of which related parties	% incidence	12/31/2020	of which related parties	% incidence
<b>Non current assets</b>						
Other receivables	362.9	6.7	1.8%	402.1	5.8	1.4%
<b>Current assets</b>						
Trade receivables	659.2	19.5	3.0%	597.7	12.8	2.1%
Other receivables	470.6	105.9	22.5%	469.2	111.3	23.7%
<b>Non-current liabilities</b>						
Borrowings from banks and other financial institutions	3,789.4	13.2	0.3%	4,971.0	14.7	0.3%
Other payables	76.5	0.2	0.3%	77.3	0.2	0.3%
Provisions for liabilities and charges	81.2	22.0	27.1%	73.3	5.9	8.1%
Provisions for employee benefit obligations	220.6	7.2	3.2%	243.9	2.4	1.0%
<b>Current liabilities</b>						
Borrowings from banks and other financial institutions	1,489.2	2.8	0.2%	883.6	2.2	0.2%
Trade payables	1,626.4	144.1	8.9%	1,317.0	134.6	10.2%
Other payables	314.2	13.4	4.3%	325.3	6.7	2.1%
Provisions for employee benefit obligations	-	-	-	5.0	3.0	60.2%

INCOME STATEMENT (in millions of euro)	2021	di cui parti correlate	% incidenza	2020	di cui parti correlate	% incidenza
Revenue from sales and services	5,331.5	23.7	0.4%	4,302.1	15.1	0.4%
Other income	303.9	56.3	18.5%	306.3	49.4	16.1%
Raw materials and consumables used (net of changes in inventories)	(1,820.6)	(3.6)	0.2%	(1,280.4)	(4.9)	0.4%
Personnel expenses	(1,101.9)	(23.1)	2.1%	(949.7)	(15.0)	1.6%
Other costs	(1,770.5)	(312.5)	17.6%	(1,466.3)	(241.8)	16.5%
Financial income	35.0	3.7	10.4%	149.1	2.3	1.6%
Financial expenses	(179.3)	(1.5)	0.8%	(305.6)	(0.9)	0.3%
Net income / (loss) from equity investments	4.0	1.7	n.a.	(5.3)	(5.6)	n.a.

CASH FLOW (in thousands of euro)	2021	di cui parti correlate	% incidenza	2020	di cui parti correlate	% incidenza
<b>Net cash flow operating activities:</b>						
Change in Trade receivables	(51.4)	(6.4)	n.a.	(35.3)	(4.0)	n.a.
Change in Trade payables	214.5	19.5	n.a.	(184.6)	0.4	n.a.
Change in Other receivables	23.7	(1.2)	n.a.	21.9	(6.9)	n.a.
Change in Other payables	(59.1)	(5.2)	n.a.	60.6	2.5	n.a.
Uses of Provisions for employee benefit obligations	(48.8)	(3.0)	n.a.	(37.2)	(2.3)	n.a.
<b>Net cash flow investing activities:</b>						
Change in Financial receivables from associates and J.V.	15.3	15.3	n.a.	(64.1)	(64.1)	n.a.
<b>Net cash flow financing activities:</b>						
Repayment of principal and payment of interest for lease obligations	(105.4)	(3.8)	n.a.	(99.9)	(2.9)	n.a.

The effects of the related party transactions, contained in the Income Statement and the Statement of Financial Position, on the consolidated data of the Pirelli Group were as follows:

STATEMENT OF FINANCIAL POSITION (in millions of euro)	12/31/2021			12/31/2020		
	Associates and joint ventures	Other related parties	Remuneration for Directors and Key Managers	Associates and joint ventures	Other related parties	Remuneration for Directors and Key Managers
Other non-current receivables	6.7	-	-	5.8	-	-
of which financial	6.7	-	-	5.8	-	-
Trade receivables	14.7	4.8	-	6.9	5.9	-
Other current receivables	92.4	13.5	-	102.3	9.0	-
of which financial	81.4	-	-	88.8	-	-
Borrowings from banks and other financial institutions non-current	13.0	0.2	-	13.7	1.0	-
Other non-current payables	-	-	0.2	-	-	0.2
Provisions for liabilities and charges non-current	-	-	22.0	-	-	5.9
Provisions for employee benefit obligations non-current	-	-	7.2	-	-	2.4
Borrowings from banks and other financial institutions current	2.3	0.5	-	1.7	0.5	-
Trade payables	26.9	117.2	-	30.6	104.0	-
Other current payables	-	1.5	11.9	-	6.2	0.5
Provisions for employee benefit obligations current	-	-	-	-	-	3.0

INCOME STATEMENT (in millions of euro)	12/31/2021			12/31/2020		
	Associates and joint ventures	Other related parties	Remuneration for Directors and Key Managers	Associates and joint ventures	Other related parties	Remuneration for Directors and Key Managers
Revenues from sales and services	20.9	2.8	-	12.8	2.3	-
Other income	8.4	47.9	-	3.4	46.0	-
Raw materials and consumables used (net of change in inventories)	(1.1)	(2.5)	-	(2.6)	(2.3)	-
Personnel expenses	-	-	(23.1)	-	-	(15.0)
Other costs	(137.5)	(146.8)	(28.2)	(98.2)	(136.1)	(7.5)
Financial income	3.7	-	-	2.3	0.1	-
Financial expenses	(0.4)	(1.1)	-	(0.5)	(0.4)	-
Net income/ (loss) from equity investments	1.7	-	-	(5.6)	-	-

## TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

### Transactions - Statement of Financial Position

The item **other non-current receivables** refers to a loan granted by Pirelli Tyre S.p.A. to the Indonesian joint venture PT Evoluzione Tyres.

The item **trade receivables** includes receivables for services rendered mainly to the Chinese joint venture Jining Shenzhou Tyre Co., Ltd.

The item **other current receivables** mainly refers to:

- receivables for the royalties of Pirelli Tyre S.p.A. from PT Evoluzione Tyres and Jining Shenzhou Tyre Co., Ltd. to the amount of euro 1.2 million and euro 0.8 million each respectively;

- receivables for the sale of materials and moulds to the Joint Stock Company the “Kirov Tyre Plant” to the amount of euro 3.1 million;
- service fee receivables of the Pirelli Tyre Co., Ltd. from the Jining Shenzhou Tyre Co., Ltd. to the amount of euro 3.6 million;

The financial portion refers to a loan granted by Pirelli Tyre Co., Ltd. to the Jining Shenzhou Tyre Co., Ltd.

The item **non-current borrowings from banks and other financial institutions** refers to the payables of the company Pirelli Deutschland GmbH to Industriekraftwerk Breuberg GmbH for machinery hire, and the payables of Pirelli Tyre Co., Ltd. to the Jining Shenzhou Tyre Co., Ltd.

The item **current borrowings from banks and other financial institutions** refers to a portion of the aforementioned short-term debt.

The item **trade payables** mainly refers to payables for the purchase of energy from Industriekraftwerk Breuberg GmbH and trade payables to the Jining Shenzhou Tyre Co., Ltd.

#### Transactions - Income statement

The item **revenues from sales and services** mainly refers to the sales of materials and semi-finished products to the Jining Shenzhou Tyre Co., Ltd. to the amount of euro 20.5 million.

The item **other financial income** refers mainly to the recharging of labour costs to the amount of euro 4.3 million, and to royalties in the amount of euro 3.9 million.

The item **other costs** mainly refers to costs for:

- the purchase of tyres from Jining Shenzhou Tyre Co., Ltd. to the amount of euro 63.3 million;
- the purchase of Motorcycle products from PT Evoluzione Tyres to the amount of euro 41.4 million;
- the purchase of energy and machine hire from Industriekraftwerk Breuberg GmbH to the amount of euro 15,8 million.

The item **financial income** refers to interest on loans disbursed to the two joint ventures.

## OTHER RELATED-PARTY TRANSACTIONS

The transactions detailed below refer mainly to transactions with the Aeolus Tyre Co., Ltd. and to transactions with the Prometeon Group, both of which are subject to the control of the direct Parent company or indirect Parent companies of Pirelli & C. S.p.A.

### Transactions - Statement of Financial Position

The item **trade receivables** refers to receivables from companies of the Prometeon Group.

The item **other current receivables** refers to receivables from companies of the Prometeon Group to the amount of euro 11.7 million mainly for royalties, and from the Aeolus Tyre Co., Ltd. to the amount of euro 1.8 million.

The item **non-current borrowings from banks and other financial institutions** refers to payables of Pirelli Otomobil Lastikleri A.S. for machine hire from Prometeon Turkey Endüstriyel ve Ticari Lastikler A.S.

The item **current borrowings from banks and other financial institutions** refers to euro 0.2 million for the short-term portion of the aforementioned debt, and to euro 0.3 million for the debt of Pirelli Pneus Ltda payable to Prometeon Tyre Group Industrial Brasil Ltda.

The item **trade payables** refers to payables to companies of the Prometeon Group.

### Transactions - Income Statement

The item **other income** includes royalties recognised from the Aeolus Tyre Co., Ltd. to the amount of euro 7 million, in respect of the license agreement entered into in 2016, some of whose terms and conditions were renegotiated in February 2019. The item also includes income from Prometeon Group companies mainly relative to:

- royalties recorded in respect of the license agreement for the use of the Pirelli trademark to the amount of euro 16.4 million;
- the sale of raw materials, finished and semi-finished products for the total amount of euro 3.3 million of which euro 2.1 million was carried out by Pirelli Pneus Ltda;
- the licence agreement for know-how charged by Pirelli Tyre S.p.A. to the amount of euro 10 million.
- the Long-Term Service Agreement to the amount of euro 4.8 million of which euro 3.3 million was earned by Pirelli Sistemi Informativi S.r.l., and euro 0.8 million by Pirelli Pneus Ltda;



- logistics services for a total amount of euro 1.3 million of which euro 0.8 million was carried out by the Spanish company Pirelli Neumaticos S.A. - Sociedad Unipersonal.

The item **raw and consumable materials used** refers to costs payable to companies of the Prometeon Group for the purchase of direct materials/consumables/compounds, of which euro 1.7 million were costs of by the Brazilian company Pirelli Pneus Ltda.

The item **other costs** includes contributions to the HangarBicocca Foundation and the Pirelli Foundation to the amount of euro 0.9 million, and costs payable to companies of the Prometeon Group mainly for:

- the purchase of truck products for a total amount of euro 90.7 million of which euro 76.8 million was carried out by the Brazilian company Comercial e Importadora de Pneus Ltda. and subsequently resold to retail customers, euro 8.9 million by the Russian Limited Liability company Pirelli Tyre Russia, and euro 3.7 million by the German company Driver Reifen und KFZ-Technik GmbH.
- the purchase of Car/Motorcycle and semi-finished products for a total amount of euro 37.8 million of which euro 37 million was carried out by the Turkish company Pirelli Otomobil Latikleri A.S. in respect of the Off-Take contract, and euro 0.8 million on the part of Pirelli Pneus Ltda for the purchase of inner tubes for tyres;
- costs to the amount of euro 5.7 million incurred by Pirelli Pneus Ltda for services for the transformation of raw materials as a result of activities pertinent to the Toll manufacturing contract.

The item **financial expenses** refers to the aforesaid interest relative to machine hire

## RELATIONS WITH DIRECTORS AND KEY MANAGERS

Statement of Financial Position and Income Statement transactions regarding Directors and Key Managers can be summarised as follows:

- the Statement of Financial Position items **provisions for liabilities and charges** and **provisions for employee benefit obligations non-current**, include long-term benefits relative to the monetary three-year 2020-2022 and 2021-2023 Long Term Incentive Plans for euro 18.9 million, short-term benefit related to Short Term Incentive plan for euro 3.1 million, as well as employee leaving indemnities for euro 7.2 million;
- the Statement of Financial Position items **other current payables** include the short-term portion related to the Short Term Incentive plan;
- the item **personnel expenses and other costs** includes euro 5.9 million relative to employees' leaving indemnity (TFR) and retirement benefits (euro 1.2 million for 2020), as

well as short term benefits to the amount of euro 14.6 million (euro 6.1 million for 2020) and long-term benefits to the amount of euro 14.7 million (euro 4.4 million for 2020).

## SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

On **February 1, 2022** Pirelli was awarded Gold Class recognition in the 2022 Sustainability Yearbook published by S&P Global, which examined the sustainability profile of more than 7,500 companies. Pirelli obtained the S&P Global Gold Class recognition in the ranking that is carried out annually on the basis of the results of the Corporate Sustainability Assessment for the Dow Jones Sustainability Indexes of S&P Global. In 2021 Pirelli confirmed its position among the excellent performers of the Automobiles & Parts sector, within the Dow Jones Sustainability World and Europe indexes, with a score of 77 points against a sector average of 31.

On **February 21, 2022**, Pirelli, in keeping with that which had been announced to the market on November 11, 2021, finalised the signing of a euro 1.6 billion five-year multi-currency bank credit facility with a pool of leading Italian and international banks.

The new credit facility, which is geared towards the Group's ESG objectives, will mainly enable the Group to:

- repay debt maturing in June 2022 (approximately euro 950 million at December 31, 2021) by using euro 600 million from the new credit facility and the remainder from the Company's liquidity;
- replace euro 700 million from an available and unused credit facility maturing in June 2022 with euro 1.0 billion from the new credit facility, thereby increasing financial flexibility by euro 300 million.

This operation, which was finalised with improved terms and conditions than for the credit facilities that will be replaced, was consistent with the Company's plans, and allows for the optimisation of the debt profile by extending maturity dates.

On **February 23, 2022** Pirelli announced that it had been assigned an investment grade rating by S&P Global Ratings and Fitch Ratings. This follows the Company's request for a public rating, in keeping with the Group's objectives of optimising conditions of access to the credit market. Specifically, Fitch Ratings assigned Pirelli an Investment Grade rating of BBB- with a stable outlook, emphasising, amongst other things, the solidity of the Company's operating margins and its ability to generate cash flow, which make it possible to forecast a significant reduction in debt over the next two to three years. The agency highlighted Pirelli's leadership position in the Premium segment, its consolidated know-how for high-performance products, its exposure to aftermarket activities that are less volatile than that of the Standard segment and the reputation of its Brand. S&P Global Ratings assigned an Investment Grade rating of BBB- with a stable outlook, highlighting, amongst other things, the solid position Pirelli holds in the Premium and Prestige markets, its ability to efficiently utilise its manufacturing plants, which is reflected in an EBITDA margin that exceeds the sector average and the agency's expectation of continuous debt reduction, through the careful management of a solid free cash flow.

On **February 24, 2022** tensions between Russia and Ukraine became more severe. At the date of this document, the outcomes and implications of the Russia-Ukraine crisis remain uncertain. The

tightening of international sanctions is also having repercussions on the economy of the Russian Federation in terms of growth expectations, the currency market and the sustainability of the domestic economic and financial system in the medium-term. These factors are compounded by the additional complications arising from the restrictive countermeasures that the Russian government is preparing - and in some cases has already implemented - in response to the pressure of international sanctions.

The current situation is also bringing about rising prices for energy, metal and agricultural commodities, with repercussions on consumer price pressure and growth prospects for the Eurozone. These elements of uncertainty could lead to an alteration of normal market dynamics and, more generally, of business operating conditions.

Pirelli has an industrial presence in Russia with two manufacturing plants, located in Kirov and Voronezh, dedicated to the production of tyres of which 85% are Standard and 15% are High Value, and a production capacity of 8.2 million units at December 31, 2021. Approximately 50% of this capacity is intended for export, mainly Standard products. The tyres sold in Russia are almost entirely produced inside the country, and only a small quantity is obtained through imports from other Group manufacturing plants.

Pirelli has constituted a “Crisis Committee” to constantly monitor the development of the Russia-Ukraine crisis for which mitigation actions and a contingency plan have already been activated, including the progressive production reallocations of export flows to other Group plants. When the company presented its preliminary 2021 results it announced an initial analysis of the impact on 2022 guidance. That analysis assumed the persistence of February level energy and oil prices until the end of the year, as well as the potential impact on local operations linked to imports and exports to and from Russia of raw materials and finished goods.

In the analysis of this scenario, which does not take into account the idea of a total interruption of the import and export flows from Russia and a recessionary scenario in Europe because of an escalation of geopolitical tensions, the guidance for profitability and cash generation would be positioned in the lower part of the range (EBIT Adjusted around euro 890 million and cash generation before dividends around euro 450 million).

Pirelli is against this war and is supporting the Ukrainian population with a donation of 500,000 euro and facilitating the collection of funds among employees. The investments in the local market, excluding those linked to security, have been halted. The activities of the factories in Russia will be progressively limited to those needed to guarantee the financing of salaries and social services for employees.

Pirelli continues to monitor the evolution of the situation and will inform the market if the forecasts shift significantly from the assumptions of the initial analysis.

The current event qualifies as a non-adjusting event according to IAS 10 “*Events after the reporting period*” and therefore has no impacts on consolidated financial statements as at December 31, 2021.

At December 31, 2021 financial position sub-consolidated figures related to subsidiaries based in Russia include:

- Non-current assets amounting to euro 178.0 million, of which euro 169.3 million refer to intangible assets and property, plant and equipment mainly in Kirov and Voronezh production sites;
- Inventories for euro 42.2 million;
- Trade and other receivables for euro 89.4 million, of which euro 18.7 million are intercompany towards other Group subsidiaries;
- Cash and cash equivalents for euro 6.7 million;
- Borrowings from banks and other financial institutions for euro 83.6 million of which euro 15.2 million are intercompany towards other Group subsidiaries;
- Trade and other payables for euro 102.4 million, of which euro 15.9 million are intercompany towards other Group subsidiaries.

At the date of this document, Pirelli Tyre S.p.A. has released/is in process of releasing guarantees on borrowings from banks and trade payables of Russian subsidiaries towards third parties and other Group entities.

Total equity amounts to euro 112.8 million, of which euro 73.3 million attributable to the owners of the Parent Company and euro 39.5 million attributable to non-controlling interests.

2021 revenues from sales made in the Russian market amount to euro 162.1 million with an EBIT Adjusted of euro 29.4 million.

## OTHER INFORMATION

**CLIMATE CHANGE INFORMATION**

In March 2021, Pirelli published its 2021-2022 Sustainability Plan with a view to 2025 and 2030, which is fully integrated into the Company's Industrial Plan, in which targets were set, consistent with the materiality of the socio-environmental impacts of the Company, and in support of the United Nations' Sustainable Development Goals for 2030.

The Sustainability Plan addresses the risks relative to climate change, by forecasting targets and performances for:

- **production processes**, in terms of reducing absolute CO<sub>2</sub> emissions, increasing the share of electricity from renewable sources and efficiency in the use of natural resources;
- **products**, through the evolving ranges of products with a lower environmental impact throughout their life cycle, while at the same time ensuring greater driving safety;
- **raw materials**, in terms of increasing the share of recycled and renewable materials used in new product lines;
- the **supply chain**, by monitoring and reducing absolute CO<sub>2</sub> emissions that are associated, particularly, with raw materials suppliers.

The achievement of these objectives foresees specific measures that include:

- the purchase of certificates of origin for electricity, that is, documents that certify the renewable origin of the energy sources used, which are recorded under Other costs;
- investment projects for new products and energy efficiency, which had already begun in 2021, and which therefore have been included as increases to property, plant and equipment. It should be noted that these investments do not impact the measurement of the useful lives of the fixed assets currently in use and the recoverability of their carrying amount at December 31, 2021;
- research and development costs for the development of new products and operating costs for improving the efficiency of energy use. For 2021 the percentage growth for the new IP Code tyres, which were put on the market with parameters consistent with the highest ratings (A or B) in European labelling for rolling resistance, (an environmental aspect with an indirect impact on vehicle CO<sub>2</sub> emissions), equalled 49% of the total.

With regard to the impact on the financial structure, it should be noted that at December 31, 2021 Pirelli had two credit facilities in place for a total amount of euro 1.2 billion (of which euro 800 million had been signed in 2020 with a maturity of five years and euro 400 million in 2021 with a maturity of three years), geared towards environmental sustainability targets (CO<sub>2</sub> emissions and the

sustainable management of natural resources). For further information, reference should be made to Note 23 - *“Borrowings from Banks and Other Financial Institutions”*.

With regard to climate change risks, Pirelli monitors these elements of uncertainty through sensitivity analyses and risk assessments, to assess and quantify the financial impacts (risks and opportunities) relative to climate change, in relation to IPCC (Intergovernmental Panel on Climate Change) climate scenarios, to IEA (International Energy Agency) energy transitions and to put in place appropriate prevention and mitigation measures to protect its business. In accordance with the findings of the most recent Climate Change Risk Assessment of the Group, in the short to medium-term there are no significant risks relative to production processes or to the markets in which Pirelli operates.

With regard to the medium-long term scenario, however, the tyre sector could be subject to a number of risks both of a physical nature (extreme weather events with potential impacts on the continuity of production at the manufacturing plants), as well as of a regulatory nature (possible effects on operating costs).

At December 31, 2021, there were no risks for probable losses that would require specific provisions to be accrued in the Financial Statements.

With regard to the declarations of a non-financial nature and in particular to risks related to climate change as well as to sustainable development goals and the main international commitments for sustainability, reference should be made to the relevant sections of the *Directors' Report on Operations* and the *Report on Responsible Value Chain Management*, in particular to section *“Joining the Task Force on Climate-Related Financial Disclosures (TCFD)”* section within this Annual Report and Pirelli's public responses to the CDP Climate Change 2021 questionnaire.

## **Research and Development Expenses**

Research & Development expenses for 2021 amounted to euro 240.4 million and represented 4.5% of sales, and refer to expenses for product and process innovation, as well as for the development of new materials. The share allocated to research and development for High Value activities amounted to euro 225.1 million and equalled 6.0% of High Value revenues. For further details, reference should be made to the section *“Research and Development Activities”* in the *Directors' Report on Operations*, which is an integral part of this document.

## Remuneration for Directors and Statutory Auditors

The remuneration paid to the Directors and **Statutory** Auditors was as follows:

<i>(in thousands of euro)</i>	2021	2020
Directors	28,194	7,469
Statutory Auditors	377	315
<b>Total</b>	<b>28,571</b>	<b>7,784</b>

## Employees- Average Headcounts

The average headcounts for employees, sub-divided by category, for the companies included in the scope of consolidation were as follows:

	2021	2020
Executives and white collar staff	5,934	6,082
Blue collar staff	23,221	23,708
Temporary workers	1,488	898
<b>Total</b>	<b>30,643</b>	<b>30,688</b>

## Remuneration for Independent Auditors

Pursuant to the applicable laws, the total remuneration paid for the 2021 financial year for auditing services and for services other than auditing, rendered by the company PricewaterhouseCoopers S.p.A. and by other entities belonging to its network, were as follows:

<i>(in thousands of euro)</i>	Company that provided the service	Company that received the service	Partial fees	Total fees	
Independent auditing services	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	75		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	1,135		
	Network PricewaterhouseCoopers	Subsidiaries	1,252	<b>2,462</b>	83%
Independent certification services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	243		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	81		
	Network PricewaterhouseCoopers	Subsidiaries	34	<b>358</b>	12%
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	150		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	-		
	Network PricewaterhouseCoopers	Subsidiaries	-	<b>150</b>	5%
				<b>2,970</b>	100%

1) the item "certification services" indicates the amounts paid for other services that require the issuance of an auditor's report, as well as the amounts paid for the so-called certification services, as they are concomitant with the statutory auditing services

## Information Required by Law No.124 / 2017 Article 1 Paragraphs 125-129

Pirelli Tyre S.p.A. received incentives from the Region of Lombardy in the form of a non-repayable grant, in the amount of euro 1,695 thousand and euro 2,462 thousand, for the implementation of two



R&D projects on Safety and Smart Manufacturing. The first project was completed, whilst the second received euro 558 thousand during the financial year for the remaining balance. With reference to the agreement signed with the MiSE (Ministry of Economic Development) during the 2019 financial year for the subsidisation of three Research and Development projects, for up to a maximum of euro 6.3 million in total for the current year, the Company obtained the three respective decrees granting the subsidies from the MiSE.

For the purposes of providing complete information, it should be noted that during the financial year, Pirelli Tyre S.p.A. received from M.I.U.R. - Ministero dell'Istruzione, dell'Università e della Ricerca (Ministry of Education, Universities and Research) - a subsidised loan of euro 5,305 thousand with a duration of 5 years, and with an interest rate of 0.50% per annum, granted as an incentive for an R&D project for the development of innovative materials for the tyre manufacturing process.

### **Atypical and/or Unusual Operations**

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it should be noted that during the course of the 2021 financial year, that no atypical and/or unusual transactions as defined in the aforesaid Notice, were carried out by the Company.

## Exchange Rates

The main exchange rates used for consolidation were as follows:

<i>(local currency vs euro)</i>	Period-end exchanges rates		Change in %	Average exchange rates		Change in %
	12/31/2021	12/31/2020		2021	2020	
Swedish Krona	<b>10.2269</b>	10.0375	1.89%	<b>10.1449</b>	10.4862	(3.26%)
Australian Dollar	<b>1.5615</b>	1.5896	(1.77%)	<b>1.5749</b>	1.6549	(4.83%)
Canadian Dollar	<b>1.4393</b>	1.5633	(7.93%)	<b>1.4826</b>	1.5300	(3.10%)
Singaporean Dollar	<b>1.5279</b>	1.6218	(5.79%)	<b>1.5891</b>	1.5742	0.95%
U.S. Dollar	<b>1.1326</b>	1.2271	(7.70%)	<b>1.1827</b>	1.1422	3.55%
Taiwan Dollar	<b>31.3436</b>	34.4742	(9.08%)	<b>33.0389</b>	33.6519	(1.82%)
Swiss Franc	<b>1.0331</b>	1.0802	(4.36%)	<b>1.0812</b>	1.0705	0.99%
Egyptian Pound	<b>17.8708</b>	19.3879	(7.82%)	<b>18.6428</b>	18.1303	2.83%
Turkish Lira	<b>14.6823</b>	9.0079	62.99%	<b>10.4698</b>	8.0186	30.57%
Romanian Leu	<b>4.9481</b>	4.8694	1.62%	<b>4.9208</b>	4.8376	1.72%
Argentinian Peso	<b>116.3407</b>	103.2605	12.67%	<b>116.3407</b>	103.2605	12.67%
Mexican Peso	<b>23.3129</b>	24.4791	(4.76%)	<b>23.9812</b>	24.5637	(2.37%)
South African Rand	<b>18.0625</b>	18.0219	0.23%	<b>17.4766</b>	18.7655	(6.87%)
Brazilian Real	<b>6.3210</b>	6.3779	(0.89%)	<b>6.3782</b>	5.8989	8.13%
Chinese Yuan	<b>7.2211</b>	8.0067	(9.81%)	<b>7.6305</b>	7.8802	(3.17%)
Russian Rouble	<b>84.0695</b>	90.6824	(7.29%)	<b>87.0941</b>	82.4781	5.60%
British Pound Sterling	<b>0.8403</b>	0.8990	(6.53%)	<b>0.8596</b>	0.8897	(3.38%)
Japanese Yen	<b>130.3800</b>	126.4900	3.08%	<b>129.8767</b>	121.8458	6.59%

## NET FINANCIAL POSITION

(the Alternative Performance Indicators not provided for by the accounting standards)

<i>(in thousands of euro)</i>	Note	12/31/2021		12/31/2020	
			of which related parties (note 43)		of which related parties (note 43)
Current borrowings from banks and other financial institutions	23	1,489,249	2,751	883,567	2,192
Current derivative financial instruments (liabilities)	27	10,331		32,499	
Non-current borrowings from banks and other financial institutions	23	3,789,369	13,210	4,970,986	14,693
Non-current derivative financial instruments (liabilities)	27	3,519		87,601	
<b>Total gross debt</b>		<b>5,292,468</b>		<b>5,974,653</b>	
Cash and cash equivalents	19	(1,884,649)		(2,275,476)	
Other financial assets at fair value through Income Statement	18	(113,901)		(58,944)	
Current financial receivables **	15	(81,819)	(81,402)	(102,574)	(88,769)
Current derivative financial instruments (assets)	27	(38,849)		(13,339)	
<b>Net financial debt *</b>		<b>3,173,250</b>		<b>3,524,320</b>	
Non-current derivative financial instruments (assets)	27	(4,612)		-	
Non-current financial receivables **	15	(261,522)	(6,664)	(265,945)	(5,826)
<b>Total net financial (liquidity) / debt position</b>		<b>2,907,116</b>		<b>3,258,375</b>	

\* Pursuant to CONSOB Notice of July 28, 2006 and in compliance with the ESMA guidelines regarding disclosure requirements pursuant to the Prospectus Regulation applicable from May 5, 2021.

\*\* The item "financial receivables" is reported net of the relative provisions for impairment which amounted to euro 9,315 thousand at December 31, 2021 (euro 8,505 thousand at December 31, 2020).

## SCOPE OF CONSOLIDATION

## Companies consolidated line-by-line

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
<b>Europe</b>						
<b>Austria</b>						
Pirelli GmbH	Tyre	Wien	Euro	726,728	100.00%	Pirelli Tyre (Suisse) SA
<b>Belgium</b>						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	99.996% 0.004%	Pirelli Tyre (Suisse) SA Pneus Pirelli S.A.S.
<b>France</b>						
Pneus Pirelli S.A.S.	Tyre	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre S.p.A.
<b>Germany</b>						
Deutsche Pirelli Reifen Holding GmbH	Tyre	Breuberg / Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre S.p.A.
Driver Handelssysteme GmbH	Tyre	Breuberg / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland GmbH	Tyre	Breuberg / Odenwald	Euro	23,959,100	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Personal Service GmbH	Tyre	Breuberg / Odenwald	Euro	25,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
PK Grundstuecksverwaltungs GmbH	Tyre	Hoechst / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Driver Reifen und KFZ-Technik GmbH (ex Pneumobil Reifen und KFZ-Technik GmbH)	Tyre	Breuberg / Odenwald	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding GmbH
<b>Greece</b>						
Elastika Pirelli C.S.A.	Tyre	Elliniko- Argyroupoli	Euro	11,630,000	99.90% 0.10%	Pirelli Tyre S.p.A. Pirelli Tyre (Suisse) SA
Pirelli Hellas S.A. (in liquidation)	Tyre	Athens	US \$	22,050,000	79.86%	Pirelli Tyre S.p.A.
The Experts in Wheels - Driver Hellas C. S.A.	Tyre	Elliniko- Argyroupoli	Euro	100,000	73.20%	Elastika Pirelli C.S.A.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
<b>Italy</b>						
Driver Italia S.p.A.	Tyre	Milan	Euro	350,000	71.21%	Pirelli Tyre S.p.A.
Driver Servizi Retail S.p.A.	Tyre	Milan	Euro	120,000	100.00%	Pirelli Tyre S.p.A.
HB Servizi S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
Maristel s.r.l.	Services	Milan	Euro	50,000	100.00%	Pirelli & C. S.p.A.
Pirelli Digital Solutions S.r.l.	Services	Milan	Euro	500,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	40,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli International Treasury S.p.A.	Financial	Milan	Euro	125,000,000	70.00%	Pirelli Tyre S.p.A.
					30.00%	Pirelli & C. S.p.A.
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Services	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Services	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	558,154,000	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	90.35%	Pirelli & C. S.p.A.
					2.95%	Pirelli Tyre S.p.A.
					0.95%	Poliambulatorio Bicocca S.r.l.
					0.98%	Pirelli International Treasury S.p.A.
					0.95%	Driver Italia S.p.A.
					0.98%	Pirelli Industrie Pneumatici S.r.l.
					0.95%	Pirelli Servizi Amministrazione e Tesoreria S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	HB Servizi S.r.l.
<b>The Netherlands</b>						
E-VOLUTION Tyre B.V.	Tyre	Rotterdam	Euro	170,140,000	100.00%	Pirelli Tyre S.p.A.
Pirelli China Tyre N.V.	Tyre	Rotterdam	Euro	38,045,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Rotterdam	Euro	18,152	100.00%	Pirelli Tyre (Suisse) SA
<b>Poland</b>						
Driver Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	100,000	66.00%	Pirelli Polska Sp. z o.o.
Pirelli Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre S.p.A.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
<b>United Kingdom</b>						
CTC 2008 Ltd	Tyre	Burton-on-Trent	British Pound Sterling	100,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Cif Trustees Ltd	Financial	Burton-on-Trent	British Pound Sterling	4	25.00%	Pirelli General Executive Pension Trustees LTD
					25.00%	Pirelli General & Overseas Pension Trustees LTD
					25.00%	Pirelli Tyres Executive Pension Trustees LTD
					25.00%	Pirelli Tyres Pension Trustees LTD
Pirelli International Limited (ex Pirelli International plc)	Financial	Burton-on-Trent	Euro	5,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Motorsport Services Ltd	Tyre	Burton-on-Trent	British Pound Sterling	1	100.00%	Pirelli UK Ltd
Pirelli General Executive Pension Trustees Ltd	Financial	Burton-on-Trent	British Pound Sterling	1	100.00%	Pirelli UK Ltd
Pirelli General & Overseas Pension Trustees Ltd	Financial	Burton-on-Trent	British Pound Sterling	1	100.00%	Pirelli UK Ltd
Pirelli Tyres Executive Pension Trustees Ltd	Financial	Burton-on-Trent	British Pound Sterling	1	100.00%	Pirelli Tyres Ltd
Pirelli Tyres Ltd	Tyre	Burton-on-Trent	British Pound Sterling	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Tyres Pension Trustees Ltd	Financial	Burton-on-Trent	British Pound Sterling	1	100.00%	Pirelli Tyres Ltd
Pirelli UK Ltd	Financial	Burton-on-Trent	British Pound Sterling	163,991,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd	Tyre	Burton-on-Trent	British Pound Sterling	85,000,000	100.00%	Pirelli Tyre S.p.A.
<b>Slovakia</b>						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6,639	100.00%	Pirelli Tyre S.p.A.
<b>Romania</b>						
Pirelli & C. Eco Technology RO S.r.l.	Sustainable mobility	Slatina	Rom. Leu	20,002,000	99.995%	Pirelli Tyre S.p.A.
					0.005%	Pirelli Tyres Romania S.r.l.
Pirelli Tyres Romania S.r.l.	Tyre	Slatina	Rom. Leu	2,189,797,300	100.00%	Pirelli Tyre S.p.A.
<b>Russia</b>						
Closed Joint Stock Company "Voronezh Tyre Plant"	Tyre	Voronezh	Russian Rouble	1,520,000,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Services (in liquidation)	Tyre	Moscow	Russian Rouble	54,685,259	95.00%	Pirelli Tyre (Suisse) SA
					5.00%	Pirelli Tyre S.p.A.
Limited Liability Company "Industrial Complex "Kirov Tyre"	Tyre	Kirov	Russian Rouble	348,423,221	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Russia	Tyre	Moscow	Russian Rouble	6,153,846	65.00%	E-VOLUTION Tyre B.V.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
<b>Spain</b>						
Euro Driver Car S.L.	Tyre	Valencia	Euro	960,000	58.44%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Neumaticos Arco Iris, S.A.	Tyre	Valencia	Euro	302,303	66.20%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli Neumaticos S.A. - Sociedad Unipersonal	Tyre	Valencia	Euro	25,075,907	100.00%	Pirelli Tyre S.p.A.
Tyre & Fleet S.L. - Sociedad Unipersonal	Tyre	Valencia	Euro	20,000	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
<b>Sweden</b>						
Dackia Aktiebolag	Tyre	Stockholm	Swed. Krona	31,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre Nordic Aktiebolag	Tyre	Stockholm	Swed. Krona	950,000	100.00%	Pirelli Tyre S.p.A.
<b>Switzerland</b>						
Driver (Suisse) SA	Tyre	Bioggio	Swiss Franc	100,000	100.00%	Pirelli Tyre (Suisse) SA
Pirelli Group Reinsurance Company SA	Services	Basel	Swiss Franc	3,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) SA	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre S.p.A.
<b>Turkey</b>						
Pirelli Lastikleri Dis Ticaret A.S.	Tyre	Istanbul	Turkish Lira	50,000	100.00%	Pirelli Otomobil Lastikleri A.S.
Pirelli Otomobil Lastikleri A.S.	Tyre	Istanbul	Turkish Lira	190,000,000	100.00%	Pirelli Tyre S.p.A.
<b>Hungary</b>						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre S.p.A.
<b>North America</b>						
<b>Canada</b>						
Pirelli Tire Inc.	Tyre	St-Laurent (Quebec)	Can. \$	6,000,000	100.00%	Pirelli Tyre (Suisse) SA
<b>U.S.A.</b>						
Pirelli North America Inc.	Tyre	New York (New York)	US \$	10	100.00%	Pirelli Tyre S.p.A.
Pirelli Tire LLC	Tyre	Rome (Georgia)	US \$	1	100.00%	Pirelli North America Inc.
Prestige Stores LLC	Tyre	Los Angeles	US \$	10	100.00%	Pirelli Tire LLC

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
<b>Central/South America</b>						
<b>Argentina</b>						
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	2,948,055,176	99.83%	Pirelli Tyre S.p.A.
					0.17%	Pirelli Pneus Ltda
<b>Brazil</b>						
Comercial e Importadora de Pneus Ltda.	Tyre	Sao Paulo	Bra. Real	381,473,982	100.00%	Pirelli Comercial de Pneus Brasil Ltda
Pirelli Comercial de Pneus Brasil Ltda.	Tyre	Sao Paulo	Bra. Real	1,149,296,303	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participações Ltda
Pirelli Latam Participações Ltda.	Tyre	Sao Paulo	Bra. Real	343,514,252	100.00%	Pirelli Tyre S.p.A.
Pirelli Ltda.	Financial	Santo André	Bra. Real	14,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda.	Tyre	Campinas (Sao Paulo)	Bra. Real	1,132,178,494	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participações Ltda
Comércio e Importação Multimarcas de Pneus Ltda.	Tyre	Sao Paulo	Bra. Real	3,691,500	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participações Ltda
C.P.Complexo Automotivo de Testes, Eventos e Entretenimento Ltda.	Tyre	Elias Fausto (Sao Paulo)	Bra. Real	89,812,000	60.00%	Pirelli Pneus Ltda
					40.00%	Pirelli Comercial de Pneus Brasil Ltda.
TLM - Total Logistic Management Serviços de Logística Ltda.	Tyre	Santo André	Bra. Real	3,074,417	99.99%	Pirelli Pneus Ltda
					0.01%	Pirelli Ltda
<b>Chile</b>						
Pirelli Neumaticos Chile Ltda	Tyre	Santiago	US \$	3,520,000	85.25%	Pirelli Comercial de Pneus Brasil Ltda
					14.73%	Pirelli Latam Participações Ltda
					0.02%	Pirelli Ltda
<b>Colombia</b>						
Pirelli Tyre Colombia S.A.S.	Tyre	Santa Fe De Bogota	Col. Peso/000	1,863,222,000	85.00%	Pirelli Comercial de Pneus Brasil Ltda
					15.00%	Pirelli Latam Participações Ltda
<b>Mexico</b>						
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	11,595,773,848	99.83%	Pirelli Tyre S.p.A.
					0.17%	Pirelli Latam Participações Ltda



Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
<b>Africa</b>						
<b>Egypt</b>						
Pirelli Egypt Tyre Trading S.A.E.	Tyre	Giza	Egy. Pound	84,250,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Egypt Consumer Tyre Distribution S.A.E.	Tyre	Giza	Egy. Pound	89,000,000	99.89%	Pirelli Egypt Tyre Trading S.A.E.
					0.06%	Pirelli Tyre S.p.A.
					0.06%	Pirelli Tyre (Suisse) SA
<b>South Africa</b>						
Pirelli Tyre (Pty) Ltd	Tyre	Gauteng 2090	S.A. Rand	1	100.00%	Pirelli Tyre (Suisse) SA
<b>Oceania</b>						
<b>Australia</b>						
Pirelli Tyres Australia Pty Ltd	Tyre	Pymont (NSW)	Aus. \$	150,000	100.00%	Pirelli Tyre (Suisse) SA
<b>Asia</b>						
<b>China</b>						
Pirelli Logistics (Yanzhou) Co., Ltd	Tyre	Jining	Chinese Renmimbi	5,000,000	100.00%	Pirelli Tyre Co., Ltd
Pirelli Taiwan Co. Ltd	Tyre	New Taipei City	N.T. \$	10,000,000	100.00%	Pirelli Tyre (Suisse) SA
Pirelli Trading (Beijing) Co., Ltd.	Tyre	Beijing	Chinese Renmimbi	4,200,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre (Jiaozuo) Co., Ltd.	Tyre	Jiaozuo	Chinese Renmimbi	350,000,000	80.00%	Pirelli Tyre S.p.A.
Pirelli Tyre Co., Ltd	Tyre	Yanzhou	Chinese Renmimbi	2,071,150,000	90.00%	Pirelli China Tyre N.V.
Pirelli Tyre Trading (Shanghai) Co., Ltd	Tyre	Shanghai	US \$	700,000	100.00%	Pirelli China Tyre N.V.
<b>Korea</b>						
Pirelli Korea Ltd	Tyre	Seoul	Korean Won	100,000,000	100.00%	Pirelli Asia Pte Ltd
<b>Japan</b>						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2,200,000,000	100.00%	Pirelli Tyre S.p.A.
<b>Singapore</b>						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. \$	2	100.00%	Pirelli Tyre (Suisse) SA

## Investments accounted for by the equity method

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
<b>Europe</b>						
<b>Germany</b>						
Industriekraftwerk Breuberg GmbH	Electricity generation	Hoechst / Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland GmbH
<b>Greece</b>						
Eco Elastika S.A.	Tyre	Athens	Euro	60,000	20.00%	Elastika Pirelli C.S.A.
<b>Italy</b>						
Consorzio per la Ricerca di Materiali Avanzati (CORIMAV)	Financial	Milan	Euro	103,500	100.00%	Pirelli & C. S.p.A.
Eurostazioni S.p.A.	Financial	Rome	Euro	160,000,000	32.71%	Pirelli & C. S.p.A.
Focus Investments S.p.A.	Financial	Milan	Euro	183,333	8.33%	Pirelli & C. S.p.A. (25% of the voting share capital)
<b>Poland</b>						
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsaw	Pln	1,008,000.00	20.00%	Pirelli Polska Sp. z o.o.
<b>Slovakia</b>						
ELT Management Company Slovakia S.R.O.	Tyre	Bratislava	Euro	132,000.00	20.00%	Pirelli Slovakia S.R.O.
<b>Romania</b>						
S.C. Eco Anvelope S.A.	Tyre	Bucarest	Rom. Leu	160,000	20.00%	S.C. Pirelli Tyres Romania S.r.l.
<b>Russia</b>						
Joint Stock Company "Kirov Tyre Plant"	Tyre	Kirov	Russian Rouble	5,665,418	20.00%	Limited Liability Company Pirelli Tyre Russia
<b>Spain</b>						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200,000	20.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
<b>Asia</b>						
<b>China</b>						
Xushen Tyre (Shanghai) Co, Ltd	Tyre	Shanghai	Chinese Renmimbi	1,050,000,000	49.00%	Pirelli Tyre S.p.A.
Jining Shenzhen Tyre Co, Ltd	Tyre	Jining City	Chinese Renmimbi	1,050,000,000	100.00%	Xushen Tyre (Shanghai) Co, Ltd
<b>Indonesia</b>						
PT Evoluzione Tyres	Tyre	Subang	Rupees	1,313,238,780,000	63.04%	Pirelli Tyre S.p.A.

## **FINANCIAL STATEMENTS**

**AT DECEMBER 31, 2021**

**STATEMENT OF FINANCIAL POSITION** (in euro)

	Note	12/31/2021		12/31/2020	
			of which related parties (Note 39)		of which related parties (Note 39)
Property, plant and equipment	8	69,988,482		76,326,337	
Intangible assets	9	2,276,388,200		2,273,753,812	
Investments in subsidiaries	10	4,632,419,637		4,633,665,637	
Investments in associates	11	6,374,501		6,374,501	
Other financial assets at fair value through other comprehensive income	12	54,817,356		41,073,518	
Other receivables	13	2,000,566,023	2,000,000,000	2,000,575,034	2,000,000,000
Derivative financial instruments	17	4,382,882		-	
<b>Non-current assets</b>		<b>9,044,937,082</b>		<b>9,031,768,839</b>	
Trade receivables	14	40,115,549	39,313,992	80,567,655	76,654,853
Other receivables	13	792,729,529	781,788,854	1,166,741,332	1,154,822,631
Cash and cash equivalents	15	40,217		1,741,849	
Tax receivables	16	65,074,474	64,524,862	32,675,745	31,368,963
Derivative financial instruments	17	5,132,143	5,132,143	2,894,124	2,894,124
<b>Current assets</b>		<b>903,091,911</b>		<b>1,284,620,705</b>	
<b>Total assets</b>		<b>9,948,028,993</b>		<b>10,316,389,544</b>	
Shareholders' equity:					
- Share capital		1,904,374,936		1,904,374,936	
- Other reserves		2,187,923,539		2,162,640,657	
- Retained earnings reserve		504,214,886		540,084,129	
- Net income of the year		216,618,625		43,956,054	
<b>Total shareholders' equity</b>	18	<b>4,813,131,985</b>		<b>4,651,055,776</b>	
Borrowings from banks and other financial institutions	19	3,410,178,031		4,623,295,428	
Other payables	23	821,950	211,512	538,238	211,511
Provisions for liabilities and charges	20	30,604,390	22,028,088	11,105,042	5,925,871
Provision for deferred tax liabilities	24	526,016,984		524,338,063	
Employee benefit obligations	21	21,442,451	3,707,657	8,463,592	1,349,130
Derivative financial instruments	17	3,554,179	3,554,179	109,696,906	109,696,906
<b>Non-current liabilities</b>		<b>3,992,617,984</b>		<b>5,277,437,269</b>	
Borrowings from banks and other financial institutions	19	1,070,540,924	1,186,589	307,349,886	2,084,327
Trade payables	22	18,386,788	2,854,236	27,570,277	3,080,055
Other payables	23	38,602,730	15,310,925	25,312,098	6,575,851
Provisions for liabilities and charges	20	509,463		-	
Employee benefit obligations	21	-		2,447,901	1,697,946
Tax payables	25	13,565,489	13,336,607	11,985,460	11,756,578
Derivative financial instruments	17	673,630	673,630	13,230,877	13,230,877
<b>Current liabilities</b>		<b>1,142,279,024</b>		<b>387,896,499</b>	
<b>Total Liabilities and Equity</b>		<b>9,948,028,993</b>		<b>10,316,389,544</b>	

**INCOME STATEMENT** (in euro)

	Note	2021		2020	
			of which related parties (Note 39)		of which related parties (Note 39)
Revenues from sales and services	27	69,600,631	69,476,717	53,485,963	53,336,756
Other income	28	107,345,247	104,371,766	124,405,233	111,602,641
Raw materials and consumables used	29	(213,962)		(228,201)	
Personnel expenses	30	(72,790,903)	(14,395,169)	(49,952,080)	(8,909,020)
Amortisation, depreciation and impairment	31	(9,362,065)		(9,916,348)	
Other costs	32	(114,063,118)	(41,247,192)	(108,667,961)	(20,456,756)
Net impairment loss on financial assets	33	(91,749)		(23,024)	
<b>Operating income (loss)</b>		<b>(19,575,918)</b>		<b>9,103,582</b>	
Net income (loss) from equity investments	34	230,262,609		39,650,001	
- gains on equity investments		-		1	
- losses on equity investments		(1,246,000)	(1,246,000)	(14,000,000)	(14,000,000)
- dividends		231,508,609	229,311,733	53,650,000	53,650,000
Financial income	35	33,642,838	31,957,128	68,152,687	30,994,080
Financial expenses	36	(79,622,905)	(2,826,774)	(104,537,534)	(34,837,663)
<b>Net income (loss) before taxes</b>		<b>164,706,624</b>		<b>12,368,736</b>	
Taxes	37	51,912,001		31,587,318	
<b>Total net income of the year</b>		<b>216,618,625</b>		<b>43,956,054</b>	

**STATEMENT OF COMPREHENSIVE INCOME** *(in euro)*

	Note	2021	2020
<b>A</b>			
<b>Net income of the year</b>		<b>216,618,625</b>	<b>43,956,054</b>
- Remeasurement of employee benefits	21	(80,709)	(18,491)
- Tax effect		19,370	4,438
- Fair value adjustment of other financial assets at fair value through other comprehensive income	12	13,763,515	(16,129,415)
<b>B</b>			
<b>Total items that may not be reclassified to income statement</b>		<b>13,702,176</b>	<b>(16,143,468)</b>
Fair value adjustment of derivatives designated as cash flow hedge:			
- Gains / (losses) for the year	17	95,022,233	(118,508,558)
- (Gains) / losses reclassified to income statement	17	(76,129,810)	120,951,632
- Tax effect		(4,534,181)	(586,338)
Cost of hedging			
- Gains / (losses) for the year	17	1,149,212	4,682,676
- (Gains) / losses reclassified to income statement	17	(4,801,545)	(5,022,200)
- Tax effect		876,560	81,486
<b>C</b>			
<b>Total items reclassified / that may be reclassified to income statement</b>		<b>11,582,469</b>	<b>1,598,698</b>
<b>D</b>			
<b>Total other components of comprehensive income (B+C)</b>		<b>25,284,645</b>	<b>(14,544,770)</b>
<b>A+D</b>			
<b>Total comprehensive income / (loss) for the financial year</b>		<b>241,903,270</b>	<b>29,411,284</b>

## STATEMENT OF CHANGES IN EQUITY (in euro)

	Share Capital	Legal Reserve	Share Premium Reserve	Concentration Reserve	Other Reserves	Other O.C.I. Reserves (*)	Merger Reserve	Reserve from results carried forward	Net result of the year	Total
<b>Total at 12/31/2019</b>	<b>1,904,374,936</b>	<b>380,874,988</b>	<b>630,380,599</b>	<b>12,466,897</b>	<b>92,534,791</b>	<b>(3,199,371)</b>	<b>1,022,927,715</b>	<b>266,842,318</b>	<b>273,241,811</b>	<b>4,580,444,684</b>
Result carried forward as per resolution of June 18, 2020	-	-	-	-	-	-	-	273,241,811	(273,241,811)	-
Bond conversion reserve	-	-	-	-	41,199,808	-	-	-	-	41,199,808
Other components of comprehensive income	-	-	-	-	-	(14,544,770)	-	-	-	(14,544,770)
Result for the year	-	-	-	-	-	-	-	-	43,956,054	43,956,054
Total comprehensive income/(loss) for the year	-	-	-	-	-	(14,544,770)	-	-	43,956,054	29,411,284
<b>Total at 12/31/2020</b>	<b>1,904,374,936</b>	<b>380,874,988</b>	<b>630,380,599</b>	<b>12,466,897</b>	<b>133,734,599</b>	<b>(17,744,141)</b>	<b>1,022,927,715</b>	<b>540,084,129</b>	<b>43,956,054</b>	<b>4,651,055,776</b>
Dividend distribution as per resolution of June 15, 2021	-	-	-	-	-	-	-	(36,043,946)	(43,956,054)	(80,000,000)
Other components of comprehensive income	-	-	-	-	-	25,284,645	-	-	-	25,284,645
Result for the year	-	-	-	-	-	-	-	-	216,618,625	216,618,625
Total comprehensive income/(loss) for the year	-	-	-	-	-	25,284,645	-	-	216,618,625	241,903,270
Other changes	-	-	-	-	-	(1,764)	-	174,703	-	172,939
<b>Total at 12/31/2021</b>	<b>1,904,374,936</b>	<b>380,874,988</b>	<b>630,380,599</b>	<b>12,466,897</b>	<b>133,734,599</b>	<b>7,538,741</b>	<b>1,022,927,715</b>	<b>504,214,886</b>	<b>216,618,625</b>	<b>4,813,131,985</b>

(in euro)

## BREAKDOWN OF OTHER O.C.I. RESERVES \*

	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Cash flow hedge reserve	Reserve Remeasurement for employee benefit	Tax effect	Total other O.C.I. Reserves
<b>Balance at 12/31/2019</b>	<b>10,637,571</b>	<b>4,558,755</b>	<b>(25,326,962)</b>	<b>1,923,791</b>	<b>5,007,474</b>	<b>(3,199,371)</b>
Other components of comprehensive income	(16,129,415)	(339,524)	2,443,074	(18,491)	(500,414)	(14,544,770)
<b>Balance at 12/31/2020</b>	<b>(5,491,844)</b>	<b>4,219,231</b>	<b>(22,883,888)</b>	<b>1,905,300</b>	<b>4,507,060</b>	<b>(17,744,141)</b>
Other components of comprehensive income	13,763,515	(3,652,333)	18,892,424	(80,709)	(3,638,251)	25,284,645
Other changes	(1,764)	-	-	-	-	(1,764)
<b>Balance at 12/31/2021</b>	<b>8,269,907</b>	<b>566,898</b>	<b>(3,991,464)</b>	<b>1,824,591</b>	<b>868,809</b>	<b>7,538,741</b>

**CASH FLOW STATEMENT** (in euro)

	Note	2021	of which related parties (Note 39)	2020	of which related parties (Note 39)
Net income (loss) before taxes		164,706,624		12,368,736	
Reversals of amortisation, depreciation, impairment losses	31	9,362,065		9,916,348	
Reversal of accruals	32	35,195,093		11,834,568	
Reversal of (Financial income)/financial expenses	36	45,980,067	(29,130,354)	36,384,847	3,843,583
Reversal of Dividends	34	(231,508,609)	(229,311,733)	(53,650,000)	(53,650,000)
Reversal of (gain)/losses on investments	34	1,246,000	1,246,000	13,999,999	13,999,999
Reversal of (Gains)/losses from sales of property, plant and equipment	28	(395)		(7,939,419)	
Net taxes paid		-		-	
Change in Trade receivables	14	40,360,358	37,340,862	(56,815,726)	(54,929,831)
Change in Trade payables	22	(11,702,230)	(225,819)	8,307,914	(1,690,827)
Change in Other receivables	13	(3,050,692)	923,721	13,731,447	247,000
Change in Other payables	23	13,574,345	8,735,075	(5,745,869)	(5,517,611)
Change in Tax receivables/Tax payables	16	19,133,970	(31,575,870)	9,237,046	9,237,046
Use of Provisions for employee benefit obligations	21	(2,981,095)	(1,697,946)	(2,119,269)	(1,099,996)
Use of Other provisions	20	(1,663,189)		(38,459,199)	
<b>A Net cash flows provided by/(used in) operating activities</b>		<b>78,652,311</b>		<b>(48,948,576)</b>	
Investments in property, plant and equipment	8	(252,277)		(2,671,000)	
Disposal of property, plant and equipment	8	5,000,395		4,683,035	
Investments in intangible assets	9	(2,015,819)		(858,351)	
Reimbursement of other non current financial assets at fair value through other comprehensive income	12	5,142		-	
Dividends received	34	231,508,609	229,311,733	53,650,000	53,650,000
<b>B Net cash provided/(used) by investment activities</b>		<b>234,246,050</b>		<b>54,803,684</b>	
Change in Financial receivables	13	372,070,333	372,109,827	(827,567,175)	(821,528,964)
Financial income	35	27,131,633	28,107,646	24,606,201	24,524,783
Change in Borrowings from banks and other financial institutions due to draw down	19	868,549,294		2,427,978,000	
Change in Borrowings from banks and other financial institutions due to repayments	19	(1,419,656,199)		(1,557,746,749)	
Dividends paid	18	(79,929,783)		-	
Financial expenses	36	(75,385,176)	(3,724,512)	(67,338,777)	22,625,758
Repayment of principal and payment of interest for lease liabilities	19	(7,380,095)		(5,798,851)	
<b>C Net cash provided/(used) by financing activities</b>		<b>(314,599,994)</b>		<b>(5,867,352)</b>	
<b>D Total net cash generated/(used) in the year (A+B+C)</b>		<b>(1,701,632)</b>		<b>(12,244)</b>	
<b>E Opening balance of Cash and cash equivalents</b>		<b>1,741,849</b>		<b>1,754,093</b>	
<b>F Closing balance of Cash and cash equivalents (D+E)</b>		<b>40,217</b>		<b>1,741,849</b>	



## EXPLANATORY NOTES

### 1. GENERAL INFORMATION

Pirelli & C. S.p.A. (hereinafter also the “Company” or the “Parent Company”) is a corporation organized under the laws of the Republic of Italy.

Founded in 1872, it is a holding company that manages, coordinates and funds the activities of subsidiaries (hereinafter Pirelli Group).

The registered office of the Company is in Viale Piero e Alberto Pirelli 25 – Milan.

As from October 4, 2017, Pirelli & C. S.p.A. shares are now traded on the Mercato Telematico Azionario (MTA Telematic Stock Market), managed by Borsa Italiana S.p.A.

The audit of the financial statements is entrusted to PricewaterhouseCoopers S.p.A. pursuant to Legislative Decree January 27, 2010 no. 39 and in execution of the resolution of the shareholders’ meeting of August 1, 2017, which assigned the mandate to this company for each of the nine financial years ending from December 31, 2017 to December 31, 2025.

Pirelli & C. S.p.A. is directly controlled by Marco Polo International Italy S.r.l. which in turn, through China National Chemical Corporation (“ChemChina”) and other subsidiaries of the latter, is indirectly controlled by Sinochem Holdings Corporation Ltd, a company of State-owned Chinese law (State-owned enterprise or SOE) controlled by the State-owned Assets Supervision and Administrative Commission of the State Council (SASAC) of the People’s Republic of China.

There are no entities that exercise management and coordination activities over the Company.

On March 17, 2022, the Board of Directors authorized publication of these Annual Financial Statements (“Annual Financial Statements or Separate Financial Statements”).

### **Significant Events 2021**

On **February 25, 2021**, Pirelli communicated the terms of the termination, with effect from February 28, 2021, of the employment relationship with the co-CEO General Manager Angelos Papadimitriou, announced to the market on **January 20, 2021**.

In accordance with the Pirelli Remuneration Policy, Mr. Papadimitriou was attributed by the Board of Directors, in addition to the amounts due by way of remuneration and other employment law services accrued up to the date of termination: (i) 10 months of gross annual remuneration as an incentive to retirement, equal to the value of the expected indemnity in lieu of the notice, based on the conventional seniority attributed at the time of hiring as executive (ii) euro 100,000 gross as a general novative settlement, to be paid once the termination is defined in accordance with the current employment law procedures as well as the maintenance until December 31, 2021 of some non-monetary benefits attributed at the time of hiring as executive. Mr. Papadimitriou will remain bound,

for two years following the termination of the office of Director, to a non-competition agreement, valid for the main countries in which Pirelli operates, against a fee, for each year of validity, equal to 100% of the gross annual remuneration, to be paid in 8 deferred quarterly installments starting from July 1, 2021; the non-competition agreement includes a non-solicit clause as well as penalties in the event of violation of the obligations deriving from the non-competition agreement. The termination of the office of director of Angelos Papadimitriou took place **on March 31, 2021**.

On **March 24, 2021**, the shareholders' meeting approved, in an extraordinary session, the convertibility of the equity-linked bond loan referred to as "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025", issued on December 22, 2020. It also approved a divisible share capital increase, with the exclusion of the option right, to service the conversion for a total value, including any share premium, of euro 500 million. On the basis of the initial conversion ratio of the bond of euro 6.235, this increase will correspond to the issue of a maximum of 80,192,461 ordinary shares of Pirelli & C. S.p.A. (it being understood that the maximum number of Pirelli & C. S.p.A. ordinary shares may increase on the basis of the effective conversion ratio applicable from time to time). The holders of the bond have the possibility, on the basis of the Physical Settlement Notice sent by the company on **April 15, 2021**, to exercise, from May 6, 2021, the right to convert the bonds into Pirelli ordinary shares as provided for in the conditions of the bond.

On **March 31, 2021**, the Board of Directors approved the 2021-2022|2025 Business Plan, which was presented to the financial community on the same date. It also approved the financial statements at December 31, 2020, which closed with a consolidated net profit of euro 42.7 million and a net profit of the Parent Company of euro 44 million.

On **June 15, 2021**, the Company's Shareholders' Meeting approved the 2020 financial statements, resolving the distribution of a dividend of euro 0.08 per share, equal to a total dividend of euro 80 million, gross of withholding taxes. The dividend was paid on June 23, 2021 (with ex-dividend date June 21, 2021 and record date June 22, 2021).

On **November 11, 2021**, the Board of Directors approved a syndicated line, which will be finalized in the next few months, for a total of euro 1.6 billion. It will be used to refinance and/or replace the bank lines maturing in June 2022. The transaction will make it possible to optimize the debt profile by extending the maturities.

Furthermore, on the same date, the Board of Directors – subject to the favorable opinion of the Board of Statutory Auditors and verification of the requisites envisaged by the Articles of Association – resolved to appoint Mr. Giorgio Luca Bruno as Chief Reporting Officer, replacing Francesco Tanzi who, as anticipated to the market, left the company on December 31, 2021.

Mr. Giorgio Luca Bruno holds 500 Pirelli shares.

## 2. BASIS FOR PREPARATION

These Financial Statements have been prepared on a going concern assumption since the Directors have verified the absence of financial, operational or other types of indicators that could indicate critical issues regarding the ability of the Company to meet its obligations in the foreseeable future and in particular in the next 12 months. The description of the ways in which the Company manages financial risks is contained in Chapter 4 Financial risk management policy and Chapter 6 Capital management policy of these Notes.

In application of Legislative Decree of February 28, 2005, no. 38, “Exercise of the options provided for by article 5 of regulation (EC) no. 1606/2002 on international accounting standards”, issuers are required to prepare not only the consolidated financial statements but also the financial statements of the Company in compliance with the international accounting standards (IFRS) issued by the International Accounting Standards Board (IASB) and published in the Official Journal of the European Community (GUCE).

IFRS include all International Financial Reporting Standards, International Accounting Standards (IAS), all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).

The financial statements have been prepared on the basis of the historical cost criterion with the exception of the following items valued at fair value:

- derivative financial instruments;
- other financial assets at fair value recorded in the other components of the comprehensive income statement;
- other financial assets at fair value through the income statement.

### **Financial Statements**

The separate Financial Statements at December 31, 2021 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, and are accompanied by the Directors’ Report on Operations.

The format adopted for the Statement of Financial Position classifies assets and liabilities as current and non-current.

The Company has opted to present the components of profit/loss for the year in a separate Income Statement, rather than include these components directly in the Comprehensive Income Statement. The income statement format adopted classifies costs by nature.

The Statement of Comprehensive Income includes the result for the period and, for homogeneous categories, the revenues and costs which, in accordance with IFRS, are recorded directly in equity.

The Company opted for the presentation of the tax effects and reclassifications to the income statement of profits/losses recorded in equity in previous years directly in the Statement of Comprehensive Income and not in the Notes.

The Statement of Changes in Equity includes, in addition to the total gains/losses of the period, the amounts from transactions with equity holders and the changes in reserves during the year.

In the Statement of Cash Flows, the cash flows deriving from operating activities are presented using the indirect method, according to which the profit or loss for the period is adjusted by the effects of non-monetary items, by any deferment or accrual of past or future operating receipts or payments, and by any revenue or cost items connected with the cash flows arising from investing activities or financing activities.

It shall also be noted that the Group has applied the provisions of Consob Resolution no. 15519 of July 27, 2006 in regard to the formats of financial statements and Consob Notice no. 6064293 of July 28, 2006 in regard to corporate disclosure.

In order to provide greater clarity and comparability of the financial statement items, the amount of the corresponding items of the previous year were adjusted where necessary.

All amounts included in the Notes, unless otherwise specified, are in euro thousands.

### 3. ACCOUNTING STANDARDS

The accounting standards used in the preparation of separate financial statements are the same as those used for the purposes of preparing the consolidated financial statements where applicable, except as indicated below.

#### **Investments in subsidiaries and associates**

Investments in subsidiaries and associates are recorded at cost, net of any impairment losses.

In the presence of specific impairment indicators, the value of investments in subsidiaries and associates, determined based on the historical cost basis, is tested for impairment.

The indicators are as follows:

- the carrying amount of the investment in the separate financial statements exceeds the carrying amount of the investee's net assets (inclusive of any associates goodwill) expressed in the consolidated financial statements;

- the dividend distributed by the investee exceeds the total comprehensive income of the investee company in the year to which the dividend refers;
- the operating income (loss) achieved by the investee company is significantly lower than the amount envisaged in the management plan;
- there are expectations of significantly decreasing operating results for future years;
- existence of changes in the technological, market, economic or regulatory environment in which the investee operates that may generate significant negative economic effects on the company's results.

The impairment test consists of comparing the carrying amount and the recoverable value of the investment.

If the recoverable amount of an investment is lower than the carrying amount, the latter is reduced to the recoverable amount. This reduction constitutes an impairment loss recorded in the Income Statement.

The recoverable amount of an investment is identified as the greater of fair value, less costs to sell, and value in use.

For the purposes of impairment testing, the fair value of an investment in a subsidiary, associate or joint venture with shares listed on an active market is always equivalent to its market value, irrespective of the percentage of ownership. In the case of investments in unlisted companies, the fair value is determined using estimates based on the best information available.

For the purposes of determining the value in use of a subsidiary and associated company, an estimate is made of the future net operating cash flows discounted, net of the net financial position of the company considered at the reference date of the estimate (Discounted Cash Flow criterion – Asset side). The value in use reflects the effects of factors that may be specific to the entity, factors that may not be applicable to any entity.

If the reason for impairment ceases to exist, the carrying amount of the investment is recorded in the Income Statement, up to the original cost.

### **Impairment of financial receivables from subsidiaries and associates**

The calculation of the impairment of financial receivables from subsidiaries and associates is made with reference to the expected losses in the following twelve months. This calculation is based on a matrix that includes the ratings of companies provided by independent market operators. In the event of a significant increase in the credit risk subsequent to the origin date of the receivable, the expected loss is calculated with reference to the entire life of the receivable. The Company assumes that the

credit risk related to a financial instrument has not increased significantly after initial recognition, if it is determined that the financial instrument has a low credit risk at the reporting date.

The Company assesses whether there has been a significant increase in credit risk when the counterparty rating, attributed by independent market operators, undergoes a change that shows an increase in the probability of default. The Company considers a financial asset in default when internal or external information indicates that it is unlikely that the Company will receive the entire contracted amount overdue (for example, when the receivables are with the lawyer).

## Dividends

Dividend income is recorded in the Income Statement when the right to receive payment is established, which normally corresponds to the resolution approved by the Shareholders' Meeting for the distribution of dividends.

### 3.1 Accounting standards and interpretations endorsed and in force from January 1, 2021

In accordance with IAS 8 "Accounting standards, changes in accounting estimates and errors", the IFRS effective from January 1, 2021 are indicated below:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Interbank Offered Rate - IBOR reform – phase 2)

Said amendments introduce temporary easing of the operating methods for managing the impacts deriving from the replacement of an interest rate offered on the interbank market (IBOR) with a substantially risk-free alternative rate. In particular, the amendments provide for the following practical expedients:

- handling contractual changes or changes in cash flows directly required by the reform as changes in a floating market interest rate;
- introduction of some exemptions relating to the termination of hedging;
- temporary exemption from the obligation to separately identify a risk component (where such separate component subject to hedging is represented by an alternative interest rate);
- introduction of some additional disclosures regarding the impacts of the reform.

Said amendments have no impact on the Company's financial statements as the expiry of the potentially impacted instruments is expected to be a date prior to the transition to the new IBOR.

- Amendments to IFRS 16 Leases – reductions in fees related to Covid-19

Said amendments extend by one year the possibility of applying optional accounting treatment for lessees in the presence of reductions in permanent (rent holidays) or temporary fees related to Covid-19. The amendments were to be applicable until June 30, 2021. However, as the impact of the pandemic continues, said option was extended until June 30, 2022.

Lessees can choose to account for lease reductions as variable lease payments recorded directly in the income statement for the period in which the reduction applies, or treat them as a modification of the lease contract with the consequent obligation to re-measure the lease payable based on the revised fee using a revised discount rate. The Company expects to apply this optional accounting treatment should the case occur within the permitted application period. There are no impacts on the Company's financial statements following the extension of this optional accounting treatment.

### **3.2 International accounting standards and/or interpretations issued but not yet in force in 2021**

Pursuant to IAS 8 "Accounting standards, changes in accounting estimates and errors", the following are the new Standards or Interpretations that have been issued but have not yet come into force or have not yet been endorsed by the European Union at December 31, 2021, and which are therefore not applicable, and the foreseeable impacts on the Separate Financial Statements.

None of these standards and interpretations have been adopted in advance by the Group.

- Amendments to IAS 1 - Presentation of Financial Statements - Classification of liabilities as current or non-current

The amendments clarify the criteria that must be applied for the classification of liabilities as current or non-current and specify that the classification of a liability is not influenced by the probability that the settlement of the liabilities be deferred by twelve months following the reference year. The Group's intention to liquidate in the short term has no impact on the classification. Said amendments, which are scheduled to come into force on January 1, 2023, have not yet been endorsed by the European Union. No impacts are expected on the classification of financial liabilities following these amendments.

- Amendments to IAS 16 - Property, plant and machinery - Fees received before intended use

These amendments prohibit the deduction of amounts received from the sale of products from the cost of property, plant and equipment, while the asset is being prepared for its intended use. The proceeds from the sale of the products, and the related production cost must be recorded in the Income Statement.

Said amendments have been endorsed by the European Union and will be applicable from January 1, 2022. No impacts on the Company's financial statements are foreseen as a result of these amendments.

- Amendments to IAS 37 - Provisions, contingent liabilities and contingent assets - Onerous contracts - Costs of fulfilling a contract

These amendments specify that the costs to be taken into consideration when evaluating onerous contracts are both the incremental costs for the fulfillment of the contract (for example direct labor and materials) and a share of other costs that relate directly to the fulfillment of the contract (for example, a breakdown of the depreciation rate of the assets used for the fulfillment of the contract).

Said amendments have been endorsed by the European Union and will be applicable from January 1, 2022. No impacts on the Company's financial statements are foreseen as a result of these amendments.

- *Annual Improvements* (cycle 2018 – 2020) issued in May 2020

These are amendments limited to some standards (IFRS 1 - First-time adoption of IFRS, IFRS 9 - Financial Instruments, IAS 41 - Agriculture and illustrative examples of IFRS 16 - Leases) that clarify the formulation or correct omissions or conflicts between the requirements of IFRS. Said amendments have been endorsed by the European Union and will be applicable from January 1, 2022. No impacts on the Company's financial statements are foreseen as a result of these amendments.

- Amendments to IAS 1 Presentation of the financial statements and IFRS Practice Statement 2: Disclosure on accounting standards

These amendments provide a guide for the application of materiality judgments to disclosure on accounting standards so that they are more useful; in particular:

- the obligation to indicate the "significant" accounting standards has been replaced with the obligation to indicate the "relevant" ones;
- a guide has been added on how to apply the concept of relevance to disclosures on accounting standards.

In assessing the relevance of disclosures on accounting standards, entities must consider the amount of transactions, other events or conditions and their nature.

These amendments, which will come into force on January 1, 2023, have not yet been endorsed by the European Union. No impacts on the disclosures of the Company's financial statements are foreseen as a result of these amendments.



- Amendments to IAS 8 - Accounting standards, changes in accounting estimates and errors

These amendments introduce a new definition of “accounting estimates”, distinguishing them more clearly from accounting standards, and provide guidance for determining whether changes should be treated as changes in estimates, changes in accounting standards or errors.

These amendments, which will come into force on January 1, 2023, have not yet been endorsed by the European Union. No impacts on the Company’s financial statements are foreseen as a result of these amendments.

- Amendments to IAS 12 - Income taxes – deferred tax assets and liabilities deriving from a single transaction

These amendments eliminate the possibility of not recording deferred taxes at the time of the initial recognition of transactions that give rise to taxable and deductible temporary differences (e.g. lease contracts).

With reference to lease contracts, these amendments also clarify that, when lease payments are deductible for tax purposes, it is a matter of judgement (after considering the applicable tax law) whether such deductions are attributable for tax purposes to the recorded lease liability or to the related right of use. If the tax deductions are attributed to the right of use, the tax values of the right of use and the lease liability are equal to their carrying amounts, and no temporary differences arise at the time of initial recognition. However, if the tax deductions are attributed to the lease liability, the tax values of the right of use and the lease liability are null, giving rise to taxable and deductible temporary differences, respectively. Even if the gross temporary differences are the same, a deferred tax liability and a deferred tax asset must still be recorded.

These amendments, which will come into force on January 1, 2023, have not yet been endorsed by the European Union. The impacts on the Company’s Financial Statements following said amendments are being analyzed.

#### 4. FINANCIAL RISK MANAGEMENT POLICY

The measurement and management of the financial risks of Pirelli & C. S.p.A. are consistent with as defined by the Group policies.

The Pirelli Group is exposed to financial risks. These are principally associated with foreign exchange rates, fluctuations in interest rates, the price of financial assets held as investments, the ability of customers to meet their obligations to the Group (credit risk), and raising funds on the market (liquidity risk).

Financial risk management is an integral part of Group business management and is handled directly by the headquarters in accordance with guidelines issued by the Finance Department on the basis of general risk management strategies defined by the Managerial Risk Committee.

The main financial risk categories to which the Company is exposed are shown below:

### **Exchange rate risk**

This risk is generated by the commercial and financial transactions that are executed in currencies other than euro exchange rate fluctuations between the time when the commercial or financial relationship is established and when the transaction is completed (collection or payment) may generate foreign exchange gains or losses.

The Group aims to minimise the impact of transaction exchange rate risk related to volatility. To achieve this objective, Group procedures make the Operating Units responsible for collecting complete information about the assets and liabilities that are subject to transaction exchange rate risk. This risk is hedged with forward contracts made with the Group Treasury.

The items subject to exchange rate risk are mainly represented by receivables and payables denominated in foreign currency.

The Group Treasury is responsible for hedging the net position for each currency. In accordance with established guidelines and restrictions, it closes all risk positions by trading derivative contracts on the market, which typically take the form of forward contracts.

The Group has decided not to opt for hedge accounting pursuant to IFRS 9, insofar as the representation of the economic and financial effects of the hedging strategy on foreign exchange rate risk is still substantially guaranteed even without adopting such option.

Furthermore, it shall be noted that as part of the annual and three-year planning process, exchange rate forecasts are made using the best information available on the market. The fluctuation in exchange rates between the time when the forecast is made and the time when the commercial or financial transaction occurs represents the exchange rate risk on future transactions.

From time to time, the Group assesses the need to engage in hedging transactions on future transactions for which it typically uses both forward and optional purchase or sale transactions, such as risk reversal (e.g. zero cost collar). Hedge accounting in accordance with IFRS 9 is referred to when the conditions are met.

With reference to some foreign currency loans, the Company enters into derivative contracts, cross currency interest rate swaps, to hedge for which hedge accounting is activated in compliance with the requirements of IFRS 9.

The effects on the shareholders' equity and on the income statement of the Company deriving from changes in exchange rates calculated on the hedging instruments in place at December 31, 2021 are described in note 17 "Derivative financial instruments".

### Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial asset or liability will change due to fluctuations in market interest rates.

The Group assesses based on market circumstances whether to enter into derivative contracts, typically interest rate swaps, to hedge for which hedge accounting is activated when the conditions set out in IFRS 9 are fulfilled.

The following is an outline of the effects on net result of the Company arising from an increase or decrease of 0.50% in the level of interest rates, with all other conditions being equal:

<i>(in thousands of euro)</i>	<b>+0.5%</b>		<b>-0.5%</b>	
	<b>12/31/2021</b>	<b>12/31/2020</b>	<b>12/31/2021</b>	<b>12/31/2020</b>
Impact on Net income (loss)	(7,020)	(4,982)	7,020	4,982

The effects on the Company shareholders' equity resulting from changes in the LIBOR and EURIBOR rates calculated on the interest rate hedging instruments outstanding at December 31, 2021 are described in note 17 "Derivative financial instruments".

### Price risk associated with financial assets

The Company is exposed to price risk, which is limited to the volatility of financial assets such as listed and unlisted stocks and bonds; these assets are classified as financial assets at fair value recorded as other components of the statement of comprehensive income.

Derivatives hedges are not set up to limit the volatility of these assets.

Financial assets at fair value recorded as other components of the statement of comprehensive income consist of listed securities amounted to euro 21,855 thousand (euro 14,076 thousand at December 31, 2020) and those represented by securities indirectly associated with listed shares (Fin. Priv. S.r.l.) amounted to euro 21,172 thousand (euro 15,902 thousand at December 31, 2020); these financial assets represent 78% of total financial assets subject to price risk; a +5% price change in the above listed securities, other things being equal, would result in a positive change of euro 1,093 thousand of the Company's shareholders' equity (positive for euro 704 thousand at December 31, 2020), while a -5% negative change of these listed securities, other things being

equal, would result in a negative change of euro 1,093 thousand of the Company's shareholders' equity (negative for euro 704 thousand at December 31, 2020).

### **Credit risk**

Credit risk represents the Company's exposure to contingent losses resulting from default by commercial and financial counterparties.

The Company's exposure to commercial and financial obligations is mainly towards Group companies.

To limit the risk for commercial obligations towards third parties, the Company has implemented procedures to evaluate its customers' potential and financial solidity, for the monitoring of expected cash flows and taking credit recovery action if necessary. The Company operates only with highly rated financial counterparties for the management of its temporary cash surpluses and constantly monitors its exposure to individual counterparties.

The Company does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system.

Liquidity is deposited according to risk diversification principles and in compliance with minimum rating levels.

### **Liquidity risk**

Liquidity risk represents the risk that the financial resources available are insufficient to meet the financial and commercial obligations pursuant to the contractual terms and conditions.

The principal instruments used by the Group to manage liquidity risk are comprised by its annual and three-year financial and cash-pooling plans. These allow complete and fair detection and measurement of incoming and outgoing cash flows. The differences between plans and actual data are constantly analyzed.

The Group has implemented a centralised cash pooling system for the management of collection and payment flows in compliance with various local currency and tax laws. Banking relationships are negotiated and managed centrally, in order to ensure coverage of short and medium-term financial needs at the lowest possible cost. The procurement of medium and long-term resources on the capital market is also streamlined through centralised management.

Prudent management of the risk described above requires maintaining an adequate level of cash or cash equivalents and/or highly liquid, short-term financial instruments, and the availability of funds through an adequate amount of committed credit facilities and/or recourse to the capital market, while diversifying the products and their maturities to seize the best available opportunities.

Furthermore, the Group adopts an extremely prudent approach with respect to the maturities of its financial debt, with refinancing well in advance in order to minimize the risks associated with liquidity crises or market shutdowns.

At December 31, 2021, the Company had, aside from cash equal to euro 40 thousand (euro 1,742 thousand at December 31, 2020), unused credit facilities equal to euro 700,000 thousand, maturing June 2022 (euro 700,000 thousand at December 31, 2020).

The maturities of financial liabilities at December 31, 2021 may be broken down as follows:

<i>(in thousands of euro)</i>	12/31/2021				Total
	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years	
Payables to banks and other lenders	1,091,588	1,138,943	2,358,358	18,819	4,607,707
<i>of which lease liabilities:</i>	7,187	6,916	19,277	16,834	50,214
Trade payables	18,387	-	-	-	18,387
Other payables	38,603	822	-	-	39,425
Derivative financial instruments	3,196	1,908	300	-	5,404
<b>Total</b>	<b>1,151,774</b>	<b>1,141,673</b>	<b>2,358,658</b>	<b>18,819</b>	<b>4,670,923</b>

The maturities of financial liabilities at December 31, 2020 may be broken down as follows:

<i>(in thousands of euro)</i>	12/31/2020				Total
	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years	
Payables to banks and other lenders	347,480	1,683,574	3,068,653	22,821	5,122,528
<i>of which lease liabilities:</i>	7,301	7,073	19,393	22,821	56,587
Trade payables	27,570	-	-	-	27,570
Other payables	25,312	538	-	-	25,850
Derivative financial instruments	13,180	90,838	2,865	-	106,883
<b>Total</b>	<b>413,542</b>	<b>1,774,950</b>	<b>3,071,518</b>	<b>22,821</b>	<b>5,282,831</b>

## 5. INFORMATION ON FAIR VALUE

### 5.1 Fair value measurement

In relation to financial instruments measured at fair value, the following table shows the classification of these instruments on the basis of the hierarchy of levels pursuant to IFRS 13, reflecting the significance of the inputs used in determining the fair value. The levels are as follows:

- level 1 – unadjusted quotations recorded on an active market for assets or liabilities subject to valuation;
- level 2 – inputs different from the quoted prices referred to at the preceding level, which are observable on the market either directly (as in the case of prices) or indirectly (because they are derived from prices);
- level 3 – inputs that are not based on observable market data.

The following table shows **assets measured at fair value at December 31, 2021**, divided into the three levels defined above:

<i>(in thousands of euro)</i>	Note	12/31/2021	Level 1	Level 2	Level 3
<b>FINANCIAL ASSETS</b>					
<b>Other financial assets at fair value through income statement</b>					
Current derivative financial instruments	17	14	-	14	-
<b>Other financial assets at fair value through other comprehensive income</b>					
Equities and shares	12	51,993	21,855	21,172	8,966
Investment funds	12	2,825	-	2,825	-
<b>Derivative hedging instruments</b>					
Non-current derivative financial instruments	17	4,383	-	4,383	-
Current derivative financial instruments	17	5,118	-	5,118	-
<b>TOTAL ASSETS</b>		<b>64,332</b>	<b>21,855</b>	<b>33,511</b>	<b>8,966</b>
<b>FINANCIAL LIABILITIES</b>					
<b>Financial liabilities at fair value through profit or loss</b>					
Current derivative financial instruments	17	(4)	-	(4)	-
<b>Derivative hedging instruments</b>					
Non-current derivative financial instruments	17	(670)	-	(670)	-
Current derivative financial instruments	17	(3,554)	-	(3,554)	-
<b>TOTAL LIABILITIES</b>		<b>(4,228)</b>	<b>-</b>	<b>(4,228)</b>	<b>-</b>

The breakdown at December 31, 2020 was as follows:

	Note	12/31/2020	Level 1	Level 2	Level 3
<b>FINANCIAL ASSETS</b>					
<b>Other financial assets at fair value through income statement</b>					
Current derivative financial instruments	17	2,894	-	2,894	-
<b>Other financial assets at fair value through other comprehensive income</b>					
Equities and shares	12	38,288	14,076	15,903	8,309
Investment funds	12	2,786	-	2,786	-
<b>Derivative hedging instruments</b>					
Non-current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	-	-	-	-
<b>TOTAL ASSETS</b>		<b>43,968</b>	<b>14,076</b>	<b>21,583</b>	<b>8,309</b>
<b>FINANCIAL LIABILITIES</b>					
<b>Financial liabilities at fair value through profit or loss</b>					
Current derivative financial instruments	17	(13,231)	-	(13,231)	-
<b>Derivative hedging instruments</b>					
Non-current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	(109,697)	-	(109,697)	-
<b>TOTAL LIABILITIES</b>		<b>(122,928)</b>	<b>-</b>	<b>(122,928)</b>	<b>-</b>

The following table shows the **changes of financial assets that occurred in level 3**:

<i>(in thousands of euro)</i>	12/31/2021	12/31/2020
<b>Opening balance</b>	<b>8,309</b>	<b>7,799</b>
Fair value adjustments through other comprehensive income	657	510
<b>Closing balance</b>	<b>8,966</b>	<b>8,309</b>

These financial assets mainly consist of the equity investment in Istituto Europeo di Oncologia (European Institute of Oncology) (euro 8,006 thousand).

In the year ended December 31, 2021, there were no transfers from level 1 to level 2 and vice versa, nor from level 3 to other levels and vice versa.

The fair value of financial instruments traded on active markets is based on the price quotations published at the reporting date of the Financial Statements. These instruments, included in level 1, primarily comprise equity investments classified as financial assets at fair value through other comprehensive income.

The fair value of financial instruments not traded on active markets (e.g. derivatives) is determined by the use of evaluation techniques widely used in the financial sector, which maximise the utilisation of observable and available market data:

- market prices for similar instruments;
- the fair value of interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves;
- the fair value of cross currency interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves;
- the fair value of foreign exchange derivatives (forward contracts) is determined by using the forward exchange rate at the reporting date.

## 5.2 Categories of financial assets and liabilities

The following are the carrying amounts for each class of financial asset and liability identified by IFRS 9:

<i>(in thousands of euro)</i>	Note	12/31/2021	12/31/2020
<b>FINANCIAL ASSETS</b>			
<b>Financial assets at fair value through Income Statement</b>			
Current derivative financial instruments	17	14	2,894
<b>Financial assets at amortized cost</b>			
Other non-current receivables	13	2,000,566	2,000,575
Current trade receivables	14	40,116	80,568
Other current receivables	13	792,730	1,166,741
Cash and cash equivalents	15	40	1,742
		<b>2,833,451</b>	<b>3,249,626</b>
<b>Financial assets at fair value through Other Comprehensive Income</b>			
Financial assets at fair value through Other Comprehensive Income	12	54,817	41,074
<b>Derivative hedging instruments</b>			
Current derivative financial instruments	17	5,118	-
Non-current derivative financial instruments	17	4,383	-
		9,501	-
<b>TOTAL FINANCIAL ASSETS</b>		<b>2,897,783</b>	<b>3,293,594</b>
<b>FINANCIAL LIABILITIES</b>			
<b>Financial liabilities at fair value through Income Statement</b>			
Current derivative financial instruments	17	4	13,231
<b>Financial liabilities at amortized cost</b>			
Non-current borrowings from banks and other financial institutions (excl. Lease payables)	19	3,371,179	4,579,366
Current borrowings from banks and other financial institutions (excl. Lease payables)	19	1,064,767	301,571
Current trade payables	22	18,387	27,570
Other non-current payables	23	822	538
Other current payables	23	38,603	25,312
		<b>4,493,757</b>	<b>4,934,357</b>
<b>Lease payables</b>			
Non-current lease payables	19	38,999	43,929
Current lease payables	19	5,774	5,779
		44,773	49,708
<b>Derivative hedging instruments</b>			
Current derivative financial instruments	17	670	-
Non-current derivative financial instruments	17	3,554	109,697
		4,224	109,697
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>4,542,758</b>	<b>5,106,994</b>

## 6. CAPITAL MANAGEMENT POLICY

The Company's objective is to maximise the return on net invested capital while maintaining the ability to operate over time, ensuring adequate returns for its shareholders and benefits for the other



stakeholders, with progressive deleverage of the financial structure in the short/medium term, as also outlined in the section relating to the “Outlook over 2022” in the Directors’ Report on Operations.

## 7. ESTIMATES AND ASSUMPTIONS

The preparation of the Separate Financial Statements entails Management making estimates and assumptions, which, under certain circumstances, are based on difficult and subjective assessments and estimates that are based on historical experience, and assumptions that are periodically considered reasonable and realistic in light of the circumstances. Therefore, the actual results achieved may differ from said estimates. Estimates and assumptions are reviewed periodically and the effects of any changes made to them are reflected in the Income Statement in the period in which the estimate is revised. If such estimates and assumptions, based on the best evaluation currently available, should differ from actual circumstances, they will be modified accordingly in the period of the change of the circumstances. The estimates and assumptions mainly refer to the valuation of the recoverability of other intangible assets with indefinite useful life and of the investments in subsidiaries, to the determination of payables for leasing and rights of use, to the determination of taxes (current and deferred), and to the recognition/valuation of provisions for risks and charges.

### **Pirelli Brand (intangible assets with indefinite useful life)**

The Pirelli Brand is an intangible asset with indefinite useful life not subject to amortization, but, pursuant to IAS 36, to impairment test annually or more frequently, if specific events or circumstances occur which may lead to the presumption of impairment.

The impairment test at December 31, 2021 was performed using the assistance of an independent third-party professional.

The recoverable value configuration for the purposes of the impairment test at December 31, 2021 is the Fair Value, calculated on the basis of the income approach (Level 3 of the hierarchy of IFRS 13 – Fair Value measurement). The key assumptions used by management are the estimate of future increases in sales, their growth rate beyond the explicit forecast period, the royalty rate and the discount rate, which is based on the weighted average cost of capital plus a premium determined according to the riskiness of the specific asset.

### **Rights of use and lease payables**

With regard to the estimates and assumptions used to determine lease payables and rights of use, the application of IFRS 16 introduced some elements of professional judgement and the use of

assumptions and estimates in relation to the lease term and to the definition of the incremental borrowing rate. The standards are summarized as follows:

- the contract renewal clauses are considered for the purposes of determining the duration of the contract when the Company has the option of exercising them without the need to obtain the consent of the counterparty and when their exercise is deemed reasonably certain. In the case of clauses which provide for multiple renewals that can be exercised unilaterally by the Company, only the first extension period has been considered;
- the automatic renewal clauses of contracts in which both parties have the right to terminate the contract have not been considered for the purposes of determining the duration of the contract, as the ability to extend the duration of the same is not under the unilateral control of the Company and the penalties to which the lessor could be exposed to is not significant. However, in the event that the lessor is exposed to a significant penalty, the Company considers including a renewal option in determining the duration of the contract. This assessment is also carried out considering the degree of customization of the asset subject to leasing: if the customization is high, the lessor may incur a significant penalty if opposing the renewal;
- early termination clauses in contracts: these clauses are not considered in determining the duration of the contract if they can only be exercised by the lessor or by both parties. If they are unilaterally exercised by the Company, specific assessments are contractually conducted (for example, the Company is already negotiating a new contract or has already given notice to the lessor).

### **Investments in subsidiaries**

Investments are assessed to establish whether there was a decrease in value, to be recorded with impairment, if there are indications that it will be difficult to recover their net accounting value. To establish the presence of said indications, Directors must make subjective assessments on the basis of information available within the Company and the market, as well as historical experience.

Moreover, if it is determined that a potential impairment loss may be generated, the Company calculates this loss using appropriate measurement techniques. The proper identification of elements indicating the existence of a potential impairment loss, and the estimates for calculating the amount of such losses, depend on factors that may vary over time, affecting the assessments and estimates made by Directors. In particular, the key assumptions used by management are estimates of future increases in sales, operating cash flows, growth rate of operating cash flows beyond the explicit forecast period for the purpose of estimating the terminal value, and the weighted average cost of capital (discount rate).

### Provisions for risks and charges

Provisions are set aside against legal and fiscal risks related to indirect taxes, representing the risk of losing lawsuits. The amount of provisions recorded in relation to these liabilities represents the best estimate at the reporting date made by management for lawsuits and tax claims regarding a vast range of issues, which are subject to the jurisdiction of various countries. Such an estimate entails making assumptions that depend on factors that may change over time and could therefore have a material impact with respect to the current estimates made by management for the preparation of the Separate Financial Statements.

### Income taxes (current and deferred)

Income taxes (current and deferred) are determined according to a prudent interpretation of the tax regulations in force. This process sometimes involves complex estimates in determining taxable income and temporary deductible and taxable differences between accounting and tax values. In particular, deferred tax assets are recorded to the extent that it is probable that future taxable income will be available, against which they can be recovered. The assessment of the recoverability of deferred tax assets, recorded in relation both to tax losses that may be used in subsequent years and to temporary deductible differences, takes into account the estimate of future taxable income and is based on prudent tax planning. With regard to situations in which the tax legislation in force lends itself to interpretation, if the Group considers it probable (greater than 50%) that the tax authority will accept the tax treatment adopted, the income (loss) before taxes is determined in accordance with the tax treatment applied in the tax return. Otherwise, the effect of uncertainty is reflected in the determination of the income (loss) before taxes. The probability refers to the fact that the tax authority does not accept the tax treatment adopted, and not to the probability of the assessment.

## 8. PROPERTY, PLANT AND EQUIPMENT

The breakdown of these items is as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
- Tangible assets	32,433	33,988
- Rights of use	37,555	42,338
<b>Net Value</b>	<b>69,988</b>	<b>76,326</b>

## 8.1 Property, plant and equipment

The breakdown and changes of these items are as follows:

<i>(in thousands of euro)</i>	12/31/2021			12/31/2020		
	Gross Value	Accumulated Depreciation	Net Value	Gross Value	Accumulated Depreciation	Net Value
Land	5,245	-	5,245	5,245	-	5,245
Buildings	44,273	(23,180)	21,093	44,179	(21,866)	22,313
Plant and machinery	2,848	(1,916)	931	2,787	(1,820)	967
Industrial and trade equipment	1,891	(1,250)	641	1,891	(1,011)	880
Other assets	14,653	(10,130)	4,523	14,938	(10,355)	4,583
<b>Total</b>	<b>68,909</b>	<b>(36,476)</b>	<b>32,433</b>	<b>69,040</b>	<b>(35,052)</b>	<b>33,988</b>

<b>NET VALUE</b>	12/31/2020	Increases	Decreases	Reclassif.	Depreciation	12/31/2021
<i>(in thousands of euro)</i>						
Land	5,245	-	-	-	-	5,245
Buildings	22,313	93	-	-	(1,314)	21,092
Plant and machinery	967	60	-	-	(96)	931
Industrial and trade equipment	880	-	-	-	(239)	641
Other assets	4,583	54	-	-	(113)	4,524
<b>Total</b>	<b>33,988</b>	<b>207</b>	<b>-</b>	<b>-</b>	<b>(1,762)</b>	<b>32,433</b>

<b>NET VALUE</b>	12/31/2019	Increases	Decreases	Reclassif.	Depreciation	12/31/2020
<i>(in thousands of euro)</i>						
Land	6,584	-	(1,339)	-	-	5,245
Buildings	24,040	45	(355)	1	(1,418)	22,313
Plant and machinery	247	884	(33)	98	(229)	967
Industrial and trade equipment	6	949	-	-	(76)	880
Other assets	3,836	793	(16)	66	(95)	4,583
Assets under construction	165	-	-	(165)	-	-
<b>Total</b>	<b>34,878</b>	<b>2,671</b>	<b>(1,743)</b>	<b>-</b>	<b>(1,818)</b>	<b>33,988</b>

There were no significant increases and divestments in 2021.

Financial expenses were not capitalized on property, plant and equipment.

## 8.2 Rights of use

The net value of the assets for which the Company has stipulated a lease contract is as follows:

<i>(in thousands of euro)</i>	12/31/2021	12/31/2020
Rights of use Buildings	36,384	40,588
Rights of use Other assets	1,171	1,750
<b>Net value</b>	<b>37,555</b>	<b>42,338</b>

**Rights of use on buildings** mainly refer to contracts relating to offices.

**Rights of use on other assets** mainly refer to contracts relating to motor vehicles. These contracts also include the service component (non-lease component).

Lease contracts are negotiated on an individual basis and include a wide variety of terms and conditions.

The increases in rights of use in 2021, including remeasurement, amounted to euro 1,034 thousand (euro 15,648 thousand in 2020) for lease contracts related to motor vehicles and properties.

There were no reassessments or changes to significant contracts in 2021.

Amortization of rights of use recorded in the income statement and included in the item “amortization depreciation and impairment” (note 31) are as follows:

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
Buildings	4,928	4,839
Other assets	772	792
<b>Total depreciation of right of use</b>	<b>5,700</b>	<b>5,631</b>

For interest expense recorded in connection with lease contracts, refer to the information in note 36 “Financial expenses”.

For information on costs for lease contracts with a duration of less than twelve months, lease contracts for low unit value goods and lease contracts with variable fees, refer to note 32 “Other costs”.

For information on lease liabilities, refer to note 19 “Borrowings from banks and other lenders”.

## 9. INTANGIBLE ASSETS

The items in question and the related changes are detailed as follows:

<i>(in thousands of euro)</i>	<b>12/31/2020</b>	<b>Increase</b>	<b>Transfers</b>	<b>Amortisation</b>	<b>12/31/2021</b>
Pirelli Brand - indefinite life	<b>2,270,000</b>	-	-	-	<b>2,270,000</b>
Software licenses	<b>567</b>	209	90	(258)	<b>608</b>
Other intangible assets	<b>2,962</b>	3,738	135	(1,642)	<b>5,193</b>
Assets under construction	<b>225</b>	587	(225)	-	<b>587</b>
<b>Total</b>	<b>2,273,754</b>	<b>4,534</b>	-	<b>(1,900)</b>	<b>2,276,388</b>

<i>(in thousands of euro)</i>	<b>12/31/2019</b>	<b>Increase</b>	<b>Transfers</b>	<b>Amortisation</b>	<b>12/31/2020</b>
Pirelli Brand - indefinite life	<b>2,270,000</b>	-	-	-	<b>2,270,000</b>
Software licenses	<b>489</b>	357	-	(279)	<b>567</b>
Other intangible assets	<b>4,875</b>	276	-	(2,189)	<b>2,962</b>
Assets under construction	-	225	-	-	<b>225</b>
<b>Total</b>	<b>2,275,364</b>	<b>858</b>	-	<b>(2,468)</b>	<b>2,273,754</b>

The Pirelli Brand (asset with indefinite useful life) for euro 2,270,000 thousand, originated following the allocation of the merger deficit, generated following the incorporation of the parent company Marco Polo Industrial Holding S.p.A. in 2016. The allocation of the deficit was made consistently with the consolidated financial statements as a result of the completion of the Purchase Price Allocation.

The valuation of the useful life of the brands is based on a series of factors including the competitive environment, market share, history of the brand, life cycles of the underlying product, operational plans and macroeconomic environment of the countries in which the related products are sold. In particular, the useful life of the Pirelli Brand was assessed indefinitely on the basis of its history of one hundred and fifty years of success (established in 1872) and the intention and ability of the Group to continue investing in order to support and maintain the brand.

The **increases** in the year mainly refer to the enhancement of the information systems aimed at creating a new integrated operating model.

No impairment was carried out in 2021.

#### *Impairment test of the Pirelli Brand (asset with indefinite useful life)*

The Pirelli Brand, amounting to euro 2,270,000 thousand, is an intangible asset with indefinite useful life and therefore not subject to amortization. However, pursuant to IAS 36, it is subject to impairment annually or more frequently, if specific events or circumstances occur that may lead to the presumption of impairment.

The impairment test at December 31, 2021 was performed using the assistance of an independent third-party professional.

The recoverable value configuration for the purposes of the impairment test at December 31, 2021 is the Fair Value, calculated on the basis of the income approach (Level 3 of the hierarchy of IFRS 13 – Fair Value measurement) and is based on:

- Management's forecasts which are based, with reference to 2022, on the Guidance presented to the financial community on February 23, 2022 and, with reference to the years 2023 - 2025, on the Industrial Plan presented to the financial community on March 31, 2021. It should be noted that analysts' consensus forecasts for the period 2022 - 2024 are higher than management's projections and therefore have not been considered for the purposes of the financial year. The revenue growth rate for the period 2022 - 2025, calculated relative to 2021 revenues, is 4.5%;
- evaluation criterion for the sum of parts that also considers the contribution in terms of royalties from the Prometeon Tyre Group for the use of the Pirelli brand in the Industrial segment;
- royalty rate applied to the revenues of the Consumer High Value and Consumer Standard valuation units taken from the royalty rates implicit in the valuations made by an independent

entity relative to the main brands of the listed companies of the Tyre sector and equal to an average royalty rate of 3.94%. With reference to the contribution in terms of royalties from the Prometeon Tyre Group, reference was made to the royalties provided by existing contracts;

- discount rate of 7.90%, which includes a premium with respect to WAAC determined on the basis of the risk of the specific asset;
- growth rate *g* in the terminal value assumed to be zero;
- TAB (Tax Amortization Benefit), which is the tax benefit that could potentially benefit the market participant that acquired the asset separately due to the possibility of fiscally amortizing it.

For the purposes of the impairment test, the recoverable value of the Pirelli Brand *cum* TAB is compared with the respective carrying amount (*cum* TAB) and no impairment has emerged.

The recoverable value is higher than the carrying amount of the Brand (12.5%) while, in order for the Fair Value to be equal to the carrying amount, a worsening variation of the key parameters is necessary and in particular:

- decrease in the royalty rates of the Consumer valuation units of 45 basis points and the simultaneous cancellation of royalties from the license contract with Prometeon Tyre Group;
- increase in the discount rate of 89 basis points;
- negative “*g*” growth rate of -141 basis points.

## 10. INVESTMENTS IN SUBSIDIARIES

At December 31, 2021, this item amounted to euro 4,632,420 thousand compared to euro 4,633,666 thousand at December 31, 2020, and the breakdown is as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
HB Servizi S.r.l.	230	230
Maristel S.p.A.	1,315	1,315
Pirelli Group Reinsurance Company S.A.	6,346	6,346
Pirelli Ltda	8,420	9,666
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	3,238	3,238
Pirelli Sistemi Informativi S.r.l.	1,655	1,655
Pirelli Tyre S.p.A.	4,528,245	4,528,245
Pirelli UK Ltd.	7,871	7,871
Pirelli International Treasury S.p.A.	75,000	75,000
Servizi Aziendali Pirelli S.C.p.A.	100	100
<b>Total investments in subsidiaries</b>	<b>4,632,420</b>	<b>4,633,666</b>

Below are the changes during the year:

<i>(in thousands of euro)</i>	12/31/2021	12/31/2020
<b>Opening balance</b>	<b>4,633,666</b>	<b>4,647,666</b>
Write-downs	(1,246)	(14,000)
<b>Closing balance</b>	<b>4,632,420</b>	<b>4,633,666</b>

The company checks the recorded values of its investments and the existence of impairment indicators on the basis of as set out in paragraph 3 - Accounting standards – Investments in subsidiaries and associates.

Following the verification of the indicators, the subsidiary on which it was necessary to carry out the test is Pirelli Ltda. In the specific case, the carrying amount was compared to the recoverable value. The impairment test determined the need for impairment of euro 1,246 thousand.

Further details are set out in the Annexes to the Explanatory Notes.

## 11. INVESTMENTS IN ASSOCIATED COMPANIES

At December 31, 2021, this item amounted to euro 6,375 thousand, unchanged compared to December 31, 2020, and the breakdown is as follows:

<i>(in thousands of euro)</i>	12/31/2021	12/31/2020
Consorzio per le Ricerche sui Materiali Avanzati (CORIMAV)	104	104
Eurostazioni S.p.A. - Roma	6,271	6,271
<b>Total investment in associates</b>	<b>6,375</b>	<b>6,375</b>

No changes occurred during the year. Further details are set out in the Annexes to the Explanatory Notes.

## 12. OTHER FINANCIAL ASSETS AT FAIR VALUE RECORDED IN THE OTHER COMPONENTS OF THE STATEMENT OF COMPREHENSIVE INCOME (FVOCI)

Other financial assets at fair value recorded in the other components of the statement of comprehensive income amounted to euro 54,817 thousand at December 31, 2021 (euro 41,074 thousand at December 31, 2020). The breakdown of the item for each security is as follows:

<i>(in thousands of euro)</i>	12/31/2021	12/31/2020
<b>Listed securities</b>		
RCS Mediagroup S.p.A. - Milano	21,855	14,076
<b>Unlisted securities</b>		
Fin. Priv Srl	21,171	15,902
Fondo Comune di Investimento Immobiliare Anastasia	2,825	2,786
Istituto Europeo di Oncologia S.r.l.	8,006	7,962
Other companies	960	348
<b>Total financial assets at fair value through other comprehensive income</b>	<b>54,817</b>	<b>41,074</b>



The changes in the year are shown below:

<i>(in thousands of euro)</i>	
<b>Opening balance</b>	<b>41,074</b>
Decreases	(20)
Adjustment to fair value recognized in other comprehensive income	13,763
<b>Closing balance</b>	<b>54,817</b>

The **fair value adjustments in the other components of the statement of comprehensive income** mainly refer to the investments in RCS MediaGroup S.p.A (positive for euro 7,779 thousand), in Fin.Priv. S.r.l. (positive for euro 5,269 thousand), in Genextra S.p.A. (positive for euro 608 thousand), in Istituto Europeo di Oncologia (positive for euro 44 thousand), in Fondo Comune di investimento Anastasia (positive for euro 39 thousand) and in Nomisma - Società di Studi Economici S.p.A. (positive for euro 30 thousand).

The fair value of listed securities corresponds to the stock market price at December 31, 2021. For unlisted securities and real estate funds, the fair value was estimated according to available information.

### 13. OTHER RECEIVABLES

The breakdown of other receivables is as follows:

<i>(in thousands of euro)</i>	12/31/2021			12/31/2020		
	Total	Non-current	Current	Total	Non-current	Current
Other receivables from subsidiaries	1,380	-	1,380	2,307	-	2,307
Financial receivables from subsidiaries	2,780,305	2,000,000	780,305	3,151,544	2,000,000	1,151,544
Financial receivables from third parties	-	-	-	5,000	-	5,000
Guarantee deposits	281	281	-	267	267	-
Other receivables from third parties	6,489	285	6,204	3,705	308	3,397
Receivables from tax authorities for taxes not related to income	4,583	-	4,583	3,390	-	3,390
Financial accrued interest income	72	-	72	943	-	943
Financial prepaid expenses	186	-	186	160	-	160
<b>Total other receivables</b>	<b>2,793,296</b>	<b>2,000,566</b>	<b>792,730</b>	<b>3,167,316</b>	<b>2,000,575</b>	<b>1,166,741</b>

**Financial receivables from subsidiaries** include the current portion of the short-term use of a long-term credit line (maturity January 31, 2023) disbursed to Pirelli International Treasury S.p.A. for an amount of euro 770 million. They also include the receivable for interest accrued not yet paid on the same line for euro 9,922 thousand and the relation with Pirelli International Treasury S.p.A. for the interest-bearing current account, which is regulated at interest rates market for euro 384 thousand (at December 31, 2020 equal to euro 1,622 thousand).

The amount shown in non-current other financial receivables from subsidiaries refers to an existing loan with Pirelli International Treasury S.p.A. taken out on January 31, 2020 with maturity on January 31, 2023.

For the purposes of applying the IFRS 9 accounting standard in relation to loans to Group companies, management has made an estimate of the expected credit losses in the 12 months following the closing of the financial statements. The analysis takes into consideration qualitative,

quantitative, historical, and prospective information to determine whether the intra-group loan has a credit risk at December 31, 2021. Referring to a probability of default of a loan from the Pirelli & C. Group and considering the financial position of subsidiaries, Pirelli & C. management concluded that any impairment required by the standard would be of an immaterial amount.

**Receivables from the tax authorities for taxes not related to income** for euro 4,583 thousand mainly refer to receivables for VAT, which increased compared to the previous year.

**Accrued financial assets** refer to portions of interest accrued but not yet collected on cross currency interest swap derivative contracts related to the unsecured syndicated financing “Facilities” granted to Pirelli & C. S.p.A.

**Deferred financial assets** relate mainly to the commissions on the revolving and term loan credit line.

The carrying amount of financial receivables and other receivables approximates their fair value.

#### 14. TRADE RECEIVABLES

Trade receivables amounted to euro 40,116 thousand compared to euro 80,568 thousand of the previous year and the breakdown is as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
Receivables from subsidiaries	39,115	76,578
Receivables from associates	3	3
Receivables from other companies	1,732	4,630
<b>Total receivables - gross amount</b>	<b>40,850</b>	<b>81,211</b>
Provision for bad debt	(734)	(643)
<b>Total receivables</b>	<b>40,116</b>	<b>80,568</b>

Below is the breakdown of trade receivables based on the currency in which they are expressed:

<i>(in thousands of euro)</i>	<b>% of total trade receivables</b>		<b>% of total trade receivables</b>	
	<b>12/31/2021</b>		<b>12/31/2020</b>	
EUR	33,760	82%	74,625	92%
USD (Dollar USA)	906	2%	111	0%
RUB (Ruble Russia)	650	2%	1,556	2%
CHF	5,534	14%	4,919	6%
<b>Total</b>	<b>40,850</b>	<b>100%</b>	<b>81,211</b>	<b>100%</b>

**Receivables from subsidiaries** at December 31, 2021 mainly include the amounts that Pirelli & C. S.p.A. charges for services rendered through Corporate functions and charge-backs of costs. The aforementioned receivables are due within the financial year and do not show past due balances of significant amount.

**Receivables from other companies** of euro 1,732 thousand (euro 4,630 thousand at December 31, 2020), shown gross of the provision for bad debts of euro 734 thousand, are past due for euro 1,544 thousand.

Past due receivables and receivables due have been valued in accordance with the Group policies described in the paragraph relating to credit risk management in the “Financial risk management policy”.

Impaired receivables include both significant positions impaired separately, and positions with similar characteristics in terms of credit risk, grouped and impaired on a collective basis.

The change in the provision for bad debts is shown below:

<i>(in thousands of euro)</i>	12/31/2021	12/31/2020
<b>Opening balance</b>	<b>643</b>	<b>620</b>
Accruals	91	23
Utilizations/reversals	-	-
<b>Closing balance</b>	<b>734</b>	<b>643</b>

**Accruals** to the provision for bad debts are recorded in the Income Statement as “Impairment of financial assets” (note 33).

For trade receivables, the carrying amount is considered to approximate the applicable fair value.

## 15. CASH AND CASH EQUIVALENTS

At December 31, 2021, they amounted to euro 40 thousand, against euro 1,742 thousand at December 31, 2020. They refer to balances of bank accounts in euro repayable on demand.

The credit risk associated with cash and cash equivalents, is to be considered limited because the counterparties are represented by leading national and international banking institutions.

It is believed that the value of cash and cash equivalents is in line with their fair value.

## 16. TAX RECEIVABLES

At December 31, 2021, they amounted to euro 65,074 thousand (euro 32,676 thousand at December 31, 2020).

The amount mainly includes:

- receivables from Group companies participating in the tax consolidation for euro 64,525 thousand (euro 31,369 thousand at December 31, 2020). The increase compared to the

previous year substantially depends on the greater contribution of the positive taxable result by the subsidiary Pirelli Tyre S.p.A.;

- receivables for IRAP advances for euro 125 thousand (euro 125 thousand at December 31, 2020).

## 17. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes the fair value of derivative instruments. The breakdown is as follows:

(in thousands of euro)	12/31/2021				12/31/2020			
	Non Current Assets	Current Assets	Non Current Liabilities	Current Liabilities	Non Current Assets	Current Assets	Non Current Liabilities	Current Liabilities
<b>Without adoption of hedge accounting</b>								
Forex instruments - trade positions	-	9	-	(4)	-	25	-	(5)
Forex instruments - included in net financial position	-	5	-	-	-	2,642	-	(13,226)
Derivatives for interest rate - included in net financial position	-	-	-	-	-	227	-	-
<b>In hedge accounting</b>								
<b>- cash flow hedge:</b>								
Derivatives for interest rate - included in net financial position	4,383	-	(3,554)	(670)	-	-	(9,733)	-
Other derivatives instruments - included in net financial position	-	5,118	-	-	-	-	(99,964)	-
<b>Total derivative instruments</b>	<b>4,383</b>	<b>5,132</b>	<b>(3,554)</b>	<b>(674)</b>	<b>-</b>	<b>2,894</b>	<b>(109,697)</b>	<b>(13,231)</b>

The above derivatives are intercompany derivatives stipulated mainly with the Group's treasury company, Pirelli International Treasury S.p.A.

### Derivative financial instruments in hedge accounting

The value of **derivatives on interest rates**, recorded as non-current assets for euro 4,383 thousand, non-current liabilities for euro 3,554 thousand and current liabilities for euro 670 thousand, refers to the fair value measurement of 10 cross currency interest rate swaps with the following characteristics:

Instrument	Covered Item	Notional (in thousands of euro)	Start date	Deadline	Description
IRS	Term loan in Eur	250,000	June 2019	June 2022	receive fix / pay floating
IRS	Term loan in Eur	62,500	August 2019	August 2023	receive fix / pay floating
IRS	Schuldschein	180,000	July 2020	July 2023	receive fix / pay floating
IRS	Schuldschein	20,000	July 2020	July 2025	receive fix / pay floating
IRS forward start	Pre-hedge	500,000	March 2022	March 2026	receive floating / pay fix
<b>Total</b>		<b>1,012,500</b>			

In the first half of 2021, an IRS receive floating EURIBOR/pay fix EURIBOR was closed early following the partial repayment of the unsecured loan ("Facilities") for euro 756 million (see note 19).

For these derivatives, cash flow hedge accounting was adopted. Items subjected to hedge accounting are:

- future interest flows on liabilities in euro at floating rate;

- future interest flows on the Schuldschein loan (see note 19);
- future financing (pre-hedge).

The change in the fair value for the period, positive for euro 4,773 thousand, was entirely suspended in equity, while in the Income Statement, net interest expense for euro 3,955 thousand was reversed to the item “Financial expenses” (note 36), correcting the financial expenses recorded on the liability hedged, as well as euro 1,104 thousand for ineffectiveness relating to the early settlement of the IRS..

A change of +0.5% in the EURIBOR curve, all other conditions being equal, would result in a positive change of euro 11,812 thousand in the Company’s equity, while a change of -0.5% in the same curve would result in a negative change of euro 12,111 thousand in the Company’s equity.

The value of **other derivatives**, recorded as current assets for euro 5,118 thousand, refers to the fair value measurement of 2 cross currency interest rate swaps with the following characteristics:

Instrument	Notional (in thousands of USD)	Start date	Deadline	Description
CCIRS	170,422	July 2019	June 2022	pay fix EURIBOR / receive floating LIBOR
CCIRS	908,920	July 2019	June 2022	pay fix EURIBOR / receive floating LIBOR
<b>Total</b>	<b>1,079,342</b>			

In the first half of 2021, two CCIRS pay floating EURIBOR / receive floating LIBOR were closed early following the partial repayment of the unsecured loan (“Facilities”) for euro 756 million (see note 19).

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, is to hedge the Company against the risk of fluctuations in cash flows associated with changes in the LIBOR rate and changes in the USD/EUR exchange rate, generated by a liability in USD at floating rate with a notional value of USD 1,079,341 thousand (see note 19 Borrowings from banks and other financial institutions).

The positive change in fair value for the period was suspended in equity for euro 91,398 thousand (positive cash flow hedge reserve for euro 90,249 thousand and positive cost of hedging reserve for euro 1,149 thousand), while the following were reversed in the income statement:

- profits of euro 83,860 thousand to offset net unrealised exchange rate losses recorded on the hedged liability;
- net interest expense of euro 849 thousand to adjust the financial expenses recorded on the hedged liability;
- positive effect for euro 1,281 thousand following the liquidation of two CCIRS in February 2021.

A parallel change of +0.5% of the EURIBOR and LIBOR curves, all other conditions being equal, would entail a positive variation of euro 1,899 thousand in the Company’s equity, while a variation of

-0.5% of the same curves would result in a negative change of euro 1,914 thousand in the Company's equity.

A change of +10% in the USD/EUR exchange rate, all other conditions being equal, would result in a negative change of euro 135 thousand in the Company's equity; a negative change of 10%, on the other hand, would entail a positive change of euro 180 thousand in the Company's equity.

Hedging relationships relating to IRS and CCIRS are considered effective prospectively as the following conditions are met:

- there is an economic relationship between the hedging instrument and the hedged item, as the characteristics of the hedging instrument (nominal interest rate, reset of the interest rate and frequency of the payment of interest) are substantially in line with those of the hedged item. As a consequence, changes in the fair value of the hedging instrument regularly offset those of the hedged item;
- the effect of credit risk is not predominant within the hedging relationship: based on the Group's operating rules, derivatives are traded only with high standing banking counterparties and the credit quality of the existing derivatives portfolio is constantly monitored;
- the designated hedge ratio is in line with the one used for financial risk management and is 100% (1:1).

The ineffectiveness of the hedging relationship is calculated at each reporting date with the Dollar Offset method, which provides for the comparison of changes in the fair value risk adjusted of the hedging instrument (with the exception of those attributable to the spread referring to the currency basis) with changes in the fair value risk free of the hedged item, through the identification of a hypothetical derivative with the same characteristics of the underlying financial liability.

Possible causes of ineffectiveness are as follows:

- application of adjustment for credit risk only to the hedging instrument but not to the hedged item;
- the hedged item incorporates a floor that is not reflected in the hedging instrument;
- misalignment between the actual contractual conditions of the future transaction and those of the hedging instrument.

For further details, see note 36 "Financial expenses".

## 18. SHAREHOLDERS' EQUITY

Equity amounted to euro 4,813,132 thousand (euro 4,651,056 thousand at December 31, 2020).

The statement of changes in equity is shown in the main financial statements.

Equity went from euro 4,651,056 thousand at December 31, 2020 to euro 4,813,132 thousand at December 31, 2021. The change is essentially due to the net result for the year (positive for euro 216,619 thousand), the adjustment to the fair value of derivatives designated as cash flow hedges, net of the tax effect (positive for euro 11,582 thousand), the adjustment to the fair value of financial assets at fair value recorded as other components of the statement of comprehensive income (positive for euro 13,764 thousand) and the dividend distribution of euro 80,000 thousand.

### **Share capital**

The share capital at December 31, 2021, fully subscribed and paid-in, amounted to euro 1,904,374,935.66 divided into 1,000,000,000 ordinary shares without nominal value, unchanged compared to December 31, 2020.

### **Legal reserve**

The legal reserve at December 31, 2021 amounted to euro 380,875 thousand, unchanged compared to December 31, 2020, having already reached the limit set by article 2430 Civil Code.

### **Share premium reserve**

At December 31, 2021, the share premium reserve amounted to euro 630,381 thousand, unchanged compared to December 31, 2020.

### **Concentration reserve**

At December 31, 2021, concentration reserves amounted to euro 12,467 thousand, unchanged compared to December 31, 2020.

### **Other reserves**

At December 31, 2021, other reserves amounted to euro 133,735 thousand, unchanged compared to December 31, 2020.

### Other O.C.I. reserves

At December 31, 2021, Other O.C.I. reserves were positive for euro 7,539 thousand and refer to the reserve for the fair value adjustment recorded in the statement of comprehensive income (positive for euro 8,270 thousand), to the employee benefits re-measurement reserve (positive for euro 1,825 thousand) and the cash flow hedge reserve and the cost of hedging reserve, net of the tax effect (negative for euro 2,556 thousand).

### Merger reserve

At December 31, 2021, the merger reserve amounted to euro 1,022,928 thousand, unchanged compared to December 31, 2020. The reserve was generated following the merger by incorporation of Marco Polo Industrial Holding S.p.A. in Pirelli & C. S.p.A. in 2016.

### Reserve from results carried forward

The reserve from results carried forward amounted to euro 504,215 thousand compared to a 540,084 at December 31, 2020. The decrease is attributable to the withdrawal and consequent distribution of euro 36,044 thousand, as per the resolution of the shareholders' meeting of June 15, 2021.

In accordance with the provisions of article 2427, no. 7-bis of the Italian Civil Code, in the following table each item of equity is indicated analytically, with indication of its origin, possibility of use and distributability, as well as of its use in previous years.

<i>(in thousands of euro)</i>	Amount	Possible use	Available portion	Summary of reserves uses in the last three previous years
Share capital	1,904,375			
Share premium reserve	630,381	A, B, C	630,381	-
Legal reserve	380,875	B	380,875	-
Other reserves				
- Concentration reserve	12,467	A, B, C	12,467	-
- Convertible bond loan reserve	41,200	A	41,200	-
- Other reserves	92,535	A, B	92,535	-
- Other O.C.I. reserves	7,539	-	-	-
- Merger reserve	1,022,928	A, B, C	1,022,928	-
Retained earnings	504,215	A, B, C	504,215	(36,044)
<b>Total</b>	<b>4,596,515</b>		<b>2,684,601</b>	<b>(36,044)</b>
Non distributable			514,610	
Residual quota available			2,169,991	

- A to increase the share capital
- B to cover losses
- C to distribute to the shareholders



## 19. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The item borrowings from banks and other financial institutions, is broken down as follows:

<i>(in thousands of euro)</i>	12/31/2021			12/31/2020		
	Total	Not currents	Currents	Total	Not currents	Currents
Bonds	1,453,762	1,453,762	-	1,524,500	1,442,650	81,850
Borrowings from banks	2,967,539	1,917,417	1,050,122	3,336,716	3,136,716	200,000
Lease liabilities	44,773	38,999	5,774	49,708	43,929	5,779
Other financial payables	1,984	-	1,984	7,335	-	7,335
Accrued liabilities	12,661	-	12,661	12,386	-	12,386
<b>Total borrowings from banks &amp; other financial institutions</b>	<b>4,480,719</b>	<b>3,410,178</b>	<b>1,070,541</b>	<b>4,930,645</b>	<b>4,623,295</b>	<b>307,350</b>

The item **bonds**, refers to:

- a non-interest-bearing senior unsecured guaranteed equity-linked bond, for a nominal value of euro 500 million maturing on December 22, 2025. The bond, reserved for institutional investors, issued by Pirelli & C. S.p.A. on December 22, 2020, guaranteed by Pirelli Tyre S.p.A. and admitted to trading on the Vienna MTF, multilateral trading facility managed by the Vienna Stock Exchange. The bond is convertible, at the discretion of the bondholders, into new ordinary shares of the Company at a price of euro 6.235 per share, subject to the anti-dilutive adjustments envisaged by the loan regulations. At December 31, 2021, the component recorded under financial payables was equal to euro 461 million. The difference with the nominal value refers to the fair value of the call option sold to the underwriters of the loan, represented by the option to convert it into new ordinary shares of the Company at a predefined price, and accounted for as shareholders' equity reserves for euro 41.2 million;
- the unrated bond for the nominal amount of euro 553 million (originally for euro 600 million which was partially repurchased for the total amount of euro 47 million during the last quarter of 2018), placed on January 22, 2018 with a fixed coupon of 1.375% and an original maturity of 5 years. This bond, guaranteed by Pirelli Tyre S.p.A. and placed with international institutional investors, was issued as part of the EMTN (Euro Medium-Term Note) program approved by the Board of Directors at the end of 2017, signed on January 10, 2018 and updated on December 19, 2018;
- the Schuldschein loan at floating rate (Euribor + spread) for a total nominal value of euro 443 million placed on July 26, 2018. The loan, guaranteed by Pirelli Tyre S.p.A. and entered into by leading market operators, consists of a tranche of euro 423 million with 5-year maturity and a tranche of euro 20 million with 7-year maturity. The loan, placed on July 26, 2018, also included a tranche of euro 82 million with original maturity on July 31, 2021 repaid early in January 2021.

The carrying amount for the item bonds was determined as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
Nominal value	1,496,000	1,578,000
Equity convertible bond component	(41,791)	(41,791)
Transaction costs	(14,957)	(15,133)
Bond discount	(2,988)	(2,988)
Amortisation of effective interest rate	9,282	6,216
Non- monetary interest convertible bond loan	8,216	196
<b>Total</b>	<b>1,453,762</b>	<b>1,524,500</b>

Below are the changes of the item bonds.

<i>(in thousands of euro)</i>	
<b>Bonds as at 12/31/2020</b>	<b>1,524,500</b>
Transactions costs	(262)
Bond repayments (EMTN program)	(82,000)
Non-cash interest convertible bond	8,020
Amortised cost of the year	3,504
<b>Bonds as at 12/31/2021</b>	<b>1,453,762</b>

The change in the item bonds relating to the previous year is shown below:

<i>(in thousands of euro)</i>	
<b>Bonds as at 12/31/2019</b>	<b>1,271,392</b>
Bond issues (Convertible bond)	500,000
Transactions costs	(8,041)
Bond repayments (EMTN program)	(200,000)
Reclassification of convertible option at issue date	(41,200)
Non-cash interest convertible bond	196
Amortised cost of the year	2,153
<b>Bonds as at 12/31/2020</b>	<b>1,524,500</b>

**Borrowings from banks**, which amounted to euro 2,967,539 thousand, mainly refer to:

- use of the unsecured loan (“Facilities”) granted to Pirelli & C. S.p.A. for euro 950,197 thousand, classified as current payables. The nominal refinanced total subscribed to on June 27, 2017 (with a closing date of June 29, 2017), amounted to euro 1.65 billion (the net amount of repayments made since the date of signing – the original amount of the credit facility granted was euro 4.2 billion). The loan is guaranteed by Pirelli Tyre S.p.A., Pirelli Deutschland GmbH, Pirelli Tires Romania S.r.l., Pirelli Pneus Ltda, Pirelli International Treasury S.p.A. and Pirelli Neumaticos Sa de CV. On November 29, 2018, the loan was modified to include the right of the Pirelli Group to extend the maturity of the individual lines of the loan up to 2 years at its discretion with respect to their original contractual maturity of 3 and 5 years. The facilities are denominated in euro and US dollar and carry a floating interest rate of Euribor + spread and Libor + spread, respectively. In February 2021, part of the loan for euro 756 million was repaid. It is also noted that all the credit lines with original maturity of 3 years have been fully repaid; the value of the outstanding loan at December 31 therefore refers only to the lines with original maturity of 5 years;

- “Sustainable Credit Line” for euro 795,993 thousand relating to the credit line of euro 800 million at floating rate (Euribor + spread), guaranteed by Pirelli Tyre S.p.A. and stipulated on March 31, 2020 with a pool of leading Italian and international banks and with a 5-year maturity. The bank line consists of a “sustainable” tranche for an amount of euro 600 million, i.e. parametrized to the Group’s economic and environmental sustainability objectives (sustainable KPI) and a “circular economy” tranche, i.e. parametrized to the Group’s circular economy objectives. It should be noted that following the first reporting of sustainable KPIs and having achieved the objectives for the year, the Group is benefiting from the related incentives to reduce the cost of the credit line on the “sustainable” tranche. The reporting of the “circular economy” tranche is instead foreseen only in 2023;
- euro 722,622 thousand relating to two bilateral loans disbursed to Pirelli & C. S.p.A. by leading banking institutions, of which nominal euro 600 million maturing in February 2024 at floating rate (Euribor + spread) and guaranteed by Pirelli Tyre S.p.A., and euro 125 million with maturity August 2023 at floating rate (Euribor + spread);
- euro 498,728 thousand relating to two new bilateral loans disbursed in December 2021 to Pirelli & C. S.p.A. by leading banking institutions, of which a nominal amount of euro 400 million, guaranteed by Pirelli Tyre S.p.A. and parametrized to some sustainability targets of the Group, maturing in December 2024 at floating rate (Euribor + spread) and euro 100 million maturing in December 2022 at fixed rate.

At December 31, 2021, the Company had a liquidity margin equal to euro 700,040 thousand composed of euro 700,000 thousand of unused committed credit lines, and euro 40 thousand in cash.

Below are the changes in borrowings from banks:

<i>(in thousands of euro)</i>	
<b>Borrowings from banks at 12/31/2020</b>	<b>3,336,716</b>
Drawdown of unsecured financing ( <i>Facilities</i> )	368,549
Reimbursements of unsecured financing ( <i>Facilities</i> )	(1,337,656)
New bilateral borrowings	500,000
Transactions costs	(1,275)
Amortised cost of the year	14,243
Translation differences	86,962
<b>Borrowings from banks at 12/31/2021</b>	<b>2,967,539</b>

The change in total borrowings from banks for the previous year is shown below:

<i>(in thousands of euro)</i>	
<b>Borrowings from banks at 12/31/2019</b>	<b>2,921,413</b>
Drawdown of unsecured financing ( <i>Facilities</i> )	1,127,978
Reimbursements of unsecured financing ( <i>Facilities</i> )	(1,342,297)
New bilateral borrowings	800,000
Transactions costs	(10,520)
Amortized cost for the period	11,124
Translation differences	(170,982)
<b>Borrowings from banks at 12/31/2020</b>	<b>3,336,716</b>

**Lease liabilities** represent financial liabilities relating to the application of IFRS 16 starting from January 1, 2019.

Below are the changes in lease liabilities:

<i>(in thousands of euro)</i>	
<b>Lease liabilities as at 12/31/2020</b>	<b>49,708</b>
Increase of lease obligations	667
Remeasurement and early termination	205
Cash outflow for lease obligations - principal amount	(5,807)
<b>Lease liabilities as at 12/31/2021</b>	<b>44,773</b>

The change in lease liabilities for the previous year is shown below:

<i>(in thousands of euro)</i>	
<b>Lease liabilities as at 12/31/2019</b>	<b>38,226</b>
Increase of lease obligations	14,967
Remeasurement and early termination	542
Cash outflow for lease obligations - principal amount	(4,026)
<b>Lease liabilities as at 12/31/2020</b>	<b>49,708</b>

Non-discounted future payments for lease contracts for which the exercise of extension options is not considered reasonably certain, amounted to euro 50,936 thousand at December 31, 2021 and are not included in this item (euro 50,144 thousand at December 31, 2020).

The item **other financial payables** includes euro 1,200 thousand for the short-term portion of the upfront fee on the new bilateral loan line signed in December 2021 and euro 784 thousand for the payable to shareholders following the squeeze out operation.

The item **accrued liabilities** refers for euro 8,510 thousand to the interest accrued on the bonds and for the remainder mainly to the interest accrued but not yet paid on the term loans.

The carrying amount of current financial payables is considered to approximate their fair value. The table below compares the fair value of non-current financial payables with their carrying amount:

<i>(in thousands of euro)</i>	12/31/2021		12/31/2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,453,762	1,469,529	1,442,650	1,465,120
Borrowings from banks	1,917,417	1,925,000	3,136,716	3,160,117
Lease payables	38,999	38,999	43,929	43,929
<b>Total borrowings from banks and other financial institutions - non current</b>	<b>3,410,178</b>	<b>3,433,528</b>	<b>4,623,295</b>	<b>4,669,166</b>

The public bond issued by Pirelli & C. S.p.A. as part of the EMTN program is listed and its relative fair value was measured on the basis of prices at year-end. It has therefore been classified in level 1 of the hierarchy, as provided for by IFRS 13 – Fair Value Measurement. The fair value of the debt component of the convertible bond, of the Schuldschein loan and of borrowings from banks was calculated by discounting each expected borrowings cash flow at the market swap rate for the currency and at the maturity date, increased by the Group's creditworthiness for debt instruments similar by nature and technical characteristics, which therefore places it at level 2 of the hierarchy as provided for by IFRS 13 – Fair Value Measurement.

The distribution of borrowings from banks and other financial institutions by currency of origin of the payable at December 31, 2021 and December 31, 2020 is as follows:

<i>(in thousands of euro)</i>	12/31/2021	12/31/2020
EUR	3,529,236	3,499,002
USD (Dollar USA)	951,483	1,431,643
<b>Total</b>	<b>4,480,719</b>	<b>4,930,645</b>

At December 31, 2021, there are derivative hedging instruments for interest rates and exchange rates on floating rate payables in foreign currency.

Considering the effects of the aforementioned hedging derivatives, the Company's exposure to fluctuations in interest rates on financial payables, both in terms of the type of interest rate and their resetting, is as follows:

- floating-rate payables for euro 1,847,414 thousand, the interest rate of which is subject to renegotiation in 2022;
- fixed-rate payables for euro 2,618,560 thousand, the interest rate of which is not subject to renegotiation until the natural maturity of the reference debt (euro 1,056,748 thousand maturity in the next twelve months and euro 1,561,812 thousand maturity beyond twelve months).

With regard to the existence of financial covenants, it is noted that (i) the Group's main bank credit facility (Facilities) granted to Pirelli & C. S.p.A. and Pirelli International Ltd (formerly Pirelli International Plc) (currently usable only by Pirelli & C. S.p.A.), (ii) the "Schuldschein" loan (iii) the bilateral line of euro 600 million granted to Pirelli & C. S.p.A. in the first quarter of 2019 ("Bilateral 600"), (iv) the bilateral line of euro 125 million granted to Pirelli & C. in the third quarter of 2019

(“Bilateral 125”), (v) the “Sustainable Credit Line” entered into March 31, 2020, and (vi) the bilateral “ESG linked” line of euro 400 million granted to Pirelli & C. S.p.A. in December 2021 (“Bilateral 400”), require compliance with a maximum ratio (Total Net Leverage) between net debt and gross operating margin, as reported in the consolidated Financial Statements of Pirelli & C. S.p.A.

In all the loans indicated above, failure to comply with the financial covenant is identified as a default event.

Specifically, this event of default will have the consequence, in cases of exercise of the relative remedies by the lending banks (i) as part of the Facilities, only if requested by a number of lending banks representing at least 66 2/3% of the total commitment, the early (partial or total) repayment of the loan with simultaneous cancellation of the related commitment; (ii) as part of the Schuldschein loan, individually and independently if requested by each lending bank for its portion, the early repayment of the loan only for said portion; (iii) as part of the Bilateral 600, the Bilateral 125 and the Bilateral 400, if requested by the only bank that granted said loan, the termination of the contract and the early repayment for the entire amount disbursed; and (iv) as part of the Sustainable Credit Line, only if requested by a number of lending banks that represents at least 50% of the total commitment (or at least 60% if an additional lending bank is added to the current four), the termination of the contract and early repayment of the loan.

In relation to the above, it is noted that at December 31, 2021, no event of default or default has occurred.

The other outstanding financial payables at December 31, 2021 do not contain financial covenants.

The Facilities, the Schuldschein loan, the Bilateral 600, the Bilateral 125, the Sustainable Credit Line, the Bilateral 400 as well as the 100 million euro bilateral line granted to Pirelli & C. S.p.A. in December 2021 also provide for Negative Pledge clauses and other usual provisions, the terms of which are in line with market standards for each of the aforementioned types of credit facility.

#### **NET FINANCIAL POSITION (alternative performance indicator not required by IFRS accounting standards)**

The table below shows the breakdown of the net financial position and net financial debt at December 31, 2021 and December 31, 2020, determined in accordance with the provisions of Consob

communication DEM/6064293 of July 28, 2006 and in compliance with the ESMA guidelines on disclosure obligations pursuant to the prospectus regulation applicable from May 5, 2021:

<i>(in thousands of euro)</i>	Note	12/31/2021	of which related parties (note 39)	12/31/2020	of which related parties (note 39)
Current borrowings from banks and other financial institutions	19	1,070,541	-	307,350	-
Current derivative financial instruments (liabilities)	17	670	670	13,226	13,226
Non-current borrowings from banks and other financial institutions	19	3,410,178	-	4,623,295	-
Non-current derivative financial instruments (liabilities)	17	3,554	3,554	109,697	109,697
<b>Total gross debt</b>		<b>4,484,943</b>		<b>5,053,568</b>	
Cash and cash equivalents	15	(40)	-	(1,742)	-
Current financial receivables and other assets	13	(780,563)	(780,378)	(1,157,648)	(1,152,488)
Derivative financial instruments - assets	17	(5,123)	(5,123)	(2,869)	(2,869)
<b>Net financial debt *</b>		<b>3,699,215</b>		<b>3,891,309</b>	
Non-current financial receivables and other assets	13	(2,000,280)	(2,000,000)	(2,000,267)	(2,000,000)
Derivative financial instruments	17	(4,383)	(4,383)	-	-
<b>Total net financial (liquidity)/debt position</b>		<b>1,694,552</b>		<b>1,891,042</b>	

\* Pursuant to CONSOB Notice of July 28, 2006 and in compliance with the ESMA guidelines regarding disclosure requirements pursuant to the Prospectus Regulation applicable from May 5, 2021

## 20. PROVISIONS FOR LIABILITIES AND CHARGES

The following is a detail of changes of the item in question:

<i>(in thousands of euro)</i>	12/31/2020	Increases	Uses	12/31/2021
Provision for employees controversies	1,914	362	(574)	1,702
Provision for tax risks	1,141	-	-	1,141
Provision for environmental risks	1,727	4,700	(1,045)	5,382
Provision for other risks and charges	6,323	16,101	(45)	22,379
<b>Provision for liabilities and charges - non current portion</b>	<b>11,105</b>	<b>21,163</b>	<b>(1,664)</b>	<b>30,604</b>
Provision for other risks and charges	-	509	-	509
<b>Provision for liabilities and charges - current portion</b>	<b>-</b>	<b>509</b>	<b>-</b>	<b>509</b>
<b>Total Provisions for risks and charges</b>	<b>11,105</b>	<b>21,672</b>	<b>(1,664)</b>	<b>31,113</b>

The increases are mainly related to the **other provisions for risks and charges**, and refer to the STI (Short-term Incentive) and LTI (Long-term Incentive 2020 – 2022 and 2021 – 2023) incentive plans of the Directors, which reflect the improvement in performance on parameters underlying the plans.

The **uses** are mainly attributable to closures of labor disputes and costs incurred for environmental reclamations.

## 21. EMPLOYEE BENEFIT OBLIGATIONS

Employee benefit obligations amounted to euro 21,442 thousand (euro 10,912 thousand at December 31, 2020), and the breakdown is as follows:

<i>(in thousands of euro)</i>	12/31/2021			12/31/2020		
	Total	Non current	Current	Total	Non current	Current
Employee leaving indemnities (TFR)	1,997	1,997	-	2,518	2,518	-
Other benefits	19,445	19,445	-	8,394	5,946	2,448
<b>Total employees' benefit obligation</b>	<b>21,442</b>	<b>21,442</b>	<b>-</b>	<b>10,912</b>	<b>8,464</b>	<b>2,448</b>

**Employee leaving indemnities (TFR)**

The changes in the year 2021 for the employee leaving indemnities are the following:

<i>(in thousands of euro)</i>	12/31/2021	12/31/2020
<b>Opening balance</b>	<b>2,518</b>	<b>2,672</b>
Movements through income statement:		
- interest expense	15	23
<i>Remeasurements</i> recognised in equity:		
- actuarial (gains) or losses arising from changes in financial assumption	21	18
- increase related to prior year experience	60	-
Indemnities, advance payments, relocations, payment to funds	(617)	(195)
<b>Total employees' leaving indemnities (TFR)</b>	<b>1,997</b>	<b>2,518</b>

The amounts recorded in the income statement are included in the item "Personnel expenses" (note 30).

Net actuarial losses accrued in 2021, recorded directly in equity, amounted to euro 81 thousand, and are related to the change in the economic parameters of reference (discount rate and inflation rate) and to prior year experience.

In accordance with national legislation, the amount due to each employee accrues based on the service provided and is paid when the employee leaves the company. The treatment due to the termination of the employment relationship is calculated based on its duration and the taxable remuneration of each employee. The liability, annually revalued on the basis of the official cost of living and statutory interest rate, is not associated with any accrual condition or period, nor with any financial funding obligation; therefore, there is no activity at the service of the provision.

The discipline was supplemented by Legislative Decree no. 252/2005 and by Law no. 296/2006 (Finanziaria 2007) which, for companies with at least 50 employees, has established that the portions accrued since 2007, are allocated, on the employees' option, either to the INPS Treasury Fund or to supplementary pension schemes, assuming the nature of "Defined contribution plan". In any case, for all companies, the revaluations of the amounts outstanding at the option dates are still accounted for under staff severance indemnities as well as, for companies with less than 50 employees, also the portions accrued and not allocated to supplementary pensions.



The principal actuarial assumptions used at December 31, 2021 are as follows:

	<b>2021</b>
Discount rate	0.9%
Inflation rate	1.7%

The main actuarial assumptions used at December 31, 2020 were as follows:

	<b>2020</b>
Discount rate	0.6%
Inflation rate	1.0%

Hired employees at December 31, 2021 amounted to 357 units (345 units at December 31, 2020).

In other conditions being equal, a hypothetical change of 0.25% in the discount rate would result in a decrease in liabilities equal to 1.80%, in the case of an increase (1.81% at December 31, 2020), and an increase in liabilities of 1.86%, in the case of a decrease (1.84% at December 31, 2020).

### Other employee benefits

The breakdown of other benefits is as follows:

<i>(in thousands of euro)</i>	12/31/2021			12/31/2020		
	Total	Non current	Current	Total	Non current	Current
Long-term incentive plans	15,672	15,672	-	4,253	4,253	-
Jubilee awards	1,761	1,761	-	1,692	1,692	-
Other benefits	2,013	2,013	-	2,448	-	2,448
<b>Total</b>	<b>19,445</b>	<b>19,445</b>	<b>-</b>	<b>8,394</b>	<b>5,946</b>	<b>2,448</b>

The item **Long-term incentive plans** relates to the amount set aside for the monetary, three-year 2020-2022 long-term incentive and 2021-2023 long-term incentive plans for Group management and related to the objectives contained in the 2020 guidance and in the 2021 – 2022|2025 business plan. The increase over the previous year reflects the improvement in performance on the parameters underlying the plans.

The item **“Other benefits – non-current portion”** refers to the short-term incentive plan for employees, which was canceled in 2020 following the Covid-19 pandemic.

The decrease in **“Other benefits – current portion”** compared to December 31, 2020 of euro 2,448 thousand is due to the payment of the fourth and last part of the retention plan approved by the Board of Directors on February 26, 2018 and intended for Key Managers and a selected number of Senior Managers and Executives.

## 22. TRADE PAYABLES

The breakdown of trade payables is as follows:

<i>(in thousands of euro)</i>	12/31/2021	12/31/2020
Payables to subsidiaries	2,783	2,815
Payables to associates	72	265
Payables to other companies	15,532	24,490
<b>Total trade payables</b>	<b>18,387</b>	<b>27,570</b>

The carrying amount of trade payables is considered to approximate their fair value.

## 23. OTHER PAYABLES

The breakdown of other payables is as follows:

<i>(in thousands of euro)</i>	12/31/2021			12/31/2020		
	Total	Non-current	Current	Total	Non-current	Current
Payables to subsidiaries	4,718	-	4,718	5,997	-	5,997
Payables to social security and welfare institution	5,323	-	5,323	3,810	-	3,810
Payables to employees	13,415	-	13,415	4,431	-	4,431
Other payables	15,927	822	15,105	11,370	538	10,832
Accrued liabilities	27	-	27	56	-	56
Deferred income	15	-	15	186	-	186
<b>Total other payable</b>	<b>39,425</b>	<b>822</b>	<b>38,603</b>	<b>25,850</b>	<b>538</b>	<b>25,312</b>

**Payables to subsidiaries** mainly refer to receivables related to VAT consolidation.

**Payables to social security and welfare institutions** mainly consist of contributions to be paid to the INPS (National Social Welfare Institute).

**Payables to employees** refer to the remuneration to be paid to employees. The increase over the previous year mainly refers to the STI (Short-term Incentive) plan, which was canceled in 2020 following the Covid-19 pandemic.

**Other payables** include liabilities for compensation to be paid to directors and auditors, for withholding taxes on income from self-employed and employed work.

For **other current payables**, it is considered that the carrying amount approximates their fair value.

## 24. DEFERRED TAX LIABILITIES

Deferred tax liabilities amounted to euro 526,017 thousand at December 31, 2021 (euro 524,338 thousand at December 31, 2020).

The breakdown of deferred tax liabilities gross of offsetting is as follows:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
<b>Deferred tax assets</b>	<b>107,313</b>	<b>114,631</b>
- of which within 12 months	87,405	46,362
- of which over 12 months	19,908	68,269
<b>Provision for deferred tax liabilities</b>	<b>(633,330)</b>	<b>(638,969)</b>
- of which within 12 months	-	(5,639)
- of which over 12 months	(633,330)	(633,330)
<b>Total</b>	<b>(526,017)</b>	<b>(524,338)</b>

The breakdown of deferred taxes, relating to temporary differences and tax losses carried forward is shown in the following table:

<i>(in thousands of euro)</i>	<b>12/31/2021</b>	<b>12/31/2020</b>
<b>Deferred tax assets</b>		
Provision for risk and charges	5,695	1,533
Employees provision	4,775	2,202
Provision for bad debt	126	126
Tax losses carried forward	13,153	34,596
ACE Benefit	69,985	66,306
Interests	11,282	5,253
Derivatives	822	4,480
Other	1,476	135
<b>Total deferred tax assets</b>	<b>107,313</b>	<b>114,631</b>
<b>Provision for deferred tax liabilities</b>		
Brand Pirelli	(633,330)	(633,330)
Exchange differences not realised	-	(5,639)
<b>Total provision for deferred tax liabilities</b>	<b>(633,330)</b>	<b>(638,969)</b>
<b>Total</b>	<b>(526,017)</b>	<b>(524,338)</b>

At December 31, 2021, the value of unrecorded deferred tax assets relating to unlimited tax losses that can be carried forward was zero (euro 25,294 thousand at December 31, 2020), while those relating to temporary differences amounted to euro 25,856 thousand (unchanged from December 31, 2020).

The tax effect of gains and losses recorded directly in equity was negative for euro 3,638 thousand (negative for euro 500 thousand in 2020). It is disclosed in the Comprehensive income statement; these changes were mainly due to the tax effects associated with actuarial gains/losses on employee benefits obligations and to the adjustment of derivatives in cash flow hedges to their fair value.

## 25. TAX PAYABLES

These amounted to euro 13,565 thousand (euro 11,985 thousand at December 31, 2020) and mainly include payables to subsidiaries that adhere to the tax consolidation, which arose following the transfer of withholding taxes incurred abroad (WHT).

## 26. COMMITMENTS AND RISKS

### *Lease contract commitments*

At December 31, 2021, there were no commitments for lease contracts not yet in force.

### *Litigation against the companies of the Prysmian Group before the Court of Milan*

A judgement (resulting from the joining of two separate proceedings – see below) is currently pending before the Court of Milan. This is following the decision issued on April 2, 2014 by the European Commission (as confirmed in the final instance by the Court of Justice of the European Union on October 28, 2020) at the conclusion of the antitrust investigation in relation to restrictive practices of competition in the European market for high voltage electric cables. This decision had imposed a sanction against Prysmian Cavi e Sistemi S.r.l. (Prysmian CS) as directly involved in the cartel. For a part (euro 67 million), Pirelli, despite having been found to not have been involved directly in the activities of said cartel, was held as being jointly liable with Prysmian CS. This is based solely on the application of the principle of parental liability, in that during part of the period of the infringement, the capital of Prysmian CS was directly or indirectly held by Pirelli.

On December 31, 2020, Pirelli paid its portion of the aforementioned sanction in favor of the European Commission (corresponding to 50% of this sanction, plus interest), in relation to which it had previously made the appropriate provisions.

Pending the definition of the aforementioned Community proceeding, in November 2014, Pirelli took action before the Court of Milan in order to obtain the ascertainment and declaration of the obligation of Prysmian CS to hold it free from any claim relating to the alleged anti-competitive agreement in the energy cables sector, including the penalty imposed by the European Commission.

Prysmian CS appeared in the aforementioned judgement, requesting the rejection of Pirelli's claims, and as counter-claim, to be indemnified by Pirelli in relation to the consequences deriving from or related to the decision of the European Commission. The judgement had been suspended pending the definitive sentence of the EU judges and was resumed by Pirelli on November 30, 2020 following the sentence of the Court of Justice.

In October 2019, Pirelli took further action before the Court of Milan against Prysmian CS and Prysmian S.p.A. requesting the assessment and declaration of the obligation of Prysmian CS to indemnify and release it also from any charge, expense, cost and/or damage resulting from claims of private and/or public third parties (including authorities other than the European Commission) relating, connected and/or consequential to the facts covered by the decision of the European Commission, as well as the consequent conviction of Prysmian CS to reimburse any charge, expense, cost or damage incurred or suffered by Pirelli.

On this occasion, Pirelli also requested to ascertain the liability of Prysmian CS and Prysmian S.p.A. in relation to certain illegal conduct connected to the aforementioned anti-competitive agreement,

carried out by the same and, as a result, the conviction to compensation for all damages suffered and being suffered by Pirelli.

Lastly, Pirelli requested the ascertainment and declaration of the joint liability of Prysmian S.p.A. with Prysmian CS in relation to the amounts that will be paid both in this new judgement and in the one in November 2014 and that may not be settled by the latter.

Prysmian CS and Prysmian S.p.A. appeared in the aforementioned judgement in November 2020, requesting the rejection of Pirelli's claims and, as counter-claim, to be held harmless and indemnified by Pirelli in relation to any consequences deriving from claims of private and/or public third parties relating, connected and/or consequential to the facts covered by the decision of the European Commission.

In April 2021, the two judgements were combined.

On the basis of thorough analysis supported by authoritative external legal opinions, the evaluation of the risk relative to the disputes described above is such as to not require the allocation of any specific provision in the Separate Financial Statements at December 31, 2021.

#### *Other litigation consequent to the European Commission Decision*

In November 2015, some companies of the Prysmian Group notified Pirelli of proceedings for the recovery of damages before the High Court of Justice of London against them and other recipients of the European Commission Decision of April 2, 2014 by National Grid and Scottish Power, companies that claim to have been injured by the cartel. Specifically, the companies of the Prysmian Group requested that Goldman Sachs and Pirelli, the latter based on the role of parent company for a part of the period of the cartel, hold them harmless in respect of any obligations to pay any damages claims (to date unquantified) by National Grid and Scottish Power. As the aforementioned legal action is pending before the Court of Milan, filed in November 2014, Pirelli challenged the lack of jurisdiction of the High Court of Justice of London claiming that, that any decision on the merits should be assigned to the Court previously referred to. In April 2016, the High Court of Justice, at the request of Pirelli and the companies of the Prysmian Group, suspended the proceedings until the final passing of judgement that will define the Italian judgement already pending.

In April 2019, Terna S.p.A. – Rete Elettrica Nazionale ("Terna") summoned Pirelli, three Prysmian Group companies and another company of the aforementioned European Commission decision, before the Court of Milan, to obtain compensation for the damage allegedly suffered as a result of the anti-competitive conduct, quantified by the claimant at euro 199.9 million. Pirelli appeared in court contesting the claims made by Terna and filing, like the other defendants, and against them, a counter-claim in recourse for the denied case in which it was held jointly liable for the anti-competitive agreement. In October 2021, the Judge removed from the proceedings the fragment of the dispute consisting of the "cross" indemnity requests mutually made between Pirelli, on the one hand, and Prysmian CS and Prysmian S.p.A., arranging for a meeting with the pending judgement between them before the Court of Milan (see above).

Lastly, also in April 2019, the Electricity and Water Authority of Bahrain, the GCC Interconnection Authority, the Kuwait Ministry of Electricity and Water and the Oman Electricity Transmission Company, served a summons against Pirelli, some Prysmian Group companies and others recipients of the aforementioned European Commission Decision. They jointly agreed with each other to obtain compensation for the damage allegedly suffered as a result of the alleged anti-competitive conduct. These proceedings were brought before the Court of Amsterdam, which, with its ruling of November 25, 2020, upheld the objection raised by Pirelli and excluded its jurisdiction over Pirelli itself. In February 2021, the claimants appealed against said sentence before the Amsterdam Court of Appeal and the related proceedings are in progress.

On the basis of thorough analysis supported by authoritative external legal opinions, the evaluation of the risk relative to the disputes described above is such as to not require the allocation of any specific provision in the Separate Financial Statements at December 31, 2021.

## INCOME STATEMENT

### 27. REVENUES FROM SALES AND SERVICES

Revenues from sales and services amounted to euro 69,601 thousand for 2021 compared to euro 53,486 thousand in 2020 and the breakdown is as follows:

<i>(in thousands of euro)</i>	2021	2020
Sales of services to subsidiaries	69,141	53,125
Sales of services to other companies	460	361
<b>Total revenues from sales and services</b>	<b>69,601</b>	<b>53,486</b>

Revenues from subsidiaries refer to services provided by the central functions.

### 28. OTHER INCOME

Other income amounted to euro 107,345 thousand in 2021 (euro 124,405 thousand in 2020), and the breakdown is as follows:

<i>(in thousands of euro)</i>	2021	2020
Other income from subsidiaries	104,328	111,548
Other revenues from third parties	3,017	12,857
<b>Other income from other companies</b>	<b>107,345</b>	<b>124,405</b>

Other income from subsidiaries mainly include royalties paid by Group companies for the use of the brand (euro 77,474 thousand in 2021 compared to euro 57,610 thousand in 2020) and also include cost recovery and other revenues deriving from the charge-back of costs to Group companies.

Other revenues from other companies include royalties paid by other companies for the use of the Pirelli brand (euro 2,029 thousand in 2021 compared to euro 1,370 thousand in 2020). In 2020, the

gains deriving from the sale of the property located in Milan and of land located in Settimo Torinese were also recorded for approximately euro 8,000 thousand.

## 29. RAW MATERIALS AND CONSUMABLES USED

They amounted to euro 214 thousand in 2021 (euro 228 thousand in 2020) and include purchases of advertising material, fuels and various materials.

## 30. PERSONNEL EXPENSES

Personnel expenses amounted to euro 72,791 thousand (euro 49,952 thousand in 2020), and the breakdown is as follows:

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
Wages and salaries	57,229	35,441
Social security and welfare contributions	10,809	8,046
Employee leaving indemnities	1,963	1,901
Retirement and similar obligations	602	563
Other costs	2,188	4,001
<b>Total</b>	<b>72,791</b>	<b>49,952</b>

The increase in **wages and salaries** is mainly attributable to accruals for the short-term incentive plan for the management, which was cancelled in 2020 following the Covid-19 pandemic, and for long-term incentive plans for the management, which reflect the improvement in performance on parameters underlying the plans.

The item **other costs** includes the portion of the retention plan (euro 1,784 thousand in 2021 and euro 3,297 thousand in 2020) that was approved by the Board of Directors on February 26, 2018 and intended for Key Managers and a selected number of senior Managers and Executives.

The average staff headcount is the following:

• Executives	78
• White collars	255
• Workers	5

## 31. AMORTIZATION, DEPRECIATION AND IMPAIRMENT

The breakdown of the item is as follows:

<i>(in thousands of euro)</i>	2021	2020
Amortisation - intangible assets	1,900	2,468
Depreciation - property, plant and equipment (excl. Depreciation of Right of Use)	1,762	1,817
Depreciation of right of use	5,700	5,631
<b>Total depreciation, amortisation and impairments</b>	<b>9,362</b>	<b>9,916</b>

For the breakdown of the amortization of the rights of use, see note 9.2 - Rights of use.

## 32. OTHER COSTS

The breakdown of other costs is the following:

<i>(in thousands of euro)</i>	2021	2020
Advertising and sponsorship	38,690	59,806
Consultancy and collaboration services	13,560	12,580
Accruals to provisions (net of reversals)	5,017	2,212
Legal and notarial expenses	776	762
Travel expenses	1,928	2,734
Remuneration of Directors and supervisory bodies	28,671	7,919
Membership fees and contributions	2,953	2,272
Rental and lease instalments	359	969
IT expenses	7,409	5,674
Energy, gas and water expenses	1,217	1,271
Security service	1,712	1,856
Insurance premiums	3,103	2,896
Patents and trademarks expenses	803	874
Cleaning and property ordinary maintenance expenses	817	444
Property maintenance	1,809	1,829
Other	5,239	4,570
<b>Total other costs</b>	<b>114,063</b>	<b>108,668</b>

The item **Leases and rentals** includes costs relating to the application of the accounting standard IFRS 16, in particular:

- euro 113 thousand for lease contracts with a duration of less than twelve months (euro 661 thousand in 2020);
- euro 132 thousand for lease contracts for low value assets (euro 197 thousand in 2020).



### 33. NET IMPAIRMENT OF FINANCIAL ASSETS

The item, negative for euro 92 thousand, mainly includes the net impairment of trade receivables. In 2020, the net impairment of trade receivables amounted to euro 23 thousand.

### 34. RESULT FROM INVESTMENTS

#### 34.1 Gains on equity investments

No gains from equity investments were recorded in the year 2021, in line with the previous year.

#### 34.2 Losses on equity investments

In 2021, impairment of 1,246 thousand of the investment in the company Pirelli Ltda was recorded. In 2020, impairment of 14,000 thousand of the investment in the subsidiary Pirelli UK Ltd was recorded.

#### 34.3 Dividends

They amounted to euro 231,509 thousand in 2021 compared to euro 53,650 thousand in 2020, and the breakdown is as follows:

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
From subsidiaries:		
- Pirelli Tyre S.p.A. - Italy	220,000	50,000
- Pirelli Group Reinsurance Company SA - Switzerland	2,290	-
- Pirelli Servizi Amministrazione e Tesoreria S.p.A. - Italia	-	200
- Pirelli Sistemi Informativi S.r.l. - Italy	500	1,050
- Pirelli International Treasury S.p.A. - Italy	6,522	2,400
From other financial assets:		
- RCS S.p.A. - Italy	741	-
- Fin. Priv. S.r.l. - Italy	1,292	-
- Genextra S.p.A. - Italy	154	-
- Tiglio I - Italy	10	-
<b>Total</b>	<b>231,509</b>	<b>53,650</b>

The higher amount of dividends from subsidiaries received in 2021 compared to 2020 is essentially attributable to the higher dividends distributed by the subsidiary Pirelli Tyre S.p.A..

## 35. FINANCIAL INCOME

The breakdown of the item is as follows:

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
Interest and other financial income	28,874	31,086
Valuation at fair value of derivatives	4,769	-
Net gains on exchange rates	-	37,067
<b>Total financial income</b>	<b>33,643</b>	<b>68,153</b>

The item **Interest and other financial income** mainly refer to interest accrued on loans granted in 2021 to subsidiaries.

The **fair value measurement of foreign exchange derivatives** refers to forward currency purchase/sale transactions to hedge commercial and financial transactions, in accordance with the Group's exchange rate risk management policy. For transactions open at the end of the period, the fair value is determined by applying the forward exchange rate at the closing date of the Consolidated Financial Statements.

## 36. FINANCIAL EXPENSES

The breakdown of the item is as follows:

<i>(in thousands of euro)</i>	<b>2021</b>	<b>2020</b>
Interest and other financial expenses	71,989	65,763
Commissions	2,988	2,241
Interest expenses on lease liability	1,572	1,725
Net interest on employee benefit obligations	24	28
Net exchange rate losses	3,050	-
Valuation at fair value of forex derivatives	-	34,781
<b>Total financial expenses</b>	<b>79,623</b>	<b>104,538</b>

**Interest and other financial expenses** for a total of euro 71,989 thousand include:

- euro 46,087 thousand for the bank loan lines;
- euro 22,522 thousand of financial expenses related to bonds, of which euro 9,104 thousand related to unrated bonds, euro 4,112 thousand related to the Schuldschein loan and euro 9,305 thousand related to the senior unsecured guaranteed equity-linked bond;
- euro 3,178 thousand net interest expense related to interest on Cross Currency Interest Rate Swap and Interest Rate Swaps, for which hedge accounting was adopted, to adjust the flow of financial expenses of the bank lines and bonds referred to in the previous points. For further details, refer to as reported in note 17 "Derivative financial instruments".

**Net exchange rate losses** of euro 3,050 thousand in 2021 refer to the adjustment to the year-end exchange rate of the items expressed in the currency other than the functional one still in effect at

the closing date of the Financial Statements and the exchange rate differences on items closed during the year.

They also include gains for euro 83,860 thousand related to the exchange rate component of the fair value measurement of cross currency interest rate swaps, for which cash flow hedge accounting was adopted to offset the realized and unrealized exchange rate losses on the hedged liability.

### 37. TAXES

The breakdown of taxes is as follows:

<i>(in thousands of euro)</i>	2021	2020
Current taxes	(49,953)	(16,523)
Deferred taxes	(1,959)	(15,064)
<b>Total income taxes</b>	<b>(51,912)</b>	<b>(31,587)</b>

Current taxes for the year 2021 were positive for euro 49,953 thousand compared to euro 16,523 thousand in the previous year and mainly include income from tax consolidation. The increase compared to the previous year is essentially attributable to the higher taxable income of the subsidiary Pirelli Tyre.

Deferred tax assets are positive for euro 1,959 thousand and mainly refer to the use of deferred assets on previous tax losses offset by the recognition of deferred tax assets taxes on the ACE benefit, on previous tax losses and other temporary differences.

The table below shows the reconciliation of the effective tax rate with the theoretical rate of the Parent Company:

<i>(in thousands of euro)</i>	2021	2020
<b>A) Profit/(loss) before taxes</b>	164,707	12,369
<b>B) Theoretical taxes</b>	<b>39,530</b>	<b>2,968</b>
<i>Main causes that give rise to changes between theoretical and effective taxes:</i>		
Dividends and gains from investments not subject to taxation	(52,784)	(12,232)
Loss on investments	299	3,360
Non-deductible costs	(2,830)	1,179
Uses losses previous years - deferred assets not activated	(11,282)	(4,431)
Deferred tax assets on previous tax losses and other temporary differences	(24,845)	(22,431)
<b>C) Effective taxes</b>	<b>(51,912)</b>	<b>(31,587)</b>
Theoretical tax rate (B/A)	24%	24%
<b>Effective tax rate (C/A)</b>	<b>-31.5%</b>	<b>-255.4%</b>

### Tax consolidation

It shall be noted that starting from 2004, the Company exercised the option for consolidated taxation as consolidator, pursuant to article 117 and following of the TUIR, with regulation of relations arising from adhesion to consolidation through a special Regulation, which involves a common procedure for the application of laws and regulations.

Said regulation was updated in subsequent years as a result of amendments made within the companies participating in the agreement and the related shareholding structure, as well as in light of the corrective and supplementary interventions of the relevant legislation.

The above amendments particularly concerned the remuneration of the tax losses used by the companies adhering to the consolidation. The adoption of the consolidation makes it possible to compensate, with regard to the parent company Pirelli & C. S.p.A., the taxable income or loss of the same parent company with those of its resident subsidiaries which have exercised the option. This is given that the tax losses accrued during periods prior to the introduction of Group taxation can be used by those companies which are eligible.

### 38. NON-RECURRING EXPENSES AND INCOME

Pursuant to Consob Communication no. DEM/6064293 of July 28, 2006, no non-recurring events were recorded in 2021.

### 39. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties mainly include transactions with subsidiaries relating to:

- services (technical, organizational, general) provided by head office;
- charge-back of royalties for the use of the brand;
- financial transactions.

All the transactions listed above are part of the ordinary management of relations between the Parent Company and the subsidiaries.

Transactions with related parties also include the fees paid to Directors and Key Managers.

The statement below shows a summary of the Balance Sheet and the Income Statement that include transactions with related parties and their impact:

<i>(in thousands of euro)</i>	12/31/2021	of which related parties	% share	12/31/2020	of which related parties	% share
<b>BALANCE SHEET</b>						
<b>Non current assets</b>						
Other receivables	2,000,566	2,000,000	100.0%	2,000,575	2,000,000	100.0%
Derivative financial instruments	-	-	0.0%	-	-	0.0%
<b>Current assets</b>						
Trade receivables	40,116	39,314	98.0%	80,568	76,655	95.1%
Other receivables	792,730	781,789	98.6%	1,166,741	1,154,823	99.0%
Tax receivables	65,074	64,525	99.2%	32,676	31,369	96.0%
Derivative financial instruments	5,132	5,132	100.0%	2,894	2,894	100.0%
<b>Non-current liabilities</b>						
Other payables	822	212	25.7%	538	212	39.3%
Provision for liabilities and charges	30,604	22,028	72.0%	11,105	5,926	53.4%
Employee benefit obligations	21,442	3,708	17.3%	8,464	1,349	15.9%
Derivative financial instruments	3,554	3,554	100.0%	109,697	109,697	100.0%
<b>Current liabilities</b>						
Payables to banks and other financial lenders	1,070,541	1,187	0.1%	307,350	2,084	0.7%
Trade payables	18,387	2,854	15.5%	27,570	3,080	11.2%
Other payables	38,603	15,311	39.7%	25,312	6,576	26.0%
Employee benefit obligations	-	-	0.0%	2,448	1,698	69.4%
Tax payables	13,565	13,337	98.3%	11,985	11,757	98.1%
Derivative financial instruments	674	674	100.0%	13,231	13,231	100%

<i>(in thousands of euro)</i>	2021	of which related parties	% share	2020	of which related parties	% share
<b>INCOME STATEMENT</b>						
Revenues from sales and services	69,601	69,477	99.8%	53,486	53,337	99.7%
Other income	107,345	104,372	97.2%	124,405	111,603	89.7%
Personnel expenses	(72,791)	(14,395)	19.8%	(49,952)	(8,909)	17.8%
Other costs	(114,063)	(41,247)	36.2%	(108,668)	(20,457)	18.8%
Income on equity investments	-	-	0.0%	-	-	0.0%
Losses on equity investments	(1,246)	(1,246)	100.0%	(14,000)	(14,000)	100.0%
Dividends	231,509	229,312	99.1%	53,650	53,650	100.0%
Financial income	33,643	31,957	95.0%	68,153	30,994	45.5%
Financial expenses	(79,623)	(2,827)	3.6%	(104,538)	(34,838)	33.3%

The equity and economic effects of transactions with related parties for the year ended December 31, 2021 are detailed below.

<i>(in thousands of euro)</i>	Subsidiaries	Associates	Other related parties	Directors and Key Managers	Total 12/31/2021
Other non current receivables	2,000,000	-	-	-	2,000,000
Trade receivables	39,115	3	195	-	39,314
Other current receivables	781,789	-	-	-	781,789
Tax receivables	64,525	-	-	-	64,525
Derivative financial instruments (current assets)	5,132	-	-	-	5,132
Other payables (Non-current liabilities)	-	-	-	212	212
Provision for liabilities and charges (Non-current liabilities)	-	-	-	22,028	22,028
Employee benefit obligations (Non-current liabilities)	-	-	-	3,708	3,708
Derivative financial instruments (non-current liabilities)	3,554	-	-	-	3,554
Payables to banks and other lenders (current liabilities)	1,187	-	-	-	1,187
Trade payables	2,783	72	-	-	2,854
Other payables (current liabilities)	4,718	-	1	10,591	15,311
Employee benefit obligations (current liabilities)	-	-	-	-	-
Tax payables	13,337	-	-	-	13,337
Derivative financial instruments (current liabilities)	674	-	-	-	674

<i>(in thousands of euro)</i>	Subsidiaries	Associates	Other related parties	Directors and Key Managers	Total 2021
Revenues from sales and services	69,141	-	336	-	69,477
Other income	104,328	-	43	-	104,372
Personnel expenses	-	-	-	(14,395)	(14,395)
Other costs	(12,651)	(252)	(150)	(28,194)	(41,247)
Losses from investments	(1,246)	-	-	-	(1,246)
Dividends	229,312	-	-	-	229,312
Financial income	31,957	-	-	-	31,957
Financial expenses	(2,827)	-	-	-	(2,827)

Below is a breakdown of the equity and economic effects of transactions with related parties for the previous year:

<i>(in thousands of euro)</i>	Subsidiaries	Associates	Other related parties	Directors and Key Managers	Total 12/31/2020
Other non current receivables	2,000,000	-	-	-	2,000,000
Trade receivables	76,578	3	74	-	76,655
Other current receivables	1,154,823	-	-	-	1,154,823
Tax receivables	31,369	-	-	-	31,369
Derivative financial instruments (current assets)	2,894	-	-	-	2,894
Other payables (Non-current liabilities)	-	-	-	212	212
Provision for liabilities and charges (Non-current liabilities)	-	-	-	5,926	5,926
Employee benefit obligations (Non-current liabilities)	-	-	-	1,349	1,349
Derivative financial instruments (non-current liabilities)	109,697	-	-	-	109,697
Payables to banks and other lenders (current liabilities)	2,084	-	-	-	2,084
Trade payables	2,815	265	-	-	3,080
Other payables (current liabilities)	5,929	-	197	450	6,576
Employee benefit obligations (current liabilities)	-	-	-	1,698	1,698
Tax payables	11,757	-	-	-	11,757
Derivative financial instruments (current liabilities)	13,231	-	-	-	13,231

<i>(in thousands of euro)</i>	Subsidiaries	Associates	Other related parties	Directors and Key Managers	Total 2020
Revenues from sales and services	53,125	-	212	-	53,337
Other income	111,548	-	55	-	111,603
Personnel expenses	-	-	-	(8,909)	(8,909)
Other costs	(12,423)	(265)	(300)	(7,469)	(20,457)
Losses from investments	(14,000)	-	-	-	(14,000)
Dividends	53,650	-	-	-	53,650
Financial income	30,994	-	-	-	30,994
Financial expenses	(34,838)	-	-	-	(34,838)

## TRANSACTIONS WITH SUBSIDIARIES

### Transactions – Balance Sheet

**Other non-current receivables** amounted to euro 2,000,000 thousand, in line with prior year, and refer to credit lines granted to Pirelli International Treasury S.p.A., maturity 2023.

**Trade receivables** from subsidiaries amounted to euro 39,115 thousand (euro 76,655 thousand at December 31, 2020). They mainly refer to receivables for services/provisions provided to Group companies (euro 31,645 thousand from Pirelli Tyre S.p.A., euro 5,544 thousand from Pirelli Group Reinsurance Company SA, euro 708 thousand from Limited Liability Company Pirelli Tyre Russia, euro 400 thousand from Pirelli Tyre Trading (Shanghai) Co).

**Other current receivables** amounted to euro 781,789 thousand (euro 1,154,823 thousand at December 31, 2020). They refer for euro 779,994 thousand to the loan and related interest accrued

but not yet paid with Pirelli International Treasury S.p.A., for euro 1,380 thousand to VAT receivables transferred from subsidiaries (of which euro 1,145 thousand from Pirelli Industrie Pneumatici S.r.l. and euro 231 thousand from Pirelli Servizi Amministrazione e Tesoreria S.p.A.), and for euro 384 thousand to the intragroup current account with Pirelli International Treasury S.p.A..

**Tax receivables** amounted to euro 64,525 thousand (euro 31,369 thousand at December 31, 2020) and refer to receivables from Group companies that adhere to tax consolidation (mainly euro 62,534 thousand from Pirelli Tyre S.p.A., euro 1,530 thousand from Pirelli International Treasury S.p.A., euro 300 thousand from Pirelli Industrie Pneumatici S.r.l., euro 125 thousand from Pirelli Sistemi Informativi S.r.l.).

**Derivative financial instruments (current assets)** for euro 5,132 thousand (euro 2,894 thousand at December 31, 2020) refer to hedging transactions with Pirelli International Treasury S.p.A..

The amount of euro 3,554 thousand (euro 109,697 thousand at December 31, 2020) of **derivative financial instruments (non-current liabilities)** refers to the valuation of the IRS with Pirelli International Treasury S.p.A..

**Borrowings from banks and other financial institutions (current)** amounted to euro 1,187 thousand (euro 2,084 thousand at December 31, 2020) and mainly refer to the accrued liability to Pirelli International Treasury S.p.A. on the hedging transactions of the existing interest rate swap at December 31, 2021.

**Trade payables** amounted to euro 2,854 thousand (euro 3,080 thousand at December 31, 2020) and mainly refer to payables for the provision of services. These payables mainly refer for euro 1,169 thousand to HB Servizi S.r.l. and for euro 887 thousand to Pirelli Tyre S.p.A..

**Other payables (current liabilities)** to subsidiaries amounted to euro 4,718 thousand (euro 6,576 thousand at December 31, 2020) and mainly refer to payables with Group companies that adhere to the VAT consolidation. The main ones are euro 4,569 thousand to Pirelli Tyre S.p.A., euro 66 thousand to HB Servizi S.r.l..

**Tax payables** amounted to euro 13,337 thousand (euro 11,757 thousand at December 31, 2020) and refer to payables to subsidiaries that adhere to tax consolidation (euro 10,965 thousand to Pirelli Tyre S.p.A., euro 2,290 thousand to Pirelli International Treasury S.p.A.).

The amount of euro 674 thousand (euro 13,231 thousand at December 31, 2020) of **derivative financial instruments – current liabilities** refers to hedging transactions with Pirelli International Treasury S.p.A..

## Transactions – Income statement

**Revenues from sales and services** to subsidiaries amounted to euro 69,141 thousand in 2021 (euro 53,125 thousand in 2020) and mainly refer to service contracts. The main transactions with

subsidiaries are: euro 67,386 thousand with Pirelli Tyre S.p.A., euro 740 thousand with Pirelli Servizi Amministrazione e Tesoreria S.p.A., euro 313 thousand with Pirelli International Treasury S.p.A..

**Other income** from subsidiaries amounting to euro 104,328 thousand in 2021 (euro 111,548 thousand in 2020) mainly refer to: royalties (euro 69,321 thousand from Pirelli Tyre S.p.A., euro 5,543 thousand from Pirelli Group Reinsurance Company SA, euro 2,600 thousands from Limited Liability Company Pirelli Tyre Russia); other recoveries (euro 25,262 thousand from Pirelli Tyre S.p.A., euro 534 thousand from Pirelli Tyre Co. Ltd, and euro 390 thousand from Pirelli Tire LLC).

**Other costs** to subsidiaries for euro 12,651 thousand in 2021 (euro 12,423 thousand in 2020) mainly refer to charges for services and miscellaneous costs (euro 4,676 thousand HB Servizi S.r.l., euro 3,539 thousand Pirelli Sistemi Informativi S.r.l., euro 2,072 thousand Pirelli Tyre S.p.A., euro 1,146 thousand Pirelli Servizi Amministrazione e Tesoreria S.p.A.).

The item **losses from investments**, shows the impairment of the investment in Pirelli Ltda.

**Dividends** for euro 229,312 thousand in 2021 (euro 53,650 thousand in 2020) refer to dividends collected during the year (euro 220,000 thousand from Pirelli Tyre S.p.A., euro 6,522 thousand from Pirelli International Treasury S.p.A., euro 2,290 thousand from Pirelli Group Reinsurance Company SA and euro 500 thousand from Pirelli Sistemi Informativi S.r.l.).

**Financial income** for euro 31,957 thousand in 2021 (euro 30,994 thousand in 2020) mainly refers to interest income on receivables from Pirelli International Treasury S.p.A..

**Financial expenses** for euro 2,827 thousand in 2021 (euro 34,838 thousand in 2020) mainly refer to net expenses on derivatives with Pirelli International Treasury S.p.A..

## TRANSACTIONS WITH ASSOCIATED COMPANIES

### Transactions – Balance Sheet

**Trade payables** to associated companies amounted to euro 72 thousand in 2021 (euro 265 thousand in 2020) and refer to payables to the Consortium for the Research of Advanced Materials (CORIMAV).

### Transactions – Income statement

**Other costs** to associated companies amounted to euro 252 thousand in 2021 (euro 265 thousand in 2020) and refer to relations with the Consortium for Research on Advanced Materials (CORIMAV).



## TRANSACTIONS WITH OTHER RELATED PARTIES

**Transactions – Balance Sheet**

**Trade receivables** from other related parties for euro 195 thousand in 2021 (euro 74 thousand in 2020) include commercial relations with the Prometeon Group.

**Transactions – Income statement**

**Revenues from sales and services** from other related parties for euro 336 thousand in 2021 (euro 212 thousand in 2020) refer to the service/performance contract with Prometeon Tyre Group S.r.l..

**Other income** with other related parties for euro 43 thousand mainly refers to service contracts with Camfin S.p.A. (euro 18 thousand), and with Marco Tronchetti Provera & C. S.p.A. (euro 25 thousand).

**Other costs** with other related parties for euro 150 thousand in 2021 refer to consultancy services to related parties.

## TRANSACTIONS WITH DIRECTORS AND KEY MANAGERS

Equity and economic transactions regarding Directors and Key Managers can be detailed as follows.

The item **provisions for risks and charges** and **provisions for personnel (non-current liabilities)** includes benefits relating to the three-year 2020 – 2022 and 2021 – 2023 Long Term Incentive monetary incentive plan for euro 15,980 thousand, benefits relating to the Short Term Incentive monetary incentive plan for euro 2,535 thousand and finally the directors' end-of-term indemnity for euro 7,221 thousand.

The balance sheet item **other current payables** includes the short-term portion of Short Term Incentive plan.

The economic items **personnel expenses and other costs** include euro 5,749 thousand relating to employee severance indemnity and end-of-term indemnity (eur 1,038 thousand at December 31, 2020), as well as short-term benefits for euro 11,143 thousand (eur 3,750 thousand at December 31, 2020) and long-term benefits for euro 11,725 thousand (eur 3,311 thousand at December 31, 2020).

#### 40. OTHER INFORMATION

##### **Directors and auditors' fees**

The fees due to Directors of Pirelli & C. S.p.A. amounted to euro 28,194 thousand in 2021 (7,469 thousand in 2020). The fees due to the Auditors for the function performed at Pirelli & C. S.p.A. amounted to euro 377 thousand in 2021 (315 thousand in 2020).

##### **Independent auditors' fees**

For the fees pertaining to 2021 for the auditing activities and other services rendered by the Auditing Company PricewaterhouseCoopers S.p.A., reference should be made to the information contained in the notes to the Consolidated Financial Statements.

##### **Disclosure requested by Law no. 124/2017 article 1, paragraphs 125-129**

There is no information to highlight pursuant to the legislation in question referring to Pirelli & C. S.p.A. for 2021.

Any information referring to the subsidiaries of Pirelli & C. S.p.A. are included in the consolidated financial statements.

#### 41 ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob Communication no. 6064293 of July 28, 2006, the Company certifies that no atypical and/or unusual transactions as defined in said Communication were carried out in 2021.

#### 42. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

On **February 1, 2022**, Pirelli was confirmed as “Gold Class”, as part of the Sustainability Yearbook 2022 published by S&P Global, which examined the sustainability profile of over 7,500 companies. Pirelli obtained the “S&P Global Gold Class” recognition in the ranking that is created annually on the basis of the results of the Corporate Sustainability Assessment for the S&P Global Dow Jones Sustainability indices. In 2021, Pirelli confirmed excellence in the Automobiles & Components sector within the Dow Jones Sustainability World and Europe indices, with a score of 77 points against the sector average of 31.

On **February 21, 2022**, Pirelli, in line with as was anticipated to the market on November 11, 2021, finalized the signing of a 5-year multicurrency banking line worth euro 1.6 billion with a pool of leading national and international banks.

The new line, parameterized to the Group's ESG objectives, will mainly make it possible to:

- repay debt maturing in June 2022 (approximately euro 950 million at December 31, 2021) using the new line for euro 600 million and the remaining part of the company's liquidity;
- replace euro 700 million of an available and unused line maturing in June 2022 with euro 1.0 billion of the new line, thus increasing financial flexibility by euro 300 million.

The operation, concluded on better terms, in line with the company's plans, with respect to those lines that will be replaced, allows optimizing the debt profile by extending its maturity.

On **February 23, 2022**, Pirelli announced that it had been assigned the investment grade rating from S&P Global Ratings and Fitch Ratings. The assignment follows the request for a public rating by the company, in line with the group's objectives for optimizing the conditions of access to the credit market. In particular, Fitch Ratings assigned Pirelli an Investment Grade BBB- rating with stable outlook, underlining, among other things, the solidity of the company's operating margins and its ability to generate cash flow, which allow for a significant reduction in debt over the course of the of the next 2 or 3 years. The agency highlighted the leadership position held by Pirelli in the premium segment, its consolidated know-how in high-performance products, exposure to less volatile aftermarket activities than the Standard segment and the reputation of its brand. S&P Global Ratings assigned an Investment Grade BBB- rating with stable outlook. It highlighted, among other things, the solid position held by Pirelli on the Premium and Prestige market, its ability to efficiently use its manufacturing plants, which is reflected in an EBITDA margin higher than the sector average, and the agency's expectation of a continuous reduction of the debt through the careful management of a solid free cash flow.

On **February 24, 2022** tensions between Russia and Ukraine became more severe. At the date of this document, the outcomes and implications of the Russia-Ukraine crisis remain uncertain. The tightening of international sanctions is also having repercussions on the economy of the Russian Federation in terms of growth expectations, the currency market and the sustainability of the domestic economic and financial system in the medium-term. These factors are compounded by the additional complications arising from the restrictive countermeasures that the Russian government is preparing - and in some cases has already implemented - in response to the pressure of international sanctions.

The current situation is also bringing about rising prices for energy, metal and agricultural commodities, with repercussions on consumer price pressure and growth prospects for the Eurozone. These elements of uncertainty could lead to an alteration of normal market dynamics and, more generally, of business operating conditions.

Pirelli has constituted a "Crisis Committee" to constantly monitor the development of the Russia-Ukraine crisis for which mitigation actions and a contingency plan have already been activated, including the progressive production reallocations of export flows to other Group plants.

— ANNEXES TO THE NOTES

## MOVEMENTS OF INVESTMENTS IN SUBSIDIARIES FROM 12/31/2020 TO 12/31/2021

	12/31/2020				CHANGES		12/31/2021			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
<b>INVESTMENTS IN SUBSIDIARIES</b>										
<b>ITALY</b>										
<b>Unlisted:</b>										
Pirelli Servizi Amministrazioni e Tesoreria S.p.A. - Milan	2,047,000	3,238	100	100	-	-	2,047,000	3,238	100	100
Maristel S.r.l. - Milan	1 share	1,315	100	100	-	-	1 share	1,315	100	100
Pirelli International Treasury SpA - Milan	37,500,000	75,000	100	30	-	-	37,500,000	75,000	100	30
Pirelli Sistemi Informativi S.r.l. - Milan	1 share	1,655	100	100	-	-	1 share	1,655	100	100
Pirelli Tyre S.p.A. - Milan	558,154,000	4,528,245	100	100	-	-	558,154,000	4,528,245	100	100
Servizi Aziendali Pirelli S.C.p.A. - Milan	92,950	100	100	90	-	-	92,950	100	100	90
HB Servizi Srl - Milan	1 share	230	100	100	-	-	1 share	230	100	100
<b>Total investments in Italian subsidiaries</b>		<b>4,609,783</b>						<b>4,609,783</b>		

	12/31/2020				CHANGES		12/31/2021			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
<b>FOREIGN COMPANIES</b>										
<b>Brazil</b>										
Pirelli Ltda - Sao Paulo	13,999,991	9,666	100	100	-	(1,246)	13,999,991	8,420	100	100
Prometeon Tyre Group Industria Brasile Ltda	-	-	-	-	-	-	-	-	-	-
Pirelli Latam Participações Ltda.	1	-	-	-	-	-	1	-	-	-
<b>UK</b>										
Pirelli UK Ltd. - London - ordinary	163,991,278	7,871	100	100	-	-	163,991,278	7,871	100	100
<b>Switzerland</b>										
Pirelli Group Reinsurance Company S.A.	300,000	6,346	100	100	-	-	300,000	6,346	100	100
<b>Total investments in foreign subsidiaries</b>		<b>23,883</b>				<b>(1,246)</b>		<b>22,637</b>		
<b>Total investments in subsidiaries</b>		<b>4,633,666</b>				<b>(1,246)</b>		<b>4,632,420</b>		

## MOVEMENTS OF INVESTMENTS IN ASSOCIATES FROM 12/31/2020 TO 12/31/2021

	12/31/2020				CHANGES		12/31/2021			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
<b>INVESTMENTS IN ASSOCIATES</b>										
<b>ITALY</b>										
<b>Unlisted:</b>										
Consorzio per le Ricerche sui Materiali Avanzati (CORIMAV) - Milan	1 share	104	100	100	-	-	1 share	104	100	100
Eurostazioni S.p.A. - Rome	52,333,333	6,271	33	33	-	-	52,333,333	6,271	33	33
Focus Investments S.p.A.	111,111	-	8	8	-	-	111,111	-	8	8
<b>Total unlisted companies</b>		<b>6,375</b>						<b>6,375</b>		
<b>Total investments in associates - Italy</b>		<b>6,375</b>						<b>6,375</b>		
<b>Total investments in associates</b>		<b>6,375</b>						<b>6,375</b>		

MOVEMENTS OF OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FROM 12/31/2020 TO 12/31/2021 (Continue)

	12/31/2020				Changes		12/31/2021			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
<b>INVESTMENTS IN OTHER COMPANIES</b>										
<b>ITALIAN LISTED COMPANIES</b>										
RCS Mediagroup S.p.A. - Milan	24,694,918	14,076	4.7	4.7	-	7,779	24,694,918	21,855	4.7	4.7
<b>Total other Italian listed companies</b>		14,076				7,779		21,855		
<b>Total other listed companies</b>		14,076				7,779		21,855		

	12/31/2020				Changes		12/31/2021			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
<b>ITALIAN UNLISTED COMPANIES</b>										
Aree Urbane S.r.l. (in liquidazione) - Milan	1 share	-	-	-	-	-	1 share	-	-	-
C.I.R.A. - Centro Italiano di Ricerche Aerospaziali S.c.p.A. - Capua (CE)	30	-	0.1	0.1	-	-	30	-	0.1	0.1
Alitalia Compagnia Aerea Italiana S.p.A. - Rome	1,162,098,622	-	1.4	1.4	-	-	1,162,098,622	-	1.4	1.4
CEFRIEL - Società Consortile a Responsabilità limitata	1 share	-	4.9	4.9	-	-	1 share	-	4.9	4.9
Consorzio DIXIT (in liquidazione) - Milan	1 share	-	14.3	14.3	-	-	1 share	-	14.3	14.3
MIP Politecnico di Milano - Graduate School of Business società consortile per azioni già Consorzio per L'Innovazione nella Gestione di Azienda -Mip -(Master Imprese Politecnico) Milan	12,000	-	2.9	2.9	-	-	12,000	-	2.9	2.9
Consorzio Milano Ricerche - Milan	1 share	-	9.0	9.0	-	-	1 share	-	9.0	9.0
Societa' Generale per la Progettazione Consulenze e Partecipazioni ( ex Italconsult ) S.p.A. - Rome	1,100	-	3.7	3.7	-	-	1,100	-	3.7	3.7
F.C. Internazionale Milano S.p.A. - Milan	55,805,625	-	0.4	0.4	-	-	55,805,625	-	0.4	0.4
Fin. Priv. S.r.l. - Milan	1 share	15,902	14.3	14.3	-	5,270	1 share	21,172	14.3	14.3
Istituto Europeo di Oncologia S.r.l. - Milan	1 share	7,962	6.1	6.1	-	44	1 share	8,006	6.1	6.1
Normisma - Società di Studi Economici S.p.A. - Bologna	959,429	293	3.3	3.3	-	30	959,429	323	3.3	3.3
Tiglio I S.r.l. - Milan	1 quota	17	0.6	0.6	-	(14)	1 quota	2	0.6	0.6
Genextra S.p.A.	592,450	26	0.6	0.6	-	609	592,450	635	0.6	0.6
<b>Total other Italian unlisted companies</b>		24,200				5,938		30,138		

## MOVEMENTS OF OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME FROM 12/31/2020 TO 12/31/2021

	12/31/2020				Changes		12/31/2021			
	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct	Number of shares	(€/thousand)	Number of shares	Carrying amount (€/thousand)	% of total investments	of which direct
<b>FOREIGN COMPANIES</b>										
<b>Libia</b>										
Libyan-Italian Joint Company - ordinary shares B	300	-	1.0	1.0	-	-	300	-	1.0	1.0
<b>Belgium</b>										
Euroqube S.A. (in liquidation)	67,570	11	18.0	18.0	-	(11)	67,570	-	18.0	18.0
<b>UK</b>										
Eca International	100	-	2.8	2.8	-	-	100	-	2.8	2.8
<b>Total other foreign companies</b>		11				(11)		-		
<b>OTHER PORTFOLIO SECURITIES</b>										
Fondo Comune di Investimento Immobiliare - Anastasia	53 shares	2,786	-	-	-	39	53 shares	2,824	-	-
<b>TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>		2,786				39		2,824		
<b>TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME</b>		41,073				13,744		54,817		

## LIST OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (PURSUANT TO ART. 2427 OF THE CIVIL CODE)

<i>(in thousand of euro)</i>	Legal address	Carrying amount	Share %	Share capital	Attributable equity	Attributable net income (loss)
<b>INVESTMENTS IN SUBSIDIARIES - ITALY</b>						
Pirelli Servizi Amministrazioni e Tesoreria S.p.A.	Milan	3,237	100%	2,047	2,985	(195)
Maristel S.p.A.	Milan	1,315	100%	50	3,317	62
Pirelli Sistemi Informativi S.r.l.	Milan	1,656	100%	1,010	2,562	226
Pirelli Tyre S.p.A.	Milan	4,528,245	100%	558,154	1,747,216	252,473
Servizi Aziendali Pirelli S.c.p.a.	Milan	100	91.3%	104	480	(75)
HB Servizi S.r.l.	Milan	230	100%	10	392	(64)
Pirelli International Treasury S.p.A.	Milan	75,000	30%	125,000	81,402	5,932
<b>Total investments in subsidiaries - Italy</b>		<b>4,609,783</b>				
<b>INVESTMENTS IN FOREIGN SUBSIDIARIES</b>						
<b>Switzerland</b>						
Pirelli Group Reinsurance Company S.A.	Lugano	6,346	100%	2,904	13,860	2,773
<b>Brasil</b>						
Pirelli Ltda	Sao Paulo	8,420	100%	2,215	(701)	(1,673)
<b>UK</b>						
Pirelli UK Ltd.	London	7,871	100%	195,162	18,530	(7,980)
<b>Total investments in foreign subsidiaries</b>		<b>22,637</b>				
<b>Total investments in subsidiaries</b>		<b>4,632,420</b>				
<b>INVESTMENTS IN ASSOCIATES - ITALY</b>						
Consortium for the Reserach into Advanced Materials (CORIMAV)	Milan	104	100%	104	104	-
Eurostazioni S.p.A. **	Rome	6,271	32.7%	16,000	6,575	93
Focus Investments S.r.l. *	Milan	-	8.3%	183	(2,589)	(826)
<b>Total investments in associates - Italy</b>		<b>6,375</b>				
<b>Total investments in associates</b>		<b>6,375</b>				

\* balance sheet at December 31, 2020

\*\* balance sheet at July 31, 2021



**REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING**

Dear Shareholders,

The Board of Statutory Auditors of Pirelli & C. S.p.A. ("**Pirelli**" or the "**Company**") which, pursuant to legislative decree no. 39 of 27 January 2010, also acts as the Internal Control and Audit Committee), pursuant to Article 153 of legislative decree no. 58 of 24 February 1998 ("**TUF**") and the applicable provisions of the Italian Civil Code, is called on to report to the Shareholders' Meeting, convened to approve the financial statements for the year ending on 31 December 2021, on the supervisory activities carried out during the financial year and on any omissions and misconduct it might have detected. The Board of Statutory Auditors may also make proposals regarding the financial statements and their approval and other matters under its responsibility.

The Board of Statutory Auditors, as of the date of drafting and publication of this report ("**Report**"), has been constantly informed and updated about the current and foreseeable effects, direct and indirect, in both qualitative and quantitative terms, of the Russia-Ukraine crisis on business activities, exposures to affected markets, supply chains, the financial situation and economic results reported in the Directors' Report on Operations and the financial statements; the Board of Statutory Auditors has obtained information about the effects on the Group of the restrictive measures adopted by the EU in the context of the Russia-Ukraine crisis. A more detailed explanation can be found in the section of the Report dealing with significant events occurring after the end of the financial year.

The Board of Statutory Auditors has also been continually informed of the actions taken to monitor the situation and the social, economic and financial effects, both for Pirelli and the Group of which it is the parent company, of the ongoing health emergency associated with the spread, from January 2020, of the Sars-Cov-2 virus ("**COVID-19**"). The considerations made are set out in a specific paragraph of this Report.

During the year, the Board of Statutory Auditors carried out its supervisory activities as required by the law in force, taking account of the provisions of European Regulation 537/2014, the standards of conduct for the Boards of Statutory Auditors of listed companies, as recommended in the document issued by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (the Italian national association of chartered accountants and auditors) last updated in April 2018 ("**Standards of Conduct**"), and the Consob provisions on company controls and the activities of the Boards of Statutory Auditors and the indications contained in the current Corporate Governance Code for listed companies, to which Pirelli has adhered.

This took place - as well as through the attendance of all or some of the Statutory Auditors at meetings of the Board of Directors and its committees - also by means of the constant exchange of information between the Board of Statutory Auditors and the relevant corporate administrative, audit and compliance departments in charge of risk control and management, and with the Supervisory Body created pursuant to Legislative Decree no. 231 of 8 June 2001, as well as with the members of the boards of statutory auditors of the principal subsidiaries and with the firm appointed as external auditor.

## APPOINTMENT AND COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors in office as of the date of the Report was appointed by the Shareholders' Meeting of 15 June 2021 for the financial years 2021-2023 (and, therefore, will expire with the approval of the financial statements as of 31 December 2023). It is composed of the Standing Auditors Riccardo Foglia Taverna (Chairman), Francesca Meneghel, Teresa Naddeo, Antonella Carù and Alberto Villani, and the Alternate Auditors Marco Taglioretti, Franca Brusco and Maria Sardelli.<sup>101</sup>

Until 15 June 2021, the Board of Statutory Auditors was made up of the following: Francesco Fallacara (Chairman), Antonella Carù, Luca Nicodemi, Alberto Villani, Fabio Artoni (Standing Auditors), Franca Brusco, Giovanna Oddo, Elenio Bidoggia (Alternate Auditors).

All the information provided in this Report, taking into account the activities carried out by the control body in office until 15 June 2021 and of which the current Board of Statutory Auditors has been duly informed, should be understood to refer to the work of the control body throughout the entire financial year.

Pursuant to article 148, paragraph 3 of the TUF, and the provisions of the Corporate Governance Code for listed companies, to which, as previously mentioned, Pirelli has resolved to adhere, the Board of Statutory Auditors checked that as of 31 December 2021 its serving members had retained the requirements of independence (that they already ascertained to possess at the time of their appointment, together with the correct application of the criteria and the ascertainment procedures adopted by the Board of Directors to assess the independence of Directors). For more details in this regard see paragraph "Self-assessment process for the Board of Statutory Auditors".

## ADHESION TO CODES OF CONDUCT

As anticipated, Pirelli has decided to adhere to the Corporate Governance Code approved by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria, as well as the most recent recommendations of the Corporate Governance Committee.

The Board of Statutory Auditors has assessed the effective and correct application of corporate governance rules provided herein by the Company and ensured that these are implemented in the corporate governance model currently in force, described in the Report on the Corporate Governance and Share Ownership (as described in more detail below), that is substantively in line with the principles contained in both codes of conduct mentioned above. Furthermore, the Board of Statutory Auditors concurred with the Board of Directors' assessment that the current provisions of the articles of association and corporate governance practices followed by the Company are adequate to achieve the Company's interest.

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<sup>101</sup> The appointment was made by applying the list voting mechanism that allowed the so-called "minorities" to elect their own representatives on the Board of Statutory Auditors. In addition, shareholders were provided with a document by the outgoing Board of Statutory Auditors drawn up in accordance with the Rules of Conduct.

## COMMENTS ON THE 2021 FINANCIAL STATEMENTS AND ON TRANSACTIONS OF MAJOR IMPORTANCE CARRIED OUT DURING THE YEAR

It should be noted that Pirelli's Financial Statements have been drawn up based on the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, in force on 31 December 2021 and in accordance with the instructions issued in implementation of article 9 of Legislative Decree 38/2005. The Financial Statements also include the notice required by law 124/2017 (art. 1, subsections 125-129).

The Board of Statutory Auditors also verified in particular: (i) that the data and information contained in the financial statements were codified in accordance with the provisions of the XBRL taxonomy in force and that (ii) the directors, depending on the assessments made on the conformity or non-conformity of the XBRL financial statements with the provisions of Article 2423 of the Italian Civil Code, made the statements required by the regulations.

The principal risks and uncertainties are summarised in the Directors' Report on Operations, and there is a section on the outlook for the coming year.

The Company's financial statements are composed of the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Explanatory Notes.

The Financial Statements are accompanied by the Directors' Report on Operations, and include the Report on the Corporate Governance and Structure of Share Ownership – prepared pursuant to Article 123-bis of the TUF – as well as the Report on responsible management of the value chain (consolidated non-financial declaration pursuant to legislative decree No. 254, of 30 December 2016), drawn up by the Company in accordance with (i) the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) - Comprehensive option -, (ii) the principles of inclusiveness, materiality and compliance with the AA1000 Standard and (iii) the Autoparts Sustainability Accounting Standards drawn up by the SA.S.B. (Sustainability Accounting Standards Board), (iv) the priorities highlighted by the European Securities and Markets Authority (ESMA) in circular ESMA32-63-1186 and (v) the assessments required by the European Taxonomy Regulation in its areas of application (EU Regulation 2020/852 of 18 June 2020 and related Delegated Regulations (EU) 2021/2178 and (EU) 2021/2139). It should be noted that the assurance activities carried out by the auditing firm *PricewaterhouseCoopers* S.p.A. ("**PWC**") in connection with the latter entail the verification of the preparation and publication of the information required by Reg. 852/20, in compliance with the indications given by Assirevi to the auditing firms in Research Document No. 243 of February 2022, entitled "Auditor's activities on disclosures pursuant to Article 8 of Regulation 2020/852 - Taxonomy Regulation". The financial statements also include the Report on the remuneration policy and the compensation paid, comprising the 2022 Remuneration Policy ("**2022 Policy**") and the Report on Compensation Paid in 2021.

The 2021 financial statements and consolidated financial statements of Pirelli include statements of compliance by the CEO and by the Manager responsible for the preparation of the corporate financial documents ("**Manager Responsible**").

Pirelli's 2021 consolidated financial statements present the following summary data:

Revenues	5,331.5 million euros
Operating income (EBIT)	577.1 million euros
Adjusted EBIT	815.8 million euros
Consolidated net profit	321.6 million euros

Net financial debt was equivalent to 2,907.1 million euros, compared to 3,258.4 million euros at 31 December 2020.

Parent company Pirelli closed the financial year with positive net income to the amount of 216.6 million euros (44 million euros in 2020).

Events of major importance are accounted for in detail in the Directors' Report on Operations, and in the financial statements. The following events, in particular, should be noted:

- in **January and February 2021**, Pirelli made early repayment of some of its debt due in 2021 and 2022, for a total amount of 838 million euros. In particular, the Company repaid a tranche of the "Schuldschein" loan, due on 31 July 2021, equal to 82 million euro and part of the unsecured loan, due in 2022, equal to 756 euro. The repayments, for which part of the liquidity received in 2020 was used, allowed the financial structure of the debt to be optimised;
- on **25 February 2021**, Pirelli communicated the terms of the termination, with effect from 28 February 2021, of the employment contract with the General Manager co-CEO Angelos Papadimitriou, disclosed to the market on **20 January 2021**;
- on **31 March 2021**, the Board of Directors approved the proposal of the Executive Deputy Chairman and CEO, Marco Tronchetti Provera, of which the market was previously informed on **24 March 2021**, to ask the Shareholders' Meeting of 15 June 2021 to appoint Giorgio Luca Bruno as Director and - consequently - to appoint him as his direct Deputy-CEO. Informed of this proposal, Angelos Papadimitriou withdrew his candidacy for the position of Director on the agenda of the Shareholders' Meeting of **24 March 2021**, which took no decision on the appointment of a new director. Angelos Papadimitriou, previously co-opted, has therefore resigned from his position as Director from 24 March 2021;
- on **31 March 2021**, the Board of Directors approved the 2021- 2022|2025 Business Plan, which was presented to the financial community on the same date, and also approved the financial statements for the year ended 31 December 2020, which closed with a consolidated net profit of 42.7 million euros and a net profit for the Parent Company of 44 million euros. On the same date, the Board of Directors resolved to propose to the Shareholders' Meeting

- called for 15 June 2021 the distribution of a dividend, also by withdrawing part of the profits set aside in previous financial years, of 0.08 euros per share for a total of 80 million euros;
- on **1 April 2021**, Pirelli announced that on **31 March 2021** it received a communication from ChemChina informing it that it had received a notification regarding the restructuring of ChemChina and Sinochem Group Co., Ltd. by the Assets Supervision and Administration Commission of the State Council ("**SASAC**") which provides for the establishment of a new holding company by SASAC that will perform the duties of the transferor on behalf of the State Council and the consolidation of Sinochem and ChemChina into the new holding company. Upon completion of the joint restructuring, ChemChina will remain the largest shareholder in Pirelli;
  - on **15 June 2021**, the Shareholders' Meeting of Pirelli approved the 2020 financial statements and the distribution of a dividend of 0.08 euros per share, equal to a total dividend payout of 80 million euros before withholding taxes. The dividend was paid on **23 June 2021** (with a coupon date of 21 June 2021 and a record date of 22 June 2021). The Shareholders' Meeting also confirmed the number of members of the Board of Directors at 15 and - on a proposal from the Board of Directors - appointed Giorgio Luca Bruno as a new Director, whose term of office will expire, along with that of the other members of the Board of Directors, on approval of the financial statements as of 31 December 2022. The Shareholders' Meeting then appointed the Board of Statutory Auditors for the financial years 2021-2022-2023 in its current composition. The Shareholders' Meeting also approved the Remuneration Policy for 2021, expressed its favourable opinion on the Report on compensation paid in the 2020 financial year and approved the adoption of the three-year 2021-2023 monetary incentive plan for the Group's management. Lastly, with reference to the 2020-2022 three-year monetary incentive Plan approved by the Shareholders' Meeting of 18 June 2020, the Shareholders' Meeting approved the proposal to adjust the Cumulative Group Net Cash Flow objective (before dividends) and the possibility to normalise potential effects on the TSR (Total Shareholder Return) objective of the acquisition of Cooper by Goodyear (at the start of 2021), included in the reference panel of that objective;
  - also on **15 June 2021**, the Board of Directors, in accordance with the information previously provided to the market, appointed Giorgio Luca Bruno as Deputy-CEO. The newly appointed Deputy-CEO was given powers for the operational management of Pirelli, to be exercised vicariously. The Board also appointed Giorgio Luca Bruno as a member of the Strategies Committee, confirming the number of its members at 8;
  - on **20 September 2021** Pirelli, the only global company in the Automobiles & Parts sector, was confirmed as a United Nations Global Compact LEAD. Comprising 37 companies this year, the Global Compact LEAD brings together the world's companies most committed to implementing the Ten Principles of the United Nations Global Compact;
  - on **28 October 2021**, Pirelli announced the start of a three-year project in the Hutan Harapan forest in Indonesia, in collaboration with BMW Group and BirdLife International, involving

activities to support local communities, forest conservation and the protection of endangered animal species;

- on **11 November 2021**, the Board of Directors approved a line of credit, to be finalised in the coming months, for a total of 1.6 billion euros, which will be used to refinance and/or replace the bank credit lines expiring in June 2022. The transaction will allow the debt profile to be optimised by extending its maturities. In addition, on the same date, the Board of Directors - with the approval of the Board of Statutory Auditors, pursuant to art. 154-bis of the TUF, and verification of fulfilment of the requirements stated in the Bylaws - resolved to appoint, as of 11 November 2021, Giorgio Luca Bruno as Manager responsible for the preparation of the corporate financial documents, to replace Francesco Tanzi who, as previously notified to the market, left the company on 31 December 2021.

#### SIGNIFICANT EVENTS THAT OCCURRED AFTER THE CLOSURE OF THE FINANCIAL YEAR

The most significant events that occurred after the closure of the financial year are detailed in the Directors' Report on Operations, and in the financial statements.

In particular, on **28 January 2022**, Pirelli kicked off the celebrations for the 150th anniversary of its foundation on 28 January 1872 with an event at the Piccolo Teatro in Milan, which will continue throughout 2022.

On **1 February 2022**, Pirelli was confirmed as a "Gold Class" in the Sustainability Yearbook 2022 published by S&P Global, which examined the sustainability profile of over 7,500 companies. Pirelli was awarded the "S&P Global Gold Class" in the ranking that is produced annually on the basis of the results of the Corporate Sustainability Assessment for the Dow Jones Sustainability indices of S&P Global. In 2021, Pirelli was confirmed as an excellence in the Automobiles & Components sector within the Dow Jones Sustainability World and Europe indices with a score of 77 points against the sector average of 31.

On 21 February 2022 Pirelli, in accordance with the information previously provided to the market 11 November 2021, finalised the signing of a 1.6 billion euros 5-year multicurrency bank credit line with a pool of leading Italian and international banks. The new line, which is benchmarked against the Group's ESG objectives, will mainly allow:

- repayment of the debt maturing in June 2022 (approximately 950 million euros as of 31 December 2021) using 600 million euros from the new line and the remainder from the company's liquidity;
- replacement of 700 million euros of an available and undrawn line of credit expiring in June 2022 with 1.0 billion euros from the new line, thus increasing financial flexibility by 300 million euros.

The transaction, which, in accordance with the company's plans, was concluded on better terms than the lines replaced, allows the debt profile to be optimised by extending its maturity.

On **23 February 2022**, Pirelli announced that it had been assigned an investment grade rating by S&P Global Ratings and Fitch Ratings. The assignment follows the company's request for a public rating, in line with the group's objectives of optimising the conditions of access to the credit market. In particular, Fitch Ratings has assigned Pirelli an Investment Grade BBB- rating with a stable outlook, emphasising, among other things, the solidity of the company's operating margins and its ability to generate cash flow, which mean that a significant reduction in debt over the next two or three years can be envisaged. The agency highlighted Pirelli's leadership in the premium segment, its consolidated know-how in high-performance products, its exposure to less volatile after-market activities than in the standard segment and its brand awareness. S&P Global Ratings assigned an Investment Grade BBB- rating with a stable outlook, highlighting, among other things, Pirelli's solid position in the Premium and Prestige markets, its ability to efficiently utilise its manufacturing facilities, reflected in an EBITDA margin above the sector average, and the agency's expectation of continued debt reduction through careful management of solid free cash flow.

On **24 February 2022**, tensions escalated between Russia and Ukraine. As of the date of the Report, the outcome and implications of the current crisis remain uncertain. The tightening of international sanctions is also having repercussions on the Russian Federation's economy in terms of growth expectations, the currency market and the sustainability of the domestic economic and financial system in the medium term. These factors are compounded by the additional complexity arising from the restrictive countermeasures that the Russian government is preparing - in some cases already implemented - in response to the pressure of international sanctions. The current scenario is also leading to rising prices for energy, metal and agricultural commodities, with repercussions on consumer price pressure and growth prospects for the Eurozone. These elements of uncertainty could lead to an alteration of normal market dynamics and, more generally, of business operating conditions. Pirelli has an industrial presence in Russia with two plants in Kirov and Voronezh. Pirelli has set up a "Crisis Committee" to constantly monitor the development of the Russia-Ukraine crisis, with respect to which it has already implemented mitigation actions and a contingency plan, including the progressive reallocation of export production flows to other Group plants. The Company had already announced that it had conducted an initial analysis of the impact on its 2022 guidance at the time of the preliminary 2021 figures. This analysis assumed that the cost of energy and oil would remain at the levels seen in February until the end of the year, and considered the potential impacts on local operations related to the import and export of raw materials and finished products to and from Russia. Investments in the local market, except those related to security, have been blocked. The activities of the factories in Russia will be gradually limited to what is strictly necessary to ensure the payment of salaries and social services for employees. It should be noted that the reported event qualifies as a non-adjusting under IAS 10 "Events after the reporting period" and therefore has no impact on the consolidated financial statements as at 31 December 2021. Please refer to the section "Significant events after the end of the financial year" contained in the Explanatory Notes to the consolidated financial statements as at 31 December 2021 for further details on the financial position of the sub-consolidate aggregating the Russian-based subsidiaries. As of the date of this document, guarantees have been issued/are being issued by Pirelli Tyre S.p.A. on financial and commercial payables of its Russian subsidiaries to third parties and other Group companies.

## UNUSUAL OR EXCEPTIONAL TRANSACTIONS

We are unaware of any atypical or unusual transactions, as defined by Consob in Decision DEM/6064293 of 28 July 2006.

## INTRAGROUP OR RELATED PARTY TRANSACTIONS

Pursuant to article 2391-*bis* of the Italian Civil Code and Consob resolution 17221 of 12 March 2010 on the "Regulation of related-party transactions", as subsequently updated and amended ("**Consob Regulation**"), the Board of Directors approved the "Procedure for related-party transactions" ("**RPT Procedure**"), subject to the favourable opinion of the Related-Party Transactions Committee ("**RPT Committee**"). The RPT Procedure was updated during the year ("**Amendments to the RPT Procedure**") in order to take into account the changes made to the Consob Regulation implementing the amendments to the European shareholders directive ("Shareholders' Rights Directive II").<sup>102</sup>

In this context, the Board of Statutory Auditors, in accordance with the supervisory tasks required by current legislation, expressed its favourable opinion on the RPT Committee's proposal to the Board of Directors regarding the Amendments to the RPT Procedure and monitored the compliance of the RPT Procedure with the principles set out in the Consob Regulation. Pursuant to article 4, paragraph 6, of the Consob Regulation, it should be noted that the RPT Procedure adopted by the Company and currently in force is coherent with the principles contained in said Regulation, and is published on the Company's website ([www.pirelli.com](http://www.pirelli.com)).

During the 2021 financial year there were both intragroup and non-intragroup related-party transactions.

The intragroup transactions, the effects of which are reported in the financial statements, are ordinary in that they are essentially made up of the reciprocal provision of services (technical, organisational, general) provided by the headquarters to the subsidiaries and charging royalties for the use of patents to the Group companies that benefit from them. They were regulated applying normal conditions determined using standard parameters that reflect the actual use made of the services, and were carried out in the interests of the Company, since they were aimed at rationalising the use of the Group's resources.

We attended the meetings of the RPT Committee during which the Committee expressed a favourable opinion of some related party transactions of "lesser importance", after having considered the interest of the Company in the completion of the transaction and the expediency and substantial correctness of their conditions. Regarding such transactions, we have always expressed the view that they were in the interests of the Company.

The Board of Statutory Auditors received periodic communications from the Company regarding related-party transactions not examined by the RPT Committee, noting that they were of an ordinary

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<sup>102</sup> The RPT Procedure was approved by the Board of Directors (again by a unanimous vote of the Directors present) on 31 August 2017, confirmed on 6 November 2017 and updated on 11 November 2020 and 15 June 2021 and amended to take into account the new organisational structure on 17 March 2022.



nature (i.e. they were part of normal business operations or related financial activities) and/or concluded at market equivalent or standard terms and/or intragroup and were in the interest of the Company.

The effects of the aforementioned transactions for the 2021 financial year are fully reflected in the financial statements.

The Board of Statutory Auditors monitored compliance with the RPT Procedure and the correctness of the process followed by the Board of Directors and the relevant RPT Committee regarding the qualification of related parties and we have nothing to report.

The transactions with related parties are detailed in the notes to the Company's separate and consolidated financial statements, including information on the consequent effects on the Income Statement and the Statement of Financial Position. The Board of Statutory Auditors deems the information on transactions with related parties provided in the financial statements to be adequate.

#### IMPAIRMENT TEST PROCEDURE

It should be noted that, as required by the joint Banca d'Italia/Consob/ISVAP document of 3 March 2010, on 23 February 2022, and therefore independently and before the approval on 17 March 2022 of the respective periodic financial report as at 31 December 2021, the Board of Directors resolved that the impairment test procedure complied with the prescriptions of international accounting standard IAS 36, after said procedure had been approved by the Audit, Risks, Sustainability and Corporate Governance Committee and the Board of Statutory Auditors at the joint meeting held on 18 February 2022.

The Company carried out an impairment test on the goodwill allocated to the group of Consumer Business cash generating units and to the Pirelli brand, the latter with the assistance of an independent expert.

The explanatory notes to the financial statements contain information and results of the evaluation process conducted and, in relation to information on the impairment test on the Pirelli brand, also with the help of the aforementioned expert.

The Board of Statutory Auditors deems the procedure adopted by the Company for the preparation of the financial statements as at 31 December 2021 adequate and the relative information comprehensive.

#### SUPERVISORY ACTIVITY PURSUANT TO LEGISLATIVE DECREE 39/2010 "EXTERNAL AUDITORS"

The Board of Statutory Auditors, also in collaboration with the Audit, Risks, Sustainability and Corporate Governance Committee and pursuant to changes to the regulations introduced by legislative decree no. 135 of 17 July 2016, supervised:

- the financial reporting process;

- the effectiveness of the internal control, internal audit and risk management systems;
- the external audit of the annual and consolidated accounts;
- the independence of the external auditor, in particular with regard to the provision of non-auditing services;
- the results of the external audit with specific reference to the additional report pursuant to article 11 of European Regulation 537/2014.

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### SUPERVISING THE FINANCIAL REPORTING PROCESS

The Board of Statutory Auditors, having verified that there are adequate rules and processes governing the "formulation" and "dissemination" of financial information, considers that the financial reporting information process is adequate, and believes that there are no issues to raise with the Shareholders' Meeting in this regard.

In addition to the annual and half-year reports, the Company voluntarily publishes the additional periodic financial information specified in article 82-ter of Consob Regulation 11971/99 ("interim reports on operations") for the periods that end on 31 March and 30 September each year.

In relation to the single electronic reporting format for annual financial reports (so-called ESEF), in line with the provisions of Directive 2013/50/EU, amending Directive 2004/109/EC, and Delegated Regulation (EU) 2019/815, the draft financial statements as at 31 December 2021 have been prepared in accordance with the ESEF format.

### SUPERVISING THE NON-FINANCIAL REPORTING PROCESS

The Board of Statutory Auditors has monitored compliance with the provisions contained in legislative decree no. 254 of 30 December 2016 with reference to the non-financial declaration (the "**NFD**"), also verifying that there are adequate rules and processes governing the process of "formulating" and "disseminating" non-financial information, and considers that the non-financial reporting information process is adequate, and believes that there are no issues to raise with the Shareholders' Meeting in this regard.

In particular, the Board of Statutory Auditors acknowledged that the Company has adopted a structured system to monitor the content of the NFD which includes: (i) a dedicated operating rule to ensure adequate reporting of information of a non-financial nature; (ii) a control system to ensure greater assurance that the principal non-financial information is reported correctly; (iii) checks of the data of a non-financial nature in the NFD, after appropriate highlighting and verification; (iv) signature of a letter of attestation by the senior management on the non-financial data included in the paragraphs on this subject in the financial statements.

The Company did not avail itself of its right pursuant to article 3, paragraph 8 of legislative decree no 254 of 30 December 2016 to omit information concerning imminent developments and transactions being negotiated.

#### SUPERVISING THE EFFECTIVENESS OF THE INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS, AND THE EXTERNAL AUDIT OF THE ANNUAL SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

The Board of Statutory Auditors, also in collaboration with the Audit, Risks, Sustainability and Corporate Governance Committee, met with the Head of Internal Audit once every quarter. At those meetings, information was provided on the results of the audits designed to ascertain the adequacy and operational effectiveness of the Internal Control System, compliance with the laws and the business procedures and processes, as well as on the implementation of the related improvement plans. The Board of Statutory Auditors confirmed the efficiency and adequacy of the internal control system and also received the Audit Plan for the financial year, its final results and the risk analysis, expressing a favourable opinion of their approval by the Board, where requested. During the meetings it was also constantly updated about the application of the "Whistleblowing" procedure in the Pirelli Group.

Furthermore, every six months it received the reports of the Audit, Risks, Sustainability and Corporate Governance Committee and the Supervisory Body on the activities they had undertaken.

In light of the changes to the organisational structure, the Board of Statutory Auditors was able to verify the appropriateness of the procedure adopted to appoint the new Manager Responsible and, therefore, after assessing that the requirements of the Bylaws were met, expressed its opinion in favour of appointing Mr Giorgio Luca Bruno as the new Manager Responsible. The Board of Statutory Auditors also took note of the report made by the Manager Responsible who, when the draft financial statements were being approved, confirmed the adequacy and appropriateness of the powers and resources conferred on him by the Board of Directors, and also confirmed that he had been given direct access to all the information necessary to produce accounting data, without needing to obtain any authorisation. The Board of Statutory Auditors also acknowledged that the Manager Responsible had reported that he had participated in the development of internal flows of information for accounting purposes and had approved all corporate procedures which impacted the Company's profitability, financial position and/or assets and liabilities.

The Board of Statutory Auditors confirmed that at present there is no need for measures to guarantee the effectiveness and impartiality of the corporate departments involved in the internal control and risk management system and, specifically, other than the Internal Audit department (mentioned above), the Compliance and Rules department, the Tax Risk Officer, the Enterprise Risk Management and the Information Security.

Accordingly, the Board of Statutory Auditors expresses a positive opinion of the adequacy of the internal control and risk governance system as a whole and has no issues to raise with the Shareholders' Meeting in this regard.

The Board of Statutory Auditors also met with the external auditor at least once every quarter. No fundamental issues or significant shortcomings in the internal control system related to the financial reporting process arose in these meetings, also with regard to the provisions set out in article 19, paragraph 3 of legislative decree no. 39 of 27 January 2010.

In particular, it should be noted that the Board of Statutory Auditors found that the controls specified in law 262/2005 on the financial statements as at 31 December 2021 evidenced that the administrative-accounting procedures had been applied correctly. The prescribed controls on the application of the control framework for the NFD evidenced that the internal procedures had also been applied correctly.

The Board of Statutory Auditors assessed the updates received on the activities carried out by the Information Security office following the launch of the Transformation Program in this area and the initiatives undertaken to counter any cyber threats with the aim of mitigating cyber security incidents to the maximum extent possible.

The Board of Statutory Auditors considered that no "significant shortcomings" in the internal control system for the financial reporting process and the NFD emerged in the letter of recommendations to the management drafted by the external auditor.

The firm appointed to undertake the external audit of the accounts of the Company is PricewaterhouseCoopers S.p.A. ("**PWC**"). The appointment as external auditor of the accounts was made by the Shareholders' Meeting, on the reasoned proposal of the control body, in its meeting on 1 August 2017, for the nine year period 2017/2025, pursuant to the applicable provisions for listed companies (the appointment was effective from 4 October 2017, the date Pirelli's shares were admitted to trading). PWC was also appointed as external auditor of the accounts of the principal Pirelli Group companies in Italy and abroad.

Pursuant to article 14 of legislative decree no. 39 of 27 January 2010, and article 10 of Regulation (EU) 537/2014, on 24 March 2022 PWC issued its Reports on the separate and consolidated financial statements as at 31 December 2021. On the same date, the auditing firm issued its Additional report for the internal control and audit committee, drafted pursuant to article 11 of Regulation (EU) 537/2014. On the same date, PWC issued its Report on the consolidated non-financial disclosure pursuant to article 3, paragraph 10 of legislative decree no. 254 of 30 December 2016.

The texts of the aforementioned reports - drafted in accordance with the applicable legal provisions - do not contain any elements to bring to the attention of the Shareholders' Meeting.

#### SUPERVISING THE INDEPENDENCE OF THE EXTERNAL AUDITOR, IN PARTICULAR WITH REGARD TO THE PROVISION OF NON-AUDITING SERVICES

The Board of Statutory Auditors monitored the independence of the external auditor and in particular received periodic evidence of non-audit work assigned to PWC, also by virtue of specific regulatory provisions.

Regarding the independence of the external auditor, a structured procedure has been issued at Group level. In line with the provisions of legislative decree no. 39 of 27 January 2010, this sets out that no Pirelli Group company may assign tasks other than the external audit of the accounts to companies that are members of the network of the appointed external auditor without the prior express authorisation of the Board of Statutory Auditors, which, with the help of the relevant corporate structures, has the responsibility of checking that the proposed assignment is not listed as not permitted by article 5 of Regulation (EU) no. 537/2014, and that in any event, given its characteristics (considering the payment planned, the nature of the service and the reasons for the assignment), said assignment complies with the principles of independence of the external auditor and has no impact on the independence of the external auditor.

In a letter dated 24 March 2022, PWC confirmed its independence pursuant to article 6, paragraph 2) of Regulation EU 537/2014 and paragraph 17, letter a) of International Audit Standard (IAS) 260.

During the 2021 financial year, PWC and its network carried out the activities summarised below for the Group. These activities were the object of assignments approved by the Board of Statutory Auditors where they do not relate to tasks assigned before the Company was listed:

#### 2021 EXTERNAL AUDITOR FEES

<i>(in migliaia di euro)</i>	Soggetto che ha erogato il servizio	Destinatario	Onorari parziali	Onorari totali	
Servizi di revisione	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	75		
	PricewaterhouseCoopers S.p.A.	Società Controllate	1.135		
	Network PricewaterhouseCoopers	Società Controllate	1.252	<b>2.462</b>	<b>83%</b>
Servizi di attestazione <sup>(1)</sup>	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	243		
	PricewaterhouseCoopers S.p.A.	Società Controllate	81		
	Network PricewaterhouseCoopers	Società Controllate	34	<b>358</b>	<b>12%</b>
Servizi diversi dalla revisione	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	150		
	PricewaterhouseCoopers S.p.A.	Società Controllate	-		
	Network PricewaterhouseCoopers	Società Controllate	-	<b>150</b>	<b>5%</b>
				<b>2.970</b>	<b>100%</b>

(1) nella voce "Servizi di attestazione" sono indicate le somme corrisposte per altri servizi che prevedono l'emissione di una relazione di revisione nonché le somme corrisposte per gli incarichi di cd. servizi di attestazione in quanto sinergici con l'attività di revisione legale dei conti.

The Board of Statutory Auditors considers the fees mentioned above to be adequate to the size, complexity and characteristics of the work carried out, and also considers that the non-audit assignments (and their fees) are not such as to have an impact on the independence of the external auditor.

In this latter regard, it should be noted that the Board of Directors, after having obtained the assessment of the Audit, Risks, Sustainability and Corporate Governance Committee, was in agreement with the Statutory Auditors' opinion.

We would like to remind you that pursuant to Regulation (EU) no. 537/2014, the Board of Statutory Auditors, as the Internal Control and Audit Committee, is required to monitor the assignments other than auditing attributed to the external auditor in order to comply with the limit of 70% of the average

fees paid in the last three financial years for the external audit. The Company has launched a procedure to comply with the aforementioned standard.

The Board of Statutory Auditors notes:

- that it assessed the adequacy of these procedures which are adequate to allow the Board of Statutory Auditors to understand the reasons for the proposal to assign a service other than an external audit and to possess all the data required to carry out the assessments;
- that it shared with the auditing firm the methodological system used for the calculation and periodic update of the aforementioned fee cap and payments made to the auditing firm for non-audit tasks carried out, and that said methodological system is deemed adequate for the purpose of monitoring compliance with the independence requirements of the auditing firm itself, and
- that the remuneration received by PWC during 2021 for services other than external auditing do not exceed 70% of the average remuneration for the external audit carried out at Pirelli and received in the three-year period 2018-2020.

## ORGANISATIONAL STRUCTURE

The Board of Statutory Auditors considered the Company's organisational structure to be adequate for the needs of the Company and appropriate to ensure that the principles of correct administration are respected.

The Report on corporate governance and the share ownership structure describes in detail the types of powers conferred on the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera and the Deputy-CEO and indicates the matters reserved to the competence of the Board of Directors of Pirelli.

It should be noted that on 17 March 2022 the Board of Directors confirmed its preceding assessments regarding the absence of a subject that exercises direction and coordination of the Company pursuant to article 2497 of the Italian Civil Code, without prejudice to the right of the parent company to include Pirelli within its own consolidation perimeter for accounting purposes.

It is useful to note that Pirelli exercises direction and coordination activity on numerous subsidiaries, having made the communications required by article 2497-*bis* of the Italian Civil Code. The Company imparted instructions to the subsidiaries regarding compliance with the provisions pursuant to article 114 of the TUF that Board deems adequate.

## REMUNERATION OF THE DIRECTORS, GENERAL MANAGER AND KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES

During 2021, the Board of Statutory Auditors has expressed the opinions required by law regarding proposals for the remuneration of directors holding special offices, pursuant to the provisions of article 2389 of the Italian Civil Code.

In particular, the Board of Statutory Auditors:

- at the Board of Directors' meeting of 25 February 2021, expressed its favourable opinion on the consensual termination of the managerial employment contract with Angelos Papadimitriou (former General Manager co-CEO), from 28 February 2021, and on the economic terms of the relative termination agreement;
- at the Board of Directors meeting of 31 March 2021, it expressed its favourable opinion on (i) the 2021 STI plan; (ii) the review of the "Cumulative Group Net Cash Flow (before dividends)" objective included in the 2020-2022 LTI plan and the possibility of normalising the effects on the promotion of the TSR relative to Cooper's integration in Goodyear; (iii) the adoption of the new 2021-2023 LTI plan, to support the 2021-2022/2025 Strategic plan; (iv) the approval of the 2021 Remuneration Report (composed of the 2021 Policy and the Report on Compensation Paid in 2020), as well as the relative Directors' reports to the Shareholders' Meeting on compensation and the remuneration of the Deputy CEO, for all intents and purposes;
- at the Board of Directors' meeting on 15 June 2021, it expressed its favourable opinion, in accordance with Policy 2021, to granting the Deputy-CEO the remuneration package described in the 2021 Policy.

In addition, following the close of the 2021 financial year, the Board of Statutory Auditors:

- at the Board of Directors' meeting of 23 February 2022, it expressed its favourable opinion on the approval of the 2022 STI Plan;
- at the Board of Directors' meeting of 17 March 2022, it expressed its favourable opinion on the approval of the 2022-2024 LTI Plan and the approval of the 2022 remuneration report (made up of the 2022 Policy and the Report on Compensation Paid in 2021), as well as the relative Directors' Reports to the Shareholders' Meeting on compensation.

For more details see the Report on the Remuneration Policy and on Compensation Paid.

#### FURTHER ACTIVITIES OF THE BOARD OF STATUTORY AUDITORS AND INFORMATION REQUIRED BY CONSOB

In exercising its duties, the Board of Statutory Auditors, as prescribed in article 149 of the TUF, monitored:

- observance of the law and the deed of incorporation;
- compliance with the principles of correct administration;
- the adequacy, for those aspects within its remit, of the organisational structure of the Company, the internal control system and the administrative-accounting system, and of the reliability of the latter to correctly represent operations;

- as already pointed out, how the corporate governance rules contained in the codes of conduct which the Company, in a notice to the public, declares that it complies with are actually implemented. In this respect, it should be noted that, pursuant to article 123-bis of the TUF, the Company has, also for the 2021 financial year, drafted its annual Report on corporate governance and share ownership which provides information on (i) the corporate governance practices actually applied by the Company, over and above the obligations specified in the legal or regulatory provisions, (ii) the principal features of the risk and internal control systems that exist in relation to the financial reporting process, including the consolidated financial reports, (iii) how the Shareholders' Meeting functions, including its principal powers and shareholders' rights and how they are exercised, (iv) the composition and operation of the administration and control bodies and their committees, and the other information specified in article 123-bis of the TUF;
- the adequacy of the instructions imparted by the Company to its subsidiaries pursuant to article 114, paragraph 2 of the TUF, having ascertained that the Company is able to promptly and regularly fulfil the disclosure obligations set out in law and in the EU regulations, as prescribed in the aforementioned article, also by collecting information from the heads of the organisational departments, and periodic meetings with the external auditor, to exchange relevant data and information. In this regard, we have no particular comments to make.

It should also be noted that the Directors' Report on Operations includes a paragraph containing a description of the principal features of the internal control and risk management system in relation to the financial reporting process, including the reporting of consolidated financial information.

The Board of Statutory Auditors notes:

- that the Directors' Report on Operations complies with the current laws, reflecting the resolutions made by the administrative body and the results in the financial statements, and contains adequate information on operations during the year and on intra-group transactions. The section containing the report on transactions with related parties has been included in the explanatory notes to the financial statements, in compliance with the IFRS standards;
- that the explanatory notes comply with the current standards, indicating the criteria used in determining the balance sheet items and in the value adjustments, and that the separate and consolidated financial statements of the Company appear to have been drafted in accordance with the structure and frameworks imposed by the current standards. In application of Consob's provisions, the effects of relations with related parties on the Company's profitability, financial position, assets and liabilities and cash flows;
- that Directors and/or Senior Managers of the Parent Company are members of the Boards of Directors of the principal subsidiary companies to guarantee coordinated direction and an adequate flow of information, also supported by suitable accounting information.



It should also be noted that the Board of Statutory Auditors:

- received information from the Directors at least once every quarter concerning their activity and the transactions carried out by the Company having the greatest impact on its strategy, earnings, financial position and equity, and that it received this information in compliance with the specific procedure approved by the Board of Directors. The Board of Statutory Auditors can give reasonable assurance that the resolved and executed transactions comply with the law and the Articles of Association, and are not manifestly imprudent, reckless or in conflict of interest, or in violation of the resolutions passed by the Shareholders' Meeting, or capable of compromising the integrity of the company's assets;
- received from the Supervisory Body, of which Statutory Auditor Ms. Antonella Carù is a member, information about the results of its own control activity, which did not reveal anomalies or misconduct;
- held periodic meetings with representatives of the external auditor in order to exchange important data and information for the performance of its duties, as prescribed in article 2409-*septies* of the Italian Civil Code and in article 150, paragraph 3 of the TUF. In this regard, it should be noted that no important data and information were identified which would require a mention in this Report;
- obtained information from the corresponding bodies of the main subsidiaries with regard to their management and control systems and their general operating performance (pursuant to paragraph 1 and 2 of article 151 of the TUF);
- following the appointment of Mr Giorgio Luca Bruno as Director, which took place at the Shareholders' Meeting held on 15 June 2021, it was able to verify the correct application of the criteria and procedures adopted by the Board of Directors to assess the absence of independence requirements, the fulfilment of the requirements of integrity as well as the number of offices held by him, which was found to comply with the requirements of the specific procedure adopted by the Company;
- expressed a favourable opinion on the appointment of Mr Giorgio Luca Bruno as the Manager Responsible following the resignation of Mr Francesco Tanzi, resolved by the Board of Directors on 11 November 2021;
- received the annual report from the Company's Data Protection Officer which showed the Company is fully compliant with privacy legislation
- issued a certificate relating to the subscription and payment, in full, of the share capital, during the Shareholders' Meeting held on 24 March 2021, which resolved on the convertibility of the bond loan denominated "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025" and the capital increase to service the same bond loan.
- took part in the meetings of the Related-Party Transactions Committee during which opinions were expressed on the performance of Related-Party Transactions, meeting the requirements

set out in the relevant Consob Regulation and the procedure adopted by the Company in particular:

- (i) it supervised compliance with the aforesaid procedure and with the provisions of laws and regulations on related-party transactions and the correctness of the process followed by the Board and the relevant Committee on the subject of defining related parties and had no comments to make in this respect; (ii) it periodically received detailed information from the Company on transactions carried out with related parties that were "not intragroup" and (iii) it made a positive assessment of the compliance of minor transactions examined by the Related-Party Transactions Committee with the interests of the Company;
- verified, taking into account the supervisory tasks prescribed by the regulations in force, the compliance of the New RPT Procedure with the principles of the RPT Regulation, as recently amended, and endorsed the content of the New RPT Procedure;
- on the occasion of the Board of Directors' meeting that approved the new organisational structure, it expressed a favourable opinion, for all intents and purposes, in relation to the structure of the Deputy-CEO's remuneration for inclusion in the 2021 Policy and the proposed organisational structure.

For the sake of completeness, it should be noted that, pursuant to Article 2412 of the Italian Civil Code, the Board of Statutory Auditors, on the occasion of the bond issues within the framework of the establishment of the new *Euro Medium Term Note* ("**EMTN**") programme, has certified, for all intents and purposes, that due to the listing of the bonds on a stock market or a multilateral trading system, the waiver pursuant to Article 2412, paragraph 1, of the Italian Civil Code, provided for in paragraph 5 of the same article, is applicable.

During the 2021 financial year the Board of Statutory Auditors did not receive any complaints or reports pursuant to article 2408 of the Italian Civil Code.

With regard to the external auditor, the Board of Statutory Auditors noted that PWC:

- issued its report pursuant to article 14 of legislative decree no. 39/ of 27 January 2010 and article no. 10 of Regulation (EU) 537/2014 on 24 March 2022. This containing its unqualified opinion stating that the separate and consolidated financial statements provide a truthful and accurate representation of the equity and financial position of Pirelli and of the Group as at 31 December 2021, and of the economic results and cash flow for the financial year that closed on that date, in compliance with applicable accounting standards, and provided evidence of key aspects of their audit;
- issued a coherence opinion indicating that the Report on Operations accompanying the separate and consolidated financial statements as at 31 December 2021, and some specific information contained in the Report on corporate governance and share ownership, as laid down in article 123-*bis*, paragraph 4, of the TUF have been drafted in compliance with current legislation;

- as regards possible significant errors in the Report on Operations, stated that, based on the knowledge and understanding of the company and its market that it had acquired in the course of the audit activities, it had no matters to raise;
- confirmed the Company's statement regarding the fact that no other assignments have been given to persons or entities with on-going relationships with the external auditor itself;
- on 24 March 2022, provided the Board of Statutory Auditors with the Additional Report referred to in article 11 of regulation EU 537/2014, indicating that there were no significant shortcomings in the internal control system in relation to the financial reporting process that needed to be brought to the attention of persons responsible for "governance" activities;
- on 24 March 2022, pursuant to article 3, paragraph 10 of legislative decree no. 254 of 30 December 2016, issued the Report on the responsible management of the value chain (consolidated non-financial declaration pursuant to legislative decree no. 254, of 30 December 2016), concluding that no elements had come to PWC's attention that led it to believe that the group's NFD for the year to 31 December 2021 had not been drawn up, in all significant aspects, in accordance with the requirements set out in legislative decree 254/2016 and the GRI Standards;
- annexed to the Additional report, the external auditor provided the Board of Statutory Auditors, pursuant to article 6 of Regulation EU 537/2014, with a statement from which no situations emerge that could compromise the independence of the external auditor (for more details concerning the provision of non-auditing services, see the paragraph entitled "supervising the independence of the external auditor, in particular with regard to the provision of non-auditing services" in this Report).

The Board of Statutory Auditors also took note of the Transparency Report drafted by the external auditor and published on its web site, pursuant to article 18 of legislative decree 39/2010.

Furthermore, with regard to the corporate bodies, the Board of Statutory Auditors noted that the current Board of Directors - the mandate of which will expire with the Shareholders' Meeting called to approve the financial statements for the year to 31 December 2022 - as of the date of the Report is composed of 15 Directors, 13 of whom qualified as non-executive directors and, of these, 8 deemed to possess the requirements of independence specified by expiring the Corporate Governance Code and the TUF.

The whole Board of Statutory Auditors is entitled to participate in the activities of the Audit, Risks, Sustainability and Corporate Governance Committee, the Remuneration Committee and the Related-Party Transactions Committee; the Chairman is invited to attend meetings of the Appointments and Succession Committee and Strategies Committee, as representative. The Board of Statutory Auditors is also entitled to attend the Shareholders' Meeting.

At the date of the Report:

- the Audit, Risk, Sustainability and Corporate Governance Committee is composed of five Directors, the majority of whom are independent. During 2021, it met 5 times;
- the Remuneration Committee is composed of five Directors, the majority of whom are independent (the Chairman is an independent Director). During 2021, it met 5 times;
- the Related-Party Transactions Committee is composed of three Directors, all independent. During 2021, it met 7 times;
- the Appointments and Successions Committee is composed of four Directors, one of whom is the executive Director. During 2021, it met 1 times;
- the Strategies Committee is composed of eight Directors, including the Executive Director, the Deputy-CEO and three independent Directors. During 2021 it met 2 times.

The Board of Statutory Auditors attended 8 meetings of the Board of Directors and, also through its Chairman, the meetings of the board Committees, also in its capacity as Internal Control and Audit Committee pursuant to article 19 of legislative decree no. 39 of 27 January 2010. In particular, it should be noted that the Board of Statutory Auditors attended 5 meetings of the Risk and Corporate Governance Committee, 5 meetings of the Remuneration Committee, 7 meetings of the Related-Party Transactions Committee, 2 Shareholders' Meetings and, through its Chairman, 1 meeting of the Appointments and Successions Committee and 2 meetings of the Strategies Committee.

In addition, the Board of Statutory Auditors attended 4 induction sessions organised by the Company.

The percentage attendance figures of the single members of the Board of Statutory Auditors at the meetings of the above bodies are provided in the Report on corporate governance and share ownership.

Finally, the Statutory Auditors acknowledge:

- that they have monitored fulfilment of the requirements linked to the "Market Abuse" and "Investor Protection" regulations on the subject of corporate information and internal dealing, with particular reference to the handling of inside information and the procedure for the dissemination of press releases and information to the public;
- that they periodically ascertained, upon their appointment and most recently in their meeting on 14 March 2022, as recommended by the Borsa Italiana Corporate Governance Code, that members possess the same independence requirements - where applicable - as those requested for the directors in the aforementioned Codes of Conduct;

- that they have found that the criteria and procedures to ascertain the independence requirements adopted by the Board of Directors to annually check the independence of its members are correctly applied, and have no comments to make on this point;
- that they have determined that the Director's report on the Company's financial statements describes the principle risks and uncertainties to which the Company is exposed;
- that, with reference to the provisions of article 15 of Consob Regulation 20249 of 28 December 2017 concerning market discipline, they have ascertained that the organisation of the company and the procedures adopted enable Pirelli to ensure that the companies it controls and which are constituted in and regulated by the laws of States that are not members of the European Union subject to respecting the aforementioned Consob provisions, have administrative-accounting systems appropriate to regularly provide the senior management and external auditor of the Company with the information on its profitability, financial position and assets and liabilities needed to draw up the consolidated financial statements. The subsidiaries set up in and regulated by the laws of States that are not members of the European Union which, as of 31 December 2021, are of significant importance under article 15 of Consob Market Regulation are listed in detail by the Company in the financial statements.

During the course of its supervisory activities, and on the basis of the information obtained from the external auditor, no omissions, misconduct, irregularities or significant facts were found which are worthy of being reported or mentioned in this Report

The activities described above, conducted both collectively and individually, have been documented in the minutes of the 10 meetings of the Board of Statutory Auditors held during 2021 (3 of them held after its renewal by the Shareholders' Meeting of 15 June 2021).

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The Board of Statutory Auditors noted that, at the date of this Report, the COVID-19 health emergency was still ongoing around the world, including in Italy.

In this regard, the Board of Statutory Auditors was constantly informed by the competent departments of the company of the assessments carried out by the management and the actions implemented to monitor the possible social, economic and financial impact of the COVID-19 emergency on the Group. This exchange of information was continuous throughout 2021 and will continue until the end of the ongoing pandemic.

#### SELF-ASSESSMENT OF THE BOARD OF STATUTORY AUDITORS

In 2021, the Board of Statutory Auditors – in continuity with the previous financial year and as recommended by the Standards of Conduct – conducted a self-assessment with the assistance of an independent consulting firm.

This process was carried out through individual interviews, based on a questionnaire containing questions on the suitability, size, composition and operation of the Board of Statutory Auditors in

order to attest that the body is operating correctly and effectively and that its composition is adequate and the related outcomes were discussed and agreed upon by the Board of Statutory Auditors during a dedicated meeting held on 14 March 2022.

In particular, the 2021 self-assessment (the current Board of Statutory Auditors' first year of mandate) confirmed the broadly positive picture found in previous mandates regarding the composition and operation of the Board of Statutory Auditors. And in fact, despite the exceptional circumstances due to the pandemic and the renewed composition of the Control Body, the Company ensured that the Board of Statutory Auditors was kept abreast of the business and dynamics of the Group, ensuring the efficient performance of its work.

In relation to the areas for which the greatest appreciation was recorded, mention should be made, *inter alia*, of the adequacy of the size and five-member composition of the Board of Statutory Auditors, which, together with the cohesive, collaborative atmosphere and dialogue between its members, allows the control body to perform its role effectively as well as offering a constructive range of opinions; the extreme usefulness of the induction sessions for the in-depth examination of multiple topics (i.e. fiscal, controls, risks, ESG, digitalisation, cyber security) and knowledge of the Pirelli business and group; effective supervision by the control body, in the first six months of its activity, of compliance with the law, regulations and bylaws, proper administration, and the adequacy of the Company's organisational and accounting structures, having gained knowledge of the Audit Plan launched during the previous mandate; the effective role of the Board of Statutory Auditors in the overall and timely coordination of activities; the adequacy of the flow of information to and from the Board of Statutory Auditors, particularly thanks to the excellence demonstrated by the Company's managerial and operational structures in charge of this; the adequate frequency of the meetings of the Board of Statutory Auditors and positive interactions, including informal ones, between the members whenever necessary; the high quality level of the documentation in view of the meetings and full compliance with the timeframes for sending it by the support structures.

Particular appreciation was also expressed by the Statutory Auditors regarding (i) the diverse backgrounds and respective experiences within the control body, as an element of constant enrichment for the Board's work, which promoted the exchange and sharing of the various positions, through the contributions made by all the members of the Board of Statutory Auditors itself, (ii) the presence of three female Statutory Auditors as evidence of Pirelli's attention to the issues of equity and inclusion and (iii) the effectiveness of the role played by the Chairman of the Board of Statutory Auditors highlighted by all the Statutory Auditors with reference, in particular, to the level of commitment made to create a cohesive working climate, and to the inclusive approach intended to encourage debate and constructive discussion.

Lastly, from the investigation, some areas have been identified for future reflection, including the arrangement, when possible, of face-to-face meetings and informal get-togethers with Company Directors and managers, to consolidate and strengthen interpersonal relationships and facilitate integration and continued careful planning and holding of a selected number of induction sessions.

## BOARD OF DIRECTORS SELF-ASSESSMENT PROCESS

The Board of Statutory Auditors notes that the Board of Directors carried out the process to evaluate its operation and the operation of its Committees (board performance evaluation) for the 2021 financial year.

## PROPOSALS TO THE SHAREHOLDERS' MEETING

### **Financial Statements at 31 December 2021**

The Board of Statutory Auditors expresses its favourable opinion on the approval of the Financial Statements at 31 December 2021 and has no objections to raise regarding the proposal made

- 1) to distribute to shareholders a dividend, gross of withholding taxes, of 0.161 euros for each of the 1,000,000,000 outstanding ordinary shares, for a total of 161,000,000.00 euros;
- 2) to carry forward the remaining profits, amounting to 55,618,625.00 euros;
- 3) to authorise the Directors to allocate to profits carried forward the balance of the rounding that may be determined at the time of payment of the dividend.
- 4) to establish, for the case in which, before the ex dividend date, the number of outstanding ordinary shares changes following the bond conversion of the equity-linked bond named “EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025”, that the abovementioned dividend unit remains unchanged and that the amount required for the distribution of any new shares is taken from the item “Reserve retained earnings”.

### **Remuneration policy and compensation paid**

Please note that the Board of Statutory Auditors expressed a favourable opinion of the Remuneration Policy for the 2022 financial year subject to the binding vote of the Shareholders' Meeting and the Report on Compensation Paid in the 2021 financial year, subject to the advisory vote of the Shareholders' Meeting. Therefore, it has no objections.

### **Three-year monetary incentive plan for the Pirelli group's management**

We inform you that the Board of Statutory Auditors has expressed a favourable opinion, to the extent of its competence, on the adoption of the new 2022-2024 LTI plan, in support of the new 2021-2022/2025 Strategic Plan, expressing a favourable opinion, within its remit, on the criteria to adjust only the quantification of the objectives set out in the current LTI plans to make allowance for any negative effects resulting from a worsening geopolitical and macroeconomic scenario. Therefore, the Board of Statutory Auditors has no objections.

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Pursuant to article 144-*quinquiesdecies* of the Issuers' Regulations, duly approved by Consob with resolution 11971/99, as subsequently amended and supplemented, the list of offices held by

members of the Board of Statutory Auditors in the companies listed in Book V, Title V, Chapters V, VI and VII of the Italian Civil Code is published by Consob on its website ([www.consob.it](http://www.consob.it)).

It should be noted that article 144-*quaterdecies* (Consob reporting obligations) establishes that a person who is a member of the controlling body of just one issuer is not subject to the reporting obligations provided by said article, and therefore, in that case, they do not appear in the lists published by Consob.

The Company lists the main positions held by the members of the Board of Statutory Auditors in its Report on corporate governance and share ownership.

The Board of Statutory Auditors here acknowledges that all its members were in full compliance of the aforementioned regulatory provisions laid down by Consob governing the “maximum number of positions to be held”.

Milan, 24 March 2022

For the Board of Statutory Auditors

The Chairman, Mr Riccardo Foglia Taverna



## **RESOLUTIONS**

**PROPOSAL FOR APPROVAL OF THE FINANCIAL STATEMENTS AND  
ALLOCATION OF THE RESULT FOR THE YEAR**

Shareholders,

The year ended December 31, 2021 closed with a profit of eur 216,618,625.00.

Considering that following the shareholders' meeting resolutions adopted in 2017, the legal reserve was completed and reached the limit established by article 2430 of the Civil Code, the Board of Directors proposes the distribution of a dividend, gross of withholding taxes, of eur 0.161 for each of the 1,000,000,000 outstanding ordinary shares and the carry-forward of the remaining profit of eur 55,618,625.00.

The aforementioned proposal is in line with the dividend policy approved by the Board of Directors on March 31, 2021, which provides for a distribution equal to ~50% of the consolidated net result in the period 2021-2022.

The proposed dividend was calculated taking into account the number of shares currently outstanding. This number could vary following any requests for conversion of the bonds of the "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025". In this case, the Board proposes that you withdraw any necessary amounts from the item "Reserve for results carried forward".

If you agree with our proposal, we request that you adopt the following

**RESOLUTIONS**

"The Shareholders' Meeting,

- having examined the annual report at December 31, 2021;
- having acknowledged the Statutory Auditors' Report;
- having acknowledged the Independent Auditors' Report;

**RESOLVED**

- a) to approve the Company's financial statements for the year ended December 31, 2021, as presented by the Board of Directors as a whole, in the individual entries and with the proposed provisions, showing a profit of eur 216,618,625.00;
- b) to distribute to shareholders a dividend, gross of withholding taxes, of eur 0.161 for each of the 1,000,000,000 outstanding ordinary shares, for a total of eur 161,000,000.00;
- c) to carry forward the remaining profit of eur 55,618,625.00;

- d) to authorize the Directors to allocate to retained earnings the balance of the rounding that may be determined at the time of payment of the dividend;
- e) to establish, in the event that before the ex-dividend date, the number of outstanding ordinary shares changes following the eventual conversion of the “EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025”, that the unit dividend referred to above will remain unchanged and that the amount necessary for distribution to any new shares will be taken from the item “Retained earnings reserve”.

The dividend for the year 2021 will be paid as from May 25, 2022, with ex-dividend date on May 23 (record date May 24).

**CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS  
PURSUANT TO ARTICLE 154-BIS OF LEGISLATIVE DECREE 58 OF  
FEBRUARY 24, 1998, AND PURSUANT TO ARTICLE 81-TER OF CONSOB  
REGULATION NO. 11971 OF MAY 14, 1999, AS AMENDED**

1. The undersigned Marco Tronchetti Provera, in his capacity as Executive Vice Chairman and Chief Executive Officer, and Giorgio Luca Bruno, in his capacity as Corporate Financial Reporting Manager of Pirelli & C. S.p.A. hereby certify pursuant to, *inter alia*, Article 154-bis, clauses 3 and 4, of Legislative Decree 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures for preparation of the consolidated financial statements, during the period January 1, 2021 – December 31, 2021.

2. In this regard it should be noted that the adequacy of the administrative and accounting procedures for preparation of the consolidated financial statements for the year ended December 31, 2021 was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the “Internal Control – Integrated Framework” guidelines issued by the “Committee of Sponsoring Organizations of the Treadway Commission” (COSO), which is a reference framework generally accepted at the international level.

3. We also certify that:

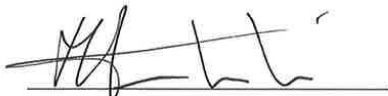
3.1 the consolidated financial statements:

- a. were prepared in accordance with the applicable international accounting standards recognised in the European Union under the terms of Regulation (EC) 1606/2002 of the European Parliament and Council, of July 19, 2002;
- b. correspond to the information in the account ledgers and books;
- c. give a true and fair view of the assets, liabilities, income, expenses and financial position of the reporting entity and of the Group of companies included in the scope of consolidation.

3.2 The report on operations includes a reliable analysis of the performance and results of operations, and of the situation of the reporting entity and of the Group of companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

March 17, 2022

The Executive Vice Chairman and  
Chief Executive Officer



(Marco Tronchetti Provera)

The Corporate Financial Reporting Manager



(Giorgio Luca Bruno)



**PIRELLI & C SPA**

**INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE  
WITH ARTICLE 14 OF LEGISLATIVE DECREE 39/2010 AND  
ARTICLE 10 OF REGULATION (EU) 537/2014**

**CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2021**



## **Independent auditor's report**

*in accordance with article 14 of Legislative Decree 39/2010 and article 10 of Regulation (EU) 537/2014*

To the shareholders of Pirelli & C SpA

### **Report on the Audit of the Consolidated Financial Statements**

#### **Opinion**

We have audited the consolidated financial statements of Pirelli & C SpA and its subsidiaries (Pirelli group), which comprise the statement of financial position as of 31 December 2021, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Pirelli group as of 31 December 2021, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/2005.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Consolidated Financial Statements of this report. We are independent of Pirelli & C SpA (the Company) based on ethic and independence regulations and standards applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### **PricewaterhouseCoopers SpA**

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**Key audit matters**


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**How our audit addressed the key audit matter**


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**Recoverability of brands with indefinite useful life and goodwill**
*Note 10 "Intangible assets"*

As of 31 December 2021 the indefinite-lived intangible assets Pirelli brand and goodwill amount to € 2,270 million and € 1,884 million, respectively.

Recoverability of the carrying amount of Pirelli brand and goodwill were tested for impairment at the year-end, in accordance with IAS36 – "Impairment of Assets".

The recoverable amount of Pirelli brand is measured using its fair value less cost to sell, based on an income approach. This requires the use of estimates for revenue projections, implied royalty rates and discount rate.

The recoverable amount of goodwill, entirely allocated to the the group of cash generating units ("CGU") "Consumer segment", which represents the sole sector of activity of Pirelli group, is measured using its fair value less cost to sell, calculated based on the market price of the Company shares.

The recoverable amount of Pirelli Brand is compared with its carrying amount. The recoverable amount of the Consumer segment is compared with the carrying amount of segment assets and liabilities, including brand and goodwill.

Considering the magnitude of the carrying amounts and the subjective judgment in some of the assumptions used for the calculation of the recoverable amounts, the impairment test of Pirelli brand and goodwill represented a key matter in the audit of the consolidated financial statements.

We have performed an understanding and evaluation of the internal controls in place over the impairment testing of brand and goodwill.

We have tested the operating effectiveness of such controls.

We have performed, with the support of PwC experts, the following audit procedures:

- assessment over the adequacy of the impairment testing process in accordance with the requirement of the accounting standard;
- assessment of the key assumptions used when determining the fair value of Pirelli brand, with focus to revenue projections, implied royalty rates and discount rate, including benchmarking and sensitivity analysis;
- assessment of the allocation of goodwill to CGUs;
- testing of the accuracy of the carrying amounts of assets and liabilities directly attributable to the Consumer segment;
- testing the mathematical accuracy of the calculation model used;
- assessment of variances between projections used in previous years and actual results to evaluate reliability and coherence with market trends.

We have tested the accuracy and completeness of the disclosure presented in the notes to the consolidated financial statements.

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**Key audit matters**

**How our audit addressed the key audit matter**

**Revenue recognition**

*Note 3 “Adopted Accounting Standards”*

Revenue recognition, in accordance with the accounting standard IFRS15 - “Revenue from contracts with customers”, considering the magnitude and the high volume of sales transactions carried out through a global distribution network, different sales channels and logistic platforms, represented a key matter in the audit of the consolidated financial statements.

We have carried out our procedures to verifying existence, completeness, accuracy and cut off of sales transactions.

We have performed, with the support of PwC specialists, the following audit procedures:

- for the main revenue streams identified using the requirements of IFRS15, we have performed an understanding and evaluation of the internal controls over the revenue recognition process and a validation of relevant controls;
- we have tested the proper recognition of revenue through testing samples of sales transactions, obtaining appropriate supporting evidence with specific attention to key contractual terms regulating the various performance obligations;
- we have performed external confirmation procedures over accounts receivable balances with the objective of validating trade receivable balances recorded in the consolidated accounts;
- we have tested samples of sales returns transactions, credit notes and year-end accruals.

We have tested the accuracy and completeness of the disclosure presented in the notes to the consolidated financial statements.



### ***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/2005 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the group ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management intends either to liquidate Pirelli & C SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the group financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional scepticism throughout the audit. Furthermore:

- we identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group internal control;
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists



related to events or conditions that may cast significant doubt on the group ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;

- we evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that are of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report.

***Additional Disclosures required by Article 10 of Regulation (EU) 537/2014***

We were appointed by the shareholders of Pirelli & C SpA at the general meeting held on 1 August 2017 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2017 through 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared in accordance with article 11 of the aforementioned Regulation.



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### ***Report on Compliance with other Laws and Regulations***

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#### ***Opinion on compliance with the provisions of Commission Delegated Regulation (EU) 815/2019***

Management of Pirelli & C SpA is responsible for the application of the provisions of the Commission Delegated Regulation (EU) 815/2019 concerning the regulatory technical standards for the specification of a single electronic reporting format ESEF – European Single Electronic Format (Commission Delegated Regulation) to the consolidated financial statements, to be included in the annual report.

We have performed the procedures required under auditing standard (SA Italia) 700B to express an opinion on the compliance of the consolidated financial statements with the provisions of the Commission Delegated Regulation.

In our opinion, the consolidated financial statements have been prepared in XHTML format and have been marked up, in all significant respects, in compliance with the provisions of the Commission Delegated Regulation.

#### ***Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree 58/1998***

Management of Pirelli & C SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Pirelli group as of 31 December 2021, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree 58/1998, with the consolidated financial statements of the Pirelli group as of 31 December 2021 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Pirelli group as of 31 December 2021 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/2010, issued on the basis of our knowledge and understanding of the group obtained in the course of the audit, we have nothing to report.



***Statement in accordance with article 4 of Consob Regulation implementing Legislative Decree 254/2016***

Management of Pirelli & C SpA is responsible for the preparation of the non-financial disclosure in accordance with Legislative Decree 254/2016. We have verified that the non-financial disclosure was approved by the board of directors.

In accordance with article 3, paragraph 10, of Legislative Decree 254/2016, the non-financial disclosure is subject to separate audit reporting by our firm.

Milan, 24 March 2022

PricewaterhouseCoopers SpA

*Signed by*

Paolo Caccini  
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers*

**CERTIFICATION OF THE SEPARATE FINANCIAL STATEMENTS  
PURSUANT TO ARTICLE 154-BIS OF LEGISLATIVE DECREE 58 OF  
FEBRUARY 24, 1998, AND PURSUANT TO ARTICLE 81-TER OF CONSOB  
REGULATION NO. 11971 OF MAY 14, 1999, AS AMENDED**

1. The undersigned Marco Tronchetti Provera, in his capacity as Executive Vice Chairman and Chief Executive Officer, and Giorgio Luca Bruno, in his capacity as Corporate Financial Reporting Manager of Pirelli & C. S.p.A. hereby certify pursuant to, *inter alia*, Article 154-bis, clauses 3 and 4, of Legislative Decree 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures for preparation of the separate financial statements, during the period January 1, 2021 – December 31, 2021.

2. In this regard it should be noted that the adequacy of the administrative and accounting procedures for preparation of the separate financial statements for the year ended December 31, 2021 was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the "Internal Control – Integrated Framework" guidelines issued by the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO), which is a reference framework generally accepted at the international level.

3. We also certify that:

3.1 the separate financial statements:

- a. were prepared in accordance with the applicable international accounting standards recognised in the European Union under the terms of Regulation (EC) 1606/2002 of the European Parliament and Council, of July 19, 2002;
- b. correspond to the information in the account ledgers and books;
- c. give a true and fair view of the assets, liabilities, income, expenses and financial position of the reporting entity and of the Group of companies included in the scope of consolidation.

3.2 The report on operations includes a reliable analysis of the performance and results of operations, and of the situation of the reporting entity, together with a description of the principal risks and uncertainties to which they are exposed.

March 17, 2022

The Executive Vice Chairman and  
Chief Executive Officer



(Marco Tronchetti Provera)

The Corporate Financial Reporting Manager



(Giorgio Luca Bruno)



**PIRELLI & C SPA**

**INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE  
WITH ARTICLE 14 OF LEGISLATIVE DECREE 39/2010 AND  
ARTICLE 10 OF REGULATION (EU) 537/2014**

**SEPARATE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2021**





## **Independent auditor's report**

*in accordance with article 14 of Legislative Decree 39/2010 and article 10 of Regulation (EU) 537/2014*

To the shareholders of Pirelli & C SpA

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### **Report on the Audit of the Separate Financial Statements**

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#### **Opinion**

We have audited the separate financial statements of Pirelli & C SpA (the "Company"), which comprise the statement of financial position as of 31 December 2021, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as of 31 December 2021, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/2005.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Separate Financial Statements of this report. We are independent of the Company based on ethic and independence regulations and standards applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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**Key audit matter**

**How our audit addressed the key audit matter**

**Recoverability of brands with indefinite useful life**

Note 9 “Intangible assets”

As of 31 December 2021 the indefinite-lived intangible asset Pirelli brand amounts to € 2,270 million.

Recoverability of the carrying amount of Pirelli brand was tested for impairment at the year-end, in accordance with IAS36 – “Impairment of Assets”.

The recoverable amount of Pirelli brand is measured using its fair value less cost to sell, based on an income approach. This requires the use of estimates for revenue projections, implied royalty rates and discount rate.

The recoverable amount of Pirelli brand is compared with its carrying amount.

Considering the magnitude of the carrying amount and the subjective judgment in some of the assumptions used for the calculation of the fair value less cost to sell, the impairment test of Pirelli brand represented a key matter in the audit of the separate financial statements.

We have performed an understanding and evaluation of the internal controls in place over the impairment testing of the Pirelli brand. We have tested the operating effectiveness of such controls.

We have performed, with the support of PwC experts, the following audit procedures:

- assessment over the adequacy of the impairment testing process in accordance with the requirement of the accounting standard;
- assessment of the key assumptions used when determining the fair value of Pirelli brand, with focus on revenue projections, implied royalty rates and discount rate, including benchmarking and sensitivity analysis;
- testing the mathematical accuracy of the calculation model used;
- assessment of variances between projections used in previous years and actual results to evaluate the reliability and coherence with market trends.

We have tested the accuracy and completeness of the disclosure presented in the notes to the separate financial statements.



### ***Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements***

Management is responsible for the preparation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/2005 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company ability to continue as a going concern and, in preparing the separate financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the separate financial statements, management uses the going concern basis of accounting unless management intends either to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Separate Financial Statements***

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional scepticism throughout the audit. Furthermore:

- we identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company internal control;



- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that are of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our report.

#### ***Additional Disclosures required by Article 10 of Regulation (EU) 537/2014***

We were appointed by the shareholders of Pirelli & C SpA at the general meeting held on 1 August 2017 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2017 through 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared in accordance with article 11 of the aforementioned Regulation.



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***Report on Compliance with other Laws and Regulations***

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***Opinion on compliance with the provisions of Commission Delegated Regulation (EU) 815/2019***

Management of Pirelli & C SpA is responsible for the application of the provisions of Commission Delegated Regulation (EU) 815/2019 concerning the regulatory technical standards for the specification of a single electronic reporting format ESEF - European Single Electronic Format (Commission Delegated Regulation) to the separate financial statements, to be included in the annual report.

We have performed the procedures required under auditing standard (SA Italia) 700B to express an opinion on the compliance of the separate financial statements with the provisions of the Commission Delegated Regulation.

In our opinion, the separate financial statements have been prepared in XHTML format in compliance with the provisions of the Commission Delegated Regulation.

***Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree 58/1998***

Management of Pirelli & C SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Pirelli & C SpA as of 31 December 2021, including their consistency with the relevant separate financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree 58/1998, with the separate financial statements of the Company as of 31 December 2021 and on their compliance with the law, as well as to issue a statement on material misstatement, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the separate financial statements of the Company as of 31 December 2021 and are prepared in compliance with the law.



With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/2010, issued on the basis of our knowledge and understanding of the Company obtained in the course of the audit, we have nothing to report.

Milan, 24 March 2022

PricewaterhouseCoopers SpA

*Signed by*

Paolo Caccini  
(Partner)

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	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	104-109, 170-172, 198-199		Human Rights, Responsible Management of the Supply Chain
GRI 408: Child Labor 2016	GRI 103: Management Approach 2016	52, 106-108, 170-172, 197-198		
	408-1 Operations and suppliers at significant risk for incidents of child labor	104-109, 170-172, 197-198		Human Rights, Responsible Management of the Supply Chain
GRI 409: Forced or Compulsory Labor 2016	GRI 103: Management Approach 2016	52, 106-108, 170-172, 197-198		
	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	102-107, 170-172, 197-198		Human Rights, Responsible Management of the Supply Chain
GRI 410: Security Practices 2016	GRI 103: Management Approach 2016	170-172		
	410-1 Security personnel trained in human rights policies or procedures		Information Unavailable: % of security personnel trained on human rights currently not available	
GRI 411: Rights of Indigenous Peoples 2016	GRI 103: Management Approach 2016	170-172		
	411-1 Incidents of violations involving rights of indigenous peoples	83-84		Human Rights
GRI 412: Human Rights Assessment 2016	GRI 103: Management Approach 2016	52, 170-172		
	412-1 Operations that have been subject to human rights reviews or impact assessments	170-172, 197-198		Human Rights
	412-2 Employee training on human rights policies or procedures	170-172	Information Unavailable: number of hours of training on human rights	

GRI Standard	Disclosure	Page Number, URL	Omission	Material Topic
			and % of employees trained currently unavailable	
	412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	103-104		Human Rights
GRI 413: Local Communities 2016	GRI 103: Management Approach 2016	170-172		
	413-1 Operations with local community engagement, impact assessments, and development programs	74-75, 170-172	Information Unavailable: information currently unavailable	Corporate Citizenship
	413-2 Operations with significant actual and potential negative impacts on local communities	170-172	Information Unavailable: information currently unavailable	Corporate Citizenship
GRI 414: Supplier Social Assessment 2016	GRI 103: Management Approach 2016	52, 78-79, 106-108		
	414-1 New suppliers that were screened using social criteria	102-107		Responsible Management of the Supply Chain
	414-2 Negative social impacts in the supply chain and actions taken	104-107		Responsible Management of the Supply Chain
GRI 415: Public Policy 2016	GRI 103: Management Approach 2016	87		
	415-1 Political contributions	86-87		
GRI 416: Customer Health and Safety 2016	GRI 103: Management Approach 2016	47, 78-79		
	416-1 Assessment of the health and safety impacts of product and service categories	104		Product Quality and Safety
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	103-104		Business Ethics and Integrity
GRI 417: Marketing and Labeling 2016	GRI 103: Management Approach 2016	135-139		
	417-1 Requirements for product and service information and labeling	135-139		

GRI Standard	Disclosure	Page Number, URL	Omission	Material Topic
	417-2 Incidents of non-compliance concerning product and service information and labeling	103-104		Business Ethics and Integrity
	417-3 Incidents of non-compliance concerning marketing communications	103-104		Business Ethics and Integrity
GRI 418: Customer Privacy 2016	GRI 103: Management Approach 2016	78-79		
	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	103-104		Cybersecurity
GRI 419: Socioeconomic Compliance 2016	GRI 103: Management Approach 2016	78-79		
	419-1 Non-compliance with laws and regulations in the social and economic area	103-104		Business Ethics and Integrity
<b>OTHER MATERIAL TOPICS IDENTIFIED (not covered or partially covered by the GRI Standards)</b>				
<b>Material Topic</b>		<b>Page Number</b>		
Employees Well-Being & Work-life Balance		196-197, 203-204		
Customer Satisfaction		90-94, 96-99		
Product Quality & Safety		94-95		
Product Environmental Sustainability		135-139		
Road Safety Initiatives		223-224		

**SASB CONTENT INDEX***Sustainability Accounting Standards Board (SASB) - Auto Parts*

Topic	Accounting Metric	Page Number	SASB Code
Energy Management	(1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable	145-146	TR-AP-130a.1
Waste Management	(1) Total amount of waste from manufacturing, (2) percentage hazardous, (3) percentage recycled	155	TR-AP-150a.1
Product Safety	Number of recalls issued, total units recalled	96	TR-AP-250a.1.
Design for Fuel Efficiency	Revenue from products designed to increase fuel efficiency and/or reduce emissions	7-8	TR-AP-410a.1.
Materials Sourcing	Description of the management of risks associated with the use of critical materials	115-116	TR-AP-440a.1.
Materials Efficiency	Percentage of products sold that are recyclable	140	TR-AP-440b.1.
	Percentage of input materials from recycled or remanufactured content	120, 133	TR-AP-440b.2.
Competitive Behavior	Total amount of monetary losses as a result of legal proceedings associated with anti-competitive behavior regulations	82	TR-AP-520a.1.

Activity Metrics	Page Number	SASB Code
Number of parts produced	NA	TR-AP-000.A
Weight of parts produced	142	TR-AP-000.B
Area of manufacturing plants	7	TR-AP-000.C

**UNGC PRINCIPLES SUMMARY TABLE**

Areas of the Global Compact	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
<p><b>Human Rights</b></p>	<p><b>Principle 1</b> – Business should promote and respect internationally proclaimed human rights in their respective spheres of influence.</p>	<p>Disclosure 407: Freedom of Association and Collective Bargaining</p> <p>Disclosure 408: Child Labor</p> <p>Disclosure 409: Forced or Compulsory Labor</p> <p>Disclosure 410: Security Practices</p> <p>Disclosure 411: Rights of Indigenous Peoples</p> <p>Disclosure 412: Human Rights Assessment</p> <p>Disclosure 414: Supplier Social Assessment</p> <p>Disclosure 103-2: Grievance Mechanism</p>	<p>Disclosure 413: Local Communities</p>
	<p><b>Principle 2</b> – Business should ensure that they are not, albeit indirectly, complicit in human rights abuses.</p>	<p>Disclosure 410: Security Practices</p> <p>Disclosure 412: Human Rights Assessment</p> <p>Disclosure 414: Supplier Social Assessment</p>	

Areas of the Global Compact	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
<b>Labour Standards</b>	<p><b>Principle 3</b> – Businesses should uphold the freedom of association of workers and recognise the right to collective bargaining.</p>	<p>Disclosure 402: Labour/Management Relations</p> <p>Disclosure 403: Occupational Health and Safety</p> <p>Disclosure 407: Freedom of Association and Collective Bargaining</p> <p>Disclosure 410: Security Practices</p> <p>Disclosure 102-11: Precautionary Principle or Approach</p> <p>Disclosure 102-41: Collective Bargaining Agreements</p>	
	<p><b>Principle 4</b> – Business should uphold the elimination of all forms of forced and compulsory labour.</p>	<p>Disclosure 409: Forced or Compulsory Labor</p> <p>Disclosure 410: Security Practices</p>	<p>Disclosure 412: Human Rights Assessment</p>
	<p><b>Principle 5</b> – Business should uphold the effective elimination of child labour.</p>	<p>Disclosure 408: Child Labor</p> <p>Disclosure 410: Security Practices</p>	<p>Disclosure 412: Human Rights Assessment</p>
	<p><b>Principle 6</b> – Business should uphold the elimination of discrimination in respect of employment and occupation.</p>	<p>Disclosure 401: Employment</p> <p>Disclosure 404: Training and Education</p> <p>Disclosure 405: Diversity and Equal Opportunity</p> <p>Disclosure 406: Non-Discrimination</p> <p>Disclosure 410: Security Practices</p> <p>Disclosure 102-8: Information on Employees and other Workers</p>	<p>Disclosure 202: Market Presence</p> <p>Disclosure 401: Employment</p> <p>Disclosure 412: Human Rights Assessment</p> <p>Disclosure 414: Supplier Social Assessment</p> <p>Disclosure 102-41: Collective Bargaining Agreements</p>

Areas of the Global Compact	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
<b>Environment</b>	<p><b>Principle 7</b> – Businesses should support a precautionary approach to environmental challenges.</p>	<p>Disclosure 102-11: Precautionary Principle or Approach</p> <p>Disclosure 201: Economic Performance</p>	<p>Disclosure 301: Materials</p> <p>Disclosure 302: Energy</p> <p>Disclosure 303: Water and Effluents</p> <p>Disclosure 304: Biodiversity</p> <p>Disclosure 305: Emissions</p> <p>Disclosure 306: Effluents and Waste</p> <p>Disclosure 307: Environmental Compliance</p>
	<p><b>Principle 8</b> – Business should undertake initiatives to promote greater environmental responsibility.</p>	<p>Disclosure 301: Materials</p> <p>Disclosure 302: Energy</p> <p>Disclosure 303: Water and Effluents</p> <p>Disclosure 304: Biodiversity</p> <p>Disclosure 305: Emissions</p> <p>Disclosure 306: Effluents and Waste</p> <p>Disclosure 307: Environmental Compliance</p> <p>Disclosure 308: Supplier Environmental Assessment</p> <p>Disclosure 103-2: Grievance Mechanism</p>	<p>Disclosure 201: Economic Performance</p>
	<p><b>Principle 9</b> – Businesses should encourage the development and diffusion of environmentally friendly technologies.</p>	<p>Disclosure 301: Materials</p> <p>Disclosure 302: Energy</p> <p>Disclosure 303: Water and Effluents</p> <p>Disclosure 305: Emissions</p>	
<b>Anti-Corruption</b>	<p><b>Principle 10</b> – Businesses should work against corruption in all its forms, including extortion and bribery.</p>	<p>Disclosure 205: Anti-Corruption</p> <p>Disclosure 419: Socioeconomic Compliance</p> <p>Disclosure 102-16: Values, Principles, Standards, and Norms of Behavior</p> <p>Disclosure 102-17: Mechanism for Advice and Concerned about Ethics</p>	<p>Disclosure 205: Anti-Corruption</p> <p>Disclosure 419: Socioeconomic Compliance</p> <p>Disclosure 102-16: Values, Principles, Standards, and Norms of Behavior</p> <p>Disclosure 102-17: Mechanism for Advice and Concerned about Ethics</p>

## SDGS SUMMARY TABLE

Sustainable Development Goals (SDGs)	Paragraphs describing the Group's activities in support of the SDGs and relevant targets (from Sustainability Plan 2025-2030)
<b>1 - No Poverty</b>	Company Initiatives for the External Community (Solidarity p. 227-228)
<b>2 - Zero Hunger</b>	Company Initiatives for the External Community (Solidarity p. 227-228)
<b>3 - Good Health and Well-being</b>	Welfare and Initiatives for the Internal Community (pp. 197-198) Occupational Health, Safety and Hygiene (pp. 202-211) Company Initiatives for the External Community (Road Safety pp. 223-224, Sport and Social Responsibility pp. 226-227, Health pp. 228)  <u>Target:</u> <ul style="list-style-type: none"> <li>Accident Frequency Index: <math>\leq 0.15</math> by 2022 and <math>\leq 0.1</math> by 2025</li> </ul>
<b>4 - Quality Education</b>	Training (pp. 189-195) Company Initiatives for the External Community (Training pp. 225-226, Culture and Social Value pp. 229-230)  <u>Target:</u> <ul style="list-style-type: none"> <li>Training: training on new digital competences</li> </ul>
<b>5 - Gender Equality</b>	Diversity, Equity and Inclusion (pp. 178-182)
<b>6 - Clean Water and Sanitation</b>	Water Management (pp. 152-154)  <u>Target:</u> <ul style="list-style-type: none"> <li>Specific water withdrawal: -43% by 2025 compared to 2015</li> </ul>
<b>7 - Affordable and Clean Energy</b>	Joining the Task Force on Climate-Related Financial Disclosures (TCFD) (pp. 123-127) Energy Management (pp. 143-146) Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 146-152)  <u>Targets:</u> <ul style="list-style-type: none"> <li>Specific Energy Consumption: -10% by 2025 compared to 2019</li> <li>Renewable Electricity purchased at Group level: 100% by 2025</li> <li>Group Carbon Neutrality by 2030</li> </ul>
<b>8 - Decent Work and Economic Growth</b>	Our Suppliers (pp. 103-121) Internal Community (pp. 173-211)
<b>9 - Industry, Innovation and Infrastructure</b>	Product: Research and Development of Raw Materials (pp. 133-135)  <u>Target:</u> <ul style="list-style-type: none"> <li>For new product segments, by 2025: &gt; 40% renewable materials, &gt; 3% recycled materials and &lt; 40% fossil-based materials; by 2030: &gt; 60% renewable materials, &gt; 7% recycled materials and &lt; 30% fossil-based materials</li> </ul>
<b>10 - Reduced Inequalities</b>	Diversity Management (pp. 160-165)



Sustainable Development Goals (SDGs)	Paragraphs describing the Group's activities in support of the SDGs and relevant targets (from Sustainability Plan 2025-2030)
<b>11 - Sustainable Cities and Communities</b>	<p>Main International Commitments for Sustainability (WBCSD pp. 218-220)            Company Initiatives for the External Community (Road Safety pp. 223-225, Solidarity pp. 227-228)</p> <p><u>Target:</u></p> <ul style="list-style-type: none"> <li>• Absolute CO<sub>2</sub> Emissions: -25% by 2025 compared to 2015</li> <li>• Group Carbon Neutrality by 2030</li> <li>• Eco &amp; Safety Performance Revenues: &gt; 66% on total car tyres revenues e &gt; 71% on High Value revenues by 2</li> <li>• Raw Materials Suppliers Absolute CO<sub>2</sub> Emissions: -8.6% by 2025 compared to 2018</li> <li>• Evolution of the total product range, by 2025:               <ul style="list-style-type: none"> <li>o more than 70% of new products will be in Rolling Resistance Class A/B;</li> <li>o more than 90% of new products will be in Wet Grip Class A/B.</li> </ul> </li> </ul>
<b>12 - Responsible Consumption and Production</b>	<p>Joining the Task Force on Climate-Related Financial Disclosures (TCFD) (pp. 123-127)            Energy Management (pp. 143-146)            Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 146-152)            Water Management (pp. 152-154)            Waste Management (pp. 154-157)            Company Initiatives for the External Community (Environmental Initiatives p. 229)</p> <p><u>Targets:</u></p> <ul style="list-style-type: none"> <li>• Specific Energy Consumption: -10% by 2025 compared to 2019</li> <li>• Absolute CO<sub>2</sub> Emissions: -25% by 2025 compared to 2015</li> <li>• Renewable Electricity purchased at Group level: 100% by 2025</li> <li>• Group Carbon Neutrality by 2030</li> <li>• Water Specific Withdrawal: -43% by 2025 compared to 2015</li> <li>• Waste Recovery: ≥ 98% by 2025</li> </ul>

Sustainable Development Goals (SDGs)	Paragraphs describing the Group’s activities in support of the SDGs and relevant targets (from Sustainability Plan 2025-2030)
<b>13 - Climate Action</b>	<p>CDP Supply Chain (pp. 117-118)</p> <p>Joining the Task Force on Climate-Related Financial Disclosures (TCFD) (pp. 123-127)</p> <p>Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 146-152)</p> <p>Main International Commitments for Sustainability (International Commitments against Climate Change pp. 222-223)</p> <p><u>Targets:</u></p> <ul style="list-style-type: none"> <li>• Specific Energy Consumption: -10% by 2025 compared to 2019</li> <li>• Absolute CO<sub>2</sub> Emissions: -25% by 2025 compared to 2015</li> <li>• Renewable Electricity purchased at Group level: 100% by 2025</li> <li>• Group Carbon Neutrality by 2030</li> <li>• Eco &amp; Safety Performance Revenues: &gt; 66% on total car tyres revenues e &gt; 71% on High Value revenues by 2025</li> <li>• Evolution of the total product range, by 2025:               <ul style="list-style-type: none"> <li>o more than 70% of new products will be in Rolling Resistance Class A/B;</li> <li>o more than 90% of new products will be in Wet Grip Class A/B;</li> </ul> </li> </ul>
<b>14 - Life below Water</b>	Water Management (pp. 152-154)
<b>15- Life on Land</b>	<p>Sustainability of the Natural Rubber Supply Chain (pp. 109-112)</p> <p>Company Initiatives for the External Community (Environmental Initiatives p. 229)</p>
<b>16- Peace, Justice and Strong Institutions</b>	Programmes of Compliance 231, Anti-corruption, Privacy, Trade Compliance and Antitrust (pp. 79-82)
<b>17 - Partnerships for the Goals</b>	<p>Sustainability of the Natural Rubber Supply Chain (pp. 109-112)</p> <p>Main International Commitments for Sustainability (WBCSD pp. 118-220)</p> <p>Company Initiatives for the External Community (Road Safety pp. 223-224)</p>

**CORRELATION TABLE WITH TOPICS LISTED IN ART. 2, D. LGS 254/2016**

	Topics from D. Lgs 254/2016	Reference Paragraph	Page Number
<b>Environmental Aspects</b>	<b>Use of Energy Resources (from renewables and non-renewables)</b>	<ul style="list-style-type: none"> <li>Risks Related To Environmental Issues</li> <li>Energy Management</li> </ul>	46-47, 143-146
	<b>Use of Water Resources</b>	<ul style="list-style-type: none"> <li>Risks Related To Environmental Issues</li> <li>Water Management</li> </ul>	46-47, 152-154
	<b>Greenhouse Gas Emissions and Air-Polluting Emissions</b>	<ul style="list-style-type: none"> <li>Risks Linked To Climate Change</li> <li>Joining the Task Force on Climate-Related Financial Disclosures (TCFD)</li> <li>Management Of Greenhouse Gas Emissions and Carbon Action Plan</li> <li>Solvents</li> <li>NO<sub>x</sub> Emissions</li> <li>Other Emissions and Environmental Aspects</li> </ul>	43, 123-127, 146-152, 157; 159-161
<b>Social Aspects</b>	<b>Health and Safety</b>	<ul style="list-style-type: none"> <li>Coronavirus risk (COVID -19)</li> <li>Employee Health and Safety Risks</li> <li>Occupational Health, Safety and Hygiene</li> </ul>	42, 47, 201-211
	<b>Training and Development</b>	<ul style="list-style-type: none"> <li>Risks associated with Human Resources</li> <li>Development</li> <li>Training</li> </ul>	46, 187-195
	<b>Welfare</b>	<ul style="list-style-type: none"> <li>Welfare and Initiatives for the Internal Community</li> </ul>	196-197
	<b>Dialogue with Employees</b>	<ul style="list-style-type: none"> <li>Litigation Risks</li> <li>Listening: Group Opinion Survey</li> <li>Industrial Relations</li> </ul>	47, 195; 197-201
	<b>Actions for Gender Equality</b>	<ul style="list-style-type: none"> <li>Diversity, Equity and Inclusion</li> <li>Diversity Policies</li> </ul>	178-185, 264-265
	<b>Respect for Human Rights: Measures Taken and Prevention</b>	<ul style="list-style-type: none"> <li>Risks relative to Corporate Social and Environmental Responsibility and Business Ethics</li> <li>Respecting Human Rights</li> <li>Diversity, Equity and Inclusion</li> </ul>	39, 170-172, 178-185
<b>Governance Aspects</b>	<b>Fight against Active and Passive Corruption</b>	<ul style="list-style-type: none"> <li>Risks relative to Corporate Social and Environmental Responsibility and Business Ethics</li> <li>Programmes of Compliance 231, Anti-corruption, Privacy, Trade Compliance and Antitrust</li> </ul>	39, 79-82



**PIRELLI & C SPA**

**INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED  
NON-FINANCIAL DISCLOSURE IN ACCORDANCE WITH  
ARTICLE 3, PARAGRAPH 10, OF LEGISLATIVE DECREE  
254/2016 AND ARTICLE 5 OF CONSOB REGULATION 0267/2018**

**CONSOLIDATED NON-FINANCIAL DISCLOSURE FOR THE YEAR  
ENDED 31 DECEMBER 2021**



## **Independent auditor's report on the consolidated non-financial disclosure**

*In accordance with article 3, paragraph 10, of Legislative Decree 254/2016 and article 5 of CONSOB regulation 20267/2018*

To the board of directors of Pirelli & SpA

In accordance with article 3, paragraph 10, of Legislative Decree 254/2016 (the Decree) and article 5 of CONSOB Regulation 20267/2018, we have performed a limited assurance engagement on the consolidated non-financial disclosure of Pirelli & C SpA and its subsidiaries (the Pirelli group) for the year ended 31 December 2021 prepared in accordance with article 4 of the Decree, and included in section Report on Responsible Management of the Value Chain annual report 2021 of Pirelli group, and approved by the board of directors on 17 March 2022 (NFD).

Our review does not extend to the information set out in paragraph "The European Regulation on the Taxonomy of sustainable economic activities" of the NFD, required by article 8 of European Regulation 2020/852.

### **Responsibilities of the Directors and the Board of Statutory Auditors for the NFD**

The directors are responsible for the preparation of the NFD in accordance with articles 3 and 4 of the Decree and with the Sustainability Reporting Standards, issued by the Global Reporting Initiative in 2016 and updated up to 2020 (GRI Standards), the SASB indicators, international standards issued by the Sustainability Accounting Standards Board, with reference to the "Auto-parts" industry (SASB), identified by them as the reporting standard, and with the process suggested in AA1000APS (AccountAbility Principles Standards).

The directors are also responsible, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of a NFD that is free from material misstatement, whether due to fraud or error.

Moreover, the directors are responsible for identifying the content of the NFD, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and characteristics of the group and to the extent necessary to ensure an understanding of the group activities, its performance, its results and related impacts.

### **PricewaterhouseCoopers SpA**

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Finally, the directors are responsible for defining the business and organisational model of the group and, with reference to the matters identified and reported in the NFD, for the policies adopted by the group and for the identification and management of risks generated and/or faced by the group.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

#### ***Auditor's Independence and Quality Control***

We are independent in accordance with the principles of ethics and independence set out in the Code of Ethics for Professional Accountants published by the International Ethics Standards Board for Accountants, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behaviour. Our audit firm adopts International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

#### ***Auditor's responsibilities***

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFD with the Decree, with the GRI Standards and SASB and with the process suggested in AA1000APS. We conducted our work in accordance with International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements.

The standard requires that we plan and apply procedures to obtain limited assurance that the NFD is free from material misstatements. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFD were based on our professional judgement and consisted of interviews, primarily of company personnel responsible for the preparation of the information presented in the NFD, analyses of documents, recalculations and other procedures designed to obtain evidence considered useful.

In detail, we performed the following procedures:

1. analysis of the relevant matters reported in the NFD relating to the activities and characteristics of the group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and with the reporting standards adopted and considering AA1000SES (Stakeholder Engagement Standard);
2. analysis and assessment of the criteria used to identify the consolidation area, to assess their compliance with the Decree;



3. comparison of the financial information reported in the NFD with the information reported in the consolidated financial statements of Pirelli group;
4. understanding of the following matters:
  - business and organisational model of the group with reference to management of the matters specified by article 3 of the Decree;
  - policies adopted by the group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;
  - key risks generated and/or faced with reference to the matters specified in article 3 of the Decree.

With reference to those matters, we compared the information obtained with the information presented in the NFD and carried out the procedures described under point 6 a) below;

5. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFD.  
In detail, we held meetings and interviews with the management of Pirelli & C SpA and with the personnel of Pirelli Neumáticos SAIC and Pirelli Tyres Romania Srl and we performed limited analyses of documentary evidence, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFD;
6. analysis of policies and procedures in place and of the coherence of the sustainability management model compared to UNI ISO 26000 principles, among which: governance, human rights, relationship and work conditions, and environment.

Moreover, for material information, considering the activities and characteristics of the group:

- at a group level,
  - a) with reference to the qualitative information included in the NFD, and in particular to business model, policies adopted and main risks, we carried out interviews and acquired supporting documentation to verify its consistency with available evidence;
  - b) with reference to quantitative information, we performed analytical procedures as well as limited tests, in order to assess, on a sample basis, the accuracy of the consolidation of the information;
- for the industrial sites located in Merlo (Argentina) and Slatina (Romania), which were selected on the basis of their activities, their contribution to the performance indicators at consolidated level and their location, we carried out site visits during which we met local management and gathered supporting documentation regarding the correct application of the procedures and calculation methods used for the key performance indicators.



### **Conclusion**

Based on the work performed, nothing has come to our attention that causes us to believe that the NFD of Pirelli group for the year ended 31 December 2021 is not prepared, in all material respects, in accordance with articles 3 and 4 of the Decree, with the GRI Standards, the SASB indicators with reference to the “Auto-parts” industry, and with the principles of inclusivity, materiality and responsiveness of AA1000APS, as described in the Methodological Note of the Report on the Responsible Management of the Value Chain.

Our conclusions on the NFD of Pirelli group do not extend to the information set out in paragraph “The European Regulation on the Taxonomy of sustainable economic activities” of the NFD, required by article 8 of European Regulation 2020/852.

Milan, 24 March 2022

PricewaterhouseCoopers SpA

*Signed by*

Paolo Caccini  
(Partner)

Paolo Bersani  
(Authorized signatory)

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PIRELLI & C. Società per Azioni (Joint Stock Company)

Milan Office, Viale Piero e Alberto Pirelli n. 25  
Share Capital Euro 1,904,347,935.66 fully paid in  
Register of Companies of Milan No. 00860340157  
REA (Economic Administrative Index) No. 1055