



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

**Reports to the Meeting of the Shareholders**

**Three year Cash Incentive Plan (2014-2016)  
for the Pirelli Group Management. Resolution  
relating and consequent thereto**

To the Shareholders,

In its meeting of February 27, 2014, the Board of Directors approved the adoption of a new 2014-2016 3-year cash incentive plan for Pirelli Group Management (“**LTI Plan**”) geared to the objectives of the 2014-2016 period as in the 2013-2017 Industrial Plan, which was presented on November 6, 2013 along with a preview of the LTI Plan guidelines. In addition, the decision on the “new” LTI Plan was taken in accordance with article 2389 of the Italian Civil Code, following a recommendation by the Remuneration Committee and the favourable opinion of the Board of Statutory Auditors in relation to the persons concerned by the opinion that was sought. The LTI Plan is submitted for the approval of the Meeting of the Shareholders in accordance with article 114-bis of Legislative Decree 58/1998 (the Consolidated Law on Financial Intermediation) in that it entails, among other things, that a part of the incentive shall be based on a Total Shareholder Return objective calculated in terms of Pirelli’s performance as well with regard to an index comprising selected peers in the tyre industry.

The key information on the LTI Plan is set out below. For a more detailed description, instead, please see the Disclosure Document drawn up in accordance with paragraph 1, article 84-bis, of Consob resolution no. 11971 of 14th May 1999 (the “**Issuers’ Regulation**”), which is publicly available at the registered office of Pirelli & C. S.p.A. (viale Piero e Alberto Pirelli 25, Milan) as well as at [www.pirelli.com](http://www.pirelli.com) and at Borsa Italiana S.p.A. (Piazza degli Affari, no. 6, Milan) together with this report.

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

In accordance with best practice, nationally and internationally, the Remuneration Policy for financial year 2014 adopted by Pirelli (the “**2014 Policy**”) is tailored to Pirelli’s aim of attracting, motivating, and retaining human resources having the professional standing needed to successfully pursue Group aims.

The 2014 Policy and the 2014-2016 LTI Plan (an integral part of the Policy) are designed in such a way as to align the interests of Management with those of the shareholders through the pursuit of the overriding objective of creating sustainable value over the medium-long term period by forging an effective and verifiable link between, on the one hand, remuneration and, on the other, individual performance and that of Pirelli.

The 2014 Policy was formulated on the basis of the experience of applying policy

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<sup>1</sup> Information required under article 114-bis, para. 1, point a) of the Consolidated Law on Financial Intermediation.

in past years, resulting in a better designed framework and improved content, as well as of suggestions gleaned over time from our main Proxy Advisors, to enable a thorough understanding of the link between Management remuneration structure and value creation over the medium-long term. The 2014 Policy also takes account of the regulatory requirements adopted by Consob in its resolution no. 18049 of December 23, 2011.

The LTI Plan has been adopted in support of a new Industrial Plan for 2013-2107, concurrent with the early termination of the 2012-2014 LTI Plan, in respect of which no pay-out was made of the corresponding three-year incentive, not even a prorated one.

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

The LTI Plan regards Pirelli Management (made up of Executive Directors of Pirelli & C. and Group Executives in general) and may be extended to those who, over the 3-year period, join the Group Management or take up an Executive post. Where this happens, their inclusion in the Plan is conditional on participating in the LTI Plan for at least an entire financial year and the incentive percentages are adjusted to reflect the number of months of effective participation in the Plan.

In particular, the participants in the LTI Plan are, among others, the Chairman and Chief Executive Officer of Pirelli & C., Marco Tronchetti Provera, the Deputy Chairman, Alberto Pirelli (in his capacity as Senior Manager), the General Manager Operations, Gregorio Borgo, and the managers with strategic responsibility Maurizio Boiocchi (Chief Technical Officer), Giuliano Menassi (Senior Vice President Manufacturing), Maurizio Sala (Chief Planning and Controlling Officer), Francesco Tanzi (Chief Financial Officer and Manager with responsibility for preparing the Company's accounting documents), and Christian Vasino (Chief Human Resources Officer).

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

Management remuneration is made up of three structural elements:

- fixed component;
- an annual variable component (MBO incentive): this is a pre-determined percentage of the fixed component, with percentages that rise according to the position held and considering the benchmarks for each individual. If the objectives are attained at target level this percentage can range from a minimum of 20% for Executives (managers at Pirelli's Italian Companies or employees at the Group's foreign Companies holding a position equivalent to that of an Italian

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<sup>2</sup> Information required under article 114-bis, para. 1, points b) and b-bis of the Consolidated Law on Financial Intermediation

<sup>3</sup> Information required under article 114-bis, para. 1, point c) of the Consolidated Law on Financial Intermediation.

manager) up to a maximum of 100% for the Directors holding a special office who have been assigned specific functions. According to the role of the person concerned, it is designed to reward the annual performance of the Group, of the Company and/or of the function to which he or she belongs. A limit is applied to the maximum MBO incentive obtainable and is set at twice the incentive obtainable at the target level; for the Directors holding special offices and assigned specific functions, it is 2.5 times the incentive obtainable at the target level. To encourage continuity of results over time, payment of about 25% of the MBO incentive as may be accrued is deferred to the following year subject to the respective MBO incentive being accrued (so that payment of it is at risk), and in addition there is a possible reward mechanism for providing an enhanced payment of the entire MBO depending on the level of attainment of the MBO objectives in the following year (for the purposes of the Annual Total Direct Compensation, this element, which is subject to deferral and enhanced payment, is classified along with the medium/long-term variable component).

- the medium/long-term variable component: made up of the LTI bonus aimed at rewarding Group performance during the 2014-2016 period and of the above-mentioned MBO- element variously subject to deferral and enhanced payment.
- like the MBO incentive, the LTI bonus is a pre-determined percentage of the fixed component, with percentages that rise according to the respective role and considering the benchmarks for each individual. If the objectives are attained at the target level this percentage can range from a minimum of 50% for Executives to a maximum of 250% for the Directors holding a special office who have been assigned specific functions. A limit is applied to the LTI maximum incentive obtainable and it is set at twice the incentive obtainable at the target level

The LTI Plan, which is based on cash and makes no provision for shares or share options, is conditional on achieving the 3-year objectives and is calculated as a percentage of the gross annual fixed component (GAS) received by the beneficiary at the date when his/her participation in the Plan is established.

Access to the 2014-2016 LTI Plan is conditional on fulfilling an objective, the Creation of positive Value over the 3-year period, which measures the capacity of the company to create positive value over the medium-long term by relating post-tax profits from ordinary operations to the level of invested capital and its cost. Specifically, this objective equates to the difference between NOPAT (Net Operating Profit After Tax) and the weighted average cost of fixed capital plus working capital

In addition, the following three types of objective have been set, the first two of which are independent from one another, along with their respective weightings:

- Group Total Shareholder Return (“**TSR**”), an objective applying equally to Management as a whole and comprising two mutually independent sub-objectives: (i) absolute TSR, with a weighting that accounts for 40% of the total LTI bonus and (ii) relative TSR, with a 20% weighting, measured against a panel of selected peers. Fuller details on the application of the Total Shareholder Return objective can be found in the document released at the time of the Meeting of

the Shareholders;

- an objective specific to each Executive concerning their respective organisational unit (Group, Region, Business Unit): Return on Sales (ROS), calculated as the ratio between accumulated EBIT after restructuring charges over the 3-year period and accumulated turnover over the same period; the weighting of ROS in the total LTI bonus is 30%;
- the remaining 10% is calculated on the basis of Sustainability Indicators relating to the positioning of Pirelli in two indices, with equal weighting: (i) Dow Jones Sustainability Index, Autoparts and Tyre Sector, and (ii) FTSE4Good Tyre. This objective is effective only if the entry threshold for at least one of the two economic/financial objectives above is reached.

Associated with all three of the objectives (TSR, ROS, and Sustainability) is a minimum value (an entry threshold level). At this level there is a pay-out that is 75% - for each objective - of the incentive amount obtainable for performance at the target level.

Regarding each objective, where the set minimum value is not attained, no right is accrued by the beneficiary to the corresponding part of the incentive.

Regarding the TSR and ROS objectives, for intermediate results ranging between the minimum value (entry threshold) and the target level or between the target level and the maximum level, the final assessment shall be made through linear scaling

#### Period of Bonus Pay-out

Where the objectives are achieved, pay-out of the medium/long-term incentive (the so-called LTI Bonus) to participants in the LTI Plan will be in the first half of 2017 (“**Pay-out Date**”) barring where, by December 31 2016, there has been cessation (for whatever reason) of their appointment and/or employment status.

Under the mechanism described above for sustaining continuity of results over the longer term, payment of 25% of the MBO incentive as may be accrued in connection with financial year 2016 shall be deferred to the following year (and, accordingly, shall be at risk of payment). Indeed, depending respectively on whether and at what level the 2017 MBO incentive is accrued, pay-out of the deferred 25% of the 2016 MBO incentive accrued, plus a possible enhancement of the entire 2016 MBO incentive, shall be made in the first half of 2018.

If the individual’s term in office and/or employment relationship should end for any cause or reason before completion of the 3-year period, the beneficiary – including Directors holding special offices and invested with special functions (as in the case of the Chairman and Chief Executive Officer, Mr. Tronchetti Provera) – ceases to be part of the LTI Plan and consequently the LTI bonus will not be paid, not even on a pro-rated basis.

#### Duration of the Plan and Amendments

The Plan, relating to financial years 2014-2016, shall end on the Pay-out Date. As to the procedure in place for carrying out any revision of the LTI Plan, please refer to the Disclosure Document.

Special incentive fund for worker participation in undertakings<sup>4</sup>

The Plan receives no financial support from the Special incentive fund for worker participation in undertakings as in Law no. 350 of December 24, 2003, article 4, paragraph 112.

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The LTI Plan ranks as being of “particular importance” in that it regards, among others, the Chairman and Chief Executive of Pirelli & C., the General Manager Operations, and individuals with strategic responsibility in that they have regular access to privileged information and have the power to make decisions that affect the development and the future prospects of the Group.

Given that the LTI Plan is monetary, and makes no provision for granting shares or options on securities, but solely a cash award partly linked to the stock market performance of Pirelli’s ordinary shares, the Disclosure Document prepared under current rules does not include the prescribed information on arrangements for awarding shares or share options.

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To the Shareholders,

on the basis of the above, we ask that:

1. you approve – in accordance with article 114-bis, Legislative Decree no. 58 of 24 February 1998, as subsequently amended and supplemented – the adoption of a 2014-2016 3-year Incentive Plan (the “LTI Plan”) for Pirelli Group Management based, with regard to the part based inter alia, on the stock market performance of Pirelli, such as presented above in this Report and as further detailed in the Disclosure Document (drawn up in accordance with paragraph 1, article 84-bis, of the Issuers’ Regulation). In fact, under the provisions of the LTI Plan, part of the LTI Bonus is calculated on the basis of a Total Shareholder Return objective in terms of Pirelli’s performance and with regard to an index made up of selected “peers” in the tyre industry;
2. to confer on the Board of Directors – and on its behalf on the Chairman – all powers needed for the complete and full implementation of the LTI Plan.

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<sup>4</sup> Information required under article 114-bis, para. 1, point d) of the Consolidated Law on Financial Intermediation.