DOUBLE MATERIALITY ANALYSIS AND MANAGEMENT OF IMPACTS, RISKS AND OPPORTUNITIES

In order to provide its stakeholders with an adequate representation of the Group's activities and the sustainability issues most relevant to the business, according to the dual "inside-out" and "outside-in" approach, Pirelli conducted the update of its Double Materiality analysis, in accordance with the EFRAG guidelines on the double materiality analysis process, the ESRS standards, in particular ESRS 1, and the EFRAG IG 1: Materiality Assessment Implementation Guidance.

The impact materiality, corresponding to the "inside-out" perspective, concerns the significant impacts of Pirelli connected to the company's operations and the value chain, negative or positive, actual or potential, on people or the environment, in the short, medium or long term.

Conversely, the "outside-in" perspective corresponds to the financial materiality, i.e. it takes into account how external factors, expressed as risks and opportunities, have, or can be reasonably expected to have, a significant influence on the development of the company, on its financial position, on its economic result, cash flows, access to financing or the cost of capital in the short, medium or long term.

Pirelli's Double Materiality analysis and the related list of material Impacts, Risks, and Opportunities (IROs), resulting from the opinions of internal and external stakeholders, was analysed by the Strategic Sustainability Committee (management committee), then submitted to the Audit, Risks and Corporate Governance Committee and approved by the Board of Directors.

The Board of Statutory Auditors attended the meetings of the Audit, Risks and Corporate Governance Committee and the Board of Directors, where the double materiality analysis was approved. The Pirelli Group's double materiality analysis is updated annually.

In methodological terms, the analysis included the following main steps:

1) Analysis and understanding of the internal and external context

The analysis was carried out with the objective of developing an overall view of Pirelli's activities, its business relationships and the context in which they are conducted, and of understanding the main stakeholders involved. The results of this analysis provide the primary inputs for the identification of Impacts, Risks and Opportunities (IROs) to be assessed.

In the first phase, the context in which the Group operates was analysed through an examination of the Company's strategy and activities, its values, products and services, business relationships, the most relevant sustainability indices and initiatives for the reference sector, such as the Sustainability Accounting Standards Board (SASB), S&P Global Dow Jones Sustainability Indices and the World Economic Forum, as well as the regulatory and legal landscape, including sector-specific regulations. This activity, preparatory to obtaining the information necessary to identify differences compared with the previous context analysis and reporting, also made it possible to confirm the mapping of the upstream and downstream value chain, whose key actors are: suppliers of raw materials and services, distributors and specialised retailers, original equipment customers and end customers. In addition, the mapping carried out also took into account the phases of the product life cycle, confirming the relevant actors most involved in each phase identified for the 2024 financial year.

A further element forming part of the context analysis was the benchmark analysis, conducted by considering the Pirelli Group's peers and competitors and the main customers that have published a sustainability report compliant with the ESRS. The results of this activity constitute an additional input for updating the double materiality assessment, providing insights and/or different perspectives used in the identification and assessment of impacts, risks and opportunities.

2) Identification of potentially material impacts, risks and opportunities

The second step, aimed at identifying potentially material impacts, risks and opportunities (IRO) for Pirelli, involved the integration of different sources and multiple company departments, competent and expert with respect to the Company's activities and business. This also allowed the interests and effects of the company's activities on stakeholders to be taken into account.

Starting from the results of the context analysis, the Double Materiality analysis carried out in the previous financial year and the strategic plan, the process of identifying the IROs considered the characteristics of the business, the types of products, the markets and the geographical areas in which it operates, as well as focusing on the analysis of the regulatory landscape, and on the indications and suggestions provided by ESG indexes and standards and associations relevant to the sector. This process was integrated with an analysis of the different phases of the Pirelli product life cycle. In particular, each phase of the life cycle was analysed taking into consideration the respective geographies, resources used (raw materials, human resources), services and activities that characterise them, as well as their respective positioning in the value chain, the actors involved and their interests.

For the identification of impacts, the sustainability topics, sub-topics, and sub-sub-topics indicated by the ESRS (ESRS 1, AR 16) were taken into consideration. This made it possible to draw up a preliminary list of impacts associated with each topic, sub-topic and sub-sub-topic, taking into account the results of the Double Materiality analysis carried out in the previous financial year and those emerging from the context analysis.

In identifying both current and potential impact, the company considered gross impact (i.e. before mitigation actions) so as to distinguish between gross impact and impact management (i.e. policies, actions and targets).

To identify risks and opportunities, an analysis was carried out of the results of the Annual Operational Risk Assessment, the Climate Change and related Water Stress Risk Assessment and the Opportunity Assessment, conducted by the Enterprise Risk Management (ERM) Department. In particular, among the risks and opportunities resulting from these assessments, those associated with the specific sustainability topics were identified.

3) Impact, risk and opportunity assessment

In the third step, the IROs identified were submitted for assessment to determine their relevance to Pirelli.

For the update of impact materiality for 2025, and in particular for the assessment of impacts, the involvement of external stakeholders and the distribution of questionnaires during the evaluation phase were not provided for, considering that this had already been conducted in 2024 and had involved a significant number of parties, representative of all the main stakeholders and that, on the basis of the context analyses carried out, the benchmark analyses and the interviews conducted with internal stakeholders, no significant changes emerged that would have required the exercise to be repeated. However, the involvement of a university professor was provided for to validate the results obtained, and in particular in order to collect any observations and suggestions for integration.

The update was carried out through a structured process that involved the competent Company departments. These were interviewed using a top-down approach for each topic, sub-topic and sub-sub-topic, in order to assess the need to make changes to the materiality assessments carried out in 2024, taking into account the assessments gathered from stakeholders in the previous financial year. In this process, all impacts, both positive and negative, were analysed in relation to the three time horizons of short term (within one year), medium term (from 2 to 5 years) and long term (beyond 5 years)[31].

It should be noted that the evolution of impacts is monitored by the Company not only through the annual update of the Double Materiality Analysis, but also through the periodic monitoring of performance indicators, the main targets and the safeguards in place for the management of relevant sustainability issues, and all these elements were taken into consideration.

The risks were evaluated using the Pirelli Enterprise Risk Management (ERM) model, which is applied at three key moments in the decision-making process aimed at achieving strategic objectives: strategic planning (medium-/long-term); operational planning (annual and periodic); new investment projects. It should also be noted that the Enterprise Risk Management model goes beyond the scope of these three steps, through continuous monitoring and management of operational risks and assessment of potential reputational and ESG risks that could affect the company's strategic assets (tangible and intangible).

The model requires that, at least once a year and with the involvement and support of all company departments, an ERM assessment is carried out to identify the main risk areas. The assessment scales range from 1 to 4 and are used to evaluate the impact, in economic-financial terms (EBIT, Contribution Margin, Net Sales, Net Cash Flow), and the likelihood of the event occurring. Risks are therefore "prioritised" based on exposure for the Group regardless of the risk category (e.g. Sustainability, Compliace or other). Following the assessment, continuous monitoring is carried out by the ERM Department, assisted by the Risk Owners, to monitor the progress of the mitigation plans and any emerging risks that may arise after the annual assessment cycle. The overall risk register resulting from the assessment was then analysed to understand which risks come directly from the impacts, from the external context and which are generated by the presence of dependencies on human or natural resources; this was useful to verify the completeness of the list of identified risks and to propose hypotheses for future additions.

The assessment of sustainability opportunities followed the same methodology as that applied to risks, involving the relevant Departments.

To determine a materiality threshold for impacts, Pirelli also took as a starting point the thresholds already in use within the Enterprise Risk Management framework for the risk and opportunity assessment process. The thresholds were identified by adopting a conservative and precautionary approach, i.e. applying a more inclusive threshold for impacts and a higher threshold for opportunities.

Material IROs are IROs whose magnitude and likelihood scores exceed the following thresholds:

- Impacts: Magnitude ≥ 3 or Magnitude ≥ 2.5 and Likelihood ≥ 2.5
- Risks and Opportunities: Magnitude = 4, or Magnitude = 3 and Likelihood ≥ 3, or Magnitude = 2 and Likelihood = 4

4) Definition of material impacts, risks and opportunities

The result of the assessment process was analysed with the support of the competent corporate departments and Senior Management, in order to verify the completeness and consistency of the material IROs.

Moreover, for the 2025 update process, the outcome was submitted for validation to a university professor with expertise in sustainability issues in order to collect observations and feedback on the process followed and its results, through a dedicated interview.

The completion of the assessment process made it possible to identify the Pirelli Group's material sustainability topics, prioritised according to the significance criterion and illustrated in the table below.

31. For further details on the definition of time horizons, please refer to the paragraph "Time frames".