

# Respect,



# **Central role of the Board of Directors**

**Majority  
of independent  
members  
of the board**

**Innovative risk  
management  
system**

**Medium  
and long-term  
incentives for  
management**



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Pirelli & C. S.p.A. — Milan

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# **Report on Corporate Governance and the structure of share ownership**

*Volume 2*

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**“Pirelli: our constant commitment to Corporate Governance aligned to national and international best practice”**

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**FRANCESCO CHIAPPETTA,**  
*Group General Counsel and Head  
of Pirelli General and Institutional Affairs*

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### *Volume 2*

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\* This volume is a specific, integral section of the Directors' Report on Operations.















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# **REPORT ON CORPORATE GOVERNANCE AND THE STRUCTURE OF SHARE OWNERSHIP**

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## GLOSSARY

**Shareholders' meeting to approve the Financial Statements for 2010:** Means the shareholders' meeting that will be called to approve the financial statements at 31 December 2010;

**Self-Regulatory Code:** means the Self-Regulatory Code of Conduct for listed companies approved by the Corporate Governance Committee and promoted by the Italian stock exchange, Borsa Italiana S.p.A., available on its website *www.borsaitaliana.it.*, to which the company adheres;

**Board or Board of Directors:** means the Board of Directors of Pirelli & C.;

**Consob:** means the Commissione Nazionale per le Società e la Borsa, the Italian official body for regulating and supervising companies and the stock exchange;

**Date of the Report:** means the meeting of the Board of Directors held on 8 March 2011 that approved this report;

**Responsible Officer:** indicates the officer responsible for preparing the company accounting documents referred to in article 154-bis of the CFL;

**Financial Year:** indicates the financial year that ended on 31 December 2010;

**Pirelli & C.: indicates** Pirelli & C. S.p.A., with registered offices in Milan, tax code, VAT number and Milan Business Registry no. 00860340157;

**Pirelli Tyre: indicates** Pirelli Tyre S.p.A., with registered offices in Milan, tax code and Milan Business Registry no. 07211330159;

**Prelios: indicates** Prelios S.p.A. (formerly Pirelli & C. Real Estate S.p.A. – “**Pirelli RE**”), with registered offices in Milan, tax code and Milan Business Registry no. 02473170153;

**Issuer Regulations:** indicates the Regulations issued by Consob with deliberation no. 11971 of 1999 on the subject of issuers and subsequent amendments and supplements;

**Market Regulations:** indicates the Regulations issued by Consob with deliberation no. 16191 of 1999 on the subject of issuers and subsequent amendments and supplements;

**Report:** indicates this report on corporate governance and the structure of share ownership pursuant to article 123 *bis* of the CFL;

**Company website:** the Pirelli Group's website, which also contains information on the company, and may be accessed at *www.pirelli.com*;

**Company:** indicates Pirelli & C.;

**Company Bylaws:** indicates the Pirelli & C. company bylaws, available on the company website and appearing at the end of this Report;

**CFL:** indicates Legislative Decree no. 58 of 24 February 1998 (the Testo Unico della Finanza, or Consolidated Finance Law).



## 1. PROFILE OF THE COMPANY ISSUING THE REPORT

Pirelli & C. is the limited company, listed on the Milan Stock Exchange, that heads the multinational group specialising in the tyre sector, a leader in the top of the range and high-tech segments of the market.

Founded in 1872, Pirelli now has 20 plants on four continents and works in more than 160 different countries all over the world.

Pirelli stands out for its long industrial tradition, which has always been combined with a capacity for innovation, product quality and a strong brand. Since 2002 this strength has been supported by the fashion and high-tech products of Pzero and is now further boosted by Formula 1, for which Pirelli Tyre is exclusive supplier for 2011-2013. In line with its “green performance” strategy, Pirelli, which has always focused on research and development, works with a constant and growing focus on top quality, low environmental impact products and services. These activities are completed by Pirelli Eco Technology, active in the production of emissions control technologies, and Pirelli Ambiente, which is concerned with energy and environment. Awareness of the importance of an efficient Corporate Governance system represents one of the essential elements for achieving the objectives of creating sustainable value and prompts the Company to keep its corporate governance system constantly in line with national and international best practice.

Pirelli adopts the traditional administration and control system based on the central role played by the Board of Directors.

The distinctive elements of the Company’s Corporate Governance model are: (i) the central role of the Board of Directors as the top body in charge of Company management; (ii) the central role of independent directors, who represent the majority of members of the Board of Directors; (iii) correct disclosure practices concerning the choices and processes by which company decisions are formulated and an effective internal control system; (iv) an innovative proactive risk management system; (v) a remuneration system for managers linked with medium and long term goals; (vi) strict regulation of potential conflicts of interest and solid ethical principles governing transactions with related parties.

The system of governance is documented in the Code of Ethics, the Company Bylaws, the Regulations regarding shareholders’ meetings, and a series of principles, rules and procedures, periodically updated to reflect regulatory,

legal and doctrinal developments, available on the Company’s website in the section dedicated to Governance and the approach and policies of the Board of Directors.

Moreover, the Company has been publishing its sustainability reports since 2005; further information is available in the appropriate section of the Company’s financial reports. It should be noted that although not required to do so by the Self-Regulatory Code, the Company voluntarily highlights updates and additions made to its corporate governance system since the preceding annual report in its half-yearly report.

It should be noted that Pirelli is named “Best Corporate Governance in Italy” during the World Finance Corporate Governance Award 2011. Moreover, on February 2011, Governance Metrics International (GMI) confirmed the 10/10 score of the Pirelli’s Corporate Governance on the home market (the last “country ranking” of September 2010 assigned an average score of 5,25/10 to Italy).

## 2. INFORMATION ON THE STRUCTURE OF SHARE OWNERSHIP (EX ART. 123 BIS SUBSECTION 1, CFL) AT 8 MARCH 2011

### A) STRUCTURE OF THE SHARE CAPITAL

The subscribed and fully paid-in share capital of the company totalled Euro 1,377,878,879.78, consisting of a total of no. 487,991,493 shares without par value, 475,740,182 of which (Euro 1,343,286,427.00) are ordinary shares while 12,251,311 (Euro 34,592,452.78) are savings shares.

In this regard, note that the 15 July 2010 extraordinary sessions of the Company’s ordinary shareholders’ meeting resolved to eliminate par value of ordinary and savings shares, and to convert shares to stock with a ratio of 1 ordinary or savings stock for every 11 shares of the same type held.

In execution of the resolutions passed in the previous meetings, on 26 July 2010 the following operations were performed:

- (i) conversion of the 5,233,142,002 ordinary shares without par value at a ratio of 1 new ordinary stock

The independent directors represent the majority of members of the Board of Directors

**JUDGEMENT ON  
PIRELLI'S  
GOVERNANCE:**

**10/10**

- for every 11 ordinary shares owned;
- (ii) conversion of the 134,764,421 savings shares in circulation according to a ratio of 1 new savings stock for every 11 savings shares owned.

At the same meeting, shareholders approved the decision to separate Pirelli RE from the Pirelli Group by proportionate assignment to ordinary and savings shareholders of 487,231,561 ordinary shares in Pirelli & C. RE owned by the Company. To this end, the Company approved a reduction of its share capital by Euro 178,813,982.89, corresponding to the value of the Pirelli RE shares assigned, determined on the basis of the official price of Pirelli RE shares as of 14 July 2010.

The Pirelli RE shares were assigned on 25 October 2010 with a ratio of one ordinary Pirelli RE share for each Pirelli & C. ordinary or savings stock owned after the conversion of shares into stock.

The share capital of Pirelli & C. as of the date of the Report is Euro 1,377,878,879.78, consisting of a total of no. 487,991,493 shares without par value, 475,740,182 of which (Euro 1,343,286,427.00) are ordinary shares while 12,251,311 (Euro 34,592,452.78) are savings shares.

Table no. 1 illustrates the precise breakdown of share capital. Note that the shareholders' meeting asked to approve the 2010 Financial Statements is asked to reduce the company's share capital by euro 32,498,345.12 (and therefore from Euro 1,377,878,879.78 to Euro 1,345,380,534.66) without deleting any shares in order to reduce to zero the negative reserve under shareholders' equity referred to as "Reserve for assignment of Prelios shares". Readers are referred to the Directors' Report available on the Company's website for more information on this point.

### **Rights and obligations**

Shares are divided into ordinary shares and savings shares, without par value.

Ordinary shares entitle the holder to one vote par share. They are registered shares or bearer shares, to the extent permitted by law, and can be converted into the other type of share at the request and expense of their owner. Savings shares do not have voting rights and, unless otherwise provided by law, are bearer shares.

They may be converted into nominal savings shares at the request and expense of the shareholder.

In addition to the rights and privileges specified by the law and the Company bylaws, savings shares have the right of pre-emption in the reimbursement of capital up to an amount of euro 3.19 per share. If the share capital is reduced by losses, the par value of the savings shares is only reduced for the part of the losses that exceeds the overall par value of the other shares.

Savings shares also retain the rights and privileges assigned to them by the law and the Company's bylaws, even when ordinary and savings shares are excluded from trading.

If share capital should be increased by the issue of shares in a single category, they must be offered as an option to all categories of shareholders.

If capital is increased by the issue of both ordinary and savings shares:

- a) holders of ordinary shares have the right to receive options for ordinary shares and, for any difference, savings shares;
- b) holders of savings shares have the right to receive options for savings shares and, for any difference, ordinary shares;

The net annual profits are divided as follows, after legal allocations have been made:

- a) savings shares are attributed a sum of up to seven percent of euro 3.19. If in a financial year the savings shares are assigned a dividend of less than 7% of euro 3.19, the difference is added to the preference dividend in the two following financial years. The profits remaining after the dividend specified above has been assigned to the savings shares are allocated to all the shares in such a way that the savings shares receive a dividend that is 2% points of euro 3.19 higher than that of the ordinary shares;
- b) without prejudice to the above provisions concerning the increased total dividend payable on savings shares, ordinary shares are attributed a sum totalling 5% of their par value (defined as the ratio between the amount of share capital and the total number of shares issued).

The remaining profits will be distributed to all the shares, in addition to the sums assigned as described in letters a) and b) above, unless the Shareholders' Meeting should decide to approve the Board's proposal to make special allocations to extraordinary reserves or other uses, or should decide to carry forward part of said share of the profits.

If reserves are distributed, the savings shares have the same rights as the other shares.

Advances may be paid on dividends as permitted by law.

### **Financial instruments that attribute the right to subscribe to new issues of shares**

At the date of approval of the Report no financial instruments that attribute the right to subscribe to new issue shares were found to have been issued.

### **Stock incentive plans**

The Company does not currently have any stock incentive plans in place.

### **B) RESTRICTIONS ON THE TRANSFER OF SECURITIES**

There are no restrictions on the transfer of securities.

### C) MAJOR SHAREHOLDINGS

Those subjects which, according to the criteria published by Consob<sup>1</sup>, own ordinary shares representing more than 2% of the ordinary voting capital, are listed in Table 2.

### D) SECURITIES THAT CONFER SPECIAL RIGHTS

No securities that confer special monitoring rights have been issued.

### E) EMPLOYEE SHAREHOLDINGS: MECHANISM FOR EXERCISING VOTING RIGHTS

In the case of employee shareholders, there are no mechanisms for the exercise of their voting rights when the voting rights are not exercised directly by said employees.

### F) RESTRICTIONS ON VOTING RIGHTS

There are no restrictions on voting rights (such as, for example, limitations on voting rights at a certain percentage, namely a certain number of votes, terms imposed on the exercise of voting rights, namely systems in which, with the cooperation of the Company, the financial rights related to the securities are separate from the ownership of the securities).

### G) SHAREHOLDER AGREEMENTS

The list of participants in the “Sindacato Blocco Azioni Pirelli & C. S.p.A.” (Pirelli & C. S.p.A. Shareholders’ Agreement) as of December 31 2010, aimed at guaranteeing the stability of Pirelli & C.’s shareholding structure, and an extract from the text of the agreement appear in the annex to the Report and may be accessed on the Company’s website.

Please note that, after the end of the financial year, Mr. Massimo Moratti sold on the stock market n. 3,330,00 Pirelli’s ordinary shares of all n 5,673,392 transferred to the Shareholders’ Agreement.

Consequently, at the Report date, n. 216,541,863 ordinary shares of Pirelli (equal to 45,52% of the ordinary share capital issued with voting rights) are transferred to the Shareholders’ Agreement.

### H) CHANGES TO THE BYLAWS

Changes to the bylaws of the Company are deliberated as provided for the legal regulations.

### I) CHANGE OF CONTROL CLAUSES

There are no subjects which may directly or indirectly, also by virtue of shareholder agreements, individually or jointly with other persons included in these agreements, exercise control over Pirelli & C..

It follows that, this being the case, no change of control may occur in the Company.

### L) POWERS TO INCREASE SHARE CAPITAL AND AUTHORISATIONS TO PURCHASE OWNED SHARES

#### Powers to increase share capital

Directors have not been give power to increase the share capital against payment in one or more operations, or to issue bonds convertible in both ordinary and savings shares or with warrants valid for share subscription<sup>2</sup>.

#### Authorisation to purchase own shares

As of the Date of the Report, the Board of Directors has not been authorised to purchase any of the Company’s own shares.

As of the Date of the Report, the Company held 351,590 of its own ordinary shares, equal to 0.07% of the whole of the share capital, and 408.343 of its own savings shares, equal to 3.3% of the savings share capital, and 0.084% of the whole share capital.

### M) DIRECTORS’ INDEMNITY IN THE CASE OF RESIGNATION, TERMINATION OR CESSATION OF APPOINTMENT AFTER A PUBLIC TAKEOVER BID<sup>3</sup>

The Pirelli Group’s policy is not to stipulate agreements with Directors, managers with strategic business responsibilities, senior managers and executives regulating economic aspects before the fact of potential advance cessation of the employment relationship on the Company’s or the individual’s initiative (referred to as “parachutes”). In the event of interruption of the employment relation-

<sup>2</sup> The shareholders’ meeting asked to approve the 2010 Financial Statements will be asked to change article 5 of the Company Bylaws to eliminate the reference to the powers granted by the May 7 2003 extraordinary shareholders’ meeting to issue up to 100,000,000 ordinary shares in one or more operations to be completed by April 30 2008, to be assigned to executives and managers in the Company, its subsidiaries and their subsidiaries in Italy and abroad, and the reference to the circumstance that the February 25 2005 Board of Directors’ meeting deliberated, in partial execution of the powers granted it, to increase the Company’s share capital by a maximum par value of Euro 15,725,496.50 by issuing a maximum of 54,225,850 ordinary shares with a par value of Euro 0.29 each at a price of Euro 0.996 each, including Euro 0.706 in share premium, to be reserved for subscription by executives and managers in the Company, its subsidiaries and their subsidiaries in Italy and abroad. For more information the reader is referred to the Directors’ Report to the Shareholders’ Meeting available on the Company’s web site.

<sup>3</sup> The information appearing in this section is provided in compliance with Consob’s request in its Communication DEM/11012984 of February 24 2011

<sup>1</sup> www.consob.it, “issuers” section.

ship with the Group for reasons other than just cause, the Company's policy is to seek to come to an agreement for "closing" the relationship. In any case, obligations under the law and/or contract remaining in effect, any agreements that may be reached regarding cessation of employment with the Group shall be inspired by the benchmarks in this area and fall within the limits determined by jurisprudence and practice in the company for which the agreement is made. For more information the reader is referred to the "General Remuneration Policy" appearing at the end of this Report.

#### **N) DIRECTION AND COORDINATION ACTIVITIES (UNDER ART.2497 ET SEQ. OF THE CIVIL CODE)**

There are no subjects which may directly or indirectly, also by virtue of shareholder agreements, individually or jointly with other persons included in these agreements, exercise control over Pirelli & C..

Nor is the Company subject to the direction and coordination of other companies or bodies under article 2497 of the Civil Code.

In contrast, Pirelli & C., which heads the Group of that name, exercises direction and coordination activities over numerous subsidiary companies, having published appropriate information about these matters pursuant to article 2497-bis of the Civil Code.

### **3. COMPLIANCE**

Pirelli & C. has adhered to the Self-Regulatory Code for listed companies issued by Borsa Italiana, the Italian Stock Exchange, since it was first issued (since October 1999, having then adhered to the July 2002 version).

In the Board meeting of 12 March 2007, it declared that it adhered to the new version of the Code (issued March 2006) published on the Borsa Italiana website *www.borsaitaliana.it*. The Report – written partly on the basis of the experimental format distributed by Borsa Italiana in February 2008 and then updated in February 2010 – contains a specific section on presentation of the risk management and internal control system in existence in relation to the process of financial information as required by art. 123-bis, paragraph 2, lett. b) of the CFL.

At the Date of this Report non-Italian legal provisions that influence the corporate governance structure of the Company do not apply to Pirelli & C..

### **4. BOARD OF DIRECTORS**

In accordance with the regulations for the traditional direction and control model, the management of the Company is assigned to the Board of Directors, which

plays an active role in guiding its strategy and controlling its operations, with the power to direct its overall management and intervene directly in a series of decisions that are necessary or useful in the pursuit of its corporate aims.

The Board is entrusted with the most important decisions in economic/strategic terms or in terms of structural impact on management or functional impact on control and guidance of the Group.

To carry out its duties the Board of Directors relies on the support provided by specific Board Committees currently composed entirely of independent directors, responsible for investigations, advice and/or consultation, and managerial committees composed of the Group's senior management which implement the directives and policies established by the Board and its delegated bodies (in this regard the reader is referred to the "Managerial Committees" section).

Meetings of the Board of Directors and its Committees are attended by members of management in order to ensure prompt in-depth knowledge of the Company's and the Group's activities on the part of Directors and the Board as a whole and promote access to senior management in order to improve the Board of Directors' powers of supervision over its business activities.

All Board of Directors' meetings are attended by managers with strategic business responsibilities (the Tyre General Manager; the Group General Counsel and Chief of General and Corporate Affairs; the Chief of Group Management Control, the Chief Financial Officer and the Officer responsible for preparing accounting and corporate documents).

The meetings of the Internal Control, Risks and Corporate Governance Committee are attended by the Group General Counsel and Internal Audit Manager (who attend all meetings), the Risk Officer and the Manager in charge of preparing the corporate and accounting documents.

All of the Remuneration Committee's meetings are attended by the Group General Counsel and the Chief People Officer.

Other members of management are invited to attend individual meetings to discuss specific topics on the agenda.

#### **4.1 APPOINTMENT AND REPLACEMENT OF DIRECTORS**

Since 2004 the Company bylaws<sup>4</sup> have provided that the Board of Directors is appointed by a slate system. This system ensures that if at least two slates are presented, the so-called "minority" shareholders can elect one fifth of the directors.

The slates presented by the shareholders, signed by those presenting them, must be filed at the registered offices of the Company, for inspection by anyone wishing to do so, at least 25 days before the date the Shareholders' Meet-

<sup>4</sup> Article 10 of the Company bylaws.

ing is first convened, and are made available to the public in the company's offices, on its website and by the other methods required by Consob regulations at least 21 days before the date of the meeting.

Each shareholder may present or take part in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.

The bylaws acknowledge the right to present slates of shareholders who, alone or together with other shareholders, hold a total number of shares representing at least 2% of the share capital entitled to vote at ordinary shareholders' meetings or a lower percentage, according to the regulations issued by Consob (for the year 2011 Consob sets the percentage of ownership of shares required for shareholders to present slates of candidates for election of the management or audit body of Pirelli & C. as 1.5% of share capital entitled to vote in ordinary shareholders' meetings)<sup>5</sup> with an obligation to demonstrate ownership of the number of shares necessary for presentation of lists within the deadline for their publication by the Company (21 days prior to the meeting).

Declarations in which the candidates individually accept their candidacy and attest that there are no grounds for ineligibility or incompatibility, and that they meet any requirements prescribed for the offices in question, must be deposited with each slate. The declarations must be accompanied by a curriculum vitae for each candidate regarding their personal and professional characteristics, indicating (i) that the administration and control appointments held by the candidate with other companies and (ii) their fitness to be considered independent, according to the legal and Company criteria.

Slates presented in violation of the rules described above shall be considered null.

In the Meeting, each person entitled to vote may vote for only one slate.

The following procedure will be used for the election of the Board of Directors:

- a) four fifths of the directors to be elected are selected in the progressive order in which they are listed on the slate that obtained the majority of the votes cast by the shareholders, rounding down to the nearest whole number;
- b) the remaining directors are appointed from the other slates; for this purpose, the votes obtained by the slates will be divided by a sequence of whole num-

bers from one up to the number of directors that remain to be elected. The quotients thus obtained are assigned progressively to the candidates of each of the slates, in the order in which they are listed. The quotients attributed to the candidates of the various slates are arranged in a single list, in decreasing order. The persons with the highest quotients are elected.

If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected a director, or which has elected the fewest directors, is elected. If none from these slates has yet elected a director, or if they have all elected the same number of directors, then within these slates the candidate who obtained the highest number of votes is elected. If two candidates on a slate have the same number of votes, and the same quotient, then the entire shareholders' meeting votes again and the candidate obtaining a simple majority of votes is elected.

If the slate voting mechanism should not assure the minimum number of independent directors specified in the applicable regulations, the elected non-independent candidate with the highest progressive number in the list who has received the highest number of votes is replaced by the unelected independent candidate from the same list with next highest progressive number, and so on, list by list, until the minimum number of independent directors has been achieved.

When appointing directors who, for whatsoever reason, were not appointed under the procedure established herein, the Shareholders' Meeting shall vote on the basis of the majorities required by law. If one or more directorships should become vacant during the financial year, the provisions of art. 2386 of the Italian Civil Code apply.

Loss of the requisites for independence by a director does not cause their appointment to lapse if the minimum number of directors – specified by applicable regulations – in possession of the legal requisites for independence remain in office.

As per international best practice, when renewing the Board of Directors it is Company practice to allow the shareholders separate votes on: (i) the number of people on the Board of Directors (ii) the election of Directors through a vote on the slates presented (iii) the duration of the mandate of the Board of Directors; and (iv) the remuneration of the Directors.

Slate system ensures that if at least two slates are presented, the so-called "minority" shareholders can elect one fifth of the directors

<sup>5</sup> See Consob Deliberation 17633 of 26 January 2011

## 4.2. COMPOSITION

The Board of Directors of the Company, as established by the Bylaws, consists of no less than seven and no more than 23 members, who serve for 3 years (unless a lesser period is specified by the Shareholders' Meeting upon their appointment) and may be re-elected.

The Board of Directors in office as of 31 December 2010 is composed of 19 Directors<sup>6</sup> and was appointed by the 29 April 2008 Shareholders' Meeting for three financial years, ending with the Shareholders' Meeting summoned to approve the 31 December 2010 financial statements. The Shareholders' Meeting for approval of the 2010 financial statements will therefore proceed to renew the Board of Directors; the reader is referred to the Directors' Report to the Shareholders' Meeting, available on the company's website, for more details.

The average age of the Directors in office as of 31 December 2010 is about 64.

By voting on a slate<sup>7</sup>, the minority shareholders were able to nominate four Directors, *i.e.* one fifth of the total (Directors Carlo Angelici, Cristiano Antonelli, Franco Bruni and Umberto Paolucci).

Two slates were presented to the Shareholders' Meeting held on 29 April 2008: one of participants in the Pirelli & C. Shareholders' Agreement (which obtained 93% of the votes of voting capital<sup>8</sup>) and one of a group of institutional investors<sup>9</sup> (who obtained 5.5% of the votes of voting capital<sup>10</sup>). Those proposing the slates made the candidates' profiles available so that the candidates' personal and professional characteristics, as well as some candidates' qualifications as independents, were made known prior to voting. The curriculum vitae, containing the personal and professional characteristics of each director, presented when the slates were filed, were promptly published on the Company website where they remain available in an updated version.

The composition of the Board of Directors at the date of this Report is identified in Table no. 3.

It should be noted that during the year Deputy Chairman Carlo Alessandro Puri Negri and Director Berardino Libonati ceased to serve.

Following the resignation of Deputy Chairman Puri Negri, in accordance with article 2386 of the Civil Code, in its 29 July 2010 meeting the Board appointed Vittorio Malacalza as Director, appointing him to the post of Vice Chairman on 14 October 2010.

Following the death of Director Berardino Libonati on 30 November 2010, the Board decided to put all decisions before the Shareholders' Meeting, in view of the imminent expiration of the entire Board's term of office.

### 4.2.1 Maximum accumulation of directorships in other companies

On 29 April 2008, as recommended by the Self-Regulatory Code<sup>11</sup>, the Board of Directors confirmed the validity and applicability of the Policy<sup>12</sup>, adopted by the Board during the previous mandate<sup>13</sup>, which established that serving as a director or auditor of more than five companies other than those directed and coordinated by Pirelli & C. S.p.A., or controlled by or affiliated with the same company, is not considered compatible with the role of director of the company if the companies are (i) listed companies included in the FTSE/MIB index (or equivalent foreign indices), or (ii) companies that undertake banking or insurance activities; moreover, it is not considered compatible for a director to hold more than three executive positions in companies described in (i) or (ii). Offices held in more than one company in the same group are considered a single office, and executive positions prevail over non-executive ones.

The Board of directors retains the right to form a different opinion, and this will be made public in the annual report on corporate governance, together with the congruent grounds for doing so.

In its 8 March 2011 meeting the Board of Directors, having acknowledged the changes made to the Consolidated Banking Act, including abrogation of the so-called "special list" of retail finance companies (former art. 107 of Legislative Decree 385 of 1993<sup>14</sup>), resolved to implement this change in its policy regarding the maximum number of directorships, which previously included the companies in the list appearing above among the total, and therefore eliminated reference to these companies. At the foot of this Report the document appears containing the Company's Policy regarding the maximum number of directorships Company directors may hold in other companies.

6 After the death of Prof. Berardino Libonati on 30 November 2010, the Board of Directors put off all resolutions until the Shareholders' Meeting in view of the fact that the entire Board's term of office is ending. At the Date of the Report there is therefore one vacant seat on the Board.

7 Slate voting is required under article 10 of the Bylaws.

8 Figure obtained from the Minutes of the 29 April 2008 Shareholders' Meeting, available at the company's website.

9 The minority slate was presented by: ARCA SGR SPA (rubrica Fondo Azioni Italia – Rubrica Fondo Arca BB), BNP PARIBAS ASSET MANAGEMENT SGR SPA (BNL Azioni Italia), MONTE PASCHI ASSET MANAGEMENT SGR SPA (Ducato Geo Italia), PIONEER INVESTMENT MANAGEMENT SGR P.A. (Pioneer Azionario Crescita), PIONEER ASSET MANAGEMENT S.A., EURIZON CAPITAL SGR SPA (San Paolo Azioni Italia – Sanpaolo Italian Equity Risk – Sanpaolo Opportunità Italia – Nextra Rendita), EURIZON CAPITAL S.A. (SPI Obiettivo Industria – SPI Obiettivo Europa – SPI Obiettivo Euro – SPI Obiettivo Italia), FIDEURAM INVESTIMENTI S.G.R. S.p.A. (IMI Italy), FIDEURAM GESTIONS S.A. (Fonditalia Global – Fonditalia Equity Italy – Fonditalia Euro Cyclical – Fideuram Fund Equity Italy – Fideuram Fund Europe Listed Industrials Equity), INTERFUND SICAV (Interfund Equity Italy – Interfund Equity Europe Industrials), AMBER MASTER FUND SPC (Managed by Amber Capital LP).

10 Figure obtained from the Minutes of the April 29 2008 Shareholders' Meeting, available at the company's website

11 Self-Regulatory Code: Criterion of application 1.C.3.

12 The aforementioned Policy is annexed to this Report, and is also available in the Governance section of the Company's website.

13 Board of Directors meeting of 7 November 2007.

14 Changes introduced by Legislative Decree no. 141 of 13 August 2010.



When the Board of Directors was due for renewal, Shareholders who, pursuant to the Bylaws, intended to present slates for the composition of the Board of Directors were invited to examine this document,<sup>15</sup> and this invitation is renewed in relation to the upcoming renewal<sup>16</sup>.

After investigation by the Committee for Internal Control, Risks and Corporate Governance the Board of Directors, in its meeting of 8 March 2011, examined the offices held and reported by the individual directors and determined that all directors hold positions that are compatible with the execution of their office of Director of Pirelli & C. according to the policy on this issue adopted by the Company. In particular, none of the serving directors was found to hold a higher number of offices than the maximum specified in the Policy.

Positions occupied by the directors in major companies other than Pirelli Group companies are annexed to this Report<sup>17</sup>.

#### 4.3. ROLE OF THE BOARD OF DIRECTORS

The Bylaws do not specify a minimum interval between Board meetings. The Company has circulated<sup>18</sup> a calendar that schedules 4 meetings for 2011, specifically:

- 8 March 2011: Board of Directors' meeting to examine the draft financial reports and consolidated financial reports for the year ended on 31 December 2010;
- 6 May 2011: Board of Directors meeting to examine the quarterly report on operations at 31 March 2011;
- 27 July 2011: Board of Directors' meeting to examine the half-yearly financial report at 30 June 2011;
- 3 November 2011: Board of Directors' meeting to examine the quarterly report on operations at 30 September 2011.

Board meetings may take place by means of telecommunication, enabling all parties to participate in the debate, with equal information.

The Board of Directors meetings are convened by means of letter, telegram, fax or e-mail sent to each Director and Statutory Auditor at least five days in advance (or, in urgent cases, at least six hours in advance) of the meeting. Barring exceptional cases, the Directors and the Auditors have always received the necessary documentation

and information with reasonable notice in order to express their informed opinion on the matters submitted to their scrutiny.

In all cases, they have always been provided with complete information on the topics discussed to make sure that they make an informed decision.

##### 4.3.1 Functions of the Board of Directors

As stated, the Board of Directors plays a central role in the corporate governance system of the Company; it has the power to direct and set the policy of the Company.

Pursuant to the Bylaws<sup>19</sup> the Board is vested with the broadest powers, except for those matters remitted by law or the Bylaws to the authority of the Shareholders' Meeting.

The Board of Directors (also in accordance with the recommendations of the Self-Regulatory Code<sup>20</sup>):

- examines and approves the strategic, industrial and financial plans of the Company and the Group;
- formulates and adopts the rules for the corporate governance of the Company, and defines the Group's corporate governance guidelines;
- evaluates the adequacy of the general organisational, administrative and accounting structure of the Company as well as of those subsidiaries of strategic importance as set up by the Managing Directors, with special reference to internal control and the management of conflicts of interest;
- grants powers to the Managing Directors and the Executive Committee (if established) and revokes them; defining their limits, the manner in which they are to be exercised and the frequency, at least quarterly, at which such bodies must report their activities in the exercise of the powers granted them by the Board;
- determines, after having examined the proposals of the Remuneration Committee and consulted the Board of Statutory Auditors, the remuneration of the Managing Directors and of those directors who are vested with special offices and, if the Shareholders' Meeting has not already resolved upon it, allocates the total remuneration to which the members of the Board of Directors are entitled;
- evaluates the general performance of the Company, specifically taking into consideration information received from the delegated bodies, and periodically compares the results achieved with those planned;

The Board of Directors plays a central role in the corporate governance system of the Company; it has the power to direct and set the policy of the Company.

<sup>15</sup> See Call notice for Shareholders' Meeting on 27 March 2008.

<sup>16</sup> See Call notice for Shareholders' Meeting to approve the 2010 Financial Statements.

<sup>17</sup> Self-Regulatory Code: Criterion of application 1.C.2.

<sup>18</sup> 3 November 2010 Press Release.

<sup>19</sup> Article 11 of the Company Bylaws.

<sup>20</sup> Self-Regulatory Code: Criterion of application 1.C.1., lett. a).



- examines and approves in advance all operations involving the Company and its subsidiaries which have a significant impact on the strategy, the profitability, the assets or the financial position of the Company, paying particular attention to situations in which one or more directors act in their own interest or in the interest of third parties, and more generally to transactions with related parties; to this end it establishes general criteria for identifying operations of significant impact;
- at least once a year, evaluates the size, composition and functioning of the Board itself and its Committees, expressing opinions on any professional figures whose presence on the Board it might deem advisable;
- constitutes the Supervisory Body pursuant to Legislative Decree no. 231/2001;
- appoints the General Managers and, subject to the opinion of the Board of Statutory Auditors, the manager responsible for drawing up the company's accounting documents, determining their responsibilities and powers;
- appoints and dismisses the internal control officer and determines their duties and remuneration, after having received the opinions of the Committee for Internal Control, Risks and Corporate Governance and the Board of Statutory Auditors;
- reviews and approves periodic reports prepared according to the applicable legislation;
- approves significant transactions with related parties<sup>21</sup>;
- exercises the other powers and fulfils the responsibilities attributed to this office by the law and Company Bylaws.

Finally, the Board is responsible for overall supervision of the Company's risk assessment and management system. In this regard, the reader is referred to the "Risk Governance" section.

#### 4.4. ACTIVITIES OF THE BOARD OF DIRECTORS

The Board of Directors met 5 times during the year, for an average of two and a half hours each time; meetings were on average attended by 84% of all Directors, and 93% of Independent Directors.

The Lead Independent Director attended all meetings of the Committee for Internal Control, Risks and Corporate Governance (which he chairs) and all Board of Directors' meetings.

1 Board meeting has been held during 2010, up to the Date of the Report.

#### 4.4.1 Evaluation of the general results of operations<sup>22</sup> and strategic plans

In accordance with the law<sup>23</sup> and the Company Bylaws<sup>24</sup>, the Board of Directors evaluated the general results of operations and their predictable future evolution at least once every quarter.

During the year the Board:

- approved periodic financial reports (draft financial report for 2009; intermediate reports on operations in the first and third quarter of 2010 and half-yearly financial report on the first half of 2010). The Board received information on results achieved, comparing them with: (i) historical data; (ii) the goals of the budget, with a focus on any deviation, also in order to constantly assess impact in relation to strategic or planned goals and/or forecasts for subsequent financial periods; with general trends in the sector and in peers for benchmarking purposes.

When examining the draft financial statements, the Board of Directors also took into consideration, as required by the joint Banca d'Italia/Consob/ISVAP document of 4 March 2010, "information on impairment tests to be provided in financial reports". The Board therefore approved the impairment test procedure. For more information on this topic the reader is referred to the supplementary notes to the financial report.

- outlined the 2010 Management Plan and raised the targets announced to the market three times in view of positive trends in the Group.

In November 2010 the Board of Directors acknowledged that the efficacy of actions performed on the basis of the 2009-2011 industrial plan allowed it to achieve its targets for 2011 under the previous industrial plan one year in advance and approved a "new" Three-Year Industrial Plan (2011/2013, 2015 vision), announced to the financial community in Milan on 4 November 2010 and in New York on 8 November 2010; the Company's website contains the presentations prepared for the financial community.

#### 4.4.2 Internal control system and governance system<sup>25</sup>

The Board of Directors assessed the adequacy of the internal control system and, more generally, the governance of the Company and the Group it controls at six monthly intervals.

On the topic of review of governance tools and adapta-

<sup>22</sup> Self Regulatory Code: Criterion of application 1.C.1., lett. e).

<sup>23</sup> Article 150 CFL.

<sup>24</sup> Article 11 of the Company Bylaws.

<sup>25</sup> Self Regulatory Code: Criterion of application 1.C.1., lett. b).

<sup>21</sup> For a definition of significant transactions with related parties, the reader is referred to the "Procedure for Transactions with Related Parties" appearing at the end of this report and published on the Company's website.

tion to new legislation, the Board has approved a number of changes to the Company Bylaws aimed at adapting them to the provisions introduced by Legislative Decree 27/2010 implementing in Italian law Directive 2007/36/CE, aimed at facilitating participation in Shareholders' Meetings of shareholders in listed companies, and Legislative Decree 39/2010 regarding implementation of Directive 2006/43/CE concerning legal auditing of statutory and consolidated accounts.

The Shareholders' Meeting called to approve the 2010 Financial Reports will be asked to consider additional changes implementing in the Company Bylaws some of the powers granted under Legislative Decree 27/2010 to further facilitate shareholders' exercise of their right to attend meetings and vote, even if they live abroad. The reader is referred to the Management Report for information on the changes to the Company Bylaws, published on its website.

Moreover, the Board approved a number of changes to the Group's Policy to complete it with new considerations which were already concretely implemented but are now expressly addressed in the updated Policy. The updated Policy may be found on the Company's website, along with the Code of Ethics of the Pirelli Group. The reader is referred to the Code of Ethics, Policy and Organisational Model 231.

During the year the Board approved the Procedure for Transactions with Related Parties, also in order to implement Consob's 2010 regulations. For more information on the "new" Procedure for Transactions with Related Parties the reader is referred to the Directors' Interests and Transactions with Related Parties Section.

During the year the Board replaced Deputy Chairman Puri Negri, who had resigned, in accordance with article 2386 of the Civil Code, appointing Vittorio Malacalza to replace him, and decided to put all decisions consequent upon the death of Prof. Libonati (on 30 November 2010) to the Shareholders' Meeting in view of the imminent expiration of the entire Board's term of office. Moreover, the Board identified Maurizio Sala as one of the directors with strategic responsibility for the Company in view of his tasks and powers and his contribution to preparation of the 2011/2013 Industrial Plan and future contribution to its implementation.

The Board discussed the latest developments in the lawsuit involving former employees of the Security Department, which has been kept under constant scrutiny by the Board of Directors and the Committee for Internal

Control, Risks and Corporate Governance, along with the Board of Statutory Auditors and the Supervisory Body. As in the reports on corporate governance in the years 2006, 2007, 2008 and 2009, we shall report on this lawsuit in this Report.

As already noted in the 2009 Corporate Governance Report, the Board, in response to the proposal made by the Committee for Internal Control, Risks and Corporate Governance, aided by highly qualified professionals, carefully weighed and approved the decision to file a demand for application of the sentence on request of the parties, having reached an agreement with the Public Administrations involved for complete definition of all forms of responsibility.

The *Procura* (Criminal Court) has expressed its approval of the Company's demand and the Judge in the Preliminary Hearing pronounced a decision in favour of a "plea bargain" with a sentence that has become *res iudicata*.

The Board was also informed of the sentence pronounced by the Judge in the Preliminary Hearing regarding the other accused, and particularly the pronouncement of acquittal in relation to the accusation of embezzlement of Company funds by its former employees, in relation to which the Company is a civil claimant. The Board of Directors acknowledges that the acquittal has been appealed by the Public Prosecutor in the Court of Appeal.

The Company has filed its own appeal in relation to those defendants who did not file a plea-bargain, but could not appeal the pronouncement of acquittal for the other defendants (including the former Company employees) as this is not permitted under current penal court proceedings.

The Company is continuing the civil lawsuits filed against the suppliers of security services involved in the investigations with the aim of obtaining repayment of amounts paid for services which have been acknowledged as not provided or as being illegal.

The Board has been informed of the news appearing in the press regarding the alleged responsibility of former company managers and notably the Board's former Chairman, now the Company's Chairman and majority shareholder, discrediting this person and damaging the Company's image. The Board confirmed its faith in its Chairman and resolved to take all measures necessary to defend the Company's interests.

Finally, note that in its 8 March 2011 meeting, agreeing with the considerations of the Committee for Internal Control, Risks and Corporate Governance, the Board of Directors proceeded to evaluate the company's overall

## A Long Term Incentive Plan 2011/2013

organisational, administrative and accounting set-up and expressed a positive opinion of the Company's internal control system and the corporate governance system used in the Company and the Group in general<sup>26</sup>.

#### **4.4.3 Remuneration of directors invested with particular offices<sup>27</sup>**

During the year the Board examined and approved, in response to the Remuneration Committee's proposal, proposals for the incentives plan for Directors invested with particular offices to whom specific powers have been delegated and Executives with strategic responsibilities and verification and reporting on incentives and annual targets for 2009.

On the occasion of the "launch" of the new Industrial Plan, the Board defined a "new" long term incentive plan (referred to as the 2011/2013 Long Term Incentive Plan) to "support" achievement of the targets in the "new" Industrial Plan.

Lastly, in its 8 March 2011 meeting the Board approved the Remuneration Committee's proposal regarding the General Remuneration Policy submitted to the advisory vote of the Shareholders' Meeting called to approve the 2010 financial reports and the Report for the year 2010. For more information on issues relating to remuneration, the reader is referred to the "Remuneration Policy" section and to the Report, which appears at the end of this Report.

#### **4.4.4 Transactions with a significant impact on the strategy, profitability, assets or financial position of the Company<sup>28</sup>**

The Board, while retaining its powers and responsibilities under the law and the Company Bylaws and its structure of powers and internal procedures, has determined that the Board of Directors has the power to approve in advance a number of deeds and transactions not within the group (determined on the basis of qualitative criteria and quantitative thresholds) when performed by Pirelli & C. or by Italian or foreign companies which are not listed on the stock exchange and are subject to the direction and coordination of Pirelli & C.<sup>29</sup>.

In this regard, the Board of Directors approved the principal transactions conducted during the Financial Year. The Board examined and approved the plan for separation of the real estate sector (Pirelli RE) from the Pirelli

Group. The Board found that the separate of Pirelli RE falls within the context of the management rationalisation and optimization measures adopted in 2008, which continued throughout 2009, as well as during the strategic course outlined with the three-year 2009-2011 industrial plan focusing on core industrial activities in the tyres sector.

The operation resulted in separation of the activities performed by Pirelli RE from others performed by the Pirelli Group in order to focus the Company's activities on the tyre sector and permit Company shareholders who already indirectly own shares in the Real Estate business to become direct owners of Pirelli RE shares.

The Board of Directors considered that the Pirelli Group concentrated a variety of different activities in its corporate structure, already handled separately by Pirelli & C. and Pirelli RE, limiting the Pirelli Group's strategic and financial flexibility, especially in the tyre business, and that this was not appreciated by the market, which prefers to see separation of activities in different market sectors. By separating the activities performed by Pirelli RE, the Board completed the process of focusing on core industrial activities in the tyres industry.

The Board therefore approved a new five-year revolving line of credit totalling 1.2 billion euro destined to replace the existing lines of credit; the new line of credit is one of the actions aimed at optimising the structure of the company's debts by lengthening the average term of the debt and diversifying sources of financing.

The Board also considered transfer of the entire share capital of Pirelli Broadband Solutions, also in the context of its declared strategy of focusing on Pirelli's core business in Tyres.

The Board of Directors also authorised the issuing of a bonded loan for subscription exclusively by qualified investors in order to optimise the group's debt structure through diversification of sources of financing and the average term of loans. Specifically, the Board approved the issuing of non-convertible bonds up to a maximum face value of 800 million euro, to be sold, possibly in multiple instalments, on the Eurobond market and listed on the stock exchange in Luxemburg or another regulated market. In implementation of the above, in February 2011 Pirelli & C. offered international institutional investors a bonded loan with a total face value of 500 million euro<sup>30</sup>. Lastly, the Board of Directors discussed Pirelli's return to Formula 1 as exclusive tyre supplier and its launch on the Russian market.

The Board discussed the agreement reached between Pirelli, Russian Technologies and Sibur Holding to come up with an agreement for development of joint activities in the sectors of tyres, steel cord and the supply and high-tech production of synthetic rubber products in Russia. The agreement lays the foundations for jointly beginning

<sup>26</sup> In this regard the reader is referred to the next section, "Committee for Internal Control, Risks and Corporate Governance".

<sup>27</sup> Self Regulatory Code: Criterion of application 1.C.1., lett. d).

<sup>28</sup> Self Regulatory Code: Criterion of application 1.C.1., lett. f).

<sup>29</sup> In this regard the reader is referred to the "General criteria for identification of transactions with a significant impact on the strategy, profitability, assets or financial position of the Company" appearing in an up-to-date version on the Company's website and at the end of this Report.

<sup>30</sup> See 10 February 2011 press release for more details of the issue.

a process of rationalisation and reorganisation of tyre activities under Sibur Holding, one of Russia's biggest petrochemical groups. The agreements provide for a reorganisation process aimed at selecting Sibur Russian Tyres asset to be conferred on two joint ventures established by Pirelli and Russian Technologies. The selection will be made on the basis of guidelines and business plans shared by the three partners. The agreement will help create synergies between the automotive sector, the tyre sector and the synthetic rubber sector in Russia, improving the supplies available to customers and the international competitiveness of Russia's tyre and automotive industries. The partnership between Russian Technologies, Sibur and Pirelli will also support growth in the Russian automotive and tyre industries and attract new investment to the tyre sector, permitting production of high-tech, high quality, modern products for both industries. The agreement will allow Pirelli to have its own plants in the Russian Federation.

Finally, also note that the "procedure regarding information flows to Directors and Auditors"<sup>31</sup> requires general information on the activities performed to be completed with specific detailed information, also including operations with a significant impact on the profitability, assets or financial position of the Company.

#### 4.4.5 Transactions with related parties

For information on transactions with related parties, the reader is referred to the section on "Directors' interests and transactions with related parties".

#### 4.4.6 Board performance evaluation

Since 2006 the Board of Directors has performed a self-evaluation of its performance (referred to as a "Board performance evaluation"), thus adhering to international best practice and implementing the recommendations contained in the Self-Regulatory Code<sup>32</sup>.

In 2010, in response to the proposal of the Committee for Internal Control, Risks and Corporate Governance and in view of the positive experience of the previous years, the Board confirmed the structure of the self-evaluation process used in the past.

The self-evaluation process was conducted with the aid of a prominent consulting firm (Spencer Stuart) which assisted the Committee for Internal Control, Risks and Corporate Governance in preparation of the evaluation methods and reporting on the results.

In line with the most widely tested practice, the self-evaluation process was implemented through direct interviews with individual Board members or, alternatively,

allowing Board members to provide written answers to a specific questionnaire (which was also used as a guide for the interviews).

Considering the good results that had emerged from the preceding self-evaluations, the changes in organisation and governance and the expiration of the Board's term of office with the approval of the 2010 Financial Reports, the Board decided to:

- further simplify and streamline a number of aspects which are not expected to produce any further useful information to be brought to the Board's attention;
- study how Board decisions are made; the Committees' analysis focuses in particular on the following issues characterising the year 2010:
  - the process of separation of Pirelli RE (Prelios) from the Pirelli Group
  - the Company's crisis management
  - risk evaluation and monitoring
- analyse the efficacy of the division of tasks among the Board and the Committees in order to determine the level of satisfaction and collect any possible suggestions as to how to improve all Directors' involvement in their work;
- promote reflection on the role and function of Independent Directors by the Board;
- ensure continuity of self-evaluation by bringing to the Directors' attention a number of issues which emerged during the last year's self-evaluation and checking on the improvements implemented.

The questionnaire included the following sections:

- "corporate governance" section in which Directors are asked to make general qualitative comments on the Company's Corporate Governance, identifying strong points and areas requiring improvement;
- "Board and Company" section aimed at determining how Directors perceive (i) effective exercise of powers of guidance and control by the Board in relation to Company organisation and business in general, with a specific focus on the principal operations performed during the year (*i.e.* separation of the real estate sector, reaction to the effects of world-wide financial crisis, evaluation and monitoring of the risk governance system); (ii) handling of situations involving a potential conflict of interest; (iii) perception of the role and activities of independent directors in general and specifically of the Lead Independent Director; (iv) the adequacy of the Board's composition, in terms of the mix of skills present;
- "Committees" section for understanding how Directors (separately Committee members) perceive the role and efficacy of the Committees set up within the Board;
- "Directors" section for determining how Directors' concrete activities are perceived;
- "Self-evaluation process" section for determining

<sup>31</sup> The "procedure regarding information flows to Directors and Auditors" appears at the end of this Report and is available in the Governance section of the Company's website.

<sup>32</sup> Self-Regulatory Code: Criterion of application 1.C.1., lett. g).

whether the Directors think the comments and proposals emerging from the previous year's self-evaluation have been translated into concrete programmes which have been implemented.

The Directors interviews were asked to express a judgement on four levels and offer any comments they may have. The results were analysed in depth by the Committee for Internal Control, Risks and Corporate Governance and then submitted to the Board of Directors in its meeting on 8 March 2011.

The self-evaluation confirmed the strong points noted in previous self-evaluations. It was specifically noted that the Board's members offered a high professional, managerial and academic level. In addition, the majority of Directors stated that the Board exercised its powers of guidance and control in a way that was more than adequate.

The Directors confirmed the evaluation of appreciation of the working meetings they had with top management to examine in depth certain specific business issues, confirming the importance of repeating what has become a consolidated, profitable practice.

The Board expressed its special appreciation of the work of the Committees, and particularly the Committee for Internal Control, Risks and Corporate Governance, and for of the role played by the Lead Independent Director, considered an effective facilitator of reporting for all the Independent Directors.

On the Board's role in the principal operations performed in the year, it is reported that the Board was completely involved in the analysis and decisions made in relation to the separation of Prelios (rectius: Pirelli RE) from the Pirelli Group.

Similarly, they expressed a positive opinion of the way in which the Board dealt with crisis in world economies. The Directors particularly appreciated the Board's promptness, efficacy and involvement in key strategic and organisational decisions.

Lastly, they confirmed last year's positive judgement of "risk governance" solutions, suggesting more direct involvement of individual Board members. It was suggested that in 2011 it would be a good idea to assess the efficacy of the Company's quantitative analytic apparatus.

Directors offered a number of suggestions for further improvement of Board dynamics, underlining the importance of active participation of all Directors in individual meetings. They noted the importance of maintaining the Board's role as the place for discussion of the Group's most important strategic choices, also through assessment of different alternatives.

Lastly, in view of the imminent end of the Board of Directors' term, it was suggested that following the renewal of the Board, "induction" sessions might be held to further reinforce the knowledge of the Directors (both newly elected and already in office) of the activities, organisation and strategic positioning of the Company and the Group.

#### 4.4.7 Article 2390 of the Civil Code

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The last subsection of article 10 of the Bylaws provides that, unless otherwise deliberated by the Shareholders' Meeting, the Directors are not bound by the competition prohibition contained in article 2390 of the Civil Code.

### 4.5. DELEGATED BODIES

#### 4.5.1 Chairman

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Pursuant to the Bylaws, the Board of Directors appoints its Chairman where the Shareholders' Meeting has not done so. The Board of Directors appointed Marco Tronchetti Provera as Chairman in its meeting of 29 April 2008. Once more, the entire Board's term of office ends with approval of the 2010 Financial Reports.

The Chairman is the legal representative of the Company, empowered to perform any action pertinent to corporate activity in its various manifestations.

Chairman Marco Tronchetti Provera is responsible for the following organisational functions:

- relations with shareholders and information provided to them;
- formulation of the general strategies and development policy for the Company and the Group, and any extraordinary corporate actions, to be submitted to the Board of Directors;
- proposals for the appointment of members of the General Managers' departments and, after consulting the Remuneration Committee, for their remuneration, to be submitted to the Board of Directors;
- chairmanship of any Management Committees with strategic functions instituted;
- coordination of the activities of Managing Directors, where appointed;
- all forms of communication with the market, with the power to delegate to Managing Directors, where appointed.

The Board of Directors has identified the limits to the powers it confers, which have been defined as the inner limits of the relationship between the delegating body of the Board and the subject with delegated powers. In particular, the following inner limits have been identified for the Chairman: the power to issue guarantees for Company and subsidiary bonds having individual values of more than Euro 25 million, or for third parties regarding bonds with individual values of more than Euro 10 million; in the latter cases the signature of the Chairman must be accompanied by that of another legal representative with similar power (in particular of "managers with strategic business responsibilities").

#### 4.5.2 General Managers and other Managers

In its meeting on 16 September 2009, the Board of Directors of the Company approved a new organisational structure for the Group. Coherently with the strategy of focusing on its core business, the Company decided to simplify its organisational structure and group all activities that directly support the core business in the “Tyre” Division, headed by Dr. Francesco Gori, who continues to act as CEO of Pirelli Tyre.

The following persons are qualified as managers with strategic business responsibilities in that they have the power to take management decisions that can affect the evolution and future prospects of the business: Francesco Gori, Tyre General Manager, Francesco Chiappetta, Group General Counsel and Chief of General and Corporate Affairs, Francesco Tanzi, Chief Financial Officer

and Officer responsible for the preparation of the company accounting documents and starting in 2010, as stated, Maurizio Sala, Chief of Management Control for the group.

Powers pertaining to their specific assigned functions have been granted to the aforementioned officers with strategic business responsibilities.

Less broad powers have been granted to other Managers of the Company to be used in their individual spheres of competence.

#### 4.5.3 Information to the Board

Pursuant to the law<sup>33</sup> and the Company Bylaws<sup>34</sup>, the Board of Directors and the Board of Statutory Auditors are kept informed about the performance of the Company, its general management, its prospects, and the transactions with greatest impact on its profitability, financial position or assets and liabilities carried out by the Company or its subsidiaries.

For the Company believes that providing the Directors with complete information is essential for the proper exercise of their tasks and responsibilities in management, guidance and control inherent in the posts of Director and Statutory Auditor.

For this reason Directors and Statutory Auditors continually receive information from Executive Directors with the aim of ensuring the transparency of company management; guaranteeing the conditions for efficacious, effective guidance and control of the Company’s activities and operation of the business by the Board of Directors

and providing the Board of Statutory Auditors with the information needed to perform its role efficiently.

Delegated bodies report on any transactions in which they may have an interest, on their own account or on behalf of third parties. Such reports are made promptly and at least once every three months, on occasion of meetings of the Board of Directors and the Executive Committee – if appointed – in a written note.

To foster the orderly organisation of the flow of information, the Company developed a specific procedure, in use since July 2002, which clearly defines the rules to follow to comply with the information reporting obligations.

In its meeting on 29 April 2008, the Board of Directors confirmed the procedure on information flows adopted by the Board during its previous mandate. The Procedure was updated partly in order to take into account the new developments introduced in

its company regulations by the Procedure for Transactions with Related Parties.

The purpose of the procedure is to regulate and coordinate the various types of data flowing to Directors Statutory Auditors, so that they all have the common aim of making the data needed to properly fulfil their directional, policy and control responsibilities continuously available to the Board.

The updated version of the Procedure on information flows to Directors and Auditors appears at the end of this Report and on the Company’s website.

The Company’s Board of Directors has included a sufficient number of Independent Directors to represent the absolute majority of its members.

#### 4.6. OTHER DIRECTORS

The Board of Directors considers that the Chairman of the Board of Directors, Marco Tronchetti Provera, and the Deputy Chairman Alberto Pirelli, are executive directors, the latter by reason of his operative posts in the subsidiary Pirelli Tyre.

In accordance with the recommendations of the Self-Regulatory Code<sup>35</sup> and with what is now consolidated practice in the company, in order to increase all Directors’ knowledge of the reality and dynamics of the company, several working lunches were organised during the year to examine specific business and corporate governance issues in greater detail.

The Company has a plan for orientation of any new Directors who may be elected in the upcoming renewal of the Board of Directors through distribution of material and meetings with members of Senior Management in order to become familiar with the Group and with its cor-

<sup>33</sup> Article 150, subsection one, of the CFL.

<sup>34</sup> Article 11 of the Company Bylaws.

<sup>35</sup> Self-Regulatory Code: Criterion of application 2.C.2.

porate governance tools, organisational structure, executive compensation, plans for industrial growth, control system and financial reporting.

The Company has also planned in-depth study during the course of their mandate through working lunches and visits to productive units.

#### 4.7. INDEPENDENT DIRECTORS

The Company's Board of Directors has for some time included a sufficient number of Independent Directors to represent the absolute majority of its members.

At the time of their appointment and once a year subsequently, the Board assesses the continuation of the requirements of independence identified in the Self-Regulatory Code and the CLF for non-executive Directors qualified as Independents.

In the light of a substantial evaluation of the information provided by the Directors and that available to the Company, the Board of Directors, in its meeting on 8 March 2011, confirmed that the directors who have been qualified as independent, also in terms of the requisites of the CFL (Carlo Acutis; Carlo Angelici; Cristiano Antonelli; Alberto Bombassei; Franco Bruni; Luigi Campiglio; Umberto Paolucci; Giampiero Pesenti; Luigi Roth and Carlo Secchi), continue to maintain these requisites.

A further seven Board members (Deputy Chairman Vittorio Malacalza and Directors Gilberto Benetton; Enrico Tommaso Cucchiani; Giulia Maria Ligresti; Massimo Moratti; Renato Pagliaro and Giovanni Perissinotto) could be qualified as "non-executive directors".

It follows that independent directors represent the majority (55%) of serving directors and approximately 2/3 of the total number of "non-executive directors". The average age of the independent directors is just over 68.

In line with the recommendations of the Self-Regulatory Code<sup>36</sup>, the Board of Statutory Auditors has checked that the criteria and ascertainment procedures adopted by the Board to assess the independence of its members are properly applied.

The Board of Directors identifies its directors' independence in terms of freedom from relations with the Company and/or its principal shareholders and executives which might influence their judgement.

The Board performed this assessment based on the requirements recommended by the Self-Regulatory Code<sup>37</sup>, and thus directors may not – as a rule – be considered independent:

- a) if they, directly or indirectly, including on behalf of subsidiaries, trust companies or through third parties, control Pirelli & C. or are able to exercise considerable influence on the company, or are a partici-

pant in a shareholder agreement through which one or more subjects can exercise control or a significant influence on Pirelli & C.;

- b) if they are or have been in the past three financial years a prominent exponent<sup>38</sup> of Pirelli & C., or one of its strategic subsidiaries or a company owned by the same shareholders as Pirelli & C., or a company or body that, alone or together with others in accordance with shareholders' agreements, control Pirelli & C. or are able to exercise considerable influence on it;
- c) if, directly or indirectly (e.g. through subsidiaries or bodies in which they are prominent exponents, or as a partner in a professional studio or consulting firm), they have, or had in the previous financial year, a close business, financial or professional relationship with:
  - Pirelli & C., one of its subsidiaries, or any related prominent exponent thereof;
  - a subject who, alone or with others in a shareholders' agreement, controls Pirelli & C., or – in the case of a company or body – with prominent exponents of said body; or
  - is or has been an employee of one of the above-mentioned subjects within the previous three financial years;
- d) if receive, or have received in the past three financial years, from Pirelli & C. or one of its subsidiaries, a substantial bonus in addition to their "fixed" salary as non-executive director of Pirelli & C., including performance-based incentive plans, including share options;
- e) if they have been a director of Pirelli & C. for more than nine years of the past twelve;
- f) if they are an executive director in another company in which an executive director<sup>39</sup> of Pirelli & C. is a director;
- g) if they are a partner or director of a company or body belonging to the company mandated to audit the accounts<sup>40</sup> of Pirelli & C.;
- h) if they are a close family member of a person that finds themselves in one of the situations described above.

##### 4.7.1 Meetings of the independent directors

In accordance with the requirements of the Self-Regulatory Code<sup>41</sup>, the independent directors met 4 times during the financial year in the absence of the other directors. In the first place, the independent directors discussed issues in the Company's corporate governance system,

38 The following may generally be considered "prominent exponents" of a company or body: the chairman of the body, the legal representative, the chairman of the Board of Directors, the executive directors and managers with strategic responsibilities in the company or body considered.

39 The executive directors of the issuing company are: Chairman Marco Tronchetti Provera and Vice Chairman Alberto Pirelli.

40 The company appointed to audit the accounts of Pirelli & C. is Reconta Ernst&Young S.p.A., a member of Ernst&Young network (See Section 12.4)

41 Self-Regulatory Code, Criterion of application 3.C.6

36 Self-Regulatory Code, Criterion of application 3.C.5

37 Criterion of application 3.C.1. and 3.C.2.



again confirming, for the 2010 financial year, the particular attention they pay to the system used for the self-evaluation of the Board of Directors and the remuneration mechanisms for the Senior Management of the Company, as well as making a valuable contribution to the evaluations of the General Remuneration Policy.

The independent directors specifically examined the new regulations governing transactions with related parties and their implementation in the Company, making a valuable contribution to the definition of the Procedure for Transactions with Related Parties adopted by the Company.

At a meeting also attended by the other non-executive Directors, the Chairman of the Board of Directors and the Tyre General Manager, the independent directors discussed the issue of “risk governance” in the Company in order to monitor effective implementation of the new “Pirelli Risk Model” and particularly analysed the reasons for and impact of volatile raw materials prices on the Group’s results and the consequent plans of action.

During 2011 one meeting of the independent directors has already been held, during which the directors discussed the Remuneration Policy approved by the Remuneration Committee, the Group’s organisational structure and the results of board performance evaluation.

#### **4.7.2 Role of independent directors on committees**

The Company has always considered the independent directors’ monitoring role essential for ensuring effective performance of the top management and supervisory functions typical of the Board of Directors.

For this reason too, the Board of Directors has always recognised the central role of independent directors on the Committees set up by the Board.

Ever since they were first established, the existing Board Committees (the Remuneration Committee and the Committee for Internal Control, Risks and Corporate Governance) have included only independent directors.

#### **4.8. LEAD INDEPENDENT DIRECTOR**

In November 2005, to further extend the role of the independent directors, the Board of Directors decided to introduce a Lead Independent Director.

The Lead Independent Director (identified as Independent Director Carlo Secchi, Chairman of the Committee for Internal Control, Risks and Corporate Governance) is the key figure for coordination of the requests and contributions made by independent directors.

In this role, the Lead Independent Director has the option of calling meetings of independent directors specifically to discuss the issues considered of interest in relation to the functioning of the Board of Directors or management of the company.

The Lead Independent Director serving as of the Date of the Report attended all meetings of the Board of Directors and the Committee for Internal Control and Corporate Governance.

## **5. HANDLING OF COMPANY INFORMATION**

### **5.1 INTERNAL MANAGEMENT AND DISCLOSURE OF DOCUMENTS AND INFORMATION**

Market transparency and clear, correct and complete information are the values upheld by the conduct of the corporate bodies, the management and all those who work for the Pirelli Group.

In March 2006 the Board of Directors adopted a specific Procedure for the management and communication to the market of sensitive information that, taking account of the regulations on market abuse, governs the management of sensitive information on Pirelli & C., its unlisted subsidiaries and the listed financial instruments of the Group. This procedure applies to all members of corporate bodies, employees and external collaborators of Group companies that might have access to information that could evolve into sensitive information.

This procedure also applies as instructions to all subsidiaries, in order to obtain from them, without hesitation, the necessary information for the timely and proper fulfilment of financial reporting obligations.

In accordance with the legal provisions, the Procedure defines:

- the requisites and responsibilities for classifying sensitive information;
- the arrangements for tracing access to sensitive information in transit;
- the tools and rules to protect the confidentiality of sensitive information in transit;
- the operational arrangements for the disclosure of sensitive information to the market and, in general, on communications with the public and/or analysts and investors.

The updated version of the procedure appears at the end of this Report and on the Company’s website also disciplines the institution of a register of persons with access to sensitive information, also in operation since 1 April 2006.

### **5.2 INSIDER DEALING**

Matters regarding the transparency of transactions involving Company shares or financial instruments linked to them, made directly or by third parties by relevant persons or by persons closely related or linked to them (*i.e.*



insider dealing) are currently fully governed by law and by the Consob implementation regulations.

Pursuant to the law, Directors and statutory auditors of the issuing company, as well as “persons who carry out management [...] functions in a listed issuing company and managers that have regular access to sensitive information [...] and have the power to make management decisions that could affect the performance and future prospects of a listed issuing company” and others are obliged to disclose to the market any insider dealing transactions made on Company shares or financial instruments linked to these shares having a value of more than Euro 5,000 annually.

The Company opted to identify its “managers with strategic responsibilities” as these managers<sup>42</sup>.

Though not required to do so by law, the Board of Directors decided to confirm in accordance with the previous mandate, blackout periods<sup>43</sup> for the persons mentioned above who must adhere to insider dealing regulations, who must therefore abstain from transactions in Company shares or financial instruments linked to these shares in these periods. These periods may, moreover, be extended or suspended by the Board of Directors in exceptional cases.

## 6. BOARD COMMITTEES

The Committees set up in the Board are entrusted with investigation, advance and/or consultation in relation to issues particularly requiring in-depth study to ensure effective, informed discussion of opinions.

In Pirelli, in line with best practices, it is consolidated practice for the Board to officially define the specific committee’s tasks and powers when setting it up (in a written charter) and publish them on the Company’s website, reporting on them in this Report.

The Board of Directors set up two committees in its next meeting (29 April 2008): the Committee for Internal Control, Risks and Corporate Governance<sup>44</sup> and the Remuneration Committee. The Committees are made up entirely of independent directors.

The composition of Board Committees is shown in Table no. 4.

42 These are Messrs F. Gori, F. Chiappetta, F. Tanzi and M. Sala. In this respect, please see the “Delegated Bodies” and “General Managers and other Managers” sections.

43 The blackout periods procedure appears at the end of this Report, and is available on the Company’s website.

44 Name effective from 1 September 2009, replacing the previous name of “Committee for Internal Control and Corporate Governance”.

## 7. APPOINTMENTS AND SUCCESSION COMMITTEE – STRATEGIES COMMITTEE

The Board of Directors has not so far established a committee charged with appointing directors, since the conditions envisaged by the Self – Regulatory Code for its establishment do not exist, also because of the current ownership structure and, above all, because of the capacity of the slate system to attribute transparency to the selection and nomination of candidates.

Moreover, it has given the Committee for Internal Control, Risks and Corporate Governance the power to identify candidates to propose to the Board in the event that an Independent Director be co-opted pursuant to article 2386, subsection 1 of the Civil Code.

In its 8 March 2011 meeting, the Board of Directors, taking into account studies conducted with the aid of the aforesaid Committee for Internal Control, Risks and Corporate Governance, resolved to recommend to the Board of Directors appointed by the Shareholders’ Meeting called to approve the 2010

Financial Reports that it consider setting up an Appointments Committee, which need not necessarily be composed

entirely of independent directors and which would have among its tasks:

- definition of “emergency” plans for the replacement of:

- the CEO;
- the General Manager.

The Committee must establish the necessary steps and the requirements for identification (in the company or elsewhere) of professional figures who could replace these officers in the event of an “emergency”;

- identification of the criteria for possible plans to replace Top and senior Management in order to ensure continuity in business strategies.

The Board of Directors and the Committee for Internal Control, Risks and Corporate Governance assessed the growing importance for the Company and the market of the Board’s direct involvement in determination of succession policies, (i) not only in the event of natural replacement of executive directors in which shareholders’ decisions have a major impact but (i) of top and senior management succession in order to monitor the strategies implemented by the Human Resources Department to ensure continuity in management.

The Board has recommended to set up an Appointments Committee and a strategies Committee

In this regard, the reader is referred to the “Succession Plan”.

The Board also recommended that the Board of Directors appointed by the Shareholders’ Meeting for approval of the 2010 Financial Reports consider setting up a Strategies Committee to provide the Managing Director and the Board of Directors as a whole with support in terms of consultation and advice and on the whole for definition of strategic guidelines for the business and identification and definition of the terms and conditions of transactions of strategic importance.

The Committee is specifically to examine the Group’s multi-year strategic plans before they are submitted to the Board of Directors for approval.

## 8. REMUNERATION COMMITTEE

### 8.1 COMPOSITION

The Board established the “Remuneration Committee”, a subcommittee from among its members, charged with fact-finding, advising and recommending functions, in the year 2000.

Going beyond the recommendations of the Self-Regulatory Code<sup>45</sup>, the members of the Remuneration Committee appointed by the Board of Directors in its meeting on 29 April 2008 (Directors Berardino Libonati, Alberto Bombassei and Giampiero Pesenti) and in its meeting on 29 July 2009 effective from 1 September 2009 (Director Umberto Paolucci) are all independent directors.

As a result, at the Date of the Report, taking into account the death of Prof. Libonati on 30 November 2010, the Remuneration Committee is composed as follows<sup>46</sup>:

- Alberto Bombassei;
- Giampiero Pesenti
- Umberto Paolucci.

The Secretary of the Board of Directors, Anna Chiara Svelto, acts as Secretary to the Committee.

### 8.2 TASKS ASSIGNED TO THE COMMITTEE

In line with the recommendations of the Self-Regulatory Code, the Board of Directors confirmed the fact-finding and advisory role of the Remuneration Committee.

Specifically, the Remuneration Committee:

- formulates proposals to the Board for the remuneration of the managing directors and those persons who hold certain offices to ensure that their remuneration is aligned with the objective of shareholder

value creation in the medium-long term;

- periodically evaluates the remuneration criteria for the top management of the Company and, as requested by the managing directors, formulates proposals and recommendations, with specific reference to the adoption of possible stock option plans or assignment of shares;
- monitors application of the decisions made by the competent bodies and company policies regarding remuneration of top management.

Note that the Board of Directors assigned the tasks of the Committee for Transactions with Related Parties as required by the aforesaid procedure to the Remuneration Committee, limited only to “transactions” with related parties in the area of remuneration of directors and executives with strategic responsibilities in the company.

The Procedure for Transactions with Related Parties specifies that the Procedure itself adopted by the company does not apply to deliberations regarding remuneration of directors and managers with strategic responsibilities provided that (i) the Company has adopted a remuneration policy which includes policies for agreements to mutually cease relations; (ii) a committee, made up exclusively of non-executive directors, most of whom independent, was involved in defining such remuneration policy (the Remuneration Committee); (iii) a report setting out the remuneration policy was submitted to the Assembly’s advisory vote; (iv) the remuneration granted is consistent with this policy. For more information the reader is referred to the “General Remuneration Policy” appearing at the end of this Report.

### 8.3 OPERATION

The Committee – which may also request the assistance of external consultants in fulfilling its mandate – meets whenever its Chairman deems it appropriate or when a meeting has been requested by another member of the committee or by a Managing Director.

The whole Board of Statutory Auditors<sup>47</sup> and, if deemed appropriate and at the invitation of the Committee, other Company and/or Group representatives, as well as representatives of the External Auditors attend the meetings of the Committee. All meetings are attended by the Group General Counsel e by Chief People Officer.

In line with the recommendations of the Self-Regulatory Code<sup>48</sup> and with best practice, directors vested with special offices do not attend Remuneration Committee meetings.

The information and documents available and required for informed deliberation of the topics submitted to the

<sup>45</sup> Self-Regulatory Code Principle 7.P.3 states that the remuneration committee must be composed solely of non-executive directors, the majority of whom must be independent.

<sup>46</sup> The reader is referred to Table 4 for more details.

<sup>47</sup> This circumstance characterises the corporate governance rules adopted by the Company, and offers the whole Board of Statutory Auditors the opportunity to directly oversee Committee activities and perform its control function more effectively.

<sup>48</sup> Self-Regulatory Code: Criterion of application 7.C.4.

committee have always been circulated to members sufficiently in advance.

The meetings of the Remuneration Committee are regularly recorded in minutes by the secretary and transcribed into a specific register<sup>49</sup>.

The Committee also has the right<sup>50</sup> to access company departments and information as necessary for the execution of the tasks assigned to it, making use of the support of the Secretary of the Board of Directors.

The Committee has adequate financial resources for the performance of its duties with independent spending powers.

#### 8.4 ACTIVITY DURING THE FINANCIAL YEAR

During 2010 the Remuneration Committee met twice; the meetings lasted on average about one hour; the tables at the end of this Report show members' attendance of Committee meetings during the financial year.

During the financial year the Committee examined - and formulated its proposals to the Board - the fixed and variable pay package of the Chairman, and evaluated those of managers with strategic responsibilities, and specifically of the Tyre General Manager, the Group General Counsel and the Director of General and Corporate Affairs and the Director of Finance, agreeing on the criteria for their determination. The Committee developed its analyses with the aid of leading consulting firms in the field of executive compensation (Towers Watson and Hay Group). The analysis was developed taking data published by Italian and international industrial groups considered comparable in terms of organisational structure and/or industrial sector and/or capitalisation into account.

The Committee examined and approved in advance the "new" long term incentives plan referred to as LTI 2011/2013, adopted to support the 2011/2013 Industrial Plan, subsequently approved by the Board of Directors. The reader is referred to the Report on Remuneration appearing at the end of this Report for more information in this regard.

During 2011, up to the Date of this Report, the Committee has met once, approving the budget for the annual variable remuneration of the Chairman and managers with strategic business responsibilities for the results achieved in the 2010 financial year and approving the General Remuneration Policy, afterwards approved by Board of Directors, put to the vote of the Shareholders' Meeting for approval of the 2010 Financial Reports and shown at the end of this Report.

49 Also in accordance with the recommendations of the Self-Regulatory Code: Criterion of application 5.C.1., lett. d).

50 Also in line with the provisions of the Self-Regulatory Code: Criterion of application 5.C.1., lett. e).

## 9. GENERAL REMUNERATION POLICY

The Company defines and applies a General Remuneration Policy to attract, motivate and retain people who possess the professional qualities required to profitably achieve the Group's objectives.

The Policy is defined in a way which aligns the interests of Management with those of shareholders, pursuing the primary goal of creating value in a way which is sustainable in the medium to long term through creation of strong links between remuneration, individual performance and Group performance.

The Policy was defined in a clear, transparent process in which a central role was played by the Remuneration Committee and the Company's Board of Directors.

At the end of this Report the reader will find not only the Company's General Remuneration Policy for 2011 but a **Report on Remuneration in 2010**.

## 10. THE COMMITTEE FOR INTERNAL CONTROL, RISKS AND CORPORATE GOVERNANCE

### 10.1 COMPOSITION

The Board of Directors established<sup>51</sup> the "Committee for Internal Control and Corporate Governance" in 2000, and renamed it the "Committee for Internal Control, Risks and Corporate Governance" on 1 September 2009. In line with the best corporate governance practice, the Committee, appointed by the Board of Directors in its meeting on 29 April 2008 (composed of Carlo Angelici, Franco Bruni and Carlo Secchi) and subsequently extended in its meeting on 29 July 2009, effective from 1 September 2009 (with the appointment of directors Cristiano Antonelli and Luigi Roth), is composed solely of independent directors, two of whom are considered by the Board of Directors to be in possession of adequate experience of accounting and finance matters<sup>52</sup>.

At the Date of the Report, the Committee for Internal Control, Risks and Corporate Governance had the following members:

- Carlo Secchi (Chairman);
- Carlo Angelici;
- Cristiano Antonelli;

51 Also in accordance with the recommendations of the Self-Regulatory Code, Principle 8.P.4.

52 Specifically, Directors Bruni and Secchi.

- Franco Bruni;
- Luigi Roth.

The Secretary of the Board of Directors, Anna Chiara Svelto, acts as Secretary to the Committee.

## 10.2 TASKS ASSIGNED TO THE COMMITTEE

The Board of Directors that convened on 29 April 2008 confirmed the tasks – of a fact-finding and advisory nature – originally assigned to the Committee for Internal Control and Corporate Governance, in line with those specified in the Self-Regulatory Code, and also specified that the Committee should continue to maintain the corporate governance prerogatives that have characterised it since its establishment.

In particular, the Committee for Internal Control, Risks and Corporate Governance:

- assists the Board of Directors:
  - (i) in the definition of policies for the internal control system, so that the main risks for the Company and its subsidiaries are correctly identified and adequately measured, managed and monitored; (ii) in the determination of criteria for the compatibility of these risks with healthy and correct management of the business. Following the Company's approval of a new risk management and supervision model, the Committee is assigned advisory and/or consultation tasks in relation to the new risk assessment and risk management model. The reader is referred to the section on "Risk Governance" for more information.
  - in the identification of an executive director charged with supervising the operations of the internal control system;
  - in the evaluation, at least annually, of the adequacy, efficacy and effective operation of the internal control system;
  - in the description of essential aspects of the internal control system in the corporate governance report, expressing its evaluation of the system's overall adequacy;
- expresses an opinion on proposals to appoint, revoke or assign tasks relating to the internal control officer;
- with the appropriate Company managers, the officer responsible for preparing the Company's accounting documents and the auditors, evaluates the correct use of accounting principles and their homogeneous application in the Group and for the purpose of drawing up consolidated financial reports;
- at the request of the director with specific responsibility, expresses opinions on specific aspects of the identification of the main company risks and on the design, implementation and management of the internal control system;
- reviews the work plan prepared by the internal control officers and their periodic reports;
- evaluates the proposals formulated by external auditors in order to obtain the commission, as well as the audit plan and the results set out in the auditors' report and in the letter of suggestions, if produced;
- monitors the efficacy of the audit process;
- reports to the Board of Directors on the activity carried out and in general on the adequacy of the internal control system, at least when the annual and half-yearly financial reports are being approved;
- monitors compliance with the rules of corporate governance and respect for any rules of conduct that may be adopted by the Company and its subsidiaries. It is also responsible for proposing the methods for and times at which the Board of Directors should perform its annual self-evaluation;
- if an independent director should be replaced, it proposes candidates for co-opting to the Board of Directors<sup>53</sup>;
- performs the further tasks assigned to it by the Board of Directors, also in relation to the monitoring of procedural correctness and of the substantial fairness of operations.

As stated, the Board of Directors has also assigned the powers of the Committee for Transactions with Related Parties required under Consob regulations to the Committee for Internal Control, Risks and Corporate Governance, with the sole exception of issues pertaining to the remuneration of directors and managers with strategic business responsibilities, entrusted to the Remuneration Committee.

## 10.3 OPERATION

The Committee – which may also request the assistance of external consultants in fulfilling its mandate – meets whenever its Chairman deems it appropriate or a meeting has been requested by another member of the Committee or by a Managing Director.

The Board of Statutory Auditors<sup>54</sup>, the Group General Counsel and the Internal Audit Director (who attend all meetings), the Risk Officer and the Director in charge of preparing corporate and accounting documents and – when considered appropriate by the Committee itself for discussion of particular topics – additional representatives of the Company and/or the Group attend Commit-

<sup>53</sup> The reader is reminded that the outgoing Board, having completed its mandate, has recommended that the new Board of Directors to be appointed at the Shareholders' Meeting for approval of the 2010 Financial Reports consider setting up an Appointments Committee. The reader is referred to the "Appointments Committee" section for more information in this regard.

<sup>54</sup> The Company has chosen to broaden attendance beyond the requirements of the Self-Regulatory Code: Criterion of application 8.C.4. This circumstance characterises the corporate governance rules adopted by the Company, and offers the whole Board of Statutory Auditors the opportunity to directly oversee Committee activities and perform its control function more effectively.

tee meetings, in addition to the External Auditor when issues pertaining to statutory auditing of the accounts are to be discussed.

The Internal Control Officer (who reports to the Committee for Internal Control, Risks and Corporate Governance and to the Board of Statutory Auditors) reports on his work and attends all meetings of the Committee for Internal Control, Risks and Corporate Governance.

The Responsible Officer also reports at least once a year on his activities.

The information and documents available and required for informed deliberation of the topics submitted to the committee have always been circulated to members sufficiently in advance.

Meetings of the Committee for Internal Control, Risks and Corporate Governance are duly recorded in minutes by the secretary and transcribed into a specific register<sup>55</sup>.

The Committee has adequate financial resources for the performance of its duties with independent spending powers.

The Committee also has the right to access company departments and information as necessary for the execution of the tasks assigned to it, making use of the support of the Secretary of the Board of Directors<sup>56</sup>.

#### 10.4 ACTIVITY DURING THE FINANCIAL YEAR

During 2010, the Committee for Internal Control and Corporate Governance met 8 times and all members participated in these meetings, with only one member being absent at one meeting. The average duration of the meetings was about two and a half hours.

In the year 2011, up to the Date of the Report, the Committee has met twice.

#### Corporate Governance activities

The Committee made real contributions to the process of implementing and updating the corporate governance instruments in the Company and the Group. During the year, the Committee submitted to the Board of Directors for approval a number of changes to the Group's policy, which – while remaining substantially unaltered in the values it reflects – has been expanded and enriched with new requirements which were already concretely applied in the Pirelli Group's actions.

The Committee and the Board of Statutory Auditors examined the methods and conditions of application in Pirelli & C. of the new Consolidated Legal Auditing Act (Legislative Decree 39/2010). In this regard, the Committee wishes to point out that the Consolidated Legal Auditing Act assigns to the Board of Statutory Auditors the task

of monitoring: (i) the financial reporting process; (ii) the efficacy of the company's internal control, internal auditing and risk management systems; (iii) external auditing of the company's annual accounts and consolidated accounts; (iv) the independence of the external auditor, in particular in relation to providing of services other than auditing, finding that there are (more than in the past) areas of potential overlap between the activities of the Committee and those of the Board of Statutory Auditors.

While the Committee for Internal Control, Risks and Corporate Governance is an investigative body set up within the Board, and therefore supports "governance" of the Company itself, and the Board of Statutory Auditors is the true control body, it is considered advisable to coordinate the activities performed by the two bodies before the Consolidated Legal Auditing Act goes into effect. In this sense Pirelli has decided that the entire Board of Statutory Auditors should have the option of participating in the work of the Committee for Internal Control. This has made relations between the two bodies smoother and facilitated coordination and exchange of information between the two.

By effect of the Consolidated Legal Auditing Act, however, as we have seen, certain activities will become the concern of the Board of Statutory Auditors. The Committee has therefore proposed that the Board redefine its tasks and identify appropriate mechanisms for coordinating the two bodies.

Specifically, the Committee for Internal Control, Risks and Corporate Governance and the Board of Statutory Auditors, while maintaining a central role in the area of control which the Consolidated Legal Auditing Act recognises for the Board of Statutory Auditors, considers that coordination with the Board of Statutory Auditors would best be assured by permitting the entire Board of Statutory Auditors (and not just its Chairman or another designated auditor, as recommended by the Self-Regulatory Code) to attend meetings of the Committee for Internal Control, Risks and Corporate Governance. It has therefore been established that the Board of Statutory Auditors and the Committee for Internal Control, Risks and Corporate Governance shall together discuss specific topics pertaining to: (i) the financial reporting process; (ii) the efficacy of internal control, internal auditing and risk management systems; (iii) legal auditing of annual accounts and consolidated accounts; (iv) independence of the external auditor.

The Committee and the Board of Statutory Auditors have also defined, temporarily while awaiting adoption of a more precise procedure in this regard, to prohibit all Group companies from assigning appointments to companies in the Ernst&Young network without the prior express authorisation of the Director of Finance, who, with the aid of the Director of Internal Audits, will ensure that the appointment is not among those prohibited under the

<sup>55</sup> Also in line with the provisions of the Self-Regulatory Code: Criterion of application 5.C., lett. d).

<sup>56</sup> Self-Regulatory Code: Criterion of application 5.C.1., lett. e).

Consolidated Legal Auditing Act and that its characteristics will not affect the external auditor's independence; Moreover, all appointments with an annual fee of more than Euro 75 thousand must first be subjected to the examination of the Board of Statutory Auditors and the Committee for Internal Control, Risks and Corporate Governance, with the exception of specific motivated reasons (*i.e.* appointments not included in the auditing services which the legislation and regulations expressly state must be performed by the External Auditor). The Internal Audit Director supplies the Committee and the Board of Statutory Auditors with a list of non-auditing services assigned to the External Auditor at least once every six months.

During the financial year the Committee examined the results of the 2009 board performance evaluation (which was previously extensively reported on in the Corporate Governance Report for the year 2009) and started the self-evaluation process for the 2010 financial year, examining the results of this during 2011. In this regard the reader is referred to the relevant section.

The Committee then examined and approved the proposals, subsequently approved by the Board of Directors, regarding adaptation of the Company Bylaws to the provisions of the legislation, and specifically (i) to Legislative Decree no. 27 of 27 January 2010 regarding "*Implementation of directive 2007/36/CE regarding the exercise of certain rights of shareholders in listed companies*" and (ii) Legislative Decree no. 39, also of 27 January 2010, regarding "*Implementation of directive 2006/43/CE regarding external auditing of statutory and consolidated accounts, amending directives 78/660/CEE and 83/349/CEE and abrogating directive 84/253/CEE*".

The Committee also examined in advance additional proposed amendments to the Company Bylaws approved by the Board of Directors in its 8 March 2011 meeting and submitted to the Shareholders' Meeting called to approve the 2010 Financial Reports, concerning implementation of a number of options permitted by Legislative Decree 27/2010 to further promote participation and exercise of voting rights in shareholders' meetings (the reader is referred to the Directors' Report on the Shareholders' Meeting, available on the Company's website, for more information in this regard).

Also on the topic of "corporate governance", the Committee studied verification of the existence of the qualifications for independence among directors and compliance with the maximum number of directorships considered compatible with the post of Pirelli director, the results of which are reported in the sections entitled: "Independent Directors" and "Maximum number of directorships in other companies".

The Committee approved in advance a number of changes to the Company's Organisational Model 231 following periodic risk analysis ordered by the Supervisory Body,

resulting in confirmation in "Organisational Model 231" of all the internal control schemes for instrumental and operative processes and inclusion of internal control schemes for the "Market Abuse" operating process and the "Use of Information Technology" operating process; for more information in this regard, the reader is referred to the section on the Code of Ethics, Lines of Conduct and Organisational Model 231.

The Committee, appointed by the Board of Directors on 29 July 2010 under article 4 of Regulation no. 17221/2010, examined and expressed its approval of the Procedure for Transactions with Related Parties adopted by the Company. In this regard, note that the Committee has examined the Company's shareholding structure with the aid of an expert in the field, looking specifically at the "position" of participants in the Pirelli Shareholders' Agreement, and proposed to the Board that all Shareholders' Agreement members who are not already considered related parties by virtue of application of the Consob Regulations, should be submitted to application of the Procedure and the Regulations.

The Committee approved the plan for Committee activities in the 2011 financial year, also on the basis of suggestions emerging during the 2009 self-evaluation, to permit Independent Directors who do not sit on the Committee to ask that it discuss specific issues.

The Committee expressed its opinion on the activities performed by the Internal Control Officer and Internal Audit Director in order to recognise the 2009 variable incentive and an opinion on the 2010 incentives scheme, establishing a significant number of qualitative targets to be assessed by the Committee in response to the proposal of the director in charge of overseeing the functioning of the internal control system, currently the Chairman of the Board; the same task was performed at the start of 2011. Lastly, the Committee submitted the Half-Yearly Corporate Governance Report to the Board for approval, published in a single document with the Half-Yearly Financial Report at 30 June 2010.

### **Internal Control activities**

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The Committee approved the results of the activities performed to implement the annual Audit Plan and approved the Audit Plan for the next year. The Committee focused on analysis of the structure and operation of the Internal Audit Department and, in particular, examined the methods of formation of the 2011 Audit Plan; the reader is referred to the "Internal Control System" section for more information on this.

The Committee constantly monitored the work performed by the Internal Audit Department, and, in particular, implementation of the plans of action regarding corrective measures required to ensure ongoing improvement of the system.

At the start of the 2010 financial year, the Committee met with the Responsible Officer, who reported on the suitability of the means and powers attributed to him and on the activities he carried out in relation to the financial statements for the year to 31 December 2009; the same activity was performed in 2011 in relation to the financial statements to 31 December 2010.

The Committee also:

- examined and positively evaluated the 2010 Audit Plan submitted by the external auditor Reconta Ernst & Young;
- with the External Auditor and the Officer Responsible, focused on a number of issues regarding application of accounting standards, with particular reference to treatment of shareholdings in affiliated companies;
- was informed of the periodic meetings between the Board of Statutory Auditors and the External Auditor, which did not reveal any situations and/or information worthy of note;
- exchanged information adequately with the Internal Control Committee in Pirelli RE (prior to the official separation of the company from the Pirelli Group).

Among other items, the Committee examined in advance a number of transactions and topics subsequently brought to the Board of Directors' attention (reported on under "Activities of the Board of Directors"). These include:

- the transaction for subscription of a "new" revolving line of credit worth 1.2 billion euro;
- the transaction for separation of Pirelli RE from Pirelli & C. by assigning almost all Pirelli RE shares held by Pirelli & C. to Pirelli & C. shareholders;
- the proposed changes to the Company Bylaws mentioned above;
- the evolution of the affair and lawsuits involving two former Security officers in the company (reported under the section "Activities of the Board of Directors").

In application of the Principles regulating transactions with related parties prior to the 3 November 2010 adoption of the Procedure for Transactions with Related Parties, the Committee expressed its approval of investment in the Closed Real Estate Fund known as Fondo Anastasia, managed by Pirelli RE Sgr, and approved the transaction for purchase of the Bicocca Hangar buildings and monumental works "La Sequenza" by Fausto Melotti and "I sette palazzi celesti" by Anselm Kifler and for joining the Hangar Foundation.

Finally, in view of the activities performed, the investigations conducted, the information received and the documentation examined, the Committee confirmed its positive judgement of the adequacy of the Company and the Group's internal control and governance system<sup>57</sup>.

## Risk Governance activities

The Committee monitored the implementation of the Enterprise Risk Management Project with the support of the Sustainability and Risk Governance Department, which includes a Risk Officer (for more information on governance of the "Pirelli Risk Model", the reader is referred to the "Risk governance" section).

The Committee approved the Group Risk Model in which risks are classified as "strategic risks" which are closely tied to the group's objectives and consequent strategic choices and "cross-business risks", which, while not directly correlated to strategic objectives, could affect their achievement as they have an impact on multiple Company processes and areas; finally the Committee approved the Group's Annual Risk Assessment listing the principal risks to which the Company is exposed.

On the basis of this analysis, specific risk mitigation plans were prepared and submitted to the Committee with the aim of keeping group risk exposure within acceptable limits; governance and control guidelines will be developed for their implementation.

In the 2011 and 2012 financial years, key risk indicators (or KRIs) will be defined to guide decision-making processes and monitor the Company's exposure to key risks and the efficacy of its plans of action over the years so as to render the process of risk analysis and mitigation an integral part of the planning and control process.

As stated, the reader is referred to the "Risk Governance" section for more information.

## 11. MANAGERIAL COMMITTEES

The Group has set up specific managerial committees made up of the Group's top and senior management with the task of assisting the Board of Directors and delegated bodies in definition of guidelines for business activities and implementing the policies established by the Board. These specifically include the following principal managerial committees.

### MANAGEMENT COMMITTEE

The Management Committee, chaired by the Chairman of the Board of Directors and made up of top managers and senior managers in the Group, is entrusted with executing and implementing the strategic policies decided by the Board of Directors.

The Committee discusses and examines the principal issues in operation and business connected with achievement of the Company's strategic goals.

<sup>57</sup> See the "Role of the Board of Directors" section, "Internal control and governance system" subsection.



### THE RISK MANAGEMENT COMMITTEE

Chaired by the Group General Counsel, this committee: (i) adopts and promotes a systematic and structured process to identify and measure risks; (ii) review information on both internal and external, existing and potential risks, which the Company is exposed to; (iii) suggests strategies to respond to risks, based on the total measure of exposure to the different risk categories; (iv) suggests the implementation of a risk policy, to ensure that risks are reduced to “acceptable” levels; (v) monitors the implementation of strategies in response to risks and the compliance to the risk policies adopted.

### THE SUSTAINABILITY STEERING COMMITTEE

The Sustainability Steering Committee is chaired by the Chairman of the Board of Directors and has the following tasks: (i) formulating the Group’s sustainability plans in view of international policies and principles in this area; (ii) monitoring operative deployment of plans; (iii) preparing the Sustainability Report; (iv) preparing the Company’s Equal Opportunities plans.

## 12. SUCCESSION PLANS<sup>58</sup>

In its 3 March 2011 meeting the Committee for Internal Control, Risks and Corporate Governance analysed the organisational structure of the Pirelli Group with the assistance of the Chief People Officer. The Committee received an analytic description of the organisation of Pirelli & C. S.p.A. and its principal subsidiary, Pirelli Tyre S.p.A. The Committee specifically examined the process for identification of the figures included in management and senior management. The Committee acknowledged the existence of a structured process for identification, fostering and development of “talents”, ensuring that the Group will have “natural” succession mechanisms over the years to guarantee constant replacement of the generations through a structured internal growth process. In this regard, for instance, the Committee acknowledged that figures such as the Tyre General Manager, the Director of Group Management Control, the Product Director and other key figures in Senior Management have risen to their positions through a process of in-house development and growth.

Structured process  
for identification,  
fostering and  
development  
of “talents”

The Committee also examined implementation of a structured process allowing the Company to (i) monitor key resources present in the Company and look for people in-house who may be capable of taking on primary roles of responsibility, or (ii) define the features required to fill these posts in the event that they should be sought outside the company due to a need for an “emergency” change.

The Board of Directors, in response to the proposal of the Committee for Internal Control, Risks and Corporate Governance, approved a recommendation that the next Board of Directors consider the possibility of setting up a special committee to:

- propose definition of “emergency” plans for the replacement of:
  - the CEO;
  - the General Manager.

The Committee must establish the necessary steps and the requirements for identification (in the company or elsewhere) of professional figures who could replace these officers in the event of an “emergency”;

- identify the criteria for possible plans to replace Top and Senior Management in order to ensure continuity in business strategies.

The committee would also monitor the succession plans described above and the process for identifying, managing and fostering talents destined to become the Group’s senior management in the future.

## 13. INTERNAL CONTROL SYSTEM

Pirelli & C. and the Pirelli Group’s internal control system in general is set up to guarantee that correct information is provided and adequate control of all Group activities is implemented, with a special focus on areas considered potentially at risk.

The internal control system is first of all a “management” tool, in that it is useful and necessary for the Board of Directors, executive directors and managers in general for correctly and effectively performing the tasks assigned them.

The internal control system permits monitoring of compliance with the rules and procedures governing performance of all the Company’s business activities.

Pirelli’s internal control system has been developed as a direct process aimed at pursuing the values of substantial and procedural fairness, transparency and accountability, guaranteeing: efficiency, transparency and traceability.

<sup>58</sup> The information appearing in this section is provided in compliance with Consob’s recommendation in its Communication DEM/11012984 of February 24 2011.



ity of transactions and management activities in general; dependability of accounting and management data and financial information; compliance with laws and regulations; protection of the company's integrity, also in order to prevent fraud damaging the Company and the financial markets.

The key rules underlying the Company's internal control system are: (i) separation of roles in performance of the principal activities involved in individual operative processes; (ii) traceability and constant visibility of choices; (iii) management of decision-making processes on the basis of objective criteria.

### 13.1. INTERNAL CONTROL OFFICER

Responsibility for the internal control system lies with the Board of Directors as a whole, which establishes policies and periodically verifies its adequacy and effective functioning. For this purpose the Board relies on the Committee for Internal Control, Risks and Corporate Governance and on a Responsible Officer with an appropriate degree of independence and the means required to perform this function, assigned the typical functions of verifying the system's adequacy and efficiency and proposing corrective actions if problems are identified.

Following its renewal, in its 29 April 2008 meeting the Board of Directors identified the Chairman of the Board as the Director with responsibility for the Company's internal control system and, in line with the recommendations of the Self-Regulatory Code<sup>59</sup>, assigned the following tasks to this person:

- identifying the principal risks to which the company is exposed, taking into account the characteristics of the activities performed by the issuing company and its subsidiaries, and periodically submitting them to the Board of Directors for examination;
- implementing the policies defined by the Board of Directors, planning, implementing and managing the Company's internal control system, and constantly verifying its overall adequacy, efficacy and efficiency;
- adapting the system to the dynamics of operating conditions and the legislation and regulations;
- proposing to the Board the appointment, revocation and remuneration of one or more internal control officers.

### 13.2. THE INTERNAL CONTROL OFFICER

The Internal Control Officer – which the Board of Directors, following its renewal, with the approval of the Committee for Internal Control, Risks and Corporate Governance and in line with best practice, in response

to the proposal of the Officer responsible for the internal control system, has confirmed is the head of the Internal Audit Department (Maurizio Bonzi) – reports to the Committee for Internal Control, Risks and Corporate Governance (*to which he reports functionally*) and to the Board of Statutory Auditors and answers to the Chairman of the Board of Directors.

The Internal Control Officer is in charge of ensuring that the internal control system is always adequate and fully operative.

The internal control system is completed with a planning and control system, divided by sector and operating unit, which produces a detailed monthly report for General Management so that it will have a useful tool for supervising specific tasks.

In pursuit of the strategies and policies adopted by the parent company, the Boards of Directors of the chief subsidiary companies also include Directors with strategic business responsibilities and Directors in charge of specific sectors and functions.

The Group Compliance Department has been fully implemented, reporting to the Director of Legal and Corporate Affairs and Group Compliance, which is separate from the Internal Audit Department, and specifically collaborates with other Group departments to ensure constant alignment of internal standards, processes and activities in general with the applicable regulations.

In line with best practice, the Group Compliance Department is entrusted with monitoring the risk of failure to comply with laws, regulations and standards of all kinds, including self-regulation, in order to prevent legal and administrative sanctions, significant financial losses and damage to the Company's reputation.

The Company's internal control system is made even more effective by the procedure for signalling violations, suspected violations and induction to violation of the laws and regulations, principles sanctioned in the Code of Ethics; in-house control principles; company norms and procedures and/or any other action or omission which might directly or indirectly cause economic losses or damage to the Group's or its companies' assets or image. The Procedure provides for express protection against all forms of reprisal against people identifying such violations or employees who helped investigate the grounds for identification of the violation.

### Internal Audit Department

The Internal Audit Department (under Maurizio Bonzi, as mentioned) plays an important role in the internal control system, with the principal task, also in relation to subsidiaries' business activities, of assessing the adequacy and functioning of control and corporate governance processes throughout the Group through independent assurance and consultancy. The Internal Audit Department

<sup>59</sup> Also to implement the recommendations of the Self-Regulatory Code: Criterion of application 8.C.1., lett. b).

operates in line with its mandate, assigned to it and approved by the Committee for Internal Control and Corporate Governance, in relation to the following aspects:

- mission;
- goals and responsibilities (independence, complete access to information, field of activity, announcement of results);
- improvement of the quality of internal auditing activities; principles of professional conduct;
- applicable professional standards.

The Internal Audit Director is answerable to the Chairman of the Board of Directors and reports to the Committee for Internal Control, Risks and Corporate Governance and to the Board of Directors. The Internal Audit Department at the date of this Report includes 16 people of 5 different nationalities with an average of 6 years' experience (excluding the Internal Audit Manager).

The Internal Audit Department operates on the basis of an annual Audit Plan approved in advance by the Committee for Internal Control, Risks and Corporate Governance. The 2011 Audit Plan includes audits in 19 countries on four different continents involving more than 20 thousand hours of work.

For the definition of the Audit Plan, once a year the companies and departments which are the "subject" of possible audits are identified and then classified in relation to the need for "coverage" and the degree of risk involved. The elements involved in definition of the ranking are: (i) the level of control identified in previous audits conducted in the same company and/or organisational unit; (ii) the "vulnerability" factor in relation to specific assessments taking into account, by way of example, country risk, market risk, size and organisational complexity, recent organisational changes, the scale of any critical points identified, the amount of time since the last audit (iii) the company's impact on the Group, in terms of consolidated financial statements, degree of operative risk or invested capital, and (iv) risk assessment performed in the previous year. The Audit Plan obviously does not have a rigid structure, as it can be completed during the year in response to specific control requirements.

### 13.3. THE RISK GOVERNANCE SYSTEM

In July 2009 the Board of Directors examined and approved, also in line with international best practice and the suggestions emerging from the self-evaluation process in 2008, a new model for the assessment and manage-

ment of risks liable to prejudice the achievement of the strategic objectives of the Company's Industrial Plan and Operational Plans.

The Board specifically decided, in view of the accelerating pace of economic change, the complexity of management and recent changes in regulations governing corporate governance and internal control, to adopt a structured process for risk management in the Company permitting prompt, complete identification of risks and adoption of appropriate measures for risk management in terms of anticipating risks and taking pro-active measures rather than simply reacting.

The Board evaluated the importance of identifying risks before they manifest themselves, and the adoption of business choices and tools that can prevent them, reduce their impact, and, more generally, "manage them", given that the assumption of risk represents a fundamental component of business management.

In view of this, the Board first redefined the powers and composition of the Committee for Internal Control and Corporate Governance, renamed "Committee for Internal Control, Risks and Corporate Governance" for this purpose, and extending its composition to 5 directors.

The Board of Directors then approved the general policies of the new risk governance model.

The model chosen is based on a specific methodological approach which is: (i) "Value Driven", in that risks are qualified as more significant and therefore subjected to analysis in relation to their capacity to affect achievement of the Group's strategic goals set forth

in its Strategic Plan or affect "critical" company assets (referred to as Key Value Drivers); (ii) "Top-Down", in that Company's Top Management identify major risk areas and those events that may impact the business most seriously; (iii) quantitative, that is, based on accurate measurement of risks' impact on the Company's expected economic and financial results.

With reference to "governance" of the new model, it is worth noting that a central role is played by the Board of Directors, with the aid of the Committee for Internal Control, Risks and Corporate Governance, which defines the Company's mission and goals and validates its overall exposure to risk, strategy for responding and monitors implementation of its Annual Risk Management Plan containing specific plans for mitigation of the risk events identified.

The Board of Directors is supported by the Risk Management Committee (chaired by the Group General Counsel and composed of the Tyre General Manager; the

The 2011 Audit Plan includes audits in 19 countries on four different continents involving more than 20 thousand hours of work.

Chief Financial Officer; Chief Group Control; the Chief Internal Audit; the Chief People Officer; the Chief of Legal and Corporate Affairs and Group Compliance; the Chief of Investor Relations) which defines the methods used to identify and measure risks and indicates risk areas with priority in terms of the Company's value drivers. The Committee is also in charge of proposing to the Committee for Internal Control, Risks and Corporate Governance mitigation strategies and the resulting Annual Risk Management Plan.

The Managerial Committee avails itself of the support of the Sustainability and Risk Governance Department (under Filippo Bettini), which includes the Risk Officer (Alessia Carnevale), who coordinates the assessment process and guarantees ongoing monitoring of the Company and the Group's exposure to key risks, monitoring effective implementation of risk mitigation plans in individual company departments and organisational units. In the top-down model, "Regions" and "Business Units" identify events correlated with risk areas, assigned priority and consolidate evaluation of key risks, guaranteeing connection with strategic and operative plans and proposing strategies for risk management and plans for risk mitigation. Finally, Operating Units analyse and assess risk events and report on the existing risk management infrastructure.

The methodology adopted is divided into three macro-phases:

- (i) definition of the risk model
- (ii) risk analysis
- (iii) risk management.

The Pirelli Risk Model is based on two key areas:

- Strategic Risks, which are closely tied to the group's objectives and consequent strategic choices. This category includes the exogenous risks stemming from evolution in the external context where the group operates and the risks stemming from internal factors, such as financial risks, the risks connected with typical business processes and human resource/organisation risks.
- **Cross-business risks**, which can affect operative activities at any time, independently of the strategies currently being implemented; these include business interruption risks, risks linked with information systems, risks linked with compliance with regulations and risks linked with the financial reporting process.

Once the Risk Model was defined and general risk areas identified, the Risk Management Committee went on to pinpoint those areas that are most important for the achievement of the Industrial Plan targets and the implementation of the strategic lines, in other words those risk areas that directly affect Key Value Drivers. Those areas then became the subject of the Risk Analysis phase.

As for cross-business risks related to Business Interrup-

tion and Information Technology, the manufacturing sites most relevant to the Company's growth strategies were identified, along with the information systems supporting core processes.

The Risk Management Committee defines the risk analysis methods and establishes the metrics to be used to measure risk events, specifically:

- economic and financial parameters for measurement of risks and their impact (PBIT, Cash Flow and financial/fiscal charges)
- the likelihood score system;

the references to assess the maturity level of the existing risk management systems (which is the level of protection from risk as a function of the existing management and control procedures / processes, as well as of monitoring / reporting tools and of the defined risk accountabilities and ownerships).

Main risks area are analyzed by Top management in order to identify the risks event or scenarios to be evaluated by middle managers.

All significant risks were further examined to discover their causes and the related existing risk management infrastructures, like:

- strategies, policies and risk management processes;
- protection built in the organization
- monitoring / reporting tools and supporting information systems

The management in charge of the "process" involving the risk also comes up with an initial proposed mitigation plan to be submitted to the Risk Management Committee.

For some risk events reckoned to be particularly relevant for Pirelli, like the volatility of raw materials, statistical analysis techniques were also applied to build other possible scenarios, for instance of prices, than those taken into account in the Industrial Plan. The purpose is to assess how robust the assumptions are and the possible impacts on expected results.

With some risk aggregation models, then, we could also review the joint effect of multiple risks on expected results.

Risk management has really become an integral part of the strategic planning process.

Use of quantitative metrics for measuring the impact of risks permits aggregation of risks and representation of the Group's overall exposure to risk (referred to as Value@Risk). In relation to Value@risk, the Risk Management Committee ensures definition of:

- target levels of exposure to priority risks
- risk management strategies in line with the existing risk appetite (transfer, reduce, eliminate or mitigate risk)
- Action plans and risk policies for keeping levels of exposure within "target" limits.

The Committee also defines the operative responsibilities for risk management and requests development of ongo-

ing risk monitoring tools (referred to as “Early Warning” dashboards) to complete existing risk control processes. Lastly, as mentioned, it may propose preparation of specific risk management policies to the Board of Directors. The Group’s overall risk exposure and the related strategies and mitigation actions convey into the Annual Risk Assessment and Management Plan, which is submitted to the Board of Directors, for its final approval.

The Risk Officer ensures that the mitigation plans agreed are implemented and the exposure to the most significant risks is monitored continuously. The Risk Officer can also suggest a redefinition of recovery plans, wherever they become inadequate, and an analysis of any possible emerging risk.

The Pirelli Risks Model was evaluated as best-in-class in 2010 in the “Autoparts and Tires” sector by the SAM Group in assessment for the Dow Jones Indexes in 2010.

### **13.3.1 “Risk Management and internal control system in relation to the financial reporting process”**

The Company has implemented a specific, articulated system for risk management and internal control, supported by a dedicated computer application, in relation to the process of formation of separate and consolidated half-yearly and annual financial reports.

In general, the internal control system set up by the Company has the aims of guaranteeing protection of the company’s assets, compliance with the laws and regulations, the efficiency and efficacy of company operations and the reliability, accuracy and promptness of financial reporting. Specifically, the process of formation of financial reports takes place through adequate administrative and accounting procedures, performed in compliance with criteria established by the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of Tradeway Commission.

The administrative and accounting procedures involved in formation of financial statements and all other forms of financial communication are prepared under the responsibility of the Manager in charge of preparation of corporate and accounting documents (F. Tanzi), who, jointly with the Chairman of the Board of Directors, certifies their adequacy and effective application on the occasion of the annual and consolidated financial reports and the half-yearly financial report.

To permit certification by the Responsible Officer, the significant companies and processes supplying and generating economic, equity and financial information have been mapped. Group Companies and Processes of significance are identified annually on the basis of quantitative and qualitative criteria. The quantitative criteria consist of identification of the Group Companies which, in re-

lation to the selected processes, represent an aggregate value over a given threshold of consistency.

The qualitative criteria consist of examination of the processes and companies which, on the basis of the evaluation of the Chief Executive Officers and the Chief Financial Officer in the business sectors, can present potential areas of risk even though they do not fall within the quantitative parameters described above.

For each process selected, risks and goals for control are identified in relation to formation of the financial statements and related information and the efficacy and efficiency of the intern control system in general.

For each control objective, precise verification activities are identified and specific responsibilities are assigned.

A system for supervision of controls performed has been implemented with a chain of certifications; any critical points which may emerge in the evaluation process will become the subject of plans of action, the implementation of which is then checked at the end of subsequent financial periods.

Lastly, once every quarter the Chief Executive Officers and Chief Financial Officer of subsidiary companies issue a declaration of reliability and accuracy of the data sent for preparation of the Group’s consolidated financial reports. As the date of the Board Meetings for approval of the consolidated financial reports at 30 June and 31 December approaches, the results of the verification will be discussed by the Chief Financial Officers in the Sectors with the Responsible Officer.

In short, a system of ongoing systematic controls has been adopted with supplies a reasonable degree of certainty regarding the dependability of information and of economic and financial reporting.

The Internal Audit Department conducts periodic audits to determine the adequacy of the design and operation of controls on sample companies and processes selected on the basis of criteria of material relevance.

On the basis of these periodic reports, the Officer Responsible reports to the Board of Directors reports on the efficacy of the system through the Committee for Internal Control, Risks and Corporate Governance. The same Officer and the Board of Directors have also provided the certification required under subsection 5 of art.154-bis of the CFL.

### **13.4 CODE OF ETHICS – POLICY AND ORGANISATIONAL MODEL 231**

The internal control system described above is completed by:

- the Group’s Code of Ethics;
- the Group’s Policy;
- Organisational Model 231.

The Code of Ethics sets forth the general principles inspiring the performance and conduction of business and indicates the goals and values underlying the Company’s

**Pirelli**  
**Risks Model**  
**BEST-IN-CLASS**  
**2010**

business activities. The Group's Code of Ethics has been translated into all the languages in use in the Pirelli Group (22 different languages). The internal and external business of the Pirelli Group is based on respect for the Code of Ethics, in the belief that business success cannot be separated from ethics in business. Directors, statutory auditors, executives, employees of the Pirelli Group and everyone who works for the Pirelli Group or has business relations with it, each in the context of his or her own functions and responsibilities, are asked to comply with the principles and requirements contained in the Code. In 2009 the Code of Ethics was changed. While remaining unaltered in terms of the values inspiring it, it was completed and enriched with new requirements which were already concretely applied in the Pirelli Group's actions; the modifications approved expressly state them in the Code. The Policy contains an "operative" statement of the principles contained in the Code of Ethics and establishes rules for the Group as a whole to prevent creation of an environment favourable to committing of offences of all kinds. The Policy was also completed in 2010 to reflect the changes to the Code of Ethics.

The Organisational Model 231 approved by the Board of Directors on 31 July 2003 was subsequently revised and updated to reflect changes in the legislation (most recently on 29 July 2010). The Organisational Model attempts to ensure fine tuning of a system based on the specific requirements consequent upon the entry into force of Legislative Decree no. 231/2001 concerning companies' administrative responsibility for offences committed by their employees and is based on a complex pyramidal system of principles and procedures which may be described as follows, starting at the base:

- the Group's Code of Ethics, already discussed;
- general internal control principles characterising the internal control system, the field of application of which extends continuously throughout different levels of company organisation;
- Policies, already discussed;
- Internal control schemes listing the principal phases in all medium to high risk operative process and, for instrumental processes, specific control activities aimed at reasonable prevention of the risk of committing offences, and dedicated flows of information toward the Supervisory Body aimed at identifying any cases of failure to comply with the procedures established in the organisational model.

As mentioned in the year 2010, the Organisational Model was reviewed in response to the request of the Supervisory Body and the Committee for Internal Control, Risks and Corporate Governance.

A thorough risk analysis was conducted.

The analysis involved 20 operative company departments, with the additional final evaluation of Top Management. Once these areas had been identified, residual risk was

"quantified" (in view of the Company's existing internal control system) on the basis of an evaluation of: (i) the probability of the event occurring, classified on a scale of 1 (negligible) to 5 (significant) and (ii) the potential impact of the consequences if the negative event should occur, also on a scale of 1 to 5.

The product of the "multiplication" of the results of the two evaluations allows us to establish a risk ranking, dividing risks into "high criticality", "medium criticality" and "low criticality".

In addition to quantitative evaluation, the departments interviewed were also asked to provide a qualitative evaluation. On the basis of the results of the risk assessment conducted as described, it was proposed that the Company should (i) confirm, in its "Organisational Model 231", all the internal control schemes for instrumental and operative processes, and (ii) include two new internal control schemes: for the "Use of Information Technologies" and "Market Abuse" operating processes. With regard to the latter, despite the presence of an internal control system which is in its own right suitable for preventing offences from being committed on the basis of responsibility under Legislative Decree 231/2001 in the area of market abuse, the Company decided that the topic was important enough to be included in a specific internal control scheme under "Organisational Model 231". The aspects considered included the potential impact for the Company of the occurrence of criminal events related to offences of market abuse. Also with reference to "Use of Information Technologies", the Company's internal control system is in itself sufficient to prevent offences from being committed relating to the company's administrative liability; however, to provide better protection and guarantees, it was considered advisable to provide for a specific control scheme in the "Organisational Model 231".

A summary of the principle policies underlying the organisational model is available on the Company's website.

#### 13.4.1 The Supervisory Body

A Supervisory Body oversees the functioning and compliance with the model. It is economically independent and composed of Director Carlo Secchi, Lead independent director and Chairman of the Committee for Internal Control, Risks and Corporate Governance, Statutory Auditor Paolo Domenico Sfameni, a member of the Board of Statutory Auditors, and the Manager of the Internal Audit Department and Internal Control Officer Maurizio Bonzi. This composition ensures the Body's complete autonomy and independence and the presence of all the professional skills required to control Company management.

The Supervisory Body is also responsible for ensuring that the Board of Directors implements all necessary changes to the Organisational Model reflecting chang-



es in legislation, methods of performance and types of business activities. The Supervisory Body reports to the Board of Directors, to the Committee for Internal Control, Risks and Corporate Governance and to the Board of Statutory Auditors on verification activities performed and their results.

Each member of the Supervisory Body is paid an annual fee of Euro 15,000.

The term of the Supervisory Body appointed by the Board of Directors on 29 April 2008 expires at the same time as the term of the Board of Directors which appointed it, and so following the upcoming re-election of the Board of Directors, the new Board will appoint a new Supervisory Body. In the Group's other Italian companies, the Supervisory Body is identified by locating the technical and operative solution which, while complying with the mandate and powers reserved for it by the legislation, was most appropriate for the size and organisational context of each company.

Finally, introduction of a disciplinary system for sanctioning failure to comply with the measures identified in the organisation, management and control models is planned. In addition, it is worth noting that Pirelli & C.'s Internal Audit Department and Group Compliance Department supply, when requested by the Supervisory Bodies of Group Companies, operative assistance in management and analysis of the information flows set up under art. 6, subsection 2, letter d) of Legislative Decree no. 231/2001, and in conducting specific audits on the basis of the results of these information flows.

During the financial year the Supervisory Body was also concerned with the lawsuit involving two former Company Security officers, discussed in the "Committee for Internal Control, Risks and Corporate Governance" section. In this regard, the Supervisory Body acknowledged the circumstances reported in the "Activities of the Board of Directors" section.

### 13.5 EXTERNAL AUDITOR

The legal audit of the Company's accounts is carried out by an auditing firm appointed by the Shareholders' Meeting and chosen from the firms listed in the appropriate registry kept by Consob.

Reconta Ernst & Young S.p.A.<sup>60</sup> were appointed external auditors to undertake the audit of the annual statutory and consolidated financial statements and the half-yearly financial reports for the 2008 – 2016 financial year. Pursuant to the law, the appointment was made at the reasoned proposal of the Board of Statutory Auditors, which carried out an in-depth technical/economic valuation analysis. The evaluation was conducted on the basis

of comparative overall analysis of the proposals received, with particular reference to comparison of: (i) the cost and conditions of the appointment; (ii) the mix of personnel employed; (iii) coverage of the territory, skills and specific experiences and (iv) the fees proposed within the same perimeter.

Reconta Ernst&Young S.p.A. is the Italian company in the Ernst&Young network, which is also appointed, through the organisations present in the various different countries in which the Group operates, to audit the financial reports of the principal companies in the Pirelli Group. The person in charge of auditing the accounts in Pirelli & C. S.p.A. is Pietro Carena (taking the place of Pellegrino Libroia).

The external auditor is asked to verify the preparation of the report on corporate governance and the company's shareholding structure and express a "judgement on the consistency" of some of the information appearing in this Report. Once a year the external auditor defines a plan of activities and informs the Committee for Internal Control, Risks and Corporate Governance.

The payments made to Reconta Ernst&Young (and the companies in the network) are reported in detail in the notes to the statutory and consolidated financial reports of Pirelli & C. at 31 December 2010.

The Committee and the Board of Statutory Auditors have also defined, temporarily while awaiting adoption of a more precise procedure in this regard, to prohibit all Group companies from assigning appointments to companies in the Ernst&Young network without the prior express authorisation of the Director of Finance, who, with the aid of the Director of Internal Audits, will ensure that the appointment is not among those prohibited under the Consolidated Legal Auditing Act and that its characteristics will not affect the external auditor's independence; Moreover, all appointments with an annual fee of more than Euro 75 thousand must first be subjected to the examination of the Board of Statutory Auditors and the Committee for Internal Control, Risks and Corporate Governance, with the exception of specific motivated reasons (*i.e.* appointments not included in the auditing services which the legislation and regulations expressly state must be performed by the External Auditor). The Internal Audit Director supplies the Committee and the Board of Statutory Auditors with a list of non-auditing services assigned to the External Auditor at least once every six months.

<sup>60</sup> See Minutes of the April 29 2008 Shareholders' Meeting, available at the company's website.

### **13.6. THE OFFICER RESPONSIBLE FOR PREPARING THE COMPANY'S ACCOUNTING DOCUMENTS**

The Company Bylaws<sup>61</sup> give the Board of Directors the power to appoint this Officer after consulting the Board of Statutory Auditors, stating that the mandate will expire, unless revoked with just cause, along with that of the Board of Auditors that appointed the Officer. The Responsible Officer must be an expert in administration and control and possess the proper requisites as established for directors.

In its 16 September 2009 meeting the Board of Directors, with the approval of the Board of Statutory Auditors, appointed Francesco Tanzi, Director of Finance for the Group who is also in charge of Financial Statements and Taxes for the Group, as the Responsible Officer.

The Board of Directors has confirmed the assignment of the following principal tasks to the Responsible Officer, pursuant to the regulations currently in force:

- a) to organise adequate administrative and accounting procedures for the formation of the Company's financial reports and consolidated financial statements and all other communications of a financial nature;
- b) to issue a written declaration attesting that the documents and communications of the Company disseminated to the market and the related financial reports, including mid-year reports, of the Company correspond to the documentary evidence, ledgers and accounting records;
- c) to declare, with a specific report drawn up according to the model established in the Consob regulations, attached to the annual financial statements, the half-yearly abbreviated financial statements and the consolidated financial statements:
  - the adequacy and effective application of the procedures identified in paragraph a) above during the period to which the documents refer;
  - that the documents are drawn up in compliance with the applicable international accounting standards recognised in the European Community pursuant to EC regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002;
  - that the documents correspond with the ledger entries and accounts;
  - that the documents are suitable to provide a true and correct representation of the economic, financial and equity situation of the Company and the set of businesses included in the consolidation;
  - for the statutory and consolidated financial reports, that the report on operations includes a reliable analysis of their progress and operating results as well as of the situation of the Com-

pany and the set of businesses included in the consolidation, together with descriptions of the principal risks and uncertainties to which they are exposed;

- for the abbreviated half-yearly report, that the half-yearly report on operations contains a reliable analysis of the information specified in subsection 4 of article 154-ter of the CFL.

The Board of Directors has also granted to the Responsible Officer all powers of an organisational and management nature needed to perform the tasks attributed to him by the current regulations, the Company Bylaws and the Board of Directors. To exercise the powers conferred on him, he is granted full economic autonomy.

The Board of Directors ensures that the Responsible Officer has adequate means and powers to perform the duties assigned to him, and monitors that the administrative and accounting procedures are effectively respected.

For this purpose the Responsible Officer reports, at least once a year, to the Board of Directors, either directly or through the Committee for Internal Control, Risks and Corporate Governance and to the Board of Statutory Auditors for those matters within its remit.

He promptly reports to the delegated administrative body, to the Board of Directors, also through the Committee for Internal Control, Risks and Corporate Governance, on any matters of significant relevance that he believes must be declared in the report specified in article 154-bis of the CFL if not corrected.

The Responsible Officer is invited to attend the meetings of the Board of Directors of the Company when the examination of the economic-financial data of the Company is on the agenda, and has direct access to all the information necessary for the production of the accounting data, without the need of any authorisation; he shares in the internal flows for accounting purposes and approves all the company procedures that have an impact on the economic, financial and equity situation of the Company. The Responsible Officer has attended all the meetings of the Board of Directors of the Company for which the examination of the economic-financial data of the Company was on the agenda, and has issued the attestations and declarations specified in article 154-bis of the CFL. The Responsible Officer reported to the Committee for Internal Control, Risks and Corporate Governance and when the draft financial statements were being approved, reported to the Board of Directors of the Company, confirming that he had had direct access to all the information necessary for production of the accounting data, without need of any authorisation, shared the internal flows for accounting purposes and approved all the company procedures that had an impact on the economic, financial and equity situation of the Company. During the financial year the Responsible Officer has issued the declarations and attestations specified in article 154-bis of the CFL.

<sup>61</sup> Article 11 of the Company Bylaws.

## 14. INTERESTS OF DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES

The Company has had rules of conduct for transactions with related parties since the year 2002, aimed at guaranteeing effective procedural and substantial correctness and transparency in transactions undertaken by the Company, directly or through subsidiaries, with parties related to itself. Subsequently, following Consob's adoption of regulations governing transactions with related parties in March 2010, the Company approved (on 3 November 2010) a specific structured procedure for transactions with related parties. In particular, the Procedure adopted by the Company establishes procedural rules which further reinforce the procedural and substantial transparency of transactions undertaken by the Company with related parties.

The Board of Directors, in response to a proposal of the Committee for Internal Control, Risks and Corporate Governance (appointed under the regulations to express its opinion on the procedure) deliberated to extend application of the Procedure and the Consob Regulations to all members of the Pirelli Shareholders' Agreement even if they are not considered related parties under the definition contained in the Regulations (already mentioned in the "Activities of the Committee for Internal Control, Risks and Corporate Governance" section).

Most of the Company's procedural policies are more restrictive than required by the Regulations. Particularly, the Company has adopted very restrictively low thresholds and established higher qualitative thresholds than those obligatory under the Regulations governing transactions with related parties.

Moreover, the Procedure established that the opinion of the Committee for Transactions with Related Parties is binding even in the case of smaller transactions, and the whitewash mechanism will not be used in the event of an unfavourable opinion on transactions with related parties of greater amounts.

Moreover, the Procedure is also applicable, in a provision which is much more restrictive than required by the Regulations, to transactions conducted autonomously by subsidiaries with parties related to the Company, not only those conducted "through" them.

Confirming the importance of the role of Independent Directors, the Company requires the Committee asked to express its opinion on transactions with related parties to be composed entirely of Independent Directors (and not only in the case of particularly significant transactions with related parties as required by the regulations).

The Company has also adopted a remuneration policy for remuneration of Directors and managers with strategic business responsibility, including policies pertaining

to agreements for consensual termination of the relationship, which makes it possible to exempt these decisions from the ordinary procedure provided that: (i) the remuneration policy was defined by a committee made up entirely of non-executive directors, the majority of whom were independent (refer to the "Remuneration Committee" section); (ii) the policy has been submitted to the advisory vote of the Shareholders' Meeting; (iii) the remuneration assigned is consistent with this policy (in this regard the reader is referred to the General Remuneration Policy appearing at the end of this Report).

Moreover, the Consob recommendation of reviewing the Procedure at least once every three years will be applied. The Board considers the Board Committees set up in the Board of Directors to meet the requirements of the Consob Regulations and those set forth in the Procedure submitted to the Board for examination, and therefore assigned the powers of the Committee for Transactions with Related Parties required under this procedure to the Committee for Internal Control, Risks and Corporate Governance, with the sole exception of remuneration of directors and managers with strategic business responsibilities, which are attributed to the Remuneration Committee.

For more information, the reader is referred to the Procedure, published on the Company's website and reported at the end of this Report, which will be implemented in full beginning on 1 January 2011.

## 15. BOARD OF STATUTORY AUDITORS

According to the law and the Company Bylaws, the Board of Statutory Auditors is entrusted with monitoring the following:

- compliance with the law and the Bylaws;
- respect for the rules of correct administration;
- the adequacy of the organisational structure of the Company for the aspects within its sphere of competence, of the internal control and administration-accounting system, and of the reliability of the latter to correctly represent the operating results;
- the ways in which the corporate governance rules specified in the codes of conduct prepared by the companies that manage regulated markets or professional associations, which the company declares it follows, are actually implemented;
- the adequacy of the instructions issued by the Company to its subsidiaries regarding the reporting of price sensitive information<sup>62</sup>.

Following the entry into force of Legislative Decree 39/2010, in listed companies the Board of Statutory Auditors monitors:

<sup>62</sup> Now referred to as "sensitive information" (article 114 of the CFL).

- a) the financial reporting process;
- b) the efficacy of the internal control system, the internal auditing system where applicable, and the risk management system;
- c) legal auditing of the annual accounts and consolidated accounts;
- d) the independence of the legal auditor or external auditor, particularly in relation to the providing of services other than auditing by the organisation acting as auditor.

The Board of Statutory Auditors carries out its duties by exercising all of the powers conferred upon it by law and can rely on a constant and analytical information flow from the Company, during and beyond the regular meetings of the Board of Directors and its Committees.

In fulfilling its functions, the Board of Statutory Auditors, besides participating in all the Board of Directors and Shareholders' Meetings, also takes part in the tasks of the Remuneration Committee and the Committee for Internal Control, Risks and Corporate Governance. Moreover, Paolo Domenico Sfamini, a Standing Auditor, became a member of the Supervisory Body in accordance with Legislative Decree no. 231/2001.

### 15.1 APPOINTMENT OF AUDITORS

The Bylaws state that the Board of Auditors consists of three Standing Auditors and two Alternate Auditors. In order to permit minority shareholders to elect one Standing Auditor and one Alternate Auditor, the Bylaws state that they will be appointed by the slate system, under which one Standing Auditor and one Alternate Auditor are taken from the slate with the second to most votes (the *minority slate*). The remaining members of the Board (two Standing Auditors and one Alternate Auditor) are taken from the slate with the most votes (the *majority slate*).

Shareholders who, alone or together with other shareholders, represent at least 1.5% of the shares with voting rights in the ordinary shareholders' meetings or a smaller percentage, according to the regulations issued by Consob<sup>63</sup>, shall be entitled to submit slates.

Slates must be filed in the company's offices at least 25 days before the date of the Shareholders' Meeting called to discuss the point, unless extended under the applicable

legislation. In this regard, while readers are referred to the current legislation for more information<sup>64</sup>, note that in the case of presentation of a single slate or multiple slates presented by shareholders who are related, slates may be presented until the fifth day after the deadline for presentation of slates (25 days prior to the Meeting), and the thresholds for presentation are reduced by half.

Each shareholder may present or participate in presentation of only one slate.

The following must be provided with the slates, also in accordance with current legislation:

- information on the identity of the shareholders who presented the slates, indicating the percentage of shares owned and certifying that they are the owners of the shares;
  - a declaration by shareholders who do not hold a controlling or relative majority share, singly or jointly, stating that they are not connected;
  - a description of the professional career experience of the designated parties and declarations in which individual candidates accept their candidacy and attest, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet the requirements prescribed by law and by the Company Bylaws for the office.
- Any slates submitted without complying with the foregoing provisions shall be disregarded.

Each candidate may appear on only one slate, on pain of ineligibility.

The slates shall be divided into two sections: one for candidates for the position of standing auditor and one for candidates for the position of alternate auditor. The first candidate listed in each section must be selected from among the persons enrolled in the Register of Auditors who have worked on statutory audits for a period of no less than three years.

Each person entitled to vote may vote for only one slate. The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the minority slate, if presented.

The position of a standing auditor which falls vacant due to his or her death, forfeiture or resignation shall be filled by the alternate auditor chosen from the same slate as the former. In the event of the replacement of the Chairman of the Board of Statutory Auditors, the chair shall pertain to the other standing auditor from the same slate

Most of the Company's procedural policies are more restrictive than required by the Regulations.

<sup>63</sup> CONSOB (CONSOB Deliberation no. 17633 of 26 January 2011) identified the percentage of shares owned required to present slates of candidates for the election of Pirelli & C.'s administration and control bodies in 2011 at 1.5 percent of share capital with voting rights in ordinary shareholders' meetings.

<sup>64</sup> Issuers' Regulations: article 144-quinquies et seq. CONSOB also disseminated "Communication no. DEM/9017893 of 26-2-2009" containing a number of recommendations regarding "Appointment of members of administration and control bodies".

as the former Chairman; if it proves impossible to effect substitutions and replacements under the foregoing procedures, a Shareholders' Meeting shall be called to complete the Board of Statutory Auditors, which shall adopt resolutions by relative majority vote.

When the Shareholders' Meeting is required to appoint the standing and/or alternate members needed to complete the Board of Statutory Auditors, it shall proceed as follows: if auditors elected from the majority slate have to be replaced, the appointment shall be made by relative majority vote without slate constraints; if, however, auditors elected from the minority slate have to be replaced, the Shareholders' Meeting shall replace them by relative majority vote, selecting them where possible from amongst the candidates listed on the slate on which the auditor to be replaced appeared. The principle of necessary representation of minorities shall be considered complied with in the event of appointment of Statutory Auditors nominated before in the minority slate or in slates other than the one which obtained the highest number of votes in the context of the appointment of the Board of Auditors. In case only one slate has been presented, the Shareholders' Meeting shall vote on it; if the slate obtains the relative majority, the candidates listed in the respective section shall be appointed to the office of standing auditors and alternate auditors; the candidate listed at the first place in the slate shall be appointed as Chairman of the Board of Statutory Auditors. When appointing auditors who, for whatsoever reason, were not appointed under the procedure established herein, the Shareholders' Meeting shall vote on the basis of the majorities required by law.

Outgoing members of the Board of Statutory Auditors may be re-elected to office.

Meetings of the Board of Statutory Auditors may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

## 15.2 AUDITORS

The 21 April 2009 Shareholders' Meeting resolved to renew the Board of Statutory Auditors for the financial years 2009 - 2011, appointing Enrico Laghi, Paolo Gualtieri Paolo Domenico Sfameni as Standing Auditors and Luigi Guerra and Franco Ghiringhelli as Alternate Auditors.

They were appointed by the slate voting system. The single slate was presented by members of the Pirelli & C. Shareholders' Agreement, who obtained about 95% of the votes representing share capital with the right to vote at Shareholders' Meetings. In the absence of any members of the Board of Statutory Auditors coming from the minority slate, Enrico Laghi was appointed Chairman of the Board of Statutory Auditors.

The Shareholders' Meeting set the amount payable to

each of the Standing Auditors each year as Euro 41,500 and determined the annual pay of the Chairman of the Board of Statutory Auditors at Euro 62,000.

Moreover, the Auditor asked to take part in the Supervisory Body under Legislative Decree no. 231/2001 (Paolo Domenico Sfameni) is paid an additional gross annual sum of Euro 15,000.

The composition of the Board of Statutory Auditors at the date of this Report is identified in Table no. 5.

A list of the positions held by Statutory Auditors in joint-stock companies, limited liability companies and companies with unlimited responsibility is published by Consob on its website.

Note that as of the Date of the Report, no Auditor in office has notified the Company that he has exceeded the number of positions of administration and control permitted under article 144-terdecies of the Issuers' Regulations. In line with the provisions of the Self-Regulatory Code<sup>65</sup> and as expressly ascertained by the Board of Statutory Auditors, on the basis of the information supplied by the Auditors and available to the Board of Statutory Auditors, all Auditors may be considered independent on the basis of the criteria set forth in the Code for directors and on the basis of Consob communication no. 8067632 of 17 July 2008<sup>66</sup>.

The Procedure for Transactions with Related Parties, in compliance with the provisions of the regulations, qualifies Statutory Auditors as parties related to the Company; this means that if an Auditor has an interest in a given company transaction, the aforementioned procedure will apply, as described in greater detail above in the section on "Directors' Interests and Transactions with Related Parties". It follows that, in line with the provisions of the Self-Regulatory Code<sup>67</sup>, the Board of Directors will receive adequate information the nature of the relationship and on how the transaction is conducted.

## Activities of the Board of Statutory Auditors

During the Financial Year the Board of Statutory Auditors met 7 times with a percentage of attendance of more than 90% (refer to the table for an analytic representation of the participation of individual members of the Board in meetings held during the year).

It is also worth noting that the members of the Board attended not only Shareholders' Meetings and meetings of the Board of Directors but also meetings held during the year by the Committee for Internal Control, Risks and Corporate Governance and the Remuneration Committee, a circumstance characterising the rules of corporate

<sup>65</sup> Self-Regulatory Code, Criterion of application 10.C.2

<sup>66</sup> CONSOB Communication no. DEM/DCL/DSG/8067632 of 17-7-2008 regarding "Situations of incompatibility of members of control bodies under art. 148, subsection 3, lett. c) of the CFL".

<sup>67</sup> Self-Regulatory Code, Criterion of application 10.C.4.

governance adopted by the Company and offering the Board as a whole the possibility of directly overseeing the activities of the Committees and performing its control functions more efficaciously.

During the Financial Year the Board of Statutory Auditors monitored compliance with the law and the Bylaws, compliance with the principles of correct administration and the adequacy of the Company's organisational structure, of its internal control system and administrative and accounting system and the latter's dependability for correctly representing events in operation.

It also monitored concrete implementation of the rules of corporate governance required by the codes of conduct prepared by companies that manage regulated markets or professional associations which the company declares it follows and the adequacy of the instructions given by the Company to its subsidiaries regarding the requirements for disclosure of price sensitive information<sup>68</sup>.

The Board of Statutory Auditors reported on its activities before the April 2010 Shareholders' Meeting and expressed its opinion of the aspects pertaining to it of the Directors' proposal regarding allocation of profits and the dividend to be distributed.

The Board of Statutory Auditors has monitored<sup>69</sup> the independence of the external auditor, checking compliance with the provisions in this area and the nature and entity of services other than auditing of the accounts provided to Pirelli & C. and its subsidiaries by the external auditor and other companies in the same network as it.

The Board of Statutory Auditors has also verified correct application of the criteria and procedures applied by the Board of Directors to assess its members' independence. The Board of Statutory Auditors<sup>70</sup> coordinated its work with the Internal Audit Department and, as we have noted, members attended all the meetings of the Committee for Internal Control, Risks and Corporate Governance and held periodic meetings with representatives of the external auditor, pursuant to article 150, subsection 3 of Legislative Decree 58/1998, which did not reveal any findings worthy of note.

Moreover, during the Financial Year the Board of Statutory Auditors expressed its opinion pursuant to art. 2389 of the civil code.

On the topic of the "new" powers of the Board of Statutory Auditors aimed at verifying that the proceedings (in terms of company processes and procedures) established by the Company for the "formation" and "dissemination" of financial information are adequately and effectively structured, the Board of Statutory Auditors examined the internal regulations and specifically the Manual of "Administrative processes and operative and control

rules" created to represent in as much detail as possible the processes and activities of the Finance, Administration and Control area and therefore provide a common reference shared by all Group companies.

On the topic of surveillance of the efficacy of internal control systems, as already noted, the Board of Statutory Auditors already has the tools it needs for the new tasks by virtue of its attendance of the meetings of the Committee for Internal Control, as it has specifically received: (i) reports from Internal Audit Management at least once every quarter; (ii) an audit plan once a year; (iii) a risk assessment and management plan once a year (project undergoing start-up).

The Board has examined (a) the existing computer infrastructure of the control system in the Company and the Pirelli Group; (b) organisation of Internal Audit Management activities; (c) the "Principles of internal control".

In order to permit effective coordination with the Committee for Internal Control, Risks and Corporate Governance, the Committee and the Board of Statutory Auditors have agreed to work together, while retaining the Board's central role, on specific areas pertaining to control of (i) the financial reporting process; (ii) the efficacy of the internal control, internal audit and risk management systems; (iii) statutory auditing of annual and consolidated accounts; (iv) the independence of the external auditor.

## 16. SHAREHOLDER RELATIONS

Continuing its tradition of transparency and integrity, the company pays special attention to relations with shareholders, investors (institutional and private), financial analysts, other parties operating on the market and the financial community in general, in compliance with reciprocal roles and promoting periodic meetings in Italy and abroad.

Moreover, in order to promote ongoing dialogue with the financial market, the Company established the post of Investor Relations Manager in March 1999, held by Valeria Leone since 2008.

To permit open, immediate, transparent dialogue with all parties requiring financial information on Pirelli, the Company's website includes a special Investors section providing the information required for initial evaluation of Pirelli: characteristics identifying the Company, its economic and financial data, drivers of the various businesses the Pirelli Group is involved in, the judgement of financial analysts, accounting and corporate documentation and documents made available in corporate meetings with the financial community.

To promote dialogue with the Company, Investor Relations has an email address ([investorrelations@pirelli.com](mailto:investorrelations@pirelli.com)) through which answers are provided to requests received,

68 Now referred to as "sensitive information" (article 114 of the CFL).

69 Also in line with the Self-Regulatory Code: Criterion of application 10.C.5.

70 Self Regulatory Code: Criterion of application 10.C.6. and 10.C.7.



normally 24 hours a day, while the Investors-Contacts section provides contact information for individual members of the IR team for individual and institutional analysts' and investors' specific requests.

To encourage familiarity with the Company's strategy, the evolution of its business and the results it has achieved, Pirelli & C. top management and Investor Relations also use other typical financial communications tools such as roadshows, conference calls, one to one meetings and participation in trade conferences for the businesses in the Group. The Company's awareness of the importance of combining profitability with sustainability in business encourages it to participate in numerous world-wide assessment indicators of corporate social responsibility, an area in which it holds a recognised position of leadership.

## 17. SHAREHOLDERS' MEETINGS

The regulations governing the operation of Shareholders' Meetings have been profoundly changed in response to the provisions introduced into Italian legislation by Legislative Decree 27 of 2010 implementing in national law Directive 2007/36/CE for facilitating participation in Shareholders' Meetings by shareholders in listed companies.

In its 3 November meeting the Company's Board of Directors, as already mentioned, introduced the changes to the Bylaws necessary to implement the obligatory provisions of the law and on the occasion of the Shareholders' Meeting to approve the 2010 Financial Statements further changes will be proposed to implement some of the powers the legislator permits to promote the right to attend meetings and vote.

For more information on this topic, the reader is referred to the Board of Directors' Report to the Shareholders' Meeting, published on the Company's website; this section reports on a number of proposed changes to the Bylaws and on the changes made on 3 November 2010.

Shareholders' Meetings are called under the law and the Company Bylaws by publishing a call to meet on the Company's website. The call to meet is normally published at least thirty days prior to the first summons of the meeting, and in the case of Shareholders' Meetings called to elect members of the company's administration and control bodies, at least forty days prior to the date of the meeting. The call notice must identify the date, time and place of the meeting and the list of topics on the agenda.

The call notice must also contain a description of the procedures shareholders must comply with to attend meetings and exercise their voting rights and information on: (i) the right to ask questions prior to the meeting; (ii) the terms and methods applicable to the right to add topics to the agenda; (iii) the proxy voting procedure; (iv)

the identity of the subject (which the Company may have designated for proxy voting and the methods and terms for delegating proxies).

The Shareholders' Meeting may not deliberate on topics which do not appear on the agenda.

Shareholders who, alone or together, represent at least one fortieth of the Company's share capital may ask, within five days of the publication of the call notice, that topics be added to the agenda, identifying the additional topics they propose in their request.

The Shareholders' Meeting deliberates – in ordinary or extraordinary sessions – on, among other topics: (i) appointment and revocation of members of the Board of Directors and the Board of Statutory Auditors and their fees and responsibilities, (ii) approval of the financial statements and allocation of profits, (iii) purchase and sale of the company's own shares, (iv) changes to the Bylaws, (v) issuing of convertible bonds;

An ordinary Shareholders' Meeting – which may be held anywhere in Italy, not necessarily in the Company's offices – must be convened within 120 days of the end of the Financial Year, though the Shareholders' Meeting to approve the financial statements may, under article 2364 of the civil code, be convened within 180 days of the end of the Company's Financial Year.

The Shareholders' Meeting may be held in response to the first or second summons (or third summons, in the case of extraordinary Shareholders' Meetings only). The Shareholders' Meeting to approve the 2010 financial statements may also be held as a single summons, in which case the majorities required for the second summons of an ordinary meeting or the third summons of an extraordinary meeting shall apply.

In this regard, with the exception of specific topics for which the law requires a different majority, the Shareholders' Meeting shall be constituted and pass resolutions as follows:

- a) in an ordinary session:
  - at the first call, the Shareholders' Meeting shall be considered duly constituted provided enough shareholders are present to represent at least half the Company's share capital and pass resolutions by absolute majority of the share capital represented;
  - at the second (or only) call: the Shareholders' Meeting shall be considered duly constituted no matter what portion of the Company's share capital is represented by the shareholders attending and shall pass resolutions by absolute majority of the share capital represented
- b) in an extraordinary session:
  - at the first call, the Shareholders' Meeting shall be considered duly constituted provided enough shareholders are present to represent at least half the Company's share capital and pass resolutions

by favourable vote of at least two thirds of the share capital represented;

- at the second call, the Shareholders' Meeting shall be considered duly constituted provided enough shareholders are present to represent at least one third of the Company's share capital and pass resolutions by favourable vote of at least two thirds of the share capital represented;
- at the third call, the Shareholders' Meeting shall be considered duly constituted provided enough shareholders are present to represent at least one fifth of the Company's share capital and pass resolutions by favourable vote of at least two thirds of the share capital represented.

Shareholders are entitled to view all the documents filed in the company's offices for Shareholders' Meetings already called and to obtain a copy thereof at their own expense.

The proceedings of Shareholders' Meetings are regulated by the law, the Bylaws, and the Regulations for Shareholders' Meetings approved by the 11 May 2004 Shareholders' Meeting and amended by the 23 April 2007 Shareholders' Meeting<sup>71</sup>.

Meetings are chaired, in order of priority, by the Chairman of the Board of Directors, a Deputy Chairman or a Managing Director (if there are two or more Deputy Chairmen or Managing Directors, the senior one will act as chair). In the absence of all the aforementioned individuals, the meeting shall be chaired by another person elected with the favourable vote of the majority of the share capital represented at the meeting.

The tasks of the Chairman of the Shareholders' Meeting include, among others: verifying that the meeting is duly constituted; verifying attendees' identity and right to attend, also by proxy; ascertaining the number legally required to pass resolutions; directing the session, establishing a different order for discussion of the topics on the agenda if necessary. The Chairman normally adopts all suitable measures to ensure the orderly progress of debate and voting, defining the methods and ascertaining the results.

The resolutions of the Shareholders' Meeting are recorded in minutes signed by the Chairman and the Secretary or by the notary public. The minutes of Extraordinary Shareholders' Meetings must be drawn up by a notary designated by the Chairman of the Meeting.

Following the changes introduced by Legislative Decree no. 27/2010 with introduction into Italian law of the so-called record date mechanism, the shareholders entitled to attend Shareholders' Meetings and vote are those who, on the basis of notification of the Company's broker, are authorised to attend the meeting and vote at the close of the seventh trading day prior to the date set for the first or only call of the meeting.

Records of credits and debits to accounts after this deadline will not affect the right to vote at the Shareholders' Meeting. Shareholders with voting rights may appoint a proxy to represent them by the methods specified by current laws and regulations. The Company will designate, for each Shareholders' Meeting, one or more subjects whom those entitled to vote in the Shareholders' Meeting may appoint as proxy with instructions for voting on some or all of the topics on the agenda. The proxy will not apply to proposals for which no voting instructions have been given. The designated subjects, methods and terms of granting proxies appear in the call to meet.

The Company may be notified of the proxy in electronic form by one of the following alternative methods:

- a) use of the appropriate section on the Company's website, indicated by the Company in its call to meet;
- b) sending a message to the certified email address indicated by the Company in the call to meet.

The call to meet may also identify one of the above methods as applicable on the occasion of the particular meeting to which it refers.

With reference to the right of each person attending the meeting to take the floor to speak on the topics appearing on the agenda, note that the Regulations for Shareholders' Meetings state that the Chairman may, in view of the importance of the individual points on the agenda, identify the amount of time, which must not be less than 15 minutes, available to each speaker. Anyone wishing to speak must ask the Chairman or the Secretary to give them the floor, identifying the topic on which they wish to speak. Requests may be presented until the Chairman declares discussion of the topic in question closed. Attendees may ask for the floor a second time in the course of the same discussion, for no more than five minutes, solely in order to reply or make a voting declaration.

The Regulations entitle the Chairman of the meeting to grant Shareholders who made a request under the Bylaws to add no more than 15 minutes of discussion time on topics on the agenda to illustrate their proposed resolutions and explain the reasons for them.

Following the changes introduced by Legislative Decree 27/2010, shareholders may ask questions on topics on the agenda even before the meeting date applying the rules stated in the call notice. Questions asked before the meeting will be answered no later than during the meeting, and may be answered along with other similar questions. If the information requested is already available in the "questions and answers" section of the Company's website, no reply need be provided.

## 2010 SHAREHOLDERS' MEETINGS

Two Shareholders' Meetings were held in 2010:

- on 21 April 2010, in response to the second call, with the participation of 57.92% of the Company's

<sup>71</sup> The Regulations for Shareholders' Meetings appear at the end of this Report and in the Governance section of the Company's website.

ordinary share capital to discuss approval (i) in the ordinary session, of the financial statements at 31 December 2009 (approved by the favourable vote of 99.934% of the share capital represented at the meeting); (ii) in the extraordinary session, changes to article 5 (Share capital), 7 (Shareholders' Meetings) and 16 (Board of Statutory Auditors) of the Company Bylaws; numbering of the articles in the Company Bylaws in individual paragraphs (approved by the favourable vote of 99.996% of the share capital represented at the meeting);

- on 15 July 2010, in response to the second call with the participation of 59.66% of the Company's ordinary share capital, to resolve on approval of (i) Elimination of the par value of ordinary shares and savings shares and consequent changes to articles 5, 6 and 18 of the Company Bylaws; (approved with the favourable vote of 99.994% of the share capital represented at the meeting); (ii) on the conversion of ordinary and savings shares into stock at a rate of 1 new ordinary share for every 11 ordinary shares and 1 new savings share for every 11 savings shares owned, after cancelling the minimum number of ordinary and savings shares necessary to permit overall balancing of the operation, resulting in reduction of share capital; (approved with the favourable vote of 99.995% of the share capital represented at the meeting); (iii) voluntary reduction of share capital by no more than Euro 329,620,911.48 pursuant to article 2445 of the civil code by proportionate assignment to owners of ordinary shares and savings shares of 487,231,561 ordinary Pirelli RE shares owned by the Company; preparatory and consequent changes to article 5 of the Company Bylaws; (approved with the favourable vote of 99.994% of the share capital represented at the meeting).

The following documents, among others, are available on the Company's website for each meeting: (i) call to meet; (ii) copy of the minutes of the meeting; (iii) brief report on voting; (iv) documents and reports examined by the meeting; (v) press release distributed by the Company on the meeting.

### **THE SHAREHOLDERS' MEETING OF THE SAVINGS SHAREHOLDERS**

As far as the shareholders' meeting of the savings shareholders is concerned, it is called by the Common Representative of the Company savings shareholders or by the Board of Directors every time that they deem it opportune or when its call is requested under the terms of the law.

The special Shareholders' Meeting of the savings shareholders is chaired by the Common Representative of the savings shareholders or, in lack thereof, by the person elected with the favourable vote of the majority of the

capital represented at the Shareholders' Meeting.

Pursuant to the Articles of Association<sup>72</sup>, the burdens regarding organisation of the special category Shareholders' Meeting and remuneration of the Common Representative lie with the Company.

The Shareholders' Meeting of the savings shareholders that took place on 28 January 2009 confirmed Giovanni Pecorella Common Representative of the savings shareholders for the years 2009-2011. It also defined his fee and approved the establishment of the fund for the costs necessary for protecting the common category interests. At the time the Common Representative was renewed, the savings Shareholders expressed themselves with separate voting on the appointment of the Common Representative and on defining the fee and common fund.

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<sup>72</sup> Article 6 of the Articles of Association.

## 18. CHANGES SINCE THE END OF THE YEAR

The Report takes into account changes that have occurred from the end of the year up to the Report Date.

### TABLES

The exact share capital breakdown is shown below.

**TABLE NO. 1: SHARE CAPITAL STRUCTURE**

	N° azioni	% rispetto al capitale sociale	Quotato
<b>Ordinary shares*</b>	475,740,182	97.49%	Listed on the Mercato Telematico Azionario (screen-based stock exchange) organised and managed by Borsa Italiana S.p.A. – Blue Chip Segment
<b>Savings Shares**</b>	12,251,311	2.51%	Listed on the Mercato Telematico Azionario (screen-based stock exchange) organised and managed by Borsa Italiana S.p.A. – Blue Chip Segment

\* Codice ISIN IT0000072725

\*\* Codice ISIN IT0000072733

The subjects that according to what was published by Consob at the Report Date hold shares with voting rights at the Ordinary Shareholders' Meeting to an extent greater than 2% of the ordinary capital are listed below.

TABLE NO. 2: SIGNIFICANT SHAREHOLDINGS IN THE CAPITAL

Declarant	Direct Shareholder		% Share on Voting Capital				% Share on Ordinary Capital			
	Name	Title	of which Without Vote				of which Without Vote			
			% Share	% Share	the Vote lies with		% Share	% Share	of which Without Vote	
					Party	%			Party	%
EDIZIONE SRL	EDIZIONE SRL	Ownership	4.773	0.000			4.773	0.000		
		Total	4.773	0.000			4.773	0.000		
	<b>Total</b>	<b>4.773</b>	<b>0.000</b>			<b>4.773</b>	<b>0.000</b>	<b>0.000</b>		
PREMAFIN FINANZIARIA SPA HOLDING DI PARTECIPAZIONI	MILANO ASSICURAZIONI SPA	Ownership	0.025	0.000			0.025	0.000		
		Total	0.025	0.000			0.025	0.000		
	POPOLARE VITA SPA	Ownership	0.003	0.000			0.003	0.000		
		Total	0.003	0.000			0.003	0.000		
	FONDIARIA - SAI SPA	Ownership	4.454	0.000			4.454	0.000		
		Total	4.454	0.000			4.454	0.000		
<b>Total</b>	<b>4.482</b>	<b>0.000</b>			<b>4.482</b>	<b>0.000</b>				
ASSICURAZIONI GENERALI SPA	GENERALI VIE SA	Ownership	1.097	0.000			1.097	0.000		
		Total	1.097	0.000			1.097	0.000		
	INTESA VITA SPA	Ownership	0.016	0.000			0.016	0.000		
		Total	0.016	0.000			0.016	0.000		
	ALLEANZA TORO SPA	Ownership	0.189	0.000			0.189	0.000		
		Total	0.189	0.000			0.189	0.000		
	GENERTELLIFE S.P.A.	Ownership	0.001	0.000			0.001	0.000		
		Total	0.001	0.000			0.001	0.000		
	INA ASSITALIA SPA	Ownership	2.005	0.000			2.005	0.000		
		Total	2.005	0.000			2.005	0.000		
	ASSICURAZIONI GENERALI SPA	Ownership	2.177	0.000			2.177	0.000		
		Total	2.177	0.000			2.177	0.000		
<b>Total</b>	<b>5.485</b>	<b>0.000</b>			<b>5.485</b>	<b>0.000</b>				
ALLIANZ SE	ANTONIANA VENETA POPOLARE VITA SPA	Ownership	0.001	0.000			0.001	0.000		
		Total	0.001	0.000			0.001	0.000		
	CREDITRAS VITA SPA	Ownership	0.001	0.000			0.001	0.000		
		Total	0.001	0.000			0.001	0.000		
	ALLIANZ SPA	Ownership	4.518	0.000			4.518	0.000		
		Total	4.518	0.000			4.518	0.000		
<b>Total</b>	<b>4.520</b>	<b>0.000</b>			<b>4.520</b>	<b>0.000</b>				
TRONCHETTI PROVERA MARCO	CAM PARTECIPAZIONI SPA	Ownership	0.023	0.000			0.023	0.000		
		Total	0.023	0.000			0.023	0.000		
	CAMFIN CAM FINANZIARIA SPA	Ownership	25.542	0.000			25.542	0.000		
		Total	25.542	0.000			25.542	0.000		
<b>Total</b>	<b>25.565</b>	<b>0.000</b>			<b>25.565</b>	<b>0.000</b>				
MEDIOBANCA SPA	MEDIOBANCA SPA	Ownership	3.954	0.000			3.954	0.000		
		Total	3.954	0.000			3.954	0.000		
	<b>Total</b>	<b>3.954</b>	<b>0.000</b>			<b>3.954</b>	<b>0.000</b>			

The information regarding the shareholders that directly or indirectly hold ordinary shares totalling more than 2% of the capital with voting rights at the Ordinary Shareholders' Meeting of the Companies taken from the Consob website. To this regard, it is deemed helpful to point out that the information published by Consob on its website, as provided by the notifications made by the parties bound to the obligations set forth under article 120 Finance Consolidated Act and in the Issuers' Regulation, could considerably stray from the real situation as the obligations to report changes in the percentage of shareholding held arise not with the simple variation of this percentage, but only with the "going over" or "falling below" predetermined thresholds (2%, 5%, and subsequent multiples of 5% up to the threshold of 50% and, beyond this threshold, 66.6%, 75%, 90% and 95%). It ensues, for example, that a shareholder (i.e. declarant party) that has declared it owns 2.6% of the capital with voting rights may increase its investment up to 4.9% without being required to report to Consob pursuant to 120 Finance Consolidated Act.



The composition of the Board of Directors as at the Report Date is given below.

**TABLE NO. 3: COMPOSITION OF THE BOARD OF DIRECTORS**

Name	Office	In office since	List	Exec.	Non exec.	Ind.	Ind. CFL	%Bod
Marco Tronchetti Provera	Chairman	29/04/2008	Maj.	X				100
Alberto Pirelli	Deputy Chairman	29/04/2008	Maj.	X				100
Vittorio Malacalza*	Deputy Chairman	Since 29 July 2010	-		X			100
Carlo Acutis	Director	29/04/2008	Maj.		X	X	X	100
Carlo Angelici	Director	29/04/2008	Min.		X	X	X	100
Cristiano Antonelli	Director	29/04/2008	Min.		X	X	X	100
Gilberto Benetton	Director	29/04/2008	Maj.		X			80
Alberto Bombassei	Director	29/04/2008	Maj.		X	X	X	100
Franco Bruni	Director	29/04/2008	Min.		X	X	X	100
Luigi Campiglio	Director	29/04/2008	Maj.		X	X	X	100
Enrico Tommaso Cucchiani	Director	29/04/2008	Maj.		X			20
Giulia Maria Ligresti	Director	29/04/2008	Maj.		X			100
Massimo Moratti	Director	29/04/2008	Maj.		X			20
Renato Pagliaro	Director	29/04/2008	Maj.		X			100
Umberto Paolucci	Director	29/04/2008	Min.		X	X	X	100
Giovanni Perissinotto	Director	29/04/2008	Maj.		X			40
Giampiero Pesenti	Director	29/04/2008	Maj.		X	X	X	40
Luigi Roth	Director	29/04/2008	Maj.		X	X	X	100
Carlo Secchi	Director	29/04/2008	Maj.		X	X	X	100

List: Maj/Min depending on whether the director was elected from the list voted by the majority or by a minority

Exec.: if crossed, this indicates that the director can be qualified as executive

Non-exec.: if crossed, this indicates that the director can be qualified as non-executive

Ind.: if crossed, this indicates that the director can be qualified as independent according to the criteria established by the Corporate Governance Code.

Ind. Finance Consolidated Act: if crossed, this indicates that the director has requisites of independence established by Art.148, paragraph 3, of the Finance Consolidated Act

% BoD: this indicates the presence, in terms of percentage, of the director at the Board meetings

(\*) The Director was appointed according to Art. 2386 of the Italian Civil Code. Director of the Company on 29 July 2010. The percentage therefore takes into account only meetings held after that date.

**TABLE NO. 3B: THE DIRECTORS THAT DISCONTINUED HOLDING OFFICE DURING THE YEAR**

Name	Office	In office since	List	Exec.	Non exec.	Ind.	Ind. CFL	%Bod
Carlo Alessandro Puri Negri	Deputy Chairman	29/04/2008 until 29 July 2010	Maj.	X				100*
Berardino Libonati	Director	29/04/2008 until 30 November 2010	Maj.		X	X	X	80*

Please refer to the key of the two previous tables.

(\*) In calculating the percentage of attendance at the meetings of the Board of Directors, the meetings that the Director attended before termination of office as to the number of meetings held during the year until termination of office were considered.

The composition of the Committees established within the Board of Directors as at the Report Date is provided below.

**TABLE NO. 4: COMPOSITION OF THE ADVISORY COMMITTEES.**

Name	Office	R.C.	ICRCGC	% Committee
Carlo Angelici	Member		X	100
Cristiano Antonelli	Member		X	100
Alberto Bombassei	Member	X		50
Franco Bruni	Member		X	100
Umberto Paolucci	Member	X		100
Giampiero Pesenti	Member	X		50
Luigi Roth	Member		X	88
Carlo Secchi	Chairman		X	100

R.C.: indicates the Remuneration Committee

I.C.R.C.G.C.: indicates the Internal Control, Risks and Corporate Governance Committee

% Committee: indicates the presence, in terms of percentage, of the director at the meetings of the committee of which he is a member.

The Committees' members that discontinued holding of-  
fice during the year are stated below:

**TABLE NO. 4B**

Name	Office	R.C.	ICRCGC	% Committee
Berardino Libonati	Chairman until 30 November 2010	X		100

Please refer to the key of the two previous tables.

(\* In calculating the percentage of attendance at the meetings, the meetings that the Director attended before termination of office as to the number of meetings held during the year until termination of office were considered.

The composition of the Board of Statutory Auditors as at the Report Date is given below:

**TABLE NO. 5: COMPOSITION OF THE BOARD OF STATUTORY AUDITORS**

Name	Office	In office since	List	Ind. Voluntary Self-Regulatory Code	% attend. BoD	% attend. BoSA	% attend. ICRCGC	% attend. R.C.
Enrico Laghi	Chairman	21/04/2009	Maj.	X	100	100	100	100
Paolo Gualtieri	Statutory auditor	21/04/2009	Maj.	X	60	71	75	100
Paolo Domenico Sfameni	Statutory Auditor	21/04/2009	Maj.	X	100	100	88	100
Luigi Guerra	Alternate Auditor		Maj.	-	-	-	-	-
Franco Ghiringhelli	Alternate Auditor		Maj.	-	-	-	-	-

Office: indicates whether chairman, statutory auditor or alternate auditor.

BoD: indicates the Board of Directors

R.C.: indicates the Remuneration Committee

I.C.R.C.G.C.: indicates the Internal Control, Risks and Corporate Governance Committee

List: Maj/min depending on whether the auditor was elected by the list voted by the majority or by a minority (art. 144-decies, of the Issuers' Regulation)

Ind.: if crossed it indicates that the auditor can be qualified as independent according to the criteria established by the Code, specifying at the bottom of the table whether said criteria have been supplemented or amended

% attend. BoSA.: this indicates the presence of the auditor at the board of statutory auditors meetings in terms of percentage.



























## ANNEX A – BYLAWS<sup>73</sup>

### NAME – PURPOSE – REGISTERED OFFICE - TERM

#### Article 1

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- 1.1 A joint-stock company has been incorporated under the name *Pirelli & C. Società per Azioni* or, in abbreviated form, *Pirelli & C. S.p.A.*

#### Article 2

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- 2.1 The Company's purpose shall be:
- a) the acquisition of equity interests in other companies or corporations, both in Italy and abroad;
  - b) the financing and the technical and financial coordination of the companies or corporations in which it holds interests;
  - c) the sale and purchase, ownership, management and/or placement of both government and private securities;
- 2.2 The company may carry out all operations of any type whatsoever - excluding any activities reserved by law - connected to its corporate purpose.

#### Article 3

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- 3.1 The registered office of the Company shall be in Milan.

#### Article 4

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- 4.1 The duration of the company shall be until December 31, 2100.
- 4.2 The extension of the term of duration does not award the right of withdrawal to shareholders who do not take part in the approval of the relating resolution.

### SHARE CAPITAL

#### Article 5

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- 5.1 The Company shall have a subscribed and paid-in share capital of EUR 1,377,878,879.78 (one billion three hundred and seventy seven million - hundred and eighty eight thousand eight hundred and seventy nine point seventy eight) divided into no. 487,991,493 (four hundred eighty seven million - nine hundred ninety one thousand four hundred and ninety three) shares without par value consisting of

475,740,182 (four hundred seventy five million - even hundred forty thousand one hundred eighty) ordinary shares and 12,251,311 (twelve million - two hundred fifty one thousand three hundred - eleven) savings shares.

- 5.2 In resolutions to increase the share capital by issuing shares against payment, pre-emption right may be excluded for up to a maximum of ten percent of the previously existing capital, provided that the issue price corresponds to the market value of the shares and that this is confirmed in a specific report prepared by the firm appointed to audit the accounts.
- 5.3 If so resolved by the shareholders' meeting, the share capital may also be increased by means of contributions in kind or of receivables.
- 5.4 By resolution of the extraordinary shareholders' meeting held on May 7, 2003, the directors were authorised to issue, on one or more occasions within April 30, 2008, up to a maximum of 100,000,000 ordinary shares, to be allocated to executive managers and cadres employed by the Company, by its subsidiaries and by the subsidiaries of the latter, in Italy and abroad, in compliance with article 2441, paragraph 8, of the Italian Civil Code and article 134 of Legislative Decree no. 58/1998. On February 25, 2005 the Board of Directors resolved, in partial implementation of the authorisation granted to it by the extraordinary shareholders' meeting held on May 7, 2003, to increase the share capital by a maximum nominal amount of EUR 15,725,496.50, re-determined as EUR 15,725,494.18 after the reverse stock split in a ratio of 1 new share for every 11 ordinary or savings shares held, resolved by the extraordinary shareholders meeting held on July 15, 2010, by issuing, taking account of said reverse stock split and of the reduction of share capital through assignment of Pirelli & C. Real Estate S.p.A. shares resolved by the extraordinary shareholders' meeting held on July 15, 2010, a maximum of 4,929,622 ordinary shares without par value, at a price of EUR 10.589 per share, inclusive of a EUR 7.399 share premium and EUR 3.190 to impute to capital, to be reserved for subscription by executive managers and cadres employed by the Company, by its subsidiaries and by the latter's subsidiaries, in Italy and abroad.
- 5.5 If resolved by the Shareholders' Meeting, the share capital may be reduced also by assignment of non-cash assets to the shareholders.

#### Article 6

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- 6.1 The shares are divided into ordinary shares and savings shares.

<sup>73</sup> Some modifications to the bylaws will be submitted to the Shareholders' Meeting called to approve the financial statements at 31 December 2010. For details more information, please see the Directors' report in the financial statements, which gives the text of the current bylaws and the proposed modifications, for comparison. articles.

- 6.2 Ordinary shares award the right to one vote per share; they may be either registered or bearer shares insofar as the law permits, and in this case may be converted from one type to the other, especially at the shareholder's request and expense.
- 6.3 Savings shares do not carry voting rights and, unless the law provides otherwise, are bearer shares.
- 6.4 They may be converted into registered shares on request and expense of the shareholder.
- 6.5 As well as any rights and privileges provided for by law and in other parts of these By-laws, savings shares shall have priority in the repayment of the capital up to EUR 3.19 (threepointnineteen). In the event of a reduction of the share capital due to losses, the reduction has no effect on saving shares except for the portion not included in the full extent covered by other shares.
- 6.6 Savings shares shall retain the rights and privileges contemplated by law and by these By-laws also in the event that the Company's ordinary and/or savings shares are delisted.
- 6.7 In the event of a share capital increase being carried out by issuing shares of only one class, such shares must be offered on option to the holders of all classes of shares.
- 6.8 In the event of a share capital increase being carried out by issuing of both ordinary and savings shares: a) the holders of ordinary shares shall be entitled to receive an option on ordinary shares, and on savings shares to make up any difference; b) the holders of savings shares shall be entitled to receive an option on savings shares, and on ordinary shares to make up any difference.
- 6.9 Any introduction or removal of restrictions on the circulation of shares does not award the right of withdrawal to shareholders who do not take part in the approval of the relating resolution.
- 6.10 The savings shareholders' organisation is governed by law and by these Bylaws. The expenses related to the organisation of the special savings shareholders meetings and the remuneration of the common representatives of savings shareholders shall be borne by the Company.
- 7.3 Persons with voting rights are entitled to attend the meeting and may appoint a representative by proxy issued as provided by the current law and regulations. The proxy may be notified to the Company by electronic means, making alternative use of one of the following methods:  
**a)** use of the dedicated section of the Company website, indicated by the Company in the notice of call;  
**b)** despatch of a message to the certified electronic mail address at the address indicated by the Company in the notice of call.  
 The notice of call may also circumscribe the method to be used for the specific shareholders' meeting to which the notice refers to one of the aforementioned methods..
- 7.4 The ordinary shareholders' meeting must be called in accordance with the law within a maximum of 180 days after the end of the Company's financial year.
- 7.5 Requests to add items to the agenda of the general meetings presented by shareholders in accordance with the law must be detailed, by the same shareholders, with a report to the Board of Directors filed at the Company's registered office before the last date indicated for submission of the request for additions to be made to the agenda.
- 7.6 Special meetings of savings shareholders shall be convened by the common representative of savings shareholders or by the Board of Directors of the Company whenever they deem necessary or in accordance with the law.

#### Article 8

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- 8.1 The due constitution of shareholders' meetings and the validity of the resolutions adopted by same are governed by law.
- 8.2 The proceedings of shareholders meetings are governed by law, by these By-laws, and – solely for the ordinary and extraordinary general meetings – by the Rules of Proceeding approved by resolution of the Company's ordinary shareholders meeting.

#### Article 9

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- 9.1 Ordinary and extraordinary shareholders' meetings shall be chaired by the Chairman of the Board of Directors, by a Deputy Chairman or by a Managing Director, in that order; whenever there are two or more Deputy Chairmen or Managing Directors, the meetings will be chaired by the elder of same respectively. In the absence of all of the aforementioned individuals, the meeting shall be chaired by another person elected with the favourable vote of the majority of the capital represented at the meeting.

### SHAREHOLDERS' MEETINGS

#### Article 7

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- 7.1 The calling of shareholders' meetings, which may be held anywhere in Italy, including in a place other than the Company's registered office, the right to attend meetings and representation at same are all regulated by law and by these By-laws.
- 7.2 The notice of call of an extraordinary shareholders' meeting may provide for it being held on third call.

- 9.2 The special meeting for savings shareholders shall be chaired by the common representative for savings shareholders or, in his absence, by the person appointed with the favourable vote of the majority of the capital represented at the meeting.
- 9.3 The Chairman shall be assisted by a Secretary who is to be appointed with the favourable vote of the majority of the capital represented at the meeting and need not be a shareholder; there is no need to appoint a Secretary when a notary public is designated to draw up the minutes of the meeting.
- 9.4 The Chairman of the shareholders' meeting shall chair the meeting and govern its proceedings in compliance with the law and these By-laws. To this end, the Chairman shall, amongst other things: verify that the meeting is duly constituted; ascertain the identity of those present and their right to attend, including by proxy; ascertain the legal quorum for passing resolutions; direct the business, including by establishing a different order for the discussion of the items listed on the agenda in the notice convening the meeting. The Chairman shall also take appropriate measures to ensure the orderly conduct of discussions and votes and shall establish the procedures and ascertain the results thereof.
- 9.5 The resolutions of shareholders' meetings shall be recorded in the minutes that must be signed by the Chairman of the meeting and by the Secretary or the notary public.
- 9.6 The minutes of extraordinary shareholders' meetings must be drawn up by a notary public appointed by the Chairman of the meeting.
- 9.7 Any copies of and extracts from minutes that have not been drawn up by a notary public shall be certified as true copies by the Chairman of the Board of Directors.
- 10.3 The slates presented by the shareholders, which must be undersigned by the parties submitting them, shall be filed at the Company's registered office, and be available at least twenty five days before the date set for the shareholders' meeting to be held on first call. They are made available to the public at the registered office, on the Company website and in the other ways specified by Consob regulations at least 21 days before the date of the general meeting.
- 10.4 Each shareholder may present or take part in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.
- 10.5 Only shareholders who, alone or together with other shareholders, hold a total number of shares representing at least 2 percent of the share capital entitled to vote at the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa, are entitled to submit slates, subject to their proving ownership of the number of shares needed for the presentation of slates within the term specified for their publication by the Company.
- 10.6 Together with each slate, and within the respective terms specified above, statements must be filed in which the individual candidates agree to their nomination and attest, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet any requisites prescribed for the positions. Together with such statements, a curriculum vitae must be filed for each candidate, setting out their relevant personal and professional data and mentioning the offices held in management and supervisory bodies of other companies and specifying, where appropriate, the grounds on which they qualify as an independent candidate in accordance with the criteria established by law and the Company. Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.

## ADMINISTRATION OF THE COMPANY

### Article 10

- 10.1 The Company shall be managed by a Board of Directors composed of no less than seven and no more than twenty three members who shall remain in office for three financial years (unless the shareholders' meeting establishes a shorter term at the time of their appointment) and may be re-elected. The shareholders' meeting shall establish the number of members of the Board of Directors, which shall remain unchanged until said meeting resolves otherwise.
- 10.2 The Board of Directors shall be appointed on the basis of slates presented by the shareholders pursuant to the following paragraphs hereof, in which the candidates are listed by consecutive number.
- 10.7 Any slates submitted without complying with the foregoing provisions shall be disregarded.
- 10.8 Each person entitled to vote may vote for only one slate.
- 10.9 The Board of Directors shall be elected as specified below:
- a) four-fifths of the directors to be elected shall be chosen from the slate which obtains the highest number of votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it shall be rounded-down to the nearest whole number;
  - b) the remaining directors shall be chosen from the other slates; to this end, the votes obtained by

the various slates shall be divided by whole progressive numbers from one up to the number of directors to be elected.

The quotients thus obtained shall be assigned to the candidates on each slate in the order they are respectively listed thereon. On the basis of the quotients assigned, the candidates on the various slates shall be ranked in a single list in decreasing order. Those who have obtained the highest quotient shall be elected.

If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected a director or that has elected the lowest number of directors shall be elected.

If none of such slates has as yet elected a director or they have all elected the same number of directors, the candidate from the slate which obtained the highest number of votes shall be elected. If the different slates obtain the same number of votes and their candidates are assigned the same quotients, a new vote shall be held by the entire shareholders' meeting and the candidate who obtains the simple majority of the votes shall be elected.

- 10.10 If the application of the slate voting system shall not ensure the appointment of the minimum number of independent Directors required by the law and/or regulation, the appointed non-independent candidate indicated with the higher progressive number in the slate which has obtained the higher number of votes shall be replaced by the non-appointed independent candidate included in the same slate on the basis of the progressive order of the presentation and so on, slate by slate, until the minimum number of independent Directors shall be appointed.
- 10.11 When appointing directors who, for whatsoever reason were not appointed under the procedure established herein, the shareholders' meeting shall vote on the basis of the majorities required by law.
- 10.12 If one or more vacancies occur on the Board during the course of the financial year, the procedure established in article 2386 of the Italian Civil Code shall be followed.
- 10.13 In the event a Director cease to comply with the independence requirements, this does not cause his/her ceasing to be a Director provided that the Directors in office complying with legal independence requirements are a number at least equal to the minimum number requested by laws and/or regulations.
- 10.14 The Board of Directors shall elect its own Chairman, if the shareholders' meeting has not already done so, and may also appoint one or more Deputy Chairmen.
- 10.15 In the absence of the Chairman, a Deputy Chairman or a Managing Director, in that order, shall

act in his/her stead; should there be two or more Deputy Chairmen or Managing Directors, the Board shall be presided over by the elder of same respectively.

- 10.16 The Board of Directors shall appoint a Secretary, who need not be a director.
- 10.17 Until the shareholders' meeting resolves otherwise, the directors shall not be subject to the prohibition contemplated in article 2390 of the Italian Civil Code.

#### Article 11

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- 11.1 The Board of Directors shall conduct the management of the company and is accordingly vested with the broadest powers of administration, except for those remitted by law or by these By-laws to the authority of the shareholders' meeting.
- 11.2 Within the limits established by law, the Board of Directors shall be authorised to decide on the merger of companies in Pirelli & C. S.p.A. or demerger in favour of Pirelli & C. S.p.A. of companies in which Pirelli & C. S.p.A. owns at least 90 percent of the shares or quotas, the reduction of the share capital in the event of the withdrawal of shareholders, the revision of the By-laws to conform with statutory provisions, the relocation of the Company's registered office within Italy, and the opening and closing of branch offices.
- 11.3 The Board of Directors and the Board of Statutory Auditors shall be kept informed, also by corporate bodies with delegated powers, on the activities carried out, the general performance of operations and their foreseeable development, and the transactions of greatest economic, financial and equity-related significance concluded by the Company or its subsidiaries; in particular, said corporate bodies with delegated powers shall report on transactions in which they have an interest, directly or on behalf of third parties, or that are influenced by the party that performs management and coordination activities, if any. Such reports shall be made promptly, on a quarterly basis at the least, in a written memorandum.
- 11.4 In accordance with the established times and procedures for disclosing information to the market, the representative of the holders of savings shares must be informed by the Board of Directors or by the persons delegated for such purpose about any corporate events that might affect the price of the shares in that class.
- 11.5 In the context of the management of the Company, the Board of Directors shall be authorised to delegate those powers which it deems appropriate to one or more of its members, possibly with the title of Managing Director, and grant them the single or joint signature powers it decides appropriate to establish.



- 11.6 It may also delegate its powers to an Executive Committee composed of some of its own members, whose remuneration shall be established by the shareholders' meeting.
- 11.7 It may also establish one or more committees with consulting and propositional functions, also for purposes of adjusting the corporate governance structure in line with the recommendations issued from time to time by the pertinent authorities.
- 11.8 The Board of Directors shall appoint - with the consent of the Board of Statutory Auditors - the manager responsible for preparing the Company's financial reports. His office shall expire at the same time as that of the Board of Directors that appointed him/her, unless annulment for good cause, with the consent of the Board of Statutory Auditors.
- 11.9 The manager responsible for preparing the Company's financial reports must be an expert on administration, finances and auditing of companies and satisfy the integrity qualifications required to be a directors. Failing of such qualifications shall determine the termination of the office to be resolved by the Board of Directors within thirty days since the acknowledgement of the defect.
- 11.10 Lastly, the Board may appoint general managers, deputy general managers, managers and deputy managers and attorneys-in-fact to carry out certain operations or categories of operations, establishing their powers and functions. The appointment of managers, deputy managers and attorneys-in-fact to carry out certain operations or categories of operations may also be remitted by the Board to the Managing Directors and the General Managers.

#### Article 12

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- 12.1 The Board shall meet, at the invitation of the Chairman or whoever acts in his/her stead, at the Company's registered office or at any other venue stated in the letter of convocation, whenever he/she deems it appropriate in the best interests of the Company or receives a written request to do so from one of the Managing Directors or one-fifth of the directors in office.
- 12.2 The meeting of the Board of Directors can also be convened by the Board of Statutory Auditors, or by a single Statutory auditor, subject to prior notice given to the Chairman of the Board of Directors.
- 12.3 The Chairman shall give advance notice of the matters to be discussed at Board meetings and arrange for adequate information on the questions to be examined to be provided to all the directors, taking account of the circumstances of each case.
- 12.4 Board meetings shall be called by letter, telegram, fax or e-mail, to be sent to each director and standing member of the Board of Statutory Auditors at least five days prior (or in urgent cases, with at least six hours' notice) to the date scheduled for the meeting.
- 12.5 Even when a Board meeting is not formally called, resolutions of the Board of Directors shall nevertheless be valid if adopted in the presence of all the Board members in office and all the standing members of the Board of Statutory Auditors.
- 12.6 Board meetings - and meetings of the Executive Committee, if established - may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.
- 12.7 Meetings of the Board of Directors, and of the Executive Committee, if established, shall be considered held at the place in which the Chairman and the Secretary must be simultaneously located.
- 12.8 Resolutions of the Board of Directors shall only be valid if adopted in the presence of the majority of Board members and by majority vote. In the event of a tied vote, the Chairman shall hold the casting vote.
- 12.9 Resolutions of the Board of Directors, including those adopted at meetings held via telecommunications, must be recorded in a specific minutes book and signed by the Chairman and the Secretary of the meeting. Any copies of and extracts from minutes that have not been drawn up by a notary public shall be certified as true copies by the Chairman.

#### Article 13

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- 13.1 The legal representation of the Company vis-à-vis third parties and in court proceedings shall pertain severally to the Chairman of the Board of Directors and, within the limits of the powers granted to them by the Board of Directors, to the Deputy Chairmen and the Managing Directors, if appointed.
- 13.2 Each of the aforementioned shall in any event be vested with all powers to bring legal actions and file petitions before any judicial authority and at all levels of jurisdiction, including in appeal and Supreme Court proceedings, to file statements and charges in criminal cases, to sue on behalf of the Company in criminal proceedings, to bring legal proceedings and file petitions before all administrative jurisdictions, to intervene and protect the Company's interests in any proceedings and claims concerning the Company and to grant the mandates and powers of attorney *ad lites* required for such purpose.
- 13.3 The Board of Directors and, within the limits of the powers granted to them by said Board, the

Chairman of the Board and, if appointed, the Deputy Chairmen and the Managing Directors, shall be authorised to grant the power to represent the Company vis-à-vis third parties and in court proceedings to managers and staff in general and, when necessary, to third parties.

#### Article 14

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- 14.1 In addition to the reimbursement of all expenses sustained by reason of their office, members of the Board of Directors shall be entitled to an annual emolument established by the shareholders' meeting.
- 14.2 The remuneration of directors vested with special office shall be established by the Board of Directors after obtaining the opinion of the Board of Statutory Auditors.

#### Article 15

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- 15.1 If, due to resignations or for any other reason, more than half of the seats on the Board become vacant, the entire Board of Directors shall be deemed to have resigned and cease to hold office with effect as of the time of its reconstitution.

### BOARD OF STATUTORY AUDITORS

#### Article 16

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- 16.1 The Board of Statutory Auditors shall be composed of three standing and two alternate auditors, who must be in possession of the requisites established under applicable laws and regulations; to this end, it shall be borne in mind that the fields and sectors of business closely connected with those of the Company are those stated in the Company's purpose, with particular reference to companies or corporations operating in the financial, industrial, banking, insurance and real estate sectors and in the services field in general.
- 16.2 The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its remuneration. The minority shareholders shall be entitled to appoint one standing auditor and one alternate auditor.
- 16.3 The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of the third-to-last paragraph of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.
- 16.4 Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

16.5 Shareholders who, alone or together with other shareholders, represent at least 1,5 percent of the shares with voting rights in the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa for the submission of slates for the appointment of the Board of Directors shall be entitled to submit slates.

16.6 Each shareholder may present or take part in the presentation of only one slate.

16.7 The slates of candidates, which must be underwritten by the parties submitting them, shall be filed in the Company's registered office at least twenty five days prior to the date set for the shareholders' meeting to be held on first call except for those cases in which the law and/or the regulation provide an extension of the deadline.

Without limitation to any further documentation required by applicable rules, including any regulatory provisions, a personal and professional curriculum, mentioning also the offices held in management and supervisory bodies of other companies, of the individuals standing for election must be enclosed with the slates together with statements in which the individual candidates agree to:

- their nomination
- attest, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet the requisites prescribed by law, by these By-laws and by regulation for the position.

Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.

16.8 Any slates submitted without complying with the foregoing provisions shall be disregarded.

16.9 Each candidate may appear on only one slate, on pain of ineligibility.

16.10 The slates shall be divided into two sections: one for candidates for the position of standing Auditor and one for candidates for the position of alternate Auditor. The first candidate listed in each section must be selected from among the persons enrolled in the Register of Auditors who have worked on statutory audits for a period of no less than three years.

16.11 Each person entitled to vote may vote for only one slate.

16.12 The Board of Statutory Auditors shall be elected as specified below:

- a) two standing members and one alternate member shall be chosen from the slate which obtains the highest number of votes (known as the majority slate), in the consecutive order in which they are listed thereon;
- b) the remaining standing member and the other alternate member shall be chosen from the slate

which obtains the highest number of votes cast by the shareholders after the first slate (known as the minority slate), in the consecutive order in which they are listed thereon; if several slates obtain the same number of votes, a new vote between said slates will be cast by all those entitled to vote attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

- 16.13 The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the minority slate.
- 16.14 The position of a standing auditor which falls vacant due to his/her death, forfeiture or resignation shall be filled by the alternate auditor chosen from the same slate as the former. In the event of the replacement of the Chairman of the Board of Statutory Auditors, the chair shall pertain to the candidate listed in the same slate of the former Chairman, following the order contained in the list; if it proves impossible to effect substitutions and replacements under the foregoing procedures, a shareholders' meeting shall be called to complete the Board of Statutory Auditors which shall adopt resolutions by relative majority vote.
- 16.15 When the shareholders' meeting is required, pursuant to the provisions of the foregoing paragraph or to the law, to appoint the standing and/or alternate members needed to complete the Board of Statutory Auditors, it shall proceed as follows: if auditors elected from the majority slate have to be replaced, the appointment shall be made by relative majority vote without slate constraints; if, however, auditors elected from the minority slate have to be replaced, the shareholders' meeting shall replace them by relative majority vote, selecting them where possible from amongst the candidates listed on the slate on which the auditor to be replaced appeared and in any event in accordance with the principle of necessary representation of minorities to which this By Laws ensure the right to take part to the appointment of the Board of Statutory Auditors.
- The principle of necessary representation of minorities shall be considered complied with in the event of the appointment of Statutory Auditors nominated before in the minority slate or in slates different other than the one which obtained the highest number of votes in the context of the appointment of the Board of Statutory Auditors.
- 16.16 In case only one slate has been presented, the shareholders' meeting shall vote on it; if the slate obtains the relative majority, the candidates listed in the respective section shall be appointed to the office of standing auditors and alternate auditors;

the candidate listed at the first place in the slate shall be appointed as Chairman of the Board of Statutory Auditors.

- 16.17 When appointing auditors who, for whatsoever reason, were not appointed under the procedures established herein, the shareholders' meeting shall vote on the basis of the majorities required by law.
- 16.18 Outgoing members of the Board of Statutory Auditors may be re-elected to office.
- 16.19 Meetings of the Board of Statutory Auditors may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

## FINANCIAL STATEMENTS – ALLOCATION OF PROFITS

### Article 17

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- 17.1 The company's financial year shall close on December 31 of each year.

### Article 18

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- 18.1 Following the mandatory allocations to statutory reserves, the Company's net year-end profits shall be distributed as follows:
- a) savings shares shall be awarded a dividend of seven percent of EUR 3.19 (threepointnineten); if a dividend of less than seven percent of EUR 3.19 (threepointnineten) is awarded to savings shares in a given financial year, the difference shall be computed as an increase to be added to the preference dividend over the subsequent two financial years; any profits remaining following the award of the aforementioned dividend to savings shares shall be distributed amongst all the shares in such a way that savings shares shall receive an aggregate dividend which is higher, compared to the dividend awarded to ordinary shares, by an amount corresponding to two percent of EUR 3.19 (threepointnineten);
  - b) notwithstanding the foregoing provisions regarding the aggregate higher dividends awarded to savings shares, ordinary shares shall be awarded a dividend corresponding to a maximum of five percent of their implied book value (*i.e.*, the ratio between overall share capital and number of issued shares).
- 18.2 The remaining profits shall be distributed amongst all the shares, in addition to the allocations contemplated in the foregoing points a) and b), unless

the shareholders' meeting, on the proposal of the Board of Directors, resolves to make special allocations to extraordinary reserves or for other uses, or decides to carry some of such profits forward to the next year.

- 18.3 Should reserves be distributed, savings shares shall be awarded the same rights as other shares.
- 18.4 Interim dividends may be distributed in compliance with the law.

## **GENERAL PROVISIONS**

### **Article 19**

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- 19.1 Insofar as their relations with the Company are concerned, the domicile of the shareholders is understood, for all legal purposes, to be that reported in the Shareholders' Register.

### **Article 20**

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- 20.1 All matters not specifically regulated in these By-laws shall be governed by the applicable provisions of the law.

## ANNEX B - LIST OF THE MAIN OFFICES HELD BY THE DIRECTORS IN OTHER COMPANIES THAT DO NOT BELONG TO THE PIRELLI GROUP

Marco Tronchetti Provera	Marco Tronchetti Provera S.a.p.A.	Managing Partner
	Camfin S.p.A.	Chairman
	Gruppo Partecipazioni industriali S.p.A.	Chairman
	Prelios S.p.A.	Chairman
	Mediobanca S.p.A.	Deputy Chairman
	F.C. Internazionale Milano S.p.A.	Director
	Rcs Quotidiani S.p.A.	Director
Alberto Pirelli	Camfin S.p.A.	Director
	Gruppo Partecipazioni industriali S.p.A.	Director
	KME Group S.p.A.	Director
Vittorio Malacalza	HOFIMA S.p.A.	Chairman
	Malacalza Investimenti S.r.l.	Chairman
	Camfin S.p.A.	Director
Carlo Acutis	Vittoria Assicurazioni S.p.A.	Deputy Chairman
	Banca Passadore S.p.A.	Deputy Chairman
	Scor S.A.	Director
	Yura International B.V.	Director
	YAM INVEST	Supervision advisor
Carlo Angelici	Enel Green Power S.p.A.	Director
Cristiano Antonelli		
Gilberto Benetton	Edizione S.r.l.	Chairman
	Atlantia S.p.A.	Director
	Autogrill S.p.A.	Chairman
	Benetton Group S.p.A.	Director
	Mediobanca S.p.A.	Director
	Allianz S.p.A.	Director
Alberto Bombassei	Brembo S.p.A.	Chairman and CEO
	Italcementi S.p.A.	Director
	Atlantia S.p.A.	Director
	Ciccolella S.p.A.	Director
	Nuovo Trasporto Viaggiatori S.p.A.	Director
Franco Bruni	Unicredit Audit S.p.A.	Director
	Pioneer Investment Management S.p.A.	Director
Luigi Campiglio	Allianz Bank Financial Advisor	Director
Enrico Tommaso Cucchiani	Allianz SE	Member, Management Board
	Allianz S.p.A.	Chairman
	Allianz Holding France SAS	Chairman
	AGF RAS Holding BV	Chairman
	Unicredit S.p.A.	Director

Giulia Maria Ligresti	Fondazione Fon-SAI	Chairman
	Premafin Finanziaria S.p.A.	Chairman and CEO
	Fondiarria SAI S.p.A.	Deputy Chairman
	Gilli S.r.l.	Chairman
	SAI HOLDING ITALIA S.p.A.	CEO
	SAIFIN S.p.A.	Chairman
Massimo Moratti	F.C. Internazionale Milano S.p.A.	Chairman
	SARINT S.A.	Chairman
	SARAS S.p.A. Raffinerie Sarde	CEO
	GUT Edizioni S.p.A.	Director
	Angelo Moratti di Gian Marco Moratti e Massimo Moratti & C. S.a.p.A.	Chairman
Renato Pagliaro	Mediobanca S.p.A.	Chairman
	Cofactor S.p.A.	Director
	Telecom Italia S.p.A.	Director
	RCS MediaGroup S.p.A.	Deputy Chairman
	Istituto Europeo di Oncologia s.r.l.	Statutory Auditor
Umberto Paolucci	Geox S.p.A.	Director
	Banca Profilo S.p.a.	Director
Giovanni Perissinotto	Assicurazioni Generali S.p.A.	CEO
	Fiat Industrial S.p.A.	Director
	Banca Generali S.p.A.	Chairman
	Alleanza Toro Assicurazioni S.p.A.	Director
	Ina Assitalia S.p.A.	Director
Giampiero Pesenti	Italcementi S.p.A.	Chairman
	Italmobiliare S.p.A.	Chairman
	Ciments Francais S.A.	Director
	Allianz S.p.A.	Director
	Mittel S.p.A.	Director
	Rcs Quotidiani S.p.A.	Director
Luigi Roth	Terna S.p.A.	Chairman
	Banca Popolare di Roma S.p.A.	Chairman
	Meliorbanca S.p.A.	Director
Carlo Secchi	Allianz S.p.A.	Director
	Italcementi S.p.A.	Director
	Mediaset S.p.A.	Director
	Parmalat S.p.A.	Director
	EXPO 2015 S.p.A.	Director

## ANNEX C - ABRIDGED FORM OF PIRELLI & C. SOCIETÀ PER AZIONI SHAREHOLDERS AGREEMENT

### 1. TYPE AND OBJECTIVE OF THE AGREEMENT

The purpose of the Pirelli & C. shareholders agreement is to ensure a stable shareholder base and uniform strategy in the management of the company.

### 2. PARTIES TO THE SHAREHOLDERS AGREEMENT AND PIRELLI & C. SHARES TRANSFERRED TO THE AGREEMENT:

	Number of ordinary Shares granted	% of all shares granted	% of the total n. of ordinary shares issued
CAMFIN S.p.A.	96,669,168	43.97	20.32
MEDIOBANCA S.p.A.	21,922,205	9.97	4.61
EDIZIONE S.r.l.	21,921,364	9.97	4.61
FONDIARIA - SAI S.p.A.	21,032,307	9.57	4.42
ALLIANZ S.p.A.	20,977,270	9.54	4.41
ASSICURAZIONI GENERALI S.p.A. (*)	20,977,269	9.54	4.41
INTESA SANPAOLO S.p.A.	7,683,568	3.49	1.62
Massimo MORATTI (**)	5,673,392	2.58	1.19
SINPAR S.p.A.	3,015,320	1.37	0.63
<b>Totale</b>	<b>219,871,863</b>	<b>100</b>	<b>46.22</b>

(\*) Including n. 5,218,181 shares through Generali Vie S.A. and n. 7,525,388 shares through Ina Assitalia S.p.A.

(\*\*) Including 3,401,850 shares through CMC S.p.A. and n. 1,221,413 shares fiduciary owned by Istifid S.p.A.

### 3. THE PARTY, IF ANY, WHICH, THROUGH THE AGREEMENT, CAN EXERCISE CONTROL OVER THE COMPANY

There is no party which, through the agreement, can exercise control over Pirelli & C..

### 4. RESTRICTIONS ON THE SALE OF THE SHARES TRANSFERRED AND ON THE SUBSCRIPTION AND THE PURCHASE OF NEW SHARES

The sale of the shares to third parties (and option rights in the event of a capital increase) is prohibited. Shares can be sold freely and pre-emptively to subsidiaries, according to article 2359, paragraph 1, point 1 of the Italian Civil Code, and to the parent companies as well as other

participants to the shareholders agreement.

Each participant may buy or sell additional shares for an amount not in excess of the higher of 20% of the shares already transferred by the participant itself and 2% of the ordinary share capital issued; purchases of greater amounts are permitted only with the intent of reaching a holding equal to 5% of the ordinary share capital issued, on condition that the amount in excess of the above limits came under the shareholders agreement.

CAMFIN S.p.A. is authorized to freely purchase additional Pirelli & C. shares; it can transfer shares to the shareholders agreement, but to the extent that, at any one time, the shares do not exceed 49.99% of total shares transferred by all the participants in the shareholders agreement. This has been decided so that a stable predominate position is not assumed in the shareholders agreement or a stable veto power is not exercised over common decisions.

Except where the Pirelli & C. ordinary shares in the shareholders agreement correspond to the majority of the voting rights in the ordinary shareholders' meetings, each participant (also through parent companies and/or subsidiaries) intending to purchase shares of that category shall inform the President in writing beforehand and the President shall inform the participant if, taking into account the laws in force concerning tender offers, the participant can proceed, in whole or in part, with the proposed purchase. buy or sell the shares.

### 5. AVAILABILITY OF THE SHARES

The shares transferred shall remain at disposal of the participants in the shareholders agreement.

### 6. BODIES GOVERNING THE AGREEMENT, COMPOSITION, MEETINGS AND POWERS

The Body governing the agreement is the Shareholders Agreement Executive Committee.

The Shareholders Agreement Executive Committee shall consist of a president and vice-president, in the form of the president and the longest serving vice-president of Pirelli & C., and by a member representing each participant unless a participant has deposited more than 10% of ordinary share capital, in which case another member may be designated: for this purpose, in the event the shareholders agreement is composed of several companies related by a controlling relationship or belonging to the same parent company, their aggregate shall be considered for this purpose as one sole participant in the shareholders agreement. The Shareholders Agreement Executive Committee shall be convened to evaluate the proposals to be submitted to the shareholders' meetings, for the possible earlier termination of the agreement and for the admission of new participants. The Shareholders Agreement Executive



Committee shall also meet at least twice a year to examine the semiannual performance, the annual results, the general guidelines for the company's development, the investment policy and proposed significant divestitures and more in general, all the relevant matters of discussion by both the ordinary and extraordinary sessions of the shareholders' meetings.

#### **7. MATTERS COVERED BY THE AGREEMENT**

Those contemplated in points 4 and 6 above.

#### **8. MAJORITIES NEEDED TO REACH DECISIONS REGARDING THE ISSUES GOVERNED BY THE AGREEMENT**

The Shareholders Agreement Executive Committee approves its resolutions with the favourable vote of the majority of the shares transferred; the Shareholders Agreement Executive Committee can designate a trusted person to represent the shares in the shareholders agreement at the shareholders' meetings in order to vote according to its instructions. Whenever the decisions of the Shareholders Agreement Executive Committee are not voted unanimously, the dissenting participant shall have the right to freely vote at the shareholders' meeting.

#### **9. TERM, RENEWAL AND CANCELLATION OF THE AGREEMENT**

The agreement shall be valid until April 15, 2013 and shall be tacitly renewed for a period of three years except for withdrawal, which can be exercised between December 15 and January 15 prior to the expiration date. In case of withdrawal, the shares transferred by the withdrawing party shall be automatically offered pro quota to the other participants. The agreement shall remain in force, whenever it is possible, at every expiration date, to renew the agreement for a percentage of Pirelli & C.'s subscribed ordinary share capital of not less than 33%.

#### **10. PENALTIES FOR BREACH OF THE COMMITMENTS CONTAINED IN THE AGREEMENT**

They are not envisaged by the agreement.

#### **11. REGISTRATION OF THE AGREEMENT AT THE COMPANY REGISTRY**

The agreement is registered at the office of the Milan Companies Registry.

Milan, 3 January 2011

## **ANNEX D - ORIENTATION OF THE BOARD OF DIRECTORS REGARDING THE MAXIMUM NUMBER OF OFFICES DEEMED COMPATIBLE WITH AN EFFECTIVE EXECUTION OF THE OFFICE OF COMPANY DIRECTOR**

In principle, holding the office of director or auditor in more than five companies other than those subject to the management and coordination of Pirelli & C. S.p.A., or controlled by it or associated with it, is not considered compatible with execution of the office of director of the Company when it is a question of (i) listed companies on the FTSE/Milan Stock Exchange index (or also on equivalent foreign indexes), or (ii) companies that carry on banking or insurance businesses; furthermore, the accumulation of a number of executive offices greater than three in companies described in (i) and (ii) above by the same director is not considered compatible.

The offices held in two or more companies belonging to the same group are considered as a sole office with predominance of the executive office over the non-executive office. The power of the Board of Directors to make a different assessment remains valid, and it will be made public and adequately justified in the annual report on corporate governance.

## **ANNEX E - GENERAL CRITERIA FOR IDENTIFYING THE MORE IMPORTANT OPERATIONS: STRATEGIC, ECONOMIC, EQUITY OR FINANCIAL**

Without prejudice (i) to the authorities and powers reserved by the law and by the Articles of Association for the Board of Directors of Pirelli & C. S.p.A. (hereinafter the "Company"), (ii) the structure of the delegations and (iii) the internal corporate procedures, it is the responsibility of the Board of Directors of the Company to previously approve the following deeds and operations - not intragroup - when executed by the Company itself or by companies, also foreign and unlisted, subject to the exercise of management and coordination activities by Pirelli & C. S.p.A.:

- a) the undertaking and granting of loans for a total value greater than Euro 200 million and with a validity

- longer than 12 months;
- b) the issues of financial instruments allocated for listing on regulated European or non-European markets (and their *delisting*) for a total value greater than Euro 100 million;
  - c) the granting of guarantees in favour of, or in the interest of, third parties for amounts greater than Euro 100 million;
  - d) the signing of derivatives that have i) a notional value greater than Euro 250 million and that do not have ii) the hedging of corporate risk as the sole aim and/or effect (purely by way of example: hedging interest rates, hedging exchange rates, hedging raw materials);
  - e) the operations of acquiring or selling control and connection shareholdings for values greater than Euro 150 million that entail entering (or exiting) geographic and/or commodity markets;
  - f) the operations of acquiring or selling shareholdings other than those described in point e) above for amounts greater than Euro 250 million;
  - g) the operations of acquiring or selling companies or company branches that have strategic significance or however a value greater than Euro 150 million;
  - h) the operations of acquiring or selling assets having a strategic significance or however a total value greater than Euro 150 million.

Also those operations that are connected within the sphere of an identical strategic project or executive programme must be previously approved by the Board of Directors of the Company if they, considered as a whole, exceed the quantity thresholds of significance stated above.

Pursuant to the procedure for operations with related parties that the Company adopted on 3 November 2010, the operations with related parties of greater significance must also be previously authorised by the Board of Directors of Pirelli & C. S.p.A.<sup>74</sup>.

## ANNEX F - PROCEDURE ON THE FLOWS OF INFORMATION TO DIRECTORS AND AUDITORS

### 1. INTRODUCTION

- 1.1 The completeness of the information available to the directors is an essential condition for correct management of the authorities and responsibilities of management, policy-making and control of the activity of Pirelli & C. S.p.A. (hereinafter "Pirelli"

or "the Company) and the Group.

- 1.2 Similar adequate information is due to the Board of Statutory Auditors.
- 1.3 In compliance with the legal provisions (art. 150 of Legislative Decree 58/1998, hereinafter "Finance Consolidated Act", and art. 2381, paragraph 5 of the Italian Civil Code) and of the provisions of the Articles of Association (article 11), Directors and Auditors are recipients of an ongoing flow of information from the executive Directors, who are coordinated for this purpose by the Chairman of the Board of Directors who avails himself of the Secretary of the Board of Directors of the Company if necessary.
- 1.4 The purpose of this procedure is to regulate said flow of information in order to:
  - ensure transparency of the management of the enterprise;
  - ensure the conditions for an effective and real policy-making and control action on the activity of the Company and on the management of the enterprise by the Board of Directors;
  - provide the Board of Statutory Auditors with the cognitive tools necessary for an efficient execution of its supervisory role.

### 2. TERMS AND CONDITIONS

- 2.1 The flow of information to the Directors and Auditors is preferably ensured by the sending of documents and, in particular:
  - reports, explanatory notes, memorandums, presentations, reports drawn up by offices and consultants of the Company, including those prepared in view of or on the occasion of board meetings;
  - other documentation, whether or not it is public, available for the Company;
  - company accounting documentation of the period to be published;
  - relevant supplementary quarterly report with information supplied aliunde, drawn up on the basis of a special outline.
- 2.2 The aforesaid documentation is set to Directors and Auditors promptly, and however:
  - frequently enough to ensure compliance with the information obligations according to the law and the Articles of Association;
  - according to rates consistent with the scheduling of the single board meetings.
- 2.3 The information conveyed with the conditions above are supplemented (and when necessary replaced where required by reasons of confidentiality) by the explanation given orally by the Chairman, the executive Directors and members of Group *manage-*

<sup>74</sup> Pursuant to the procedure for operations with related parties that the Company adopted on 3 November 2010, those operations that exceed the thresholds established by annex 1 of the procedure are operations with related parties of greater significance.

ment at board meetings or specific informal meetings open to the attendance of Directors and Auditors, organised to study topics of interest referring to the management of the enterprise in-depth.

- 2.4 The sending of documents and any other material to Directors and Auditors is coordinated by the Secretary of the Board of Directors of the Company, in agreement with the Executive in charge of drawing up corporate accounting documents, as far as it concerns him.
- 2.5 In any case, Directors and Auditors are recipients of the information Pirelli publishes pursuant to the rules and regulation on the subject of corporate reporting (such as press releases and information documents) and investment incentive (prospectuses however named).

### 3. CONTENTS

- 3.1 In addition to the topics set aside for the examination and/or approval of the Board of Directors of the Company pursuant to the law and Articles of Association, the flow of information to Directors and Auditors contains information concerning:
- the general course of business and its foreseeable development;
  - the business carried on, with particular reference to the operations (i) of greater strategic, economic, financial and equity importance, (ii) with related and (iii) atypical or unusual parties;
  - the instructions given in performing the management and coordination activity pursuant to articles 2497 et seq. of the Italian Civil Code;
  - all further activities, operations or events judged advisable to bring to the attention of Directors and Auditors.

### 4. COURSE AND DEVELOPMENT OF BUSINESS

- 4.1 The report on the general course of business concerns the business carried by the Group.
- 4.2 This is considered not only in terms of taking final stock of the result and comparing it with the industrial and *budget* forecasts, but also in a strategic prospective of planning and policy.
- 4.3 The course and development of business are usually examined by the Board of Directors of the Company at board meetings called to approve the financial reports pursuant to art. 154-ter of the Finance Consolidation Act (annual financial statement, half-yearly financial statement and interim reports). The results achieved are compared:
- with the historical data (properly reconstructed as a matter of form so they can be compared in homogeneous terms);

- with the *budget* goals, specifying the causes for any deviations, also in order to assess their impacts on the strategic or forecast goals and/or on the forecast data concerning subsequent periods;
- with the general trend of the sector and of the peers for *benchmarking* purposes.

### 5. ACTIVITY CARRIED ON

- 5.1 The general report on the activity carried on regards: (i) the executive activities and the developments of operations already approved by the Board of Directors, (ii) the activities performed by the executive Directors - also through structures of the Company and its subsidiaries - in exercising proxies received and (iii) the work of the committees formed within the Board of Directors.
- 5.2 The general report on the activity carried on is completed with a specific detailed report regarding:
- the operations of greater strategic, economic, financial and equity importance;
  - the atypical or unusual operations;
  - the operations with related parties.

### 6. OPERATIONS OF GREATER STRATEGIC, ECONOMIC, FINANCIAL AND EQUITY IMPORTANCE

- 6.1 The Board of Directors of the Company - without prejudice to (i) the authorities and powers reserved for it by the law and the Articles of Association, (ii) the structure of the proxies and (iii) the internal corporate procedures - has established general criteria, both quantitative and qualitative, to identify the operations - **not intragroup** - that when put into effect by Pirelli or by companies (even foreign and unlisted) that it controls and that are subject to the carrying on of its direction and coordination activity require prior approval by the Board of Directors of the Company.
- 6.2 The operations included in the definitions contained in the "General criteria for identifying operations of greater strategic, economic, equity or financial significance" - established by the Board of Directors of the Company (available on the Pirelli website) - whose values are equal to or higher than half of those specified in the above-stated general criteria established by the Board are the object of flows of information according to what is described hereunder.
- 6.3 The report on the operations described under paragraph 2 of this article highlights (i) the strategic aims, (ii) the consistency with the budget and with the industrial plan, (iii) the terms of execution (including the terms and conditions, financial as well, of their attainment), and (iv) the developments

and any conditionings and implications that said operations entail or could affect the activity of the Pirelli Group.

- 6.4 Those operations that, although they are individually lower than the quantitative thresholds indicated, prove to be linked within the same strategic project or executive programme and therefore pass the thresholds of significance when considered as a whole.

## 7. ATYPICAL OR UNUSUAL OPERATIONS

- 7.1 The operations that fall within routine *business* are considered typical, that is to say they are coessential with the production cycle and the characteristic exchange of the enterprise cycle. The operations practical for satisfying ordinary needs, that is to say needs that normally recur in the management of the enterprise, are instead usual.
- 7.2 In any case, an operation cannot be termed either typical or usual when it in actual fact has particular critical elements due to the specific characteristics and/or risks pertaining to the nature of the counterparty or to the time of its completion.
- 7.3 The report on atypical or unusual operations points out the underlying interest and explains the terms of execution (including the terms and conditions, even economic, of their realization) with particular regard to the procedures of valuation followed.

## 8. MANAGEMENT AND COORDINATION

- 8.1 The report on the actions of carrying on the management and coordination activity provides:
- the strategic aims, with particular reference to the entrepreneurial interest that justifies them and to the result pursued;
  - the terms of execution (including the terms and conditions, also economic, of their realization), with specific regard to the valuation procedures followed;
  - the conditionings and implications, if any, on running the social enterprise, also with reference to the *budget* and industrial plan.
- 8.2 Subsequent updated information is provided on the influenced operations in order to assess the overall result of the management and coordination activity.

## 9. OPERATIONS WITH RELATED PARTIES

- 9.1 As far as the report on operations with related parties (hereinafter “OPC”) is concerned - as it is defined by the Procedure for operations with related parties (hereinafter “OPC Procedure”) adopted by the Company and published on the Pirelli website

- the following information is reported to Directors and Auditors (already provided in part by the OPC Procedure):

- Non-intragroup OPC of a value higher than Euro 500,000, even if “ordinary” and/or” at market conditions”;
- state of execution of the less significant OPCs<sup>75</sup> carried out by the Company or by its subsidiaries<sup>76</sup>;
- state of execution of the more significant OPCs<sup>77</sup> approved by the Board of Directors<sup>78</sup>;
- OPCs implemented pursuant to any “framework resolutions” adopted by the Company;
- OPCs implemented “in case of urgency” according to what is established in the OPC procedure; and also
- intragroup operations (meaning those operations implemented by Pirelli with companies it controls or between companies that it controls) of a value higher than Euro 50 million.

For each of these operations the following are indicated: (i) purpose, (ii) value, (iii) date operation is concluded, (iv) identity of the counterparty (and, if necessary, Group it belongs to) and (v) type of correlation (distinguishing between operations implemented directly by Pirelli and operations implemented by subsidiaries).

## 10. COLLECTION OF INFORMATION

- 10.1 In order to provide an adequate flow of information to Directors and Auditors, the information must reach the Chairman and Managing Directors (if appointed) according to the procedure indicated hereunder.
- 10.2 The General Managers and Managers of *Business Units / Central Functions / Operating Activities* of Pirelli that report directly to the Chairman of the Board of Directors and to the Managing Directors (so-called “Top Executives”) report the activity carried out during the period from their relevant structures with a special memo to the Finance Management. Particular note is made (i) of the operations of greater strategic, economic, equity or financial significance as defined under foregoing article 6, (ii) of the atypical or unusual operations, as defined under foregoing article 7 and (iii) of the OPCs according to the provisions of foregoing article 9. Also the operations that even though they are lower than the quantitative thresholds previously speci-

<sup>75</sup> Operations other than the more significant OPCs and the OPCs of a meagre amount are less significant OPCs.

<sup>76</sup> Flow of information provided by art. 7, paragraph 1, subparagraph f) of the OPC regulation.

<sup>77</sup> Operations that exceed the thresholds envisaged by annex 1 to the OPC procedure are more significant OPCs

<sup>78</sup> Flow of information provided by art. 8, paragraph 1 of the OPC regulation.

fied or than those that determine the sole competence of the Board of Directors are connected to each other within the scope of a single strategic or executive structure, and must therefore be considered on the whole as greater than the thresholds of significance, must be notified.

The Finance Manager sends the information received from the Top Executives to the Chairman of the Board of Directors who, with the help of the Secretary of the Board of Directors, guarantees the flow of information to the Directors and Auditors. In general, a report of the activities carried out by the committees established within the Board of Directors is supplied alternatively via one of the following procedures: (i) report on the occasion of one of the subsequent board meeting, (ii) period report to the Board of Directors or (iii) *report* as described under article 2.1 above.

## ANNEX G - PROCEDURE FOR RELATED-PARTY TRANSACTIONS<sup>79</sup>

### ARTICLE 1 (LEGAL SOURCES)

1.1 This procedure (hereinafter referred to as “**Procedure**”) is adopted pursuant to and for the purposes of Article 2391-bis of the Civil Code and of the “Regulation of related-party transactions”, adopted by Consob Resolution No. 17221 of March 12, 2010, as amended by Consob Resolution No. 17389 of June 23, 2010 (hereinafter referred to as “**OPC Regulation**”), taking into account the guidelines and clarifications provided by Consob in its communication No. DEM/10078683 of September 24, 2010.

### ARTICLE 2 (SCOPE)

- 2.1. This Procedure establishes the rules which Pirelli & C. S.p.A. (hereinafter referred to as “**Pirelli**” or the “**Company**”) and its subsidiaries adhere to when entering into related-party transactions.
- 2.2. For the purposes of this Procedure, a related-party transaction (hereinafter referred to as “**OPC**”) is any transfer of resources, services or acceptance of obligations between related parties, regardless of whether any compensation has been agreed upon.

### ARTICLE 3 (DEFINITION OF RELATED PARTY)

3.1 For the purposes of this Procedure and in light of the ownership structure of Pirelli, a party is related<sup>1</sup> (hereinafter referred to as “**Related Party**”) to the Company when:

- a) either directly, or indirectly, also through subsidiaries, trustees or intermediaries:
  - (i) it controls Pirelli, is controlled thereby or is subject to joint control;
  - (ii) it holds a stake in Pirelli that is such as to allow it to exercise significant influence on the latter;
  - (iii) it exercises control on Pirelli, also jointly with other parties;
- b) it is an affiliate of Pirelli;
- c) it is a joint venture which Pirelli participates in;
- d) it is a Director, Auditor or one of the Managers with strategic responsibilities of Pirelli or of a parent company thereof, or the manager responsible for drafting the Company’s accounting and corporate records (the “**Designated Manager**”);
- e) it is a close relative of a subject referred to in subparagraphs (a) or (d);
- f) it is an entity in which a subject referred to in subparagraphs (d) or (e) exercises control, joint control or significant influence, or directly or indirectly holds a significant share which is not less 20% of voting rights;
- g) it is a supplementary pension fund, whether collective or individual, Italian or foreign, set up in favour of the employees of the Company or of any other related party.

3.2 For the above purposes, the notions of “control”, “joint control”, “significant influence”, “subsidiary”, “affiliate” and “joint venture”, are the ones reported in Annex 1 to the OPC Regulation.

In particular the notions of “Managers with strategic responsibilities” and “close relatives”, are the following:

**Managers with strategic responsibilities:** these are the Directors (whether executive or otherwise) of the Company as well as the subjects identified by the Board of Directors of the Company who have the power and responsibility, directly or indirectly, for planning, directing and controlling the business of the Company and/or its subsidiaries,  
**Close relatives:** The close relatives of a subject are family members who may be expected to influence or be influenced by the subject concerned in their dealings with the company.

It is assumed that these include:

- a) the spouse not legally separated and the cohabitant;

<sup>79</sup> The Company, having evaluated its ownership structure, has deemed that the following participants in the Sindacato di blocco azioni Pirelli & C. (the “Shareholders’ Agreement”) fall within the notion of ‘related party’: Camfin S.p.A. group, “Moratti” group and Mediobanca S.p.A. group. Although the others participants in the Shareholders’ Agreement, namely Edizione S.r.l., Fondiaria Sai S.p.A., Allianz S.p.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Sinpar S.p.A., cannot be classified as Pirelli related parties, the Company has deemed it appropriate to apply this Procedure to such parties and to their subsidiaries.

- b) children and dependents of the subject, of the spouse not legally separated or of the cohabitant.

#### ARTICLE 4 (SIGNIFICANCE THRESHOLDS)

- 4.1 OPCs of great significance (hereinafter referred to as “**OPCs of Great Significance**”) are transactions that exceed the thresholds specified in Annex 1.
- 4.2 OPCs of little value (hereinafter referred to as “**OPCs of Little Value**”) are transactions whose value is no more than Euro 150,000.
- 4.3 OPCs of minor significance (hereinafter referred to as “**OPCs of Minor Significance**”) are related-party transactions other than OPCs of Great Significance and OPCs of Little Value.

#### ARTICLE 5 (EXEMPTIONS)

- 5.1 This Procedure does not apply to OPCs of Little Value.
- 5.2 This Procedure does not apply, except as specified in paragraph 3 of this article:
- a) to transactions carried out by Pirelli with its subsidiaries, or to transactions between Pirelli subsidiaries;
  - b) to transactions carried out by Pirelli or its subsidiaries with Pirelli affiliates;
  - c) to Ordinary transactions (as defined in article 6 below) entered into at terms that are equivalent to market or standard terms (as defined in article 7 below), without prejudice to the disclosure obligations laid down in Article 13, letter c), of the OPC Regulation;
- 5.3 The Procedure is applied to the cases outlined in Article 5.2 sub (a) and (b) where the counterparties to the transaction are Pirelli subsidiaries or affiliates in which other Pirelli related parties have a significant interest, this meaning, by mere way of example, a significant influence exercised by the related party that is the counterparty to the transaction. A significant interest arises also where one or more Directors or other Managers with strategic responsibilities of Pirelli, benefit from incentive plans based on financial instruments (or variable remuneration plans) that depend on the results achieved by the subsidiaries with which the transaction is carried out. In this case, the assessment of a significant interest should be made in light of the weight of the performance- dependent remuneration (including the aforementioned incentive plans) when compared to the total remuneration of the Director or Manager with strategic responsibilities.

#### ARTICLE 6 (ORDINARY TRANSACTIONS)

- 6.1 Ordinary transactions (“Ordinary transactions”) are transactions that fall under the ordinary running of the operational business, and of the financial business connected thereto, carried out by Pirelli or its subsidiaries, as well as all other management activities that cannot be classified as Investments or Financial Activities (hereinafter referred to as “Characteristic Activity”). By way of example, Ordinary transactions include, provided they are implemented in accordance with the corporate procedures established therefor, the transactions that, by reason of their subject-matter, recurrence, extent, terms and conditions, nature of the counterparty, fall under the ordinary running of the Company’s Characteristic Activity, and in particular:
- the marketing and production of goods, works and services within the scope of the Company’s Characteristic Activity;
  - the purchase of goods, works and services associated with the Characteristic Activity and/or necessary for the operation, maintenance and preservation of the technological adequacy of the industrial infrastructures or of the real estate assets used for the Characteristic Activity and in general for the operation of the Company’s organization in its current dimensions and characteristics, unless this amounts to an Investment or a Financial Activity;
  - the acquisition and management of financial resources, with any ensuing, ancillary hedging activities related to performance of the Characteristic Activity, excluding all activities classified as Investments or Financial Activities.
  - the management of shareholdings, in particular:
    - the purchase and sale of shareholdings;
    - the subscription of capital increases, except for those excluding pre-emption rights, unless this is qualified as an Investment or as a Financial Activity.
- 6.2 For the purposes of this Procedure, an Investment is: (i) any transaction which results in the purchase or sale of fixed assets (e.g. the buying and selling of property, plants and machinery or intangible assets), except for “non-current” assets that are held for sale, (ii) any financial investment which does not fall under the so-called “cash equivalents”.
- 6.3 For the purposes of this Procedure, a Financial Activity is any activity that brings changes: (i) to the extent and composition of the equity paid; (ii) to any funding received by the Company that is not connected to its Characteristic Activity.

## ARTICLE 7 (TERMS EQUIVALENT TO MARKET OR STANDARD TERMS)

- 7.1 Terms are equivalent to market or standard terms where they are identical to those usually applied to Pirelli non-related parties for corresponding transactions (in terms of nature, extent or risk), or where they derive from public and/or regulated tariffs or fixed prices.
- 7.2 Market terms are also those applied pursuant to a competitive purchase/sale process, provided this has been conducted in accordance with the Company's procedures established for this purpose, consistent with the principles of internal audit, and is properly documented and tracked.

## ARTICLE 8 (OPC COMMITTEE)

- 8.1 The Board of Directors of the Company shall establish a Committee for the OPCs (hereinafter referred to as the "**OPC Committee**") made up exclusively of and by at least three Independent Directors.
- 8.2 The OPC Committee is deemed established even if the Board of Directors has given its powers to an already existing committee, provided this is made up exclusively of and by at least three Independent Directors.
- 8.3 If at least three Independent Directors are not in office, article 19 below applies.
- 8.4 The Board of Auditors is invited to attend the OPC Committee meetings.
- 8.5 The Board of Directors may appoint Substitute Independent Directors, indicating their order.
- 8.6 Such Substitute Independent Directors, in the indicated order, provisionally replace the regular members of the OPC Committee in case of the assessment of OPCs where the counterparty to the Transaction is one or more regular members of the OPC Committee (or a related party through them). Unless it has provided therefor as under paragraph 5 above, the Board of Directors shall supplement the Committee, from time to time and on a provisional basis, for the assessment of OPCs where the counterparty to the Transaction is one or more members of the OPC Committee.
- 8.7 In case of termination of office, for any reason, of a regular member of the OPC Committee or in case the latter does not longer satisfy the requisites of independence required by this Procedure, the Substitute Independent Directors, in the indicated order, take over and remain in office until the first meeting of the Board of Directors called to decide upon supplementing the OPC Committee.

## ARTICLE 9 (OTHER DEFINITIONS)

For the purposes of this Procedure:

**Independent Directors** are the Directors of Pirelli satisfying the requisites of independence laid down in the Corporate Governance Code of the Italian Stock Exchange, which Pirelli has declared to adhere to. In particular, Independent Directors are those judged as such by the Board of Directors of the Company at the time of their appointment and, thereafter, at least on occasion of the meeting of the Board of Directors that approves the Company's Annual Report on Corporate Governance and Ownership Structure.

**The OPC Managerial Committee** is the Committee chaired by the Group General Counsel and which includes the Secretary of the Board of Directors, the Finance Director, the Director of Group Management Control and the Investor Relations Director, called upon to review questions of interpretation and/or application and to evaluate the conditions for assignment of the review of an OPC to (i) the OPC Committee if it is an OPC of Minor Significance, or to (ii) the OPC Committee and the Board of Directors if it is an OPC of Great Significance.

**The Lead Independent Director** is the Independent Director designated as such, who is a point of reference and coordinates the requests and contributions of non-executive Directors and, in particular, of Independent Directors, and has the power to convene meetings of Independent Directors only.

**Managers** are the managers of Business Units/Central Functions/Operating Activities.

**Top executives** are the Managers who report directly to the President of the Company.

## ARTICLE 10 (DATABASE OF RELATED PARTIES)

- 10.1 The Related Parties of Pirelli are included and arranged in a special database (hereinafter referred to as "**Database**") which the Company maintains on the basis of information in its possession and of the statements received from direct related parties.
- 10.2 Parent companies, Directors, Auditors, Managers with strategic responsibilities, subjects exercising significant influence on Pirelli and other direct related parties under this Procedure, are required to submit a statement with which they provide information necessary for the identification of parties that are related through them.



- 10.3 The Database is updated at least every three months. In particular, the Secretary of the Board of Directors collects the statements made by the related parties within the month following the close of each quarter, and forwards them to the Finance Department in charge of updating the Database and to the Designated Manager.
- 10.4 Without prejudice to paragraph 3 of this Article, direct related parties shall promptly give notice to the Secretary of the Board of Directors of any new parties that are related through them.
- 10.5 The OPC Committee supervises the proper updating of the Database, even through periodic audits carried out with the assistance of the Company's Internal Audit office.

#### **ARTICLE 11 (VERIFICATION OF THE APPLICABILITY OF THE PROCEDURE)**

- 11.1 Before engaging in a transaction, the Managers of the Company and of its subsidiaries verify whether the counterparty is a related party.
- 11.2. If it is found that the counterparty to the transaction is a related party and that the transaction does not fall within the exemptions referred to in Article 5, the Manager refrains from pursuing the investigation and/or negotiations and informs a Top Executive of the Company or, in the case of Italian and foreign subsidiaries, the Chief Financial Officer (or in his absence, the Chief Executive Officer) of the latter companies, who in turn informs the Finance Director of Pirelli.
- 11.3 Upon receipt of such notification, the Top Executive of the Company or the Finance Director of Pirelli give notice thereof to the General Counsel and to the Secretary of the Board of Directors who - if necessary by convening the OPC Managerial Committee and sharing their evaluation with the Lead Independent Director - provide instructions as to the continuance of the transaction in accordance with article 12 (OPCs of Great Significance) or 13 (OPCs of Minor Significance) of this Procedure.
- 11.4 The activities described in the preceding paragraphs are adequately documented and made traceable.

#### **ARTICLE 12 (OPCS OF GREAT SIGNIFICANCE)**

- 12.1 In case of OPCs of Great Significance, the Group General Counsel informs without delay the Chairman of the Board of Directors and the Chairman of the OPC Committee.
- 12.2 The Secretary of the Board of Directors ensures a full and prompt flow of information between those responsible for conducting the negotiations and the OPC Committee.

In particular, prior to the commencement of negotiations for an OPC of Great Significance, the Committee must receive a report indicating the main elements of the transaction, and subsequently, during the negotiations, a report sent on a regular basis, though at least quarterly, with an indication of any significant deviations from the previous report.

The OPC Committee is informed of the eventual final termination of all negotiations.

- 12.3 The OPC Committee, or the Independent Director appointed therefor by the OPC Committee, may request information from and provide comments to the persons responsible for conducting the negotiations or investigating the transaction.
- 12.4 On completion of the investigation, the Chairman of the OPC Committee, also acting through the Secretary of the Board of Directors, convenes a meeting of the OPC Committee in order for the latter to give its reasoned opinion on the interest of the Company in completing the transaction, as well as on the convenience and substantial fairness of its conditions.
- 12.5 The OPC Committee may be assisted, at the Company's cost, by one or more independent experts of its choice.
- 12.6 The opinion given by the OPC Committee is forwarded, through the Secretary of the Board of Directors, to the Chairman of the Board of Directors, who includes the OPC of Great Significance in the agenda of the Board of Directors of Pirelli, which has the power to decide thereon.
- 12.7 The Board of Directors, which has the exclusive power to approve OPCs of Great Significance, approves the transaction only subject to the prior favorable opinion given by the OPC Committee. In order for such opinion to be considered favorable, it must fully approve the transaction, unless otherwise stated in the said opinion. If the opinion is defined as favorable and thus allows for the transaction to be concluded despite the presence of some elements of disagreement, the opinion gives the reasons why the latter elements do not affect the overall assessment of the Company's interest in the transaction and the substantial fairness of its conditions. A positive opinion issued by the OPC Committee requiring, however, the OPC to be concluded or performed in accordance with one or more indications, will be deemed favorable for the purposes of this Procedure, provided the conditions imposed are actually complied with; in this case, evidence of compliance with such conditions is provided in the disclosure document regarding the execution of transactions, to be given to the management or audit body.
- 12.8 In relation to OPCs of Great Significance that are

- submitted to its approval, the Board of Directors receives reasonably in advance adequate information regarding the transaction itself, the nature of the relation with related parties, the terms of execution of the transaction, the conditions (including economic ones) for its implementation, the evaluation process that has been followed and any possible risks for the Company, in addition to the opinion given by the OPC Committee.
- 12.9 Once the transaction has been approved by the Board of Directors, the Secretary of the Board of Directors gives notice thereof the Top Executive in charge of the transaction, or to the Finance Director in case of transactions that must be performed by subsidiaries of Pirelli. If the transaction is not approved by the Board of Directors or in case of a negative opinion given by the OPC Committee, the Company and/or its subsidiaries refrain from engaging in or continuing negotiations.
- 12.10 Once the OPC of Great Significance, to be carried out even by subsidiaries of Pirelli, is approved, the Company prepares a disclosure document to be made available to the public as and when specified in the OPC Regulation.
- 12.11 When an OPC of Great Significance falls within the powers of the General Assembly or must be authorized thereby, either by law or according to the Articles of Association, this article applies to the negotiation phase, the investigation phase and the approval phase of the proposed resolution to be submitted to the Assembly.
- ARTICLE 13 (OPCS OF MINOR SIGNIFICANCE)**
- 13.1 In the case of an OPC of Minor Significance, the Group General Counsel informs the Chairman of the OPC Committee who, also acting through the Secretary of the Board of Directors, convenes a meeting of the OPC Committee in order for the latter to give its reasoned opinion on the interest of the Company in completing the transaction, as well as on the convenience and substantial fairness of its conditions.
- 13.2 The Top Executive of the Company, or the Finance Director in the case of transactions to be carried out by subsidiaries, provides - at the same time as the reporting of the proposed OPC of Minor Significance - an analytical report containing a description of the transaction, the indication of the counterparty, the main conditions of the OPC (including economic ones) and the reasons for the interest of the Company or its subsidiaries in completing the OPC and for the convenience of its conditions.
- 13.3 Upon convening the meeting, and in any case reasonably in advance before the meeting, the Secretary of the Board of Directors forwards the documentation containing appropriate and full information on the OPC to the OPC Committee. When the conditions of the OPC are defined as equivalent to market or standard conditions, the documentation submitted to the OPC Committee must contain objective elements evidencing this.
- 13.4 The Committee may be assisted, at the Company's cost, by one or more independent experts of its choice, subject to the expenditure limit of 2% of the value of the OPC of Minor Significance and not exceeding Euro 150,000, without prejudice to the OPC Committee's right to exceed said limit where authorized by the Chairman of the Board of Directors.
- 13.5 Once the OPC of Minor Significance has been examined, the OPC Committee gives its opinion on the transaction. The minutes of approval of the transaction must give adequate reasons for the Company's interest in completing the transaction and for the convenience and substantial fairness of its conditions.
- In order for such opinion to be considered favorable, it must fully approve the transaction, unless otherwise stated in the said opinion. If the opinion is defined as favorable and thus allows for the transaction to be concluded despite the presence of some elements of disagreement, the opinion gives the reasons why the latter elements do not affect the overall assessment of the Company's interest in the transaction and the substantial fairness of its conditions. A positive opinion issued by the OPC Committee requiring, however, the OPC to be concluded or performed in accordance with one or more indications, will be deemed favorable for the purposes of this Procedure, provided the conditions imposed are actually complied with; in this case, evidence of compliance with such conditions is provided in the disclosure document regarding the execution of transactions, to be given to the management or audit body.
- 13.6 In the case of a favorable opinion, the Secretary of the Board of Directors gives notice thereof to the Top Executive in charge of the transaction or to the Finance Director, who in turn informs the Chief Financial Officer of the Pirelli subsidiary.
- 13.7 On a quarterly basis, the Finance Director provides, through the Secretary of the Board, a report to the Board of Directors and the Board of Auditors on the implementation of OPCs of Minor Significance put in place by the Company or its subsidiaries.
- 13.8 In the event of a negative opinion given by the OPC Committee, the Secretary of the Board of Directors gives notice thereof to the Top Executive of the Company in charge of the transaction, or to

the Finance Director, and the Company and/or its subsidiaries shall refrain from engaging in/continuing negotiations.

- 13.9 When an OPC of Minor Significance falls within the powers of the General Assembly or must be authorized thereby, either by law or according to the Articles of Association, this article applies to the negotiation phase, the investigation phase and the approval phase of the proposed resolution to be submitted to the Assembly.

#### **ARTICLE 14 (DIRECTORS' REMUNERATION)**

- 14.1 This Procedure does not apply:

- a) to the shareholders' resolutions referred to in Article 2389, first paragraph, of the Civil Code, relating to fees payable to members of the Board of Directors and, if established, the Executive Committee, or to the resolutions relating to the remuneration of Directors holding special offices comprised within the total amount pre-determined by the Assembly under Article 2389, third paragraph, of the Civil Code. The provisions do not apply to the shareholders' resolutions referred to in Article 2402 of the Civil Code, relating to fees payable to members of the Board of Auditors;
- b) to compensation plans based on financial instruments approved by the Assembly under Article 114-bis of the Consolidated Act and any related executive transactions;
- c) to the resolutions, other than those referred to in subparagraph a), relating to the remuneration of Directors holding special offices and of other key managers with strategic responsibilities.

In particular, the rules of this Procedure do not apply to the case sub c), provided that:

- (i) the Company has adopted a remuneration policy including policies relating to agreements on the consensual termination of the relationship;
- (ii) a committee, made up exclusively of non-executive Directors, most of whom independent, was involved in defining such remuneration policy;
- (iii) a report setting out the remuneration policy was submitted to the Assembly's advisory vote;
- (iv) the remuneration granted is consistent with this policy.

#### **ARTICLE 15 (FRAMEWORK RESOLUTIONS)**

- 15.1 For certain categories of transactions, the Company may adopt framework resolutions related to a series of homogeneous transactions with given

categories of Related Parties.

- 15.2 The adoption of framework resolutions may be proposed by the Chairman of the Board of Directors, the General Director, the Group General Counsel and the Finance Director who, when deeming it appropriate to take framework resolutions, draw up a proposal with express indication of (i) the type of transaction category for which the adoption of the framework resolution is requested; (ii) the related party or type of related party that is the counterparty to the transaction covered by the framework resolution, (iii) the duration of the effectiveness of the framework resolution, (iv) the maximum amount of the transactions expected to be implemented during the referenced period, (v) the reasons for the conditions of the framework resolution.
- 15.3 The framework resolution proposal is submitted to the Group General Counsel and to the Secretary of the Board of Directors who, after verifying the Great or Minor Significance of the framework resolution, submit the proposal to the Chairman of the OPC Committee for the appropriate resolutions of said committee at the terms and conditions of paragraphs 4 and 5 of this article.
- 15.4 Framework resolutions cannot be effective for more than one year, and must give evidence of the type of transactions included, the foreseeable maximum amount of such transactions to be implemented during the reference period, and the reasons for the conditions of the framework resolution.
- 15.5 Framework resolutions for transactions cumulatively exceeding 50 million euro, or if for a lower amount, exceeding the value of the thresholds established in Annex 1 for the definition of OPCs of Great Significance ("Framework Resolutions of Great Significance"), are subject to prior approval by the Board of Directors, after the OPC Committee's favorable opinion, and to the other requirements related to OPCs of Great Significance, including the publication of the disclosure document required by the OPC Regulation. In the case of a negative opinion, the proposal is not submitted to the Board of Directors.
- 15.6 Framework resolutions for transactions whose value is cumulatively lower than that indicated in paragraph 5 ("Framework Resolutions of Minor Significance") are to be approved by the OPC Committee and are governed by the provisions that apply to OPCs of Minor Significance.
- 15.7 The Finance Department sends a quarterly report to the Board of Directors on the implementation of framework resolutions, on occasion of the Board of Directors' approval of the reports required under Article 154-ter of the Finance Consolidated Act.

- 15.8 The provisions of Articles 12 and 13 of this Procedure do not apply to individual transactions entered into by applying framework resolutions. The transactions entered into by applying a framework resolution that is covered by a published, disclosure document are not considered for accumulation purposes when determining the exceeding of the relative thresholds.

**ARTICLE 16  
(TRANSACTIONS IN URGENT CASES)<sup>80</sup>**

- 16.1 In urgent cases, where a transaction is not within the powers of the Assembly and needs not be approved thereby, without prejudice to the obligation to give “information to the public about related-party transactions” as under Article 5 of the OPC Regulation, the transaction can be completed derogating from Article 12 and 13 of this Procedure provided:
- (i) the transaction to be carried out (a) falls within the powers of a Managing Director or of the Executive Committee, where established, and (b) the Chairman of the Board of Directors and the Lead Independent Director are notified of the urgent reasons for this transaction before it is completed. If completion of the transaction falls within the powers delegated to the Chairman or somehow it concerns him, the OPC is approved by the Board of Directors;
  - (ii) such transactions are subsequently submitted to the non-binding resolution of the first General Assembly, without prejudice to their effectiveness;
  - (iii) the Board of Directors prepares a report containing adequate explanation of such urgent reasons. Pursuant to Article 13, paragraph 6 c) of the OPC Regulation, the Board of Auditors reports to the Assembly on the existence of such urgent reasons;
  - (iv) the reports of the Board of Directors and of the Board of Auditors referred to in paragraph (iii) above are made available to the public at least 21 days before the date of the Assembly at the Company’s registered office, in accordance with the Issuers’ Regulation;
  - (v) no later than one day after the Assembly, the Company makes available to the public, in accordance with the Issuers’ Regulation, specific information about the outcome of the vote, with particular regard to the number of total votes cast by non-related parties.

**ARTICLE 17  
(AMENDMENTS TO THIS PROCEDURE)**

- 17.1 Any amendments to this Procedure are approved by the Board of Directors after hearing the OPC Committee; if the latter is no longer in office or there are not at least three Independent Directors, the alternative systems referred to in article 19 below will apply.
- 17.2 Periodically and at least every three years, the Board of Directors, after hearing the OPC Committee, decides whether to revise this Procedure, taking into account, among other things, any changes in the Company’s ownership structure and the effectiveness of said Procedure.

**ARTICLE 18  
(INFORMATION TO THE PUBLIC ABOUT OPCs)**

- 18.1 The Company provides information to the public about OPCs at the terms and conditions specifically laid down in Articles 5 and 6 of the OPC Regulation.

**ARTICLE 19 (ALTERNATIVE SYSTEMS)**

- 19.1 If at least three Independent Directors are not in office, any resolutions relating to amendments to this Procedure, OPCs of Great Significance and OPCs of Minor Significance, are approved only after receiving the favorable opinion of any Independent Directors present or, in their absence, the non-binding opinion of an independent expert.
- 19.2 If at least three Independent Directors are not in office, the duties and prerogatives assigned to the OPC Committee for the negotiation and investigation stage of OPCs of Great Significance are attributed to one or more non-related Directors who may be present, or to an independent expert.

**ARTICLE 20  
(MONITORING OF THE BOARD OF AUDITORS)**

- 20.1 The Board of Auditors checks that this Procedure and its amendments conform to the OPC Regulation, and monitors compliance therewith.
- 20.2 Pursuant to Article 2429, paragraph 2 of the Civil Code and Article 153 Finance Consolidated Act, the Board of Auditors reports its activities to the Assembly.

<sup>80</sup> This article will apply only following the implementation of the powers provided herein in the Company’s Articles of Association.

## ARTICLE 21 (COORDINATION WITH THE PROCEDURES OF THE DESIGNATED MANAGER)

21.1 The Designated Manager ensures the necessary coordination of this Procedure with the administrative and accounting procedures for the drafting of the Company's Financial Statements and Consolidated Financial Statements, and of any other financial communication.

All OPCs approved under this Procedure are promptly reported by the Secretary of the Board of Directors to the Designated Manager for the purposes of complying with the disclosure requirements of Article 154-bis of the Consolidated Act.

21.2. The Designated Manager promptly reports to the Board of Directors any changes to this Procedure deemed necessary thereby to ensure continuous coordination with the administrative and accounting procedures referred to in the preceding paragraph, also resulting from any changes in international accounting standards and/or national law.

## ARTICLE 22 (ENTRY INTO FORCE)

22.1 The Procedure applies as from January 1, 2011.

22.2 As from December 1, 2010, Article 5 of the OPC Regulation on "Information to the public about related-party transactions" is applicable, with the sole exception of paragraph 2 which applies as from January 1, 2011.

22.3 This Procedure and its subsequent amendments shall be published without delay on the Company's website, without prejudice to the Company's disclosure obligations, also by reference to the aforementioned website, in the Management Report.

## ANNEX 1 - TRANSACTIONS OF GREAT SIGNIFICANCE

1.1. Pursuant to this Procedure, OPCs of Great Significance are transactions in which at least one of the following significance indexes, which may apply depending on the specific transaction, exceeds the 5% threshold:

**a) Value significance index:** it is the ratio between the value of the transaction and the equity reported in the most recent consolidated balance sheet published by the Company or, if greater, the capitalization of the Company recorded at the end of the last open market day comprised in the reference period of the most recent periodic accounting document published (annual or semi-annual financial report or interim management report).

If the economic conditions of the transaction are determined, the value of the transaction is:

- (i) for cash components, the amount paid to/by the contractual counterparty;
- (ii) for components made up of financial instruments, the fair value determined, on the date of the transaction, in accordance with the international accounting standards adopted by Regulation (EC) No. 1606/2002;
- (iii) for finance transactions or for transactions giving guarantees, the maximum payable amount.

If the economic conditions of the transaction depend, in whole or in part, on variables not yet known, the value of the transaction is the maximum (receivable or payable) value pursuant to the agreement.

**b) Assets significance index:** it is the ratio between the total assets of the entity involved in the transaction and the total assets of the Company. The data to be used must be taken from the most recent consolidated balance sheet published by the Company; where possible, similar data should be used to determine the total assets of the entity involved in the transaction.

For the purchase and sale of shareholdings in companies that have effect on the consolidation, the value of the numerator is the total assets of the investee, regardless of the percentage of capital available.

For the purchase and sale of shareholdings in companies that have no effect on the consolidation, the value of the numerator is:

- (i) in the case of purchases, the value of the transaction plus the liabilities of the acquired company eventually taken on by the buyer;
  - (ii) in the case of sales, the price of the assets sold.
- For the purchase and sale of other assets (other than the purchase of shareholdings), the value of the numerator is:

- (i) in the case of purchases, the greater between the consideration and the book value to be attributed to the assets;
- (ii) in the case of sales, the book value of the assets.

**c) Liabilities significance index:** it is the ratio between the liabilities of the entity acquired and the total assets of the Company. The data to be used must be taken from the most recent consolidated balance sheet published by the

Company; where possible, similar data should be used to determine the total liabilities of the company or business unit acquired.

- 1.2. Transactions with a listed parent company or with parties related to the latter which are, in turn, related to the Company, where at least one of the significance indexes referred to in paragraph 1.1. exceeds the 2.5% threshold.
- 1.3. Pursuant to this Procedure, Transactions are of Great Significance where, despite not exceeding the quantitative significance thresholds listed above, they have a substantial impact, by reason of their nature, strategic importance, extent or commitments, on the Company's or Group's business, or may affect the Company's management autonomy ("**Transactions of Strategic Significance**").
- 1.4. In case of accumulation of more transactions, the Company first determines the significance of each transaction according to the applicable index or indexes referred to in paragraph 1.1. To verify whether the thresholds provided for in paragraphs 1.1 and 1.2 are exceeded, the results for each index are then added together.

## **ANNEX H - PROCEDURE FOR MANAGING INSIDE INFORMATION AND REPORTING IT TO THE PUBLIC**

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### **1. INTRODUCTION**

- 1.1 The information - which consists of news concerning an event, a circumstance, a fact or an initiative that has a specific relevance and function in the company activities - is a strategic component of the corporate assets and is essential for the success of the enterprise. They are at the foundation of the most important corporate processes, and their correct and prompt sharing is a requirement for an effective pursuit of the *business* goals.
- 1.2 In view of the specific branch of law regarding the protection and spread of qualified categories of information (especially personal and sensitive data pursuant to Italian Legislative Decree no. 196/2003, the so-called Privacy Act), the use of information complies with the general principles of efficiency in using and protecting company resources, expressed in the specific case by the "need to know" rule. The use of information for purposes other than the pursuit of the corporate activities must be considered abusive and, generally speaking, everyone that works in the interest of the Pirelli Group (hereinafter the "Group") is subject to the obligation of holding information acquired or processed confidential in terms of or on the occasion of the execution of their activity.
- 1.3 The regulations, on the other hand, provide the obligation of notifying the market of all precise non-public information concerning the Company or its subsidiaries and that, if made public, is able to make a considerable impact on the price of the financial instruments (so-called inside information). The regulations also dictate equal information if the inside information coming from a legal, regulatory, statutory or contractual source is circulated to third parties not subject to obligations of confidentiality ahead of time.
- 1.4 Deriving from this is the particular delicacy of the phase prior to "completion" of the inside information, in which not only must the inside information that may by convention be termed *in itinere* be classi-



fied confidential in order to not run into the obligation to immediately disclose, but above all its early publication could prove to be deceptive for the market and/or harmful for the business of the company.

- 1.5 This procedure governs the management - including notification to the public - of the inside information and of that which could become such, adapting the interest in the fluidity of the information processes and the interest in protecting information data, with specific reference to the dialectics between *disclosure* of the inside information and its confidentiality during its progressive formation. As such, this procedure coordinates with the internal provisions of general application on the subject of information classification and management with regard to confidentiality.

## 2. AIM AND FIELD OF APPLICATION

- 2.1 This procedure (hereinafter the “Procedure”) defines

- a) the requirements of and the responsibilities for classifying inside information;
- b) the methods for tracing access to the inside information *in itinere*, with particular reference to the establishment of the register pursuant to art. 115-bis of Italian Legislative Decree no. 58/1998 and art. 152-bis of the Consob Regulation adopted with resolution no. 11971 of 14 May 1999 and subsequent amendments;
- c) the tools and rules for protecting the confidentiality of the inside information *in itinere*;
- d) the operating instructions on reporting inside information to the market and, in general, on the time of reporting to the public and/or analysts and investors.

- 2.2 The Procedure is an essential component of the internal control system of the Pirelli Group, also with reference to the provisions on the subject contained in Italian Legislative Decree 231/2001 and in Organisational Model 231 adopted by Pirelli & C. (hereinafter “Pirelli”).

It directly governs the inside information pertaining to Pirelli, its unlisted subsidiaries and the listed financial instruments of the Group, and depicts the template of the similar measures that each of the Group companies issuing financial instruments listed on the Italian regulated markets (including the companies that promote and manage shares of listed mutual real estate investment funds) is autonomously obliged to implement.

- 2.3 The seriousness of the consequences of an incorrect application of the Procedure requires a rigorous and ongoing verification of its precise observance; if non-compliances should arise from the

verifications, they are promptly reported to the Internal Control, Risks and *Corporate Governance* Committee by the relevant Supervisor.

## 3. RECIPIENTS

- 3.1 All members of the corporate bodies and the employees of Group companies that have access to information susceptible to turning into inside information are obliged to observe the Procedure. Specifically, the top executives in the organisation state in writing that they have reviewed the Procedure and are aware of their responsibilities deriving from it at the time of their appointment.
- 3.2 The behaviours of the “outside” parties that for any reason have similar access are governed by the rules set forth in the *confidentiality agreement* contained *herein*.
- 3.3 This Procedure also applies as an instruction to the companies controlled by Pirelli so that they provide all the information necessary for prompt and correct fulfilment of the communication to the public obligations contemplated by the rules and regulations in effect without delay and - as regards the listed subsidiaries or those with listed financial instruments in the Italian regulated markets or that promote and manage mutual listed real estate investment funds - so that they adopt equivalent measures.

## 4. REFERENCES

- EU directive on the subject of *market abuse* (Directive 2003/6/EC of the European Parliament and Council dated 28 January 2003; Directive 2003/124/EC of the Commission dated 22 December 2003; Directive 2004/72/EC of the Commission dated 29 April 2004)
- Articles 114 et seq. of Italian Legislative Decree no. 58/1998 (Financial Brokerage Consolidated Act)
- Law no. 262/2005
- Consob Regulation adopted with resolution no. 11971 of 14 May 1999 and subsequent amendments
- Code of ethics of the Pirelli Group and Pirelli Organisational Model 231
- General internal control principles
- Operation Rule “OP SE G 15 June 2006” “PROCESSING OF CORPORATE INFORMATION” (Group Policy).

## 5. DEFINITIONS

**Inside information** - Pursuant to the law, inside information regarding Pirelli is non-public information, precise in nature, concerning the Company or its subsidiaries and

that if made public, is able to have a considerable impact on the price of the financial instruments issued by one or by the others. Once the inside information is finalized, it is an obligation to report it to the public without delay according to the procedures regulated by this Procedure.

**Market sensitive information** - For the purposes of this Procedure, *market sensitive* information means the information that could become inside information, *i.e.* inside information *in itinere*. In this meaning, *market sensitive*, among other things, may consist of a final balance sheet as well as a management estimate or a *forecast*, a bid, a project, a contract, an occurrence (even organisational), a corporate operation, or a *business* decision. *Market sensitive* information is specifically held confidential as regulated by this Procedure; this does not rule out that the same information is also classified according to the *standard* classification methodology pursuant to the relevant internal provisions, on the basis of the risk of damage to which the Group would be exposed following its improper circulation.

**Information context** - Having set a certain event/operation/project, the information context regarding that event/operation/project is the sum total of the information pertaining to it, including the additional and however associated information and all of the relevant processings. Likewise, several recurring or ongoing activities/processes within the scope of the corporate activity constitute information contexts.

**Register** - The information databank established according to the law bearing indication of the parties that because of their working or professional activity, or the functions carried out, have access to *market sensitive* information.

**Market Sensitivity Support Group** - Technical support on the subject of defining information in terms of *market sensitivity* is ensured by a *pool* of people in charge identified by the managers of the competent functions within the following Managements: Legal Affairs of the industrial sectors, Legal and Corporate Affairs and Group Compliance, Finance, Group Management Control, Media Communications, *Investor Relations*, and Human Resources coordinated by the party receiving requests for information pursuant to article 2.6.1 of the Market Regulation organised and managed by Borsa Italiana S.p.A., Information Contact Party of the Company.

## 6 - INSIDE INFORMATION REQUIREMENTS

6.1 The first requirement of inside information is that it be precise. Therefore, the information must have the following as subject matter in order to be considered inside

- an event that has occurred or that one might rea-

- sonably believe will occur, or
  - a sum total of existing circumstances that either one might reasonably believe will come into being and allow conclusions to be drawn on the possible effect of said event, or a combination of circumstances on the prices of the financial instruments of the Company and of its subsidiaries.
- 6.2 Inside information concerns events and circumstances that have occurred or that will probably occur. Elaborated studies, research and evaluations are excluded from the field of relevance examined herein, starting with data of public domain.
- 6.3 Inside information must also be referable to the Company or to its subsidiaries. To this regard, the inside information may
- have a “voluntary” origin (as is the case of the unilateral *business* decisions, extraordinary finance transactions and agreements) or
  - derive from the ascertainment of objective facts, events or circumstances having a reflection on the activity of the enterprise and/or on the course of the financial instruments issued (such as the final balance sheets of the period, or the resignation of a *top manager*).
- The referability of the information to the Company is to be evaluated in terms of legal imputability of the decision (inside information of “voluntary” origin) or of the act of ascertainment (inside information of “external” origin).
- 6.4 In the case of “voluntary” origin of the inside information, finalization takes place at the time when the event (transaction, unilateral decision or agreement) to which the information pertains is defined according to the procedures envisaged by the applicable principles of *corporate governance*, *i.e.* resulting from the law, the articles of association and internal documents. Essentially, *disclosure* of the inside information follows the decision of the body having authority over the subject matters of the information itself (Board of Directors or delegated body).
- 6.5 As far as the agreements are concerned, in terms of contents and legal restriction it is the time of the substantial definition rather than that of finalization (stipulation) that counts. Inside information is finalized as soon as the will of the parties on the essential elements of the contract is successfully met, without a reservation of further negotiations. The necessity that the “will” of the Company (or of its subsidiaries) be expressed by an agent capable of committing the Company (or its subsidiaries) remains valid in order to ensure referability of the “will” - and with it, referability of the information - to the Company (or to its subsidiaries).
- 6.6 In the case the origin of the inside information is “external”, that is to say information consisting

of ascertainment of objective facts, events or circumstances, when the fact is instantaneous (*i.e.* notification of a measure concerning a sanction or the resignation of a *top manager*) and not susceptible to discretionary interpretation, the time of its implementation by the company organisation coincides with the referability of the information to the Company (or to its subsidiaries) and therefore with the finalization of the inside information, with consequent obligation of *disclosure*.

- 6.7 Ascertainment of the inside information of external origin more frequently emerges as a process that unwinds over time and is broken down into subsequent phases, in one moment aimed at building data (such as final balance sheets of the period), and in another aimed at interpreting a number of circumstances (such as a potential *profit warning* concerning the business trend). In the case in point, the finalizing moment of the inside information is governed by the rules (legal, statutory, internal organisational) of *corporate governance* in terms of competence at the end of the ascertainment process.

## 7. CLASSIFICATION OF MARKET SENSITIVE INFORMATION

- 7.1 In the case of “voluntary” origin of the inside information, the parties legitimated to submit the event/transaction/process to the body having jurisdiction over its decision are authorised to label the information as *market sensitive*. Therefore,
- as regards the strategic initiatives, and however to a decision falling under the authority of the board body (*i.e.* extraordinary finance transaction), the classification of *market sensitive* information is made by the Chairman of the Board of Directors, who may delegates its responsibility to the Secretary of the Board of Directors, who may coordinate with the Chief Executive Officer, with the Group General Counsel and/or the General Managers for this purpose.
  - as regards a decision left to a delegated body (*i.e.* sales agreement, or launch of a new product), it is the direct organisational executive of the delegated body who decides on the *market sensitive* nature of the information.
- 7.2 It is also possible that the categorization is made directly by the same body having the authority to decide (*i.e.* by the Board of Directors or the delegated bodies).
- 7.3 Once the information has been classified as *market sensitive*, the legitimated party will set the isolation protocols of the corresponding information context into motion so as to prevent improper circu-

lation inside, and above all outside, the corporate organisation.

- 7.4 In the case of “external” origin of the inside information, the hypothesis that the instantaneous event is not susceptible to interpretation being confirmed, in which mere receipt by the organisation makes the disclosure obligation emerge, the information takes on the *market sensitive* classification (and is subject to the specific confidentiality regime associated with this status)
- in the case in which the information content undergoes a formalized ascertainment/construction procedure (*i.e.* processing of the data intended to be disclosed in an accounting situation), starting from the procedure phase identified by the top executive of the organisation in charge of the procedure. In making this determination, the organisational need for promptness of the flows of “elementary” information must be reconciled with the need for prompt prevention (with adequate tools and behaviours) of the risk of news *leakage*;
  - in the case in which the process of interpreting and assessing the event or circumstance is not formalized *ex ante* (*i.e.* notification of a measure concerning a sanction), starting from the moment in which the event or circumstance falls within the sphere of referability of the enterprise at the time of the assessment of the competent top executive of the organisation, if and when he/she considers that the specific information may evolve into inside information.
- 7.5 Before being classified as *market sensitive*, the information is in a preliminary stage irrelevant for the purposes of this Procedure, which obviously does not rule out its confidential nature and relevant classification according to the principles contained in the Group *Policy*, which is also applied after classifying the information as *market sensitive*.
- 7.6 The parties appointed to classifying the information as *market sensitive* may avail themselves of the technical support of the *Market Sensitivity Support Group*, which may also draw up, by way of example, relevant lists of events and circumstances that normally, according to their nature, characteristics and dimensions, could emerge as significant.

## 8. REGISTER

- 8.1 The Register consists of an information system able to ensure traceability of access to the single *market sensitive* information contexts so as to consent subsequent verifications regarding the registrations made and any updates of the data entered in the Register. Ensuring the traceability of the information management within his/her sphere of activity

- and responsibility lies with the single member.
- 8.2 Without prejudice to observance of the requirements provided by the legal and regulatory branch, entries in the Register are made:
- for significant recurring or ongoing activities/processes (*i.e.* the reporting, *budget, forecast* process);
  - for specific projects/events (*i.e.* extraordinary corporate operations, acquisitions/sales, relevant external facts).
- 8.3 The single name will be entered in the Register for a single recurring or ongoing activity/process or for single project/event (also with the possibility of multiple registration in different information contexts), indicating the initial moment of the availability of the specific *market sensitive* information and the starting moment, if any, from which said availability ceases (entry/exit from the significant information context).
- 8.4 Responsibility for opening a new information context and its populating (with the role played by each informed person indicated) coincides with the responsibility to classify an information as *market sensitive* and therefore is entrusted to the same parties authorised to classify the information (the Board of Directors, the Chairman of the Board of Directors, potentially the Secretary of the Board of Directors by authority of the Chairman, the Chief Executive Officer and the top executives of the organisation). The person who has started up the single and specific information context is the primary person responsible for it and, as such, also governs the choices to reclassify relevant contents.
- 8.5 When a new name and subsequent relevant updates are entered in the Register by either the primary person in charge of the information context to which the *market sensitive* information pertains or another party authorised to do so, the system will automatically generate a notification message to the interested party complete with a relevant informative note regarding obligations, prohibitions and responsibilities tied to accessing the *market sensitive* information, including a specially provided policy for the individual tracking of the flows of information (see model in *annex A*).
- 8.6 The roles and methods for managing and updating the Register, the methods for searching for data entered into it, and the criteria adopted in keeping the databank are provided in detail in the document annexed to this Procedure as *annex B*.

## 9. CONFIDENTIALITY MEASURES APPLIED TO THE MARKET SENSITIVE INFORMATION

- 9.1 The Pirelli Group adopts measures suited to maintaining the confidentiality of the *market sensitive* in-

formation. In particular, without prejudice to the security measures provided by the Group Policy and all other precautions suggested by experience and generally by prudence in order to contain the risk of information *leakage* within reasonable limits, compliance with the organisational, physical and logical security measures stated herein is mandatory.

- 9.2 It remains understood that the same measures are also applied
- to the inside information already finalized for which the delay of *disclosure* up to when disclosure is made has been requested in the due forms;
  - also following disclosure as regards all the preparatory and preliminary material, without prejudice to the possibility of the primary person in charge of the information context to which the material pertains to reclassify.

### Organisational security

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- 9.3 The distribution of *market sensitive* information based on the need to know guideline is left to the responsibility of the top executives of the organisation included in the Pirelli organisation chart, who are responsible for notifying the recipients of the significance of the reported information and for promptly ensuring consistent populating of the Register.
- 9.4 In case of significant recurring or ongoing activities/processes, identification of the parties authorised to gain access to the *market sensitive* information is an essential element of the operating procedures that govern those same activities/processes. It is the responsibility of the Human Resources Management to supervise the updating of the Register in connection with the internal organisational developments.
- 9.5 To access *market sensitive* information, the parties outside the Group must first sign a special *confidentiality agreement*. If in connection with his or her specific capacity the employee should transfer information to parties outside the Group, he or she shall be responsible for verifying and guaranteeing the signing of the confidentiality agreement beforehand. The template of said agreement, whose contents can be derogated only with the explicit authorisation of the Chairman of the Board of Directors or, if necessary, by the Secretary of the Board by authority of the Chairman or by a Managing Director, is found in annex C of this Procedure.

### Physical security

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- 9.6 The activity of producing media (such as, by way of example, document printing and photocopying) containing *market sensitive* information must be supervised by personnel entered in the Reg-

ister. The subsequent preservation, distribution and, in general, management of said media are the responsibility of those who have them and within the limits in which they have them, based on the qualification resulting from the registration in the Register. Each one is responsible for ensuring the traceability of the management operations of the media entrusted to them.

- 9.7 The medium must be labelled “*market sensitive*” to make the nature of the information it contains recognisable; for this reason any *files*, regardless of the extension, must carry the coded name of the information context to which they belong in the name.
- 9.8 The media bearing *market sensitive* information must be kept in rooms having controlled physical access or be placed in guarded archives or be protected after they are used, and must never be left unattended, particularly when taken outside the work offices.
- 9.9 The media bearing *market sensitive* information must be distributed by the same parties that have them, with the procedures best suited for preventing any improper retrieval of the information content.

#### Logical security

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- 9.10 When processed/handled/transmitted/filed in electronic format, the *market sensitive* information must be handled so as to ensure its confidentiality.
- 9.11 The populating of the Register as to a specific information context automatically entails the corresponding populating of the *database* of the licenses authorising access to the corresponding *files*, with the user profiles corresponding to the roles defined in the Register, also by category.

### 10. REPORTING INSIDE INFORMATION TO THE MARKET - GENERAL RULES

- 10.1 In the case of “voluntary” origin of the inside information (or inside information to be ascertained), it is the responsibility of the party entitled to classify the information context as *market sensitive* (of of the organisational top executive in charge of the ascertainment process) to promptly start up the processing process of the report to circulate to the market when the inside information is finalized.
- 10.2 To this end, said party manages relations with the Media Communications Management, coordinating all Register members involved in the specific information context having the necessary cognitive elements so that the Media Communications Management can work out a press release draft. The *Market Sensitivity Support Group* verifies this draft with regard consistency of the economic and financial data presented, suitability for meeting the

needs of the investors and the financial community, consistency with what is already pictured by the Company in its institutional reports, meaning in previous press releases, and compliance with the applicable regulations.

- 10.3 Lastly, the Information Contact Person assesses whether to initiate specific preliminary verifications (*i.e.* Italian Stock Exchange, Consob), also for the purpose, if necessary, of requesting a delay of the disclosure in the due forms.
- 10.4 The Media Communications Management lastly submits the press release draft in its version following the interventions and evaluations described above to the approval of the corporate Management (meaning the Board of Directors collectively if the joint decision establishes the finalization of the inside information); it implements any comments or amendments and receives authorisation to make the disclosure from the Director appointed thereto. Having ascertained the presence of the declaration of the Executive in charge of drawing up the accounting and corporate documents of the Company, who certifies that they are truthful if information on the economic, equity or financial situation of the Group is provided, the Media Communications Management then circulates the press release according to the applicable rules, and immediately notifies Investor Relations and the Information Contact Person of it so that they carry out their activities, and also notifies the Top Executives of the corporate Management.
- 10.5 After release to the public, the press release is published without delay (and however before the market opens the day after that of its circulation) by the Media Communications Management on the website of the Company with the day and time of insertion indicated.
- 10.6 In the case of inside information consisting of an immediate event to be merely implemented, the process described above - *mutatis mutandis* - is started up by the party inside the organisation authorised to verify it.

### 11. REPORTING INSIDE INFORMATION TO THE MARKET - SPECIAL CASES

#### Rumours and requests of the Authority

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- 11.1 If
- there is a significant price change of the listed financial instruments compared to the last price of the day before when news not in conformity with this Procedure and concerning the equity, economic and financial situation, any extraordinary finance transactions, significant acquisitions or



sales, or the business trend of the Company or its subsidiaries has been spread amongst the public;

- there is news of public domain not circulated in conformity with this Procedure and able to considerably influence the price of the financial instruments of the Company or its subsidiaries with markets closed or in the pre-opening phase;
- there is a report made by the Italian Stock Exchange or Consob regarding the circulation of so-called market *rumours*, the Information Contact Person - with the help of the *Market Sensitivity Support Group* and managers of the corporate functions involved - closely examines the situation to verify the need and/or the advisability of informing the public on the truthfulness of the news of public domain, supplementing and correcting its content, if necessary, in order to restore conditions of information equality and correctness, and if necessary assessing the need to request delay of the disclosure in the due forms.

- 11.2 Likewise, the Information Contact Person closely examines, with the help of the *Market Sensitivity Support Group* and managers of the corporate functions involved, the situation to verify the need and/or the advisability of making an announcement to the public (as above, also evaluating any possible need to request delay of the disclosure in the due forms) if the Italian Stock Exchange or Consob present requests for information or announcements to the market, even if there are no *rumours*.
- 11.3 In case of recognised ascertainment of the need/ advisability to make an announcement to the public, the Information Contact Person initiates the process of drafting the press release serving as the subject matter of the *disclosure* to the market within the terms set forth above.

#### **Profit warning**

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- 11.4 In the case of prior communication of *targets* (also in the form of changing trends ) and/or forecast data of the Company and/or of the subsidiaries, the Investor Relations Management, in agreement with the General Managements involved, will monitor the consistency of the actual course of business with what has already been circulated and will monitor the “consensus” of the market in order to circulate any *profit warnings* in case of significant and long-lasting deviation between market expectations and those within the Company.
- 11.5 If necessary, the press release preparation process is carried out by the Group Finance and Management Control Management with the procedures explained above.

## **12. RELATIONS WITH THIRD PARTIES**

- 12.1 Specific structures are in charge of *media* relations and with the national and international community within the Company.

### **Relations with the financial community**

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- 12.2 Relations with the financial community are handled by the *Investor Relations Management*.
- 12.3 On the occasion of meetings with the financial community (such as *road shows*, *conference calls*, meetings, etc.), the Investor Relations Management informs the *Market Sensitivity Support Group* in advance for the assessments of expertise, place, time, methods and subject matter of the meeting, providing a draft of any material planned to be presented/handed out to the participants. A copy of this material in its final draft must be sent to the Information Contact Person for any fulfilments towards the market before it is presented/handed out to the meeting participants.
- 12.4 In the case in which inside information is discovered during the preliminary verification of the event contents, the Information Contact Person takes steps to prepare and circulate a relevant press release to the market. The same steps are taken if within the sphere of the meeting there is the involuntary release of inside information to the public.

### **Relations with the media**

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- 12.5 Relations with the members of the press are handled by the Media Communications Management.
- 12.6 The Chairman, Chief Executive Officer (subject to consultation with the Chairman) and the other parties authorised by the Chairman, also on the suggestion of the Media Communications Management, are delegated to give interviews and issue declarations regarding the Company and attend meetings with journalists. Said function previously agrees on the contents of the interview or of the press conference with the interested party, keeping the *Market Sensitivity Support Group* constantly informed for its assessments, if necessary.
- 12.7 In the case in which inside information is discovered during the preliminary verification of the event contents, the Information Contact Person takes steps to prepare and circulate a relevant press release to the market following the procedures explained above. The same steps are taken if within the sphere of interviews or press conferences there is the involuntary release of inside information to the public.

### Conferences, meetings, courses and conventions

- 12.8 On the occasion of the *management's* participation in conferences, meetings, courses and *conventions*, the corporate function involved previously informs the Media Communications Management - in the case of public meetings which are presumably attended by journalists - and the Human Resources Management of the place, time, methods and subject matter of the meeting, supplying the name of the Company representative at the event, as well as a draft of any materials planned for presentation/distribution to the participants.
- 12.9 Following a preliminary, concise deliberation, the Media Communications Management (and/or the Human Resources Management) starts to verify event contents, if necessary, with the *Market Sensitivity Support Group*. If then inside information is found as a result of said verification, the Information Contact Person takes steps to prepare and issue a special press release to the market with the methods explained above.

### 13 - PUBLICATIONS

- 13.1 The content of any publication of the Company (by way of example: in the form of advertising communications, advertising *brochures*, information booklets, company magazine) must be first checked by the Institutional and Cultural Affairs Management with the support of the *Market Sensitivity Support Group* in order to ensure the correctness and homogeneity of the data and news stated against that already circulated and to verify that they do not contain inside information.
- 13.2 In the case in which inside information is discovered during the preliminary verification of the publication contents, the Information Contact Person takes steps to prepare and circulate a relevant press release to the market.
- 13.3 Economic-financial information, company documents, presentations to the financial community, information documents, etc. are published on the Company website. Said publication (authorised by the Function managers in charge of the subject) cannot be made before the Company has fulfilled the reporting obligations provided by current regulations; for this reason, the Function in charge of the subject matter sends the documentation to the Information Contact Person so that he or she sees to the fulfilments provided by the applicable regulations.

### ANNEX 1 - REPORT MODEL TO SEND TO THE PARTIES ENTERED IN THE REGISTER

In observance of the expectations of art. 115-bis of the Consolidation Act of provisions regarding financial brokerage (Italian Legislative Decree no. 58/1998 and subsequent amendments, hereinafter the "Finance Consolidation Act"), Pirelli & C. S.p.A. established the Register of persons who have access to information that can become inside information pursuant to art. 114 of the Finance Consolidation Act (hereinafter the "Information" and "Register").

To this regard, I herein report, pursuant to art. 152-quinquies of the Consob Issuers' Regulation (Resolution no. 11971/1999 and subsequent amendments), that

**[Note: depending on the reason for which the notice is sent, it is necessary to insert one of the following alternative texts]**

- you have been entered [or: your company/professional association has been entered] in the Register in the capacity of a person who has access to the Information within the sphere of the recurring Activity ..... on a regular basis; **[Note: notice regarding registration within the sphere of a recurring Activity]**
- you have been entered [or: your company/professional association has been entered] in the Register in the capacity of a person who has access to the Information within the sphere of the Project/Event ..... on a regular basis; **[Note: notice regarding registration for participation in a Project/Event]**
- it has been recorded in the Register that you no longer have access to the Information on the Project/Event.....; **[Note: notice to issue at the end of a Project/Event]**
- it has been recorded in the Register that you [or: your company/professional association] no longer has access to the Information within the sphere of the recurring Activity.....; **[Note: report to be made at the end of the registration of a party "on a regular basis" within the sphere of a recurring activity]**

For this purpose it is specified that pursuant to art. 181 of the Finance Consolidation Act, the term inside information means information precise in nature that directly or indirectly concerns Pirelli & C. S.p.A. (hereinafter "Company"), its financial instruments or a subsidiary, which has not been made public.

Pursuant to art. 114 of the Finance Consolidation Act, the Company is obliged to report, without delay, the inside information regarding the Company itself or its subsidiaries to the public and a delay in fulfilling this obligation is allowed, under the responsibility of the Company, only in certain cases and in keeping with the conditions established by Consob, provided that the Company is able to guarantee the confidentiality of the information.

If the Information is communicated to a third party that is not subject to an obligation of confidentiality, the Company must report it in full to the public at the same time in the case of intentional disclosure and without delay in the case of unintentional disclosure.

Observance of the obligations to hold the Information to which access is granted confidential by the persons entered in the Register is therefore essential.

To this regard, please note that the burden of ensuring traceability of the management of the Information and its confidentiality lies with each of the parties entered in the Register within the sphere of his/her activity and responsibility starting from when he/she comes into possession of Information pertaining to the recurring Activity or the Project/Event for which he/she is entered with any medium (*i.e.* by correspondence, during meetings, conferences and/or other).

If the entered party should communicate the Information to parties that are not in possession of it (even if already entered in the Register for other reasons), even involuntarily, he/she will be obliged to immediately notify the Register Manager.

Remember that Heading I-Bis of the aforesaid Finance Consolidation Act provides specific sanctions for the cases of abuse of inside information and rigging the market; specifically, penal sanctions (art. 184) and administrative sanctions (art. 187-bis) are envisaged against anyone in possession of inside information due to his/her office of member of the issuer's administration, management or audit bodies, investment in the issuer's capital, or carrying on a business activity, profession or function, even public, or an office,

- a) purchases, sells or carries out other transactions, directly or indirectly, on his/her own behalf or for third parties, on financial instruments using the information;
- b) reports said information to others beyond the normal carrying on of the business, profession, function or office;
- c) based on the information, recommends or persuades others to carry out some of the operations indicated in subparagraph a).

The penal sanctions, imposable by the judge, consist of imprisonment from two to twelve years and of a fine ranging from Euro 20 thousand to Euro 3 million; the administrative sanctions, applicable by Consob with justified injunction, range from Euro 100 thousand to Euro 15 million.

The amounts of the fines and pecuniary administrative sanctions mentioned above can be increased up to triple the amount or up to the greater amount of ten times the proceeds or profit obtained with the offence when they appear inadequate even if applied to the maximum extent owing to the personal merits of the guilty party, to the entity of the proceeds or profit obtained with the offence or to the effects generated on the market.

Without prejudice to the possibility of the Company to make up for all damages and/or responsibilities that may arise from behaviours in breach of the obligations referred to in this Report, their non-compliance entails: (i) for employees, the infliction of the disciplinary sanctions provided by the current rules of law and by the applicable collective bargaining agreements, (ii) for any other collaborators, the termination - also without advance notice - of the relationship; (iii) for the directors and auditors of the Company, the Board of Directors may propose revocation of the defaulting director or auditor for just cause at the next Shareholders' Meeting.

The personal data necessary for entry in the Register and for the relevant updates will be processed in compliance with the provisions set out in Italian Legislative Decree no. 196/2003 (the "Privacy Act").

Please examine the abstract of the regulations to which this report refers and the report issued pursuant to article 13 of the Privacy Act by going to the website [www.pirelli.com](http://www.pirelli.com). For any information or explanations regarding this report or its application, please write to [inforegistro@pirelli.com](mailto:inforegistro@pirelli.com)

(Manager)

## **ANNEX 2 - REGISTER OF PERSONS WHO HAVE ACCESS TO INSIDE INFORMATION**

**pursuant to art. 115-bis of Italian Legislative Decree 58/1998 and subsequent amendments (hereinafter the "Register")**

### **Keeping criteria and data management and search methods**

#### **Register planning**

Considering:

- a) art. 115-bis of Italian Legislative Decree no. 58/1998 and subsequent amendments (hereinafter the "Finance Consolidation Act"), which requires that a

Register of persons who have access to inside information “owing to business or professional activity or because of the functions carried out” whether on a regular basis or occasionally be set up;

- b) art. 152-bis of the Consob Issuers’ Regulation, lastly amended with resolution no. 15232 of 29 November 2005 (hereinafter “Regulation”), which regulates the information to be entered into the Register, in any case ascribing it to the persons entered in it;

the Pirelli & C. S.p.A Register (hereinafter “**Pirelli & C.**” or also the “**Company**”) is planned on a subjective basis. Every person (i.e. natural person, corporate body, professional organisation or association) will therefore be qualified based on the specific relationship binding him/her/it to the issuer and by virtue of which him/her/it is in possession of information that can become inside information pursuant to art. 114 of the Finance Consolidated Act (hereinafter “**Market sensitive information**”). Said relationship is defined in the “Role” Register. The category is susceptible to being filled with an indefinite number of contents; it certainly includes the figures listed below:

- a) members of administration, management and audit bodies of the Company or of group companies;
- b) employees of the Company or of group companies regarding the specific position held;
- c) consultants, auditors;
- d) shareholders that perform management and coordination activities, if any.

Based on the cryptography program adopted by the Company, the qualifications for accessing the files concerning the single information contexts for which the registration is made will be assigned.

Without prejudice to the above, the registrations may be made:

- on a regular basis for recurring or ongoing activities/processes such as, for example, the reporting, budget and forecast processes and the activities of preparing meetings of the company bodies (hereinafter the “Recurring activities”);
- occasionally for specific operations/projects/events such as, for example, extraordinary finance transactions, acquisitions/sales of assets or investments, notification of a measure (hereinafter the “Projects/Events”).

Some persons will be entered in the Register only with regard to single Projects/Events for which they come into possession of *market sensitive* information, with specification of the date entered in the Register and that on which the party will no longer have access to the aforesaid information, which will respectively coincide with the time when the party is involved in the Project/Event and with the end of the period in which the Project/Event gives rise to *market sensitive* information (with the publication of the price sensitive press release regarding the positive

decision of an operation, or with the decision to not fulfil it, for example) or the earlier moment when the entered party no longer has access to the aforesaid information for any reason. In addition to pertinence to specific Projects/Events, others can be entered also for recurring Activities as persons enabled to accessing *market sensitive* information in connection with the specific function carried out within the Company or company it controls. For the purpose of clearness, said functions will be described in the Register with particular regard to the normal time frames of the flows of information that regard them so as to contain the “usual” access of the persons involved in the flows of information cited above within correct limits. Said persons will be registered the first time at the time their functions are entered and their positions will be updated with the methods provided hereunder, on the occasion of the amendment or of the termination of the position held. As indicated above, said parties may also be entered in connection with specific Projects/Events at the same time.

#### Register keeping criteria

##### A) PROJECTS/EVENTS

In the case a Project/Event that is expression of a will of the Company (*i.e.* of voluntary origin) commences, the party enabled to rating the relevant information as *market sensitive*, and upon entry of the persons in possession of the information in the Register (hereinafter the “Contact Person”) is the one authorised to submit its content to the body qualified to decide on the Project/Event and so,

- in the case in which the decision lies with the board body of Pirelli & C. (for extraordinary finance transactions, for example), the Chairman of the Board of Directors; he/she may delegate its responsibility to the Secretary of the Board of Directors that will coordinate with the General Managers for this purpose;
- in the case in which the decision lies with a delegated body of Pirelli & C. (for a business agreement, for example), the direct organisation executive of the delegated body (so-called top executives); therefore, employees or members of the company bodies of companies controlled by Pirelli & C. that usually do not keep their own registers may be entered in the Register. Subsidiaries issuing financial instruments listed in the Italian regulated markets (including those that promote and manage listed mutual real estate investment funds) that will keep their own registers pursuant to art. 115-bis of the Finance Consolidation Act and that will therefore be entered in the Register cited in this document as a corporate body in compliance with art. 152-bis, paragraph 2, subparagraph a) of the Regulation are an exception to this rule.

On the other hand, if the Project/Event is the consequence of ascertainment of objective facts or circumstances (*i.e.* of external origin), the Contact Person will be the organisational top executive of the delegated body of Pirelli & C. to whose sphere of activity the Project/Event refers and that implements it if it is a Project/Event with non-formalised ascertainment, or the person in charge of the process of ascertaining data that may have been formalised *ex ante* if said process exists.

The same persons indicated above will be responsible for the subsequent decisions to reclassify *market sensitive* information, and as a result of entry of the end or interruption of the Project/Event in the Register.

## B) RECURRING ACTIVITIES

At present, the following activities are identified as recurring Activities that give rise to being entered as such in the Register:

- preparation of periodic accounting statements;
- preparation of budget situations and definition of quantitative goals;
- preparation and holding of meetings of company bodies/committees of the Company or of its subsidiaries;
- preparation of the reports pursuant to art. 114, paragraph 1, of the Finance Consolidation Act;
- relations with investors, analysts and media.
- The analysis of the single recurring Activity is carried out by the Human Resources Management that will use - for identifying the phase starting from which entry in the

Register is required - indications of the organisational top executive appointed to the recurring Activity. The consequent populating and updating of the Register is the responsibility of the Human Resources Management, also in connection with the organisational developments

Further recurring Activities significant for the purposes of the Register can be identified by the Register Manager (as defined below), also as proposed by the Human Resources Management.

### Manager

The Register Manager is the Secretary of the Board of Pirelli & C., who is responsible for not only the functions identified in other parts of this document, but also for the following:

- overall supervision of keeping the Register and the possibility to access all information it contains, with the right to extract it with all methods made possible by the system;
- relations with the judiciary or supervisory authority when there are any requests pertaining to the data the Register contains;

- coordination of the Contact People and resolving any doubts that might arise from the operational Register management activities.

## Data management and search methods

The Register is kept with electronic methods and consists of a system accessible via Internet/Intranet protected by appropriate security criteria. The Manager and the Contact People are permitted access to the application. Specifically, as stated, the Manager has total display of all Register contents and can perform all entry and search operations the system offers. The Contact People instead have more restricted qualifications, and have the possibility to view only the information that each one has entered in addition to the data concerning the recurring Activities. Natural persons will be entered in the Register with their names and surnames, date and place of birth, residence or elected domicile and email address, if any, indicated. If the party entered is a corporate body, an organisation or a professional association, also the name and data above of a natural person of reference must be indicated in addition to the identifying data.

The system will keep specification of the Role of the entered party, the registration date and that starting from which the entered party no longer has access to the relevant *market sensitive* information, as well as the date of all updates made, for each entry in the Register (and therefore for both each Project/Event and each recurring Activity). In compliance with the current regulations, all of the data indicated above will be kept available for at least five years after the circumstances that brought about the registration or update cease to apply.

In the specific case of a Project/Event, the Register Manager will receive a communication in which the open positions for which a Project/Event end or interruption date has not been entered will be indicated so as to be able to verify the actual situation of each of them, telematically and with the frequency he/she establishes.

The search for data contained in the Register may be carried out:

- on a personal basis (*i.e.* surname or name of the registered party);
- by single Project/Event or recurring Activity;
- by category of information (*i.e.* all Projects/Events or recurring Activities);
- on the basis of the status (open, closed) of the Project/Event or recurring Activity.

The generated *output* can be displayed on the screen, printed or exported into a *file*.

Considering the existence of the obligation to report the entry in the Register and subsequent updates to each of the parties entered in the Register, as well as the obligations arising from possession of inside information and the sanctions envisaged in case of violation, the application



requires automatically forwarding the reports required by current regulations to the employees by electronic mail. With reference to the other types of parties entered, the system notifies the Manager and/or Contact People who initiated the registration of the need to promptly proceed with the due reports.

### ANNEX 3.1

[carta intestata del consulente o della controparte]

.....

#### STRETTAMENTE PRIVATO E RISERVATO

Spett.le  
Pirelli & C. S.p.A.

Alla c.a. di .....

#### Oggetto: Accordo di riservatezza relativo alla ipotesi di:

.....  
..... (“Operazione”)

Egregi Signori,  
facciamo riferimento alle conversazioni intercorse sull’Operazione ed alla Vostra richiesta di assunzione, da parte nostra, anche per conto dei Soggetti Rilevanti (come in seguito specificati) di un preciso impegno di riservatezza. Dichiariamo di essere consapevoli ed informati del fatto che, a seguito del nostro coinvolgimento nell’Operazione, potranno esserci forniti e/o comunicati dati e informazioni, in forma scritta, elettronica e orale, in merito:

- a) all’Operazione, compresa la sua esistenza,
- b) a Pirelli & C. S.p.A. (“Società”) e/o alle società da questa controllate o a questa collegate (per tali intendendosi quelle quali la Società esercita, per via diretta o indiretta, una influenza notevole), e
- c) ai soggetti che partecipano, direttamente o indirettamente, al capitale della Società (complessivamente, “**Informazioni Riservate**”)<sup>81</sup>.

Con la presente ci impegniamo a considerare le Informazioni Riservate come strettamente private e confidenziali e a non comunicare e/o divulgare le Informazioni Riservate, se non con il preventivo consenso scritto della Società, a persone diverse da:

- (i) amministratori, dirigenti o dipendenti nostri [o di società consociate (intendendosi come tali le società controllanti e le società controllate, anche indirettamente, da noi e/o dalla medesima società controllante, definite congiuntamente le “**Consociate**”)]<sup>82</sup>,
- (ii) avvocati o altri consulenti o collaboratori della nos-

81 Eliminare di volta in volta i paragrafi non applicabili ovvero, se del caso, inserirne eventualmente di ulteriori;

82 Inserire il riferimento alle Società Consociate se del caso

tra società o delle Consociate incaricati con il Vostro consenso scritto,

- (iii) partners, associati, consulenti, dipendenti, assistenti o collaboratori operanti presso o per lo scrivente studio e/o associazione professionale,<sup>83</sup>

che siano direttamente coinvolti nell’Operazione e abbiano necessità di venire a conoscenza delle Informazioni Riservate. Ci impegniamo altresì a utilizzare le Informazioni Riservate solo ai fini dell’Operazione e a non usare tali informazioni in alcun modo che possa arrecare pregiudizio alla Società, sue controllate o collegate e ai soggetti che partecipano, direttamente o indirettamente, al capitale della Società.

Dichiariamo di essere dotati di un sistema interno di controllo pienamente idoneo a consentire la protezione delle Informazioni Riservate in conformità a quanto disposto dal presente accordo.

Ci impegniamo inoltre a fare in modo che ciascuno dei soggetti indicati nei paragrafi da (i) a (iii) di cui sopra<sup>84</sup> (tutti congiuntamente i “**Soggetti Rilevanti**”) venga previamente debitamente informato circa gli obblighi di riservatezza e i doveri derivanti dall’applicazione del decreto legislativo 24 febbraio 1998, n. 58 e successive modifiche, nonché della relativa normativa regolamentare di attuazione (nell’insieme il “**Decreto Legislativo**”) e a fare altresì in modo che ciascuna delle persone suddette si conformi alle disposizioni del presente accordo, assumendoci la responsabilità, ai sensi dell’art. 1381 cod. civ., per ogni violazione del presente accordo compiuta dai suddetti Soggetti Rilevanti.

Le informazioni fornite non saranno considerate Informazioni Riservate nel caso in cui: (x) siano o divengano di pubblico dominio, ad eccezione dell’ipotesi in cui ciò sia conseguenza di una divulgazione e/o comunicazione non autorizzata effettuata da noi o da uno dei Soggetti Rilevanti; ovvero (y) siano o vengano rese disponibili a noi [o alle Consociate] da soggetti terzi rispetto alla Società ed al gruppo facente capo alla stessa, a condizione che tali soggetti terzi non abbiano violato un obbligo a noi noto di riservatezza assunto nei confronti della Società o di altri soggetti appartenenti al suo gruppo; (z) siano state da noi [o dalle nostre Consociate] autonomamente elaborate senza fare, in alcun modo e sotto qualsiasi forma, uso di, ovvero riferimento a, Informazioni Riservate.

In deroga a quanto sopra detto, i soggetti obbligati a norma del presente accordo non saranno tenuti al rispetto delle obbligazioni qui assunte nel caso in cui le Informazioni Riservate debbano essere rivelate o comunicate per legge, regolamento o per ordine di autorità a cui non si possa opporre rifiuto. Resta peraltro inteso che, in tali situazioni, ci

83 Eliminare di volta in volta i paragrafi non applicabili ovvero aggiungerne eventualmente di ulteriori che riflettano la singola fattispecie, quali ad esempio: “(●) controparti dell’Operazione”; “(●) avvocati o altri consulenti o collaboratori della Società”;

84 Eliminare di volta in volta il riferimento ai paragrafi da (i) a (iii) non applicabili ovvero, se del caso, aggiungere anche il riferimento agli ulteriori paragrafi inseriti;

impegniamo a informarVi, per iscritto, tempestivamente, di tali ordini o obblighi e a consultarci preventivamente con Voi in merito all’opportunità di adottare iniziative volte ad opporsi o a limitare l’ambito di tali richieste.

Nel caso in cui la divulgazione e/o la comunicazione sia effettivamente dovuta, ci impegniamo a cooperare con Voi, anche qualora si manifesti l’esigenza di ritardare la comunicazione ai sensi dell’art. 114, comma 3, del Decreto Legislativo, al fine di ottenere ogni provvedimento o altra misura necessaria o utile per assicurare un trattamento riservato e confidenziale a specifiche parti delle Informazioni Riservate.

Ci impegniamo a trattare le Informazioni Riservate nel rispetto della disciplina applicabile in materia di tutela della privacy.

Ci impegniamo inoltre – anche tenendo conto del fatto che alcune delle Informazioni Riservate sono suscettibili di divenire informazioni privilegiate ai sensi del Decreto Legislativo – a rispettare puntualmente le disposizioni previste dal Decreto Legislativo ed, in particolare, dichiariamo di:

- (i) riconoscere i doveri che derivano dall’applicazione del Decreto Legislativo; e
- (ii) essere a conoscenza delle possibili sanzioni previste dal predetto Decreto Legislativo anche in caso di abuso di informazioni privilegiate o di manipolazione del mercato.

Dichiariamo inoltre di essere a conoscenza che potrete ritenere necessario procedere alla nostra iscrizione nel registro delle persone che hanno accesso a informazioni privilegiate da Voi istituito e mantenuto ai sensi del Decreto Legislativo e di conseguenza ci impegniamo a comunicarVi per iscritto i nominativi dei Soggetti Rilevanti che hanno accesso alle Informazioni Riservate; Vi comunicheremo inoltre i nomi di quelli tra loro che accederanno ai vostri uffici.

Siamo altresì consapevoli e prendiamo atto del fatto che la violazione o il mancato adempimento degli obblighi di riservatezza assunti con il presente accordo potrebbe causare danni gravi ed irreparabili alla Società, alle sue controllate o collegate ed ai soggetti che partecipano, direttamente o indirettamente, al suo capitale, nonché ai rispettivi amministratori. Di conseguenza, conveniamo ed accettiamo che, senza pregiudizio degli ulteriori rimedi, anche di natura cautelare, previsti per legge, la Società:

- a) potrà chiedere la risoluzione degli eventuali ulteriori accordi o contratti in essere con noi <sup>85</sup>, e
- b) per un periodo di almeno 3 anni non stipulerà nuovi accordi e contratti con noi <sup>86</sup>,

in caso di accertata violazione degli obblighi previsti dal presente accordo da parte di uno qualunque dei soggetti obbligati a norma dello stesso e, comunque, in caso di ap-

plicazione di sanzioni amministrative o penali ai sensi del Decreto Legislativo a carico di uno qualunque dei predetti soggetti. Il periodo di cui alla lettera b) che precede decorrerà, rispettivamente, dalla data di accertamento della violazione ovvero dall’avvenuta conoscenza da parte della Società dell’applicazione di una delle predette sanzioni.

[Dichiariamo di essere a conoscenza che le Informazioni Riservate sono e rimarranno di proprietà della Società e/o delle sue Consociate. Su richiesta della Società saremo tenuti a rimettere immediatamente alla Società tutti i documenti contenenti le Informazioni Riservate e tutte le relative copie o estratti e a distruggere tutte le copie delle Informazioni Riservate in formato elettronico; vi daremo conferma scritta dell’avvenuta distruzione non appena la stessa sia stata effettuata. Qualora espressamente richiesto dalla legge e salvo comunque il rispetto degli obblighi di cui al presente accordo, potremo conservare nei nostri archivi una copia delle Informazioni Riservate a condizione che di tale conservazione ve ne diamo preventiva comunicazione scritta.]<sup>87</sup>

Gli impegni di cui al presente accordo saranno efficaci dalla data odierna e resteranno in vigore per 3 anni dal completamento dell’Operazione o dalla sua interruzione definitiva.

Il presente accordo sarà regolato ed interpretato ai sensi della legge italiana. Le parti con la presente concordano che ogni controversia che dovesse sorgere in relazione alla sua interpretazione o esecuzione sarà di competenza esclusiva del Tribunale di Milano.

Cordiali saluti.

**ANNEX 3.2**

[letterhead of the consultant or counterparty]

.....

**STRICTLY PRIVATE AND CONFIDENTIAL**

Messrs.  
Pirelli & C. S.p.A.

Attn: .....

**Re: Confidentiality agreement regarding the case of:**

.....  
.....  
..... (“Operation”)

Dear Sirs,  
We are writing in reference to the conversations held on the Operation and to your request that we undertake, also

85 Aggiungere se del caso “e o le nostre Consociate”;

86 Aggiungere se del caso “e o le nostre Consociate”;

87 Paragrafo da inserire se del caso;

on behalf of the Significant Parties (as specified hereunder), a precise confidentiality commitment.

We declare we are aware and informed of the fact that following our involvement in the Operation, data and information in the written, electronic and oral form regarding the following may be supplied and/or communicated to us:

- d) the Operation, including its existence,
- e) Pirelli & C. S.p.A. (“Company”) and/or its subsidiaries or associate companies (meaning as such those on which the Company directly or indirectly exercises significant influence), and
- f) parties that directly or indirectly invest in the capital of the Company (all in all, “**Confidential Information**”).<sup>88</sup>

We hereby undertake to consider the Confidential Information as strictly private and confidential and to not communicate and/or disclose the Confidential Information to persons other than the following unless with the prior written consent of the Company:

- (iv) directors, executives or our employees [or of associated companies (meaning as such the parent companies and companies that are controlled, even indirectly, by use and/or by the same parent company, jointly called the “**Associate Companies**”)],<sup>89</sup>
- (v) lawyers or other consultants or collaborators of our company or of the Associated Companies appointed with your written consent,
- (vi) partners, associates, consultants, employees, assistants or collaborators operating at or for the undersigned firm and/or professional association,<sup>90</sup>

who are directly involved in the Operation and who need to become aware of the Confidential Information. We also undertake to use the Confidential Information only for the purposes of the Operation and to not use said information in any way that can cause harm to the Company, its subsidiaries or associated companies and to the parties that directly or indirectly invest in the capital of the Company.

We declare that we have an internal control system totally suited to protect the Confidential Information in compliance with the provisions of this agreement.

We also undertake to ensure that each of the parties listed in paragraphs (i) to (iii) above<sup>91</sup> (all jointly the “**Significant Parties**”) is previously duly informed of the confidentiality obligations and duties deriving from application of Italian Legislative Decree no. 58 of 24 February 1998 and subsequent amendments, and of the relevant regulatory implementation rules (as a whole “**Legislative Decree**”) and to also ensure that each of the afore-

said persons complies with the provisions of this agreement, taking on the responsibility pursuant to art. 1381 of the Italian Civil Code for all violations of this agreement committed by the aforesaid Significant Parties.

The information supplied will not be considered Confidential Information if: (x) it is or becomes of public domain, except for the case in which it is the consequence of an unauthorised disclosure and/or announcement made by us or by one of the Significant Parties; or (y) it is or is made available to us (or to the Associated Companies) by third parties outside the Company and group to which it belongs, provided that said third parties have not violated an obligation of confidentiality known to us undertaken with the Company or other parties belonging to its group; (z) it has been autonomously processed by us [or by our Associated Companies] without making use of or reference to Confidential Information in any way and under any form.

Departing from what is stated above, the parties obliged to comply with the rule of this agreement will not be bound to comply with the obligations herein undertaken in the case in which the Confidential Information must be disclosed or announced according to the law, regulations or by order of authorities to whom one cannot refuse. It however remains understood that in said situations we undertake to promptly inform you in writing of said orders or obligations and to previously consult with you regarding the advisability to adopt initiatives aimed at opposing or restricting the scope of said requests.

In the case in which the disclosure and/or the announcement is actually necessary, we undertake to cooperate with you, even if the need to delay the communication pursuant to art. 114, paragraph 3, of the Legislative Decree arises in order to obtain all actions or other measures necessary or useful for ensuring a private and confidential treatment to specific parts of the Confidential Information.

We undertake to treat the Confidential Information in observance of the applicable privacy policy rules and regulations.

We also undertake to unfailingly comply with the provisions of the Legislative Decree, also considering the fact that some of the Confidential Information is susceptible to becoming inside information pursuant to the Legislative Decree, and we specifically declare that we:

- (iii) recognise the duties deriving from application of the Legislative Decree; and
- (iv) are aware of the possible sanctions provided by the aforesaid Legislative Decree, also in the case of abuse of inside information and rigging the market.

We also declare we are aware that you may deem it necessary to enter us in the register of persons having access to inside information you have set up and maintained pursuant to the Legislative Decree and consequently we undertake to notify you in writing of the names of the Significant Parties who have access to the Confidential Information; we shall also notify you of the names of

<sup>88</sup> Each time eliminate the non-applicable paragraphs or, if necessary, insert additional paragraphs;

<sup>89</sup> Insert the reference to the Associated Companies, if necessary;

<sup>90</sup> Each time eliminate the non-applicable paragraphs or, if necessary, add others that reflect the single case in point such as, for example: “(\*) counterparties of the Operation”; “(\*) lawyers or other consultants or collaborators of the Company;

<sup>91</sup> Each time eliminate reference to non-applicable paragraphs (i) to (iii) or, if necessary, also add the reference to the additional paragraphs inserted;

those of them who will gain access to your offices.

We are also aware, and take note of the fact, that violation or failure to fulfil confidentiality obligations taken on with this agreement could cause serious and irreparable damage to the Company, to its subsidiaries or associate companies and to the parties that directly or indirectly invest in its capital, as well as the respective directors. As a result, we agree and accept that, without detriment of further remedies, even precautionary in nature, provided by the law, the Company:

- c) may request the termination of any further agreements or contracts in being with us,<sup>92</sup> and
- d) will not enter into new agreements or contracts with us for a period of at least 3 years,<sup>93</sup>
- e) in case of ascertained violation of the obligations set forth in this agreement by any one of the parties bound in accordance with its provisions and, however, in case administrative or penal sanctions pursuant to the Legislative Decree are applied to any one of the aforesaid parties. The period stated under subparagraph b) above shall respectively start from the date the violation is ascertained or the date the Company becomes aware of the application of one of the aforesaid sanctions.

[We declare we are aware that the Confidential Information is and shall remain the property of the Company and/or of its Associated Companies. Upon the request of the Company, we will be bound to immediately return all documents containing the Confidential Information and all relevant copies or abstracts to the Company and to destroy all the copies of Confidential Information in electronic format; we will give you written confirmation that destruction has taken place as soon as it has been completed. If explicitly required by the law, and however subject to compliance with the obligations set out in this agreement, we may keep a copy of the Confidential Information in our archives provided that we provide you with prior written notification of said preservation.]<sup>94</sup>

The commitments set out in this agreement will be effective from today's date and shall remain in effect for 3 years from completion of the Operation or from its final discontinuance.

This agreement shall be governed and interpreted in accordance with Italian law. The parties hereby agree that all disputes that should arise in connection with its interpretation or execution will fall under the sole jurisdiction of the Court of Milan.

With kind regards,  
[consultant or counterparty]

<sup>92</sup> If necessary, add "and our Associate Companies";

<sup>93</sup> If necessary, add "and our Associate Companies";

<sup>94</sup> Paragraph to insert if necessary;

## ANNEX I - INSIDER DEALING - BLACK-OUT PERIODS

The Board of Directors of Pirelli & C. S.p.A. has resolved – under self-discipline – to subject the “significant persons” of the Company (including Directors and Auditors of the Company) to observing specific periods during which it is prohibited to carry out - even through third parties - operations concerning shares issued by Pirelli & C. or other financial instruments connected to it (so-called black-out periods).

Specifically, the Board resolved that the significant persons (“**Significant Persons**”) (meaning as such the natural persons as described under art. 152-sexies, paragraph 1, subparagraphs c.1) to c.3) of the Consob Regulation adopted with resolution no. 11971/1999 and subsequent amendments<sup>95</sup>, and also those identified - also only under self-discipline - by the Board of Directors of the Company) and the natural persons and corporate bodies<sup>96</sup> closely tied to them abstain from carrying out transactions on Financial Instruments (as defined hereunder) during the twenty days prior to circulation of the financial data of the period, final or provisional as they may be<sup>97</sup>.

The Board of Directors will also determine, on an extraordinary basis, additional periods during which it will provide for the obligation of abstention as stated above or suspension of the aforesaid obligation.

For the purposes of what is stated above, the term Financial Instruments means:

- (i) the financial instruments admitted to negotiation in Italian and foreign regulated markets issued by Pirelli & C. S.p.A. and its subsidiaries, not including non-convertible bonds;
- (ii) the financial instruments, even not listed, that give the right to sign, purchase or sell the instruments described under paragraph (i) as well as the certificates representing the instruments under paragraph (i);
- (iii) the derivative financial instruments and *covered war-*

<sup>95</sup> Article 152-sexies paragraph 1, subparagraphs c.1 to c.3 of the Consob Regulation adopted with resolution no. 11971/1999

*“c.1) the members of the administration and audit bodies of a listed issuer,*

*c.2) the parties that carry out management functions in a listed issuer and the executives who have regular access to inside information and have the power to adopt management decisions that can affect the development and future prospects of the listed issuer,*

*c.3) the members of the administration and audit bodies, the parties that carry out management functions and the executives that have regular access to inside information and have the power to adopt management decisions that can directly or indirectly affect the development and future prospects in a subsidiary by a listed issuer if the book value of the investment in the aforesaid subsidiary represents more than fifty percent of the assets of the listed issuer, as shown by the last financial statements approved.”*

<sup>96</sup> These persons are all those natural persons and corporate bodies strictly tied to the Significant Persons and who are believed able to influence them or able to be influenced by them (those corporate bodies that even if controlled pursuant to current regulations operate in managerial autonomy, for example, are therefore excluded).

<sup>97</sup> The terms are calculated by taking the calendar of the board meetings for approval of the reports provided by article 154-ter paragraphs 1, 2 and 5 of the Finance Consolidation Act communicated to the market by the Company as reference.

*rant*, having the financial instruments described under paragraph (i) as their underlying assets, even when exercise takes place through payment of a differential in cash. The amounts of listed mutual real estate investment funds promoted and managed by asset management companies referring to Pirelli & C. Real Estate S.p.A. also fall under the definition of Financial Instruments described under foregoing paragraph (i).

## ANNEX J - REGULATIONS FOR SHAREHOLDERS' MEETINGS

### ARTICLE 1

- These Regulations shall apply to the Company's ordinary and extraordinary shareholders' meetings.

### ARTICLE 2

- To ensure the regular conduct of shareholders' meetings, for matters not expressly governed by these Regulations, the Chairman of the meeting (hereinafter the "Chairman") shall adopt the measures and solutions deemed most appropriate, in compliance with the law and the bylaws.

### ARTICLE 3

- Meetings may be attended, with the right to take part in the discussion and to vote, by persons entitled to do so pursuant to the applicable provisions (hereinafter the "Participants").
- Unless stated otherwise in the notice convening the meeting, personal identification and verification of the right to attend the meeting shall begin at the place where it is to be held at least one hour before the time fixed for it to start. When the Participants have been identified and their right to attend verified, under the supervision of the Chairman, the auxiliary staff provided by the Company shall issue badges that serve for control purposes and to exercise the right to vote.
- The Participants shall be able to follow the discussion, take the floor during the discussion and exercise their right to vote, in the technical manner specified on each occasion by the Chairman.
- Participants who, after being admitted to the meeting, intend for any reason to leave the premises where it is being held, must inform the auxiliary staff.

### ARTICLE 4

- Directors, senior executive and employees of the Company and of Group companies may attend the

meetings, following also the course of actions decided by the Chairman, as may other persons whose presence is deemed useful in relation to the matters to be discussed.

- With the agreement of the Chairman and following the course of action decided by him, the proceedings may be followed by professionals, consultants, experts, financial analysts and suitably qualified journalists, accredited for a single meeting, in areas which could specifically be set aside for that purpose.
- Persons accredited to follow the proceedings must report for identification by the Company's appointees at the entrance of the premises where the meeting is to be held and collect a special badge to be exhibited upon request.

### ARTICLE 5

- In accordance with the law and the bylaws, it is up to the Chairman to direct the meeting and ensure the best conditions for its orderly and effective conduct.
- The Chairman may authorize the use of audio-visual recording and transmission equipment.

### ARTICLE 6

- In the conduct of the meeting and in the preparation of the minutes the Chairman shall be assisted by a Secretary, in case a Notary public is not present. The Secretary or the Notary public may in turn arrange to be assisted by persons of their trust.
- For the purposes of conducting the voting procedures, the Chairman shall be assisted by scrutineers; he may use auxiliary staff to provide the necessary technical support and to maintain order.

### ARTICLE 7

- When the quorum for duly constituting the shareholders' meeting is not reached, after an appropriate period of time the Participants shall be informed of the fact and the discussion of the matters on the agenda shall be understood to be deferred until the next call of the meeting, if any.
- During a meeting the Chairman may, if he deems it desirable and the majority of the capital represented at the meeting does not object, suspend the proceedings for up to three hours.

### ARTICLE 8

- Opening the proceeding of the meetings, the Chairman shall summarize all the items of the agenda.
- The Chairman can grant to shareholders' who have required to add items to the agenda, according to the



By-Laws and to the provisions of law, up to 15 minutes for describing the proposed resolutions to be taken and for explaining the reasons why they are proposed.

#### **ARTICLE 9**

- The Chairman shall establish the order in which the items on the agenda are to be discussed, which may differ from that indicated in the notice convening the meeting.
- He may provide for several items to be discussed together or for the discussion to proceed item by item.
- The Chairman and, at his invitation, persons attending the meeting pursuant to the Article 4, paragraph 1, shall explain the items on the agenda.

#### **ARTICLE 10**

- It is up to the Chairman to conduct and moderate the discussion, ensure its correctness and prevent disturbances of the regular course of the meeting.
- The Chairman, taking account of the subject matter and importance of the individual items on the agenda, may establish at the start of the meeting the time - not less than 15 minutes - available to each speaker.
- The Chairman shall call on Participants to comply with the time limits for speaking established in advance and to keep to the matters stated in the agenda. In the event of an overrun and/or an abuse, the Chairman shall interrupt the speaker.

#### **ARTICLE 11**

- Persons who intend to speak must apply to the Chairman or the Secretary, indicating the subject they will address. Such requests may be submitted until the Chairman closes the discussion on the subject to which they refer.
- Participants may ask to take the floor a second time during the same discussion, for not more than five minutes, exclusively in response to other speakers or to declare how they intend to vote.

#### **ARTICLE 12**

- The Board of Directors and the Participants may put forward, giving reasons, proposals for alternative or amended resolutions with respect to those originally put forward by the Board of Directors or by the Shareholders who have requested to add items to the agenda in accordance with the By-Laws and with the provisions of law.
- The Chairman shall evaluate the compatibility of such proposals in relation to the agenda of the meeting and to the applicable provisions.

#### **ARTICLE 13**

- The members of the Board of Directors and the Board of Statutory Auditors may intervene in the discussion; at the invitation of the Chairman, persons attending the meeting pursuant to the Article 4, paragraph 1, may also take the floor, inter alia to respond to requests for clarification.

#### **ARTICLE 14**

- The Chairman shall take appropriate measures to ensure the orderly conduct of voting and provide for the voting on an item to be held immediately after the close of the discussion thereof or at the end of the discussion of all the items on the agenda.
- The Chairman shall establish how each voting procedure is to be conducted and the procedures for identifying and counting the votes cast and shall be responsible for ascertaining the results.

#### **ARTICLE 15**

- Upon completion of the counting of the votes with the help of the scrutineers and the Secretary, the results of the voting shall be announced.











## ANNEX K - REMUNERATION REPORT

### REMUNERATION REPORT

#### FOREWORD

This Remuneration Report (“Report”) is divided into:

- General Remuneration Policy for the year 2011 (“Policy”) and
- Remuneration Statement for the year 2010 (“2010 Statement”).

The General Remuneration Policy for the year 2011 (“Policy”) sets out the principles and guidelines which the Pirelli Group refers to in order to (i) determine and (ii) monitor the implementation (of) the remuneration practices described below.

The Policy has been drafted in the light of the recommendations contained in Article 7 of the Self-Governance Code of Borsa Italiana S.p.A., as amended in March 2010, which Pirelli has adopted and which will enter into force as from the financial year 2012, and for the effects of Article 14 of the Procedure for Related-Party Transactions approved by the Company’s Board of Directors on November 3, 2010.

The 2010 Statement, presented for information purposes to the Shareholders’ Meeting, provides a final statement about remunerations for the year 2010.

To make it easier to read and understand this Report, please find below a glossary of the terms most frequently used herein:

**Target-based Annual Total Direct Compensation:** the sum of (i) the gross annual fixed component of remuneration, (ii) the annual variable component that is based on the achievement of given target-based objectives, (iii) the medium/long term annualization of the variable component (the so-called LTI) that is based on the achievement of medium/long-term target-based objectives;

**General Directors:** those appointed by the Board of Directors in connection with the organizational structure of the Company and the Group.

**Managers with strategic responsibilities:** the managers identified by the Board of Directors of the Company, who have the power or responsibility to plan and control the Company’s activities or to take decisions which may affect its development or future prospects.

**Executives:** Pirelli Group employees who meet specific requirements, set out in more detail in the Application Criteria (as defined in paragraph 1 of the Policy), which take account of the employee’s position within the organ-

izational structure, his autonomy, his decision-making power with respect to the company’s choices, his potential and performances.

**Group or Pirelli Group:** all the companies included in the consolidation of Pirelli & C. S.p.A..

**Management:** General Directors, Managers with strategic responsibilities, Senior Managers and Executives taken as a whole;

**MBO:** the annual variable component of remuneration that is based on the achievement of pre-set business objectives;

**LTI Plan:** the Long Term Incentive Cash Plan described in paragraph 9 of this Policy;

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

**GAS:** the gross annual fixed component of remuneration of the employees of any Group Company;

**Senior Managers:** the managers whom (i) Directors holding special offices and who are assigned specific functions and (ii) the General Directors of the Company whose activities have a significant impact on business results, first report to.

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

### GENERAL REMUNERATION POLICY

#### 1. Principles

The Company defines and applies a General Remuneration Policy that is designed to attract, motivate and retain the resources that have the professional skills necessary to successfully pursue the Group’s objectives.

The Policy is defined so as to align the interests of the Management with those of shareholders, pursuing the primary objective of creating sustainable value in the medium-long term through the creation of a strong link between remuneration, on the one hand, and individual and Group performances, on the other.

The Policy is the result of a clear and transparent process in which the Remuneration Committee and the Board of Directors of the Company play a key role.

The Board of Directors adopts, upon proposal of the Remuneration Committee, the “Criteria for the Implementation of the General Remuneration Policy” (“**Application Criteria**”).

Any deviations from the Application Criteria when setting the remuneration:

- of Directors holding special offices, of General Directors and of Managers with strategic responsibili-

ties, are first examined and approved by the Remuneration Committee and the Board of Directors;

- of Senior Managers and Executives are first approved by the Chief People Officer of the Company.

At least once a year, during the presentation of the Remuneration Statement, the Chief People Officer reports about compliance with the Policy and about the corresponding Application Criteria to the Remuneration Committee.

## 2. Remuneration Committee

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Since 2000, the Board of Directors has established among its members the “Remuneration Committee” that has investigative, advisory and proactive functions. In particular, the Remuneration Committee:

- makes proposals to the Board of Directors for the remuneration of Directors holding special offices so as to ensure its alignment with the objective of creating value for shareholders over the medium-long term;
- periodically reviews the remuneration criteria that are applied to the Company’s Management and, upon request of the Directors holding special offices who are assigned specific functions, makes proposals and recommendations on this issue, especially for the adoption of stock option/share-allocation plans;
- monitors the implementation of all decisions taken and of corporate policies on remuneration.

The members of the Remuneration Committee, appointed by the Board of Directors during the meetings of April 29, 2008 (Directors Bernardino Libonati, Alberto Bombassei, Giampiero Pesenti) and July 29, 2009 (Director Umberto Paolucci), are all independent directors.

On November 30, 2010, Director Bernardino Libonati (Chairman) passed away. Consequently, at the time of this Report, the Remuneration Committee’s members are:

- Alberto Bombassei;
- Umberto Paolucci;
- Giampiero Pesenti

The Board of Directors has granted the Remuneration Committee the powers of the Committee for Related-Party Transactions though solely with respect to any decisions regarding the remuneration of Directors holding special offices and of Managers with strategic responsibilities.

For a full description of the operation and activities carried out in 2010 by the Remuneration Committee, please refer to the Report on Corporate Governance and Ownership Structure for the year 2010.

## 3. Process for the definition and adoption of the Policy

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The Policy is submitted by the Remuneration Committee to the Board of Directors every year.

The Board of Directors, after reviewing and approving the Policy, submits it to the advisory vote of the Shareholders’ Meeting.

The Remuneration Committee submits also the “Application Criteria” to the Board of Directors’ approval and oversees their implementation.

The Policy, which was approved by the Remuneration Committee at its meeting on February 23, 2011, was also evaluated during a specific meeting of all Independent Directors; it was then approved by the Board of Directors at its meeting on March 8, 2011 and submitted to the examination and advisory vote of this Shareholders’ Meeting.

## 4. Contents of Policy

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The Policy, as stated above, sets out the principles and guidelines which:

- (i) the Board of Directors follows when setting the remuneration of:
  - the members of the Board of Directors and in particular of Directors holding special offices;
  - General Directors;
  - Managers with strategic responsibilities;
- (ii) the Group refers to in order to set the remuneration of Senior Managers and, in general, that of the Executives of the Group.

## 5. The remuneration of Directors

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Within the Board of Directors, we can distinguish between:

- (i) Directors holding special offices, who may also be assigned specific functions;
- (ii) Directors who do not hold special offices.

The granting of powers to Directors only for urgent matters does not qualify them as Directors who have been assigned specific functions.

As of December 31, 2010:

- the Chairman of the Board of Directors, Marco Tronchetti Provera, and the Deputy Chairmen, Alberto Pirelli and Vittorio Malacalza, were Directors holding special offices; the Chairman had also been assigned specific functions (for further information on this issue, please refer to the Report on Corporate Governance and Ownership Structure);
- the following Directors did not hold special offices: Carlo Acutis; Carlo Angelici; Cristiano Antonelli; Gilberto Benetton; Alberto Bombassei; Franco Bruni; Luigi Campiglio; Enrico Tommaso Cucchiari; Giulia Maria Ligresti; Massimo Moratti; Renato Pagliaro; Umberto Paolucci; Giovanni Perissinotto; Giampiero Pesenti; Luigi Roth; Carlo Secchi.

In April 2008, the Shareholders’ Assembly of Pirelli, upon appointment of the Board of Directors, set the Di-

rectors' total remuneration (under art. 2389(1) Italian Civil Code), granting the Board of Directors the task of determining its allocation.

In particular, the Shareholders' Assembly of April 2008 approved a total gross annual remuneration of €1.2 million, allocated as follows by the Board of Directors:

- €50,000 for each member of the Board of Directors;
- €24,000 for each member of the Internal Audit, Risk and Corporate Governance Committee;
- €20,000 for each member of the Remuneration Committee.

In line with best practices, Directors not holding special offices (as defined above) were not granted a variable component of their remuneration.

A €15,000 salary was granted to the Director who was a member of the Supervisory Board.

Directors were also entitled to a refund of expenses incurred for business reasons.

In line with best practices, the Company applies an insurance policy called D&O (Directors & Officers) Liability covering the third party liability of corporate bodies, General Directors, Managers with strategic responsibilities, Senior Managers and Executives in the performance of their functions, which is designed to indemnify the Group against the cost of any ensuing compensation deriving from the relevant provisions of the applicable national collective agreement and from the provisions on assignments, though excluding the case of wilful misconduct and gross negligence.

Please note that upon approval of the Financial Statements of the year that ended on December 31, 2010, the Shareholders' Assembly will also be required to renew the Board of Directors.

## 6. Remuneration of Directors holding special offices

At the time of their appointment or at the first meeting thereafter, the Remuneration Committee proposes to the Board of Directors the remuneration package for Directors holding special offices.

The remuneration package of Directors holding special offices generally consists of the following elements:

- a gross annual fixed component;
- an annual variable component that is based on the achievement of pre-set business objectives (the so-called MBO);
- a medium/long term, variable component (the so-called LTI).

When setting remuneration and its single elements, the Board of Directors takes into account whether the Director holding a special office has been assigned specific functions. In particular, salary levels are set on the basis of the following indicative criteria:

- a) the fixed component generally represents no more

than 50% of the target-based Annual Total Direct Compensation;

- b) the (annual) target-based MBO incentive is a predetermined percentage of the fixed salary of Directors holding special offices in the Company (excluding, therefore, the remuneration received for other offices in other Group companies) representing generally not less than 70% of their salary. In any case, the maximum incentive can not be 2 times greater than the gross annual fixed component/GAS;
- c) The medium/long term, variable, target-based annualized component (the so-called LTI) generally represents at least 50% of the total variable component (target-based MBO and target-based LTI) of the target-based Annual Total Direct Compensation.

For further information, also about maximum incentive limits, please refer to paragraph 9 ("MBO and LTI Plan").

If a Director holds special offices though is not assigned specific functions, his remuneration package consists exclusively of an annual fixed component that takes into account the particular office held thereby.

With reference to the variable components of the remuneration package of Directors holding special offices, please note that the Remuneration Committee proposes the MBO objectives to the Board of Directors on an annual basis and then checks, in the following year, the Directors' performances to verify their achievement of the MBO objectives in the previous year.

The Remuneration Committee is also responsible for evaluating the proposed allocation and quantification of the LTI in case of achievement of the objectives of the LTI Plan.

By analogy with what is guaranteed by law and/or by the National Collective Agreement for the Italian managers of the Group, the Board of Directors may also grant Directors holding special offices and who have been assigned specific functions, provided they do not have a management contract with the Group:

- a Retirement Bonus (Trattamento di Fine Mandato -T.F.M.) as under art. 17(1), letter c) of the Consolidated Income Tax Law No 917/1986 with characteristics similar to those of the Severance Pay (Trattamento di Fine Rapporto -TFR) as under art. 2120 Italian Civil Code, granted by law to the Italian managers of the Group and including the contributions to be paid by the employer which would be due to social security institutions or funds in the case of a management contract with the Group..
- a policy (i) against personal accidents occurred while fulfilling their assignment, and (ii) against extra-professional accidents with premiums charged to the Company; for the latter accidents, the premium is payable by the Company according to tax and fiscal regulations;

- compensation in case of permanent disability and death due to disease;
- further benefits typical of their office and currently granted within the Group to Managers with strategic responsibilities and/or Senior Managers.

The Board of Directors may provide for (or, if required by law, may suggest to the Shareholders' Assembly) incentive mechanisms through the award of financial instruments or options on financial instruments which, where approved, are disclosed in the Annual Remuneration Statement at the latest (without prejudice to any further transparency obligations required by applicable laws).

As of the date of this Report, the Company has no incentive plans through financial instruments.

It is a policy of the Group not to award discretionary bonuses to Directors holding special offices.

The Board of Directors, upon proposal of the Remuneration Committee, may grant bonuses to these figures for specific transactions that are deemed exceptional in terms of strategic importance and effects on the results of the Company and/or the Group.

The Remuneration Committee and the Board of Directors evaluate and approve in advance, respectively, any further remuneration elements awarded to Directors for any other special offices granted thereto within the Boards of Directors of the Company's subsidiaries.

It is up to the Remuneration Committee and to the Board of Directors to analyse the composition and, more generally, the competitiveness of the remuneration packages of Directors holding special offices. When doing so, they are assisted by independent firms specialized in executive compensation on the basis of methodological approaches that allow for the complexity of the Directors' offices to be assessed in organizational terms, according to their specific assigned functions and to their individual impact on final business results.

## **7. General Directors and Managers with strategic responsibilities**

As of December 31, 2010, Mr. Francesco Gori was the sole General Director of Pirelli & C., while the Managers with strategic responsibilities were:

- Atty. Francesco Chiappetta;
- Mr. Francesco Tanzi;
- Mr. Maurizio Sala.

The Board of Directors, assisted by the Internal Audit, Risk and Corporate Governance Committee, checks at least once a year that these conditions are not met with respect to further executives of the Company and/or the Group.

The remuneration package of General Directors and of Managers with strategic responsibilities generally consists of the following elements:

- a gross annual fixed component (the so-called GAS);

- an annual variable component that is based on the achievement of pre-set business objectives (the so-called MBO);
- a medium/long term, variable component (the so-called LTI).
- benefits typically granted to Pirelli executives.

When setting remuneration and its single elements, the Board of Directors considers the following indicative criteria:

- a) the fixed component generally represents no more than 50% of the target-based Annual Total Direct Compensation;
- b) the (annual) target-based MBO incentive for General Directors is a predetermined percentage of their fixed gross annual salary, representing generally not less than 70% of their salary, while for Managers with strategic responsibilities it represents not less than 40% of their fixed gross annual salary.
- c) The medium/long term, variable, target-based annualized component (the so-called LTI) generally represents at least 50% of the total variable component (target-based MBO and target-based LTI) of the target-based Annual Total Direct Compensation.

For further information, also about maximum incentive limits, please refer to paragraph 9 ("MBO and LTI Plan").

Just like for Directors holding special offices, the Board of Directors may provide for (or, if required by law, may suggest to the Shareholders' Assembly) incentive mechanisms through the award of financial instruments or options on financial instruments which, where approved, are disclosed in the Annual Remuneration Statement of the following year at the latest (without prejudice to any further transparency obligations required by applicable laws). As said in the previous paragraph, as of the date of this Report the Company has no incentive plans through financial instruments.

It is a policy of the Group not to award discretionary bonuses to General Directors and to Managers with strategic responsibilities.

The Board of Directors, upon proposal of the Remuneration Committee, may grant bonuses to these figures for specific transactions that are deemed exceptional in terms of strategic importance and effects on the results of the Company and/or the Group.

The process for setting the remuneration of General Directors is similar to that described for Directors holding special offices.

With regard to Managers with strategic responsibilities, the Remuneration Committee checks whether their remuneration is consistent with the Policy.

Also the remuneration of General Directors and of Managers with strategic responsibilities is analysed with the assistance of independent firms specialized in executive compensation, and its levels are reviewed annually and

announced in the Annual Remuneration Statement.

## 8. Senior Managers and Executives

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The remuneration package of Senior Managers and Executives in general consists of the following elements:

- a gross annual fixed component (the so-called GAS);
- an annual variable component that is based on the achievement of pre-set business objectives (the so-called MBO);
- a medium/long term, variable component (the so-called LTI).
- benefits granted according to corporate practices.
- When setting the remuneration of Senior Managers and Executives and its single elements, the Pirelli Group considers the following indicative criteria:
  - a) the fixed component: (i) for Senior Managers generally represents no more than 60% of the target-based Annual Total Direct Compensation and (ii) for Executives it generally represents no more than two thirds of the target-based Annual Total Direct Compensation;
  - b) an (annual) target-based MBO incentive that is a percentage of the fixed component;
  - c) The medium/long term, variable, target-based annualized component (the so-called LTI) (i) for Senior Managers represents at least 50% of the total variable component (target-based MBO and target-based LTI) of the target-based Annual Total Direct Compensation and (ii) for Executives (unless the executive is not included, for management purposes, in the LTI Plan) it represents at least 30% of the total variable component (target-based MBO and target-based LTI) of the target-based Annual Total Direct Compensation.

For further information, also about maximum incentive limits, please refer to paragraph 9 (“MBO and LTI Plan”).

The Group may grant exceptional bonuses in case of urgent management needs or in case of the achievement of specific extraordinary targets, and may include these workers in incentive mechanisms through the allocation of financial instruments or options on financial instruments adopted by the Group. In this respect, as said above, as of the date of this Report the Company has no incentive plans through financial instruments.

## 9. MBO and LTI Plan

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The annual variable component (the so-called MBO) is used to evaluate the recipient’s performance on an annual basis. The MBO objectives for Directors holding special offices and who are assigned specific functions, of General Directors and of Managers with strategic responsibilities, are set by the Board of Directors upon proposal of

the Remuneration Committee, and are connected to the Company’s and the Group’s annual performances.

The annual variable component is based on the achievement of a financial condition of access (the so-called on/off condition) - in 2010, the Net Financial Position - and is related to a quantitative benchmark of annual profitability (in 2010, PBIT).

The MBOs of Senior Managers and Executives are defined by their hierarchical superiors together with the HR Department and the Group Management Control Department and may include, in addition to the Company’s and/or Group’s performances, objectives related to the economic and/or quality performance of the unit/function which the worker is a member of.

The Group sets a “cap” on the incentive payable in case the target objectives are exceeded.

In particular, in the case of MBOs granted to Directors holding special offices and to General Directors, the maximum incentive can not be 2 times greater than the gross annual fixed component/GAS. In the case of Managers with strategic responsibilities, the maximum incentive can not be 1.5 times greater than their GAS. Lastly, the maximum incentive for Senior Managers and Executives cannot be 2 times greater than the target-based incentive. Also for the purposes of fostering the achievement of medium/long term interests, the Group has adopted since 2009 a medium/long term incentive system that is based on the achievement of the objectives set out in the three-year plan (the “2009/2011” plan - involving some 90 people, in particular Directors holding special offices and who are assigned specific functions, General Directors, Managers with strategic responsibilities, Senior Managers and some Executives - and then the “2011/2013” plan, essentially extended to all other Executives of the Group).

The LTI Plan also includes a mechanism for the “co-investment” of a portion of the MBO: the participant in the LTI Plan “co-invests” 50% of his MBO 2011 and 2012, eventually achieved thereby, to “support” the achievement of the objectives of the Three-Year Business Plan.

If the objectives of the Three-Year Business Plan are achieved, the participant acquires an LTI incentive which is a percentage of his gross annual fixed component/GAS applied at the time of joining the Plan; this percentage takes into account the role played thereby. The maximum incentive cannot be 1.5 times greater than the incentive granted for the achievement of target objectives.

In case of failure to achieve the target objectives, the worker is not entitled, not event pro-rata, to receive the LTI incentive.

With regard to the portion of co-invested MBO, the worker - if the three-year objectives are achieved - may claim the “return” of the “invested” amount, increased by a sum amounting to the “invested” one; if the three-year objectives are not achieved, the worker is entitled to claim

only a refund of half the amount invested.

Therefore, the incentive plan provides for the partial deferment of payment of MBOs 2011 and 2012 (and of MBOs 2009 and 2010 for the LTI Plan 2009/2011).

The costs of LTI incentives are included in the objectives of the Three-Year Business Plan, so that the cost of the LTI Plan is “self-financed” by the achievement of these objectives.

The allocation of a portion of the amount granted on top of the “invested” one (10% of that amount) is connected to the Total Shareholder Return, which measures Pirelli performances compared to the FTSE/MIB Total Return index, periodically calculated by FTSE and available in the Italian Stock Exchange database, which Pirelli’s TSR must be at least aligned with in order to ensure an even greater alignment between the Management’s performances and the expectations of shareholders. This relation is aimed at guaranteeing a direct link between pay and sustainable performances, meant in terms of value growth in the medium and long term.

The LTI Plan also has retention purposes: in the event of termination, for any reason, of the worker’s assignment and/or employment relationship before the end of the three-year period, the worker no longer takes part in the Plan and thus the three-year incentive is not paid thereto, not even pro-rata (this applies also to MBO shares that may have already been “invested”).

#### **10. Allowances in the event of resignation, dismissal or termination**

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It is a policy of the Pirelli Group not to enter into agreements with Directors, Managers with strategic responsibilities, Senior Managers and Executives that regulate *ex ante* the economic issues arising in case of early termination of their relationship by the Company or the worker (the so-called “golden parachutes”).

If the worker’s relationship with the Group is terminated other than for good cause, it is preferable to “close” the relationship by mutual agreement. Subject to statutory and/or contractual obligations, any agreement on termination of the worker’s relationship with the Group is based on the applicable benchmarks in this field and is subject to the case-law/customary limits applied in the country where the agreement is reached.

The Company defines internally the criteria which also the other companies of the Group must follow for the management of agreements on the early termination of relationships with managers and/or Directors holding special offices.

With regard to Directors holding special offices and who are assigned specific functions and who do not have a management contract with the Group, the Company does not provide for the payment of allowances or ex-

traordinary compensation related to termination of their office. Payment of a specific allowance may be granted, subject to the prior assessment of the competent corporate bodies, in the following cases:

- termination by the Company without good cause
- termination by the Director for good cause; for example, in case of substantial changes to his role or to his assignments and/or in case of a so-called “hostile” tender offer.

In these cases, the allowance amounts to 3 times the worker’s gross annual salary, this meaning the sum of (all gross annual fixed salaries for the offices held; the average annual MBO paid while in office; Severance Pay on these amounts).

#### **11. Non-competition agreements**

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The Group may enter into non-competition agreements with its General Directors, Managers with strategic responsibilities and for especially important professional roles of Senior Managers and Executives, providing for payment of a GAS-related fee in relation to the term and scope of the obligation resulting from the agreement itself.

The obligation is referred to the industry which the Group works in at the time of the agreement and to its geographical scope. The scope of the obligation varies according to the worker’s role at the time of execution of the agreement and may cover, as in the case of General Directors, all the countries which the Group works in.



## **REMUNERATION STATEMENT FOR THE YEAR 2010**

### **1. Principles**

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The Remuneration Statement for the year 2010 illustrates the policy that the Pirelli Group implemented during the year 2010 in connection with the remuneration and provides a final statement of it in connection with the different types of beneficiary parties, without prejudice to the obligations of transparency provided by other applicable provisions of law or regulations.

### **2. The Remuneration “Table”**

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SURNAME AND NAME	OFFICE HELD	PERIOD FOR WHICH THE OFFICE WAS HELD	OFFICE EXPIRY	EMOLUMENTS FOR THE OFFICE IN THE COMPANY THAT DRAWS UP THE FINANCIAL STATEMENTS (9)		NON-MONETARY BENEFITS		BONUSES AND OTHER INCENTIVES (10)		OTHER COMPENSATION	
Tronchetti Provera Marco	Chairman	01/01//2010 - 31/12/2010	2010 fin. statements appr.	2,490				2,385		1,075	(1)
Pirelli Alberto	Deputy Chairman	01/01//2010 - 31/12/2010	2010 fin. statements appr.	640		5	(1)	110	(1)	368	(1)
Puri Negri Carlo Alessandro	Deputy Chairman	01/01/2010 - 29/07/2010	-	224							
Malacalza Vittorio	Deputy Chairman	29/07/2010 - 31/12/2010	2010 fin. statements appr.	21	(2)						
Acutis Carlo	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	50							
Angelici Carlo	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	74	(3)						
Antonelli Cristiano	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	74	(3)						
Benetton Gilberto	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	50							
Bombassei Alberto	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	70	(4)						
Bruni Franco	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	74	(3)						
Campiglio Luigi	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	50							
Cucchiani Enrico Tommaso	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	50							
Libonati Berardino	Director	01/01//2010 - 30/11/2010	-	64	(6)						
Ligresti Giulia Maria	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	50							
Moratti Massimo	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	50							
Pagliari Renato	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	50	(5)						
Paolucci Umberto	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	70	(4)						
Perissinotto Giovanni	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	50							
Pesenti Giampiero	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	70	(4)						
Roth Luigi	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	74	(3)						
Secchi Carlo	Director	01/01//2010 - 31/12/2010	2010 fin. statements appr.	89	(7)						
Gori Francesco	General Manager	01/01/2010 - 31/12/2010				7	(1)	901	(1)	1,350	(1)
Laghi Enrico	Chairman, Board of Auditors	01/01//2010 - 31/12/2010	2010 fin. statements appr.	62							
Gualtieri Paolo	Statutory auditor	01/01//2010 - 31/12/2010	2010 fin. statements appr.	42							
Sfameni Paolo Domenico	Statutory auditor	01/01//2010 - 31/12/2010	2010 fin. statements appr.	57	(8)						
Other executives with strategic responsibility						11		947		1,700	

1) From Pirelli Tyre

2) In office since 29 July 2010

3) Of which Euro 24 thousand as member of the Internal Control, Risks and Corporate Governance Committee

4) Of which Euro 20 thousand as member of the Remuneration Committee

5) Emoluments deposited again in the company he/she belongs to

6) Of which Euro 18 thousand as member of the Remuneration Committee

7) Member of the Internal Control, Risks and Corporate Governance Committee (Euro 24 thousand) and of the Supervisory Body (Euro 15 thousand)

8) Of which Euro 15 thousand as member of the Supervisory Body

9) The items shown in this column contain Euro 50 thousand (except for Deputy Chairman Malacalza, for whom the item contains Euro 21 thousand and for Puri Negri, for whom it contains Euro 29 thousand) of compensation pertaining to the year 2010, to be received in 2011

10) The items shown in this column contain compensation pertaining to the year 2010, to be received in 2011

The Chairman, Deputy Chairman A. Pirelli, General Manager and the other executives with strategic responsibility are included in the LTI three-year incentive plan that according to the coinvestment mechanism, envisages disbursement of 50% of the incentive achieved for the years 2009 and 2010, while the remaining 50% accrued as a whole would be disbursed in 2012, increased by 100% in case three-year goals envisaged by the LTI 2009-2011 Plan are attained, otherwise reduced by 50% should said goals not be attained. Please refer to the text of the Corporate Governance Report, section "Remuneration of directors and remuneration policy" for more details on how the incentive plan works.

### 3. Remuneration of the directors

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As far as the remuneration of the directors is concerned, the contents of paragraph 5 of the Policy is provided in full hereunder.

Within the Board of Directors it is possible to distinguish between:

- (iii) directors assigned special offices to whom specific authorities can also be delegated;
- (iv) directors not assigned special offices.

The assignment of powers for only cases of urgency to directors does not in itself apply to depicting them as directors to whom specific authorities are delegated.

As at 31 December 2010 they were:

- directors assigned special offices the Chairman of the Board of Directors Marco Tronchetti Provera and Deputy Chairmen Alberto Pirelli and Vittorio Malacalza; the Chairman was also delegated specific authorities (please refer to the Report on Corporate Governance and Ownership Structure for greater detail);
- directors not assigned special offices the Directors Carlo Acutis; Carlo Angelici; Cristiano Antonelli; Gilberto Benetton; Alberto Bombassei; Franco Bruni; Luigi Campiglio; Enrico Tommaso Cucchiari; Giulia Maria Ligresti; Massimo Moratti; Renato Pagliaro; Umberto Paolucci; Giovanni Perissinotto; Giampiero Pesenti; Luigi Roth; and Carlo Secchi.

At the time it appointed the Board of Directors, the Pirelli Shareholders' Meeting of April 2008 established a total compensation for remuneration of the directors pursuant to art. 2389 paragraph 1 of the Italian Civil Code, and appointed the task of determining its breakdown to the Board of Directors.

Specifically, the Shareholders' Meeting of April 2008 resolved a total gross annual compensation equal to Euro 1.2 million, broken down as follows by the Board of Directors:

- Euro 50 thousand for each director;
- Euro 24 thousand for each member of the Internal Control, Risks and Corporate Governance Committee;
- Euro 20 thousand for each member of the Remuneration Committee.

In line with the best practices, a varying compensation component was not provided for the directors not assigned special offices (as defined above).

A compensation of Euro 15 thousand was then assigned to the Director who is member of the Supervisory Body. Directors are also reimbursed the expenses they bear for carrying out their appointments.

In line with the best practices, an insurance policy, the so-called D&O (Directors & Officers) Liability is provided for civil liability towards third parties of the company bodies, General Managers, Executives with strategic re-

sponsibility, Senior Managers and Executives in carrying out their functions aimed at holding the Group harmless from the burdens deriving from associated indemnity, consequent to the forecasts established on the subject of the applicable national collective bargaining agreement and the rules on mandate, not including the cases of fraud and grave offence.

It is reported that the Shareholders' Meeting is also called to renew the Board of Directors at the time of approval of the financial statements as at 31 December 2010.

### 4. The remuneration of the directors assigned special offices to whom specific authorities were also delegated

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In line with the General Policy on Remuneration described above, the remuneration of the Chairman of the Board of Directors Marco Tronchetti Provera (as at 31 December 2010 sole director assigned special offices to whom specific authorities were also delegated) is made up of:

- a gross annual fixed component;
- a varying annual component that can be attained when reaching predefined company goals (see MBO);
- a varying medium/long-term component (see LTI);

For the year 2010, the Chairman received a gross annual fixed compensation equal to a total of Euro 3,564,826 of which (i) Euro 2,439,826 for the office of Chairman of Pirelli & C. S.p.A.; (ii) Euro 50,000 for the office of Board Member of Pirelli & C. S.p.A.; (iii) Euro 1,075,000 for the office of Chairman of Pirelli Tyre S.p.A.

As for the MBO varying annual component, the Board of Directors had assigned the Chairman of the Board of Directors an incentive/MBO connected with the economic results achieved at Group level and related to the attainment of specific goals set by the Board for the year 2010. In particular, on the basis of the analyses carried out with the help of the leading executive compensation consulting companies of the sector (Towers Watson and Hay Group), the Company assigned an annual incentive for 2010 founded on a mechanism that envisages a financial (Net Financial Position) access condition (so-called on/off) and dependent on a quantitative parameter of annual profitability (PBIT), developed on the basis of an in-depth comparative analysis on the market positioning in compensation terms as to a comparable sample of Italian and international companies.

On the basis of the final data of the financial statements as at 31 December 2010, the Chairman attained an MBO annual incentive equal to a total of Euro 4,770,378 gross of which, according to the "coinvestment" mechanism of the LTI 2009-2011 plan, only 50% is immediately dis-

bursed, equal to Euro 2,385,189 gross. The total remaining accrued 50% would be disbursed in 2012, increased by 100% in the case the goals of the LTI 2009-2011 Plan are attained, otherwise to be reduced 50% in the case these goals are not attained.

Remember that with reference to the varying medium/long-term component, Chairman Marco Tronchetti Provera is beneficiary of the LTI 2009-2011 Plan and also of that of 2011-2013, having the characteristics described in paragraph 9 of the Policy.

For the sake of completeness, it is reported that the Chairman is not included in the incentive plan by way of financial instruments that however as at the date of this Report the Company does not have in being.

Finally, please note that in complete consistency with what is stated in paragraph 6 of the Policy, for the Chairman of the Board of Directors in his capacity of director holding special offices and to whom specific authorities have been delegated and not being bound by executive employment with the Group, the Board of Directors has envisaged, similar to what is guaranteed by the law and/or the National Collective Bargaining Agreement with Italian executives of the Group:

- the assignment of the Component of Retirement Benefit (C.R.B.) pursuant to art. 17, paragraph 1, subparagraph c) of Income Tax Consolidation Act no. 917/1986 having characteristics similar to those typical of the Staff Leaving Indemnity (SLI) pursuant to art. 2120 of the Italian Civil Code recognised, according to the law, to the Italian executives of the Group and including contributions paid by the employer that would be due to the Social Security Institutions or Pension Funds in the case of executive employment.
- a policy regarding accidents that should happen to them in carrying out their appointments;
- a treatment for permanent disability and for death caused by illness.

## 5. The remuneration of the General Manager

In line with the General Policy on Remuneration described above, the remuneration of General Manager Francesco Gori (as at 31 December 2010 sole General Manager) is made up of:

- a gross annual fixed component;
- a varying annual component that can be attained when reaching predefined company goals (see MBO);
- a varying medium/long-term component (see LTI).
- benefits typically paid to Pirelli executives.

General Manager Francesco Gori received a gross annual fixed component for the year 2010 equal to a total of Euro 1,150,000 of which (i) Euro 1,050,000 by way of gross annual remuneration for the office of General Manager; (ii) Euro 100 thousand by way of gross annual

fixed compensation for the office of Managing Director of Pirelli Tyre S.p.A..

During 2010 General Manager Mr. Gori received the annual tranche for the Non-Competition Agreement, agreement of which he holds; for a description of the policy on non-competition agreements, please refer to paragraph 11 of the Policy.

As for the MBO varying annual component, the Board of Directors had also assigned the General Manager Mr. Gori an incentive/MBO connected with the economic results achieved at Group level and related to the attainment of specific goals set by the Board for the year 2010. In particular, on the basis of the analyses carried out with the help of the leading executive compensation consulting companies of the sector (Towers Watson and Hay Group), the Company assigned an annual incentive for 2010 founded on a mechanism that envisages a financial (Net Financial Position) access condition (so-called on/off) and dependent on a quantitative parameter of annual profitability (PBIT), developed on the basis of an in-depth comparative analysis on the market positioning in compensation terms as to a comparable sample of Italian and international companies.

On the basis of the final data of the financial statements as at 31 December 2010, the General Manager attained an MBO annual incentive equal to a total of **Euro 1,802,500 gross** of which, according to the “coinvestment” mechanism of the LTI 2009-2011 plan, only 50% is immediately disbursed, **equal to Euro 901.250 gross**. The total remaining accrued 50% would be disbursed in 2012, increased by 100% in the case the goals of the LTI 2009-2011 Plan are attained, otherwise to be reduced 50% in the case these goals are not attained.

With reference to the varying medium/long-term component, please remember that also General Manager Mr. Gori is beneficiary of the LTI 2009-2011 Plan and also of that of 2011-2013, having the characteristics described in paragraph 9 of the Policy.

For the sake of completeness, it is reported that the General Manager is not included in the incentive plan by way of financial instruments that however as at the date of this Report the Company does not have in being.

## 6. Executives with strategic responsibility

In line with the General Policy on Remuneration, the remuneration of the Executives with strategic responsibility is made up of:

- a gross annual fixed component;
- a varying annual component that can be attained when reaching predefined company goals (see MBO);
- a varying medium/long-term component (see LTI);
- benefits typically paid to Pirelli executives.

The Executives with strategic responsibility as at 31 December 2010 are:

- Mr. Francesco Chiappetta, lawyer, Group General Counsel and Manager of General and Institutional Affairs;
- Mr. Maurizio Sala, Director of Group Management Control;
- Mr. Francesco Tanzi, Finance Manager and Executive in charge of drawing up the corporate accounting documents.

The Executives with strategic responsibility received a total of Euro 1.7 million in aggregate form for the year 2010.

All Executives with strategic responsibility are beneficiaries of the LTI 2009-2011 Plan as well as that of 2011-2013 having the characteristics described in paragraph 9 of the Policy.

For the sake of completeness, it is reported that the Executives with strategic responsibility are not included in incentive plans by way of financial instruments that however as at the date of this Report the Company does not have in being.

## **7. Senior managers and executives**

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In line with the General Policy on Remuneration, the remuneration of senior managers and executives is made up of:

- a gross annual fixed component;
- a varying annual component that can be attained when reaching predefined company goals (see MBO);
- a varying medium/long-term component (see LTI);
- benefits typically paid to Pirelli executives.





