

Corporate Governance Report 2009 Financial Year

GLOSSARY

Shareholders' meeting to approve the Financial Statements for 2009: Means the shareholders' meeting that will be called to approve the operating and consolidated financial statements at 31 December 2009.

Self Regulatory Code: means the Self-Regulatory Code of Conduct for listed companies approved in March 2006 by the Corporate Governance Committee and promoted by the Italian stock exchange, Borsa Italiana S.p.A. and available on its website *www.borsaitaliana.it*, to which the company adheres.

Civil Code: means the Italian Civil Code.

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 stock exchange.

Date of the Report: means the meeting of the Board of Directors held on 10 March 2010 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 2009.

Market Regulation Instructions: indicates the Instructions for the Regulation of Markets organised and managed by Borsa Italiana S.p.A.

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

Pirelli RE: indicates Pirelli & C. Real Estate S.p.A., with registered offices in Milan, tax code, VAT number and Milan Business Registry no. 02473170153.

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

Stock Exchange Regulations: indicates the Market Regulations organised and managed by Borsa Italiana S.p.A.

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 2007 on the subject of markets 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: indicates Pirelli & C.

Company bylaws: indicates the Bylaws of Pirelli & C., available on the company internet site *www.pirelli.com* and printed at the end of this Report.

CFL: indicates Legislative Decree no. 58 of 24 February 1998 (the Testo Unico di 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 specialised in the tyre sector that also has a presence in the real estate, broadband access technologies, air quality and emission control sectors. In over 130 years of business, the Group has grown thanks to its capacity to generate innovative products in a range of sectors. Tyres represent the strategic asset of the group identified as Pirelli Tyre. In the property sector, Pirelli RE manages the property-owning funds and companies and holds a leadership position in the Italian market. The Group is also active in other high technological innovation sectors, such as broadband access. Pirelli's constant attention to environmental issues, and its emphatic focus on product innovation, has led to the birth of new businesses: Pirelli Ambiente operates in the renewable energy and sustainable development sector, supplying 100% green electricity obtained from photovoltaic installations, and Pirelli Eco Technology is active in the production of the latest generation Feelpure antiparticulate filters. Pirelli Labs, a centre of technological excellence, is at the service of all these businesses, and represents the engine of innovation for all the businesses of the Group.

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 Corporate Governance model are: correct disclosure practices concerning the choices and processes by which company decisions are formulated, an effective internal control system, and effective regulation of potential conflicts of interest.

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 and legal developments, that are available on the Company website at www.pirelli.com 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 in the company 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.

2. INFORMATION ON THE STRUCTURE OF SHARE OWNERSHIP

(EX ART. 123 BIS SUBSECTION 1, CFL)

AT 03/10/2010

a) Structure of the share capital

The subscribed and fully paid in share capital of the company totalled Euro 1,556,692,865.28, consisting of ordinary and savings shares of 0.29 euros par value each. The exact composition of the share capital is reported in Table 1.

Rights and obligations

Ordinary shares entitle the holder to one vote each. They are registered shares or bearer shares, to the extent permitted by law, and can be converted into the other type of shares 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 for their whole face value; if the share capital is reduced by losses, the face value of the savings shares is only reduced for the part of the losses that exceeds the overall face value of the other shares. They also retain the rights and privileges assigned to them by the law and the Company bylaws, even when ordinary and savings shares are excluded from trading.

If share capital should be increased by the issue of shares of 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 the legal allocations have been made:

- a) savings shares are attributed a sum of up to seven percent of their par value. If in a financial year the savings shares are assigned a dividend of less than seven percent of their par value, 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 two percentage points of their par value 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 five percent of their par value.

The remaining profits will be distributed to all the shares, in addition to the sums assigned previously described, 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.

Financial instruments that attribute the right to subscribe to new issue 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 issued¹.

Stock incentive plans

See the financial report and the information prospectus drafted in September 2007 pursuant to art. 84 *bis* of the Consob Issuer Regulations and subsequent amendments, available in the Governance section of the Company website www.pirelli.com.

Please also refer to the heading "Stock Option Plans" in the explanatory notes to the Consolidated Financial Reports.

b) Restrictions on the transfer of securities

There are no restrictions on the transfer of securities.

¹ It should be noted that the right granted to Directors in a decision made by the Extraordinary Shareholders' meeting held on 11 May 2004 to issue convertible bonds in both ordinary and savings shares, or with warrants valid for the subscription of such shares to be offered as options to shareholders and holders of convertible bonds, for a maximum nominal sum of 1,000 million euros, in one or more operations, within the limits permitted at the time of issue by the current regulations, with a consequent possible increase in share capital to serve the conversion of the bonds and/or the exercise of the warrants, expired on 10 May 2009. See the section below entitled "Powers to increase the share capital and authorisations to purchase own shares".

c) Major shareholdings

Those subjects which, according to the criteria published by Consob², 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 exercising 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 subjects that participate in the “Pirelli & C. S.p.A. Block Share Syndicate”, the purpose of which is to ensure the stability of the Pirelli & C share structure and an excerpt of the relevant agreement is provided in annex (d) to this Report, and is available on the Company website at www.pirelli.com.

h) Changes to the bylaws

Changes to the bylaws of the Company are deliberated as provided by 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 of the company could occur.

l) Powers to increase share capital and authorisations to purchase own shares

Powers to increase share capital

Without prejudice to the matter notified below, the powers granted to the directors to increase the share capital against payment in one or more operations, and the right to issue bonds convertible in both ordinary and savings shares, or with warrants valid for share subscription, expired during the year. In consequence, the Shareholders' Meeting to approve the 2009 Financial

² www.consob.it, “issuers” section.

Reports will be asked to modify article 5 of the Bylaws³ so as to eliminate the reference to the aforementioned powers⁴.

It should be noted that a resolution of the Extraordinary Shareholders' Meeting held on 7 May 2003, gave the Directors the right to issue, in one or more tranches, up to a maximum of 100,000,000 ordinary shares by 30 April 2008, to be assigned to executive managers and cadres employed by the company, its subsidiaries or their subsidiaries, of the latter in Italy or abroad, pursuant to articles 2441 subsection eight of the Civil Code and article 134 of the CFL. On 25 February 2005, the Board of Directors, in partial execution of the powers attributed to it, resolved to increase the share capital for a maximum of Euro 15,725,496.50 par value, by the issue of a maximum of 54,225,850 ordinary shares of 0.29 euros par value each, at a price of 0.996 euros each, of which 0.706 as share price premium, to be reserved for subscription by executive managers and cadres employed by the company, its subsidiaries and their subsidiaries, in Italy and abroad.

Authorisation to purchase own shares

The programme to purchase the Company's own shares, approved by the Board of directors on 9 May 2008 after authorisation by the Ordinary Shareholders' Meeting held on 29 April 2008, expired at the end of October 2009⁵

In execution of this programme, the Company purchased 1,250,000 ordinary shares at a price of 0.2985 euros each.

At the Date of the Report, the Company held 3,867,500 of its own ordinary shares, equal to 0.07% of the whole of the share capital, and 4,491,769 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 case of resignations, termination or cessation of appointment after a public takeover bid

The Company has not stipulated agreements with its directors that envisage indemnities in case of resignations or the termination/cancellation of appointments without good reason or if the employment relationship ceases after a public takeover bid.

n) Direction and coordination activities (ex. art. 2497 and subsequent articles of the Civil Code)

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

Nor is the Company subject to direction and coordination activities by any company or body pursuant to article 2497 and subsequent articles of the Civil Code.

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

³ By a resolution of the Extraordinary Shareholders' Meeting held on 11 May 2004, the Directors were attributed:

- the right to increase the share capital by payment, by 10 May 2009, in one or more operations, up to a total sum of 600 million euros par value, with or without share premium, by issuing a maximum of 2,068,965,517 ordinary shares to be offered in option to shareholders and holders of convertible bonds, with the possibility of excluding the right to option pursuant to the combined provisions of art. 2441, last subsection, of the Civil Code, and article 134, subsection two, of the CFL, where the shares are offered for subscription by the employees of Pirelli & C. or its subsidiaries.
- the right to issue convertible bonds in both ordinary and savings shares, or with warrants valid for the subscription of such shares to be offered as options to shareholders and holders of convertible bonds, for a maximum nominal sum of 1,000 million euros, before 10 May 2009, in one or more operations, within the limits permitted at the time of issue by the current regulations, with a consequent possible increase in share capital to serve the conversion of the bonds and/or the exercise of the warrants.

⁴ For more information on this point, see the Directors' Report, available on the company website.

⁵ Press release of 5 November 2009.

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 (July 2002). Subsequently, 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*.

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.

To carry out its duties the Board of Directors relies on the support provided by specific Board Committees composed entirely of independent directors, responsible for investigations, advice and/or consultation.

4.1 Appointment And Replacement Of Directors

Since 2004, the Company bylaws⁶ 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 fifteen days before the date the Shareholders' Meeting is first convened⁷.

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. 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 ordinary shareholders' meeting or the minor percentage, according to the regulations issued by CONSOB⁸, are entitled to present slates, subject to their proving ownership of the necessary number of shares not later than the date by which they must be deposited.

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) 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 are 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;

⁶ Article 10 of the company Bylaws

⁷ Also in line with Criterion of application 6.C.1 of the Self Regulatory Code

⁸ CONSOB (CONSOB Resolution no. 17148 of 27 January 2010) has determined the percentage shareholding required for presentation by the shareholders of the slates of candidates for election to the administration and control bodies of Pirelli & C for the 2010 financial year as 2% of the capital with voting rights in the ordinary shareholders' meeting.

- 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 numbers 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.

For the appointment of directors, not nominated for any reason according to the procedure described, the shareholders decide with the legal majorities.

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.

It should be noted that the Company will take the necessary action to adapt to the provisions of legislative decree no. 27 of 27 January 2010, containing the "Transposal of Directive 2007/36/EC of the European Parliament and Council of 1 July 2007. on the exercise of certain rights of shareholders in listed companies, implementing the powers contained in article 31 of law no. 88 of 7 July 2009", and which shall apply for shareholders' meetings called after 31 October 2010. It should be noted that some changes to the Bylaws will be submitted to the Shareholders' Meeting to approve the 2009 Financial Reports, specifically, that the part of article 7 of the Company Bylaws that does not prescribe the right (reintroduced by the aforementioned legislative decree 27/2010) that the shareholders' meeting to approve the financial reports may be called – pursuant to article 2364 of the Italian Civil Code – within 180 days of the end of the company financial year, and the further reduction of the threshold specified in the Bylaws for the presentation of slates to renew the control bodies, be modified. For details of the aforementioned changes, see the "Shareholders' Meeting" and "Board of Statutory Auditors" sections of this report, and the directors' report on the proposed modifications, available on the Company website.

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 twenty-three members, who serve for three 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 on 31 December 2009 consists of twenty members and was appointed by the Shareholders' Meeting held on 29 April 2008 for three financial years to expire at the Shareholders' Meeting called to approve the financial reports for the year ending 31 December 2010. The average age of the Directors is just over 63 years.

By voting on a slate⁹, the minority shareholders were able to nominate four Directors, i.e. one fifth of the total number (specifically, Carlo Angelici, Cristiano Antonelli, Franco Bruni and Umberto Paolucci).

Two slates were presented to the shareholders' meeting held on 29 April 2008: one from the participants in the Pirelli & C. Share Block Syndicate (which obtained 93% of the votes of the voting capital¹⁰) and one from a group of institutional investors¹¹ (which obtained 5.5% of the votes of the voting capital¹²). 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 *curricula vitae*, containing the personal and professional characteristics of each director, presented when the slates were filed, were promptly published on the Governance section of the company website, www.pirelli.com, where they remain available in an updated version.

The composition of the Board of Directors at the date of this Report is indicated in Table 3. It should be noted that no Director ceased to serve after the election of the Board of Directors by the Shareholders' Meeting of 29 April 2008.

4.2.1 Maximum accumulation of directorships in other companies

On 29 April 2008, as recommended by the Self Regulatory Code¹³, the Board of Directors confirmed the validity and applicability of the Policy¹⁴, adopted by the Board during the previous mandate¹⁵, 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 or affiliated by said Company, is not considered compatible with serving as a director of the Company, when the companies are (i) listed companies included in the FTSE/MIB index (or equivalent foreign indices), or (ii) companies operating prevalently in the retail finance sector (members of the lists specified in article 107 of legislative decree no. 385 of 1 September 1993), or (iii) 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), (ii) or (iii).

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.

When the Board of Directors is due for renewal, Shareholders who, pursuant to the Bylaws, intend to present slates for the composition of the Board of Directors, are invited to examine this document¹⁶.

After investigation by the Committee for Internal Control, Risks and Corporate Governance, the Board of Directors, in its meeting of 10 March 2010, 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.

⁹ The voting slate is specified in article 10 of the Bylaws.

¹⁰ Figure calculated from the Minutes of the Shareholders' Meeting of 29 April 2008, available on the Investors section of the Company website, www.pirelli.com

¹¹ 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).

¹² Figure calculated from the Minutes of the Shareholders' Meeting of 29 April 2008, available on the Investors section of the Company website, www.pirelli.com.

¹³ Self Regulatory Code: Criterion of application 1.C.3..

¹⁴ The aforementioned Policy is annexed to this Report, and is also available in the Governance section of the Company website, www.pirelli.com.

¹⁵ Board of Directors meeting of 7 November 2007.

¹⁶ See Call notice for Shareholders' Meeting on 27 March 2008.

Positions occupied by the Directors in major companies other than Pirelli Group companies are annexed to this Report¹⁷.

4.3. ROLE OF THE BOARD OF DIRECTORS

The Bylaws do not specify a minimum interval between Board meetings. The Company has circulated a calendar¹⁸ that schedules 4 meetings for 2010, specifically:

- 10 March 2010: Board of Directors' meeting to examine the budget and consolidated financial reports for the year ended on 31 December 2009
- 6 May 2010: Board of Directors' meeting to examine the half-yearly report on operations at 31 March 2010.
- 29 July 2010: Board of Directors' meeting to examine the half-yearly financial report at 30 June 2010.
- 4 November 2010: Board of Directors' meeting to examine the half-yearly report on operations at 30 September 2010.

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 at least five days (or, in the event of emergencies, at least six hours) in advance of the meeting to each Director and Statutory Auditor.

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.

During the financial year there were 6 meetings of the Board of Directors, with an average duration of approximately one and a half hours each, with a mean percentage attendance by directors of 78%, while the percentage attendance of the independent Directors was 85%.

The Lead independent director attended all meetings of the Committee for Internal Control, Risks and Corporate Governance (which he chairs) and all meetings of the Board of Directors. At the date of the Report, there had been one board meeting in 2010.

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 Bylaw¹⁹ the Board is responsible for the management of the Company and, to this end, it 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 Code²⁰):

- 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 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 auditing and the management of clashes of interests;
- 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 con-

¹⁷ Self Regulatory Code: Criterion of application 1.C.2..

¹⁸ Press release of 7 November 2008.

¹⁹ Article 11 of the company Bylaws.

²⁰ Self Regulatory Code: Criterion of application 1.C.1, lett. a).

sulted 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, taking into consideration, specifically, the information received from the delegated bodies, and periodically compares the results achieved with those planned;
- 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 established 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 in 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 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 applicable legislation;
- exercises the other powers and fulfils the responsibilities attributed to it by the law and the Company bylaws.

Finally, the Board is responsible for the overall supervision of the company risk assessment and management system. In this capacity, the Board of Directors resolved to adopt a new risk assessment and risk management model in its meeting of 29 July 2009. Please see the section entitled "Risk assessment system".

4.3.2 Evaluation of the general results of operations ²¹

Pursuant to the current regulations²² and the Bylaws²³, the Board of Directors has evaluated the general results and likely development of operations at least once a quarter.

Please see the paragraph headed "Information to the Board" in the "Delegated Bodies" section.

4.3.3 Internal control system and governance system ²⁴

The Board of Directors has assessed²⁵, the adequacy of the internal control system and, more generally, the governance of the Company and of the Group it controls, at six monthly intervals.

In this respect it should be noted that recently the Board of Directors, in its meeting on 10 March 2010, adopting the considerations of the Committee for Internal Control, Risks and Corporate Governance, evaluated the adequacy of the general organisational, administrative and accounting structure of the Company, and expressed a positive opinion of the internal control system and, more generally, of the governance system of the Company and the Group²⁶.

²¹ Self-Regulatory Code. Criterion of application 1.C.1., lett. e)..

²² Article 150 of the CFL.

²³ Article 11 of the Bylaws

²⁴ Self-Regulatory Code. Criterion of application 1.C.1., lett.b).

²⁵ Self-Regulatory Code. Criterion of application 1.C.1..

²⁶ In this respect, see paragraph headed "Committee for Internal Control, Risks and Corporate governance", below, for further details.

4.3.4 Remuneration of the directors vested with special responsibilities ²⁷

During the financial year the Board examined and approved the Committee's proposal for the remuneration of the Chairman.

See section "Remuneration of directors" for all issues related to remuneration.

4.3.5 Transactions with significant impact on the strategy, the profitability, the assets or the financial position of the Company ²⁸

The "Procedure for information flows to Directors and Auditors"²⁹ specifies that the general information on the activities carried out should be complete with specific detailed information on, among other matters, transactions with significant impact on the strategy, profitability, assets or financial position of the company.

Moreover, the Board, without prejudice to the responsibilities and powers reserved to it by the law, Bylaws, powers structure and internal procedures, has also determined that it is the responsibility of the Board of Directors to approve in advance certain non infragroup operations and actions (determined on the basis of the latest qualitative criteria and further quantitative thresholds detailed at the end of this Report) when carried out by Pirelli & C or by unlisted foreign companies subject to the direction and coordination of Pirelli & C..

4.3.6 Transactions with related parties:

For transactions with related parties, see the section entitled "Interest of the directors and transactions with related parties".

4.3.7 Board performance evaluation ³⁰

During 2006, for the first time, the Board of Directors made a self-evaluation of its performance (officially called a "*Board performance evaluation*"), for what is now the fourth time, thus adhering to international best practices and the provisions in the new Self-Regulatory Code³¹. As proposed by the Committee for Internal Control, Risks and Corporate Governance, taking the positive experience of preceding years into account, the Board decided it was appropriate to confirm the existing structure of the self-evaluation process for the 2009 financial year.

In accordance with the most widely tested practice, the self-evaluation process occurred by 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). The evaluation was carried out with the assistance of a major consultancy company that worked alongside the Committee for Internal Control, Risks and Corporate Governance to develop evaluation methods and to analyse its results.

Considering the good results that emerged from the preceding self-evaluations, the Board also decided to simplify and slim down the self-evaluation in relation to some aspects that were positively assessed in previous exercises, now considered to have achieved a level such that no further improvement in these aspects can be expected.

The Board also decided to examine the opinion of the board decision training process in depth in the *board performance evaluation*, with specific reference to the activities of the Board committees and the information support provided by the management in some of the important decisions taken during the year.

²⁷ Self Regulatory Code: Criterion of application 1.C.1, lett. d).

²⁸ Self Regulatory Code: Criterion of application 1.C.1, lett. f).

²⁹ The "Procedure for Information Flows to Directors and Auditors" is printed at the end of this Report and is also available in the Governance section of the Company website www.pirelli.com.

³⁰ Self Regulatory Code: Criterion of application 1.C.1, lett. g).

³¹ Self Regulatory Code: Criterion of application 1.C.1, lett. g).

Finally, to give continuity over time to the self-evaluation process, the Board decided to re-submit some issues that emerged during the 2008 self-evaluation to the attention of the Board, also with the aim of identifying and evaluating the improvements achieved.

As in previous evaluations, the Directors were invited to express their opinions on the following major aspects:

- “board performance evaluation”: the evaluation by Directors that is principally concerned with the operation of the Board and its Committees in general;
- “directors’ evaluation”: the evaluation that involves an in-depth examination of Directors’ opinions of the degree of effective participation in and knowledge of the Company by other Directors;
- “self evaluation”: individual Directors’ evaluation of their own participation in and knowledge of the Company.

The Directors interviewed were given the opportunity to express four degrees of opinion and to formulate their own comments.

The results were subject to in-depth analysis by the Committee for Internal Control, Risks and Corporate Governance and then submitted to the Board of Directors in its meeting on 10 March 2010. As is its standard practice, a meeting of the independent directors, namely a working meeting in which participation is extended to all the directors, will be dedicated to this topic.

It confirmed that there was a high degree of participation in the board performance evaluation by the Directors, who participated massively in the direct interview in place of the written questionnaire, and the examination of the results indicated a positive impression of the Board and its Committees, although a need to make some changes to improve some aspects also emerged.

Specifically, the Directors expressed their appreciation of the working meetings they had had with Top Management to examine in depth some specific business issues³² confirming the importance of repeating such meetings, which now represent a consolidated practice – and in the opinion of the Directors of the Company – a profitable one, in the future.

The Board then express its special appreciation of the role played by the Lead Independent Director, considered an effective facilitator of the process of reporting to the independent directors, in the meetings of the independent directors only, and on the Committee for Internal Control, Risks and Corporate Governance as an effective part of the internal control system. The board performance evaluation also formulated a positive opinion of the Board committees in general, and of the decision taken by the board during the financial year to extend its membership.

The Members of the Board made some suggestions for the further improvement of the debate in its meetings, considered to be the forum in which the principal strategic decisions should be analysed, debated and decided. In particular, it was suggested that all the individual directors should attend meetings more regularly.

The board performance evaluation also produced a positive evaluation of the corporate governance solutions for “risk management”³³, which, as noted in the preceding report, should play a more central role in Board discussions..

Finally, the board performance evaluation concluded that the actual development of the three year management incentive plans should be monitored over time³⁴

4.3.8 Article 2390 Civil Code

Article 10, last subsection 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.

³² Cf. Section 5.4 “Other Executive Directors”.

³³ For more detail, see the section entitled “Risk assessment system”.

³⁴ For more detail, see the section entitled “Remuneration of directors”.

4.4. Delegated Bodies

4.4.1 Chairman

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.

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

Furthermore, the Chairman, Marco Tronchetti Provera, was confirmed as responsible for the following organizational functions:

- relations with shareholders and the 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 25 million euros, or for third parties regarding bonds with individual values of more than 10 million euros; 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");

4.4.2 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 and aims of the 2009-2011 industrial plan to focus on its core business, the company decided to simplify its organisational structure and group all activities that directly support the core business in the new "Tyre and Parts" Division, headed by Dr. Francesco Gori, who continues to act as Managing Director of Pirelli Tyre.

In line with the focus on industrial activities, the reorganisation absorbed the Chief Operating Officer post, held by Claudio De Conto (who also ceased to serve as Responsible Officer on that date³⁵) who is now focussed on Pirelli RE, as Managing Director of Finance, together with the other Managing Director of Pirelli RE, Giulio Malfatto.

As a result of this reorganisation plan, the Board of Directors also appointed the new Responsible Officer, Dr. Francesco Tanzi.

The following persons are classified 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, General Manager Tyre & Parts, Francesco Chiappetta, Assistant to the Chairman and Group General Counsel and Francesco Tanzi, Director of Finance, and as stated, Officer responsible for the preparation of the company accounting documents.

Powers pertaining to their specific assigned functions, subject to certain quantitative limits, 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.

³⁵ Dr. De Conto's tenure as manager ceased with effect from 31 December 2009.

As in the past, in 2009 the Chairman, the General Managers and the Managers used their delegated powers only for the ordinary management of the activities of the Company (in regard to which the Directors were periodically informed) and submitted the significant transactions to the Board of Directors.

In fact, delegation is not a way of assigning exclusive powers but is rather the solution adopted by the Company to ensure the best degree of operational flexibility in terms of the organization of the Board (and in terms of relationships with third parties).

4.4.3 Information to the Board

Pursuant to law ³⁶ and the company Bylaws ³⁷, 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. As appropriate, the delegated organs report any transactions in which they have an interest, on their own account or on behalf of third parties, or that are influenced by the person, if any, who performs management and coordination activities. Such reports are made promptly and at least once every three months, on occasion of the Board of Directors meetings (and the Executive Committee, if established) or by means of a written communication.

To foster the orderly organisation of the flow of information, the Company developed a specific Procedure, in use since 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 validity and applicability for the current mandate of the procedure on information flows adopted by the Board during its previous mandate ³⁸.

The purpose of the new procedure is to regulate and coordinate the various types of data flowing to Directors and Auditors Statutory, so that they all have the common aim of making the data needed to properly fulfil its directional, policy and control responsibilities continuously available to the Board. Finally, it should be noted that new regulations for transactions with related parties is scheduled to be issued during the 2010 financial year.

The Company will assess the content of the new regulations and the consequent need to adopt new procedures.

4.5. Other Directors

The Board of Directors considers that the Chairman of the Board of Directors, Marco Tronchetti Provera, and the two Vice Chairmen, Carlo Alessandro Puri Negri and Alberto Pirelli are executive directors.

In accordance with the recommendations of the Self Regulatory Code³⁹ 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 with Top Management were organised during the year, to examine specific business and corporate governance issues in greater detail.

4.6. Independent Directors

The Board of Directors of the Company evaluate the requisites for independence specified in the Self-Regulatory Code and the CFL for non-executive directors qualified as independent upon their appointment and at yearly intervals.

³⁶ Article 15, section one, of the CFL.

³⁷ Article 11 of the company Bylaws.

³⁸ The text of the updated procedure shown at the end of this Report, is also available on the website of the Company at www.pirelli.com, in the "Governance" section.

³⁹ Self Regulatory Code: Criterion of application 2.C.2.

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 10 March 2010, confirmed that the eleven directors who have been qualified as independent, also in terms of the requisites of the CFL, since their appointment (Carlo Acutis, Carlo Angelici, Cristiano Antonelli, Alberto Bombassei, Franco Bruni, Luigi Campiglio, Berardino Libonati, Umberto Paolucci, Giampiero Pesenti, Luigi Roth and Carlo Secchi), continue to maintain these requisites.

A further six Board members (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 (about 65%) of the total number of “non-executive directors”. The average age of the independent directors is 68.

In line with the recommendations of the Self-Regulatory Code⁴⁰, 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 correctly applied.

The Board of Directors performed this assessment based on the requirements recommended by the Self-Regulatory Code⁴¹, and thus directors may not – by law – be considered independent:

- a) if they, directly or indirectly, including on behalf of subsidiaries, trust companies or through third parties, control the Pirelli & C or are able to exercise considerable influence on the company, or are a participant in a shareholder agreement through which one or more subjects can exercise control or significant influence on Pirelli & C.;
- b) if they have or have been in the past three financial years a prominent exponent⁴² of Pirelli & C., or one of its strategic subsidiaries or a company under joint control with Pirelli & C., or a company or a 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 that have a significant position, such as a partner in a law firm or consultancy company) 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 together with others in a shareholder 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 they receive, or have received in the past three financial years, from Pirelli & C. or one of its subsidiaries or parent companies, 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 director⁴³ 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 accounts⁴⁴ of Pirelli & C.;
- h) if they are a close family member of a person that finds themselves in one of the situations described above.

⁴⁰ Self-Regulatory Code. Criterion of application 3.C.5

⁴¹ Criteria of application 3.C.1 and 3.C.2

⁴² 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.

⁴³ The following persons are executive directors of the issuer: Chairman Marco Tronchetti Provera and Vice Chairmen Alberto Pirelli and Carlo Alessandro Puri Negri.

⁴⁴ The company mandated to audit the accounts of Pirelli & C. is Reconta Ernst&Young S.p.A. a member of the Ernst&Young network (Cf. Section 12.4)

4.6.1 Meetings of the independent directors

In accordance with the recommendations of the Self-Regulatory Code ⁴⁵, the independent Directors met four times during the financial year in the absence of the other directors, and examined topics inherent to the corporate governance system of the Company again confirming, for the 2009 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 Remuneration Committee and the Board of Directors. The independent directors discussed some elements of the company reorganisation process resolved by the Board of Directors in greater detail with the Chairman (see the “Delegated Bodies” section for further information). The independent directors specifically examined the issue of “sustainability” in the Pirelli Group, and the new corporate governance solutions that led to the definition of a new governance model for business risks, and the definition of a compliance function⁴⁶. During 2010, one meeting of the independent directors has already been held.

4.7. 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 (Carlo Secchi, the Chairman of the Committee for Internal Control, Risks and Corporate Governance, was chosen) coordinates and acts as a point of reference for the issues raised and contributions made by the independent Directors.

The Lead Independent Director also has the right to convene – on his own initiative or upon the request of other Directors – specific meetings of independent Directors only in order to discuss any topics felt at the time to be of interest to the functioning of the Board of Directors or to the running of the business. Last but not least, it should be noted that the Lead Independent Director works with the Chairman of the Board of Directors to improve the operation of the Board itself, and in order to cooperate to ensure that directors receive complete and prompt information.

The Lead independent director, in his mandate to the Date of the Report, attended all meetings of the Committee for Internal Control, Risks and Corporate Governance (which he chairs) and all meetings of the Board of Directors.

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 that are 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. The 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.

⁴⁵ Self-Regulatory Code. Criterion of application 3.C.6

⁴⁶ See the section entitled “Risk assessment system” for further information.

In accordance with the legal provisions, the Procedure specifically 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 communication of sensitive information to the market and, in general, on communications with the public and/or analysts and investors.

The procedure also disciplines the institution of a register of persons with access to confidential information, in operation since 1 April 2006.

In its meeting on 29 April 2008 the Board of Directors confirmed the validity and applicability of the updated “Procedure for the management and communication to the public of sensitive information”⁴⁷.

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 implementing 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 the 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 managers⁴⁸. Within the more general auditing process for the corporate governance instruments, despite being not obliged by law, the Board of Directors decided to confirm, in accordance with the previous mandate, black-out periods⁴⁹, for the persons mentioned above who must adhere to insider dealing regulations, who must therefore abstain from making transactions on Company shares or on financial instruments linked to these shares⁵⁰ in these periods.

These periods may, moreover, be extended or suspended by the Board of Directors in exceptional cases.

6. BOARD COMMITTEES

In the meeting of the Board of Directors on 29 April 2008, after its renewal, the Board instituted two committees: the Committee for Internal Control, Risks and Corporate Governance⁵¹ and the Remuneration Committee.

The composition of the Board committees is shown in Table 4.

7. APPOINTMENTS COMMITTEE

The Board of Directors decided not to establish a committee charged with appointing Directors, since the conditions envisaged by the 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.

⁴⁷ This procedure, annexed to this Report, is also available on the website of the Company at www.pirelli.com, in the “Governance” section.

⁴⁸ These are Messrs. Gori, Chiappetta and Tanzi. In this respect, please see the “Delegated Bodies” and “General Managers and other Managers” paragraphs.

⁴⁹ The text of the procedure concerning black out periods is shown at the end of this Report, is also available on the website of the Company.

⁵⁰ The text of this procedure is printed at the end of this Report, and available in the Governance section of the Company website, www.pirelli.com.

⁵¹ Name effective from 1 September 2009, replacing the previous name of “Committee for Internal Control and Corporate Governance”.

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.

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 Code⁵², 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, the Remuneration Committee is composed as follows⁵³:

- Berardino Libonati (Chairman);
- Alberto Bombassei;
- Giampiero Pesenti;
- Umberto Paolucci.

The Secretary to 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 stock bonuses;
- monitors the application of the decisions made by the competent bodies and of the company policies regarding the remuneration of top management.

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 Auditor⁵⁴ 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.

In line with the recommendations of the Self Regulatory Code⁵⁵ 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 committee have always been circulated to all members reasonably in advance.

⁵² Self-Regulatory Code Principle 7.P.3, specifies that the remuneration committee should be composed exclusively of non-executive directors, most of whom should be independent.

⁵³ See Table 4 for greater detail.

⁵⁴ This circumstance characterises the corporate governance rules adopted by the Company, and offers the Board of Statutory Auditors, in its own interest, the possibility of directly following the activities of the Committees so as to more effectively execute the control function assigned to it.

⁵⁵ Self Regulatory Code: Criterion of application 7.C.4..

The meetings of the Remuneration Committee are regularly minuted by the secretary and the minutes are transcribed into a specific register⁵⁶.

The Committee also has the right⁵⁷ 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 expenses.

8.4 Activity during the financial year.

During 2009 the Remuneration Committee met twice: all its members attended and the meetings lasted on average one hour.

During the financial year, the Committee examined – and formulated its proposals to the Board – the fixed and variable remuneration package of the Chairman, and evaluated those of managers with strategic responsibilities, and specifically, of the General Director, Tyre and Parts, and of the Assistant to the Chairman and Group General Counsel, approving the criteria used to determine them. Making use of leading consultancies in the field of executive compensation, the Committee developed its analyses by benchmarking comparable jobs, and analysing by grade, independently of the specific offices held. The analysis was developed taking data published by Italian and International Groups considered comparable in terms of organisational structure and/or industrial sector and/or capitalisation into account.

The Committee noted that for 2008 no incentive policy was applied, and that there was an international block on pay policy in 2009. These actions resulted in an average fall of approximately 20% in total manager remuneration.

The Committee evaluated in advance a new incentive plan for about 80 senior managers, subsequently approved by the Board of Directors⁵⁸.

The Committee also examined and proposed to the Board its determinations concerning the termination by agreement of the management employment contract of the Chief Operating Officer, Mr. De Conto, who as Director of Finance, has concentrated his activities on Pirelli RE.

During 2010, 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 responsibilities in the business for the results achieved in the 2009 financial year. The Board approved the proposals submitted by the Committee in its meeting on 10 March 2010.

9. Directors' Remuneration and Pay Policy

In addition to reimbursement for expenses incurred in performing their duties, Directors receive annual fees determined by the Shareholders' Meeting⁵⁹.

The meeting of 29 April 2008 decided “to establish a maximum of 1,200,000 euros as the total annual remuneration of the Board of Directors pursuant to Art. 2389, subsection 1, of the Civil Code, said amount to be distributed among its members in accordance with the decisions taken in this regard by the Board.”

At the same meeting, on 29 April 2008, the Board of Directors established the distribution of the remuneration as follows:

- 50,000 euros per annum for each of the 20 members of the Board of Directors;
- 25,000 euros per annum for each of the members of the Committee for Internal Control, Risks and Corporate Governance, subsequently, after the increase in its membership determined with effect from 1 September 2009, determined at 24,000 euros per annum for each member;
- 20,000 euros per annum for each of the members of the Remuneration Committee.

⁵⁶ Also in accordance with the recommendations of the Self Regulatory Code: Criterion of application 5.C.1, lett. d).

⁵⁷ Also in line with the provisions of the Self Regulatory Code. Criterion of application 5.C.1, lett. e).

⁵⁸ Please see the section entitled “Remuneration”, below

⁵⁹ Article 14 of the company bylaws.

A fee of 15,000 euros per annum is also payable to the Board member called on to be a member of the Supervisory Body pursuant to legislative decree no. 231/2001 (Carlo Secchi).

The remuneration of directors given particular tasks is established by the Board of Directors upon consultation with the Board of Statutory Auditors as proposed by the Remuneration Committee. The current remuneration system provides⁶⁰ for payments to comprise a fixed amount and an additional bonus linked to the performance, including the long-term performance, of the Group, and to be related to the attainment of specific objectives set by the Board.

Specifically, the Company decided, based on analyses carried out with major executive compensation consultants, to attribute a 2010 annual incentive based on a mechanism that includes a financial condition (Net Financial Position) for access (an “on/off” condition), linked to a quantitative parameter of annual profitability (PBIT) developed from an in-depth comparative analysis of market positioning in terms of compensation with respect to a comparable sample of Italian and international companies.

Also in order to contribute to achieving the long term interests of the company, in line with the initial indications that seem likely to become the best practices in this field⁶¹, the Committee proposed, and the Board approved, a three year incentive plan connected to the achievement of the aims contained in the 2009-2011 three year plan. The Three-year Incentive Plan includes an incentive mechanism that also applies for the Chairman and managers with strategic responsibilities in the business, which envisages the “investment” of 50% of the annual incentive for 2009 and 2010, with the opportunity of receiving the total sum “invested” increased by 100% in March 2012 if the results for the three years are achieved. Otherwise, the total “invested” sum will be reduced by 50%. The portion of the three year incentive supporting the industrial plan will not produce any payment until March 2012. The coinvestment mechanism described therefore also allows the company to substantially defer payment of the variable components of remuneration.

After the adoption of the new Incentive Plan, the variable portion of pay directly related to the results will exceed 40% of total management remuneration, on average, reaching 64% for top management. On the other hand, about 75% of the variable compensation will thus be linked solely to the achievement of three year objectives. The plan also envisages a mechanism correlating a portion of the incentive to Total Shareholder Return to assure even closer alignment of the work of the management with shareholder expectations.

This correlation is designed to maintain a direct link between pay and sustainable performance, in terms of medium and long term growth in value. It should be noted that the economic targets of the plan include the cost of the incentive plan.

If a mandate or management employment contract should be terminated ahead of time, the participants in the three year incentive plan will lose their entitlement to the incentive and to the share “invested” up to that time.

It should be noted that the Company has not stipulated agreements with its directors that envisage indemnities in case of resignations or the termination/cancellation of appointments without good reason or if the employment relationship ceases after a public takeover bid.

The remuneration of the directors holding specific offices (Chairman and Vice Chairman), and, in aggregate form, the remuneration of Managers with strategic responsibilities in the business paid during the 2009 financial year are reported below.

⁶⁰ Also in line with the provisions of the Self Regulatory Code. Criterion of application 7.C.1. .

⁶¹ This refers to Recommendation 2009/385/EC of 30 April 2009, which supplements recommendations 2004/913/EC and 2005/162/EC relating to the regime for the remuneration of the directors of listed companies. .

For more detail, including information on the remuneration of the other directors, see the table in the notes to the financial statements.

Subject	Description of Office	TERM	Remuneration received in 2009 (in thousands of euro)				Remuneration for the 2009 financial year to be received in 2010 (in thousands of euro)	
			FEES FOR THE OFFICE	NON-MONE- TAR BENEFITS	BONUSES AND OTHER INCENTIVES	OTHER REMUNERA- TION	FEES FOR THE OFFICE	BONUSES AND OTHER INCENTIVES
Tronchetti Provera Marco*	Chairman	2011	2,508	-	-	1,585 ¹	50	1,521
Pirelli Alberto	Deputy Chairman	2011	590	-	-	374 ²	50	82 ²
Puri Negri Carlo Alessandro	Deputy Chairman	2011	335	-	-	11,692 ³	50	-
Gori Francesco*	General Manager	since 09/16/09	-	7	-	1,250 ²	-	609
De Conto Claudio	General Manager	since 09/16/09	-	5	-	6,668 ⁴	-	669
Other managers with strategic responsibilities*	-	-	-	-	-	959	-	258

¹ Of which 1,150 thousand euros from Pirelli Tyre S.p.A. and 435 thousand euros from Pirelli & C. Real Estate S.p.A. (PRE)

² From Pirelli Tyre S.p.A.

³ From Pirelli RE

⁴ Of which 4,950 thousand euros upon termination of employment with Pirelli & C and 187 thousand euros from PRE

* The Chairman and General Manager and the other managers with strategic responsibilities are included in the LTI three year incentive plan, which, using a coinvestment mechanism, envisages the payment in the 2009 and 2010 financial years of 50% of the incentive achieved, while the remaining 50% accrued overall will be paid in the 2012 financial year, increased by 100% if the three year objectives specified in the LTI Plan have been achieved, or reduced by 50% if these objectives have not been achieved.

For more details about the operation of the incentive plan, see the "Remuneration of the directors" section of the Corporate Governance Report.

Lastly, it should be noted that at the date of the Report there are no stock-option plans for either the executive or the non-executive directors.

During the 2010 financial year the Committee and the Board examined the general principles of the pay policy for a representative sample of senior managers. The analysis indicated that the current pay policy in the Pirelli Group is able to attract and retain talented resources with high level professional qualities for the key roles within the Group. The pay policy for senior management, like that for the Top management, is based on a well-balanced combination of fixed and variable components. In particular, the variable component of remuneration is linked to medium and long term objectives, while the short term one contains "cash deferred" mechanisms, with a deferment (in line with the described coinvestment mechanism) of 50% of the annual incentive achieved. For "staff" positions, and control personnel in general, the variable remuneration is a lesser proportion of total remuneration than for the Top management personnel directly focussed on the *business*. The pay package of the Top management and *senior managers* is completed, as is standard, by some *benefits*, which are an integral part of it.

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

10.1 Composition.

The Board of Directors established ⁶² the “Committee for Internal Control and Corporate Governance”, renamed the “Committee for Internal Control, Risks and Corporate Governance” with effect from 1 September 2009, which is charged with fact-finding and advisory functions, from amongst its members in 2000.

In line with the best corporate governance practice, and going beyond the recommendations of the Self-Regulatory Code, 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 considered by the Board of Directors to be in possession of adequate experience of accounting and finance matters ⁶³.

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;
- Franco Bruni;
- Luigi Roth.

The Secretary to 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 - 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 and Corporate Governance:

- assists the Board of Directors:
 - 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, and also in the determination of criteria for the compatibility of these risks with healthy and correct management of the business;
 - in the identification of an executive director (normally a Managing 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 the essential elements 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 accounting documents and the auditors, evaluates the correct use of accounting principles and their homogeneous application inside the Group and for the purpose of drawing up the consolidated financial reports;
- at the request of the executive manager 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;

⁶² Also in line with the provisions of the Self Regulatory Code. Principle 8.P.4.

⁶³ Specifically, Mr Bruni and Mr Secchi.

- 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;
- monitors the respect of the principles that the Company has formulated for execution of transactions with related parties;
- reports to the Board of Directors, normally in the first available meeting, on the activity carried out and in general on the adequacy on the internal control system when the annual and half-yearly financial reports are being approved;
- monitors compliance with the rules of corporate governance and their periodic updating, and respect for any rules of conduct 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;
- 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.

In line with the “Procedure for information flows to Directors and Statutory Auditors”, the Committee has the right to consider, on a case by case basis, the following correlated parties:

- (i) companies in which the natural persons indicated in the procedure mentioned above hold strategic management roles, and the companies controlled by these companies;
- (ii) companies which share a majority of directors with Pirelli.

After the approval of a new model of risk assessment and risk management in the company, the Committee was assigned consultation and/or advisory tasks in relation to the new model of risk assessment and risk management. See the section entitled “Risk assessment system” for further details.

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 Auditor ⁶⁴ and, if deemed appropriate, other Company and/or Group representatives and representatives of the External Auditors, attend the meetings of the Committee.

The internal control Officer (who is functionally answerable to the Committee for Internal Control, Risks and Corporate Governance) reports on his work and on the arrangements by which risk management and compliance with plans of defined content occur;

The internal control Officer also reports, at least once a year, to the Board of Directors, either directly or through the Committee for Internal Control and Corporate Governance, and to the Board of Statutory Auditors.

The information and documents available and required for informed deliberation of the topics submitted to the committee have always been circulated to all members reasonably in advance. The meetings of the Committee for Internal Control and Corporate Governance are regularly minuted by the secretary and the minutes are transcribed into a specific register ⁶⁵.

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

In accordance with the provisions of the Self-Regulatory Code ⁶⁶, the Committee also has the right to access company information and departments as necessary for the execution of the tasks assigned to it, making use of the support of the Secretary of the Board of Directors.

⁶⁴ Also going beyond the recommendations 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 Board of Statutory Auditors, in its own interest, the possibility of directly following the activities of the Committees so as to more effectively execute the control function assigned to it.

⁶⁵ Also in line with the provisions of the Self Regulatory Code. Criterion of application 5.C.1, lett. d).

⁶⁶ Self Regulatory Code: Criterion of application 5.C.1, lett. e).

10.4 Activity during the financial year.

During 2009, the Committee for Internal Control and Corporate Governance met 6 times (with two of these meetings held after its renewal) and all members participated in these meetings. The average duration of the meetings was about two and a half hours. In the 2010 financial year to the Date of the Report, the Committee met twice.

Corporate Governance activities

The Committee made real contributions to the process of implementing and updating the new Company corporate governance instruments, in particular, during the year, the Committee submitted to the Board of Directors some modifications to the Group Code of Ethics, which, while the values that inspire it remain substantially unchanged, has been supplemented and enriched with new instances which were concrete expressions of the action of the Pirelli Group, and which, with the modifications approved first by the Committee and then by the Board, are expressly reflected in the Code.

During the year, the Committee approved some modifications to the procedure for managing information (which were already partially reported on in the 2008 Corporate Governance Report). In particular, the Committee considered whether or not the mechanisms that permit processing of confidential information should be extended, while at the same time guaranteeing the confidentiality of the information processed.

The Committee submitted to the Board (which consequently approved, in its meeting on 10 March 2009) a proposal to reconsider the preceding assessments carried out on the absence of direction and coordination activities on Pirelli RE (a circumstance reported on in the 2008 Corporate Governance Report).

During the financial year, the Committee examined the results of the board performance evaluation 2008 (which was previously extensively reported on in the Corporate Governance Report for the 2008 financial year), and started the self-evaluation process for the 2009 financial year, examining the results of this during 2010. In this respect, please see the section entitled "Board performance evaluation". The Committee then proposed that a new model for risk assessment and management should be adopted, and its implementation subsequently monitored. This was approved by the Board in its meeting on 29 July 2009. For a more extensive description of the new "risk management" system, see the section entitled "Risk assessment system".

The Committee then examined in depth the position of Pirelli in terms of "sustainable development" taking note of the many acknowledgements received in the international indices.

Again on the subject of "corporate governance", the Committee oversaw the investigation to ascertain the continuing possession by directors of the requisites for independence, and respect for the Policy on the maximum accumulation of offices considered compatible with serving as a director of Pirelli. The results of the examination undertaken in the 2009 Financial year are indicated in the Corporate Governance Report for the 2008 financial year, while those obtained during the 2010 financial year are reported in the sections entitled "Independent Directors" and "Maximum number of offices held in other companies".

The Committee expressed a preventive positive assessment of the reorganisation process resolved by the Board of Directors on 16 September 2009 described in the "Delegated Bodies" section. The Committee also proposed that the following be identified as "managers with strategic responsibilities in the business": Francesco Gori (General Manager Tyre & Parts), Francesco Chiappetta (Assistant to the Chairman and Group General Counsel) and Francesco Tanzi (Director of Finance, and Officer responsible for the preparation of the company accounting documents).

The Committee approved a procedure to report violations of laws, regulations and principles sanctioned in the Code of Ethics and in internal procedures to the Internal Audit Division (a so-called "Whistleblowing" procedure).

Finally, the Committee submitted the Half Yearly Corporate Governance Report, published in a single document with the Half-Yearly Financial Report at 30 June 2009 to the Board for approval. The Committee also took note of the flattering results on corporate governance achieved in

the GMI Governance Metrics International report, explained in the 2009 half-yearly report on Corporate Governance.

Internal Control activities

During 2009, the internal control Officer of the Company (identified as the head of the Internal Auditing Department, Mr. M Bonzi) attended the meetings of the Committee, reporting on his activities every three months.

The Committee monitored the work carried out by the Internal Audit Department, and, in particular, examined the shortcomings identified in the audits completed by the department, monitoring the implementation of the related action plans for the corrective measures needed to continuously improve the system.

At the start of the 2009 financial year, the Committee approved the final results of the activities carried out in implementation of the 2008 Audit Plan, and approved the Audit Plan for 2009. Similarly, in 2010 the Committee examined the final results of the 2009 Audit Plan and approved the Plan for the 2010 financial year.

During the year the Committee met 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; this has already been reported in the Corporate Governance Report for the 2008 financial year. After the reorganisation decided within the Company, the Committee met the new Responsible Officer, Mr. Tanzi, to confirm the information flows established in the past with Mr. De Conto.

In the meeting that preceded approval of the draft financial statements at 31 December 2009, it met the Responsible Officer to check the suitability of the means and powers attributed to him, and to receive a report on the activity he had carried out. See the section entitled “Responsible Officer” for more detail.

The Committee then examined and formulated a positive opinion of the External Audit Plan for the 2009 financial year submitted by the external auditors, Reconta Ernst&Young.

The Committee, in concert with the external auditors and the Responsible Officer, emphasised some issues inherent to the use of the accounting principles, with particular reference to the treatment of shareholdings in affiliated companies. The Company then took note of the effective implementation of the procedure adopted pursuant to article 36 of the Regulations of the Markets and examined the joint Bank of Italy/CONSOB/ISVAP document dated 6 February 2009, noting no problems of critical issues.

The Committee maintained adequate flows of information with the Committee for Internal Control of Pirelli RE.

The Committee then examined some transactions with related parties, although they were typical and usual and/or at market conditions (in particular, the sale of the holding in Vittoria Capital N.V. representing 5% of the capital) and agreed the contents of the shareholder agreement between Pirelli and the Camfin Group to regulate their relations as shareholders in the companies owned 51% by the Company and 49% by Cam Partecipazioni S.p.A., a Camfin Group company, active in the environment and sustainable mobility business. The Committee noted that the agreement grants a purchase option to the Company, and, to Cam Partecipazioni S.p.A., an option to sell, if either party should cancel the shareholder agreement on its expiry on 30 June 2012 and subsequently every three years. If the purchase or sale option should be exercised, the price will be determined based on the discounted cash flow method, and specifies the application of the market multiples of comparable companies as corrective, if necessary.

A sale option in favour of Cam Partecipazioni S.p.A. is also specified if there should be disagreement on significant issues.

In the light of the activities carried out and the checks made, and the information and documents received and examined, the Committee confirmed its positive opinion of the adequacy of the internal control system and *governance* of the Company and the Group of which it is part ⁶⁷

⁶⁷ Cf. Paragraph on “Internal control system and governance system” in the section entitled “Role of the Board of Directors”.

and has provided a report on its activities through its Chairman to the first useful meeting of the Board, and reported on its activities to the Board at half-yearly intervals.

It is considered appropriate to provide an account of the development of the actions, legal and otherwise, that involved two ex-heads of Company Security that were reported in the corporate governance report for 2006, 2007 and 2008 and have been the subject of an investigation by the Committee for Internal Control and Corporate Governance, the Board of Statutory Auditors and the Supervisory Body.

In particular, as already made public, during the year the Company joined the proceedings against all the persons accused of the crimes which have caused damage or offence to the company as civil part. The Company has been allowed to join the criminal proceedings for embezzlement and money laundering as civil part.

The only civil action that has been permitted to be brought against the Company, the legal person accused pursuant to leg. Decree 231/2001, is that brought by the *Avvocatura dello Stato* (the pool of specialised jurists who defend state and other public bodies) in the interest of the Office of the Prime Minister and the Ministries to which the public officials involved in the corruption proceedings belong, and the suit certain parties allegedly damaged by the conduct of the company's ex-employees.

Such compensatory action is in fact founded in the legal provision by virtue of which the employer, irrespective of its culpability, is answerable financially for the illicit acts committed by its employees. So Pirelli would be called on the answer only for its objective liability.

Subsequently the Board of Directors of the Company, as proposed by the Committee for Internal Control, Risks and Corporate Governance, with the advice of highly qualified professionals, carefully assessed and then approved the decision to petition for the application of the penalty at the request of the parties, since it had in any event reached an agreement with the Government Departments involved so as to completely define all responsibilities.

The *Procura* (Criminal Court) issued a favourable opinion of the petition submitted by the Company, and the Judge reserved the right to pronounce his/her decision.

It should be noted that the Company is proceeding with the civil actions started against the security service suppliers involved in the investigations in order to be compensated for services that were not contractually fulfilled or were even illegal.

11. INTERNAL CONTROL SYSTEM

The internal control system of Pirelli & C. and the Group it heads is designed to ensure the provision of correct information and adequate cover of all the activities of the Group, with special reference to those areas that are considered to be potentially at risk.

It has developed as a process intended to achieve substantial and procedural fairness, transparency and accountability by ensuring: that transactions and, more generally, business related activities are efficient and can be known and verified, that financial information and accounting and operational data are accurate, that applicable laws and regulations are complied with, and that the assets of the business are safeguarded, not least with a view to prevent the perpetration of fraud against the Company and the financial markets.

The cardinal rules of the internal control system of the Company are:

- the separation of roles in the performance of the principal activities involved in each operating process;
- the traceability and constant visibility of decisions;
- the management of decision-making processes according to objective criteria.

11.1 Director Responsible For The Internal Control System

Responsibility for the internal control system lies with the Board of Directors, which lays down the guidelines for the system and periodically verifies that it is adequate and working effectively. To this end, the Board refers to the Committee for Internal Control, Risks and Corporate Governance, as well as to an Internal Control Officer, who is given an adequate level of independence and appropriate means in order to carry out this mandate, and who carries out typical audit func-

tions to verify the adequacy and efficiency of this system; and, if anomalies are detected, who proposes the necessary corrective solutions.

After its renewal, the Board of Directors, in its meeting of 29 April 2008, identified the Chairman of the Board of Directors as the director charged with the internal control system to whom the following tasks have been assigned, in line with the recommendations of the Self-Regulatory Code⁶⁸:

- ensuring that the main company risks are identified, taking the characteristics of the activities performed by the issuer and its subsidiaries into account, and periodically submit them to the Board of Directors for examination;
- executing the policy lines defined by the Board of Directors, ensuring that the internal control system is planned, implemented and managed, and constantly ascertaining its overall adequacy, efficacy and efficiency;
- adapting the system to changes in business conditions and in the legal and regulatory frameworks;
- propose the appointment, revocation and remuneration of one or more internal control officers to the Board.

11.2. Internal Control Officer

The internal control Officer – who the Board of Directors, after its renewal, with the approval of the Committee for Internal Control, Risks and Corporate Governance and in accordance with best practice, as proposed by the Executive Director charged with the internal control system, confirmed as the head of the Internal Audit Department (Dr. Maurizio Bonzi) - reports his activities to the Committee for Internal Control, Risks and Corporate Governance (to which he is operationally answerable) and the Board of Statutory Auditors and is hierarchically answerable to the Chairman of the Board of Directors.

The Internal Audit Department assumes a role of great prominence in the internal control system and also, due to the activities it performs regarding subsidiaries, it has the principal task of assessing the adequacy and functionality of the control, risk management and corporate governance processes throughout the entire Group by means of independent assurance and consultancy. The work of the Internal Audit Department is carried out in accordance with its mandate, and approved by the Committee for Internal Control and Corporate Governance, regarding the following aspects:

- mission;
- objectives and responsibilities (independence, complete access to information, activity framework, communication of results);
- improvement in the quality of internal audits; principles of professional ethics;
- professional reference standards.

The Company also has in place a planning and control system that focuses on individual sectors and work units, which produces a detailed monthly report for the General Managers, providing a useful tool for the supervision of specific activities.

In order to favour compliance with the strategies and guidelines adopted by the parent company, the relevant managers with strategic responsibilities in the business and competent section and function managers sit on the Boards of Directors of the largest subsidiaries.

11.3 Risk Assessment System

In July 2009 the Board of Directors of Pirelli & C. examined and approved, also in line with international best practice and the suggestions formulated during the self-evaluation process for the 2008 financial year, a new model for the assessment and management of risks liable to prejudice the achievement of the strategic objectives of the Company's Industrial Plan and Operational Plans.

In particular, the Board considered it advisable, in view of the accelerating economic changes, the complexity of management activities, and recent regulatory developments in corporate gov-

⁶⁸ Also in line with the provisions of the Self Regulatory Code. Criterion of application 8.C.1, lett. b).

ernance and internal control, to adopt a structured process for the management of business risks that allows them to be promptly and fully identified, and adequate measures to be adopted to manage them proactively and in advance, instead of simply reacting to events.

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 the light of this, the Board firstly redefined the attributes and composition of the Committee for Internal Control and Corporate Governance, renaming it the “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 thrust of the new risk management model (still in the process of being implemented). Specifically, the chosen model is based on a top-down and value-driven approach, based on the identification and management of those risks that might prejudice the achievement of strategic objectives and/or threaten the value-drivers of the Group. Coherently with this approach, the top management provides policy for the identification of priority risk areas, and of the specific events with potential impact on the objectives outlined in the Industrial plan, or on strategic business assets.

These events are then subjected to detailed analysis that involves the managers responsible for the business units, the central staff functions, and the regional or country managers.

In the new model, when fully operational, the Board of Directors will be responsible for “risk governance”. In particular, once the project has been implemented, the Board, with the assistance of the investigations and advice provided by Board subcommittee created for this purpose (the Committee for Internal Control, Risks and Corporate Governance) will define the “threshold of acceptable risk⁶⁹”, for the year, and the approval, each year, of a “risk assessment and management plan” in which the main relevant risks, and the consequent scheduled mitigation plans will be specifically defined. Finally, the Board will issue guidelines for the definition of risk policies to manage specific existing and prospective risk events.

The Committee for Internal Control, Risks and Corporate Governance will play a fundamental role, undertaking investigations and providing support to the Board, in the development of the “Annual risk assessment and management plan”, and then guaranteeing its effective dissemination throughout the company, and supervising its implementation. In line with its responsibilities, the Committee will also have the task of advising on the definition of the “threshold of acceptable risk”, and on risk management strategies in general.

The effective implementation of the “Annual risk management plan” will then be attributed to the Risk Management Committee (chaired by the Assistant to the Chairman and Group General Counsel, and composed of the General Manager, Tyre & Parts, the Chief Financial Officer, the Group Control Manager, the Internal Audit Manager, the Manager of Legal and Company Affairs and Group Compliance, the Manager of Investor Relations) which will report on its activities to the Committee for Internal Control, Risks and Corporate Governance at intervals to be defined during the implementation of the project.

The Risk Management Committee, which will report its work to the board Subcommittee, will be responsible for (i) adopting and promoting a systematic and structured process for the identification and measurement of risks; (ii) examining the information on internal and external risks, external and prospective, to which the Group is exposed; (iii) proposing strategies for response to the risk depending on the overall and specific exposure to the different categories of risks; (iv) proposing the application of risk policies so as to guarantee that risk is reduced to “acceptable” levels; (v) monitoring the implementation of the risk response strategies defined and the respect of the risk policies adopted.

The activity of the Risk Management Committee is supported by a specific company department for “Sustainability and Risk Management”, specially created and reporting directly to the Group General Counsel with the aim of further strengthening the Pirelli corporate govern-

⁶⁹ Threshold of Acceptable Risk, or Risk Appetite, are defined in the Committee of Sponsoring Organization Enterprise Risk Management Framework as “the amount of risk, on a broad level, an entity is willing to accept in pursuit of value”.

ance system integrating various aspects of sustainability, including the identification, analysis and monitoring of all company risk environments.

The Risk Officer, who will guarantee a suitable link between the Director appointed to supervise the functionality of the internal control system, will be a member of this department.

Finally, a Group Compliance department has been created, separate from the Internal Audit department, reporting to the Director of Legal and Company Affairs and Group Compliance, and specifically tasked to work with the other group departments to ensure that the internal regulations and processes, and company activities in general, are constantly aligned with the applicable regulatory framework.

In line with best practice, the task of the compliance department is to ensure that the risks of non-compliance with laws, regulations and general provisions, including those originating from self-regulation, are managed, so as to prevent legal or administrative sanctions, relevant financial losses or damage to the Company's reputation.

11.3.1 "The risk management and internal control system in relation to the financial reporting process"

The Company has implemented an articulated risk management and internal control system, supported by a dedicated IT system, for the process of creating the separate and consolidated half-yearly and annual financial report.

Generally, the internal control system set up by the Company is focussed on safeguarding the assets of the company, respect for the laws and regulations, and the efficiency and efficacy of company operations, as well as the reliability, accuracy and promptness of the financial report. Specifically, the process of formulating the financial report occurs through adequate administrative and accounting procedures, developed in coherence with the criteria established by the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of Tradeway Commission.

The administrative/accounting procedures for the formation of the financial statements and all other financial communications are drawn up under the responsibility of the Officer responsible for drawing up the accounting and company documents (Mr. F. Tanzi), who, with the Chairman of the Board of Directors, jointly attests their adequacy and effective application in the statutory and consolidated financial statements and the half-yearly financial report.

To permit declaration by the Responsible Officer:

— the Company/relevant processes that feed and generate information of an economic-equity or financial nature have been mapped.

The relevant Processes and Group Companies are identified annually, based on quantitative and qualitative criteria; the quantitative criteria are the identification of those Group companies that, in relation to the processes selected, represent an aggregate value that exceeds a predetermined threshold of materiality.

The qualitative criteria are the examination of those processes and those companies that, in the opinion of the Chief Executive Officers and the Chief Financial Officers of the Sectors, may present potential areas of risk, although they do not fall within the quantitative parameters described above. For each process selected, the control objectives/risks related to the formation of the financial statements and related report, and the efficacy/efficiency of the internal control system in general have been identified.

For each control objective, specific checking activities have been identified, and specific responsibilities assigned.

A system of supervision of the controls carried out by means of chain declarations has been implemented; any critical aspects that emerge from the valuation process are the object of action plans, implementation of which is verified in the next round.

Finally, a quarterly declaration of the reliability and accuracy of the date submitted for the preparation of the Group consolidated financial statements by the Chief Executive Officers and Chief Financial Officers of the subsidiary companies will now be issued.

Close to the dates of the meetings of the Boards of Directors that approve the consolidated data at 30 June and 31 December, the results of the checking activities are discussed with the Responsible Officer by the Chief Financial Officers.

To summarise, a system of continuous and systematic controls has been adopted that provide reasonable certainty about the reliability of the economic-financial reports and information.

The Internal Audit department carries out periodic audits to check the adequacy of the design and operation of the controls on a sample of processes and companies, selected using materiality criteria.

On the basis of the periodic reports, the Responsible Officer has reported on the efficacy of the System, through the Committee for Internal Control, Risks and Corporate Governance, to the Board of Directors. The same officer, with the Chairman of the Board of Directors, has also provided the declaration specified in subsection 5 of article 154-bis of the CFL.

11.4 ORGANISATIONAL MODEL ex Legislative Decree 231/2001

The internal control system described above has been further strengthened by the introduction of an organizational model 231 that the Board of Directors approved on 31 July 2003 and which has been revised and modified according to updated regulations (most recently with a resolution of the Board of Directors on 9 November 2008). This organisational model, which is intended to ensure the development of a system that meets the specific requirements deriving from the entry into force of Legislative Decree 231/2001 on the administrative liability of companies for criminal offences committed by their employees, consists of a set of principles and procedures arranged in a pyramid that, starting from the base, can be summarized as follows:

- the Group Code of Ethics, which formulates the general principles inspiring the conduct of business. It indicates the objectives and the values informing business activity in relation to the main stakeholders with which the Group interacts on a daily basis: As stated, during the year the Board of Directors approved some modifications to the Code of Ethics which, while the values that inspire it remain unchanged, has been supplemented and enriched with new instances which were already concrete expressions of the action of the Pirelli Group, and which, with the approved modification, are expressly reflected in the Code.
- General principles of internal control, which qualify the Internal Control System, the field of application of which extends uniformly across the various levels of the organisation;
- Lines of conduct which set out specific rules aiming to avoid the creation of environmental situations that favour criminal activity in general and, in particular, crimes pursuant to legislative decree 231/2001, and translate the principles expressed in the Code of Ethics into operational practice.
- Internal control checklists, which set out the main phases of each high and medium risk operating process and, for instrumental processes, the specific checks to be made to reasonably prevent the risk of any criminal offence and the flows of information to the Supervisory Body to draw attention to situations of possible non-compliance with the procedures established in the organisational model.

A summary of the guiding principles of the organisational model is available on the Company website www.pirelli.com.

11.4.1 Supervisory Body

A specific Supervisory Body, with full economic independence, monitors the functioning of and the adherence to the organisational model. It is composed of Carlo Secchi, the 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 Maurizio Bonzi, head of the Internal Audit Department and internal control Officer.

This assures the full autonomy and independence of this Body, and the input of the different professional skills that contribute to corporate management control.

The Supervisory Body is also charged with making ad hoc recommendations to the Board of Directors to adapt the organizational model to changes in the legal framework, and to changes in the nature of the business activities of the Company and the ways in which they are conducted. The Supervisory Body reports to the Board of Directors, the Committee for Internal Control and Corporate Governance and the Board of Statutory Auditors on the checks it has performed and their outcomes.

Each member of the Supervisory Body is paid a gross annual fee of 15,000 euros.

The mandate of the Supervisory Body appointed by the Board of Directors on 29 April 2008 expires with that of the Board that appointed it. In its meeting on 29 July 2009, the Board of Directors took note of the confirmation of the appointment of Mr. Sfameni as a statutory auditor, after expiry of his mandate due to completion of its term at the shareholders' meeting to approve the financial statements at 31 December 2009, and confirmed his appointment as a member of the Supervisory Body.

With reference to the other Italian companies in the Group, the Supervisory Body has been identified by seeking the technical and operational solution that, while respecting the mandate and the powers reserved to this body by law, is appropriate to the size and organizational context of each company.

Lastly, a disciplinary system has been introduced to sanction non-compliance with the measures indicated in the organisational, operational and control systems.

Finally, it should be pointed out that the Internal Audit Department of Pirelli & C. and the Compliance Department, when requested by the Supervisory Bodies of Group companies, provide operative assistance in the management and analysis of information flows established pursuant to art. 6, subsection 2, letter d), of Legislative Decree 231/2001, as well as in implementation of specific audits on the basis of data received through the aforementioned information flows. During the year, the Supervisory Body became involved in the court case that implicated two ex-heads of the Security Department of the Company, as detailed in the section entitled "Committee for Internal Control, Risks and Corporate Governance". In this respect, the Supervisory Body has taken note of the circumstances reported in the aforementioned section.

11.5 External Auditors

The audit of the company accounts is carried out by an auditing firm appointed by the Shareholders' Meeting and chosen from the firms listed in the appropriate register kept by CONSOB. Reconta Ernst&Young S.p.A.⁷⁰ 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 years. 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. This valuation was performed based on a comparative overall analysis of the proposals received, with detailed comparison of (i) the costs and conditions of the mandate; (ii) the mix of personnel employed; (iii) the coverage of the territory and the skills and specific experience, and (iv) the fees proposed for work within the same perimeter.

Reconta Ernst&Young S.p.A. is the Italian organisation of the Ernst&Young network, which through the organisations present in the various countries in which the Group operates, has also been appointed to audit the accounts of the principal Pirelli Group companies.

After some legislative modifications of art. 123-bis of the CFL, the external auditors are called on to check the formulation of the report on corporate governance and the ownership structure, and to express an "opinion on the coherence" of some of the information reported in this Report.

The fees paid to Reconta Ernst&Young (and to the other companies that are part of its network) are reported in detail in the notes to the consolidated financial statements of Pirelli & C at 31 December 2009.

⁷⁰ Cf. Minutes of the Shareholders' Meeting of 29 April 2008, available on the Investors section of the Company website, www.pirelli.com.

11.6. OFFICER RESPONSIBLE FOR PREPARING THE COMPANY ACCOUNTING DOCUMENTS

The Company bylaws ⁷¹ attribute the power to appoint the Responsible Officer to the Board of Directors, after having received the opinion of the Board of Statutory Auditors; they establish that this appointment expires when the term of the Board of Directors making the appointment expires. The Responsible Officer must be an expert on administration and control matters, and possess the proper requisites, as established for directors.

After its renewal, the Board of Directors, with the favourable opinion of the Board of Statutory Auditors, confirmed Claudio De Conto, Chief Operating Officer of the Company as the responsible officer; after the meeting on 16 September 2009, with the abolition of the General Operations Department, Francesco Tanzi, Director of Finance for the Group, to whom all the administrative and tax structures of the Group report, took over as the Responsible Officer.

The Board of Directors confirmed the attribution 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 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 financial reports abbreviated, half-yearly report and consolidated financial statements:
 - the adequacy and effective application of the procedures specified 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 business 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 Company 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, and Corporate Governance, on any matters of

⁷¹ Article 11 of the company bylaws

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, shares 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 Officer⁷² 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, later on during the meeting on 10 March 2010, when the draft financial statements at 31 December 2009 were being approved, reported to the Board of Directors on the adequacy and suitability of the powers and means conferred by the Board of Directors of the Company, confirming that he had had direct access to all the information necessary for the 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 year, the Responsible Officer had similarly reported to the Committee for Internal Control Risks and Corporate Governance, and subsequently to the Board of Directors on the occasion of their examination of the draft financial statements at 31 December 2008.

During the financial year the Responsible Officer has issued the declarations and attestations specified in article 154-bis of the CFL.

12. INTERESTS OF DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES

The Company has had rules of conduct for transactions with related parties, as defined by the IAS/IFRS accounting principles (signally IAS 24)⁷³. in place since 2002. The purpose of these rules is to guarantee effective procedural and substantial correctness and transparency in transactions undertaken by the Company, directly or through subsidiaries, with parties related to itself.

On the basis of these rules, the Board is called on to approve transactions with related parties, including infragroup transactions, in advance, when the transactions are not typical or usual and concluded at standard conditions. To this end, the Board receives an adequate report on the nature of the relation, the ways in which the transaction is to be carried out, the conditions, including the economic conditions, for its execution, the evaluation procedure followed, and the underlying reasons and interest, as well as any risks for the company. If the relation is with a Director or with a related party through a Director, the Director concerned must – unless the Board decides otherwise - limit himself or herself to supplying clarification, and does not participate in the Board Meeting that will deliberate the transaction. Depending on the nature, value or other characteristics of the transaction, the Board of Directors, to ensure that the transaction is not carried out at incongruous conditions, is assisted by one or more experts who express their opinion on the economic and/or legal and/or technical aspects of the transaction. The Committee for Internal Control, Risks and Corporate Governance monitors the respect of the principles that the Company has formulated for execution of transactions with related parties.

Some transactions with related parties were undertaken in the 2009 financial year, and some of them, although typical and usual, and/or at market conditions, were in any event submitted to the Committee for Internal Control, Risks and Corporate Governance for approval; in this respect, see the section entitled “Committee for Internal Control Risks and Corporate Governance”.

⁷² Mr. Tanzi since the meeting on 16 September, and Mr. De Conto prior to that.

⁷³ The text of the principles of conduct is printed at the end of this Report and is also available in the Governance section of the Company website, www.pirelli.com.

Finally, it should be noted that new regulations for transactions with related parties will be issued during the 2010 financial year. The Company will assess the content of the new regulations and the consequent need to adopt new procedures.

13. 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 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 companies that manage regulated markets or professional associations, which the company declares to follow, are actually implemented;
- the adequacy of the instructions issued by the Company to its subsidiaries regarding the reporting of price sensitive information⁷⁴.

The Board of Statutory Auditors carries out its duties by exercising all of the powers conferred upon it by law and, since it 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 Sfameni, a Standing Auditor, became a member of the Supervisory Body in accordance with the legislative decree No. 231/2001.

13.1 Appointment Of Auditors

The Company Bylaws provide that the Board of Statutory Auditors consists of three Standing Auditors and two Alternate Auditors. In order to allow minority shareholders to elect one Standing Auditor and one Alternate, the Company Bylaws⁷⁵ specify that they are appointed using the so-called slate system, meaning that one Standing Auditor and one Alternate Auditor are elected from the slate that obtains the second highest number of votes (the so-called the minority slate). The remaining members of the Board (i.e. two Standing Auditors and the other Alternate Auditor) are elected from the slate that obtains the highest number of votes (the majority slate).

Pursuant to the Company Bylaws, shareholders who, alone or together with others, hold at least 2% of the share capital entitled to vote at the ordinary shareholders' meeting that is, the lowest percentage required by Consob⁷⁶, may present slates. In this respect, it should be noted that the Company will propose reducing the threshold required by the Bylaws to 1.5% at the Shareholders' Meeting to approve the 2009 Financial Statements. It will do so to further facilitate submission of slates by minority shareholders, obviously without prejudice to any provision of Consob to apply a lower measure.

The slates must be filed at the registered offices of the company at least 15 days before the date of the shareholders' meeting called to deliberate the matter. While the current regulation⁷⁷, should be consulted for further details, it is pointed out that if a single slate is presented, or if the several slates presented by shareholders are found to be linked, then slates may be submit-

⁷⁴ Now referred to as "sensitive information" (article 114 of the CFL)

⁷⁵ Article 16 of the company bylaws

⁷⁶ CONSOB (Resolution no. 17148 of 27 January 2010) has determined the percentage shareholding required for presentation by the shareholders of the slates of candidates for election to the administration and control bodies of Pirelli & C. for the 2009 financial year as 2% of the capital with voting rights in the ordinary shareholders' meeting.

⁷⁷ Issuer Regulation: article 144-quinquies and subsequent articles. CONSOB has also issued Communication no. DEM/9017893 of 26-2-2009, containing some recommendations on the appointment of members of administration and control bodies.

ted up to five days after the expiry of the date for their presentation (15 days before the shareholders' meeting) and the thresholds for their presentation are reduced by half.

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

The slates must be accompanied by the following, also pursuant to the current regulations:

- information on the identity of the shareholders who presented the slates, indicating their percentage holdings and a certificate proving that they own such a holding;
- a declaration by shareholders other than those who hold, including jointly, a controlling interest or relative majority, attesting that there are no links;
- a professional curriculum vitae for each candidate and declarations in which the candidates individually accept their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements prescribed by law and the bylaws.

Slates presented in violation of the above rule are considered null.

Subject to ineligibility, each candidate may only appear on one slate.

Slates must be divided into two sections: one for candidates for the position of Standing Auditors and the other for candidates for the position of Alternate Auditor. The first candidate in each section must be selected from among persons entered in the Register of Auditors who have worked on statutory audits for a period of not less than three years.

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

The Standing Auditor at the top of the minority slate, if presented, is entitled to Chair the Board of Statutory Auditors.

In the event of death, resignation or disqualification of a Standing Auditor, he (or she) is replaced by the Alternate Auditor from the same slate. If the Chairman of the Board of Statutory Auditors is to be replaced, the other Standing Auditor elected on the same slate takes the Chair; if it is not possible to proceed in the manner described above, a shareholders' meeting is called to fill the vacancy or vacancies on the Board of Statutory Auditors by means of a resolution approved by a relative majority of the votes cast.

When the Shareholders' Meeting must appoint the Standing and/or Alternate Auditors needed to complete the Board of Statutory Auditors, the following procedure must be used: if standing auditors elected from the majority slate are to be replaced, the appointment is made with the favourable votes of a relative majority without being tied to a slate; if, instead, standing auditors elected from the minority slate are to be replaced, the shareholders' meeting replaces them with the favourable votes of a relative majority, choosing where possible from among the candidates on the slate from which the standing auditor to be replaced was elected.

The principle of necessary representation of minorities is respected, since the Bylaws assure the right to participate in the appointment of the Board of Statutory Auditors, in case of the appointment of Auditors who have been candidates on the minority slate or slates other than those that obtained the highest number of votes in the procedure to appoint the Board of Statutory Auditors. For the appointment of Auditors for any reason not appointed according to the procedure described above, then the shareholders decide with the legal majorities.

Outgoing Auditors may be re-elected.

It should be noted that the Company will proceed, at the times and in the ways that are considered opportune, to make any necessary changes to the provisions concerning the renewal of company bodies, pursuant to legislative decree 27/2010, that might be applicable for shareholders' meetings called after 31 October 2010.

Participation in meetings of the Board of Statutory Auditors may be – if the Chairman or his substitute verifies the necessity – by means of telecommunication techniques that permit participation in the discussion and equality of information for all those taking part.

13.2 STATUTORY AUDITORS

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

The appointments were made with the slate system. The single slate was presented by members of the Pirelli & C Block Shares Syndicate, which received 95% of the votes of the share capital with voting rights represented in the Shareholders' meeting. In the absence of members of the Board of Statutory Auditors from the minority slate, the Enrico Laghi was appointed as Chairman of the Board of Statutory Auditors.

The Shareholders' Meeting also determined that the annual gross fee for each of the Standing Auditors should be 41,500 euros, and that the gross annual fee of the Chairman of the Board of Statutory Auditors should be 62,000 euros.

It also determined that the Standing Auditor called on to become a member of the Supervisory Body in accordance with the legislative decree No. 231/2001 (Paolo Domenico Sfameni) should receive an additional gross annual fee of 15,000 euros.

The composition of the Board of Statutory Auditors at the date of this Report is indicated in Table 5.

It should be noted that during the financial year Mr. Luigi Guatri served as Chairman of the Board of Statutory Auditors, and ceased to serve due to expiry of his mandate. Given his age, after 33 years' work with the Group, he decided not to put himself forward as a candidate at the shareholders' meeting of 21 April 2009.

The list of offices held by Auditors in public or private limited companies, and in partnerships limited by shares, is reported in the document attached to the report on supervisory activity drawn up pursuant to article 153 subsection 1 of the CFL and contained in the financial report. It should be noted that, on the Date of the Report, the Company had not been informed that any serving Auditor had exceeded the limit of accumulated administration and control offices specified in article 144-terdecies of the Issuer Regulations.

In line with the provisions of the Self Regulatory Code⁷⁸ and as expressly ascertained by the Board of Statutory Auditors, based on the information provided by the Auditors and the information available to the Board of Statutory Auditors, all Auditors may be defined as independent based on criteria contained in the Code regarding director, and also in relation to Consob communication no. 8067632 of 17 July 2008⁷⁹.

Pirelli & C. qualifies its Auditors as related parties for the Company, and thus if an Auditor has an interest in a specific transaction of the Company the "rules of conduct for transactions with related parties" described in the preceding section "Interests of Directors and transactions with related parties" become applicable. It follows that, in accordance with the provisions of the Self-Regulatory Code⁸⁰, the Board receives an adequate report on the nature of the relation and the ways in which the transaction will be executed.

Activities

During the year the Board of Statutory Auditors held 6 meetings (4 after its renewal) with a percentage attendance of 89% of the Auditors (92% in the meetings after its renewal). However, it should be noted that the members of this Board also attended the Shareholders' Meetings and the meetings of the Board of Directors, all of the meetings of the Committee for Internal Control, Risks and Corporate Governance and the Remuneration Committee held during the year, as required by the corporate governance rules adopted by the Company, which offer the Board of Statutory Auditors, in its entirety, the possibility of directly following the activities of the Committees and performing their control functions more efficaciously.

During the year, the Board of Statutory Auditors has monitored the observance of the law and the Bylaws, the respect of the principles of correct administration and the adequacy of the organisational structure of the Company, the internal control system and administrative-accounting system, as well as the reliability of the latter to correctly represent the operating results.

It also monitored the ways in which the corporate governance rules specified in the codes of conduct prepared by companies that manage regulated markets or professional associations, which

⁷⁸ Self-Regulatory Code. Criterion of application 10.C.2

⁷⁹ CONSOB communication no. DEM/DCL/DSG/8067632 of 17-7-2008 concerning situations of incompatibility for members of control organs pursuant to art. 148, subsection 3, lett. C) of the FSA.

⁸⁰ Self-Regulatory Code. Criterion of application 10.C.4

the company declares to follow, are actually implemented, and on the adequacy of the instructions given by the Company to its subsidiaries regarding the reporting of price sensitive information⁸¹. The Board of Statutory Auditors reported the activities it had carried out, and expressed its opinion on those aspects of the Directors' proposal to cover in full the operating losses formulated by the directors to the Shareholders' Meeting held on 21 April 2009.

The Board of Statutory Auditors has monitored⁸² the independence of the external auditors, checking that the instructions in terms of both the nature and entity of the services other than accounts monitoring provided to Pirelli & C. and its subsidiaries by the external auditors and their network are respected.

The Board of Statutory Auditors has also checked that the criteria and ascertainment procedures adopted by the Board of Directors to assess the independence of its members are correctly applied. The Board of Statutory Auditors⁸³ coordinated its activities with the Internal Audit department and, as stated, staff from the latter participated in all the meetings of the Committee for Internal Control, Risks and Corporate Governance.

14. RELATIONS WITH SHAREHOLDERS

In line with its tradition of transparency and fairness, the Company actively promotes relations with Shareholders, institutional and private Investors and with financial Analysts, with other market operators and with the financial community in general within the proper limits of their respective roles, and periodically organizes meetings with representatives from the Italian and international financial communities.

The Investor Relations division was founded in March 1999 to promote continuous dialogue with the financial markets; Valeria Leone was appointed to run this division in October 2008.

To enable open, immediate and transparent dialogue with all those needing information of a financial nature about Pirelli, there is a dedicated Investors section on the Company website (www.pirelli.com), where information for an initial evaluation of Pirelli is available: from the identifying characteristics of the Company to economic-financial data, from the drivers of the various businesses in which the Pirelli Group is engaged to the opinions of financial analysts, from all the documentation made available to meetings with the financial community to accounting and legal information.

To facilitate contact with the Company, Investor Relations has an e-mail address (investorrelations@pirelli.com) through which all queries received are normally answered within 24 hours, while the Investors-Contacts section shows the contact details for each member of the IR team, for specific requests from analysts and investors, both individual and institutional.

To facilitate understanding of the strategy and evolution of the business and results produced, the top management of Pirelli & C and Investor Relations use other tools of financial communications, such as roadshows, conference calls, one to one meetings and industry conferences for Group businesses. The Company also has a culture based on the combination of profitability and business sustainability, and takes part in many world indicators assessing the social responsibility of business, and has been acknowledged a leader in this field.

15. SHAREHOLDERS' MEETINGS

The Shareholders' meeting – that may be ordinary or extraordinary – has the competence, according to the law, for resolving upon a series of specified matters such as the approval of the financial statements, the election and the revocation of directors, statutory auditors, and external auditors and their fees, the purchase or sale of own shares, the modification of the Company Bylaws, the issuance of convertible bonds and, except for restricted cases, merger and division transactions.

⁸¹ Now referred to as "sensitive information" (article 114 of the CFL)

⁸² Also in accordance with the recommendations of the Self Regulatory Code: Criterion of application 10.C.5.

⁸³ Self-Regulatory Code: Criteria of application 10.C.6 and 10.C.7.

An ordinary Shareholders' Meeting – which may be held in Italy, not necessarily in the registered office – must be convened within 120 days of the end of the financial year. In this respect it should be noted that the modification to article 7 of the Company Bylaws, in the part in which the faculty to call the meeting to approve the financial statements may be called – pursuant to article 2364 of the Italian Civil Code – within 180 days of the end of the financial year, will be put to the Shareholders' Meeting to approve the 2009 Financial Statements. It should be noted that legislative decree 27/2010, in response to requests from various parties, modifies article 154-ter of the CFL, and again permits the meetings of shareholders of listed companies to approve the financial statements to be called within 180 days of the end of the financial year. It should be recalled that article 2364 of the Italian Civil Code no longer applied to listed companies after the introduction of article 154-ter of the Consolidated Finance Law by legislative decree no. 195/2007, which required these companies to have their statutory and consolidated financial statements approved within 120 days of the end of their financial year.

The proposed modification will again allow Companies to avail themselves, if they wish, of the faculty offered in article 2364 of the Italian Civil Code.

The Board of Directors reserves the right to proceed at a later date, at the time and in the ways that might be opportune, to take further necessary measures to adapt to the provisions of legislative decree 27/2010, while any inclusion of additional faculties that this legislative decree permits, when envisaged in the Company Bylaws, will be evaluated once the regulatory framework to implement the legislative decree has been fully defined. For more detail, see the Directors' Report, which will be made available on the Company website.

In line with the calendar circulated by the Company, the date of first call of the Shareholders' Meeting is 20 April 2010, and in second call for 21 April 2010.

In addition to the law and the Bylaws, Shareholders' Meetings are governed by the Rules of Proceedings approved by the Shareholders' Meeting held on 11 May 2004 and subsequently modified by the Shareholders' Meeting held on 23 April 2007⁸⁴.

The Shareholders' Meeting is chaired, in the following order, by the Chairman of the Board of Directors, by a Deputy Chairman or a Managing Director; if there are two or more Deputy Chairmen or Managing Directors, they are chaired by the senior in age. In the absence of the aforementioned individuals, the Shareholders' Meeting is chaired by another person elected by the shareholders with the favourable vote of the majority of the capital represented at the meeting.

The Chairman of the shareholders' meeting – among other things – verifies that the meeting has been validly constituted, ascertains the identity of those present and their right to attend, including by way of proxies, ascertains the legal quorum and governs the proceedings, with the faculty to establish a different order for the discussion of the topics listed in the agenda indicated in the notice convening the meeting. The Chairman also takes appropriate action to ensure orderly discussion and voting, establishing the procedures and verifying the results.

The decisions of the Meeting are recorded in minutes signed by the Chairman of the meeting and the Secretary or by the Notary public. The minutes of extraordinary Shareholders' Meetings must be prepared by a Notary public appointed by the Chairman of the meeting.

Pursuant to the bylaws, shareholders for whom the communication specified in subsection two of article 2370 of the Italian Civil Code is received by the Company within the two days preceding the date of the single meeting may speak in the Shareholders' meeting⁸⁵.

The Bylaws do not provide for the shares for which the communications mentioned in the aforementioned article 2370, subsection 2 of the Italian Civil Code to be unavailable until the meeting has been held.

With reference to the right of each shareholder to speak on topics raised for discussion, it should be noted that the Rules of Proceedings for shareholders' meetings provide that the Chairman determines the period of time available to each speaker at the start of the meeting, taking the importance of the individual items on the agenda into account, but in any event no less than 15 minutes. Persons who wish to speak must ask the Chairman or the Secretary, indicating the topic to which the speech refers. The request may be presented up to the moment the Chairman has declared closed the discussion of the matter which the demand to speak refers.

⁸⁴ The Rules of Proceedings are printed at the end of this Report, and also available in the Governance section of the website at www.pirelli.com.

⁸⁵ Article 7 of the company bylaws.

Participants may ask to speak a second time during the discussion, for a period of no more than five minutes, solely for the purpose of replying or formulating voting intentions.

The Rules assign to the Chairman of the meeting the right to grant those shareholders who have requested it, pursuant to the law and the Company Bylaws, a period of no longer than 15 minutes to illustrate proposals and explain the reasons for them to be added to the items to be discussed in the Shareholders' Meeting.

As far as the meeting of holders of savings shares is concerned, this is called by the Common Representative of the savings shareholders of the Company or by the Board of Directors every time they believe it to be opportune or when its convening is required by the law.

The special meeting of savings shareholders is chaired by the Common Representative of the savings shareholders or, in his absence, by the person elected by a majority of the capital represented at the meeting.

Pursuant to the Company Bylaws ⁸⁶ the Company is responsible for the expenses of organising the special shareholders' meeting and for the remuneration of the Common Representative.

The savings shareholders' meeting – which took place on 28 January 2009, to appoint a Common Representative, since the mandate had expired - confirmed Giovanni Pecorella as Common Representative of savings shareholders for the years 2009-2011, determined his remuneration, and approved the creation of a fund for the expenses necessary for the protection of the common interests of the group. When renewing the Common Representative, the savings shareholders' voted separately on the appointment of the Common Representative and on the determination of his fee and of the common fund.

16. CHANGES AFTER THE CLOSURE OF THE FINANCIAL YEAR

The Report takes into account the changes that have occurred since the end of the financial year to the data of approval of the Report.

TABLES

Table 1: Structure of the share capital

The exact composition of the share capital is reported below.

	No. shares	% of share capital	Listing
Ordinary shares*	5,233,142,003	97.49	Listed on the MTA (Telematic Stock Market) organised and managed by Borsa Italiana S.p.A. – Blue Chip segment.
Savings shares*	134,764,429	2.51	Listed on the MTA (Telematic Stock Market) organised and managed by Borsa Italiana S.p.A. – Blue Chip segment.

* Identification code ISIN IT0000072725

** Identification code ISIN IT0000072733

Table 2: Major shareholdings

Those subjects who, according to the information published by Consob (Updated situation on the basis of the communications received pursuant to law and processed up to the Date of the Report), possess shares with voting rights in the Ordinary Shareholders' Meeting representing more than 2% of the ordinary share capital are reported.

⁸⁶ Article 6 of the company bylaws.

Declaring Subject	Direct Shareholder		% share of voting capital				% share of ordinary capital			
	Name:	Title of possession	% share	of which without vote		% share	of which without vote			
				% share	voting rights		% share	voting rights		
					Subject			% share		
EDIZIONE SRL	Edizione S.r.l.	Ownership	4.773	0.000			4.773	0.000		
		Total	4.773	0.000			4.773	0.000		
			4.773	0.000			4.773	0.000		
PREMAFIN FINANZIARIA SPA HOLDING DI PARTECIPAZIONI	Milano Assicurazioni S.p.A.	Ownership	0.025	0.000			0.025	0.000		
		Total	0.025	0.000			0.025	0.000		
	Popolare Vita S.p.A.	Ownership	0.003	0.000			0.003	0.000		
		Total	0.003	0.000			0.003	0.000		
	Fondiarria - Sai S.p.A.	Ownership	4.454	0.000			4.454	0.000		
		Total	4.454	0.000			4.454	0.000		
		4.482	0.000			4.482	0.000			
ASSICURAZIONI GENERALI SPA	Alleanza Toro S.p.A.	Ownership	0.189	0.000			0.189	0.000		
		Total	0.189	0.000			0.189	0.000		
	Intesa Vita S.p.A.	Ownership	0.016	0.000			0.016	0.000		
		Total	0.016	0.000			0.016	0.000		
	Generali Vie Sa	Ownership	1.097	0.000			1.097	0.000		
		Total	1.097	0.000			1.097	0.000		
	Genertel Life	Ownership	0.001	0.000			0.001	0.000		
		Total	0.001	0.000			0.001	0.000		
	Ina Assitalia S.p.A.	Ownership	2.005	0.000			2.005	0.000		
		Total	2.005	0.000			2.005	0.000		
	Assicurazioni Generali S.p.A.	Ownership	2.177	0.000			2.177	0.000		
		Total	2.177	0.000			2.177	0.000		
		5.485	0.000			5.485	0.000			
ALLIANZ SE	Antoniana Veneta Popolare Vita S.p.A.	Ownership	0.001	0.000			0.001	0.000		
		Total	0.001	0.000			0.001	0.000		
	Ceditras Vita S.p.A.	Ownership	0.001	0.000			0.001	0.000		
		Total	0.001	0.000			0.001	0.000		
	Allianz S.p.A.	Ownership	4.518	0.000			4.518	0.000		
		Total	4.518	0.000			4.518	0.000		
		4.520	0.000			4.520	0.000			
TRONCHETTI PROVERA MARCO	Cam Partecipazioni S.p.A.	Ownership	0.023	0.000			0.023	0.000		
		Total	0.023	0.000			0.023	0.000		
	Camfin Cam Finanziaria S.p.A.	Ownership	25.542	0.000			25.542	0.000		
		Total	25.542	0.000			25.542	0.000		
		25.565	0.000			25.565	0.000			
MEDIOBANCA SPA	Mediobanca S.p.A.	Ownership	3.954	0.000			3.954	0.000		
		Total	3.954	0.000			3.954	0.000		
			3.954	0.000			3.954	0.000		

Note

The information on shareholders who, directly or indirectly, hold ordinary shares corresponding to 2% or more of the capital with voting rights in ordinary shareholders' meetings of the Company is taken from the CONSOB website. In this respect, it should be noted that the information published by CONSOB on its website by virtue of the communications made by the subjects required to fulfil the obligations of article 120 of the CFL and the Issuer Regulation, may differ appreciably from the real situation, since the obligations to communicate changes in the percentage holdings arise not when these percentages change, but only when they "exceed" or "fall 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 follows as a result that a shareholder (i.e. a declaring subject) which has declared ownership of 2.6% of the voting capital may increase his/her holding to up to 4.9% without any obligation to communicate this to CONSOB pursuant to art. 120 of the CFL.

Table 3: Composition of the Board of Directors

The composition of the Board of Directors at the date of this Report is indicated below. It should be noted that no Director ceased to serve after the election of the Board of Directors by the Shareholders' Meeting of 29 April 2008.

Name	Office	Appointed on	Slate	Exec.	Non-exec.	Indep.	Indep. CFL	% BOD
Marco Tronchetti Provera	Chairman	04/29/2008	Maj	X				100
Alberto Pirelli	Deputy Chairman	04/29/2008	Maj	X				100
Carlo Alessandro Puri Negri	Deputy Chairman	04/29/2008	Maj	X				100
Carlo Acutis	Director	04/29/2008	Maj		X	X	X	50
Carlo Angelici	Director	04/29/2008	Min		X	X	X	83
Cristiano Antonelli	Director	04/29/2008	Min		X	X	X	100
Gilberto Benetton	Director	04/29/2008	Maj		X			50
Alberto Bombassei	Director	04/29/2008	Maj		X	X	X	100
Franco Bruni	Director	04/29/2008	Min		X	X	X	100
Luigi Campiglio	Director	04/29/2008	Maj		X	X	X	100
Enrico Tommaso Cucchiani	Director	04/29/2008	Maj		X			33
Berardino Libonati	Director	04/29/2008	Maj		X	X	X	67
Giulia Maria Ligresti	Director	04/29/2008	Maj		X			83
Massimo Moratti	Director	04/29/2008	Maj		X			83
Renato Pagliaro	Director	04/29/2008	Maj		X			50
Umberto Paolucci	Director	04/29/2008	Min		X	X	X	100
Giovanni Perissinotto	Director	04/29/2008	Maj		X			17
Giampiero Pesenti	Director	04/29/2008	Maj		X	X	X	33
Luigi Roth	Director	04/29/2008	Maj		X	X	X	100
Carlo Secchi	Director	04/29/2008	Maj		X	X	X	100

Slate: Maj/Min according to whether the director was elected from the majority or minority slates

Exec. if checked indicates that the director is an executive director

Non-exec. if checked indicates that the director is a non-executive director

Indep. if checked indicates that the director is independent according to the criteria contained in the Self Regulatory Code.

Indep. CFL: if checked indicates that the director possesses the attributes of independence specified in art. 148, subsection 3 of the CFL

% BOD: indicates the percentage of Board meetings attended by the director

Table 4: Composition of the Board Committees

The composition of the subcommittees of the Board of Directors at the date of this Report is indicated below:

Name	Office	R.C.	CICRCG	% Committee
Carlo Angelici	Member		X	100%
Cristiano Antonelli*	Member		X	100%*
Alberto Bombassei	Member	X		100%
Franco Bruni	Member		X	100%
Berardino Libonati	Chairman	X		100%
Umberto Paolucci*	Member	X		100%*
Giampiero Pesenti	Member	X		100%
Luigi Roth*	Member		X	100%*
Carlo Secchi	Chairman		X	100%

R.C.: indicates the Remuneration Committee

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

% Committee: indicates the percentage of meetings of the Committee in question attended by the director

** The Director was appointed a member of the Board Committee by the Board of Directors' Meeting of 29 July 2009, effective from 1 September 2009. The percentage thus only takes account of the meetings held after that date.

Table 5: Composition of the Board of Statutory Auditors.

The composition of the Board of Statutory Auditors at the date of this Report is indicated below:

Name	Office	Appointed on	Slate	Indep. Self. Reg. Code	% att. B.S.A.	% att. CICRCG	% att. R.C.
Enrico Laghi	Chairman	04/21/2009	Maj	X	100%	100%	100%
Paolo Gualtieri	Standing Auditor	04/21/2009	Maj	X	75%*	67%*	100%*
Paolo Domenico Sfameni	Standing Auditor	04/21/2009	Maj	X	100%	100%	100%
Luigi Guerra	Alternate Auditor		Maj	-	-	-	-
Franco Ghiringhelli	Alternate Auditor		Maj	-	-	-	-

Office: indicates whether the person is the chairman, a standing auditor, or an alternate auditor.

R.C.: indicates the Remuneration Committee

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

Slate: Maj/Min according to whether the auditor was elected from the majority or minority slates (art. 144-decies of the Issuer Regulations)

Indep. if checked indicates that the auditor may be considered independent according to the criteria contained in the Self Regulatory Code, specifying at the end of the table if these criteria have been supplemented or modified.

% att. B.S.A.: indicates the percentage of meetings of the board of auditors attended by the auditor

** The Auditor was appointed for the first time by the Shareholders' Meeting of 21 April 2009. The percentage thus only takes account of the meetings held after that date.

The Auditors who ceased to hold office during the year are listed below:

Name	Office	Served from / since	Slate	Indep. ex. Code	% att. B.S.A.	% att. CICRCG	% att. R.C.
Luigi Guatri	Chairman	From 04/21/2006 to 04/21/2009	Maj	X	50%*	67%	100%

Refer to the legend for the preceding table.

* This percentage was calculated taking into account the number of those meetings of the Board of Statutory Auditors that he attended before ceasing to serve compared with respect to those meetings held in the year up to the date his office ceased.

Annex A – COMPANY BYLAWS¹

Name – purpose – registered office - term

Article 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

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;

The company may carry out all operations of any type whatsoever - excluding any activities reserved by law - connected to its corporate purpose.

Article 3

The registered office of the Company shall be in Milan.

Article 4

The duration of the company shall be until December 31, 2100.

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

The Company shall have a subscribed and paid-in share capital of EUR 1,556,692,865.28 (one-billionfivehundredandfiftysixmillionssixhundred-andninetytwothousandseighthundredsixtyfivepointtwentyeight) divided into no. 5,367,906,432 (fivebillionsthreehundredsixtyseven-millionninenhundred-andsixthousandfourhundredandthirtytwo) shares with a par value of EUR 0.29 (twentynine cents) each, consisting of 5,233,142,003 (fivebillions-two hundredandthirtythreemillionsohundredandfourtytwothousandsand-three) ordinary shares and 134,764,429 (onehundredandthirtyfourmillionsevenhundredandsixtyfourthousandfourhundredandtwentynine) savings shares.

In resolutions to increase the share capital by issuing shares against payment, pre-emption rights 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.

If so resolved by the shareholders' meeting, the share capital may also be increased by means of contributions in kind or of receivables.

¹ Some modifications to the bylaws will be submitted to the Shareholders' Meeting called to approve the financial statements at 31 December 2009. For details, see the Directors' report in the financial statements, which gives the text of the current bylaws and the proposed modifications, for comparison. In particular, the proposals concern articles 5, 7 and 16 of the Company Bylaws, and the numbering of the subsections of the individual articles.

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 (one hundred million) 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 by issuing up to 54,225,850 ordinary shares with a par value of EUR 0.29 each, at a price of EUR 0.996 per share, inclusive of a EUR 0.706 share premium, 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.

By resolution of the extraordinary shareholders' meeting held on May 11, 2004, the directors were authorised to increase the share capital against payment, on one or more occasions and within May 10, 2009, by a total maximum nominal amount of EUR 600 million, with or without a share premium, by issuing up to a maximum of 2,068,965,517 ordinary shares against payment, to be offered on option to shareholders and convertible bondholders, with the possibility of excluding pre-emption rights, in compliance with the combined provisions of article 2441, last paragraph, of the Italian Civil Code and article 134, paragraph 2, of Legislative Decree no. 58/1998, if the shares are offered for subscription by the employees of Pirelli & C. S.p.A. and/or its subsidiaries.

By resolution of the extraordinary shareholders' meeting held on May 11, 2004, the directors were authorised to issue, on one or more occasions within May 10, 2009, bonds that are convertible into ordinary and/or savings shares, or that carry warrants valid for the subscription of said shares, to be offered on option to shareholders and convertible bondholders, corresponding to a total maximum nominal amount of EUR 1,000 million within the limits permitted each time under the laws in force, with the ensuing eventual increase of the share capital to back the conversion of the bonds and/or exercise of the warrants.

The resolutions passed by the Board of Directors to increase the share capital during the exercise of the rights allocated as described above shall set the share subscription price (inclusive of any share premium) as well as the specific term for the subscription of the shares: they may also provide that, if the capital increase resolved is not fully subscribed by the date set for this purpose, the capital shall be increased by an amount corresponding to the subscriptions received up to such date.

Article 6

The shares are divided into ordinary shares and savings shares.

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.

Savings shares do not carry voting rights and, unless the law provides otherwise, are bearer shares. They may be converted into registered shares on request and expense of the shareholder.

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 their entire par value; in the event of a reduction of the share capital due to losses, the par value of saving shares will be reduced only by the amount of the loss that exceeds the total par value of the other shares.

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.

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.

In the event of both ordinary and savings shares being issued:

- 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.

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.

The savings shareholders' organisation is governed by law and by these By-laws. 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

Shareholders' Meetings

Article 7

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.

The notice of the call of an extraordinary shareholders' meeting may provide for it being held on third call.

Shareholders for which the Company has received the documentation pursuant to art. 2370, paragraph 2, of the Italian Civil Code, at least two days prior to the date set for each meeting shall be entitled to attend shareholders' meetings.

The ordinary shareholders' meeting must be called within 120 days after the end of the Company's financial year.

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, by a report to be filed in the Company's registered office in time to be made available to the other shareholders and at least 10 days prior to the date set for the meeting on the first call.

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

The due constitution of shareholders' meetings and the validity of the resolutions adopted by same are governed by law.

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.

Articolo 9

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.

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.

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.

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.

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.

The minutes of extraordinary shareholders' meetings must be drawn up by a notary public appointed by the Chairman 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 of the Board of Directors.

Administration Of The Company

Article 10

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.

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.

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 to anyone on request, at least fifteen days before the date set for the shareholders' meeting to be held on first call.

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.

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 of filing of same slates.

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.

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

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

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.

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. 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 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.

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.

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.

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.

The Board of Directors shall appoint a Secretary, who need not be a director.

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

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.

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 de-merger 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.

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.

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.

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.

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.

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.

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.

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. 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

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 or at least two standing members of the Board of Statutory Auditors.

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.

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.

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.

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.

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.

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. 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.

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

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.

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.

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

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.

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

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

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.

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.

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.

Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

Shareholders who, alone or together with other shareholders, represent at least 2 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.

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

The slates of candidates, which must be undersigned by the parties submitting them, shall be filed in the Company's registered office and be available to anyone on request, at least fifteen 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.

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 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 the shareholders attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the minority slate.

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.

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.

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 procedures 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.

Financial Statements – Allocation Of Profits

Article 17

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

Articolo 18

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 their par value; if a dividend of less than seven percent of par value 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 their par value;
- b) without prejudice to 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 par value.

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.

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

General Provisions

Article 19

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

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

ANNEX B – List of principal offices held by the Directors in other non-Pirelli Group companies

Marco Tronchetti Provera	Marco Tronchetti Provera S.a.p.A.	General Partner
	Camfin S.p.A.	Chairman
	Gruppo Partecipazioni industriali S.p.A.	Chairman
	Mediobanca S.p.A.	Deputy Chairman
	F.C. Internazionale Milano S.p.A.	Director
	Alitalia - Compagnia Aerea Italiana S.p.A.	Director
Alberto Pirelli	Camfin S.p.A.	Director
	Gruppo Partecipazioni industriali S.p.A.	Deputy Chairman
	KME S.p.A.	Director
Carlo Alessandro Puri Negri	Camfin S.p.A.	Deputy Chairman
	Gruppo Partecipazioni industriali S.p.A.	Deputy Chairman
	AON Italia S.p.A.	Director
	Artemide Group S.p.A.	Director
	Banca Profilo S.p.A.	Director
Carlo Acutis	Vittoria Assicurazioni S.p.A.	Deputy Chairman
	Banca Passadore S.p.A.	Deputy Chairman
	Ergo Italia S.p.A.	Director
	Ergo Previdenza S.p.A.	Director
	Ergo Assicurazioni S.p.A.	Director
	Scor S.A.	Director
	Yura International B.V.	Director
Carlo Angelici	SACE BT S.p.A.	Director
Cristiano Antonelli	Reply S.p.A.	Chairman of the Board
	TDE S.p.A.	Of Statutory Auditors
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
	Italcementi S.p.A.	Director
	Atlantia S.p.A.	Director
	Ciccolella S.p.A.	Director
Franco Bruni	Pioneer Global Asset Management S.p.A.	Director
	Unicredit Audit S.p.A.	Director
Luigi Campiglio	Allianz Bank Financial Advisor	Director
Enrico Tommaso Cucchiani	Allianz SE	Member of Management Board
	Allianz S.p.A.	Chairman
	Unicredit S.p.A.	Director
	Lloyd Adriatico Holding S.p.A.	Director
	Illy Caffè S.p.A.	Director

Berardino Libonati	Unidroit-Institut International pour l'Unification du Droit Privé	Chairman
	Telecom Italia S.p.A.	Director
	Telecom Italia Media S.p.A.	Chairman
	RCS MediaGroup S.p.A.	Director
	ESI S.p.A. – Edizioni Scientifiche Italiane	Director
Giulia Maria Ligresti	Fondazione Fon-SAI	Chairman
	Premafin Finanziaria S.p.A.	Chairman and Managing Director
	Fondiarria SAI S.p.A.	Deputy Chairman
	Gilli S.r.l.	Chairman
	SAI HOLDING S.p.A.	Managing Director
	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	Managing Director
	Angelo Moratti di Gian Marco Moratti e Massimo Moratti & C. S.a.p.A.	Chairman
Renato Pagliaro	Mediobanca S.p.A.	General Manager/ Director
	SelmaBPM Leasing S.p.A.	Director
	Cofactor S.p.A.	Director
	Telecom Italia S.p.A.	Director
	RCS MediaGroup S.p.A.	Director
	Burgo Group S.p.A.	Director
Umberto Paolucci	Microsoft S.r.l.	Chairman
	Geox S.p.A.	Director
	Banca Profilo S.p.A.	Director
Giovanni Perissinotto	Assicurazioni Generali S.p.A.	Managing Director
	IntesaSanpaolo S.p.A.	Member of Management Board
	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
	Compagnie Monegasque de Banque	Director
	Allianz S.p.A.	Director
	Mittel S.p.A.	Director
Luigi Roth	Terna S.p.A.	Chairman
	Banca Popolare di Roma S.p.A.	Chairman
	Cassa di Risparmio di Ferrara	Director
	Meliorbanca	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

In the following paragraphs the whole of the contents of the Pirelli & C. Società per Azioni Shareholders Agreement is summarize highlighting the point 9 about the extention of the Agreement duration, happened the 15 January 2010, from 15 April 2010 to 15 April 2013.

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.	1,063,360,850	43.97	20.32
Mediobanca S.p.A.	241,144,264	9.97	4.61
Edizione S.r.l.	241,135,003	9.97	4.61
Fondiarìa - SAI S.p.A.	231,355,374	9.57	4.42
Allianz S.p.A.	230,749,971	9.54	4.41
Assicurazione Generali S.p.A. (*)	230,749,965	9.54	4.41
Intesa Sanpaolo S.p.A.	84,519,252	3.49	1.62
Massimo Moratti (**)	62,407,310	2.58	1.19
Sinpar S.p.A.	33,168,521	1.37	0.63
Totale	2,418,590,510	100.00	46.22

* Including n. 57,400,000 shares through Generali Vie S.A. and n. 82,779,265 shares through Ina Assitalia S.p.A.

** Including 37,420,339 shares through CMC S.p.A. and n. 13,435,544 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, 19 January 2010

ANNEX D – General Criteria set by the Board of Directors regarding the maximum number of offices considered compatible with an effective performance of a directors' duties

As a principle, it is not considered compatible with the role of Director of the Company to hold the office of director or statutory auditor in more than five companies, different from those subject to the direction and coordination of Pirelli & C. S.p.A. or that are affiliates of or are controlled by Pirelli & C. S.p.A., as far as it concerns (i) listed companies included in the FTSE/MIB index (or in an equivalent foreign index), or (ii) in financial companies operating towards the public (registered in the registry set forth under article 107 of d.lgs. 1° September 1993, n. 385), or (iii) banks and insurance companies; no more than three executive offices may be held by the same director in the companies described under (i), (ii) and (iii) above.

The offices held in more companies belonging to the same group are considered as unique office with prevalence of the executive office over the non executive one.

The Board of Directors has the faculty to make a different evaluation, which will be made public and properly motivated in the annual report on Corporate Governance.

ANNEX E – General Criteria for the identification of the most important:
strategic, economic, or financial capital transactions

Without prejudice to the responsibilities and powers reserved to the Board of Directors by the law, the bylaws, the overall powers and the internal procedures, it pertains to the Board's the prior approval of the following acts and no intragroup transactions when performed by Pirelli & C. S.p.A. (hereinafter also "Pirelli & C.") or even by foreign companies not listed and subject to the management and coordination of Pirelli & C.:

- a) the taking or granting of any loan or loans having an aggregate value in excess of Euros 200 million and a duration in excess of 12 months;
- b) the issuing of any financial instruments intended to be listed in regulated European or extra-European markets (and their delisting) which have an aggregate value in excess of Euros 100 million;
- c) the granting of any guarantees in favour of or on behalf of any third parties for an amount in excess of Euros 100 million;
- d) the signing of derivatives contracts which (i) have a notional value in excess of Euros 250 million and (ii) do not have as their exclusive purpose or effect the covering of risks assumed by the Company (such as, for example, covering interest rates, exchange rates or raw material costs);
- e) the acquisition or sale of controlling stakes in third parties for values in excess of Euros 150 million that would allow the entry into (or the exit from) geographic and/or commodities markets;
- f) the acquisition or sale of any participations other than those mentioned in paragraph (e) above for amounts in excess of Euros 250 million;
- g) the acquisition or sale of any companies or divisions having either a strategic significance or a value in excess of Euros 150 million;
- h) the acquisition or sale of any assets or other activities that either have a strategic significance or an aggregate value in excess of Euros 150 million;

Are subject to prior approval even those transactions which, although individually below the quantitative thresholds specified, are linked within the same strategic or executive program, and therefore, as a whole, exceed the relevant thresholds.

1. Introduction

- 1.1 – The completeness of the available information to directors is essential for the proper fulfilment of their duties and responsibilities regarding the management, the direction and the monitoring of the business activities of Pirelli & C. S.p.A. (henceforth “Pirelli” or “the Company”) and of the Group.
- 1.2 – Similar appropriate information is due to the Board of Statutory Auditors.
- 1.3 – In compliance with the legal and the bylaws’ provisions, non-executive Directors and Auditors are therefore the receivers of a permanent information flows from the Executive Directors, who are coordinated by the Chairman of the Board of Directors who, if necessary, can refer to the Secretary to the Board of Directors of the Company.
- 1.4 – The purpose of the current procedure is to regulate the above-mentioned information flows in order to:
 - guarantee the transparency of the management of the Company;
 - ensure good conditions for efficacious and effective actions of direction and monitoring of the Company activities and management by the Board of Directors;
 - supply the Board of Statutory Auditors with the requisite tools for an efficient fulfilment of its role.

2. Terms and procedures

- 2.1 – The information flows to Directors and Auditors is preferably provided with written documents, specifically:
 - notes, memoranda, presentations and reports drawn up by Company offices or consultants, including those prepared for Board of Directors meetings;
 - other documents, published and un-published, available to the Company;
 - documents of accounting period of the Company that are intended for publication;
 - quarterly financial reports including external information, drawn up according to specific guidelines.
- 2.2 – The above-mentioned documentation is timeless transmitted to non-executive Directors and Auditors and, in any case:
 - with a sufficient frequency in order to ensure that legal and bylaws data provisions are respected,
 - according to coherent deadlines with the scheduling of the single Board of Directors meeting.
- 2.3 – The information reproduced according to the procedures above are integrated (or, if necessary, omitted for reasons of privacy) with the comments made orally by the Chairman, the Executive Directors or by members of the management of the Group during Board of Directors meetings or specific informal meetings, open to Directors’ or Auditors’ participation, and organized in order to go into topics about the management of the Company.
- 2.4 – The transmission of documents and any other material to Directors and Auditors is coordinated by the Secretary to the Board of Directors of the Company, in agreement with the manager in charge of the preparation of the accounting documents of the Company, as per his competence.
- 2.5 – In any case, Directors and Auditors are the receivers of the information published by Pirelli as provided by legal provisions regarding Company reports (such as press releases and reports) and investment solicitation (reports that are denominated, anyhow).

3. Contents

- 3.1 – The information flow to Directors and Auditors – besides matters intended for the examination and/or the approval of the Board of Directors of the Company according to the law and the bylaws of the Company – includes:
- the general results of operations and their foreseeable development;
 - the completed activity, with specific reference to transactions involving significant economic, financial and equity income, to transactions with related parties and to atypical or unusual transactions;
 - the instructions given during the execution of direction and coordination activities;
 - any further activities, transactions or events that are deemed appropriate to bring to the attention of Directors and Auditors.

4. General results and development of operations

- 4.1 – The corporate activities of the Group are the focus of background information about management.
- 4.2 – Information are considered in a strategic perspective of planning and direction, as well as in terms of the attainment of results and in comparison with industrial and budget forecasts.
- 4.3 – General results and development of operations are regularly examined by the Board of Directors of the Company when they approve the accounting period reports. The attained results are compared:
- with historic figures (opportunistically reconstructed using pro forma figures in order to obtain homogeneous comparisons with previous periods);
 - with budget objectives, indicating the causes of possible variances, also in order to evaluate the effects of these variances on strategic or anticipatory objectives and/or on forecasts regarding following periods;
 - with the general trend of the sector and peers, in order to benchmark.

5. Business activity

- 5.1 – General information about the completed business activity concern executive businesses and developments of operations already decided by the Board of Directors, as well as activities performed by Executive Directors – also through units and subsidiaries of the Company – in the exercise of their duties.
- 5.2 – General information about the business activities are completed with a specific report of details regarding:
- transactions involving significant economic, financial and equity income;
 - operations with related parties;
 - atypical or unusual transactions.

6. Significant transactions

- 6.1 – In the present procedure, the following – besides operations reserved to the Board of Directors according to the art. 2381 of the Italian Civil Code and the bylaws of the Company – are considered transactions involving significant economic, financial and equity income when Pirelli or subsidiaries carry out:
- the issues of financial tools for a total value higher than €100 million;
 - the granting of personal and collateral securities in the interest of subsidiary companies (and in the interest of Pirelli regarding collateral securities) against bonds having a unit value higher than euro 25 million;
 - the granting of loans or securities in favour or in the interest of third parties for amounts higher than euro 10 million;

- the granting of loans in favour of subsidiary companies and the investment or disinvestment transactions, also real estate transactions, transactions for the purchase and the assignment of share, of company and company branches, of assets and other activity, for amounts higher than euro 100 million;
 - merger and division transactions, when at least one of the parties is a listed company or when subsidiary companies are involved if at least one of the parameters indicated below, in case of application, come out equal or higher than 15% of:
 - the total assets of the merged company or of the activities submitted to division/the total assets of the Company (figures taken from the consolidated balance sheet, if reported);
 - the pre-tax results and the extraordinary parts of the merged company, or of the activities to be divided/the pre-tax results and extraordinary parts of the Company (figures taken from consolidated balance sheet, if reported);
 - the total equity capital of the merged company, or of the company branch submitted to division/the total equity capital of the Company (figures taken from consolidated balance sheet, if reported).
- 6.2 – Informative report on transactions involving significant economic, financial and equity income shall highlight the strategic aims, the budget and the industrial plan coherence, the executive procedures (including economic terms and conditions for their fulfilment), the business developments as well as the possible changes and implications for the activities of the Pirelli Group.
- 6.3 – Informative reports shall also be made for transactions that, even if they are individually smaller than the above-mentioned threshold value, are associated within the same strategic plan or executive programme and therefore, considered altogether, exceed the threshold value.

7. Operations with related parties

- 7.1 – The following definitions must be made regarding the current procedure relating to “related parties”; these are defined according to international accounting standards concerning financial statements for transactions with related parties, adopted in accordance with art. 6 of EC Regulation n. 1606/2002 as indicated in the “Data collection procedure”.
- 7.2 – The Company adopted this apposite procedure in order to ensure that the principle of fairness was respected in substance and form for all transactions made, directly or through subsidiaries, with related parties with Pirelli.
- 7.3 – Besides the transactions with related parties subject to the board approval according to the above-mentioned procedure (atypical, unusual or non-standard transactions), transactions with related infra-Group parties (i.e. companies owned by Pirelli or by the company that owns Pirelli) must be similarly reported to Directors and Auditors if they involve amounts higher than euro 50 million, and those with associated non infra-Group parties if they involve amounts higher than euro 500.000. For each of these transactions, the following points must be indicated:
- object and amount;
 - the date of targeting of the contract(s) below or those linked anyway with the transactions;
 - the identities of the counterparties (specifying the nature of their relationship with Pirelli).
- 7.4 – As to every quarter of statement, an overall figure of the transactions concluded with the individual parties related to Pirelli must be supplied, separating the transactions directly carried out with Pirelli and the transactions achieved by subsidiary companies.

8. Atypical or unusual transactions

- 8.1 – Transactions that form part of the ordinary business of the Company are considered typical, i.e. essential to the production and the dealing cycle of the Company. On the contrary, transactions are considered usual when intended for the fulfillment of ordinary requirements, i.e. requirements that normally belong to the business of the Company.
- 8.2 – In any case, transactions may be called neither typical nor usual when they actually present particular elements of criticality due to their specific characteristics and/or to their intrinsic risks, to the nature of the counterparty or to the time of their fulfillment.
- 8.3 – Information about atypical or unusual transactions highlight the interest below and illustrate the executive procedures (including the economic terms and conditions of their fulfillment), with specific reference to the estimative procedures followed.

9. Direction and coordination activities

- 9.1 – Information about the execution of direction and coordination activities illustrate:
 - the strategic aims, with specific reference to the entrepreneurial interest justifying them and the results that are followed;
 - the executive procedures (including the economic terms and conditions of their fulfillment), with specific reference to the estimative procedures followed;
 - the possible changes and implications on the execution of the company, also with reference to the budget and the industrial plan.
- 9.2 – Further updating on the affected transactions shall be supplied in order to estimate overall results of the direction and the coordination activities.

Data collection procedure

In order to allow an adequate information flow to non-executive Directors and to the Board of Statutory Auditors, information must be obtained by the Chairman and CEOs according to the procedure listed below.

1. Information about business activities, about transactions involving significant economic, financial and equity income, about infra-group transactions and atypical or unusual transactions.

Pirelli General Managers and the Heads of Business units/Central Functions/Business Operations that report directly to the Chairman and the CEOs (the so-called “Front Line”) through the Financial Department transmit, on a quarterly basis, to the Chairman and the CEOs, with an apposite note, the activities that the competent structure carried out in the period, highlighting specifically the transactions involving significant economic, financial and equity income; the infra-Group transactions higher than euro 50 million; non-standard, atypical or unusual transactions; the executive businesses and developments of operations already decided by the Board of Directors; as well as the main business activities carried out within the duties attributed to Managing Directors, including the most important launched projects and the most significant undertaken initiatives.

Informative reports shall also be made for transactions that, even if they are individually smaller than the above-mentioned threshold value, are associated within the same strategic plan or executive programme and therefore, considered altogether, exceed the threshold value.

2. Information about operations with related parties different than intra-group transactions.

The purpose of the current procedure are the transactions with related parties carried out by Pirelli or by companies owned by Pirelli, with parties directly or indirectly related to Pirelli i.e.:

- a) the persons who, directly or indirectly, control Pirelli, also in virtue of shareholder agreement, individually or jointly with other persons included in these agreements;
- b) the persons who, directly or indirectly, exercise a significant influence over Pirelli. This influence is presumed in case of shareholdings equal to or higher than 10% of the authorized capital in the form of ordinary Pirelli shares;
- c) the members of the Board of Directors and Acting Auditors of Pirelli;
- d) the managers with strategic responsibilities in the Company, identified by the Board of Directors of Pirelli, or in its possible subsidiaries (i.e. "*key managers*");
- e) close family members of the persons indicated above in letters a) to d), meaning spouses not legally separate and the dependents, as indicated in civic records the children, the children of domestic partner and other dependents of the concerned persons, independently of the family relationship and/or affinity and other relatives that the concerned person considers might influence or be influenced by him/her in their relationship with Pirelli ;
- f) an associate of Pirelli.
- g) the companies upon which the persons indicated above in letters a) to e) exert control, directly or indirectly, also in virtue of shareholders agreement, individually or jointly with other persons included in these agreements;
- h) the companies on which the persons indicated above in letters a) to e) exert, directly or indirectly, significant influence, if they are physical persons. This influence is presumed in case of shareholdings equal to or higher than 10% (in the case of listed companies) or 20% (in the case of unlisted companies) of the authorized capital in the form of voting shares at the general meetings;
- i) the joint ventures in which Pirelli participates;
- j) the pension funds for the employees of Pirelli or of related parties;
- k) The Internal Control Committee of Pirelli may consider related party, on a case by case basis:
 - (i) the companies in which the persons indicated above in letters a) to e) hold strategic management roles and the companies controlled by these companies;
 - (ii) the companies that share a majority of their Directors with Pirelli.

With the same regularity as mentioned under point 1 above, the Financial Department collects and transmits to the Chairman and to the CEOs declarations from the persons mentioned under letters a) to d) above pointing out the transactions involving amounts higher than euro 500.000, or those with lower amounts but non-standard, achieved directly by or through one of the persons indicated in letters g) to k) above, also through third parties, with Pirelli or its subsidiaries, by themselves or, in the case of physical persons, by spouses or dependents, as indicated in civic records.

Amongst these information, must be pointed out transactions that, even if they are individually smaller than the above-mentioned threshold value, are associated within the same relation and therefore, considered altogether, exceed the threshold value.

The Financial Department also collects the declarations whereby the persons in letters a) to d) above: (i) list the companies for which they perform the cases in letters g) to j) above, as well as companies in which they hold the role of directors; (ii) update this list.

The Financial Department transmits the list to the parties related to Pirelli as specified above to the General Managers and to the Front Line.

The Front Line communicates on a quarterly basis to the Chairman and the CEOs the transactions completed with Pirelli – or companies controlled by Pirelli – also through third parties or indirectly related parties as specified in the list given by the Financial Department, involving amounts higher than euro 500,000 and, also if involving lower amounts, made under non-standard conditions.

1. Transactions with related parties, including intra-group transactions, except for typical or usual transactions concluded at arm's length conditions, must be approved in advance by the Board of Directors.
2. Typical or usual transactions shall be taken to mean those which, by their object or nature, are not extraneous to the normal course of business of the Company and those which do not involve particular critical factors due to their characteristics or to the risks related to the nature of the counterpart or to the time at which they are concluded. Transactions concluded at arm's length conditions means transactions concluded at the same conditions as those applied by the Company to whatsoever party.
3. The Board of Directors shall receive adequate information on the nature of the relationship, the manner of execution of the transaction, the economic and other terms and conditions governing it, the valuation procedure adopted, the underlying interest and motivations, and the possible risks for the Company. Where the relationship is with a Director or with a party related by means of a Director, the Director concerned shall limit himself to providing clarifications and shall leave the meeting of the Board when the decision is to be taken; the Board of Directors may also resolve in a different way.
4. Depending on the nature, value and other characteristics of the transaction, to guard against the transaction's being carried out at unsuitable conditions the Board of Directors shall be assisted by one or more experts, who shall express an opinion, according to the case, on the economic conditions and/or the legitimacy and/or the technical aspects of the transaction.
5. For transactions with related parties, including intra-group transactions, which are not submitted to the Board of Directors inasmuch as they are typical or usual concluded at arm's length, the Directors having delegated powers or the managers responsible for carrying out the transaction, without detriment to compliance with the specific procedure pursuant to Article 150.1 of the Consolidated Law on Financial Intermediation, shall collect and preserve, inter alia by type or group of transaction, adequate information on the nature of the relationship, the manner of execution of the transaction, the economic and other terms and conditions governing it, the valuation procedure adopted, the underlying interest and motivations, and the possible risks for the Company. For such transactions also, one or more experts may be appointed as provided above.
6. The experts are to be chosen from among persons of recognized professional experience and competence in the matters concerned. Their independence and absence of conflicts of interest will be carefully evaluated.

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1. Introduction

- 1.1 – Information – in the sense of news about events, facts, figures or initiatives having a specific significance in relation to an entity’s activity – is a strategic component of a company’s assets and essential for its success. The appropriate and timely sharing of information is a necessary condition for the effective pursuit of business objectives, and underlies the most important corporate processes.
- 1.2 – Without prejudice to the provisions of applicable law concerning the protection and dissemination of particular categories of information, such as the personal and sensitive data referred to in the Code for the Protection of Personal Data (Legislative Decree 196/2003), the use of information must observe the general principles regarding the efficient exploitation and safeguarding of a company’s resources, which can be expressed in the case in question as the “need to know”. The use of information for purposes other than the activity of the business is to be considered an abuse and, on a general basis, all those who work to promote the interest of the Pirelli Group (hereinafter the “Group”) are subject to confidentiality requirements concerning the information they acquire in or for the performance of their duties.
- 1.3 – However, the law imposes an obligation to disclose information not known to the public concerning a company and its subsidiaries which is of a precise nature and which, if it were made public, would be likely to have a significant effect on the price of that company’s financial instruments (inside information). The law also requires informational equality to be restored if inside information is disclosed prematurely to third parties who are not subject to confidentiality requirements under laws, regulations, bylaws or agreements.
- 1.4 – This explains the great delicacy of the stage preceding the “perfection” of inside information in which not only is it necessary to impose a confidentiality regime on inside infor-

mation “in the making,” so as to avoid triggering the immediate disclosure obligation, but above all there is the fact that premature disclosure could be misleading for the market and/or harmful for the business.

- 1.5 – This procedure covers the handling – including the public disclosure – not only of inside information but also of information which could become such; it seeks to reconcile the fluidity of internal information processes with safeguarding information, especially as regards the give and take between the disclosure of inside information and the need to keep it confidential while it is being perfected. In this respect the procedure ties in with the internal rules of general application concerning the classification and management of information from the standpoint of confidentiality.

2 – Purpose and scope

- 2.1 – This procedure (hereinafter the “Procedure”) establishes:
 - a) the requirements and responsibilities for the classification of inside information;
 - b) the manner of tracing access to inside information in the making, with special regard to the creation of the register referred to in Article 115-bis of Legislative Decree 58/1998 and Article 152-bis of Consob Regulation 11971 of 14 May 1999, as amended;
 - c) the instruments and rules for safeguarding inside information in the making;
 - d) the operational rules for the disclosure of inside information to the market and in general for public announcements and/or communications to analysts/investors.
- 2.2 – The Procedure is an essential component of the Pirelli Group’s system of internal control, also with reference as to what is provided for by Legislative Decree no. 231/2001 and by the Organizational Model 231 adopted by Pirelli & C. (hereinafter “Pirelli”). It directly regulates inside information concerning Pirelli, its unlisted subsidiaries and the Group’s listed securities and serves as a template for the similar measures that the other Group issuers of securities listed on regulated markets are independently required to adopt (including the companies that promote and manage shares of listed real estate investment funds).
- 2.3 – The seriousness of the consequences of failure to correctly apply the Procedure calls for rigorous and continuous checks on compliance and the immediate reporting of cases of inobservance to the Internal Control, Risks and Corporate Governance Committee by the person responsible for reporting.

3 – Persons subject to the Procedure

- 3.1 – The Procedure applies to all the members of the governing bodies of Group companies and those of their employees who have access to information that is likely to become inside information. In particular, all the senior managers are required to make a written declaration at the time of their appointment attesting that they have examined the Procedure and are aware of the responsibilities it entails for them.
- 3.2 – The conduct of persons external to the Group who, for any reason whatsoever, have similar access is governed by the rules laid down in the confidentiality agreement referred to below.
- 3.3 – The Procedure also serves as instructions to Pirelli’s subsidiaries to provide, without delay, all the information needed to permit the prompt fulfilment of the public disclosure obligations laid down in applicable laws and regulations and, exclusively as regards listed subsidiaries or subsidiaries with financial instruments listed on controlled Italian markets or that promote and manage shares of listed real estate investment funds, to adopt equivalent measures.

4 – Basis

- The EU Directives on Market Abuse (Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003, Commission Directive 2003/124/EC of 22 December 2003 and Commission Directive 2004/72/EC of 29 April 2004);
- Article 114 et seq. of Legislative Decree 58/1998 (the Consolidated Law on Finance);
- Law 262/2005;
- Consob Regulation 11971 of 14 May 1999, as amended;
- The Code of Ethics of the Pirelli Group and Organizational Model 231 of Pirelli;
- General principles of internal control;
- The Pirelli Group's policy "OP SE G" June 15, 2006 "Treatment of Corporate Information".

5 – Definitions

- **Inside information** - As provided for by law, inside information concerning Pirelli means information of a precise nature which has not been made public relating to the Company or to its subsidiaries and which, if it were made public would be likely to have a significant effect on the prices of securities they have issued. Once inside information has been perfected, there is a general obligation to disclose it immediately to the public in the manner laid down in the Procedure.
- **Market sensitive information** - For the purposes of the Procedure, market sensitive information means information that could become inside information, i.e. inside information in the making. The following are examples of market sensitive information as defined here: operational results or forecasts, commercial offers, projects, contracts, events, including those of an organizational nature, corporate actions and business decisions. Market sensitive information is subject to the confidentiality regime laid down in the Procedure. This does not exclude the possibility of the same information also being classified as confidential under the standard method of classification, governed by the relevant internal rules, in light of the potential harm to which its inappropriate circulation would expose the Group.
- **Informational context** - means, with reference to an event, transaction or project, all the information concerning that event, transaction or project, including accessory information and all the relevant preparatory material. Similarly, certain activities and processes that are recurrent or continuous in the operation of the business constitute informational contexts.
- **Register** - means the database, created pursuant to applicable law, with the names of the persons who through the exercise of their employment, profession or duties have access to market sensitive information.
- **Market Sensitivity Support Group** - means the group providing technical support in determining the market sensitivity of information, made up of persons appointed by the heads of the competent Departments within following department: Human resources, Industrial Legal Affairs, Legal, Corporate Affairs and Group Compliance, Finance, Controlling, Media Communications, Investor Relations, and coordinated by the addressee of the information request as referred to in article 2.6.1 of the Rules of the organized Markets and managed by Borsa Italiana S.p.A. The Information Officer of the Company.

6 – Requirements for inside information

- 6.1 – In the first place inside information has to be precise. Accordingly, for information to be considered inside information, it must refer to:
 - an event which has occurred or may reasonably be expected to occur; or
 - a set of circumstances which exists or may reasonably be expected to come into existence; and enable a conclusion to be drawn as to the possible effect of that event or set of circumstances on the prices of the securities of the Company and its subsidiaries.
- 6.2 – Inside information concerns actual and probable events and circumstances. For the purposes of the Procedure, studies, research and estimates developed from publicly available data are excluded.

- 6.3 – Inside information must also relate to the Company or its subsidiaries. In this respect inside information can:
- have a “voluntary” origin (such as unilateral business decisions, extraordinary corporate actions and agreements); or
 - derive from the verification of facts, events or circumstances of an objective nature capable of influencing the activity of the business and/or the price of the securities issued (such as periodic financial reports or the resignation of a top manager).
- The extent to which information relates to the Company must be evaluated in terms of the legal imputability to the Company of the decision (inside information of “voluntary” origin) or of the act of verification (inside information of “external” origin).
- 6.4 – Inside information of “voluntary” origin is perfected when the fact (transaction, unilateral decision or agreement) to which the information refers is defined in the manner provided for by the applicable principles of corporate governance, laid down in laws and regulations, bylaws or internal rules. In this case the disclosure of inside information follows the adoption of the decision by the body competent for the matter that is the subject of the information (the Board of Directors or a body with delegated powers).
- 6.5 – As for agreements, the relevant moment is that of their substantial definition, in terms of content and legal bindingness, rather than that of their formal execution: the inside information is perfected as soon as there is a meeting of the wills of the parties with regard to the essential elements of the contract, with further negotiations not excluded. It remains necessary for the “will” of the Company (or its subsidiaries) to be expressed by a person authorized to commit the Company (or its subsidiaries), so as to ensure that the “will” – and hence the information – can be related to the Company (or its subsidiaries).
- 6.6 – In the case of inside information of “external” origin, i.e. information consisting of the verification of facts, events or circumstances of an objective nature, if the fact is instantaneous (e.g. the notification of a sanction or the resignation of a top manager) and not open to interpretation, the time at which it is received by the competent organizational unit is when the information can be related to the Company (or its subsidiaries) and therefore when the inside information is perfected and the disclosure obligation consequently triggered.
- 6.7 – More frequently, however, the verification of inside information of “external” origin is a process that unfolds over time and is divided into successive stages, serving at times to obtain figures (as for periodic financial reports) and at others to interpret a set of circumstances (as for a possible profit warning in light of the performance of the business). In such cases the time at which the inside information is perfected is governed by the corporate governance standards – laid down in laws and regulations, bylaws or internal rules – that determine the body competent to conclude the verification process.

7 – Classification of market sensitive information

- 7.1 – In the case of inside information of “voluntary” origin, information may be classified as market sensitive by persons authorized to submit the event, transaction or process to the body competent to decide on it. Accordingly,
- in the case of initiatives of a strategic nature and those for which the Board of Directors is competent (e.g. extraordinary financial actions), information is classified as market sensitive by the Chairman of the Board of Directors, who may delegate the task to the Secretary of the Board of Directors, who may consult with the Managing Director, with the Group General Counsel and/or the General Directors;
 - in the case of decisions entrusted to bodies with delegated powers (e.g. a commercial agreement or the launch of a new product), the decision on the market sensitive nature of information is taken by the senior manager directly under the managing director.
- 7.2 – It is also possible for the classification to be made directly by the body competent to decide (i.e. by the Board of Directors or the bodies with delegated powers).
- 7.3 – Once information has been classified as market sensitive, the competent person must activate the procedures to cordon off the relevant informational context, so as to prevent the inappropriate internal and, above all, external circulation of the information.

- 7.4 – In the case of inside information of “external” origin – apart from that concerning instantaneous events not open to interpretation, the mere reception of which triggers the disclosure obligation – information becomes market sensitive (and subject to the corresponding confidentiality regime):
- if the informational content is the subject of a process of verification or construction that has already been formalized (e.g. the calculation of data to be included in a financial report), starting from the stage of the process specified by the senior manager responsible for the process. The specification of this critical stage must reconcile the organizational need for elementary data to flow freely with the need to counter the risk of leakage in good time (through suitable instruments and conduct);
 - if the process of interpreting and evaluating the event or circumstance has not already been formalized (e.g. the notification of a sanction), starting from the time the event or circumstance becomes related to the company, with the act of the competent senior manager if and when he considers that the information in question may become inside information.
- 7.5 – Before information is classified as market sensitive, it is at a preliminary stage to which the Procedure does not apply. This obviously does not exclude the possibility of the information being classified as confidential under the Group’s policy for the classification and handling of information, which also continues to apply after information has been classified as market sensitive.
- 7.6 – In carrying out their evaluations, the persons charged with classifying information as market sensitive may have recourse to the technical support of the Market Sensitivity Support Group, which, for example, may also draw up lists of facts and circumstances that would normally be considered relevant, in light of their nature, characteristics and scale.

8 – The register

- 8.1 – The register consists of a computerized system whereby access to the individual market sensitive informational contexts can be traced, so as to permit checks to be made on the data entered and any subsequent updates. Each person entered in the register is charged with ensuring the traceability of the handling of market sensitive information deriving from his sphere of activity and responsibility.
- 8.2 – Without prejudice to compliance with the regime laid down in laws and regulations, entries are made in the Register for:
- recurrent and continuous significant activities and processes (e.g. the preparation of financial reports, budgets, and forecasts);
 - specific projects and events (e.g. extraordinary corporate actions, acquisitions and disposals, and significant external events).
- 8.3 – Individual names are entered in the Register in connection with each recurrent or continuous process or each project or event (with the possibility of multiple entries in relation to different informational contexts), with an indication of the time the market sensitive information became available and, where appropriate, of the time it ceased to be available (entry to/exit from the relevant informational context).
- 8.4 – Responsibility for creating a new informational context and entering the necessary data (with an indication of the role played by each person with access to the information) coincides with the responsibility for classifying the information as market sensitive and is therefore allocated to the persons authorized to perform the classification (the Board of Directors, the Chairman of the Board of Directors, the Secretary of the Board of Directors if authorized by the Chairman, the Managing Director and the senior managers).

The person who creates an informational context has primary responsibility for it and accordingly also decides on the reclassification of its content.

- 8.5 – At the time a new name is entered in the Register and of subsequent updates to the entry (either by the person primarily responsible for the informational context to which the market sensitive information belongs or by another person authorized to that end), the system automatically generates a message to the interested party, together with a document set-

ting out the obligations, prohibitions and responsibilities connected with access to market sensitive information, including a policy for tracing individual information flows (see the document in Annex A).

- 8.6— The definition of “roles” and the manner of keeping and updating the Register, the methods of retrieving data and the procedures for managing the database are in detail set out in Annex B.

9 – Confidentiality measures applied to market sensitive information

- 9.1 – The Pirelli Group takes suitable measures to maintain the confidentiality of market sensitive information. In particular, without prejudice to the security measures laid down by the Group’s policy and the other safeguards suggested by experience and, in general, the prudence required to keep the risk of information leakage within reasonable limits, the organisational, physical and logical security measures set out below must be complied with.
- 9.2 – It is understood that the above-mentioned measures also apply:
- to inside information that has already been perfected but for which a delay in disclosure has been duly requested, until the information is actually disclosed;
 - subsequent to disclosure, to all the relevant preparatory material, without prejudice to the possibility of its reclassification by the person with primary responsibility for the informational context to which it belongs.

Organisational security

- 9.3 – The distribution of market sensitive information according to the guiding principle of the need to know is entrusted to the senior managers in Pirelli’s official organization chart, who are required to inform recipients of the importance of the information transmitted and to make the necessary entries in the Register without delay.
- 9.4 – In the case of recurrent and continuous activities and processes, the identification of the persons authorized to have access to market sensitive information is a key aspect of the operational procedures governing such activities and processes. The Human Resources Department is responsible for updating the Register in line with developments in the internal organization.
- 9.5 – In order to access market sensitive information, persons external to the Group must first sign a confidentiality agreement. It will be the responsibility of the employee that in accordance to his specific role should verify in advance and ensure the successful signing of the confidentiality agreement. The template for this agreement, elements of which may be omitted only with the express authorization of the Chairman of the Board of Directors, the Secretary of the Board if authorized by the Chairman, or a Managing Director, is set out in Annex C.

Physical security

- 9.6 – The activity of producing material (including, but not limited to, the printing and photocopying of documents) containing market sensitive information must be overseen by personnel entered in the Register. The subsequent retention, distribution and management of such material are the responsibility of the persons possessing it, within the limits of such possession according to their entitlement in the Register. Each person is responsible for ensuring the traceability of the operations involved in the management of the material he has been entrusted with.
- 9.7 – Material must be labelled “market sensitive” to permit the nature of the information contained to be recognized; to this end, the names of any files, regardless of their extension, must include the code of the informational context to which they belong.
- 9.8 – Material containing market sensitive information must be kept in rooms with controlled physical access or placed in guarded or protected archives when no longer required and must never be left unguarded, especially when taken off the work premises.

9.9 – The destruction of material containing market sensitive information must be undertaken by the persons possessing it, in the most suitable way to prevent the improper recovery of the data.

Logical security

9.10 – When market sensitive information is processed, transmitted or stored in electronic form, it must be (encrypted) treated as to ensure the confidentiality.

9.11 – The entry of data in the Register for a given informational context automatically results in corresponding entries being made in the database of authorizations to access the corresponding files, with the user profiles of the “roles” defined in the register, individually or by category.

10 - Disclosure of inside information to the market – general rules

10.1 – In the case of inside information of “voluntary” origin (i.e. inside information that is the subject of a process of verification), the person entitled to classify the informational context as market sensitive (i.e. the senior manager charged with the verification process) is responsible for promptly activating the preparation of the press release to be issued when the inside information is perfected.

10.2 – To this end, such person handles communications with the Media Communications Department and coordinates all the persons entered in the Register for the informational context in question who possess information that the Media Communications Department needs to prepare a draft press release. The Market Sensitivity Support Group checks the draft from the point of view of the congruence of the economic and financial data, its ability to meet the needs of investors and the financial community, its consistency with information already disclosed by the Company in financial reports or earlier press releases, and its compliance with applicable laws and regulations.

10.3 – The Information Officer decides whether to make ex ante checks with supervisory authorities (Borsa Italiana, Consob, etc.), where appropriate also with a view to submitting a duly formulated request to delay disclosure.

10.4 – The Media Communications Department then submits the draft press release resulting from the process described above for approval by top management (the Board of Directors as a whole if the Board is responsible for perfecting the inside information), incorporates any comments or changes and receives the competent director’s authorization to make the disclosure. The Media Communications Department - after verifying the presence of the declaration by the Director and the manager responsible for preparing the Company’s financial reports attesting the truthfulness of the press release if it contains information on the economic, equity, or financial conditions of the Group – issues the press release in accordance with applicable laws and regulations and immediately informs the Investor Relations Department and the Information Officer, so that they can perform the activities for which they are competent, as well as top management.

10.5 – After public disclosure, the Media Communications Department posts the press release without delay (and in any case before the market opens on the day following that on which it was issued) on the Company’s website, with an indication of the date and time of the posting.

10.6 – In the case of inside information consisting of an instantaneous objective fact which is merely received, the process described above – *mutatis mutandis* – must be initiated by the member of the internal organization authorized to perform the necessary verification.

11 - Disclosure of inside information to the market – special cases

Rumours and requests by the authorities

11.1 – When:

- there is a significant variation in the price of listed financial instruments with respect to the last price of the previous day, coupled with the disclosure to the public, not in accordance with this Procedure, of information concerning the Company's or its subsidiaries' equity, economic, or financial conditions, possible extraordinary financial actions, significant acquisitions or disposals, or operating performance;
- with the markets closed or in the pre-opening phase, there is publicly available information which was not disclosed in accordance with this Procedure and which is likely to have a significant effect on the price of the Company's or its subsidiaries' financial instruments, or
- a report is received from Borsa Italiana or Consob concerning the spread of market rumours, the Information Officer, with the assistance of the Market Sensitivity Support Group and the heads of the corporate Departments involved, examines the situation to determine whether it is necessary and/or desirable to inform the public regarding the truthfulness of the publicly available information, supplementing and correcting it if need be, in order to restore conditions of informational equality and fairness, and, where appropriate, whether it is necessary to submit a duly formulated request to delay disclosure.

11.2 – Similarly, the Information Officer, with the assistance of the Market Sensitivity Support Group and the heads of the corporate Departments involved, examines the situation to determine whether it is necessary and/or desirable to make a public disclosure (and, as above, to determine whether it is necessary to submit a duly formulated request to delay disclosure) if Borsa Italiana or Consob request information or a public disclosure, even in the absence of rumours.

11.3 – If public disclosure is found to be necessary or desirable, the Information Officer initiates the process of drafting an appropriate press release, in the manner described above.

Profit warnings

11.4 – In the case of earlier announcements of targets (including in the form of trend changes) and/or forecasts for the Company and/or its subsidiaries, the Investor Relations Department, together with the other Departments involved, are responsible for monitoring the consistency of the operating performance with what was announced and for monitoring the consensus of the market, so as to issue a profit warning in the event of a significant and lasting divergence between market expectations and the Company's own projections.

11.5 – If a press release is necessary, it is prepared by the Finance Department and the Controlling Department in the manner described above.

12 - Relations with third parties

12.1 – The Company has structures charged with handling relations with the media and with the Italian and international financial community.

Relations with the financial community

12.2 – Relations with the financial community are handled by the Investor Relations Department.

12.3 – On the occasion of meetings with the financial community (road shows, conference calls, conventions, etc.), the Investor Relations Department gives advance notice of the place, date and purpose of the meeting to the Market Sensitivity Support Group for its assessment of the aspects for which it is competent. It also provides draft versions of any documents that are to be presented/distributed to participants. Copies of the final versions

of such documents must be sent to the Information Officer, so that any disclosures necessary may be made before the material is presented/distributed in the meeting.

- 12.4 – If the preliminary examination of the material finds it contains inside information, a suitable press release is prepared and issued at the initiative of the Information Officer. An analogous procedure is followed if inside information is unintentionally disclosed in a meeting.

Relations with the media

- 12.5 – The Media Communications Department is responsible for relations with the press.
- 12.6 – Interviews and statements concerning the Company, and meetings with reporters, may be given or made by the Chairman of the Board of Directors, the Managing Director after consulting with the Chairman, and other persons authorized by the Chairman, acting on a proposal from the Media Communications Department or otherwise. This Department clears the content of interviews and press conferences with the interested parties and keeps the Market Sensitivity Support Group constantly informed where appropriate so that it may assess the aspects for which it is competent.
- 12.7 – If the preliminary examination of the material finds it contains inside information, a suitable press release is prepared and issued in the manner described above at the initiative of the Information Officer. An analogous Procedure is followed if inside information is unintentionally disclosed in an interview or at a press conference.

Conferences, meetings, courses and conventions

- 12.8 – When managers participate in conferences, meetings, courses and conventions, the organizational unit involved gives advance notice of the place, date and purpose of the meeting to the Media Communications Department - if the participation of the press is likely at such events – and to the Human Resources Department. It also provides the name of the Company representative(s) participating and draft versions of any documents that are to be presented/distributed to participants.
- 12.9 – Subsequent to a cursory preliminary examination, the Media Communications Department (and/or the Human Resources Department) and where appropriate initiates a check on the content of the material with the Market Sensitivity Support Group. If it is found to contain inside information, a suitable press release is prepared and issued in the manner described above at the initiative of the Information Officer.

13 - Publications

- 13.1 – The content of any document published by the Company (such as advertisements, advertising brochures, information booklets, company magazines, etc.) must be first checked by the Institutional and Cultural Affairs Department, assisted by the Market Sensitivity Support Group, to ensure that the information is correct and consistent with the content of earlier publications and that it does not include inside information.
- 13.2 – If inside information is found during the above-mentioned check of the content of a document, a suitable press release is prepared and issued at the initiative of the Information Officer.
- 13.3 – Economic and financial information, corporate documents, presentations to the financial community and other documents concerning Pirelli are posted on the Company's website. Such posting, to be authorized by the heads of the competent Departments, may not take place until the Company has fulfilled the disclosure obligations imposed by applicable laws and regulations. For such purpose, the heads of the competent Departments sent such material to the Information Officer so that he may fulfil the obligations imposed by applicable laws and regulations.

Annex: deliberate omissis

The Board of Directors of Pirelli & C S.p.A. has decided – as part of its self-regulatory system – to require “relevant persons” in the company (including its directors and statutory auditors) to abstain, in certain periods of the year (so-called black-out periods), from carrying out transactions – including through intermediaries - on the shares of the company or related financial instruments.

In particular, The Board of Directors decided that the relevant persons (“Relevant Persons”) (within the meaning specified in article 152-sexies, subsection 1, letters c.1 and c.3) of the Consob Regulation adopted in decision no. 11971/1999 and subsequent modification¹, as well as those identified – including purely for self-regulatory purposes – by the Board itself, and the physical and legal persons² closely linked to the latter, shall abstain from carrying out transactions on Financial Instruments (as defined below) in the twenty days preceding the release of the economic and financial results of the period (definitive or preliminary)³.

The Board of Directors has also reserved the right to determine, in an extraordinary way, further periods during which the obligation to abstain described above shall apply or be suspended. For the purposes of the above provisions, Financial Instruments shall be understood to mean:

Per Strumenti Finanziari ai fini di quanto sopra, s’intendono:

- (i) financial instruments listed in the Italian and foreign regulated stock exchange market, issued by Pirelli & C. S.p.A. and its subsidiary companies, excluding non-convertible bonds;
- (ii) financial instruments, even unlisted, attributing the right to subscribe, purchase or sell the instruments at point (i), including certificates representing the instruments at point (i);
- (iii) derivative financial instruments, including covered warrants, having as related asset the financial instruments at point (i), including when they are exercised by means of payment of a cash difference. Financial Instruments as defined in point (i) also include shares in real estate investment funds listed, promoted and managed by investment management company subsidiaries of Pirelli & C. Real Estate S.p.A..

¹ Article 152-sexies subsection 1 letters c.1 to c.3 of the Consob Regulation adopted with decision no. 11971/1999.

^{*c.1)} The members of the administrative and control bodies of a listed company

c.2) The persons who act as directors of a listed company and the managers who regularly access privileged information and have the power to take decisions which may impact on the evolution and future prospects of the listed company

c.3) The members of administration and control bodies, those persons who act as directors of a listed company and the managers who regularly access to privileged information and have the power to take decisions which may impact on the evolution and future prospects of a company directly or indirectly controlled by a listed company, if the book value of the stake in the above mentioned subsidiary company represents more than fifty percent of the equity asset of the listed company, as resulting from the last approved Annual Report.

² This means all those physical and legal persons strictly linked to the Relevant Persons who may be considered to influence or be influenced by the latter (and thus legal persons who, while subsidiary according to the current legal and regulatory provisions, operate in conditions of operational independence, are excepted).

³ The terms are calculated taking as reference the calendar of the meetings of the board of directors for approval of the reports specified in article 154-ter subsections 1,2 and 5 of the CLF (Consolidated Law on Finance) announced by the Company to the market.

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.



