

## HALF-YEARLY CORPORATE GOVERNANCE REPORT

\* \* \*

The Company adopts the traditional administration and control system.

Pirelli's Corporate Governance system is based on: (i) the central role of the Board of Directors that is responsible for the strategic guidance and supervision of the Company's overall business activities, the Board has policy-making powers regarding the overall administration and the power to intervene directly in a series of significant decisions necessary or useful to achieve the company purpose; (ii) the central role of the independent Directors who represent the majority of the members of the Board of Directors (iii) consolidated disclosure practices concerning the choices and the processes to make business decisions and an effective internal control system; (iv) an innovative, pro-active risk management system; (v) a general remuneration and incentive system, in particular, in relation to the Managers associated with medium and long-term economic objectives in order to align the Management's interests with the interests of the Shareholders, by pursuing the priority objective of creating sustainable value in the medium/long term, by establishing a strong link between remuneration, on the one hand, individual performance and Pirelli's performance, on the other hand; (vi) a strict discipline in relation to potential conflicts of interest and solid ethical principles to execute transactions with related parties.

Pirelli has complied with the Self-Regulatory Code applicable to companies listed on the Italian Stock Exchange since the Code was first issued (in October 1999 and then complied with the Code issued in July 2002 and subsequently complied with the Code issued in March 2006).

In the Board of Directors' Meeting held on March 12, 2012, Pirelli declared its compliance with the new version of the Self-Regulatory Code (December 2011), published on the following website: [www.borsaitaliana.it](http://www.borsaitaliana.it).

The governance system is formalised in the Ethical Code, in the Company Bylaws, in the Regulations for Shareholders' Meeting and in a series of principles and procedures which are updated periodically in relation to best practices.

In the interim financial report the Company voluntarily highlights the updates and additions made to its corporate governance system compared to the information contained in the annual report.

Pirelli was declared the "Best Corporate Governance in Italy" at the beginning of 2012, and for the second consecutive year, in the context of the World Finance Corporate Governance Award 2012. Moreover, Governance Metrics International (GMI) has confirmed the 10/10 ranking for Pirelli's corporate governance in the home market (the last "Country Ranking" in September 2010 assigned Italy an average rating of 5.25/10) and attributed an 8/10 rating in relation to the Global Market, reflecting the highest rating recorded by Italian companies.

Furthermore, Pirelli was the key sponsor at the ICGN Annual Conference held in Rio de Janeiro in June 2012, confirming the importance that the Corporate Governance themes represent for Pirelli.

\* \* \*

The Board of Statutory Auditors' mandate expired with the approval of the financial statements at December 31, 2011. The Shareholders' Meeting held on May 10, 2012 therefore renewed the Board.

The list vote system was adopted and the so-called minority shareholders were able to appoint the Chairman of the Board of Statutory Auditors (Mr. Francesco Fallacara) and an Alternate Auditor (Mr. Andrea Lorenzatti). In particular, 2 lists were submitted to the Shareholders' Meeting: one list was presented by the shareholders participating in the Pirelli & C. Share Block Syndicate<sup>1</sup> (that obtained approximately 77.83% of the votes of voting capital represented in the Meeting<sup>2</sup>) and one list was presented by a group of asset management companies and financial intermediaries<sup>3</sup> (that obtained approximately 22.07% of the votes of voting capital represented in the Meeting). Those proposing the lists made the candidates' profiles available to the shareholders in order to enable the shareholders to become familiar with the candidates personal and professional characteristics, in advance, and that the candidates possessed the requirements to be qualified as independent, also considering the independence requirements established by the Self-Regulatory Code of the Italian Stock Exchange which are applicable to Directors.

---

<sup>1</sup> The list was presented by: Camfin S.p.A.; Mediobanca S.p.A.; Edizione S.r.l.; Fondiaria-Sai S.p.A.; Allianz S.p.A.; Assicurazioni Generali S.p.A.; Intesa Sanpaolo S.p.A.; Sinpar S.p.A.; Massimo Moratti.

<sup>2</sup> Refer to [http://www.it.pirelli.com/it\\_IT/browser/attachments/pdf/Pirelli\\_C\\_SpA-assemblea\\_21-4-2011-rendiconto\\_sintetico\\_votazioni.pdf](http://www.it.pirelli.com/it_IT/browser/attachments/pdf/Pirelli_C_SpA-assemblea_21-4-2011-rendiconto_sintetico_votazioni.pdf).

<sup>3</sup> The minority list was presented by: Anima SGR S.p.A. (manager of the Prima Geo Italia and Anima Italia funds); APG Algemene Pesioen Groep N.V. (manager of the Stichting Depositary APG Developed Markets Equity Pool fund); Arca SGR S.p.A. (manager of the Arca Azioni Italia and Arca BB funds); AZ Fund Management S.A. (manager of the AZ Fund 1 Italian Trend fund); Credit Suisse Fund Management SA (manager of the Credit Suisse Portfolio Fund (LUX) Reddito (Euro) and CS Equity Fund (LUX) Italy funds); Eurizon Capital SGR (manager of the Eurizon Azioni Italia fund); Eurizon Capital SA (manager of the following Funds: Eurizon Stars Fund European Small Cap Equity, Eurizon Stars Fund – Italian Equity, Eurizon Easy Fund Equity Consumer Discretionary LTE and Eurizon Easy Fund Equity Small Cap Europe); Fideuram Investimenti SGR S.p.A. (manager of the Fideuram Italia fund); Fideuram Gestions SA (manager of the following funds: Fonditalia Equity Italy, Fonditalia Euro Cyclical, Fideuram Fund Equity Italy, Fideuram Fund Equity Europe Growth and Fideuram Fund Equity Europe); Interfund Sicav (manager of the Interfund Equity Italy fund); JP Morgan Asset Management (UK) Limited (manager of the following funds: JP Morgan Funds, Commingled Pension Trust Fund (International Equity Index) of JP Morgan Chase Bank N.A., Commingled Pension Trust Fund (Intrepid International) of JP Morgan Chase Bank N.A., JP Morgan European Investment Trust Plc., JP Morgan Fund Icvc – JPM Europe Dynamic (ex UK) Fund, JPM Fund Icvc – JPM Europe Fund, JP Morgan International Equity Index Fund, JP Morgan Intrepid European Fund and JP Morgan Intrepid International Fund); Mediolanum International Funds Limited – Challenge Funds, Mediolanum Gestione Fondi SGR S.p.A. (manager of the Mediolanum Flessibile Italia fund); Pioneer Investment Management SGR S.p.A. (manager of the Pioneer Italia Azionario crescita fund) and Pioneer Asset Management SA.

The curricula vitae of each elected Auditor were presented at the same time the lists were registered and were published on the Company's internet website, where they are constantly available.

The composition of the Board of Statutory Auditors at the date of this report is detailed below:

- Francesco Fallacara (Chairman);
- Enrico Laghi (Statutory Auditor);
- Antonella Carù (Statutory Auditor);
- Umile Sebastiano Iacovino (Alternate Auditor);
- Andrea Lorenzatti (Alternate Auditor).

After its renewal the Board of Statutory Auditors was immediately in line with the requirements envisaged by Law No. 120 dated July 12, 2011; Law No. 120 amended the Articles of the Unified Finance Law (TUF) concerning the composition of the administration (Article 147-ter) and control bodies (Article 148), establishing the requirement that the corporate bodies (on first application) shall include at least one fifth of the minority members. The new provisions will become applicable from the date of the first renewal of the administration and control bodies one year after the date the Law comes into force, therefore, in the case of Pirelli's Board of Statutory Auditors the Law becomes effective from the renewal of the Board foreseen with the Shareholders' Meeting to approve the financial statements at December 31, 2014.

The Shareholders' Meeting established that the fee payable to the Chairman of the Board of Statutory Auditors amounted to euro 75 thousand and the fee payable to each of the Statutory Auditors amounted to euro 50 thousand.

\* \* \*

The Shareholders' Meeting also appointed the following persons as Company Directors: Ms. Manuela Soffientini (already co-opted in the Meeting held on March 1, 2012 to substitute Prof. Francesco Profumo) and Mr. Giuseppe Vita (already co-opted also in the Meeting held on March 1, 2012 to substitute Mr. Enrico Tommaso Cucchiani). Mr. Vita resigned as a Board Member on May 25, 2012 after having accepted the position as Chairman of Unicredit.

In the Board Meeting held on July 26, 2012, the Board appointed Mr. Carlo Salvatori as a Director to substitute Mr. Vita and took note of the resignations of Mr. Giovanni Perissinotto communicated on July 23, 2012.

The majority of the Board Members continues to be comprised of independent Directors at the date of this report (Board Members: Carlo Acutis, Anna Maria Artoni, Alberto Bombassei, Franco Bruni, Luigi Campiglio, Pietro Guindani, Paolo Ferro-Luzzi, Elisabetta Magistretti, Luigi Roth, Carlo Secchi, Manuela Soffientini). Furthermore, after the appointment of Ms. Soffientini, the female presence on the Board of Directors corresponds to 20% and is immediately in line with the requirements envisaged by Law No. 120 dated July 12, 2011, the provisions of this Law will become applicable to Pirelli's Board of Directors from the Board's renewal envisage with the Shareholders' Meeting to approve the financial statements at December 31, 2013.

It is important to note that in the Meeting held on July 26, 2012 the Board of Directors:

- appointed the following Board Members Alberto Bombassei and Manuela Soffientini as members of the Strategies Committee.

Therefore, also taking into account the resignation of prof. Profumo and Mr. Gori, the Strategies Committee is comprised of the Chairman, Marco Tronchetti Provera (Committee Chairman); the Deputy Chairman Vittorio Malacalza and the Board Members Alberto Bombassei; Franco Bruni; Renato Pagliaro; Carlo Secchi; Manuela Soffientini and the General Counsel, Francesco Chiappetta;

- appointed the Statutory Auditor Antonella Carù as a member of the Supervisory Body to substitute prof. Paolo Domenico Sfameni, who terminated the position as a member of the Supervisory Body after terminating the office as a Statutory Auditor of the Company.

Accordingly, the Supervisory Body comprises the Board Member, Carlo Secchi (Chairman of the Supervisory Body); the Statutory Auditor Antonella Carù and the Internal Audit Director Maurizio Bonzi.

During 2012, at the date of this report:

- the Board of Directors met 4 times;
- the Internal Control, Risks and Corporate Governance Committee met 4 times;
- the Remuneration Committee met 3 times;
- the Appointments and Successions Committee met once;
- the Strategies Committee met 2 times.

It is also confirmed that 2 meetings have already been held of only the independent directors.

\* \* \*

It is also confirmed that the Shareholders' Meeting was called to express its opinion concerning Pirelli's "Remuneration Policy", in addition to approving the annual financial statements and appointing the Board of Statutory Auditors.

Pirelli has defined a Remuneration Policy and has submitted this Policy to the Shareholders' consultation vote already starting from the 2011 financial year, one year before the mandatory requirement.

The Policy's definition is the result of a clear and transparent process in which the Company's Remuneration Committee and the Board of Directors have a central role.

The Shareholders' Meeting expressed its consent to the consultation with a percentage that exceeded 83% of the capital represented in the Meeting.

In the same Meeting, and with more than 98% of favourable votes, the Shareholders' approved the new 2012/2014 three-year monetary incentive Plan for the Pirelli Group's Management ("**LTI Plan**") - related to the new challenging objectives of the 2012/2014 three-year period set out in the Industrial Plan presented to the financial community last November 9, 2011. The LTI Plan was submitted to the approval of the Shareholders' Meeting, since the Plan envisages, inter alia, that a part of the incentive is to be determined on the basis of a Total Shareholder Return objective calculated as Pirelli's performance compared to the FTSE/MIB Index Total Return – calculated periodically by FTSE and included in the Italian Stock Exchange database – as well as in relation to an index comprising the selected “peers” of the Tyres sector.

\* \* \*

The Board of Directors assessed favourably the Company's new organisational structure in the Meeting held on March 12, 2012. In particular, Pirelli has decided to enhance its technological and commercial position associated with the different business areas in a market that is increasingly competitive and selective in relation to the product and is expanding continuously from the geographic point of view, by completing the redefinition of the organisational model initiated in October 2011 and by adopting a further shortening of the decision-making chain, in order to speed up the implementation of the action plans which originate from the Premium strategy.

The new structure envisages bypassing the Executive Office and the General Management and the simultaneous creation of two new roles which report directly to the Chairman and Chief Executive Officer, Marco Tronchetti Provera: the Chief Technical Officer (Cto) and the Chief Commercial Officer (Cco), the responsibility of which is entrusted to Maurizio Boiocchi and Andrea Pirondini, respectively.

The Planning and Controlling, the Operations and the Supply Chain functions also report directly to the Chairman, in addition to the staff functions, with the duty of providing support across all the businesses. Lastly, the Moto, Industrial (this segment incorporates truck, agro and steelcord), “Prodotti e Servizi per l’Ambiente” and the “PZero Moda” businesses report to the Chairman and CEO.

In particular, from the point of view of the geographical scenario, the new model foresees the redefinition of the various markets by identifying eight Regions corresponding to the various business macro-areas, in particular: Central Europe, South Europe, North-West Europe, Russia & Nordics, Africa, Me and India, Apac, Latam and Nafta, which will avail of the support of the functions listed previously.

The Regions will report to the Cco concerning all the sales and marketing business activities.