

HALF-YEARLY CORPORATE GOVERNANCE REPORT

Pirelli & C. has complied with the Italian Stock Exchange's Self-Regulatory Code since it was first issued, and in March 2007, it declared its commitment to compliance with the new version of the Code².

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.

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

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 yearly report³.

² Published in March 2006, the updated version of the code is available at www.borsaitaliana.it.

³ http://www.it.pirelli.com/it_IT/browser/attachments/pdf/Pirelli_C_SpA-Relazione_sul_governo_societario_e_gli_asseti_proprietari-esercizio_2010.pdf

The results of “good governance” have earned the company important acknowledgements in recent months. Pirelli was in fact declared "Best Corporate Governance in Italy" in the 2011 World Finance Corporate Governance Award. Moreover, in June 2011 GMI - Governance Metrics International, an independent research institute, confirmed its grade of 10/10 (the only company in Italy to be given this grade) for Pirelli’s corporate governance in its home market (the most recent “Country Ranking”, September 2010, gave Italy an average rating of 5.25/10) and assigned it a grade of 8.5/10 for the Global Market, an evaluation well above the average, and higher than any of the Group’s competitors.

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The Board of Directors’ mandate expired with approval of the December 31 2010 Financial Statements. The April 21 2011 shareholders’ meeting therefore renewed the Board. The Shareholders’ Meeting appointed a Board of Directors with 20 members, confirming a majority of independent directors for the 2011/2013 three-year period.

By voting on a slate, the minority shareholders were able to nominate four Directors, i.e. one fifth of the total (Directors Franco Bruni, Pietro Guindani, Elisabetta Magistretti and Francesco Profumo).

Two slates were presented to the Shareholders' Meeting: one of participants in the Pirelli & C. Share Block Syndicate⁴ (which obtained about 84% of the votes represented at the meeting⁵) and one of a group of mutual savings management and institutional investors⁶ (who obtained about 15.6% of the votes of voting capital).

Those proposing the slates made the candidates' profiles available to shareholders in order for them to take note in advance of their personal and professional characteristics, as well as, for some candidates, possession of the qualification of independent. The curriculum vita of each director, presented when the slates were filed, was published on the Company website, where all the curricula remain available.

⁴ The slate 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.

⁵ Cf. http://www.it.pirelli.com/it_IT/browser/attachments/pdf/Pirelli_C_SpA-assemblea_21-4-2011-rendiconto_sintetico_votazioni.pdf.

⁶ The minority slate was presented by: Amber Capital Italia SGR S.p.A. (manager of the Amber Italia Equity fund); Amber Capital LP (manager of the PM Manager Fund, SPC); Amber Global Opportunities Master Fund Ltd.; Anima SGR S.p.A. (manager of the Europa, Sforzesco, Visconteo Italia, Iniziativa Europa and Anima Europa funds); APG Algemene Pensioe 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); Ersel Sicav; Ersel Asset Management SGR S.p.A. (manager of the Fondersel Italia fund); Eurizon Capital SGR S.p.A. (manager of the Eurizon Focus Azioni Italia and Eurizon Italia 130/30 funds); Eurizon Capital SA (manager of the Eurizon Stars Fund European Small Cap Equity, Eurizon Stars Fund Italian Equity, Eurizon Easy Fund Equity Consumer Discretionary, Eurizon Easy Fund Equity Europe, Eurizon Easy Fund Euro and Eurizon Easy Fund Equity Italy funds); Fideuram Investimenti SGR S.p.A. (manager of the Fideuram Italia fund); Fideuram Gestions SA (manager of the Fonditalia Equity Italy, Fonditalia Euro Cyclical, Fideuram Fund Equity Italy, Fideuram Fund Equity Europe and Fideuram Fund Equity Europe Growth funds); Interfund Sicav (manager of the Interfund Equity Italy fund); Kairos Partners SGR S.p.A. (manager of the Kairos Italia – Speculative Fund); Mediolanum International Funds Limited (manager of Challenge Funds); Pioneer Asset Management SA; Pioneer Investment Management SGR S.p.A. (manager of the Pioneer Azionario Crescita fund); Pioneer Alternative Investment Management Limited; Prima SGR S.p.A. (manager of the Prima Geo Italia S.p.A. fund).

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

- Marco Tronchetti Provera
- Vittorio Malacalza
- Alberto Pirelli
- Carlo Acutis (independent)
- Anna Maria Artoni (independent)
- Franco Bruni (independent)
- Gilberto Benetton
- Alberto Bombassei (independent)
- Luigi Campiglio (independent)
- Enrico Tommaso Cucchiani
- Pietro Guindani (independent)
- Paolo Ferro-Luzzi (independent)
- Giulia Maria Ligresti
- Elisabetta Magistretti (independent)
- Massimo Moratti
- Renato Pagliaro
- Giovanni Perissinotto
- Francesco Profumo (independent)
- Luigi Roth (independent)
- Carlo Secchi (independent)

At the end of the meeting, the “new” Board of Directors, on the basis of available information and the statements made by the interested parties, confirmed the existence of the requisites of independence of all Directors who declared themselves independent upon presentation of the slates.

The Board considered that the majority of the directors (11 out of 20) may be considered independent under both the Unified Finance Law and the Self-Regulatory Code of the Italian Stock Exchange. In particular, the following Directors were considered to be independent: Carlo Acutis, Anna Maria Artoni, Alberto Bombassei, Luigi Campiglio, Paolo Ferro-Luzzi, Luigi Roth, Carlo Secchi, Franco Bruni, Elisabetta Magistretti, Francesco Profumo and Pietro Guindani.

The Board of Directors therefore appointed:

- **Chairman and CEO:** Director Marco Tronchetti Provera (who also superintends the operation of the internal control system);
- **Deputy Chairmen:** Directors Vittorio Malacalza and Alberto Pirelli.

The Board of Directors also confirmed Director Carlo Secchi in the position of Lead Independent Director.

At the same meeting, the Board confirmed the establishment of a Remuneration Committee and an Internal Control, Risks and Corporate Governance Committee consisting exclusively of Independent Directors (4 and 5, respectively). Notably:

- the Remuneration Committee includes Directors Carlo Acutis (Chairman); Anna Maria Artoni; Pietro Guindani; Luigi Roth;
- the Internal Control, Risks and Corporate Governance Committee includes Directors Carlo Secchi (Chairman); Franco Bruni; Paolo Ferro-Luzzi; Elisabetta Magistretti; Luigi Roth.

The Board of Directors also set up two new committees: an Appointments Committee and a Strategies Committee.

In accordance with the previous Board's recommendation⁷, the Board of Directors considered it advisable to set up an Appointments Committee entrusted with identifying the criteria applicable to definition of succession plans for top and senior management with the aim of ensuring continuity in the company's business strategies. In addition, the newly established Committee is specifically asked to assist the Board in coming up with "emergency" plans for succession to the positions of Chairman and General Manager, establishing the steps involved and the requirements for identification (within or outside the Group) of professionals qualified to replace these professionals in an emergency.

The Committee includes the Chairman of the Board of Directors, Marco Tronchetti Provera (Chairman) as well as Deputy Chairman Vittorio Malacalza and Directors Luigi Campiglio and Luigi Roth.

The Board of Directors also resolved to set up a Strategies Committee to assist the Managing Director, and the Board as a whole, in definition of strategic business guidelines and identification and definition of the conditions and terms of particularly important operations.

The Committee includes Chairman and Managing Director Marco Tronchetti Provera (Chairman), Deputy Chairman Vittorio Malacalza, Directors Franco Bruni; Renato Pagliaro; Francesco Profumo and Carlo Secchi; General Manager Francesco Gori and Group General Counsel Francesco Chiappetta.

In the same session, the Board of Directors appointed a new **Supervisory Body**, as required by Organisational Model 231, adopted by the Company. This body will remain in office until the end of the mandate of the "new" Board of Directors. The members of this body include Director Carlo Secchi, Statutory Auditor Paolo Domenico Sfameni and Internal Control Office and Internal Audit Director Maurizio Bonzi.

⁷ In this regard, cf. point 7 of the Annual Report on Corporate Governance and Shareholding Structure.

Lastly, the Board of Auditors confirmed the position of Group Finance Director Francesco Tanzi as executive in charge of preparing the company's accounting documents.

As of the date of this report, following the appointment of the Board of Directors: the Board has met twice; the Internal Control, Risks and Corporate Governance Committee has met twice and the Remuneration Committee has met once. The independent directors and the members of the Remuneration Committee have also held a meeting.

The newly appointed members of the Internal Control, Risks and Corporate Governance Committee and the Remuneration Committee have also held specific induction meetings. After the summer break a general induction meeting will be held by the directors to improve their knowledge of the company's business and investor relations.

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In addition to approving the annual financial statements and appointing the Board of Directors, the Shareholders' Meeting was asked to express an opinion regarding "General Group Remuneration Policy".

One year before the deadline set by law, the company submitted to the shareholders for consultation and voting its policy defining the principles and guidelines which the Pirelli Group is to apply (i) in determining and (ii) in monitoring application of policy for pay of Directors assigned particular tasks, general managers, executives with strategic responsibilities and the senior management and executives of the Pirelli Group in general.

This policy, which was approved by about 90% of the share capital represented at the meeting, is the result of a clear, transparent process and is aimed at attracting, motivating and retaining human resources with the professional qualities required to profitably pursue the Group's goals and specifically the goal of creation of value in a way which is sustainable in the long term.

The Group's General Remuneration Policy is attached to the Annual Report on Corporate Governance and Ownership Structure for the year 2010 and on the Company's internet site.

In an extraordinary meeting, the Shareholders resolved to amend the Company's Statute to implement in the text of the statute a number of options permitted by the legislation implementing the Community Directive regarding the rights of shareholders in listed companies in Italy (known as the shareholders' rights directive).

The extraordinary shareholders' meeting also approved a voluntary reduction of the company's share capital by 32,498,345.12 euro pursuant to section 2445 of the civil code, to be allocated to the company's net worth.

This reduction is intended to complete the assignment of shares in Prelios S.p.A. (formerly Pirelli & C. Real Estate S.p.A.) in the year 2010 and does not result in any decrease of the Company's net worth, as the full amount of the reduction is allocated to shareholders' equity in order to bring to zero the negative reserve generated on the occasion of conclusion of the assignment operation.

The reduction will go into effect when the deadline set by the legislation has passed.

The Board of Directors

Milan, July 27, 2011