

PROCEDURE FOR INFORMATION FLOWS TO DIRECTORS AND AUDITORS

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 – 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 €25 million;
- the granting of loans or securities in favour or in the interest of third parties for amounts higher than €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 €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.

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 €50 million, and those with associated non infra-Group parties if they involve amounts higher than €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 fulfilment 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 fulfilment.

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 fulfilment), 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 fulfilment), 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 General Manager and Chief Operating Officer 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 €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.

- 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) the immediate family members of the persons indicated in letters c) and d), *i.e.* spouses and dependents, as indicated in civic records;
- f) 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;
- g) the companies on which the persons indicated above in letters a) to e) exert 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;

- h) the companies in which the persons indicated above in letters a) to e) hold strategic management roles and the companies controlled by these companies;
- i) the joint ventures in which Pirelli participates;
- j) the pension funds for the employees of Pirelli or of related parties;
- k) the companies that share a majority of their Directors with Pirelli.

With the same regularity as mentioned under point 1 above, General Operations Management 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 €500.000, or those with lower amounts but non-standard, achieved directly by or through one of the persons indicated in letters f) 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.

General Operations Management 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 f) to j) above, as well as companies in which they hold the role of directors;
- (ii) (ii) update this list.

General Operations Management 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 General Operations Management, involving amounts higher than €500,000 and, also if involving lower amounts, made under non-standard conditions.