



Pirelli & C. S.p.A.

Reports to the Meeting of 15 May 2018

Board of Statutory Auditors:

- **appointment of serving and substitute members;**
- **appointment of the Chairman;**
- **determination of members' remuneration.**

Prospectus prepared by the Directors pursuant to art. 125-ter of Legislative Decree 24 February 1998, no. 58 and subsequent amendments and additions, approved by the Board of Directors on 26 February 2018.

Dear Shareholders,

with the approval of the annual financial report as at 31 December 2017, the Board of Statutory Auditors of Pirelli & C. S.p.A., appointed by the Shareholders' Meeting on 14 May 2015 for the 2015/2017 three-year period, is nearing the completion of its full term.

Currently, also following the meeting resolutions of 1 August and 5 September 2017, the members of the Board of Statutory Auditors are as follows:

- Francesco Fallacara (Chairman of the Board of Statutory Auditors)
- Fabio Artoni (Serving Auditor)
- Antonella Carù (Serving Auditor)
- Luca Nicodemi (Serving Auditor)
- Alberto Villani (Serving Auditor)
- Fabio Facchini (Substitute Auditor)
- Giovanna Maria Carla Oddo (Substitute Auditor).

The Company's Bylaws, which sets the number of Substitute Auditors to three, entered in force at the date of Company's shares' listing on the Stock Exchange. As a result, one position as Substitute Auditor is vacant. Taking into account that one of the items in the Agenda of the Shareholders' Meeting, called to approve the Financial Report, concerns the renewal of the whole Board of Auditors, there has been no need for an immediate Board integration.

The Shareholders' Meeting is therefore called, pursuant to the applicable provisions of law and regulations and of Art. 16 of the Articles of Association (available in full at the end of this report) to:

- appoint five serving Auditors and three substitute Auditors;
- appoint the Chairman of the Board of Statutory Auditors, where it is not possible to identify him/her following the application of the voting list process;
- determine the salaries of the members of the Board of Statutory Auditors.

The appointment of the serving and substitute Auditors will take place by means of the application of the voting list process.

In this regard, it should be noted that shareholders who, alone or together with other shareholders, represent at least 1% of the share capital with voting rights in the ordinary Shareholders' Meeting (minimum threshold established by the Articles of Association, identical to that established by Consob with Resolution no. 20273 of 24 January 2018) have the right to submit the lists.

The lists of candidates - signed by the shareholders submitting them, indicating their identity and the percentage of their equity investment in the ordinary share capital of the Company - must be filed at the Company's registered office at least twenty-five days before the date set for the Meeting. The shareholders can also submit the lists of candidates by sending them and the supporting documentation to the following certified e-mail box: assemblea@pec.pirelli.it.

If only one list has been submitted within the aforementioned deadline, or only lists submitted by shareholders that are connected to one another, pursuant to the regulations, including regulatory provisions, further lists may be submitted up to the third day following the list submission deadline (twenty-five days before the Meeting). In this case, the thresholds required for their submission are reduced by half, equal, therefore, to 0.5% of the share capital with voting rights in the ordinary Shareholders' Meeting.

The ownership of the overall equity investment is certified, pursuant to the current regulatory provisions, even after the filing of the lists, provided this occurs at least 21 days prior to the date of the Meeting.

The lists of candidates must be divided into two distinct sections: the first section must contain the list of candidates (marked by a progressive number) for the office of serving Auditor, while the second section must contain the list of candidates (marked with a progressive number) for the office of substitute Auditor. The first of the candidates of each section must be identified among those registered in the Register of Statutory Auditors who have carried out statutory audits for a period of no less than three years. In compliance with the provisions of the Articles of Association and the pro tempore legislation in force on gender balance, those lists which, when considering both sections, have a number of candidates equal to or higher than three, must include candidates of a different gender both in the section of the list relating to serving Auditors, as well as in that relating to substitute Auditors.

Furthermore, each list must be accompanied by the documentation required by Art. 16 of the Articles of Association and the applicable provisions of law and regulations. In particular, together with each list, the acceptances of the candidature by the individual candidates must be filed in conjunction with the declarations by means of which they attest, under their own responsibility, the non-existence of causes of ineligibility and incompatibility, as well as the existence of the requirements prescribed by the applicable provisions, including regulatory provisions, and by the Articles of Association to assume the office. The declarations must be accompanied by a *curriculum vitae for each candidate* containing exhaustive information regarding their personal and professional characteristics with information - also attached - of the administrative and supervisory positions held in other companies.

It should be noted that - pursuant to the Self-Regulatory Code of the Listed Companies ("**Code**")¹, to which the Company has adhered - the Statutory Auditors must be chosen from among persons who can be qualified as independent also on the basis of the criteria set by the aforementioned Code with reference to the Directors and, therefore, those who are entitled and intend to submit the lists are invited to take this into account when identifying candidates to be proposed.

¹ Can be accessed at the following web address: <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf>

Each shareholder may submit or participate in the submission of only one list and each candidate may appear on only one list, under penalty of ineligibility.

Lists submitted without observing the provisions contained in Article 16 of the Articles of Association will be considered as not submitted.

If only one list is submitted, the Shareholders' Meeting votes on it and, if the list obtains the relative majority, the candidates listed in the respective sections of the list are elected as serving Auditors; in this case, the chairmanship of the Board of Statutory Auditors lies with the person indicated in first place in the aforementioned list.

In the event that two or more lists are submitted, the election of the members of the Board of Statutory Auditors will be as follows:

- from the list that obtained the highest number of votes (the so-called majority list) are taken, in the order in which they are listed, four serving members and two substitutes;
- from the list that received the second highest number of votes during the Meeting (the so-called minority list) are taken, in the order in which they are listed, the remaining serving member and the other substitute member. In the event that more than one list obtains the same number of votes, a new ballot will be held between these lists by all the persons entitled to vote who are present at the meeting. The candidates on the list that obtains a simple majority of the votes are elected.

In the event of the submission of several lists, the Chairmanship of the Board of Statutory Auditors shall be assigned to the serving member indicated as the first candidate on the list which is the second by number of votes.

In the event that no lists of candidates are submitted, the Shareholders' Meeting will appoint the Board of Statutory Auditors with the majorities required by law, without prejudice, in any case, to compliance with the regulation on gender balance.

In this regard, it is recalled that law no. 120 of 12 July 2011 introduced the gender quotas for the composition of the administrative and supervisory bodies of listed companies, establishing that these companies must guarantee, for at least three consecutive terms, compliance with a criterion of division between genders in the composition of the corporate bodies.

In fact, at least one third of the Directors and serving Auditors elected must belong to the less represented gender. The Legislator has, however, granted that at the time of the first application of the aforementioned law, the share of the less represented gender within the newly-appointed body is at least one fifth of the Directors and of the serving Auditors elected.

Therefore, in order to ensure a balance between the genders, Art. 16 of the Articles of Association establishes that the lists which, considering both sections, have a number of candidates equal to or higher than three, must include candidates of a different gender both in the section of the list

relating to serving Auditors, as well as in that relating to substitute Auditors. Furthermore, the Articles of Association provide that if the application of the voting list process does not ensure, considering the serving Auditors and the substitute Auditors separately, the minimum number of Auditors belonging to the less represented gender envisaged by the law and/or pro tempore regulation in force, the candidate belonging to the most represented and elected gender, indicated with the highest progressive number of each section in the list that has reported the highest number of votes, will be replaced by the candidate belonging to the less represented and unelected gender, taken from the same section of the same list according to the progressive submission order.

Outgoing Auditors are re-eligible.

In view of the above, the Board of Directors invites those shareholders who intend to submit lists for the election of members of the Board of Statutory Auditors to comply with the aforementioned provisions, recommending in this regard that the first two candidates of each section of the list are of different genders.

The Company will make available to the public the lists of candidates submitted, accompanied by the information required by the applicable regulations, at its registered office, the authorised storage process and by publication on the website www.pirelli.com, in the appropriate section dedicated to the Meeting.

Finally, we invite shareholders who intend to submit lists for the appointment of members of the Board of Statutory Auditors to view the specific documentation published on the Company's website www.pirelli.com and, in particular, the recommendations contained in Consob communication no. DEM/9017893 of 26 February 2009 and the current Consob provisions regarding the limits on the aggregation of offices of the members of the supervisory bodies of listed companies.

In addition to the appointment of the Board of Statutory Auditors, it is also necessary to decide on the allocation of the gross annual salary due to the members of the Board of Statutory Auditors, currently set at 75,000 euro for the Chairman of the Board of Statutory Auditors and 50,000 euro for each of the serving Auditors (the member of the Board of Statutory Auditors called to be part of the Supervisory Body of the Company is now allocated an additional salary of 40,000 euro).

In determining the salary to be attributed to the members of the Board of Statutory Auditors, we invite you, as already happened on the occasion of the previous renewal of the supervisory body, to *consider - in addition to what is envisaged by the current regulatory provisions regarding the responsibilities of the Board of Statutory Auditors - also the additional tasks assigned to this body by Legislative Decree of January 27 2010 no. 39 containing the "Implementation of Directive 2006/43/EC on statutory audits of annual and consolidated accounts and of the fact that pursuant*

to art. 6, paragraph 4-*bis*, of Legislative Decree of 8 June 2011 no. 231 containing the “Provisions on the administrative liability of legal persons, companies and associations, including those without legal personality, pursuant to Article 11 of the Law of 29 September 2000, no. 300” the functions of Supervisory Body envisaged by the aforementioned legislative decree can be attributed to the Board of Statutory Auditors.

Finally, it is recalled that the serving Auditors participate in the meetings of the Board of Directors and its members (in whole or in part) are invited to participate in the Committees established within the Board.

In view of the aforementioned, the Board of Directors, pursuant to and in compliance with the Company Articles of Association and the regulations applicable to the matter, invites you to submit lists of candidates for the appointment of the members of the Board of Statutory Auditors and proposals concerning the determination of the relative salaries and to resolve on:

- the appointment of the members of the Board of Statutory Auditors (five serving Auditors and three substitute Auditors) for the financial years 2018, 2019 and 2020, by voting the lists of candidates submitted;
- the appointment of the Chairman of the Board of Statutory Auditors, unless it is possible to proceed with his/her identification in accordance with the provisions of the Articles of Association;
- the determination of the salary due to the members of the Board of Statutory Auditors.

BOARD OF STATUTORY AUDITORS

Article 16

16.1 The Board of Statutory Auditors shall be composed of five effective and three alternate auditors, who must be in possession of the requisites established under applicable laws and regulations; to this end, it shall be borne in mind that the fields and sectors of business closely connected with those of the Company are those stated in the Company's purpose, with particular reference to companies or corporations operating in the financial, industrial, banking, insurance and real estate sectors and in the services field in general.

16.2 The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its remuneration. The minority shareholders shall be entitled to appoint one effective auditor and one alternate auditor.

16.3 The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of paragraph 17 of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.

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

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

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

16.7 The slates of candidates, which must be undersigned by the parties submitting them, shall be filed in the Company's registered office at least twenty five days prior to the date set for the shareholders' meeting that is required to decide upon the appointment of the members of the Board of Statutory Auditors, except for those cases in which the law and/or the regulation provide an extension of the deadline. They are made available to the public at the registered office, on the Company website and in the other ways specified by Commissione Nazionale per la Società e la Borsa regulations at least 21 days before the date of the general meeting.

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

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

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

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

16.9 Each candidate may appear on only one slate, on penalty of losing the right to be elected.

16.10 The slates shall be divided into two sections: one for candidates for the position of standing Auditor and one for candidates for the position of alternate Auditor. The first candidate listed in each section must be selected from among the persons enrolled in the Register of Auditors who have worked on statutory audits for a period of no less than three years. In compliance with the current provisions relating to gender balance, slates that - taking account of both sections - present a number of candidates equal to or exceeding three, must include candidates of each gender both in the section for standing statutory auditors and in the section for alternates.

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

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

- a) four effective members and two alternate members shall be chosen from the slate which obtains the highest number of votes (known as the majority slate), in the consecutive order in which they are listed thereon;
- b) the remaining standing member and the other alternate member shall be chosen from the slate which obtains the highest number of votes cast by the shareholders after the first slate (known as the minority slate), in the consecutive order in which they are listed thereon; if several slates obtain the same number of votes, a new vote between said slates will be cast by all those entitled to vote attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

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

16.14 If, considering the standing statutory auditor and the alternates statutory auditors separately, the application of the slate voting procedure fails to secure the minimum number of statutory auditors of the less represented gender as required by law and/or regulation in force at the time, the appointed candidate of the more represented gender indicated with the higher progressive number in each section of the slate that attracts most votes shall be substituted by the non-appointed candidate of the less represented gender drawn from the same section of the same slate on the basis of their progressive order of presentation.

16.15 The position of a standing auditor which falls vacant due to his/her death, forfeiture or resignation shall be filled by the first alternate auditor chosen from the same slate as the former. If filling the position in this way fails produce a composition of the Board of Statutory Auditors that complies with the rules in force even on gender balance, the position will be filled by the second alternate auditor drawn from the same slate. If, subsequently, there is a need to substitute another statutory auditor from the same slate that obtained most votes, the other alternate auditor drawn from the same slate shall fill the position, whatever the outcome. In the event of the replacement of the Chairman of the Board of Statutory Auditors, the chair shall pertain to the statutory auditor of the same slate as the outgoing Chairman, following the order contained in the slate, subject in all cases to observance of the requirements in law and/or in the Company By-laws for holding that office and to compliance with gender balance as provided by law and/or regulation currently in force; if it proves impossible to

effect substitutions and replacements under the foregoing procedures, a shareholders' meeting shall be called to complete the Board of Statutory Auditors which shall adopt resolutions by relative majority vote.

16.16 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, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time; 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, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time.

The principle of necessary representation of minorities shall be considered complied with in the event of the appointment of Statutory Auditors nominated before in the minority slate or in slates different other than the one which obtained the highest number of votes in the context of the appointment of the Board of Statutory Auditors.

16.17 In case only one slate has been presented, the shareholders' meeting shall vote on it; if the slate obtains the relative majority of the share capital, the candidates listed in the respective section shall be appointed to the office of standing auditors and alternate auditors; the candidate listed at the first place in the slate shall be appointed as Chairman of the Board of Statutory Auditors.

16.18 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, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time.

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

16.20 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.