



**Pirelli & C. S.p.A.**

## **Reports to the Shareholders' Meeting**

### **Board of Statutory Auditors**

- **appointment of standing and alternate auditors;**
- **appointment of the Chairman;**
- **determination of remuneration of auditors**

(Approved by the Board of Directors on March 31, 2015)

Dear Shareholders,

with the approval of the annual financial report as at December 31, 2014, the mandate of the Board of Auditors of Pirelli & C. S.p.A., appointed by the Shareholders' Meeting May 10, 2012 for the period 2012-2014 will hereby expire.

Currently the Standing Auditors are Mr. Francesco Fallacara (Chairman of the Board of Auditors), Prof. Antonella Carù and Mr. Umile Sebastiano Iacovino, already Alternate Auditor, who replaced pursuant to the By-laws prof. Enrico Laghi, who resigned on June 12, 2014; however, Mr. Andrea Lorenzatti holds the office of Alternate auditor.

The Shareholders' Meeting is therefore called pursuant to the laws and regulations applicable and art. 16 of the By-laws (fully outlined below in this report) to:

- appoint three Standing Auditors and three Alternate Auditors;
- appoint the Chairman of the Board, if unidentifiable following the application of the voting slate mechanism;
- determine the remuneration of the members of the Board of Auditors.

The appointment of standing and alternate Auditors will be by voting list.

In this regard it is noted that shareholders who, alone or together with other shareholders, represent at least 1% of the share capital entitled to vote at the ordinary Shareholders' Meeting are entitled to submit slates (minimum threshold set by the By-laws, identical to that established by Consob Resolution no. 19109 of January 28, 2015).

The slates of candidates - signed by the shareholders who submit them, with details of their identity and the percentage of shares they hold overall in the ordinary share capital of the Company - must be filed at the registered office of the Company at least twenty-five days before the date fixed for the Shareholders' Meeting.

Shareholders may also submit slates of candidates by sending them along with supporting documentation to the following certified e-mail: [assemblea@pec.pirelli.it](mailto:assemblea@pec.pirelli.it).

If within the above term only one slate is submitted, or only slates submitted by shareholders who are inter-connected, under the laws and regulations applicable, additional slates may be submitted until the third day after the deadline for submission of slates (twenty-five days before the Shareholders' Meeting). In this case, the thresholds required for their submission are reduced by half, equal, therefore, to 0.5% of the share capital entitled to vote at the ordinary Shareholders' Meeting.

Ownership of the total shareholding is attested, under the current regulatory provisions, even after the filing of slates, provided at least 21 days prior to the Shareholders' Meeting.

The slates of candidates must be divided into two distinct sections: the first section provides an indication of the candidates (marked with a progressive number) for the office of Standing Auditor, while the second section contains the indication of the candidates (marked with a progressive number) for the office of Alternate Auditor. The first candidate in each section must be selected from among those registered in the Register of Statutory Auditors who have exercised statutory audits for a period not less than three years. In compliance with the By-laws and regulations in force concerning gender balance, the slates that, considering both sections, have a number of candidates equal to or greater than three, must include candidates of different genders in both the section of the slate relative to the Standing Auditors, and in that relating to Alternate Auditors.

Each slate must also be accompanied by the documentation required by art. 16 of the By-laws and the laws and regulations applicable. In particular, together with each slate, acceptances of candidacy must be filed by the individual candidates and declarations in which the same attest, under their own responsibility, the absence of reasons for ineligibility and incompatibility, and the existence of requirements to take office. The declarations must be filed for each candidate with a *curriculum vitae* containing detailed information on the personal and professional characteristics with the indication - including as an attachment - of the positions of administration and control held at other companies.

It should be noted that - according to the Code of Conduct for Listed Companies, to which the Company has adhered - statutory auditors must be chosen from among persons who also qualify as independent based on the criteria provided by this Code for Directors and, therefore, those who are entitled and wish to submit slates are invited to take this into account when identifying the candidates to be proposed.

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

Slates submitted without complying with the provisions of article 16 of the By-laws will be disregarded.

If only one slate is submitted, the Shareholders' Meeting shall vote on it and, if the slate obtains the relative majority, candidates indicated in the respective sections of the slate shall be elected Standing and Alternate Auditors; the chairmanship of the

Board of Auditors, in this case, shall be entitled to the first person indicated in the slate.

However, if two or more slates are submitted, the election of members of the Board of Auditors shall be as follows:

- two standing and two alternate members are taken from the slate that received the most votes (majority slate) in the progressive order in which they appear in the slate;
- the remaining standing auditor and the other alternate auditor are taken from the slate that received at the Shareholders' Meeting the most votes after the first (minority slate) in the progressive order in which they appear in the slate; In case more slates have obtained the same number of votes, a new vote is held between these slates by all eligible voters present at the meeting and the candidates are elected from the slate that will get a simple majority of votes.

In case of submission of two slates the Chairmanship of the Board of Auditors shall be entitled to the standing member listed as the first candidate in the minority slate.

If no slates of candidates have been submitted the Shareholders' Meeting will appoint the Board of Auditors with the legal majority, without prejudice, however, to compliance with the rules on gender balance.

In this regard, it should be recalled that the law no.120 of July 12, 2011 introduced gender quotas for the composition of the administrative and control bodies of listed companies, establishing that such companies must ensure, for at least three consecutive mandates, compliance with an allocation criteria between genders in the corporate bodies. In fact, at least one third of the Directors and Standing Auditors elected must belong to the least represented gender.

However, the Legislature established that the first renewal of the administrative and control body one year from the date of entry into force of the aforementioned law (therefore starting from August 12, 2012), the portion of the less represented gender within the newly-appointed body shall be at least one-fifth of the Directors and Standing Auditors elected.

Therefore, in order to ensure gender balance, art. 16 of the By-laws states that the slates that, considering both sections, have a number of candidates equal to or greater than three, must include candidates of different genders in both the section of the slate relative to the Standing Auditors, and in that relating to Alternate Auditors. It should also be recalled that as it is the first renewal of the Board of Statutory Auditors from the entry into force of said law, the portion of the less

represented gender must be at least equal to one-fifth of the Auditors elected. The By-laws also provides that if the application of the voting slates mechanism does not ensure, separately considering Standing Auditors and Alternate Auditors, the minimum number of Auditors belonging to the less represented gender provided by legislation and/or regulations currently in force, the candidate belonging to the most represented gender and elected, indicated with the highest progressive number of each section in the slate that received the most votes will be replaced by the candidate belonging to the less represented gender and not elected, taken from the same section of the same slate in the order of presentation.

By reason of the foregoing, the Board of Directors invites shareholders who intend to submit slates for the election of members of the Board of Auditors to comply with the aforementioned provisions recommending in this regard that the first two candidates in each section of the list are of different gender.

The Company will provide the public with the slates of candidates submitted, together with the information required by applicable regulation, at its headquarters, at Borsa Italiana S.p.A (Italian Stock Exchange) and the authorized storage mechanism and by publication on the website [www.pirelli.com](http://www.pirelli.com).

Finally, we invite shareholders who wish to submit slates for the appointment of members of the Board of Auditors to read the appropriate documentation published on the Company's website [www.pirelli.com](http://www.pirelli.com) and, in particular, the recommendations contained in Consob communication no. DEM/9017893 of February 26, 2009.

In addition to the appointment of the Board of Auditors, it is also necessary to resolve on the allocation of the gross annual remuneration to members of the Board of Auditors, currently set at 75 thousand euros for the Chairman of the Board and 50 thousand euros for each of the Statutory Auditors (for the Statutory Auditor called to be part of the Company's Supervisory Body today an additional 25 thousand euros is attributed).

In determining the remuneration of the members of the Board of Auditors, we invite you, however, as was done on the occasion of the appointment of 2012, to also take into account the other duties entrusted to this body by legislative decree January 27, 2010 no. 39 on "Implementation of Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts and the fact that pursuant to art. 6, paragraph 4-bis of Legislative Decree June 8, 2011 no. 231 on "Discipline of administrative liability of legal persons, companies and associations also without legal attribution, in accordance with article 11 of the Law of September 29, 2000 no.

300" the Board of Auditors can be assigned the functions of Supervisory Body provided by the said legislative decree.

Given the above, the Board of Directors, pursuant to and in compliance with the By-laws and the rules and regulations applicable in this regard invites you to submit slates of candidates for the appointment of members of the Board of Auditors as well as proposals for the determination of their compensation and resolve on:

- the appointment of members of the Board of Auditors (three Standing and three Alternate Auditors) for the years 2015, 2016 and 2017, by means of voting of the slates of candidates submitted;
- the appointment of the Chairman of the Board of Auditors, unless identification cannot be feasible in accordance with the By-laws;
- the determination of the remuneration entitled to the members of the Board of Auditors.

## **By-laws - Article 16**

**16.1** The Board of Statutory Auditors shall be composed of three standing 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 standing 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 pain of ineligibility.

**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) two standing 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.