



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

**SHAREHOLDERS' MEETING 10 MAY 2012**

**Reports of the Board of Directors  
and proposals of resolution**

**Appointment of the Board of Statutory Auditors**

## **BOARD OF STATUTORY AUDITORS**

- ✓ **appointment of standing and alternate members;**
- ✓ **appointment of Chairman;**
- ✓ **determination of members' fees.**

Shareholders,

The term of the Board of Statutory Auditors of Pirelli & C. S.p.A., appointed by the Shareholders' Meeting on April 21, 2009 for the three-year period 2009-2011, will expire upon approval of the Annual Financial Report at December 31, 2011.

The current members of the Board of Statutory Auditors are: Mr Enrico Laghi (Chairman); Prof. Paolo Gualtieri and Prof. Paolo Domenico Sfameni (standing Statutory Auditors); Mr Franco Ghiringhelli and Mr Luigi Guerra (Alternate Auditors).

Therefore, the Shareholders' Meeting is asked, pursuant to applicable laws and regulations and Article 16 of the Company Bylaws (copied in full at the end of this report) to:

- appoint three standing Statutory Auditors and two Alternate Auditors;
- appoint the Chairman of the Board of Statutory Auditors, if it is not possible to select him by applying the voting list mechanism;
- determine the fees for members of the Board of Statutory Auditors.

The standing and alternate Statutory Auditors shall be elected by using the voting list mechanism.

Those entitled to submit lists are shareholders who, either singly or together with other shareholders, represent at least 1.5% of the share capital and are entitled to vote at the Ordinary Shareholders' Meeting (maximum threshold envisaged by the Company Bylaws and identical to the threshold established by Consob in Resolution no. 18083 of January 25, 2012).

The candidate lists – signed by the Shareholders that submit them, with indication of their identity and aggregate percentage of shareholding of Company common stock – must be filed at the Company head office at least twenty-five days before the date scheduled for the Shareholders' Meeting.

The Shareholders may file the candidate lists by sending them and the related supporting documents to the following certified e-mail address: [assemblea@pec.pirelli.it](mailto:assemblea@pec.pirelli.it).

If just one list has been submitted by the aforementioned deadline, or only lists that are related to each other pursuant to applicable laws and regulations, additional lists may be submitted up to the third day after that date; in this case, the threshold of 1.5% previously indicated for submission of lists is reduced to 0.75%.

Pursuant to applicable regulations, ownership of the aggregate shareholding must be certified either before or after submission of the lists, but no later than 21 days before the date of the Shareholders' Meeting.

The candidate lists must be broken down into two separate sections: the first section contains the names of the candidates (marked by a progressive number) for the position of Statutory Auditor, while the second section contains the names of the candidates (marked by a progressive number) for the position of Alternate Auditor. The first candidate listed in each section must be entered in the Register of Statutory Auditors who have at least three years of experience as statutory auditors of accounts.

Each list must be accompanied by the documents required pursuant to Article 16 of the Company Bylaws, and by applicable laws and regulations.

In particular, each list must be filed together with the individual candidates' acceptance of their candidacy and statements in which they certify, under their own responsibility, that they are not ineligible or incompatible, and that they satisfy the prerequisites for assuming the position. Together with their statements, a curriculum vitae for each candidate must be filed, containing detailed disclosure of their personal and professional characteristics and indication of the management and supervisory positions held at other companies.

Pursuant to the Corporate Governance Code of Listed Companies, which has been adopted by the Company, it must be possible to qualify the chosen Statutory Auditors as independent on the basis of, inter alia, the criteria set out in the Corporate Governance Code in regard to Directors. Therefore, those who are entitled and wish to submit candidate lists are asked to take account of those criteria when they choose their candidates.

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

The lists that are submitted without complying with the provisions set out in Article 16 of the Company Bylaws shall be considered as not submitted.

If just one list is submitted, the Shareholders' Meeting shall vote on it and, if the list receives a relative majority of votes, the candidates included in the respective sections of the list are elected as standing Statutory Auditors and Alternate Auditors. In this case, the Chairman of the Board of Statutory Auditors shall be the person indicated at the top of that list.

Instead, if two or more lists are submitted, the members of the Board of Statutory Auditors shall be elected as follows:

- two standing Statutory Auditors and one Alternate Auditor shall be elected from the list that received the greatest number of votes (the “majority list”), in the order that they are named on that list;
- the remaining standing Statutory Auditor and the other Alternate Auditor shall be elected from the list that received the highest number of votes at the Shareholders’ Meeting after the first list (the “minority list”); if several lists have received the same number of votes, these lists will be subject to a new round of voting by all qualified voters present at the Shareholders' Meeting, with the candidates on the list that receives a simple majority of the votes being elected.

If two lists are submitted, the Chairman of the Board of Statutory Auditors shall be the standing Statutory Auditor named as the first candidate on the minority list.

Also note that Law 120 of July 12, 2011 amended the clauses of the Consolidated Finance Law (Legislative Decree 58/1998, or “TUF”) governing the composition of management bodies (Art. 147-ter) and supervisory bodies (Art. 148), and consequently established that when it comes into full force, at least one third of the seats in the company bodies be held by the least represented gender and, upon first-time application, at least one fifth of the seats be held by the least represented gender. The new clauses will be applied beginning with the first renewal of the management and supervisory bodies one year after the law enters into force; therefore, beginning with the shareholders’ meetings called to resolve on renewal of the company bodies after August 12, 2012).

Moreover, upon first-time application (i.e. upon the first renewal after the law enters into force), at least one fifth (and not one third) of the Director and Statutory Auditor seats shall be reserved for the least represented gender.

On the basis of the foregoing considerations, the Board of Directors asks the shareholders who wish to submit lists for election of members to the Board of Statutory Auditors to take the aforementioned provisions into account, even if they are not yet applicable to this renewal.

The Company shall provide the public with the lists of the candidates that might be submitted, together with the information required pursuant to applicable laws and regulations, at its own head office and at Borsa Italiana S.p.A., and by publication on the website [www.pirelli.com](http://www.pirelli.com).

The Shareholders that wish to submit lists for appointment of members to the Board of Statutory Auditors are asked to review the specific documentation published on the Company website [www.pirelli.com](http://www.pirelli.com) and, in particular, the recommendations set out in Consob Notice no. DEM/9017893 of February 26, 2009.

In addition to appointment of the Board of Statutory Auditors, it is also necessary to resolve on allocation of the annual fee payable to members of the Board of Statutory Auditors, which is currently set in the amount of euro 62 thousand for the Chairman of the Board of Statutory Auditors and euro 42.5 thousand for each of the standing Statutory Auditors. The Board of Statutory Auditors member assigned to the Company Compliance Programme Supervisory Body is currently entitled to additional compensation of euro 25 thousand.

When determining the fees to be paid to members of the Board of Statutory Auditors, we also ask that you consider the additional duties assigned to this body by Legislative Decree 39 of January 2, 2010, entitled “Implementation of Directive 2006/43/EC, regarding statutory audits of the annual accounts and consolidated accounts, in amendment to Directives 78/660/EEC and 83/349/EEC, and which abrogates Directive 84/253/EEC” and the circumstance that pursuant to the recently amended Article 6 subsection 4-bis of Legislative Decree 231 of 8 June 2011, entitled “Regulation of the administrative liability of legal entities, companies and associations, whether or not they are legal entities, pursuant to Article 11 of Law 300 of September 29, 2000”, the Board of Statutory Auditors may be assigned the functions of Compliance Programme Supervisory Body as envisaged in the cited legislative decree.

On the basis of all the foregoing, the Board of Directors, pursuant to and in compliance with the provisions of the applicable Company Bylaws, the law and regulations, we ask you to submit lists of candidates to be elected as members of the Board of Statutory Auditors and proposals concerning determination of their fees, and resolve on:

- appointment of the members of the Board of Statutory Auditors (three standing Statutory Auditors and two Alternate Auditors) by voting on any candidate lists that might have been submitted;
- appointment of the Chairman of the Board of Statutory Auditors, although he or she may not be chosen pursuant to the Company Bylaws;
- determination of the fees owed to members of the Board of Statutory Auditors.

## **Bylaws - Article 16**

16.1 The Board of Statutory Auditors shall be composed of three standing and two 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 1,5 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 to be held on first or single call 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.

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 one alternate member 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 The position of a standing auditor which falls vacant due to his/her death, forfeiture or resignation shall be filled by the alternate auditor chosen from the same slate as the former. In the event of the replacement of the Chairman of the Board of Statutory Auditors, the chair shall pertain to the candidate listed in the same slate of the former Chairman, following the order contained in the list; 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.

16.15 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; 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.

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.

16.16 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.

16.17 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.

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

16.19 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.