



**Procedure on the flows of information  
to Directors and Auditors**

**Approved by the Board of Directors  
of Pirelli & C. S.p.A. on April 21, 2011**

## **1. Introduction**

1.1 - The completeness of the information available to the directors is an essential condition for correct management of the authorities and responsibilities of management, policy-making and control of the activity of Pirelli & C. S.p.A. (hereinafter "Pirelli" or "the Company") and the Group.

1.2 - Similar adequate information is due to the Board of Statutory Auditors.

1.3 - In compliance with the legal provisions (art. 150 of Legislative Decree 58/1998, hereinafter "Finance Consolidated Act", and art. 2381, paragraph 5 of the Italian Civil Code) and of the provisions of the Articles of Association (article 11), Directors and Auditors are recipients of an ongoing flow of information from the executive Directors, who are coordinated for this purpose by the Chairman of the Board of Directors who avails himself of the Secretary of the Board of Directors of the Company if necessary.

1.4 - The purpose of this procedure is to regulate said flow of information in order to:

- ensure transparency of the management of the enterprise;
- ensure the conditions for an effective and real policy-making and control action on the activity of the Company and on the management of the enterprise by the Board of Directors;
- provide the Board of Statutory Auditors with the cognitive tools necessary for an efficient execution of its supervisory role.

## **2. Terms and conditions**

2.1 - The flow of information to the Directors and Auditors is preferably ensured by the sending of documents and, in particular:

- reports, explanatory notes, memorandums, presentations, *reports* drawn up by offices and consultants of the Company, including those prepared in view of or on the occasion of board meetings;
- other documentation, whether or not it is public, available for the Company;
- company accounting documentation of the period to be published;

- relevant supplementary quarterly *report* with information supplied *aliunde*, drawn up on the basis of a special outline.

2.2 - The aforesaid documentation is set to Directors and Auditors promptly, and however:

- frequently enough to ensure compliance with the information obligations according to the law and the Articles of Association;
- according to rates consistent with the scheduling of the single board meetings.

2.3 - The information conveyed with the conditions above are supplemented (and when necessary replaced where required by reasons of confidentiality) by the explanation given orally by the Chairman, the executive Directors and members of Group *management* at board meetings or specific informal meetings open to the attendance of Directors and Auditors, organised to study topics of interest referring to the management of the enterprise in-depth.

2.4 - The sending of documents and any other material to Directors and Auditors is coordinated by the Secretary of the Board of Directors of the Company, in agreement with the Executive in charge of drawing up corporate accounting documents, as far as it concerns him.

2.5 - In any case, Directors and Auditors are recipients of the information Pirelli publishes pursuant to the rules and regulation on the subject of corporate reporting (such as press releases and information documents) and investment incentive (prospectuses however named).

### **3. Contents**

3.1 - In addition to the topics set aside for the examination and/or approval of the Board of Directors of the Company pursuant to the law and Articles of Association, the flow of information to Directors and Auditors contains information concerning:

- the general course of business and its foreseeable development;
- the business carried on, with particular reference to the operations (i) of greater strategic, economic, financial and equity importance, (ii) with related and (iii) atypical or unusual parties;
- the instructions given in performing the management and coordination activity pursuant to articles 2497 et seq. of the Italian Civil Code;

- all further activities, operations or events judged advisable to bring to the attention of Directors and Auditors.

#### **4. Course and development of business**

4.1 - The report on the general course of business concerns the business carried by the Group.

4.2 – This is considered not only in terms of taking final stock of the result and comparing it with the industrial and *budget* forecasts, but also in a strategic prospective of planning and policy.

4.3 – The course and development of business are usually examined by the Board of Directors of the Company at board meetings called to approve the financial reports pursuant to art. 154-ter of the Finance Consolidation Act (annual financial statement, half-yearly financial statement and interim reports). The results achieved are compared:

- with the historical data (properly reconstructed as a matter of form so they can be compared in homogeneous terms);
- with the *budget* goals, specifying the causes for any deviations, also in order to assess their impacts on the strategic or forecast goals and/or on the *forecast* data concerning subsequent periods;
- with the general trend of the sector and of the *peers* for *benchmarking* purposes.

#### **5. Activity carried on**

5.1 - The general report on the activity carried on regards: (i) the executive activities and the developments of operations already approved by the Board of Directors, (ii) the activities performed by the executive Directors - also through structures of the Company and its subsidiaries - in exercising proxies received and (iii) the work of the committees formed within the Board of Directors.

5.2 - The general report on the activity carried on is completed with a specific detailed report regarding:

- the operations of greater strategic, economic, financial and equity importance;
- the atypical or unusual operations;

- the operations with related parties.

## **6. Operations of greater strategic, economic, financial and equity importance**

6.1 – The Board of Directors of the Company - without prejudice to (i) the authorities and powers reserved for it by the law and the Articles of Association, (ii) the structure of the proxies and (iii) the internal corporate procedures - has established general criteria, both quantitative and qualitative, to identify the operations - not intragroup - that when put into effect by Pirelli or by companies (even foreign and unlisted) that it controls and that are subject to the carrying on of its direction and coordination activity require prior approval by the Board of Directors of the Company.

6.2 – The operations included in the definitions contained in the “General criteria for identifying operations of greater strategic, economic, equity or financial significance” - established by the Board of Directors of the Company (available on the Pirelli website) - whose values are equal to or higher than half of those specified in the above-stated general criteria established by the Board are the object of flows of information according to what is described hereunder.

6.3 – The report on the operations described under paragraph 2 of this article highlights (i) the strategic aims, (ii) the consistency with the *budget* and with the industrial plan, (iii) the terms of execution (including the terms and conditions, financial as well, of their attainment), and (iv) the developments and any conditionings and implications that said operations entail or could affect the activity of the Pirelli Group.

6.4 - Those operations that, although they are individually lower than the quantitative thresholds indicated, prove to be linked within the same strategic project or executive programme and therefore pass the thresholds of significance when considered as a whole.

## **7. Atypical or unusual operations**

7.1 – The operations that fall within routine *business* are considered typical, that is to say they are coessential with the production cycle and the characteristic exchange of the enterprise cycle. The operations practical for satisfying ordinary

needs, that is to say needs that normally recur in the management of the enterprise, are instead usual.

7.2 - In any case, an operation cannot be termed either typical or usual when in actual fact has particular critical elements due to the specific characteristics and/or risks pertaining to the nature of the counterparty or to the time of its completion.

7.3 - The report on atypical or unusual operations points out the underlying interest and explains the terms of execution (including the terms and conditions, even economic, of their realization) with particular regard to the procedures of valuation followed.

## **8. Management and coordination**

8.1 - The report on the actions of carrying on the management and coordination activity provides:

- the strategic aims, with particular reference to the entrepreneurial interest that justifies them and to the result pursued;
- the terms of execution (including the terms and conditions, also economic, of their realization), with specific regard to the valuation procedures followed;
- the conditionings and implications, if any, on running the social enterprise, also with reference to the *budget* and industrial plan.

8.2 - Subsequent updated information is provided on the influenced operations in order to assess the overall result of the management and coordination activity.

## **9. Operations with related parties**

9.1 - As far as the report on operations with related parties (hereinafter "OPC") is concerned - as it is defined by the Procedure for operations with related parties (hereinafter "OPC Procedure") adopted by the Company and published on the Pirelli website - the following information is reported to Directors and Auditors (already provided in part by the OPC Procedure):

- Non-intragroup OPC of a value higher than Euro 500,000, even if "ordinary" and/or "at market conditions";

- state of execution of the less significant OPCs<sup>1</sup> carried out by the Company or by its subsidiaries<sup>2</sup>;
- state of execution of the more significant OPCs<sup>3</sup> approved by the Board of Directors<sup>4</sup>;
- OPCs implemented pursuant to any "framework resolutions" adopted by the Company;
- OPCs implemented "in case of urgency" according to what is established in the OPC procedure;

and also

- intragroup operations (meaning those operations implemented by Pirelli with companies it controls or between companies that it controls) of a value higher than Euro 50 million.

For each of these operations the following are indicated: (i) purpose, (ii) value, (iii) date operation is concluded, (iv) identity of the counterparty (and, if necessary, Group it belongs to) and (v) type of correlation (distinguishing between operations implemented directly by Pirelli and operations implemented by subsidiaries).

## **10. Collection of information**

10.1 - In order to provide an adequate flow of information to Directors and Auditors, the information must reach the Chairman and Managing Directors (if appointed) according to the procedure indicated hereunder.

10.2 – The General Managers and Managers of *Business Units* / Central Functions / Operating Activities of Pirelli that report directly to the Chairman of the Board of Directors and to the Managing Directors (so-called "Top Executives") report the activity carried out during the period from their relevant structures with a special memo to the Finance Management. Particular note is made (i) of the operations of greater strategic, economic, equity or financial significance as defined under foregoing article 6, (ii) of the atypical or unusual operations, as defined under

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<sup>1</sup> Operations other than the more significant OPCs and the OPCs of a meagre amount are less significant OPCs.

<sup>2</sup> Flow of information provided by art. 7, paragraph 1, subparagraph f) of the OPC regulation.

<sup>3</sup> Operations that exceed the thresholds envisaged by annex 1 to the OPC procedure are more significant OPCs.

<sup>4</sup> Flow of information provided by art. 8, paragraph 1 of the OPC regulation.

foregoing article 7 and (iii) of the OPCs according to the provisions of foregoing article 9.

Also the operations that even though they are lower than the quantitative thresholds previously specified or than those that determine the sole competence of the Board of Directors are connected to each other within the scope of a single strategic or executive structure, and must therefore be considered on the whole as greater than the thresholds of significance, must be notified.

The Finance Manager sends the information received from the Top Executives to the Chairman of the Board of Directors who, with the help of the Secretary of the Board of Directors, guarantees the flow of information to the Directors and Auditors.

In general, a report of the activities carried out by the committees established within the Board of Directors is supplied alternatively via one of the following procedures: (i) report on the occasion of one of the subsequent board meeting, (ii) period report to the Board of Directors or (iii) *report* as described under article 2.1 above.