Remuneration Report

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Introduction

This Remuneration Report ("**Report**") is broken down into two sections:

- Section I: Remuneration Policy for the 2013 financial year ("**2013 Policy**") and
- Section II: Remuneration Statement for 2012 financial year ("**2012 Statement**").

The Report has been prepared pursuant to Article 123-ter of the Consolidated Finance Law and Article 84-*quater* of the Consob Issuers Regulation (as amended by Consob Resolution no. 18049 of December 23, 2011). It was drafted in light of the recommendations issued by the European Commission on April 30, 2009 in regard to the remuneration of directors at listed companies (2009/385/EC) and Article 6 of the Corporate Governance Code of Borsa Italiana S.p.A., as amended in December 2011, which has been adopted by Pirelli.

The Report has also been adopted pursuant to Article 14 of the Procedure for Related Party Transactions approved by the Company Board of Directors on November 3, 2010.

The 2013 Policy sets out the principles and guidelines followed by Pirelli to (i) determine and (ii) monitor the application of pay practices, as illustrated below, in regard to:

- Directors holding special offices, the General Managers and the Managers with strategic responsibilities of Pirelli & C.;
- the Senior Managers and Executives of the Group.

The 2012 Statement, a disclosure submitted to the Shareholders' Meeting, provides a comprehensive account of remuneration in 2012 financial year that illustrates its consistency with the Remuneration Policy approved by the Company the previous year.

To facilitate comprehension and reading the Report, a glossary of certain frequently used terms is provided as follows:

Directors holding special offices: the Directors of Pirelli & C. that hold the position of Chairman and Chief Executive Officer and Deputy Chairman of Pirelli & C.; these directors may also be delegated specific duties. The Directors holding special offices at other Pirelli companies who are also Group executives (unless otherwise resolved by the Board of Directors of Pirelli & C. qualifying them as “Managers with strategic responsibilities”) are Executives or Senior Managers for the purposes of this Policy and according to the position held.

Directors not holding special offices: these are all Directors of Pirelli & C. other than the Directors holding special offices. The Directors at other Pirelli companies who are also Group executives (unless otherwise resolved by the Board of Directors of Pirelli & C. qualifying them as “Managers with strategic responsibilities”) are Executives or Senior Managers for the purposes of this Policy and according to the position held.

Target-based Annual Total Direct Compensation: the sum of the following components, regardless of whether they are paid by Pirelli & C. or by other Group companies: (i) the gross annual fixed component of remuneration; (ii) the annual variable component that the beneficiary would receive if he or she achieves the targets; (iii) annualisation of the variable medium-long term component (the so-called LTI) that the beneficiary would receive on achievement of the annual and medium-long term targets***.***

Remuneration Committee: the Remuneration Committee of Pirelli & C.

Board of Directors: the Board of Directors of Pirelli & C.

General Managers: the persons appointed by the Board of Directors of Pirelli & C. and having broad authority for management of business units. The General Managers at other Pirelli companies (unless otherwise resolved by the Board of Directors of Pirelli & C. qualifying them as “Managers with strategic responsibilities”) are Executives or Senior Managers for the purposes of this Policy and according to the position held.

Managers with strategic responsibilities: the managers identified by the

Board of Directors of Pirelli & C. who have the authority or responsibility to plan and control the Company's activities or to take decisions which may affect the development or future prospects of the Company and, more in general, of Pirelli.

Executives: executives of the Pirelli companies in Italy or employees at the foreign companies of the Group having a position or role equivalent to that of an Italian executive.

Pirelli Group or Pirelli: all the companies included in the scope of consolidation of Pirelli & C. S.p.A.

Management: all the Directors holding special offices, the General Managers, the Managers with strategic responsibilities, the senior managers and the executives.

MBO: the annual variable component of remuneration that is based on the achievement of pre-set business objectives, as illustrated below in section 5.

LTI Plan: the Long Term Incentive Cash Plan illustrated below in section 5.

GAS: the gross annual fixed component of remuneration of the employees of any Pirelli Group company.

Senior Managers: the managers to whom report (i) the Directors holding special offices and who are assigned specific functions and (ii) the General Managers whose activities have a significant impact on business results.

Company: Pirelli & C. S.p.A.

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Remuneration Policy
for 2013

1. <u>Principles and examination of risks</u>

The 2013 Policy has been prepared on the basis of last year's Policy and reflects the regulatory provisions adopted by Consob in Resolution no. 18049 of November 23, 2011 and the adoption of the 2012-2014 Long Term Cash Incentive Plan "launched" last year by Pirelli and approved by the

Shareholders' Meeting held on May 10, 2012. This Plan envisages, inter alia, that part of the incentive is determined on the basis of a Total Shareholder Return target calculated as Pirelli's performance compared to the FTSE/MIB Index Total Return - calculated periodically by FTSE and available in the database of Borsa Italiana - as well as in relation to an index composed of selected peers of the Tyre sector.

Approval of the 2012/2014 LTI Plan was accompanied by adjustment of the compensation paid to Directors holding special offices, and particularly the Chairman and Chief Executive Office in the terms that will be illustrated below. Furthermore, the new Long Term Cash Incentive Plan now also includes non-financial objectives, in accordance with the Recommendations of the European Commission.

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The Company defines and applies a Remuneration Policy targeting particularly attractive top management and Senior Managers, aiming at the top 25% of the employment market (as measured by the commonly used benchmark), and in line with market practise for the Executives, so as to attract, motivate and retain the resources having the professional skills necessary for successful pursuit of Pirelli Group objectives.

The Policy is defined in such a way as to align Management interests with those of Shareholders, pursuing the primary objective of creating sustainable value in the medium-long term through the creation of an effective and verifiable link between compensation, on the one hand, and individual and Group performance on the other.

The structure of Management remuneration, defined with the assistance of firms specialising in executive compensation and on the basis of international benchmarks, is composed of three principal elements:

- fixed component: for Directors holding special offices, the fixed component is set by the Board of Directors when they are appointed and for their entire term, in an aggregate annual amount, and thus including any fixed components for other positions that they hold at the Pirelli Group.

For the rest of Management, the fixed component is set when they are hired and may be periodically revised to take account of the performance, assumption of new responsibilities, and market salary trends for the type of position held by the individual;

- an annual variable component (MBO): this is a pre-determined percentage of the fixed component, with percentages that rise according to the position held and considering the benchmarks for each figure. If the targets are achieved this percentage can range from a minimum of 20% for Executives to a maximum of 100% for the Directors holding a special office who have been assigned specific functions. According to the beneficiary, it is designed to reward the annual performance of the Group, the company and/or the business unit to which he or she belongs. Moreover, a limit has been set for the maximum MBO that can be realised, which (i) for the Executives and Senior Managers is equal to double the attainable target bonus, (ii) for the Managers with strategic responsibilities, it is 150% of the GAS, (iii) for the General Managers it is 200% of the GAS, and (iv) for the Directors holding special offices and assigned specific functions, it is 250% of the fixed component for the principal officer (in the case of Mr Tronchetti Provera, his position held at Pirelli Tyre).

  Please refer to section 5, “MBO and LIT Plan” for a more detailed description of the function of the annual variable component.
- the medium-long term variable component (LTI Plan): this too is set as a percentage of the fixed component and is aimed at rewarding Group performance during the three-year period 2012-2014. Just like the MBO bonus, a limit is imposed on the maximum realisable amount for the LTI.

  The current LTI plan is based on two components: the “pure” LTI Bonus and the co-investment LTI Bonus (for a description of the function of the variable medium-long term component, please see section 5).

The variable remuneration of Management is based on short and medium-long term targets sent in the annual and three-year Business plans announced to the market. In this regard, note that the risk management process is now fully integrated in the strategic planning process. This guarantees that the objectives set for realisation of the variable bonus do not expose Pirelli to managerial conduct inconsistent with an acceptable level of risk ("risk appetite") defined by the Board of Directors when it approves the Plans.

A meeting of the Committee for Internal Control, Risks and Corporate Governance was held in the framework of the process to determine the annual objectives for the company and for the group referred to 2013 which are quantified in the budget, the Chairman of the Remuneration Committee was invited to attend the foregoing meeting in order to adopt the MBO objectives for 2013 referred to the Chairman and Chief Executive Officer and the Managers with Strategic Responsibilities.

Management remuneration is then structured in such a way as to assure balance among its components.

In particular, major weight is given to the variable component (with the medium-long term component prevailing). If the set targets are met, this component represents:

- no less than 50% of the Target-based Annual Total Direct Compensation for the Chairman and Chief Executive Officer, the General Managers and the Managers with strategic responsibilities;
- no less than 40% for Senior Managers, and lastly,
- no less than 30% of that parameter for Executives.

A significant portion of the annual variable remuneration for 2012 and 2013 (50% of the MBO) is deferred; of this 50%, half (i.e. 25% of the accrued MBO) is paid at the end of the three-year period 2012-2014, regardless of the accumulated results actually realised during the three-year period; payment of the other half, instead, is conditioned on achievement of the medium-long term objectives (please see section 5 for an analytical description of how the incentive mechanisms work).

The definition of a mix of targets, including non-financial targets, for the medium-long term variable portion avoids the preponderant weight of a single performance target. Moreover, the existence of targets for achieving a significant part of the LTI incentive based on accumulated financial parameters for the three-year period avoids conduct aimed solely at the realisation of short-term objectives to qualify for the annual bonus.

For the other components of remuneration (retirement bonuses-TFM, not-to-compete clauses, non-monetary benefits) granted to the various members of Management, please see the sections that describe the remuneration structure for each category.

2. <u>Process for definition and implementation of the Policy and parties involved</u>

Definition of the Policy is the result of a clear and transparent process in which the Remuneration Committee and the Board of Directors play a key role.

On motion by the Remuneration Committee, the Board of Directors adopts:

- the Policy and
- the "Criteria for Application of the General Remuneration Policy" ("**Application Criteria**").

The Policy is submitted by the Remunerations Committee to the Board of Directors for approval every year.

After reviewing and approving the Policy, the Board of Directors submits it to the advisory vote of the Shareholders' Meeting.

The Board of Statutory Auditors gives its own opinion on the Policy, particularly in the part concerning Directors holding special offices.

The Remuneration Committee, the Board of Statutory Auditors and the Board of Directors supervise its application. For this reason, the Senior Advisor for Human Resources and/or the Human Resources and Organisation Manager report(s) on compliance with the Policy and its Application Criteria to the Remuneration Committee at least once annually, upon presentation of the Remuneration Statement.

The 2013 Policy – which has been approved by the Remuneration Committee, and then approved by the Board of Directors, after obtaining the favourable opinion of the Board of Directors at its meeting on March 11, 2013 – is submitted for examination and advisory vote by the Shareholders' Meeting.

For the sake of thoroughness, note that pursuant to applicable laws, the Board of Directors has the prerogative of adopting (or if envisaged by law, propose to the Shareholders' Meeting) incentive mechanisms involving the grant of financial instruments or stock options, which if approved are published at the latest in the annual Remuneration Statement (without prejudice to any other disclosure obligations imposed by applicable laws and regulations). At the date of this Report, the Company does not have any stock option plans in place.

3. Remuneration Committee

Composition.

The Corporate Governance system adopted by Pirelli & C. since 2000 envisages the establishment of a Remuneration Committee.

The Committee has four members, all of whom are independent, on the basis of the most rigorous approach recommended by the Corporate Governance Code issued by Borsa Italiana in December 2011. The 2006 version of the Corporate Governance Code (that was applicable on the date the Committee in office was set up) recommended that the Remuneration Committee be composed only of directors without executive authority, and of whom "only" the majority were to be independent.

The Remuneration Committee is appointed by the Board of Directors (which also appoints its Chairman), and its term lasts as long as the term of the Board of Directors.

The Remuneration Committee, all of whose members were appointed after appointment of the new Board of Directors on April 21, 2011, is composed of the following individuals:

- Carlo Acutis (Chairman);
- Anna Maria Artoni;
- Pietro Guindani;
- Luigi Roth.

Three members of the Committee (Carlo Acutis, Anna Maria Artoni and Pietro Guindani) have adequate experience in financial and remuneration matters, as determined by the Board of Directors when they were appointed.

The entire Board of Statutory Auditors may participate in the activities of the Remuneration Committee.

The Secretary of the Board of Directors acts as Secretary of the Remuneration Committee.

<u>Duties of the Remuneration Committee</u>

The Remuneration Committee has advisory, policy making and supervisory functions to assure definition and application within the Group of remuneration policies aimed, on the one hand, at attracting, motivating and retaining resources having the professional skills necessary to profitably pursue Group objectives and, on the other hand, aligning Management and Shareholders interests.

In particular, the Remuneration Committee:

- ❖ assists the Board of Directors in defining the General Remuneration Policy of the Group and its Application Criteria;
- ❖ periodically assesses the adequacy, overall consistency and concrete application of the General Remuneration Policy and Application Criteria;
- ❖ makes proposals to the Board of Directors in regard to Directors holding special offices, the General Managers and the Managers with strategic responsibilities and concerning:
    - o their remuneration, consistently with the General Remuneration Policy and Application Criteria;
    - o establishment of performance targets related to the variable component of their remuneration;
    - o the definition of any not-to-compete clauses;

  - o definition of any agreements for termination of the relationship, including on the basis of the principles set out in the General Remuneration Policy and the Application Criteria;

- ❖ assists the Board of Directors in examining proposals by the Shareholders' Meeting on adoption of share-based compensation plans;
- ❖ monitors application of the decisions taken by the Board of Directors, verifying in particular the effective achievement of established performance targets;
- ❖ examines and submits the Annual Remuneration Report to the Board of Directors; referring to the individual members of the Board of Directors, the Board of Statutory Auditors, the General Managers and the Managers with strategic responsibilities, this Report:
  a) adequately presents each item that composes remuneration;
  b) analytically illustrates the compensation paid during the reference year for any reason and in any form by the Company and by its subsidiaries.

The Board of Directors then delegated the responsibilities of the Committee for Related Party Transactions established by Consob regulations to the Internal Control, Risks and Corporate Governance Committee, with the sole exception of issues concerning the remuneration of Directors and Manager with strategic responsibilities delegated to the Remuneration Committee.

<u>Functioning.</u>

The Remuneration Committee meets whenever its Chairman deems appropriate, or on request by at least one of its members, the Chairman of the Board of Directors or, if designated, by the Chief Executive Officer and, in any event, as frequently as necessary for properly performing its duties.

The Remuneration Committee meetings are attended by the entire Board of Statutory Auditors[1] and – if deemed appropriate and on invitation by the Remuneration Committee – other representatives of the Company and/or the

[1] This circumstances characterises the corporate governance rules adopted by the Company and offers the entire Board of Statutory Auditors the possibility of directly monitoring Committee activities and performing its delegated supervisory functions more effectively.

Group as well as the Independent Auditor. The Group General Counsel and Senior Advisor for Human Resources also attend all meetings.

In accordance with the recommendations of the Corporate Governance Code and best practices, the Directors holding special offices do not attend Remuneration Committee meetings.

The Remuneration Committee meetings are called with notices sent by, inter alia, the Secretary, as delegated by the Chairman of the Remuneration Committee.

The available documentation and information (or, at any rate, those that are necessary) are sent to all members of the Remuneration Committee sufficiently in advance of the meeting for them to express their opinions.

A majority of current members must be present for the Remuneration Committee meeting to have a quorum, and its decisions are approved by an absolute majority of the members who are present. Remuneration Committee meetings may be held by means of telecommunication systems and are regularly recorded in minutes by the Secretary and transcribed in the specific register of minutes.

The Remuneration Committee – which may avail itself of external consultants for performing its functions – possesses adequate financial resources for discharging its duties and has absolutely independent spending authority.

The Remuneration Committee may access material corporate information and functions to discharge its duties, availing itself of the Secretary's assistance for this purpose.

For a more detailed description of the activities performed in 2011 by the Remuneration Committee, please refer to the Report on Corporate Governance and Structure of Share Ownership for 2011.

4. <u>Contents of the 2013 Policy</u>

As previously mentioned, the Policy defines principles and guidelines that:

(i) the Board of Directors refers to for defining the remuneration:

- of Directors of Pirelli & C. and, in particular, the Directors holding special offices;

- of the General Managers;
- of the Managers with strategic responsibilities;

(ii) Pirelli refers to for defining the remuneration of Senior Managers and Group Executives in general.

5. MBO and LTI Plan

The annual variable component (MBO) remunerates the beneficiary's performance on an annual basis.

The annual variable component is based on the achievement of a financial condition of access (the so-called "on/off condition"), which in 2013 (as in the past) is also linked to the net financial (liquidity)/debt position reported at the end of the financial year.

The bonus is instead calculated on the basis of different objectives according to the position held by the beneficiary.

The MBO targets for Directors holding special offices and who are assigned specific functions, for the General Managers and for Managers with strategic responsibilities, are set by the Board of Directors on proposal by the Remuneration Committee, and are linked to the annual performance of the Group. In 2013, as in the previous year, the target for these figures is based on the quantitative benchmark of annual profitability (Group PBIT).

With the support of the Remuneration Committee, the Board of Directors audits the fulfilment of these targets at the end of the financial year on the basis of full-year performance.

The MBOs of Senior Managers and Executives are defined instead by their hierarchical superiors in collaboration with the Group Human Resources and Organisation Department and with the Group Management Control Department. In contrast with the treatment of top management, these persons may be set targets linked to the operating performance of their specific unit/function as well as qualitative/quantitative targets linked to specific parameters of individual performance.

The Group's Human Resources and Organisation Department audits the fulfilment of these targets at the end of the financial year on the basis of full-year performance.

A cap is set on the maximum bonus payable if the targets are exceeded, with this cap varying according to the position held and in relation to the benchmarks applicable to each individual.

In particular, in the case of MBOs granted to Directors holding special offices and who are assigned specific functions, the maximum bonus cannot be more than 2.5 times the gross annual fixed component for the principal executive position (in the case of Mr Tronchetti Provera, his position held at Pirelli Tyre), while for the General Managers it cannot be more than 2 times greater than GAS. In the case of Managers with strategic responsibilities, the maximum bonus cannot be more than 1.5 times greater than their GAS. Finally, the maximum bonus for Senior Managers and Executives cannot be more than 2 times greater than the target-based bonus.

Payment of 50% of the MBO that might be accrued in 2012 and 2013 is deferred, and part of it (50%) is conditioned on attainment of the targets set in the LTI Plan. Partly in view of furthering the attainment of medium-long term interests, since 2009 the Group has adopted a medium-long term incentive system based on achieve of the objectives set out in the three-year plan.

In March 2012, considering the launch of a "new" three-year Business Plan for 2012-2014 with significantly more challenging targets than the challenging ones already set in the 2011-2013 Business Plan, it was decided to terminate the 2011-2013 LTI Plan prematurely by proposing the simultaneous launch of a "new" LTI Plan linked to the objectives of the "new" Business Plan.

The 2012-2014 LTI Plan is open to all of Management (except for specific cases, for example, the managers of the Internal Audit function) and may also be extended to those who join Group management during the three-year period and/or assume the position of Executive for internal career growth. In this case, participation is conditioned on enrolment in the Plan for at least one whole financial year, and the bonus percentages are pro-rated according to the number of months of participation in the Plan.

The 2012-2014 LTI Plan is broken down into 2 components:

(i) the "**pure LTI Bonus**": conditioned on fulfilment of the three-year targets and determined as a percentage of the gross annual fixed component/GAS received by the beneficiary at the established Plan vesting date. This bonus percentage rises according to the position held and considering the benchmarks applicable to each individual.
The maximum pure LTI Bonus cannot be more than 1.5 times the bonus that may be received if the targets are met.
If the targets are missed, the beneficiary is not vested, not even on a pro-rated basis, for distribution of the pure LTI Bonus;

(ii) the "**co-investment LTI Bonus**": similarly to past Plans, this includes a mechanism for "co-investment" of a portion of the MBO. The participant in the LTI Plan "co-invests" 50% of his 2012 and 2013 MBO (hereinafter, the "**co-invested MBO**").
Given the operating rules of the LTI Plan, half of the "co-invested MBO" is not subject to additional performance targets, and may thus be qualified as "**deferred MBO**."
Payment of the other half is conditioned instead on fulfilment of the three-year targets and is thus a variable medium-long term component. If the targets are met, in addition to returning the co-invested MBO in full, the Plan participant is entitled to it being increased by between 50% and 125%. This supplement that (together with 50% of the co-invested MBO payment of which is subordinated to fulfilment of the three-year targets) represents the "**LTI coinvestment bonus"** and is applicable for 50% of the co-invested MBO on

achieving the three-year targets; the variation in the supplement (up to 125% of the co-invested MBO) is based instead on additional medium-long term targets.

Like the previous Plans, the 2012-2014 LTI Plan includes a financial access condition comprised by the net cash flow of the Group accumulated over the three-year period. Another condition for access to the pure LTI Bonus consists of attainment of the value creation target, which also determines access to the target-based LTI coinvestment Bonus.

The 2012-2014 LTI Plan introduces several innovations from previous Plans in regard to the medium-long term objectives and the metrics used to measure them.

In particular:

- The following two types of targets and related weights are established for the **pure LTI Bonus**:
  - "**Target-based value creation objective**" that measures the capacity of the company to create value over the medium-long term considering the profitability of ordinary operations compared with the amount of invested capital and its cost. In particular, this target is equal to the difference between NOPAT (Net Operating Profit After Tax) and the weighted average cost of capital plus working capital.

    Fulfilment of the Target-based Value Creation Objective (determined by considering a cumulated EBIT for the three-year period corresponding to the amount set in the Three-year Business Plan) qualifies the beneficiary to receive 100% of the pure LTI bonus.

    Two thirds of the difference between the target-based pure LTI bonus and the maximum pure LTI bonus will be determined by the improvement in the value creation result.

The remaining one third of the difference between the pure LTI bonus and the maximum LTI bonus is determined on the basis of a Total Shareholder Return target calculated as performance of the Pirelli stock compared with (i) the FTSE/MIB Index Total Return, periodically calculated by FTSE and present on the database of Borsa Italiana and (ii) the index composed of selected peers in the tyre sector. The prospectus provided for the Shareholders' Meeting held on 10th May 2012 and currently available on the Company website contains more detailed information on application of the Total Shareholder Return target.

- For the **LTI co-investment bonus component**:

    - fulfilment of the target-based value creation objective results in returning the co-invested MBO in full and its supplement of 50%;
    - the supplement of the co-invested MBO may reach a maximum of 125% on condition of satisfaction of two other objectives, unrelated to each other:
        1) two thirds of the incremental difference between the supplement of 50% of the co-invested MBO and the supplement of 125% of the co-invested MBO are calculated in relation to improvement in the average return on sales target result for the three-year period 2012-2014 ("**ROS 2012-2014**"), which is the weighted average of the ratio between operating income net of restructuring expenses and consolidated net sales accumulated during the three-year period net of non-recurring transactions.

        2) the remaining one third of the difference between the supplement of 50% of the co-invested MBO and the supplement of 125% of the co-invested MBO is calculated on

the basis of a **Sustainability indicator** in relation to the position of Pirelli in the following indices: (i) Dow Jones Sustainability Index, Autoparts and Tyre segment, and (ii) FTSE4Good Tyre.

- if the target-based value creation objective is not met, the LTI Plan participant is entitled to return of half of the co-invested MBO (only returning the quota of the co-invested MBO not subject to three-year period performance conditions – deferred MBO as defined above).

The costs for the entire LTI bonus are included in the Three-year Business Plan targets, so that the cost of the LTI plan is “self-financed” by fulfilment of the targets themselves.

The LTI Plan also promotes employee retention. If the individual’s term in office and/or employment relationship should end for any cause before the end of the three-year period, the beneficiary’s participation in the Plan terminates and consequently the pure LTI bonus will not be paid, not even on a pro-rated basis.

The portion of co-invested MBO not subject to performance conditions (i.e. deferred MBO) will be returned only if the Manager’s employment relationship is terminated for no fault of his own (and thus including natural events and demerger of the Manager’s company from the Group).

For the Directors holding special offices and assigned specific functions (which is the case of the Chairman and Chief Executive Officer, Mr Tronchetti Provera) who leave office upon expiry of their term or for no fault of their own (and thus including natural events), the co-invested MBO shall be returned in full and its 150% supplement while, as previously mentioned, the pure LTI bonus will not be paid, not even on a pro-rated basis.

6. <u>Remuneration of Directors of Pirelli & C.</u>

The Board of Directors is composed of:

(i) Directors holding special offices who may also be assigned specific functions;

(ii) Directors not holding special offices.

The delegation of authority to Directors only in urgent situations is insufficient to qualify them as Directors assigned specific functions.

At December 31, 2012:

- the Directors holding special offices were the Chairman of the Board of Directors and Chief Executive Officer Marco Tronchetti Provera and the Deputy Chairmen Vittorio Malacalza and Alberto Pirelli; the Chairman was also assigned specific functions (for more details, please refer to the Report on Corporate Governance and the Structure of Share Owners);
- the Directors not holding special offices were: Carlo Acutis; Anna Maria Artoni; Gilberto Benetton; Alberto Bombassei; Franco Bruni; Luigi Campiglio; Pietro Guindani; Mario Greco; Giulia Maria Ligresti; Elisabetta Magistretti; Massimo Moratti; Renato Pagliaro; Luigi Roth; Carlo Salvatori; Carlo Secchi.

In 2012 the following Directors left office: (i) on May 25, 2012: Mr. Giuseppe Vita (appointed to substitute Mr. Enrico Tommaso Cucchiani on the Board of Directors on March 1, 2012 and confirmed by the Shareholders' Meeting held on May 10, 2012; (ii) on July 23, 2012 Mr. Giovanni Perissinotto, (iii) lastly, Prof. Paolo Ferro-Luzzi died on November 11, 2012.

On April 21, 2011 Pirelli Shareholders' Meeting that appointed the Board of Directors also approved compensation pursuant to Article 2389(1) Italian Civil Code in an aggregate amount for remuneration of the Directors, while delegating the Board of Directors the task of allocating it.

In particular, the Shareholders' Meeting approved aggregate gross annual compensation of euro 1.7 million, which was subsequently allocated by the Board of Directors as follows:

- to each Director: euro 50 thousand gross annual compensation;
- the Chairman of the Internal Control, Risks and Corporate Governance

Committee: euro 40 thousand gross annual compensation;

- to the other members of the Internal Control, Risks and Corporate Governance Committee: euro 30 thousand gross annual compensation;
- to the Chairman of the Remuneration Committee: euro 25 thousand gross annual compensation;
- to the other members of the Remuneration Committee: euro 20 thousand gross annual compensation;
- to the members of the Strategies Committee: euro 25 thousand gross annual compensation, except for the Chairman and Chief Executive Officer, the General Manager and the Company managers assigned to it, for whom no compensation is envisaged;
- to the members of the Nominations and Succession Committee: euro 20 thousand gross annual compensation, except for the Chairman.

Annual gross compensation of euro 25 thousand was then allocated to the Director belonging to the Compliance Programme Supervisory Body.

In accordance with best practices, no variable compensation was granted to Directors not holding special offices (as defined hereinabove).

Please refer to the 2011 Report for the aggregate compensation granted by the Shareholders' Meeting and its allocation during the previous term (and applied until April 21, 2011).

The Directors are also entitled to reimbursement of the expenses they incur on official business.

Also in accordance with best practices, the Company implements an insurance policy called D&O (Directors & Officers) Liability covering the third party liability of corporate bodies, General Managers, Managers with strategic responsibilities, Senior Managers and Executives in the performance of their functions. The purpose of this policy is to indemnify Pirelli for the cost of any compensatory damages deriving from the relevant provisions of the applicable national collective bargaining agreement and the laws and regulations governing appointed positions, with exclusion of wilful misconduct and gross negligence.

No insurance, social security or pension coverage other than mandatory coverage is envisaged for Directors not holding special offices.

7. Remuneration of Directors holding special offices

At the time of their appointment or at the first meeting thereafter, the Remuneration Committee proposes the remuneration package for Directors holding special offices to the Board of Directors.

The remuneration package of Directors holding special offices and **who have been assigned specific functions** consists of the following elements:

- a gross annual fixed component;
- an annual variable component that is based on the achievement of pre-set business objectives (i.e. MBO), part of which (50%) is deferred; of this part, half is not subject to fulfilment of the LTI Plan targets (deferred MBO), the other part is instead subject to them (co-investment LTI)
- a variable medium-long term component (i.e. LTI).

At the time of their appointment, the fixed component for Directors holding special offices who have been assigned specific functions is approved by the Board of Directors for their entire term, in an aggregate annual amount that also takes the other positions they hold at the Pirelli Group into account.

The remuneration package of Directors holding special offices and who have been assigned specific functions is determined on the basis of the following criteria:

a. the fixed component represents no more than 50% of the target-based annual total direct compensation;
b. the (annual) target-based MBO is a pre-determined percentage of the fixed salary for their principal executive position (in the case of Mr Tronchetti Provera, the position he holds at Pirelli Tyre), which is generally not less than 100% of that compensation. In any case, the maximum bonus cannot be more than 2.5 times of that compensation;
c. the medium-long term variable, target-based, annualised component (LTI) represents at least 50% of the aggregate variable component (target-based MBO and target-based LTI Bonus). The “pure LTI Bonus” is also subject to a cap, in the amount of 1.5 times the target-based bonus.

In 2012, the structure of the remuneration paid to the Chairman and Chief Executive Officer (Mr Marco Tronchetti Provera) was modified following his waiver of a significant portion (about 20%) of the gross annual fixed salary set for the positions he holds, while attributing greater weight to the variable components.

In particular, the fixed component was adjusted until the end of his term as follows:

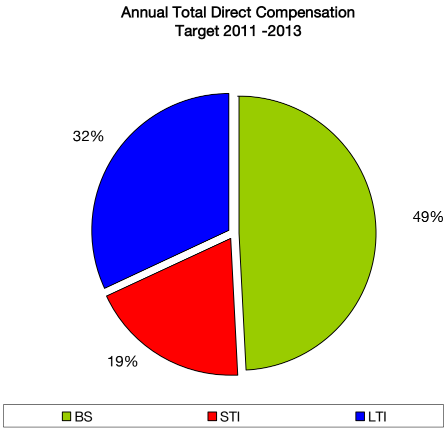
- for the position held at Pirelli & C., a fixed gross salary of euro 900 thousand was set, in addition to his compensation as member of the Board of Directors (euro 50 thousand gross);
- for the position held at Pirelli Tyre S.p.A., he was granted a fixed gross salary of euro 2 million and variable compensation, based on the criteria described above.

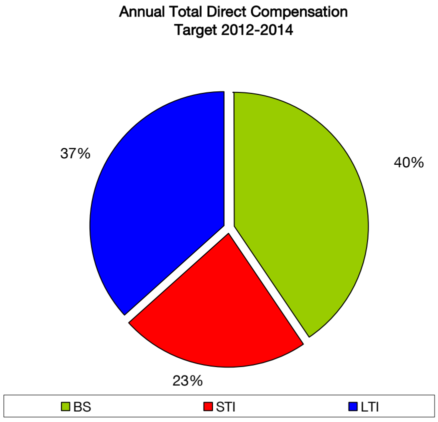
In regard to the impact of the various components of the compensation package, if the annual targets envisaged by the MBO 2012[2], 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled, the structure of the target-based annual total direct compensation of the Chairman and Chief Executive Officer during the three-year period would be as follows:

- fixed component: 40%;
- total variable component: 60% of which:
    - o annual (MBO) 23% of the annual total direct compensation (equal to about 38% of the total variable component);
    - o medium-long term (co-investment LTI Bonus and pure LTI Bonus) 37% of the annual total direct compensation (equal to about 62% of the total variable component).

[2] It is important to note that - despite the fact that the consolidated operating earnings after deducting restructuring charges, exceeding euro 780 million (compared to the target indicated last November of "approximately euro 800 million") increased by more than 34% compared to euro 581.9 million at the end of 2011 with a profitability in terms of revenues that increased by more than two percentage points to the record annual level of 12.9 % from 10.3 % referred to the same period in 2011 - the failure to achieve the access condition established for the MBO 2012 targets envisaged for the Executive Directors, for General Managers and for Managers with Strategic Responsibilities, no MBO was paid to the persons holding these positions in relation to the 2012 financial year. In any event, the attainment of the target-based and maximum objectives is considered however (in a figurative form) for the purposes of representing the theoretical compensation mix and for reasons of comparison with the market.

The following graphic shows the comparison between the breakdown of the target-based annual total direct compensation over the three-year period before and after modification of the remuneration package described above.





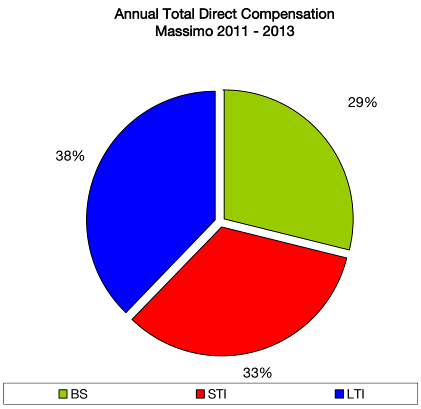
Key:
BS: fixed component;
STI: annual variable component;
LTI: medium-long term variable component

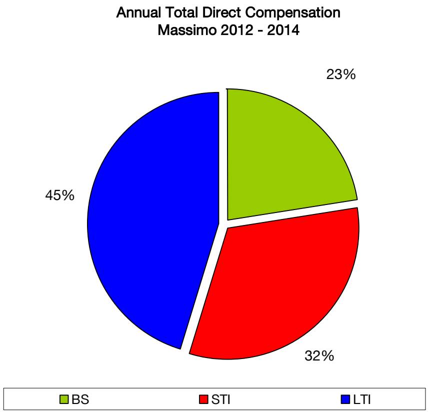
If both the annual[3] and three-year maximum targets are achieved the structure of the annual total direct compensation during the three-year period would be as follows:

- fixed component: 23%;
- total variable component: 77% of which:
    - variable component based on annual results (MBO) equal to 32% of the annual total direct compensation (equal to about 41% of the total variable component);
    - variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 45% of the annual total direct compensation (equal to about 59% of the total variable component).

[3] Refer to previous note

The following graphic shows the comparison between the breakdown over the three-year period of the target-based annual total direct compensation in the event of fulfilment of both the annual and three-year targets before and after modification of the remuneration package described above.





Key:
BS: fixed component;
STI: annual variable component;
LTI: medium-long term variable component

For more details in regard to the incentive plans, please refer to section 5 "MBO and LTI Plan."

For the Directors holding special offices and assigned specific functions (at December 31, 2012, the Chairman and Chief Executive Officer, Mr Marco Tronchetti Provera), if they are not bound by managerial employment relationships, the Board of Directors has envisaged, analogously to what is guaranteed by law and/or the National Collective Bargaining Agreement in favour of the Group's Italian managers:

- a Retirement Bonus ("Trattamento di Fine Mandato" - T.F.M.) pursuant to Article 17(1)(c) of the Consolidated Income Tax Law ("T.U.I.R.") no. 917/1986 with characteristics similar to those of the Employee Benefit Obligations ("Trattamento di Fine Rapporto" –TFR) pursuant to Article

2120 Italian Civil Code, granted by law to the Italian managers of the Group and including the contributions to be paid by the employer which would be due to social security institutions or funds in the case of a management contract with the Group.

- a policy (i) against personal accidents they might suffer while performing their official duties and (ii) accidents unrelated to work with the premiums charged to the Company; for the latter accidents, the associated social security and tax charges are paid by the Company;
- benefits for permanent disability and death due to disease;
- additional benefits typical of their office and currently granted within the Group to Managers with strategic responsibilities and/or to Senior Managers (company car).

If the Director holds special offices but has not been assigned specific functions (at December 31, 2012, this was the case of the Deputy Chairmen Vittorio Malacalza and Mr Alberto Pirelli), their remuneration as Directors consists solely of the annual fixed gross component. If the Director holding a special office is also an Executive/Senior Manager (Mr Alberto Pirelli), his remuneration is determined on the basis of the criteria envisaged in the Policy according to the position held. This part too is subject to examination by the Remuneration Committee and the Board of Directors.

No insurance, social security or pension coverage other than mandatory coverage is envisaged for Directors holding special offices who have not been assigned specific functions.

According to Group policy, discretionary bonuses are not paid to Directors holding special offices. On proposal by the Remuneration Committee, the Board of Directors may grant bonuses to these individuals in relation to specific transactions that are deemed exceptional in terms of their strategic importance and impact on the results of the Company and/or the Group. The Directors holding special offices have not been granted bonuses of this type during the past three years.

The Remuneration Committee and the Board of Directors analyse the position, composition and competitiveness of the remuneration paid to directors holding special offices. They perform these analyses with the assistance of independent firms specialising in executive compensation. Within the typical limits of benchmark analyses, these firms use methods designed for thorough assessment of the complexity of roles in organisational terms, the specific functions assigned to them, and the impact of individuals on final business results.

In particular, different parameters (sector, geography, etc.) are used to define the annually updated panel of benchmark companies.

The benchmark sampling of companies used to analyse competitivity and to revise the remuneration of the Chairman and Chief Executive Officer of Pirelli & C. in 2013 was comprised of eight companies in the Car and Tyre segment, on the one hand, and by 27 European “Large Cap” companies, on the other hand.

8. The Board of Statutory Auditors

The Shareholders’ Meeting sets a fixed annual amount for remuneration of the Board of Statutory Auditors. In particular, at the date the Board of Auditors was renewed in the 2012 financial year the fixed annual gross amount payable to the Chairman was set at euro 75 thousand and the amount payable to the members of the Board of Auditors was set at euro 50 thousand. In the previous term (that ended with the Shareholders' Meeting held on April 21, 2011) the Chairman of the Board of Auditors was paid a fixed annual gross amount equal to euro 62 thousand and each member of the Board of Auditors was paid euro 42.5 thousand.

After appointing the current Statutory Auditor assigned to the Compliance Programme Supervisory Body, the Board of Directors set his gross annual compensation in the amount of euro 25 thousand.

The Statutory Auditors are also entitled to reimbursement of the expenses they incur on official business.

In accordance with best practices, the Company implements an insurance policy called D&O (Directors & Officers) Liability covering the third party liability of corporate bodies, General Managers, Managers with strategic responsibilities, Senior Managers and Executives in the performance of their functions. The purpose of this policy is to indemnify Pirelli for the cost of any compensatory damages deriving from the relevant provisions of the applicable national collective bargaining agreement and the laws and regulations governing appointed positions, with exclusion of wilful misconduct and gross negligence.

9. General Managers and Managers with strategic responsibilities

At December 31, 2012, Pirelli & C. had three Managers with strategic responsibilities (Mr Francesco Chiappetta; Mr Francesco Tanzi; Mr Maurizio Sala), as, on May 10, 2012 Mr. Francesco Gori[4] resigned as General Manager of Pirelli & C. and General Manager and Chief Executive Officer of Pirelli Tyre S.p.A.

The remuneration of the General Managers and Managers with strategic responsibilities is composed of the following elements:

- a gross annual fixed component;
- an annual variable component that is based on the achievement of pre-set business objectives (i.e. MBO), part of which (50%) is deferred; of this part, half is not subject to fulfilment of the LTI Plan targets (deferred MBO), the other part is instead subject to them (co-investment LTI);
- a variable medium-long term component (i.e. LTI);

[4] The 2012 Policy is available on the Pirelli Internet website and details the structure of the remuneration attributed to Mr. Gori, the remuneration structure details are omitted in this document, since the principles and guidelines to determine the remuneration of General Managers are reported.

- benefits typically granted to Pirelli Executives.

Furthermore, the following is envisaged for the General Managers and Managers with strategic responsibilities (analogously to what is provided for Senior Managers and Executives with an employment contract in accordance with Italian law):

- supplemental retirement plans that obligate the employer company to pay an amount equal to 4% of the gross annual remuneration received to a pension fund, up to a maximum gross amount of euro 150 thousand;
- Supplemental health and life insurance in addition to what is prescribed by the National Collective Bargaining Agreement for Companies that Produce Goods and Services.

The fixed component for General Managers and Executives with strategic responsibilities is determined when they are hired and periodically revised according to their performance, as resolved by the Board of Directors on proposal by the Remuneration Committee.

When determining the remuneration of its individual members, the Board of Directors considers the following criteria:

a. the fixed component represents no more than 50% of the target-based annual total direct compensation;
b. the annual MBO incentive for General Managers is a pre-set, weighted, target-based percentage of the GAS in an amount of no less than 90% of that compensation and, for Managers with strategic responsibilities, no less than 40% of their gross annual remuneration. A cap is set on the annual MBO that can be received, and once again is a pre-set percentage of GAS. This is 200% in the case of the General Manager and 150% in the case of Managers with strategic responsibilities;
c. the annualised, target-based variable medium-long term component (LTI) accounts for no less than 50% of the aggregate variable component (target-based MBO and target-based LTI). The “pure LTI Bonus” is also subject to a cap, in the amount of 1.5 times the target-based bonus.

Managers with strategic responsibilities:

1) For Mr Francesco Chiappetta: the fixed component is currently set in the aggregate gross amount of euro 800 thousand.

In regard to the impact of the various components of his compensation package, if the annual targets envisaged by the MBO 2012[5], 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled, the structure of the target-based annual total direct compensation during the three-year period would be as follows:

- fixed component: 40%;
- total variable component: 60% of which:
  - annual (MBO) 14% of the annual total direct compensation (equal to about 23% of the total variable component);
  - medium-long term (co-investment LTI Bonus and pure LTI Bonus) 46% of the annual total direct compensation (equal to about 77% of the total variable component).

If both the annual[6] and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

- fixed component: 22%;
- total variable component: 78% of which:
  - variable component based on annual results (MBO) equal to 27% of the annual total direct compensation (equal to about 34% of the total variable component);
  - variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 51% of the annual total direct compensation (equal to about 66% of the total variable component).

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[5] Refer to note 2

[6] Refer to note 2

2) For Mr Francesco Tanzi: the fixed component is currently set in the aggregate gross amount of euro 500 thousand.

In regard to the impact of the various components of his compensation package, if the annual targets envisaged by the MBO 2012[7], 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled, the structure of the target-based annual total direct compensation during the three-year period would be as follows:

- fixed component: 47%;
- total variable component: 53% of which:
  - o annual (MBO) 16% of the annual total direct compensation (equal to about 29% of the total variable component);
  - o medium-long term (co-investment LTI Bonus and pure LTI Bonus) 37% of the annual total direct compensation (equal to about 71% of the total variable component).

If both the annual[8] and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

- fixed component: 24%;
- total variable component: 76% of which:
  - o variable component based on annual results (MBO) equal to 30% of the annual total direct compensation (equal to about 40% of the total variable component);
  - o variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 46% of the annual total direct compensation (equal to about 60% of the total variable component).

3) For Mr Maurizio Sala: the fixed component is currently set in the aggregate

[7] Refer to note 2
[8] Refer to note 2

gross amount of euro 450 thousand.

In regard to the impact of the various components of his compensation package, if the annual targets envisaged by the MBO 2012[9], 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled, the structure of the target-based annual total direct compensation during the three-year period would be as follows:

- fixed component: 47%;
- total variable component: 53% of which:
  - annual (MBO) 16% of the annual total direct compensation (equal to about 29% of the total variable component);
  - medium-long term (co-investment LTI Bonus and pure LTI Bonus) 37% of the annual total direct compensation (equal to about 71% of the total variable component).

If both the annual[10] and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

- fixed component: 24%;
- total variable component: 76% of which:
  - variable component based on annual results (MBO) equal to 30% of the annual total direct compensation (equal to about 40% of the total variable component);
  - variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 46% of the annual total direct compensation (equal to about 60% of the total variable component).

Group policy does not allow awarding discretionary bonuses to the General Managers and Managers with strategic responsibilities. On proposal by the Remuneration Committee, the Board of Directors may grant bonuses to

[9] Refer to note 2
[10] Refer to note 2

these individuals in relation to specific transactions that are exceptional in terms of their strategic importance and impact on the results of the Company and/or the Group. The General Managers and Managers with strategic responsibilities have not been granted bonuses of this type during the past three years.

The process for definition of the remuneration of General Managers is analogous to that illustrated for the Directors holding special offices.

In regard to the Managers with strategic responsibilities, the Remuneration Committee assesses the consistency of their remuneration with the Policy.

The remuneration of General Managers and Managers with strategic responsibilities is also analysed with the assistance of independent firms specialising in executive compensation. Definition of this remuneration is revised annually and published on occasion of the annual Remuneration Statement.

In particular, different parameters (sector, geography, etc.) are used to define the annually updated panel of benchmark companies.

In regard to Managers with strategic responsibilities the benchmark market used in 2013 to verify the competitiveness of the respective remunerations includes 210 companies in the following European countries: Belgium, France, Germany, Italy, Spain, Netherlands and the United Kingdom.

10. Senior Managers and Executives

The remuneration of Senior Managers and Executives in general is composed of the following elements:

- a gross annual fixed component (i.e. GAS);
- an annual variable component that is based on the achievement of pre-set business objectives (i.e. MBO), part of which (50%) is deferred; of this part, half is not subject to fulfilment of the LTI Plan targets (deferred MBO), the other part is instead subject to them (co-investment LTI);
- a variable medium-long term component (i.e. LTI).
- benefits recognised by business practice (e.g. company car and, in the

case of foreign assignments, contribution to housing costs and contribution to children's school expenses).

Furthermore, the Executives and Senior Managers with an Italian employment contract are entitled to:

- supplemental retirement plans that obligate the employer company to pay an amount equal to 4% of the gross annual remuneration received to a pension fund, up to a maximum gross amount of euro 150 thousand;
- Supplemental health and life insurance in addition to what is prescribed by the National Collective Bargaining Agreement for Companies that Produce Goods and Services.

The Pirelli Group considers the following criteria when determining the gross remuneration and individual components of remuneration of Senior Managers and Executives:

a. fixed component: (i) for Senior Managers, its weight is generally not more than 60% of the target-based annual total direct compensation, and (ii) for Executives, its weight is generally not more than 70% of the target-based annual total direct compensation;
b. a target-based MBO (annual) incentive generally representing no less than 40% of GAS for Senior Managers and no less than 20% for Executives.
c. The annualised, target-based variable medium-long term component (LTI) accounts for no less than 50% of the aggregate variable component (target-based MBO and target-based LTI).

In regard to all Senior Managers, the impact of the various components of their compensation packages during the three-year period would be as follows if the annual targets envisaged by the MBO 2012[11], 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled:

- fixed component: 47%;

[11] Refer to note 2

- total variable component: 53% of which:
  - o annual (MBO) 15% of the annual total direct compensation (equal to about 29% of the total variable component);
  - o medium-long term (co-investment LTI Bonus and pure LTI Bonus) 38% of the annual total direct compensation (equal to about 71% of the total variable component).

If both the annual[12] and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

- fixed component: 32%;
- total variable component: 68% of which:
  - o variable component based on annual results (MBO) equal to 21% of the annual total direct compensation (equal to about 31% of the total variable component);
  - o variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 47% of the annual total direct compensation (equal to about 69% of the total variable component).

In regard to all Executives, the impact of the various components of their compensation packages during the three-year period would be as follows if the annual targets envisaged by the MBO 2012[13], 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled:

- fixed component: 68%;
- total variable component: 32% of which:
  - o annual (MBO) 12% of the annual total direct compensation (equal to about 38% of the total variable component);
  - o medium-long term (co-investment LTI Bonus and pure LTI Bonus) 20% of the annual total direct compensation (equal to about 62% of the total variable component).

[12] Refer to note 2
[13] Refer to note 2

If both the annual[14] and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

- fixed component: 52%;
- total variable component: 48% of which:
  - o variable component based on annual results (MBO) equal to 18% of the annual total direct compensation (equal to about 38% of the total variable component);
  - o variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 30% of the annual total direct compensation (equal to about 62% of the total variable component).

The Group may grant one-off bonuses and/or envisage exceptions to the Policy according to operating requirements or the achievement of specific, extraordinary targets. It may also offer them share-based incentives or stock options in schemes that might be adopted by the Group. In regard to this last-mentioned possibility, the Company does not have any share-based incentive programmes in place at the date of this Report.

The remuneration of Executives and Senior Managers is also analysed with the assistance of independent firms specialising in executive compensation. Inter alia, this analysis considers the position held by the individual manager and the country where he or she is assigned.

N.B.: In accordance with best practices and as proposed by the Internal Control, Risks and Corporate Governance Committee, the Board of Directors envisages that the fixed component have a greater weight than the variable component for the Internal Audit Manager. However, the Internal Audit Manager (and, generally speaking, the managers of the Internal Audit function) are not included in the LIT Incentive Plan, but benefit only from the

[14] Refer to note 2

annual incentive plan linked to largely to qualitative objectives subject to review by the Internal Control, Risks and Corporate Governance Committee and the Board of Directors, on proposal by the Director assigned to supervise the internal control system.

11. Allowances in the event of resignation, dismissal or termination

Pirelli Group policy prohibits making agreements with Directors, General Managers, Managers with strategic responsibilities, Senior Managers and Executives that regulate ex ante the economic issues arising in the case of early termination of their relationship by the Company or the individual employee (i.e. "golden parachutes").

Agreements made when an existing relationship with the Group is terminated without cause are not considered golden parachutes. In these cases, Pirelli prefers to seek agreements for consensual termination of the relationship. Without prejudice to statutory and/or contractual obligations, agreements made for termination of an employment relationship with the Group are based on applicable benchmarks and within the limits defined by case law and custom in the country where the agreement is made.

The Company defines internally the criteria which the other companies of the Group must also follow for management of the agreements on the early termination of relationships with managers and/or Directors holding special offices.

Pirelli does not envisage the payment of allowances or extraordinary compensation for termination of Directors holding special offices, who are assigned specific functions, and who do not have a managerial work relationship with the Group. Payment of a specific allowance may be granted, subject to prior review by the delegated corporate bodies, in the following cases:

- termination by the Company without cause;
- termination by the Director with cause: for example, in the case of substantial changes in his role or assigned duties, and/or in the event of a hostile tender offer.

In these cases, the allowance amounts to 2 times the employee's gross annual compensation, with this meaning the sum of the gross annual fixed salaries for the offices held in the Group, the average of the annual variable remuneration (MBO) accrued during the previous three-year period and the employee severance indemnity (TFM) on the foregoing amounts.

12. Not-to-compete clauses

The Group may enter into not-to-compete clauses with its General Managers, Managers with strategic responsibilities and for especially important professional roles of Senior Managers and Executives that envisage the payment of a GAS-related consideration according to the duration and scope of the obligation resulting from the agreement itself.

The obligation refers to the merchandise sector in which the Group operates at the time the agreement is made and its territorial scope. The scope of the obligation varies according to the worker's role at the time of execution of the agreement and may cover, as in the case of the General Directors, all countries where the Group operates.

13. Changes to the Remuneration Policy compared to the previous financial year.

Compared to the 2012 Policy the indemnity was reviewed in the event of resignation or termination of the employment relationship in the case of Directors holding special offices, who are conferred with specific powers and are not bound by management employment relationships, in line with best practices and also adopting the requests of a number of long investors and proxy advisors.

In particular, the Remuneration Policy referred to the 2012 financial year established (paragraph 11) that for the foregoing persons, Pirelli did not envisage the payment of special indemnities or fees in kind associated with the end of their term in office.

Payment of a specific indemnity could be made in the following cases, always subject to assessment by the competent corporate bodies: (i) termination by the Company not supported by just cause; (ii) termination by the Director with cause: for example, in the case of substantial changes in his role or assigned duties, and/or in the event of a hostile tender offer.

In these cases the Remuneration Policy referred to the 2012 financial year established that the indemnity was equal to 3 times the gross annual compensation, meaning the sum of all the annual gross fixed compensation for the positions held, the average MBO received during the term in office and the employee severance indemnity (TFM) on the foregoing amounts.

The Board of Directors has redefined at two annuities the possible specific indemnity paid in the foregoing cases based on the proposal by the Remuneration Committee. In particular, it was established that in the cases envisaged by the Policy (termination by the Company not supported by just cause; termination by the Director with cause, meaning, by way of example, the substantial change in his role or assigned duties and/or in cases of so-called hostile tender offer) the Director holding special offices who has been delegated specific responsibilities and is not bound by management employment relations is to be paid an indemnity equal to 2 times the annual gross compensation, meaning the sum of the fixed annual gross compensation for the positions held in the Group, the average of the annual variable remuneration (MBO) accrued during the previous three-year period and the employee severance indemnity (TFM) on the foregoing amounts.

In addition, the 2013 Policy no longer includes the analytical representation of the structure of the remuneration attributed to Mr. Gori, since on May 10, 2012 Mr. Gori resigned as General Manager of Pirelli % C. and Chief Executive Officer and General Manager of Pirelli Tyre.

The 2013 Policy continues to include the principles and guidelines to determine the remuneration of the General Managers.

A number of textual refinements were made to the 2013 Policy compared to the 2012 Policy.

14. <u>Other information</u>

Pursuant to Consob Resolution no. 18049 of December 23, 2011, notice is given that:

- the Company did not avail itself of the assistance of external advisors and/or experts in preparing the 2013 Policy;
- Pirelli does not have any stock option plans in place.
- Pirelli did not refer to specific remuneration policies of other companies when defining the 2013 Policy. The criteria used to select the benchmarks are indicated in regard to the structure of remuneration for each person.

Model Format no. 7-bis adopted with Consob Resolution no. 18049 of December 23, 2011 envisages that the section of the Remuneration Report envisaged in Article 123-ter referring to the members of the Boards of Directors, the General Managers and the other Managers with strategic responsibilities, at least contain the information envisaged in the previous mentioned model format. The following table indicates the required information and the part of the Report where they are found:

Information required under Model Format 7-bis	**Sections that specifically contain the required information**
a) bodies or persons involved in the preparation and approval of the remuneration policy, specifying their roles, and the bodies or persons responsible for proper implementation of this policy.	*2. Process for definition and implementation of the Policy and parties involved* *3. Remuneration Committee*
b) any action by a remuneration committee or another committee with delegated authority in this regard, describing its composition (distinguishing between non-executive directors and independent directors), responsibilities and operating procedures;	*2. Process for definition and implementation of the Policy and parties involved* *3. Remuneration Committee*
c) the name of any independent experts who might have participated in preparation of the remuneration policy;	*14. Other information*

d) the aims pursued by the remuneration policy, its fundamental principles, and any changes in the remuneration policy from the previous financial year;	*1. Principles and examination of risks* *13. Changes to the Remuneration Policy compared to the previous financial year*
e) description of the policies governing fixed and variable components of remuneration, particularly in regard to indication of their weight in relation to aggregate remuneration and distinguishing between short and long-term variable components;	*The structure of remuneration for different individuals is described in the sections indicating the different fixed/variable and short-term variable/medium-long term variable weights.* *6. Remuneration of Directors of Pirelli & C.* *7. Remuneration of Directors holding special offices* *8. The Board of Statutory Auditors* *9. General Managers and Managers with strategic responsibilities* *10. Senior Managers and Executives* *The following section illustrates how the variable components of remuneration work:* *5. MBO and LTI Plan*
f) the policy applied to non-monetary benefits;	*Sections for the individual positions* *6. Remuneration of Directors of Pirelli & C.* *7. Remuneration of Directors holding special offices* *9. General Managers and Managers with strategic responsibilities* *10. Senior Managers and Executives*
g) in reference to the variable components, a description of the performance targets according to which they are assigned, distinguishing between short-term and medium-long term variable components, and information about the link between the change in results and the change in remuneration;	*5. MBO and LTI Plan*

h) the criteria used for assessing performance targets according to the grant of shares, options, other financial instruments or other variable components of remuneration;	*5. MBO and LTI Plan*
i) information intended to illustrate the consistency of the remuneration policy with pursuit of the company's long-term interests and the risk management policy, if such exists;	*1. Principles and examination of risks* *5. MBO and LTI Plan* *And for the individual positions* *6. Remuneration of Directors of Pirelli & C.* *7. Remuneration of Directors holding special offices* *8. The Board of Statutory Auditors* *9. General Managers and Managers with strategic responsibilities* *10. Senior Managers and Executives*
j) the vesting period, any deferred payment systems, with indication of the deferral periods and criteria used to determine these periods and, if envisaged, the mechanisms for ex post correction;	*Pirelli does not have any stock option plans in place.* *In regard to the mechanisms for deferral of variable monetary components, see Section:* *5. MBO and LTI Plan*
k) information on any clauses governing the retention of financial instruments after purchase, with indication of the retention period and criteria used to determine these periods;	*Pirelli does not have any stock option plans in place.*
l) the policy governing treatment upon expiry of term in office or termination of the employment relationship, specifying what circumstances establish the right and any link between this treatment and company performance;	*11. Allowances in the event of resignation, dismissal or termination* *12. Not-to-compete clauses*
m) information about any insurance, social security or pension coverage other than mandatory plans;	*Sections for the individual positions* *6. Remuneration of Directors of Pirelli & C.*

	7. Remuneration of Directors holding special offices *8. The Board of Statutory Auditors* *9. General Managers and Managers with strategic responsibilities* *10. Senior Managers and Executives*
n) the remuneration policy that might be applied in reference to: (i) independent directors, (ii) participation on committees and (iii) holding special offices (chairman, deputy chairman, etc.);	*6. Remuneration of Directors of Pirelli & C.*
o) whether the remuneration policy was defined by using the remuneration policies of other benchmark companies, and if so, the criteria used to choose these companies	*14. Other information*