Pirelli & C. S.p.A. — Milan

Directors' report and consolidated financial statement at december 31, 2007

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Call to the annual general meeting of the shareholders

The ordinary shareholders of Pirelli & C. Società per Azioni are called to the ordinary and special session of the shareholders' meeting to be held in Milan, Viale Sarca 214
— at 10:00 A.M. on Monday April 28, 2008 in first call
— at 10:00 A.M. on Tuesday April 29, 2008 in second call to discuss and pass resolutions on the following

AGENDA

Ordinary session

1. The financial statements at December 31, 2007. Inherent and consequent resolutions.
2. Appointment of the board of directors:
   — determination of the number of members of the board of directors;
   — determination of the term of office of the board of directors;
   — appointment of the directors;
   — determination of the annual compensation of the members of the board of directors.
3. Appointment of a standing auditor.
4. Appointment of the audit firm, pursuant to article 159 of Legislative Decree 58/1998, for the engagement of the audit of the separate financial statements, consolidated financial statements and limited review of the interim six-month financial statements for each of the years in the nine-year period 2008 to 2016.
5. Proposal for the purchase and disposition of treasury shares. Inherent and consequent resolutions. Conferral of powers.

Extraordinary session

— Amendments to article 7 (Shareholders' meetings), 10 (Administration of the company) and 16 (Board of statutory auditors) of the bylaws.
Inherent and consequent resolutions. Conferral of powers.

PRELIMINARY INFORMATION
DIRECTORS' REPORT
SUSTAINABILITY REPORT
CONSOLIDATED FINANCIAL STATEMENT
EXTRAORDINARY SESSION

Contents

Pirelli & C. S.p.A. Board of Directors [1]

Chairman[2]	Marco Tronchetti Provera
Deputy Chairman[2]	Alberto Pirelli
Deputy Chairman[2]	Carlo Alessandro Puri Negri
Directors:	Carlo Acutis*
	Carlo Angelici* 0
	Gilberto Benetton
	Alberto Bombassei*
	Franco Bruni* 0
	Enrico Tommaso Cucchiani
	Gabriele Galateri di Genola
	Mario Garraffo*
	Dino Piero Giarda*
	Berardino Libonati* ^
	Giulia Maria Ligresti
	Massimo Moratti
	Giovanni Perissinotto
	Giampiero Pesenti* ^
	Luigi Roth*
	Aldo Roveri* ^
	Carlo Secchi* 0

* Independent director

0 Member of the Internal Control and Corporate Governance Committee

^ Member of the Remuneration Committee

Secretary to the Board	Anna Chiara Svelto

BOARD OF STATUTORY AUDITORS[3]

Chairman	Luigi Guatri
Standing members	Enrico Laghi
	Paolo Francesco Lazzati
Alternate members	Franco Ghiringhelli
	Luigi Guerra

GENERAL MANAGERS[4]

Operations	Claudio De Conto
General Finance and Strategic Planning	Luciano Gobbi

INDEPENDENT AUDITORS[5]	PricewaterhouseCoopers S.p.A.
MANAGER RESPONSIBLE FOR THE PREPARATION OF THE FINANCIAL REPORTS OF THE COMPANY[6]	Claudio De Conto

1 Appointment: April 28, 2005. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2007.
Alberto Bombassei (co-opted by the board of directors on September 12, 2006) and Luigi Roth were appointed by the shareholders' meeting held on April 23, 2007; Enrico Tommaso Cucchiani was appointed to replace Paolo Vagnone, by shareholders' meeting held on July 26, 2007.

2 Post: conferred by the board of directors' meeting held on April 28, 2005.

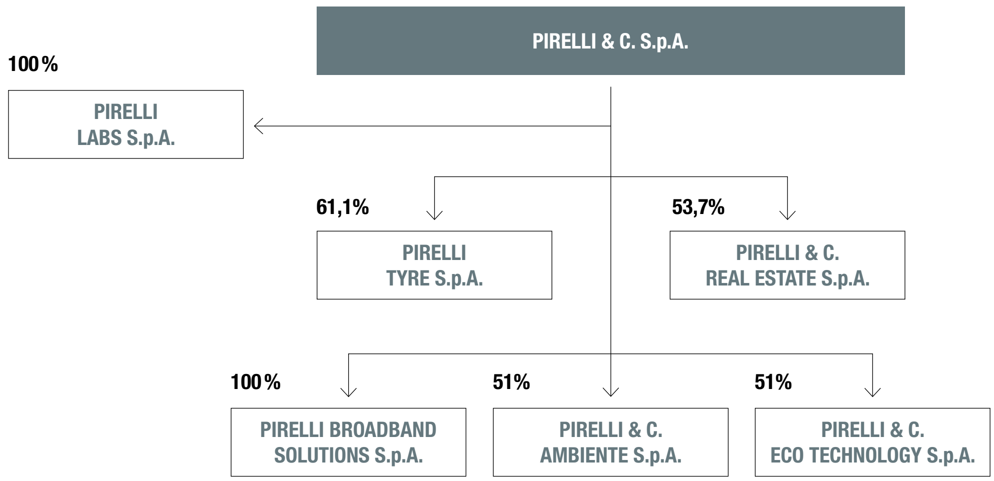
3 Appointment: April 21, 2006. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2008.

4 Until June 30, 2006, Francesco Gori was General Manager in Tyre business.
Since July 1, 2006 he is Managing Director and General Manager in Pirelli Tyre S.p.A..

5 Post: conferred by the shareholders' meeting held on April 28, 2005.

6 Appointment: board of directors' meeting held May 10, 2007. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2007

Structure of Pirelli Group at December 31, 2007



MARKET TRADING ON THE MILAN STOCK EXCHANGE

	Shares traded volume	Amount (in Euros)
Pirelli & C, S,p,A, - ordinary shares	11,292,137,075	9,562,085,426
Pirelli & C. S.p.A. - saving shares	194,551,231	155,778,925

NUMBER OF SHARES OUTSTANDING

	at december 31, 2007	at march 25, 2008
Pirelli & C, S,p,A, - ordinary shares	5,233,142,003	5,233,142,003
Pirelli & C, S,p,A, - saving shares	134,764,429	134,764,429

Four-year summary of selected consolidated financial data

FOUR-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA - IAS / IFRS (in millions of Euros)

	2007	2006	2005	2004
Net sales	**6,505**	**4,841**	**4,546**	**3,967**
Net sales (excluding DGAG) *	5,209	4,841	4,546	3,967
Gross operating profit	581	614	568	470
Operating profit	**367**	**401**	**355**	**269**
Operating profit (Loss) includ. Earnings (Losses) from investments	562	1,192	622	425
Total income (Loss)	**323**	**(1,049)**	**399**	**304**
Income (Loss) attributable to the equity holders of Pirelli & C. S.p.A.	**165**	**(1,167)**	**327**	**251**
Earnings per share (in Euros)	0.03	(0.22)	0.07	0.07
Fixed assets	3,815	6,924	7,629	6,097
Net working capital	298	463	(53)	466
Net invested capital	**4,113**	**7,387**	**7,576**	**6,563**
Equity	3,804	4,687	5,614	3,841
Provisions	611	720	785	1,121
Net financial (liquidity)/debt position	**(302)**	**1,980**	**1,177**	**1,601**
Equity attributable to the equity holders of Pirelli & C. S.p.A.	**2,980**	**3,880**	**5,205**	**3,502**
Equity per share (in Euros)	0.56	0.72	0.98	1.01
Free cash flow	**299**	**317**	**343**	**287**
R&D expenditures	**173**	**171**	**174**	**171**
Depreciation	214	201	197	182
Capital expenditures	287	255	234	211
Gross operating profit / Net sales *	8.93%	12.68%	12.49%	11.85%
Operating profit / Net sales * - ROS	5.64%	8.28%	7.81%	6.78%
Income / Equity **- ROE	7.61%	(20.37%)	7.38%	5.77%
Operating profit / Net invested capital **- ROI	6.38%	5.36%	5.02%	4.13%
Operating profit (post-investments) / Net invested capital	9.77%	15.93%	8.80%	6.52%
Net financial position / Equity - Gearing ratio	n.s.	0.42	0.21	0.42
Capital expenditures / Depreciation	1.34	1.27	1.19	1.16
R&D expenditures / Net sales *	3.32%	3.53%	3.83%	4.31%
Net sales * per employee (in thousands of Euros)	169	172	173	162
Pirelli & C. S.p.A. Ordinary Shares (no. in millions)	5,233.1	5,233.1	5,180.7	3,327.5
Pirelli & C. S.p.A. Savings Shares (no. in millions)	134.8	134.8	134.8	134.8
Total Pirelli & C. S.p.A. Shares (no. in millions)	5,367.9	5,367.9	5,315.5	3,462.3
Treasury Shares (no. in millions)	2.6	2.6	2.6	2.6
Factories	24	24	24	74
of which discontinued operations	-	-	-	52
Employees (at 12/31)	30,813	28,617	26,827	24,790
of which temporary employees	3,632	3,479	3,102	2,721

* On net sales exluding DGAG

** Average amounts

Chairman's letter

To the Shareholders,

2007 was a positive year for Pirelli. From the standpoint of economic results, thanks to the performance of the tyre and real estate sectors, the company returned to a profit position and will distribute dividends after reporting a loss in 2006 as a result of the writedown of Olimpia. Consolidated revenues, net of the sale of DGAG's real estate assets in Germany, exceeded Euros 5 billion, while the operating profit including earnings from investments was slightly higher than the 2006 figure, net of nonrecurring items.

The disposal of the stake in Olimpia, which was completed during the year, generating proceeds of about Euros 3.3 billion, enabled the Group to achieve zero-debt, to implement a plan to distribute extraordinary dividends to the shareholders and to optimize its equity structure.

In 2007, Pirelli continued to pursue a path of growth and international expansion, especially in the two main areas of business. Pirelli Tyre opened a new car tyre production facility in China and expanded and consolidated its new industrial hub in Romania. In Italy, significant progress was made with a view to creating a new, competitive industrial and technological center in Settimo Torinese, in a project that confirms our propensity towards innovation and cooperation with local institutions and leading research institutes. Now, to develop the business further, we are approaching new markets, such as Russia and India.

Pirelli RE also continued to grow in Central and Eastern Europe, thanks to the acquisition of BauBeCon in Germany, after that of DGAG, and the launch of activities in Romania and Bulgaria. Foreign expansion and the search for new opportunities will also be the aim of activities associated with broadband Internet access and second-generation photonics, as well as Pirelli's business in the sphere of the environment.

The focus on the Group's core business areas, which was announced parallel to the Group divestiture of its investment in Telecom Italia, will be the cornerstone of Pirelli's development strategy in 2008 and in the years to come. With this in mind, at the beginning of the year, we made an important step forward, by re-acquiring the minority stake in Pirelli Tyre which had been sold to a group of banks in August 2006. As a result of this transaction, we have decided to invest in ourselves, to wager once again on our industrial expertise and our ideas for growth. We shall continue to strive to achieve results that will last, fully aware that our intuitions and the efforts we make today will build the Pirelli of tomorrow.

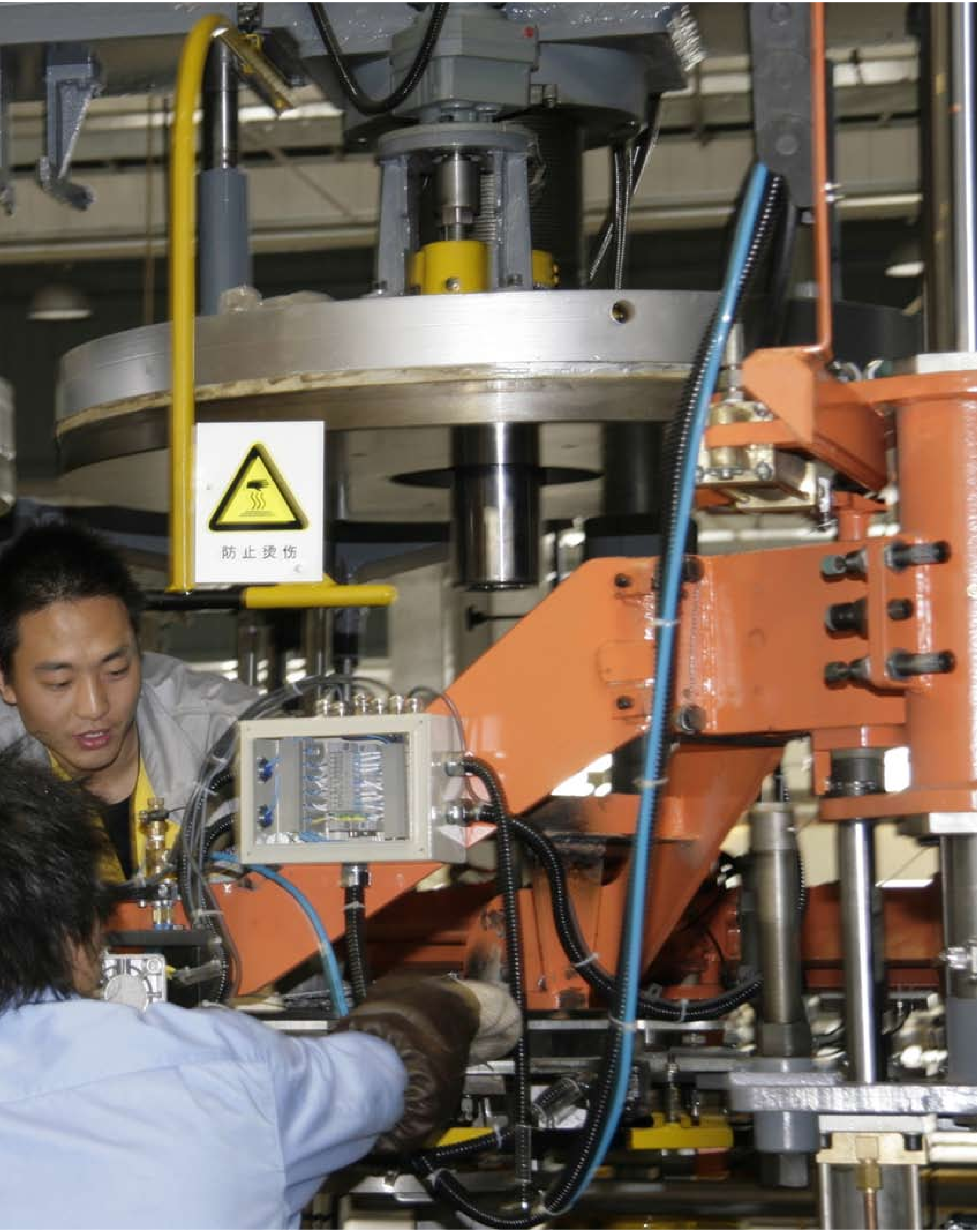
As a result, our Group is embarking on its 136th year with growing assets and a solid equity and financial structure. We are ready to take up new challenges, albeit in a macroeconomic and market context that is far from easy.

As always, our desire to create value will be accompanied by constant attention to sustainability and our relationship with all the stakeholders. From this point of view, too, as can be seen in Pirelli & C. S.p.A.'s third Sustainability Report, 2007 was an important year. I wish to cite as an example the consolidation of the Equal Opportunities project, begun in 2005 with the aim of exploiting the many different talents that co-exist in a multinational Group like Pirelli. The first results were comforting, for example the 8% increase in the number of women occupying staff positions compared to 2006. Our efforts are also aimed at the external community, as in the case of the projects now in progress at Slatina (in Romania) in collaboration with F.C. Internazionale Milano and the Niguarda Hospital, and the many other cultural initiatives in the Milan area and further afield.

Our company's leadership position in the world's most authoritative tables evaluating corporate social responsibility is a source of pride and, at the same time, an incentive to do better. The marriage of profitability and sustainability in business practices is now an integral part of our culture.

Shandong USD 100 million

Pirelli officially inaugurated the Group's second car-tyre production factory in China, in the Shandong Province, on November 27. The investment to build the new factory came to almost USD 100 million.

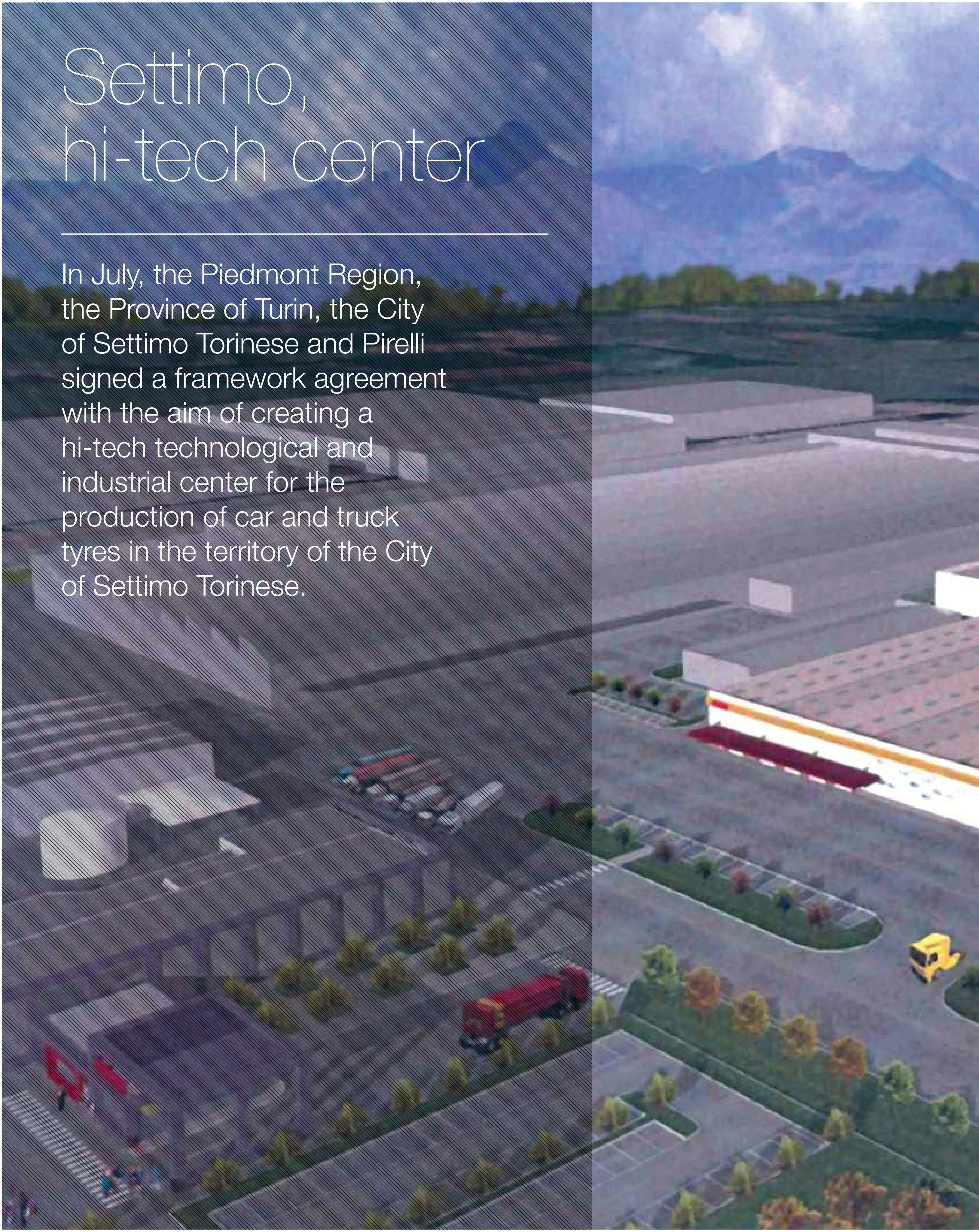

防止烫伤

Romania

In July, at Slatina, Pirelli presented the Group's development plans and activities for the new industrial and technological center in Romania. Pirelli's new base is composed of three production plants, two of which are already operational (high-performance and steelcord tyres) and one which is still being built (anti-particulate filters), involving a total investment of approximately Euros 235 million.

Settimo, hi-tech center

In July, the Piedmont Region, the Province of Turin, the City of Settimo Torinese and Pirelli signed a framework agreement with the aim of creating a hi-tech technological and industrial center for the production of car and truck tyres in the territory of the City of Settimo Torinese.

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WRC 2008–2010

In February, the World Council of the FIA accepted Pirelli's offer to supply tyres for World Rally Championship for the three years 2008-2010.

Grande Bicocca

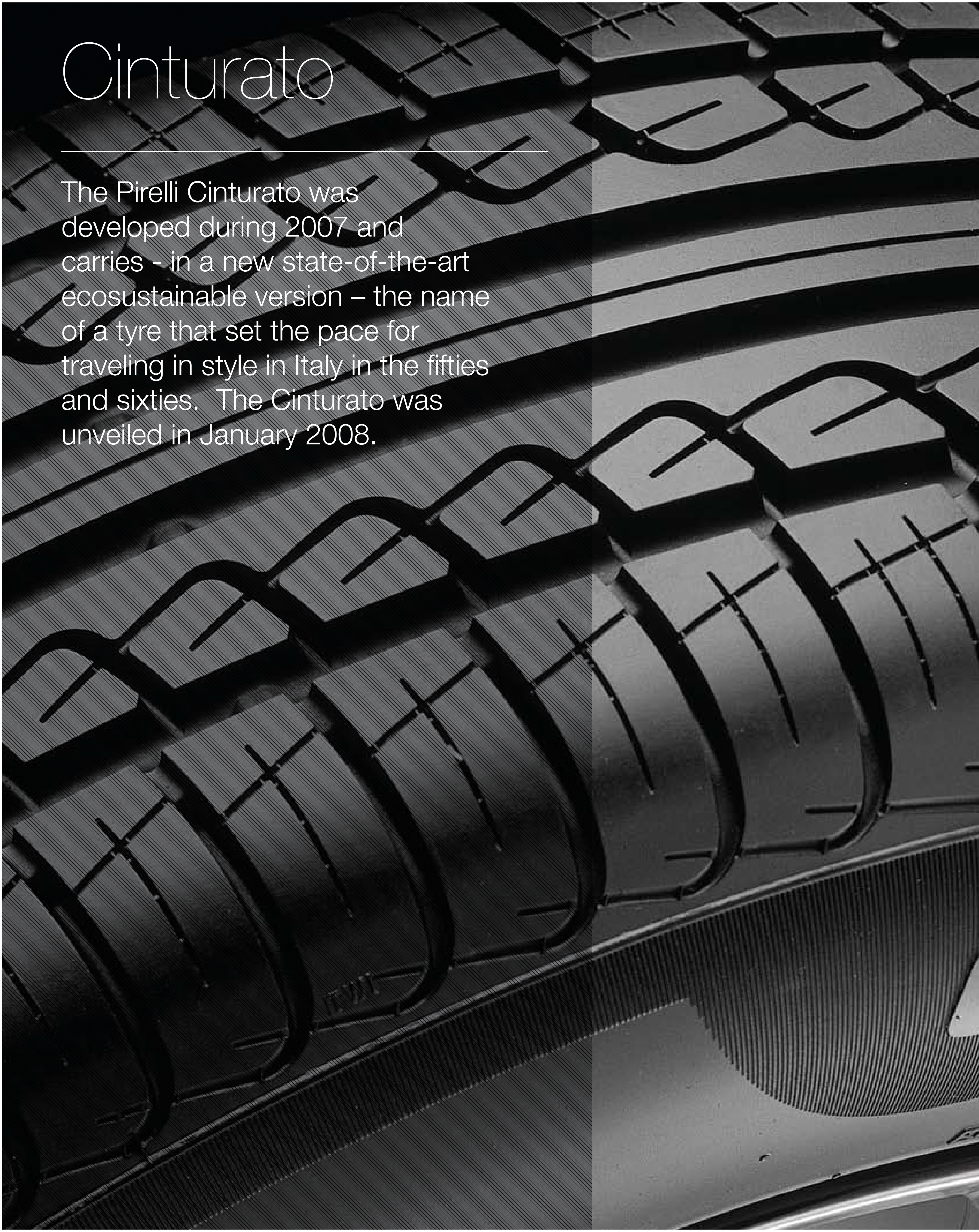
On December 21, the City of Milan, the Lombardy Region and Pirelli RE - representing the promoters of the Grande Bicocca Project (Italian and foreign real estate investment funds) signed a protocol agreement which modifies the Program Agreement of July 6, 2003 and calls for new additions to complete the project.

Clean energy

Pirelli Ambiente and Global Cleantech Capital, a private equity fund specialized in clean energy investments, signed an agreement in July to set up Solar Utility S.p.A. - a joint venture operating in the photovoltaic energy sector.

Cinturato

The Pirelli Cinturato was developed during 2007 and carries - in a new state-of-the-art ecosustainable version – the name of a tyre that set the pace for traveling in style in Italy in the fifties and sixties. The Cinturato was unveiled in January 2008.




Cinturato P6

Directors' report

Directors' report on operations

To the Shareholders,

in 2007, the Pirelli & C. S.p.A. Group continued on its course of growth and the international expansion of its core activities, particularly tyre and real estate businesses. It also strengthened its equity and financial structure, partly due to the proceeds obtained from the sale of the stake in Olimpia S.p.A., the company that held about 18 percent of the ordinary share capital of Telecom Italia S.p.A..
In the consolidated financial statements at December 31, 2007, the achievement of these results is confirmed by three indicators: the return to a profit position after the loss reported in 2006 due to the writedown of Olimpia, the surpassing of the threshold of Euros 5 billion in revenues (net of sales for the deconsolidation of DGAG's real estate operations in Germany) and the reduction of the Group's net debt to zero-debt, with a net financial liquidity position at the end of 2007 of more Euros 300 million, including the payable anticipated for the payout of more than Euros 826 million for the extraordinary dividend to be distributed to shareholders shortly.
The sale of the stake in Olimpia S.p.A. for Euros 3,329 million, concluded during the year, allowed Pirelli to further focus on its core business and to implement a plan to distribute resources to its shareholders and to optimize its equity structure.

With regard to business performance in 2007, in the **industrial businesses**, Pirelli Tyre reported an increase in revenues on a like-for-like basis of 6.5 percent, exceeding Euros 4 billion, and an increase in operating profit (+4.6 percent), despite the high level of the costs of raw materials, which are higher those of 2006. During the year, Pirelli Tyre launched a new manufacturing unit for car tyres in China and expanded and consolidated its operations at the new industrial pool in Romania, with the aim of reinforcing its presence in the markets of the Far East and Central and Eastern Europe.

In the **real estate business**, despite the difficulties encountered on the market worldwide, Pirelli & C. Real Estate closed 2007 with a higher operating profit including earnings from investments of 10 percent (in line with 2006 net of the effects of the temporary consolidation of DGAG). Consolidated income was 5 percent lower than in 2006 (+2 percent net of the effects of the temporary consolidation of DGAG). In 2007, the company made another important acquisition in Germany and launched activities in Romania and Bulgaria. Assets under management at market value reached Euros 15 billion, up 3 percent compared to 2006 (Euros 14.5 billion), placing Pirelli RE among continental Europe's top asset managers.

In new business areas, **broadband access and second-generation photonics activities** displayed a contraction in revenues and margins due to falling investments in the world telecommunications market. On the other hand, investments in R&D continued, especially in photonics, where phases of product qualification were completed by a number of important operators.

Activities in the environmental sector and sustainable mobility reported an increase in sales, although profitability was again negative, especially as a result of industrial investments in the new business of anti-particulate filters.

The Group

2007 Operating and financial review

Consolidated net sales of the group in 2007 amount to Euros 6,504.5 million. This is an increase of 34.4 percent compared to Euros 4,841.2 million in 2006. Excluding the sales relating to the deconsolidation of DGAG real estate assets, net sales exceed Euros 5 billion and amount to Euros 5,208.9 million, an increase of 7.6 percent compared to 2006. Taking into account the foreign exchange effect, the growth on a like-for-like basis is equal to 8.5 percent.

Gross operating profit (EBITDA) amounts to Euros 580.9 million, a decrease of 5.4 percent compared to Euros 614.1 million in 2006. Consolidated **operating profit (EBIT)** is Euros 366.9 million, with a decrease of 8.6 percent from Euros 401.4 million in 2006. Compared to last year, the contribution of the real estate business to consolidated EBITDA and EBIT is lower while earnings from investments are significantly higher. In 2006, the operating profit included nonrecurring expenses of Euros 13.2 million in connection with Pirelli Tyre IPO project.

Operating profit including earnings (losses) from investments, which includes the effect of earnings or losses from companies accounted for by the equity method and dividends from unconsolidated holdings, is Euros 562.2 million. This figure is slightly higher than in 2006, net of the extraordinary component represented by the gains realized in the prior year on the sale of the 38.9 percent stake in Pirelli Tyre S.p.A. (Euros 416.4 million) and the investment in Capitalia S.p.A. (Euros 215.2 million). Including these gains, the operating profit including earnings (losses) from investments in 2006 was Euros 1,192.1 million.

The impacts relating to the investment in Olimpia S.p.A., subsequent to the sales agreement between Pirelli/Sintonia and Telco executed on October 25, 2007, qualify, in accordance with IFRS, as discontinued operations and contribute solely to the net result. Olimpia S.p.A.'s impact on the net result in 2007 is a loss of Euros 53.8 million and relates to the adjustment of the company's value to its sale price (Euros 3,329 million for the 80 percent stake held by Pirelli). The impact of Olimpia S.p.A. on the net result in 2006 was a loss of Euros 1,940 million (due to the impairment loss on the investment recognized in the third quarter). Discontinued operations also include the gain realized on the sale of the Prysmian (Lux) S.à.r.l. warrants to Goldman Sachs which took place in the first quarter of 2007 (Euros 91 million) and an adjustment of Euros 4 million on the accrual relating to the guarantees provided following the sale of the cables business.

The **consolidated net result** is income of Euros 323.6 million compared to a loss of Euros 1,048.8 million in 2006.
The income attributable to the equity holders of Pirelli & C. S.p.A. in 2007 is Euros 164.5 million, compared to a loss of Euros 1,167.4 million in 2006.

The **income of the parent, Pirelli & C. S.p.A.**, is Euros 100.7 million, compared to a loss of Euros 1,642.3 million in 2006.

Total **consolidated equity** at December 31, 2007 is Euros 3,804.1 million, compared to Euros 4,686.6 million at the end of 2006. **Equity attributable to the equity holders of Pirelli & C. S.p.A.** at the same date is Euros 2,980.2 million (Euros 0.56 per share), compared to Euros 3,879.6 million at the end of 2006. Equity is affected by the reduction resulting from the extraordinary dividends approved by the shareholders' meetings held in December 2007 for the amount of approximately Euros 826 million (equal to Euros 0.154 per share).

The **net financial position** of the Group at December 31, 2007 is a net liquidity position of Euros 302.1 million. This amount also takes into account the estimated payment of about Euros 826 million for extraordinary dividends that will be distributed shortly. The net financial position of the Group was a debt position of Euros 2,328.8 million at September 30, 2007 and Euros 1,979.6 million at December 31, 2006. The sale of the investment in Olimpia S.p.A., finalized during the last quarter of the year, had a positive impact on the net financial position of the Group of Euros 3,329 million.

The **number of employees** of the Group at December 31, 2007 is 30,813 compared to 28,617 at December 31, 2006. The increase of 2,196 people is mainly due to the expansion of the tyre and real estate businesses.

Significant events in 2007

On January 11, 2007, Pirelli Real Estate finalized the acquisition of DGAG (Deutsche Grundvermogen AG), one of the most important real estate companies in Germany with offices in Hamburg and Kiel.

On February 27, 2007, the world council of FIA accepted Pirelli's offer to supply tyres for the World Rally Championship (WRC) for the three-year period 2008-2010.

On March 30, 2007, Pirelli & C. S.p.A. sold the financial instruments from the disposal of the former Cables and Systems sector, concluded on July 28, 2005, to Goldman Sachs for consideration of about Euros 246 million.

On April 28, 2007, Pirelli & C. S.p.A., Sintonia S.p.A. and Sintonia S.A. reached an agreement with leading financial institutional investors and industrial operators (Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A., Sintonia S.A. and Telefonica S.A.), which later set up the Telco NewCo, for the sale of 100 percent of the share capital of Olimpia S.p.A.. The agreement was signed on May 4, 2007 and executed on October 25, 2007. The transaction produced a positive impact of Euros 3,329 million on the net financial position of the Group.

The offices of the DGAG German real estate company in Hamburg.

On May 22, 2007, Gamma RE (a joint venture with a 51 percent investment held by Morgan Stanley Real Estate Special Situation Fund and a 49 percent stake by Pirelli & C. Real Estate) announced its intention to launch two voluntary public tender offers for the shares of the closed-end real estate investment funds Tecla Fondo Uffici and Berenice Fondo Uffici, listed on the stock exchange and managed by Pirelli RE SGR.
The offering later focused on the Tecla fund and Euros 690 per share was offered in cash. The takeover bid ended positively on July 5, 2007 with a total payment of Euros 255 million.

On June 27, 2007, the joint venture between Pirelli & C. Real Estate and Intesa Sanpaolo was finalized with the aim of creating a leader in facility and project management in Europe.

On July 3, 2007, Pirelli Ambiente and Global Cleantech Capital, a private equity fund specialized in clean energy investments, signed an agreement to set up Solar Utility S.p.A., a joint venture operating in the photovoltaic energy sector.

On July 13, 2007, Piedmont Region, Province of Turin, City of Settimo Torinese and Pirelli signed a framework agreement with the aim of creating a hi-tech technological and industrial center to manufacture car and truck tyres in the territory of Settimo Torinese.

On July 17, 2007, Pirelli & C. Real Estate and the RREEF (Deutsche Bank Group) real estate investment funds sealed a binding agreement for the purchase of 100 percent of BauBeCon, an important German real estate group, from Cerberus. The deal was concluded on July 27, 2007 and Pirelli RE (40 percent) and RREEF (60 percent) acquired the real estate assets intended mainly for residential use for a amount of approximately Euros 1,650 million.

On July 18 and 19, 2007, agreements were reached to set up the following joint ventures: Pirelli RE Romania (80 percent Pirelli RE and 20 percent UniCredit Tiriac Bank, one of the most important credit institutions in Romania) and Pirelli RE Bulgaria (75 percent Pirelli RE and 25 percent UniCredit Bulbank, the largest financial institution in Bulgaria).

On July 19, 2007, at Slatina, Pirelli presented the development programs and the activities of the Group's new industrial and technological center in Romania. Pirelli's new base in Romania is composed of three production plants, two of which are already operational (high-performance and steelcord tyres) and one which is still being built (anti-particulate filters), involving a total investment of approximately Euros 235 million.

On July 27, 2007, Pirelli & C. S.p.A. purchased 859,741 Pirelli & C. Real Estate S.p.A. shares, equal to approximately 2 percent of the company's share capital, from a leading institutional investor for approximately Euros 34.4 million. In the rest of the year, Pirelli & C. S.p.A. purchased another 575,000 Pirelli & C. Real Estate S.p.A. shares for a total of approximately Euros 20 million, bringing its holding at December 31, 2007 to 53.67 percent.

On August 7, 2007, Quadrifoglio Milano (a 50-50 joint venture between Pirelli RE-Fintecna Immobiliare) signed the urbanistic agreement, together with City of Milan and Autonomous Administration of the State Monopolies, for the urban recovery and development project of the former Manifattura Tabacchi complex. The estimated value of the project is approximately Euros 250 million.

On October 29, 2007, the Pirelli Group signed an agreement with Alcatel-Lucent for the purchase of a 12.4 percent stake in Avanex Corporation, one of the major world players in telecommunications components and optical modules, at a market price of approximately Euros 33.4 million. As part of the deal, Alcatel-Lucent sealed supply contracts with Pirelli and Avanex in the optical components sectors.

On November 9, 2007, a share capital reduction of approximately Euros 1,235 million, by reducing the par value per ordinary and savings share from Euros 0.52 to Euros 0.29, was submitted by the board of directors of Pirelli & C. S.p.A. for approval by the ordinary and savings shareholders' meetings. The reduction was made to allow the Company to reimburse the shareholders a part of the financial resources obtained from the sale of the investment in Olimpia S.p.A., by distributing extraordinary dividends of Euros 0.154 per share (for a total of approximately Euros 826 million), as well as optimize the equity structure of the company, by appropriating about Euros 409 million to reserves. The shareholders' meeting approved the transaction in December 2007.

On November 16, 2007, Capitalia Partecipazioni S.p.A. sold its 81,665,400 Pirelli & C. S.p.A. ordinary shares (equal to about 1.56 percent of ordinary share capital) that had been conferred to the Pirelli & C. S.p.A. Shareholders' Agreement pro-rata to the other participants in the Agreement.

On November 27, 2007, Pirelli inaugurated the second factory of the Group in China, in the Shandong Province, where the production of high-performance tyres has commenced. Pirelli's investment to build the new factory amounted to almost USD 100 million.

On December 17, 2007, Pirelli & C. Real Estate was awarded the mandate for the management of a non-performing loan portfolio that originated from Banca Antonveneta and the subsidiary Interbanca, the gross book value of the portfolio amounts to approximately Euros 2.6 billion.

On December 21, 2007, City of Milan, Lombardy Region and Pirelli Real Estate representing the promoters of the Progetto Grande Bicocca (Italian and foreign real estate investment funds and cooperatives) signed a protocol agreement which modifies the Program Agreement dated July 6, 2003 and calls for new additions to complete the project.

Group consolidation

In this report on operations, in addition to the financial performance measures established by IFRS, certain non-IFRS measures originated from the latter are presented although they are not required by IFRS (Non-GAAP Measures).
These performance measures are presented for purposes of a better understanding of the trend of operations of the Group and should not be construed as a substitute for the information required by IFRS.
Specifically, the Non-GAAP Measures used are described as follows:
— **Gross operating profit**: this financial measure is used by the Group as the financial target in internal business plans and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group as a whole and for each single segment, in addition to the Operating Profit. The Gross Operating Profit is an intermediate performance measure represented by the Operating Profit from which depreciation and amortization are subtracted.
— **Earnings (losses) from investments**: earnings (losses) from investments consist of all the effects recorded in the income statement referring to investments that are not consolidated line-by-line. These include dividends, the share of the earnings (losses) of companies accounted for using the equity method, impairment losses on available-for-sale financial assets and gains (losses) on the disposal of available-for-sale financial assets. Changes in the fair value of available-for-sale financial assets which are recognized directly in equity are excluded.
— **Net financial (liquidity)/debt position**: this performance measure is represented by the gross financial debt less cash and cash equivalents as well as other interest-earning financial receivables. The notes present a table that shows the balance sheet amounts used to calculate the net financial (liquidity)/debt position.

The official opening of the Chinese Yanzhou car-tyre factory.

The highlights of the consolidated financial statements for the year ending December 31, 2007 can be summarized as follows:

GROUP CONSOLIDATION (in millions of Euros)

	12/31/2007	12/31/2006
Net sales	**6,504.5 ***	**4,841.2**
Net sales (excluding DGAG deconsolidation)	5,208.9	4,841.2
Gross operating profit	580.9	614.1
% of net sales (excluding DGAG deconsolidation)	11.2%	12.7%
Operating profit	366.9	401.4
% of net sales (excluding DGAG deconsolidation)	7.0%	8.3%
Earnings (losses) from investments	195.3	790.7
Operating profit (loss) incl. earnings (losses) from investments	562.2	1,192.1
Financial income (expenses)	(138.2)	(143.1)
Income taxes	(133.5)	(127.8)
Income from continuing operations	**290.5**	**921.2**
% of net sales (excluding DGAG deconsolidation)	5.6%	19.0%
Income (loss) from discontinued operations	**33.1**	**(1,970.0)**
Total income (loss)	**323.6**	**(1,048.8)**
Income (loss) attributable to the equity holders of Pirelli & C. S.p.A.	164.5	(1,167.4)
Earnings per share (in Euros)	0.031	(0.217)
Total equity	3,804.1	4,686.6
Equity attributable to the equity holders of Pirelli & C. S.p.A.	2,980.2	3,879.6
Equity per share (in Euros)	0.555	0.723
Net financial (liquidity)/debt position	(302.1)	1,979.6
Capital expenditures	287	255
R&D expenditures	173	171
Employees (number at year-end)	30,813	28,617
Factories	24	24
PIRELLI & C. SHARES OUTSTANDING		
ordinary shares (number in millions)	5,233.1	5,233.1
savings shares (number in millions)	134.8	134.8
Total shares outstanding	**5,367.9**	**5,367.9**

* of which, the impact of the DGAG deconsolidation is Euros 1,295.6 million

For a more meaningful understanding of the performance of the Group in its various segments of business, the following economic data and the net financial position are provided by business segment.

CONTINUING OPERATIONS - 12/31/2007 (in millions of Euros)

	Tyre	Real Estate	Broadband	Other businesses	Other	Total
Net sales	**4,161.7**	**2,148.7 ***	**117.1**	**71.4**	**5.6**	**6,504.5**
Net sales (excluding DGAG)	-	853.1	-	-	-	5,208.9
Gross operating profit (loss)	548.6	61.8	(11.1)	(7.6)	(10.8)	580.9
Operating profit (loss)	358.1	50.4	(13.5)	(8.5)	(19.6)	366.9
Earnings (losses) from investments	1.5	186.1	-	(0.3)	8.0	195.3
Operating profit (loss) incl. earnings from investments	359.6	236.5	(13.5)	(8.8)	(11.6)	562.2
Financial income (expenses)	(55.2)	(41.5)	(3.9)	(0.5)	(37.1)	(138.2)
Income taxes	(93.9)	(34.1)	-	(0.5)	(5.0)	(133.5)
Income (loss) from continuing operations	210.5	160.9	(17.4)	(9.8)	(53.7)	290.5
Net financial (liquidity)/debt position	**559.6**	**289.7**	**21.5**	**5.6**	**(1,178.5)**	**(302.1)**

* including Euros 1,295.6 million from the DGAG deconsolidation

CONTINUING OPERATIONS - 12/31/2006 (in millions of Euros)

	Tyre	Real Estate	Broadband	Other businesses	Other	Total
Net sales	**3,949.5**	**702.0**	**129.4**	**69.0**	**(8.7)**	**4,841.2**
Gross operating profit (loss)	533.7	113.1	1.1	0.5	(34.3)	614.1
Operating profit (loss)	342.3	103.7	(0.3)	(0.2)	(44.1)	401.4
Earnings (losses) from investments	(2.4)	110.7	(1.0)	-	683.4	790.7
Operating profit (loss) incl. earnings from investments	339.9	214.4	(1.3)	(0.2)	639.3	1,192.1
Financial income (expenses)	(54.1)	(3.1)	(1.6)	(0.1)	(84.2)	(143.1)
Income taxes	(86.5)	(49.3)	(0.4)	(0.5)	8.9	(127.8)
Income (loss) from continuing operations	199.3	162.0	(3.3)	(0.8)	564.0	921.2
Net financial (liquidity)/debt position	**601.5**	**96.4**	**13.1**	**-**	**1,268.6**	**1,979.6**

NET SALES

Net sales in 2007 including nonrecurring effect of the deconsolidation of DGAG activities (PRE Group) amount to Euros 6,504.5 million, with an increase of 34.4 percent compared to Euros 4,841.2 million in 2006. Excluding the effect of the above deconsolidation, net sales are equal to Euros 5,208.9 million and increased by 7.6 percent compared to the prior year.

Excluding the foreign exchange effect (-1.1 percent), the change on a like-for-like basis is equal to 8.5 percent.
A percentage breakdown of net sales by business segment is as follows:

	2007	2006
Pirelli Tyre	80.1%	81.5%
Pirelli Real Estate	16.4%	14.4%
Pirelli Broadband Solutions	2.2%	2.7%
Other businesses	1.3%	1.4%

A percentage breakdown of net sales on a like-for-like basis by business segment is as follows:

Pirelli Tyre	+ 6.5%
Pirelli Real Estate	+ 21.5%
Pirelli Broadband Solutions	- 9.5%
Other businesses	+ 3.5%
Total change on a like-for-like basis	**+ 8.5%**
Foreign exchange effect	- 1.1%
Net sales for DGAG deconsolidation	+ 27.0%
Total change	**+ 34.4%**

OPERATING PROFIT

Operating profit in 2007 amounts to Euros 366.9 million, representing 7.0 percent of net sales compared to Euros 401.4 million in the prior year (8.3 percent of net sales).

The change in operating profit by business segment is the following (in millions of euros):

Operating profit 2006	**401.4**
Pirelli Tyre	15.8
Pirelli Real Estate	(53.3)
Pirelli Broadband Solutions	(13.2)
Other businesses	(8.3)
Other	24.5
	(34.5)
Operating profit 2007	**366.9**

OPERATING PROFIT INCLUDING EARNINGS (LOSSES) FROM INVESTMENTS

Operating profit including earnings (losses) from investments in 2007 is Euros 562.2 million compared to Euros 1,192.1 million in the prior year.
The change by individual business segment is as follows (in millions of euros):

Operating profit post-investments 2006	**1,192.1**
Pirelli Tyre	19.7
Pirelli Real Estate	22.1
Pirelli Broadband Solutions	(12.2)
Other businesses	(8.6)
Other *	(650.9)
	(629.9)
Operating profit post-investments 2007	**562.2**

* The loss for 2006 included gains realized on the sale of the 38.9 percent stake in Pirelli Tyre S.p.A. (Euros 416.4 million) and the investment in Capitalia S.p.A. (Euros 215.2 million).

INCOME

Income from continuing operations in 2007 is Euros 290.5 million, compared to Euros 921.2 million in 2006, which included nonrecurring items relating to gains realized on the sale of the 38.9 percent stake in Pirelli Tyre S.p.A. and the investment in Capitalia S.p.A., besides the costs for the Pirelli Tyre S.p.A. IPO project.

Income from discontinued operations is Euros 33.1 million and includes the negative effect resulting from the sale of Olimpia S.p.A. (Euros 53.8 million). It also comprises the gain of Euros 91 million on the sale to Goldman Sachs of the warrants obtained under the July 2005 sales agreement for the Energy and Telecom Cables and Systems businesses and connected with the economic benefits on Prysmian (Lux) S.à.r.l. and an adjustment of the accrual connected with the guarantees provided following that sale for Euros 4 million.
The loss of Euros 1,970 million in 2006 was due to the writedown of Olimpia S.p.A. (Euros 2,110 million) offset by a positive amount of Euros 170 million as a result of accounting for Olimpia S.p.A. using the equity method, in addition to a negative amount of Euros 30 million for the price adjustment relating to the sales contract for the Energy and Telecom Cables and Systems businesses.

Total income in 2007 is Euros 323.6 million (Euros 0.031 per share), compared to a loss of Euros 1,048.8 million in 2006 (-Euros 0.217 per share).

Income attributable to the equity holders of Pirelli & C. S.p.A. in 2007 is Euros 164.5 million, compared to a loss of Euros 1,167.4 million in 2006.

EQUITY

Equity went from Euros 4,686.6 million at December 31, 2006 to Euros 3,804.1 million at December 31, 2007. The change that can be summarized as follows:

EQUITY (in millions of Euros)

Translation differences		7.7
Income for the year		323.6
Dividends to third parties paid by:		(74.4)
- Pirelli Tyre S.p.A.	(27.2)	
- Pirelli & C. Real Estate S.p.A.	(42.9)	
- Other Group companies	(4.3)	
Share capital reduction		(826.3)
Pirelli & C. Real Estate S.p.A. treasury share purchases/sales		(53.0)
Purchase of Pirelli & C. Real Estate S.p.A. shares		(24.0)
Change in fair value of available-for-sale financial assets		(102.1)
Net actuarial gains (losses) on employee benefits		2.6
Gains (losses) transferred to income statement upon disposal of available-for-sale financial assets or when there are impairment losses		(118.1)
Purchase of minority interests in Tyre companies (Turkey and China)		(15.9)
Other changes		(2.6)
		(882.5)

The reconciliation between the equity of the parent, Pirelli & C. S.p.A., and the consolidated equity attributable to the equity holders of the parent is as follows:

RECONCILIATION BETWEEN EQUITY PIRELLI & C. S.P.A. AND CONSOLIDATED EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS (in millions of Euros)

	Share capital	Reserves	Income (loss)	Total
Equity - Pirelli & C. S.p.A. at December 31, 2007	**1,556**	**419**	**101**	**2,076**
Results for the year of consolidated companies (pre-consolidation adjustments)	-	-	190	190
Capital and reserves of consolidated companies (pre-consolidation adjustments)	-	1,429	-	1,429
Consolidation adjustments:				
- carrying amount of investments in consolidated companies	-	(727)	-	(727)
- intragroup dividends	-	652	(652)	-
- other	-	(514)	526	12
Consolidated equity - group at December 31, 2007	**1,556**	**1,259**	**165**	**2,980**

NET FINANCIAL POSITION

The consolidated net financial position of the Group went from a debt position of Euros 1,979.6 million at December 31, 2006 to a liquidity position of Euros 302.1 million at December 31, 2007.

The change during the year can be summarized in the following cash flows:

NET FINANCIAL POSITION (in millions of Euros)

Cash flows used in ordinary activities	298.5
Financial and tax income (expenses)	(271.7)
Sale of Olimpia S.p.A. investment	3,329.0
Payable for reimbursement of share capital	(826.3)
Proceeds from sale of Prysmian warrants	91.0
Purchase of RCS shares	(8.1)
Purchase of Pirelli & C. Real Estate shares	(54.2)
Investments in funds and Baubecon - Pirelli & C. Real Estate	(110.3)
Pirelli & C. Real Estate treasury shares purchases/sales	(52.8)
Purchase of 12.4% stake in Avanex	(33.4)
Dividends paid	(74.4)
Other	(5.6)
Change in net financial position	**2,281.7**

CAPITAL EXPENDITURES

Capital expenditures in property, plant and equipment total Euros 287 million. The ratio of capital expenditures to depreciation is 1.4.
Capital expenditures are principally concentrated in the Tyre Sector and directed to the development of innovative processes, the increase in production capacity for the premium tyre range and the launch of new products.

Research & development expenditures

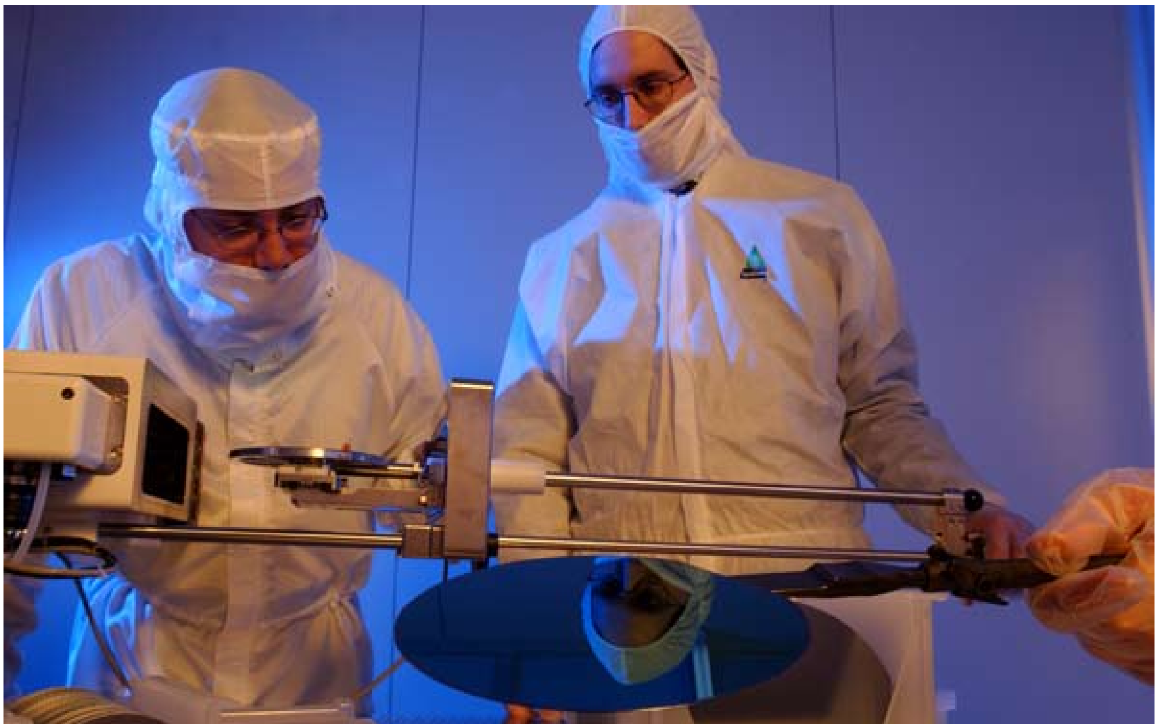
The Pirelli Group places its capacity to innovate products and processes and to evaluate new opportunities arising from continuing research at the heart of its growth strategy.

R&D expenditures borne by the Group and completely expensed to income went from Euros 171 million in 2006 to Euros 173 million in 2007. R&D as a percentage of net sales is 3.3 percent (excluding DGAG).

With regard to **Pirelli Tyre**, Euros 148 million was spent on research activities, focusing on the following:
— developing new products;
— applying innovative solutions associated with the use of materials;
— product innovating, with the aim of augmenting safety;
— developing the future generation of the MIRS™ (Modular Integrated Robotized System) process, the revolutionary robotized production system patented by Pirelli, and the hi-tech CCM™ Continuous Compound Mixing method;
— developing the Cyber Tyre, the 'intelligent' tyre that supplies useful information to on-board electronic systems.

In the Pirelli Labs **Materials Innovation** laboratories, activities continued directed to the continual research of innovation in the Tyre business, the support of initiatives with Pirelli Real Estate on innovative building materials and the development of research into materials.

Research activities in Pirelli Labs.



In particular, with regard to the activities of the Tyre sector, expertise in sensor systems in general, and, in particular, for the systemic and technical aspects of modeling and identifying sensor parameters in the field, was applied to a project that involves the use of innovative tyre sensor systems to determine parameters of fundamental importance in terms of the interaction between the tyre and the road, with important ramifications in terms of the safety of cars on the road.
Activity with Pirelli RE continued, with the development of the product for acoustic insulation from footfalls/overhead noise. This product is made with recycled rubber (made from end-of-life tyres) and a special water-based binder developed by Pirelli Labs and certified by INRIM (National Institute of Metrological Research) in Turin. The product was used in about 1,000 m2 of floor in residential buildings. Tests conducted by external testing agencies have confirmed its excellent acoustic performance, which well exceeds legal requirements (DPCM – Decree of the President of the Council of Ministers of December 5, 1997).
With regard to other activities, collaboration continued in 2007 with Telecom Italia in the sphere of telecommunications on innovative materials. For example, new models of antenna were studied and implemented which, when integrated with ADSL routers using WI-FI access technology, resulted in excellent performance. The new models are incorporated in some of the products being marketed by Pirelli Broadband Solutions.
Another study involved intelligent antenna systems. They consist essentially of an arrangement of passive radiating elements which can be selected, when the conditions of the radio signals vary, to capture the best-quality signal.
As for the Distributed Sensor Networks sector, in 2007, work continued to optimize and develop the product, from the standpoint of general purpose platform and specific applications, for monitoring traffic and environment flow.
With regard to products/systems for monitoring traffic flow, work moved forward on the engineering of the proprietary sensors and operation and control system, on which testing has begun, both in the laboratory and in the field.

As for systems for monitoring the environment, various joint experiments with public entities have produced positive results, particularly an important test conducted in Parma with the CNR (National Research Council) and financed by the Ministry of the Environment. Tests were also completed on the instrumentation required by the certification process by the national body responsible for environmental monitoring. Collaboration also continues with Telecom Italia and Sartec, a well-established player in the environmental monitoring sector, on activities geared to defining and developing the market.
In Fuel Cells research, activities focused on the development of materials for highly-efficient components for polymeric cells fed directly with methanol (DMFC) and for Solid Oxide Fuel Cells (SOFC).
Research continued on selected topics in the field of quantum optical networks. The studies were mainly conducted within the sphere of the two European projects QAP and SINPHONIA. Pirelli contributed effectively to the work program by optimizing a superconducting detector to count single photons.

Integrated antenna ADSL modems developed by Pirelli Broadband Solutions.

In collaboration with ENEA, joint development work continued, with promising preliminary results in phenomena of energy generation in palladium hydride (cold fusion). The aim is to try to clarify controversial aspects for the development of solutions geared to the possible future production of energy.
Again within the sphere of the partnership with ENEA and in collaboration with Telecom Italia, innovative photovoltaic systems were developed and installed at the Telecom Italia telephone exchange at Naples Barra in parallel with the construction and installation of an experimental measuring station for photovoltaic systems.

The activities of Pirelli Labs in **Optical Innovation** focused on three main areas: photonics nanotechnologies, optical modules and systems and electronic network access devices.
In the field of photonics nanotechnologies, work began on the development of an optical tunable laser in a butterfly package, which exploits the technological platform of the tunable laser with the addition of an indium-phosphide external modulator. Work also began to develop a planar optical tunable laser modulable directly without using an external modulator, up to 10 Gbit/s. It will be possible to incorporate this laser in an optical transmitter that can be placed in a miniaturized pluggable module that conforms to the XFP standard. Within the same sphere of development, work is under way to create a Mach-Zehnder type optical filter that can be inserted into the actual transmitter so as to permit a propagation distance of at least 120 km without any optical regeneration.

Work on the engineering phase of an integrated optical device to compensate for broadband chromatic dispersion has been completed. The device will have possible applications by being integrated either in a tunable laser or in an optical fiber line to replace the sections currently used for compensation.
In the field of optical modules and systems, work continues to develop the light WDM system, with the aim of integrating the functions of the coarse WDM and dense WDM systems on the same platform and guaranteeing sufficient capacity to transport broadband services in metropolitan and regional access networks at a low cost.
Work began to design and develop an innovative WDM PON access system which exploits photonics technologies to guarantee that users have access to broadband at a competitive cost compared to the current GPON-type TDM systems. This system is based on a photonics component that achieves integration between laser arrays, indium-phosphide photodiodes and silicon passive optical circuits.
In the field of electronic devices for access networks, work has been completed on the first phase of a study to solve the co-existence problems of domestic telecommunications networks, such as powerline, operating in the same building.
By inserting electric filtering devices and suitable software control protocols, it proved possible to have up to 10 simultaneous connections using streaming data flows at 30 Mbit/s.
A feasibility study was also completed at Georgia Tech in Atlanta (U.S.A.) on a wireless home networking solution with a high capacity (2.5 Gbit/s) operating on millimetric wave bands (60 Ghz).

Significant events subsequent to the end of the year

On January 16, 2008, Acea and Pirelli Ambiente announced that the 50-50 A.PI.C.E. joint venture will operate in the sector of sources of renewal energy from waste and will combine Acea's expertise and territorial roots with Pirelli Ambiente's experience and technology to carry out projects aimed at the manufacture of CDR-Q, a fuel derived from quality waste which will used in thermo-electric power plants and cement factories.

On January 17, 2008, Pirelli unveiled the new Cinturato Pirelli. The tyre that set the pace for traveling in style in Italy and in the world starting from the mid-fifties has been reproposed in a new version which combines all of the very best in state-of-the art technologies, safety and ecosustainability.

On February 1, 2008, the new Group company PGT Photonics was formed. It will operate in the sphere of second-generation photonics based on nanotechnologies.
This company is the result of the integration of the photonics business unit of Pirelli Broadband Solutions and the Pirelli Labs Optical Innovation Division. The aim is to create ever-

The Pirelli Cinturato: a historical name for a tyre with state-of-the-art technological content.

greater synergies between research and business development activities. The company will focus on the areas of innovative optical components, optical modules and transport systems.
At the same time, Pirelli Broadband Solutions will concentrate its business activities on broadband access, which increasingly involves market dynamics and technological dynamics which are different from photonics.

On February 22, 2008, Piedmont Region, Province of Turin, City of Settimo Torinese, the Politecnico University of Turin and Pirelli Group sealed a collaboration agreement aimed at developing research and innovation programs under the project to build a new Pirelli industrial hub in Settimo Torinese.
Pirelli plans to invest about Euros 140 million in the Settimo Torinese project.

On February 28, 2008, Pirelli RE SGR and First Atlantic RE SGR concluded an agreement to transfer the management of Berenice Fondo Uffici, receiving the go-ahead from Zwinger which holds more than 90 percent of the shares. Zwinger has committed to acquiring 5 percent of the shares held by SGR for a total of Euros 19.6 million.

On March 11, 2008, Pirelli & C. S.p.A. reached an agreement to acquire the entire share capital of Speed S.p.A., a company in which interests are held by leading financial institutions (Intesa Sanpaolo, Gruppo Banca Leonardo, UniCredit, One Equity Partners – JP Morgan Group, Lehman Brothers and Mediobanca) and, the holder, since August 2006, of the 38.9 percent stake in Pirelli Tyre S.p.A., for Euros 434.4 million which was financed by the company's liquid resources. The price takes into account a payable by Speed S.p.A. of Euros 401.1 million. The transfer of the Speed S.p.A. shares took place at the closing on March 12, 2008, except for a 19.19 percent stake which is expected to be transferred to Pirelli in July 2008.

On March 19, 2008, a consortium consisting of RREEF, GREF (Generali Group), Borletti Group and Pirelli RE sealed a binding agreement with Karstadt Quelle AG (Arcandor Group) for the purchase of a 49 percent stake in Highstreet, an investment company which holds the majority of the buildings leased to large German department stores.

During the first quarter of 2008, Pirelli & C. S.p.A. purchased 687,000 Pirelli & C. Real Estate S.p.A. shares on the market for a total Euros 15.8 million, bringing its interest to 55.28 percent.

Outlook for the current year

Despite the difficulties in the global economy and the sector as a whole, the continuous increase in the prices of production factors and the strengthening of the euro, **Pirelli Tyre** expects to record a slight growth during the current year compared to 2007.

Bearing in mind the general economic and financial scenario, in 2008, **Pirelli Real Estate** expects to report operating profit including earnings from investments in line with that of the prior year, net of the effects of the temporary consolidation of DGAG.

Therefore, in 2008, **Pirelli & C. S.p.A. Group** forecasts that the overall operating profit of its businesses will be in line with that of the prior year, unless external extraordinary events occur which cannot be foreseen at this time.

Pirelli Tyre

The economic and financial results reached in 2007 increased from 2006 and can be summarized as follows:

PIRELLI TYRE (in millions of Euros)

	12/31/2007	12/31/2006
Net sales	4,161.7	3,949.5
Gross operating profit	548.6	533.7
- % of net sales	13.2%	13.5%
Operating profit	358.1	342.3
- % of net sales	8.6%	8.7%
Earnings (losses) from investments	1.5	(2.4)
Operating profit (loss) incl. earnings (losses) from investments	359.6	339.9
Financial income (expenses)	(55.2)	(54.1)
Income taxes	(93.9)	(86.5)
Income	210.5	199.3
- % of net sales	5.1%	5.0%
Net financial (liquidity)/debt position	559.6	601.5
Capital expenditures	262	224
R&D expenditures	148	147
Employees (number at year-end)	27,224	25,169
Factories (number)	24	24

NET SALES

Net sales exceeded the threshold of Euros 4 billion, reaching Euros 4,161.7 million, with an increase of 5.4 percent compared to Euros 3,949.5 million in 2006 (organic growth, net of exchange differences, is 6.5 percent). The increase in net sales was driven by higher volumes (+1.8 percent), despite the sluggish performance of the Winter segment in Western Europe in the last quarter, and especially the price/mix trend (+4.7 percent), due especially to the increasing concentration on segments with high added value.

The foreign exchange component was a negative figure (-1.1 percent), mainly due to the loss of value of the U.S. dollar.

The distribution of net sales by geographical area and product category is as follows:

GEOGRAPHICAL AREA

	2007	2006
Italy	10%	11%
Other European countries	38%	40%
North America	8%	8%
Central and South America	28%	26%
Africa/Asia/Pacific	16%	15%

PRODUCT CATEGORY

	2007	2006
Car tyres	61%	62%
Truck tyres	28%	28%
Motorcycle tyres	8%	8%
Steelcord/Other tyres	3%	2%

Sales growth continued in markets with a higher growth rate, most in particular as a result of higher production capacity in those areas (particularly China, South America and Romania to support development in Eastern Europe).

Pirelli P Zero is confirmed as the benchmark tyre for supercars.

Sales in North America are higher on a comparable exchange basis but remain unchanged in percentage terms due to the cited foreign exchange effect.
The composition of sales remains more or less the same in the various product categories.

GROSS OPERATING PROFIT

Gross operating profit (EBITDA) is Euros 548.6 million (13.2 percent of net sales), an increase of 2.8 percent compared to Euros 533.7 million in 2006.

OPERATING PROFIT

Operating profit is Euros 358.1 million, up 4.6 percent compared to Euros 342.3 million in 2006, with the percentage of operating profit to net sales at 8.6 percent, which is basically in line with the prior year.
The growth of volumes and the price/mix trend, combined with actions to raise productivity and reduce costs, more than compensated, in amount, the higher price of production factors and the negative exchange effect. In spite of the actions undertaken, the Company maintained a high level of R&D expenditures.

Details of the growth in the operating profit of Euros 15.8 million compared to 2006 can be summarized as follows (in millions of euros):

Operating profit 2006	**342.3**
Foreign exchange effect	(6.1)
Prices/mix	84.6
Volumes	33.1
Production factors per unit cost	(57.6)
Efficiencies	15.5
Depreciation and other	(53.7)
	15.8
Operating profit 2007	**358.1**

INCOME

Income in 2007 is Euros 210.5 million (after earnings from investments equal to Euros 1.5 million, financial expenses of Euros 55.2 million and income tax expenses of Euros 93.9 million), compared to income of Euros 199.3 million (after losses from investments equal to Euros 2.4 million, financial expenses of Euros 54.1 million and income tax expenses of Euros 86.5 million).

NET FINANCIAL POSITION

Cash flows continued to be generated by the company, with net financial debt at the end of 2007 equal to Euros 559.6 million, a decrease of Euros 41.9 million compared to the end of 2006 (Euros 601.5 million), after the payment of dividends for Euros

69.9 million to the shareholders (Speed S.p.A. Euros 27.2 million and Pirelli & C. S.p.A. Euros 42.7 million). The reduction in debt occurred despite undertaking an investment plan that is higher from a financial standpoint compared to prior years, particularly at the new manufacturing sites.

EMPLOYEES

There are 27,224 employees at December 31, 2007 including 2,665 employees with temporary contracts and 816 temp employees. Compared to December 31, 2006, there was an increase of 229 management and staff due mostly to an increase in operations in China and Romania.
As regards the blue-collar work force, the number increased by 1,826 (of whom 1,535 are in permanent positions and 291 with temporary contracts and temp work) due basically to the growth of operations in Brazil, Romania and China.

Consumer market

The Consumer line includes tyres for vehicles generally used by private individuals: for example, tyres for cars, SUVs, vans and motorcycles.
In 2007, there was an overall growth in sales and profitability compared to 2006, thanks to higher volumes and a better price and product mix.
In particular, sales amount to Euros 2,862 million (+4.6 percent) and operating profit from ordinary operations reached Euros 252.5 million (+4.9 percent), with a ROS of 8.8 percent.

In the **Car/Light Truck** segment, Pirelli's business grew in North America in a context of a substantially steady demand for replacements and a decline in original equipment. On the other hand, the segment benefited from higher demand in South America where growth was particularly evident in the original equipment segment.
In Europe, as well, volumes increased in original equipment and in the premium segments of the replacements channel. The only exception was the winter tyres segment which was affected by the contraction in the demand, especially in the last quarter.
Sales in the Asia/Africa/Pacific area increased significantly, reflecting investments in the area.
In November 2007, the Pirelli Group's second Chinese production unit was inaugurated in Shandong Province and is entirely devoted to car tyre production.
Investment in the new factory amounts to almost USD 100 million and, during the initial phase, should ensure the Group a capacity of 3 million pieces a year and provide work for about 1,000 employees.
The production of the new factory will mainly be earmarked for China and the Asia/Pacific markets, but thanks to the fact that the products can be totally integrated, they will also be sent to other areas, including North and South America.

2007 saw the launch on the world market of P Zero the Hero, the new ultra high performance tyres developed for 'supercars'. Since its launch, the new P Zero has been awarded numerous homologations as original equipment for the latest and most prestigious supercars, including the Ferrari 599 GTB Fiorano, the Lamborghini Murciélago and Gallardo, the Audi R8 and S8, the Aston Martin DB9, the Maserati Quattroporte, the Jaguar XK and the Mercedes AMG.

Sales in the **Motorcycle** segment increased in 2007 at a rate that was higher than the average for the market, which nevertheless grew compared to the prior year.
In the replacements channel, the most significant growth was reported in North and South America, Europe and Japan.
There was a positive sales trend in the original equipment channel, especially in South America and Europe, with important homologations such as the Kawasaki ZX 10 R, the Ducati Hypermotard S and the KTM 990 Super Duke, the Buell 1125R (fitted with Diablo Corsa III), the MV F4 312, the KTM RC8 (with Dragon Supercorsa PRO), the Aprilia Mana 850 (with Scorpion Sync), and the Ducati 1098R (with Diablo Supercorsa SP). Other homologations for scooters included the Gilera GP800, the Gilera Fuoco 500 and the Honda SH 300.
The Metzeler brand received homologations for the Honda Transalp 700 fitted with the Tourance, the Moto Guzzi Bellagio 940 fitted with the Roadtec Z6, the Triumph Speed Triple and the Aprilia Shiver 750 fitted with the Sportec M3 and the Yamaha XT660Z Tenere fitted with the Tourance.
In the product line for top racing models, Pirelli again headed the field. The most important results include confirmation of Pirelli's role as Official Tyre Supplier for the World Superbike

The Belgian Kevin Strijbos with Suzuki in the MX1 World Motocross Championship.

Championship and the breaking of one record after another, confirming that Pirelli tyres are constantly improving their performance.
In the off-road segment, there were more victories in the MX1 category of the World Motocross Championship and in the European MX3 category. For the third year running, the Metzeler brand won the World Enduro Championship in all three of the E1, E2 and E3 categories. There were significant results in Road Racing in the National European Championships and in championships held outside Europe. In North America, Pirelli is the exclusive supplier of the Canadian Superbike Championship and the SunTrust MOTO-ST series organized by Grand Am.

Industrial market

The Industrial line is for vehicles for the professional transportation of goods or passengers. Products of this line include tyres for trucks, buses, earth-moving equipment and farm machinery. The Industrial line also includes the production of steelcord, the technological component used to produce high-performance radial tyres, mainly for this line.

In the **Industrial** business area, net sales amount to Euros 1,300 million, with an increase of 7.1 percent compared to the prior year. The operating profit from ordinary operations is Euros 105.6 million, an increase compared to 2006 (+3.8 percent). As a percentage of sales, this represents 8.1 percent, slightly less (-0.3 percent) than in 2006, mainly due to the cost of natural rubber and steel, which was not totally compensated by the price/mix trend.
In the segment of tyres for Trucks, in Europe, the replacements channel reported strong growth during the first half and fairly steady growth during the second, whereas original equipment reported constantly high growth throughout the year.
In both channels, the increase was mainly driven by the growth of the Eastern European markets.
In South America, the market reported significant growth rates, both in the replacements channel, driven by the strong demand from the agricultural sector, and especially in the original equipment channel, with a high demand for new vehicles, especially in Brazil, thanks to the agricultural sector and the overall positive economic situation.
In Africa and the Middle East, the trend of replacing conventional tyres with radial tyres continues, while, in China, the market continues to report growth of more than 10 percent.
In this context of global demand, Pirelli succeeded in significantly increasing its volumes in the South American and Asia/Pacific markets, and undertook a further selection of the mix/focus on the premium lines in Europe, Africa and the Middle East. The price of natural rubber, which stabilized in the second and third quarter, increased again (although attenuated by the progressive loss of value of the U.S. dollar) in the last quarter of the year, and especially at the beginning of 2008, partly due to the continuous rise in the price of oil.

Steelcord sales up by 4% in 2007.

Sales volumes and production of the **steelcord** line increased by 4 percent in 2007 compared to the prior year. The increase also involved third-party customers and was focused on products with complex applications and a high technological content. Demand worldwide increased by about 6 percent, driven principally by the Chinese market, where consumption increased by almost 25 percent. Strong growth rates were also reported in South America and Eastern Europe, supported by the continuous process of relocation and expansion of production facilities to those areas. The absorption of mature markets such as North America and Western Europe was again down, whereas consumption was constant in Japan and South Korea.
From the standpoint of technological evolution, high-resistance cords made with special steel and special treatments are continuing to become more widespread. The ever-growing focus of the Steelcord business unit in cord with high added value is consistent with the maximum commitment that is being placed on know-how.
In the industrial area, growth continues in low-cost areas, where, in 2007, these accounted for more than 70 percent of finished product capacity. During 2007, work continued on the large-scale expansion of the production capacity of the plants at Sumarè in Brazil and the plant opened in 2005 at Slatina in Romania.
The company S.C. Cord Romania, in collaboration with Continental, not only constitutes an opportunity to develop European production capacity at a competitive cost, but also consolidates an industrial and commercial partnership which began in 1972 with Drathcord Saar in Germany.

Capital expenditures

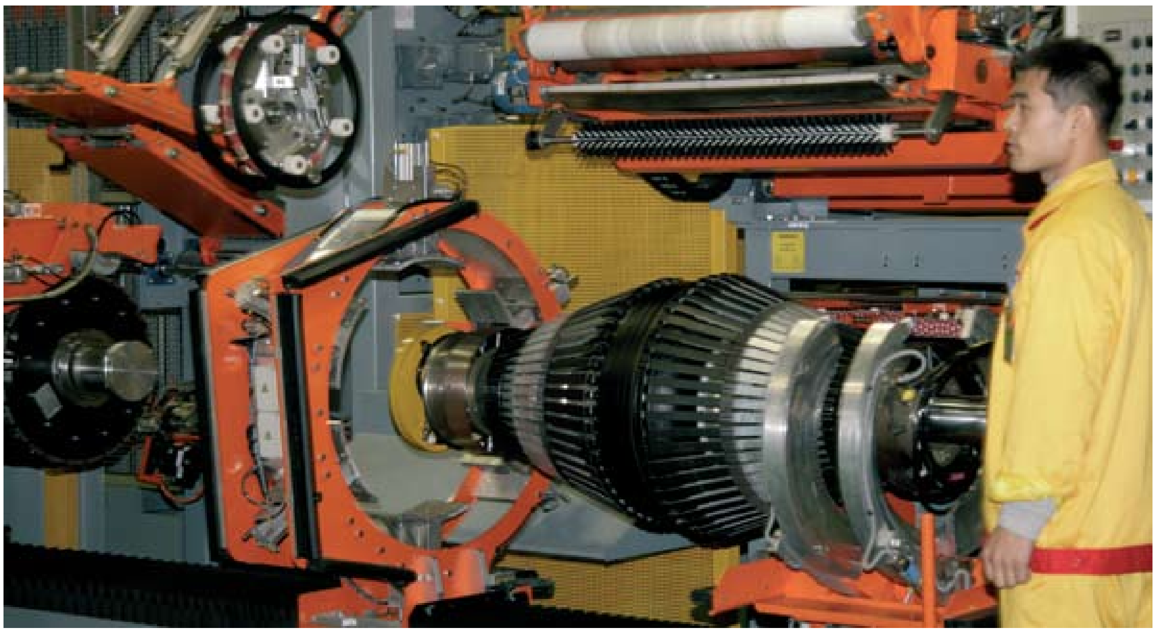
Capital expenditures in fixed assets amounted to Euros 262 million, compared to Euros 224 million in 2006.
Capital expenditures in factories represent 92 percent of the total (the remainder was absorbed by other corporate functions and by the commercial subsidiaries and associates). In line with the strategy of the Group and market demand, investments were made in the development of innovative processes, expansion of production capacity, especially in low-cost areas, and in the continuous increase of high-performance tyre production and the launch of new products.

Specifically with regard to capital expenditures by major product line:

— *Car*: In the field of innovative processes, installation began of the new Next MIRS production plant, an outgrowth of Pirelli's robotized tyre production system (MIRS).
With regard to traditional processes, in European factories, concentration of the production capacity on the 'high-performance' product range and the upgrading of installed machinery continued. With the aim of meeting increased market demand while at the same time reducing production costs, a greater boost was given to increasing production in geographical areas with low costs. In particular, a new factory was opened at Yanzhou in China and expansion continues in order to augment the capacity of the factory at Slatina in Romania. In Turkey, a new production unit for Motorsport tyres was opened at the factory in Izmit.

— *Truck – all steel*: In line with Group strategy, the increase of production capacity was concentrated in the low-cost areas of Brazil, Egypt and China with actions aimed at debottlenecking.

Production stage in the Yanzhou factory.



In the sphere of innovative processes, at Settimo Torinese, the installation of machinery for producing products with the innovative SATT (Spiral Advanced Technology for Trucks) derived from MIRS technology continued. Installation of this production process has begun at the factory in Izmit.

— *Steel Cord*: The expansion plan continued to move forward, especially in the new factories in Romania and Brazil, whereas the activities to develop prototypes for new products and materials are concentrated in Italy.

Research & Development expenditures

In 2007, R&D expenditures amount to Euros 148 million. Traditionally this activity has focused on the development of new high-performance products (e.g. UHP, Winter, Runflat, SUV and motorcycle tyres), by exploiting technological components and very advanced know-how which are the result of intensive research in the areas of materials, design, profiles, tread patterns and processes.
To sustain improvement and innovation of the product portfolio, research continues to find innovative solutions through the study and application of new types of polymers and nanotechnologies and new textile and hybrid fibers which make it possible to further increase the performance level of the product. In 2007, much effort was also devoted to augmenting tyre safety. During the year, new research agreements were signed with some of the most prestigious universities worldwide. A far-reaching collaboration agreement was reached with the Faculty of Industrial Automation at the University of Craiova (Romania) which, among other things, includes the development of RFID, a system for monitoring tyre production phases (remotely by radio waves from a chip).

Furthermore, in the sphere of open innovation (technological collaboration between Pirelli, its most significant suppliers and customers in terms of technology and numerous universities around the world), an important five-year agreement was signed with the Politecnico University di Torino with the aim of further developing hi-tech production processes and products based on Pirelli technology. With regard to processes, they will be working on the next generation of MIRS™ (Modular Integrated Robotized System), the revolutionary robotized production system patented by Pirelli, and the CCM™ (Continuous Compound Mixing system). With regard to products, they will be concentrating on developing the Cyber Tyre, the intelligent tyre capable of 'communicating' with the vehicle and created to augment safety on the road.
In the sphere of car tyres, in 2007, Pirelli R&D activities generated products with a high level of technological content.
February saw the launch on the world market of the P Zero the Hero on the racetrack in Dubai. This new ultra high-performance tyre was developed for 'supercars' and derives directly from

Pirelli's experience on the racetrack. In 2007, Pirelli celebrated a century of participation in motor sports. Since its debut, the new P Zero has been enthusiastically received by car manufacturers, many of which have adopted it as original equipment for their top-performing models. In doing so they are taking advantage of a whole range of innovative solutions developed by Pirelli, and protected by five exclusive patents.
Another important milestone was reached in 2007 with the Pirelli Sottozero: for the first time ever, a winter tyre was homologated for speeds of up to 270 km/h. Since 2007, the Pirelli Sottozero has been fitted on a number of supersports cars: Bentley and Aston Martin homologated the Winter 270 SottoZero, respectively for the GT Continental and the DBS.

Finally, 2007 saw the development of the Pirelli Cinturato, the tyre used in F1 racing by Manuel Fangio. Thirty-two years later, the tyre is being relaunched in the name of environmental performance and economy of use. The new Cinturato already conforms to new standards which will come into force in two years time banning the use of highly aromatic oils. Thanks to the development of a new structure, resistance to rolling is significantly reduced in all its components (compounds and strengthening materials), thus contributing to reducing fuel consumption and carbon dioxide emissions. Meanwhile, thanks to the materials and structure of the tread, the new tyre lasts longer in terms of mileage. The Cinturato was launched at the beginning of 2008 and was immediately enthusiastically received by the international Press, having successfully passed the most rigorous tests.
In 2007, in tests organized by the specialized international Press, Pirelli achieved excellent results in terms of performance, both

Developed in 2007, the new Cinturato tyre was launched at the beginning of 2008.

in the summer segment of HP and UHP and in the Winter segment. With regard to the latter, the tests conducted by the ADAC (German automobile club) selected Pirelli for all the applications, from the city-car to the best-performing sedans.
With regard to development activities, Pirelli continues to have close links with car manufacturers. This can be seen in the fact that products of the P Zero range are used on the most recent models of the world's top car companies.
At the Geneva International Motor Show, 20 percent of the cars exhibited were fitted with Pirelli tyres.
In Frankfurt, Bentley fitted the P Zero Rosso on all the models at the show, including the prestigious Brooklands coupè. Audi selected the P Zero for its sports models R8 and RS6.

Pirelli also received important homologations for its ultra-high-performance P Zero Corsa System tyres developed for drivers of supersports cars. These tyres guarantee excellent performance, with excellent roadholding on bends, and good acceleration and braking, whether on dry or wet roads or on the racetrack.
Having been selected as the 'sport tyre option' on the Aston Martin V8 Vantage, it was chosen by Ferrari which presented, in Frankfurt, the F430 Scuderia for the Ferrari Challenge (where Pirelli contributed to the success of driver Bruno Senna, nephew of the legendary Ayrton Senna). Porsche then presented it on its powerful 997 GT2.
In Frankfurt, Pirelli renewed its longstanding alliance with Volkswagen with the new version of the Golf GTI Pirelli, one of the top cars of the '80s, now fitted with the P Zero.
The list of final homologations obtained in 2007 by Pirelli continues with:
the Porsche Cayenne; the Audi Q7 and A4 (also the R8 and RS6); the Mercedes C-Class, S-Class and CLK AMG; BMW's sports models; the FIAT Grande Punto, Cinquecento and Grande Punto Sport Abarth; the Ford Lincoln MKX, Edge, Expedition, Explorer and F150; the Land Rover Range and the New Freelander; the Saab 9-3; the Volkswagen Tiguan, Touran, Golf and Golf GTI Pirelli; the Skoda Octavia Scout and Superb; the Volvo S80, XC70, XC90 and V70; and several Peugeot and Hyundai models.
In 2007, Pirelli technology achieved resounding success in the racing world, especially at the highest level, and demonstrated improved product quality both on the racetrack and in rallies.
On the racetrack, Pirelli continued to win international championships: the FIA GT with the Maserati MC12, Ferrari 430 and Aston Martin BMS, the Le Mans Series and in various national championships.

Finally, the Grand Am series, one of the most exciting championships for prototypes and one of the most popular in the United States (the Daytona myth is part of it), selected the Pirelli P Zero and Pirelli as exclusive supplier for the three-year period 2008-2010.
Pirelli continues its role as partner of the Ferrari Challenge and other single-brand championships (Trofeo Maserati, the Lamborghini Gallardo Challenge, national Porsche Club championships, the Porsche Cup, V8 Supercar championships).
Pirelli is exclusive supplier to the World Rally Championship for the three-year period 2008-2010. At the beginning of 2007, the

Renato Travaglia's Mitsubishi Lacer Evo IX in the 2007 World Rally Championship.

world council of the FIA accepted Pirelli's offer to supply tyres, in recognition not only of its capacity for technological innovation but also its ability to promote young talent and national championships. Pirelli already participates in about 20 national and international rally championships and the IRC (Intercontinental Rally Challenge). One of the many reasons for the decision of the FIA was Pirelli's century-long involvement in motor racing and especially rallies.
2007 also confirmed Pirelli's propensity to focus on technological innovation and extend its product offering by producing systems for controlling correct tyre pressure. After marketing the K-Pressure Optic, an extremely simple device to install (it is screwed onto the valve of the tyre instead of the cap) and just as simple to use (if the pressure of the tyre is sub-optimal, the end of the device changes color), Pirelli is continuing the development, after passing the operating tests, of the Cyber Tyre: a transponder that can detect the temperature, pressure and vertical load of a tyre in real time. Using a resin, it is applied to the whole inner surface of the tread. It requires no batteries, since it produces the energy it needs itself, thanks to a piezoelectric system and the fact that it rotates inside the tyre. It has acquired the rights to a Fioravanti patent which makes it possible to develop a system able to transmit information about the real-time forces which regulate the dynamics of the vehicle through wireless miniature electronic sensors. The aim is to improve the drivability of a vehicle, even in severe conditions, in complete safety.

In the sphere of giant tyres, Pirelli is strengthening its relationship with leading truck manufacturers by working on innovative solutions which make it possible to intervene on such aspects as safety and comfort, but also toughness, reduced resistance to rolling and mileage. Pirelli's longstanding partners in this field are Iveco, FIAT Professional, Mercedes-Benz and DAF.
Numerous models are fitted with Pirelli tyres as original equipment. They include best-sellers such as the Iveco Stralis and Trakker, the Mercedes Actros, the MAN TGA and the DAF

Development of the Diablo Rosso was brought to a close in 2007.

XF105, the last of which won the prestigious 'Truck of the year 2007' award. Yet another confirmation of the high quality of Pirelli's production came from the performance of the PS22: this normally marketed tyre won rally-raid races such as the Baja Aragon in Spain, and came third in its category in the 2007 Lisbon-Dakar.

In the field of motorcycle tyres, in 2007 Pirelli completed development of the Diablo Rosso: a new-generation tyre using EPT (Enhanced Patch Technology) designed to maximize the area of contact between the bike and asphalt. The new compounds and optimum tread design mean that these tyres are ideal for the latest superbikes thanks to a patch without tread cuts on the shoulder of the rear tyres.
The Metzeler brand launched the Feelfree Wintec at an event in Sweden. This is the best tyre on the market for maxi-scooters in winter conditions or wet roads.
Thanks to its technological contribution, in the sphere of racing Pirelli won the 48th world title in Cross MX3 with Yves Demaria, repeating the success of Steve Ramon in MX1. Pirelli is exclusive supplier to the World Superbike Championships and, in 2007, also became the exclusive supplier of the British championship of the same category.

Tyre system and vehicle dynamics

In 2007 various public events featured the presentation of the Cyber Tyre Lean (CTL) which monitors tyre pressure on cars. The device was jointly developed with Schraeder, and is scheduled for production in 2012 to be fitted on a model of a leading European car manufacturer. This product, which is highly innovative and, so far, quite unique, does not require a battery because, thanks to a system patented by Pirelli, it can generate the energy it requires from the mechanical vibrations transmitted by the tyre to the actual device while the car is moving.

The CTL is the first step in a process of technological development begun, thanks to collaboration with many universities (Berkeley, Politecnico di Milano, Politecnico di Torino) and leading companies worldwide in the field of electronics. The aim is to produce an ‘intelligent’ tyre, that is, a tyre capable of supplying information to the vehicle about the interaction between the tyre and the road, in the hope of radically improving road safety.

Outlook for the current year

Despite the difficulties in the global economy and the sector as a whole, the continuous increase in the prices of production factors and the strengthening of the euro, **Pirelli Tyre** expects to record a slight growth during the current year compared to 2007.

Pirelli & C. Real Estate

Pirelli & C. Real Estate is the leader in the real estate market in Italy and one of the most important operators in Europe thanks to an innovative business model, high professional standards and a flexible and dynamic organization.

Pirelli RE is an alternative asset manager specialized in the real estate sector. It manages real estate investment funds and companies that own real estate and non-performing loans in which it invests by acquiring minority stakes, aligning its own interests to those of the investors to which it supplies, as it does to other third-party clients, all types of specialist real estate services.

Its mission is to innovate new investment opportunities that positively impact business as well as the industry of reference with a sustainable ramification on the community and the environment, thus creating value for all the stakeholders.

The strategic objectives encompassed in its mission can be summarized as follows:
— to affirm itself as the benchmark of the Italian real estate market and to export its business model to Central and Eastern European countries;
— to create value for the assets managed and align the interests of both investors and manager;
— to innovate real estate products and services through a quality response that meets the needs of final users and investors alike;
— to create and disseminate a state-of-the-art culture in the real estate sector;
— to base its corporate governance system on national and international best practices;
— to orient corporate behavior towards sustainability and corporate awareness.

The main activities of the Group are:
— to identify investment opportunities according to the type of real estate product (residential, commercial and Non-Performing Loans - NPL) and geographical market (Italy, Central and Eastern Europe);
— to conduct professional management activities;
— to supply quality specialist services (integrated facility management, property management, credit servicing and agency services).

During the course of 2007, the company consolidated its leadership in Italy and gained a prominent position on the European market; the operating profit including the earnings from investment holdings recorded a growth of 10 percent.

The strategic drivers behind this growth were the international expansion into Central and Eastern Europe, the increase in assets managed particularly through real estate investment funds, the excellent performance in an important segment with towering obstacles for entry such as that as NPL, the growth and organizational revision of specialist service areas and the further qualification of development activities in Italy and Eastern Europe.

As for the internationalization process, Pirelli Real Estate concluded important deals in 2007: in Germany, with a joint investment in prominent companies such as DGAG and BauBecon, which brought the total of assets managed to more than Euros 3

A Pirelli RE building in Düsseldorf.

billion, positioning the company among the top Italian players; and in the New Europe, the signing of two new joint ventures with the UniCredit Group in Romania and Bulgaria, which join Pirelli Pekao Real Estate in Poland. Two worlds capable of replicating the success achieved on the Polish market where growth and results were so quick as to reduce the development times estimated for the business.

At the end of the year about 29 percent of the real estate assets managed by the company was outside Italy, in Germany and Poland in particular. This is a sharp increase from last year (14 percent) and very much ahead of the targets set in the three-year plan, even for 2008 (20-25 percent).

Partly as a result of these transactions, the total assets managed by the Group reached Euros 15 million against Euros 14.5 billion in 2006: this is a figure which places Pirelli Real Estate among the top continental operators. The average share managed on behalf of third parties is also significant and equal to Euros 10.8 billion (equivalent to 72 percent), the umpteenth acknowledgement of the Group's specialist operating capabilities.

With regard to the services area, the year just ended registered important nonrecurring transactions and investments for the rationalization of the entire structure in order to render it more streamline, efficient and qualified from a European competitive standpoint. As for technical services, after the purchase of Ingest Facility, Pirelli RE Integrated Facility Management was set up together with Intesa Sanpaolo, giving existence to the Italian leader in the sector. In reference to commercial services, integration of the franchising network in Pirelli RE Agency continued, with effect from January 1, 2008.

Economic review

In reading the income statement presented below, it should be noted that the operating profit including earnings from investments, because of the type of business conducted by the group, is the most important indicator and expresses the trend of earnings.

ECONOMIC REVIEW (in millions of Euros)

	2007	2006
Share of aggregate revenues [1]	1,543.1	1,560.0
Consolidated revenues [2]	853.1	702.0
Operating profit [3]	50.4	103.7
Earnings (losses) from investments	186.2	110.7
Operating profit including earnings from investments [4]	236.5	214.4
Income attributable to the equity holders of the company	**151.1**	**159.5**

1 Aggregate revenues express total business volumes of the Group and include consolidated revenues in addition to the pro-rata share of revenues of the associates, joint ventures and funds in which the Group has holdings. The amount for 2007 is presented net of sales at cost, regarding the sale of the interests, of the properties of the company DGAG to the joint ventures with RREEF and MSREF for Euros 1,295.6 million.

2 The amount for 2007 is presented net of sales at cost, regarding the sale of the interests, of the properties of the company DGAG to the joint ventures with RREEF and MSREF for Euros 1,295.6 million.

3 This amount refers to non-performing loans, buildings and services.

4 Operating profit including earnings from investments comprises the operating profit (Euros 50.4 million) in addition to the share of earnings of companies accounted for by the equity method (Euros 117.0 million), dividends from holdings (Euros 2.2 million), income from real estate investment funds (Euros 11.0 million) and the result from the sale of investments (Euros 55.9 million).

The **share of aggregate revenues** amounts to Euros 1,543.1 million compared to Euros 1,560.0 million in 2006.

Consolidated revenues amount to Euros 2,148.7 million compared to Euros 702.0 million in 2006. Net of the sales at cost, for the sale of the interests, of the properties of the company DGAG to the joints ventures with RREEF and MSREF (equal to Euros 1,295.6 million), consolidated revenues amount to Euros 853.1 million (+22 percent thanks to specialist service activities). The deconsolidation, begun at the end of March and completed during the last quarter of 2007, refers to both commercial and residential properties.

Operating profit including earnings from investments in 2007 is Euros 236.5 million, with an increase of 10 percent compared to Euros 214.4 million in 2006; net of the effects of the temporary consolidation of DGAG, the operating profit including earnings from investments amounts to Euros 215.3 million.

Income attributable to the equity holders of the company is Euros 151.1 million, compared to Euros 159.5 million in 2006 (-5 percent); net of the effects of the temporary consolidation of DGAG, the income attributable to the equity holders of the company is Euros 162.8 million (+2 percent).

Balance sheet and financial review

BALANCE SHEET AND FINANCIAL REVIEW (in millions of Euros)

	12/31/2007	12/31/2006
Fixed assets	886.1	581.7
- including investments in funds and investment companies [1]	601.3	427.2
- of which goodwill	218.4	93.4
Net working capital	190.5	283.3
Net invested capital	**1,076.6**	**865.0**
Equity	720.1	708.7
- of which attributable to the equity holders of the company	715.7	700.3
Provisions	66.8	59.9
Net financial (liquidity)/debt position	289.7	96.4
Total net invested capital financed	**1,076.6**	**865.0**
Net financial (liquidity)/debt position gross of shareholder loans	**816.1**	**430.5**
Net invested capital gross of shareholder loans	**1,603.0**	**1,199.1**

1 This item includes investments in associates, joint ventures and other investments (Euros 486.9 million), investments in real estate investments funds (Euros 103.1 million) and junior notes (Euros 11.3 million).

Fixed assets total Euros 886.1 million compared to Euros 581.7 million at December 31, 2006, with an increase of Euros 304.6 million. The change is basically the result of two factors: on the one hand, investments in the services platforms of Ingest Facility and DGAG (+Euros 126.9 million) and a net increase in the value of the investments in associates, joint ventures and funds (+Euros 257.3 million); on the other hand, the sale, in the area of non-performing loans, of the securities that came from the ex-Banco di Sicilia transaction (Euros 83.1 million) to the Pirelli RE and Calyon joint venture.

Net working capital is equal to Euros 190.5 million compared to Euros 283.3 million at the end of 2006 (-Euros 92.8 million). The change is attributable to the combined effect of a decrease due to extinguishing the advance for the purchase of DGAG paid during the year and the payable referring to the ex-Banco di Sicilia non-performing loans for Euros 58.5 million. The inclusion of Ingest Facility further reduced working capital by about Euro 12 million.

Equity attributable to the equity holders of the company amounts to Euros 715.7 million compared to Euros 700.3 million in December 2006, with an increase of Euros 15.4 million. The change takes into account the income for the year (+Euros 151.1 million), the distribution of dividends (-Euros 87.0 million) and other changes in equity (-Euros 48.7 million), largely connected with the purchase of treasury shares.

The financial position is the following:

FINANCIAL POSITION (in millions of Euros)

	12/31/2007	12/31/2006
Net financial (liquidity)/debt position	289.7	96.4
of which shareholder loans	526.4	334.1
Net financial (liquidity)/debt position gross of shareholder loans	**816.1**	**430.5**
Gearing ratio [1]	1.13	0.61

1 The gearing ratio corresponds to the ratio of the net financial (liquidity)/debt position gross of shareholder loans and equity.

The **net financial position** shows a net debt position of Euros 289.7 million at December 31, 2007 (Euros 96.4 million at December 31, 2006).

The **adjusted net financial position** (expressed gross of shareholder loans made to minority-owned companies) is a net debt position of Euros 816.1 million at December 31, 2007 (Euros 430.5 million at December 31, 2006).

The **gearing ratio** is 1.13 at December 31, 2007 (0.61 at December 31, 2006).

The increase in the above amounts and the gearing ratio compared to December 31, 2006 is associated with important investments in Germany, the purchase of shares of funds, the distribution of dividends and the purchase of treasury shares.

OUTLOOK FOR THE CURRENT YEAR

Taking into account the current economic and financial scenario, the company expects the operating profit including earnings from investments for the year 2008 to be in line with the prior year, net of the effects of DGAG.

Pirelli Broadband Solutions

The highlights of Pirelli Broadband Solutions for the year ending December 31, 2007 can be summarized as follows:

PIRELLI BROADBAND SOLUTIONS (in millions of Euros)

	12/31/2007	12/31/2006
Net sales	117.1	129.4
Gross operating profit (loss)	(11.1)	1.1
Operating loss	(13.5)	(0.3)
Earnings (losses) from investments	-	(1.0)
Operating loss incl. earnings (losses) from investments	(13.5)	(1.3)
Financial income (expenses)	(3.9)	(1.6)
Income taxes	-	(0.4)
Loss	(17.4)	(3.3)
Net financial (liquidity)/debt position	21.5	13.1
Employees (number at year-end)	196	166

NET SALES

Net sales in 2007 amount to Euros 117.1 million, with a decrease of 9.5 percent compared to Euros 129.4 million in 2006. In the second half, however, net sales of Pirelli Broadband Solutions registered a gain of 8.1 percent over the prior year, reversing the negative trend of the first two quarters. The overall change from 2006 is due to a different mix of broadband access products and the temporary slowdown in world market demand for telecommunications infrastructures.

OPERATING RESULT

The operating result in 2007 is a loss of Euros 13.5 million, compared to basically a breakeven in 2006. The change in the operating result, besides the contraction of revenues and the relative margins, is also due to the research costs incurred for developing and custom-designing the products in new-generation photonics area.

LOSS

The loss for 2007 is Euros 17.4 million after financial expenses of Euros 3.9 million, compared to a loss of Euros 3.3 million in the prior year.

NET FINANCIAL POSITION

The net financial position is a net debt position of Euros 21.5 million. The higher debt position from the end of last year is due to an extension of the payment terms given to the major customers.

EMPLOYEES

At December 31, 2007, there are 196 employees, 30 people more than in December 2006, concentrated in the Engineering and Sales functions.

Broadband access

The world broadband market continues to grow, thanks to the release of ADSL2+ technology and the introduction of the new VDSL2 technology which makes it possible to supply users with bands of 20Mb/s (Megabits per second) and 50-100Mb/s, respectively.
In addition to increasingly advanced surfing profiles, and the consolidation of the VOIP service, 2007 saw the commercial launch of the Internet IP-TV television service by the main operators.
These applications are seen by operators as fundamental steps for winning the loyalty of their customers and for reaching people who do not own a computer, who would otherwise not be able to subscribe to broadband services.
In order to confront the market situation, a portfolio has been developed consisting of five product lines (Access Gateways, Set-top Box, Extenders, Terminals and the PMPs (Pirelli Management Platform, that is, remote management and assistance platforms), and began to introduce the new product line of Small Business Gateways.
The product range of Access Gateways extends from simple USB modems to routers capable of supporting triple and quadruple play applications. In 2007, the transition of top range equipment

A triple play device developed by Pirelli Broadband Solutions.

towards Jungo (a market leader in the sector) software technology was completed. In addition to supplying PBS with a complete and exhaustive stack partly in view of the new Small Business product line, this innovation makes it possible to transfer all the applications developments implemented to various xDSL chipsets. This will guarantee a level of continuity to the services being offered on several platforms, thus augmenting the competitiveness of PBS's proposals to the market.

During the year, as mentioned previously, a new line of Small Business routers was developed, with a modular product capable of supporting data configuration, voice (between 2 and 8 channels) and ISDN.

The product fits perfectly into the existing product portfolio, between small office routers derived from residential applications and the machines connected with the partnership with the French company OneAccess.

The product will be available as samples for customers from the first four months of 2008.

In 2007, the set-top box line reported the fastest acceleration, having received certification from Microsoft Mediaroom. At the same time, a range of HW and SW was developed which will allow the company to compete with the largest players on the world market. Cooperation with Alcatel-Lucent, begun in the past for Telecom Italia, also proved to be a winning strategy in the operation of the customer Arcor (Germany's second-largest fixed telephone operating company) and made it possible to begin integration of the customer MiviewTv. This customer is also used for Telefonica, which put the company and one other vendor in the final shortlist of a competition, after a rigorous and competitive selection procedure.

In this product line, too, in the past, Pirelli Broadband Solutions acquired independent SW from the American company Confocus, which, in addition to making it possible to respond in a more flexible way to market demand, guarantees the possibility of launching an 'open' SW solution on the market in 2008 on which small customers can develop their own applications.
The extenders line, with regard to supplying connectivity between products in the portfolio, has been enhanced by a new generation of power line (200Mb/s) and wireless (802.11n) solutions, which will make it possible to supply high-definition (HD) video streaming between Access Gateways and Set-top Boxes, thus helping to solve the problem of installing an IP-TV service. Fruitful collaboration with technology leaders Intellon, DS2, Ralink and Metalink allowed PBS to make proposals to important operators (Telecom Italia, Deutsche Telekom, Belgacom, Telefonica and Fastweb). These were met with great interest on account of the innovative nature and effectiveness of the solutions proposed.
The Terminals line (dual-mode telephones) did not result in the expected level of volumes since operators have not yet launched the service on the residential market, claiming that it is still too complex and expensive for the final user.
However the company continued to arouse the interest of many new customers by supplying the dual-mode telephone in bundled format, together with its broadband routers.
In 2008, there are plans to introduce a new mobile Windows phone which will be supplied with Small Business routers and will support the first concepts of value-added applications.
The PMP supported existing customers and has been structured to support the new concepts that PBS wants to introduce to the market (value-added services, domotics, healthcare and non-Telecom generic control devices).

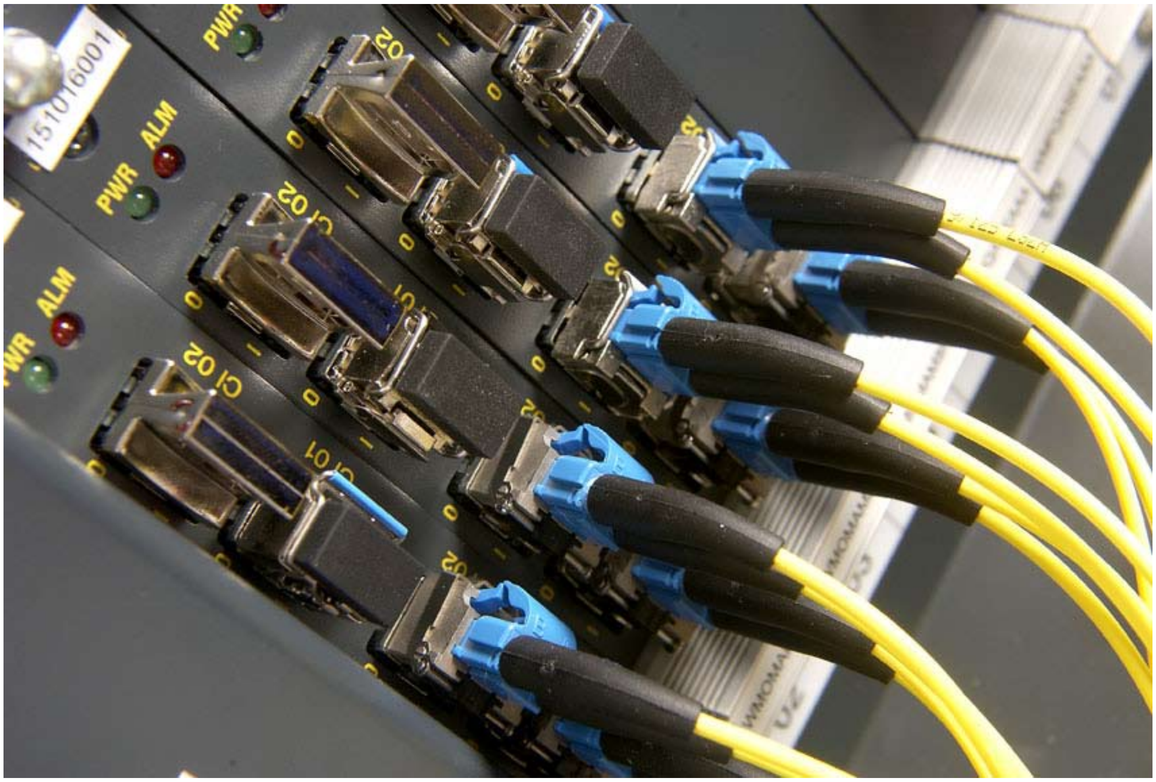
New photonics products

In 2007 there was a contraction of sales of the optical Coarse WDM system – known as City8™ – compared to 2006. The contraction was due mainly to the slowdown in investments for IP-TV networks on the part of some important telephone operators and, in particular, some of Pirelli's customers acquired in the past. The contraction was only partially compensated by the acquisition of new customers (Intracom-HOL in Greece). Despite this, more than 2,200 devices were sold Italy, France, Germany, Sweden, Spain, the United States and Greece. Furthermore, at the end of September 2007, a new release of the product (the 1.3) was announced, making it possible to increase the number of WDM optical channels from 8 to16 (hence the new trade name City™+ rather than City8™) and introducing functions working at 10 Gbps in addition to those working at 2.5 Gbps present in previous releases. The homologation process of the new release has begun with the main customers and, in some cases, has already been installed on pilot systems.
The introduction of functions working at 10 Gbps and the increase in the number of channels of the system should enable

customers in new areas of the network to use it in 2008, particularly in some core-metro segments in addition to the already consolidated metro access segment.

In the field of optical components, small volumes of tunable lasers continued to be supplied to customers both in North America and the Far East, completing the qualification phase at two of the world's leading players in the sector (Huawei and Ciena). Consequently, there is expected to be a rapid growth in volumes starting in the first months of 2008. The qualification process is continuing and samples of the product are currently in the hands of many new potential customers in Europe, Japan and North America.
In the sphere of optical modules, the most significant event in 2007 was the signing of a supply agreement with Alcatel-Lucent to supply products such as MSA tunable modules and XFP modules. With regard to these modules, in 2007, the development of the MSA tunable module line, begun in December 2005, was completed. A special customized module is currently being developed for Alcatel-Lucent, whereas development of the XFP product line is nearing completion.

City8™ second-generation optical system perfected by Pirelli Broadband Solutions.



Other businesses

Pirelli Ambiente S.p.A.

On December 28, 2007 the process of reorganizing business activities in the environment and sustainable mobility segments was finalized with the aim of forming two independent entities focusing respectively on renewable energy sources (Pirelli Ambiente) and technologies for reducing emissions (Pirelli Eco Technology). This was achieved by spinning-off the investment in Pirelli & C. Ambiente Eco Technology S.p.A. to the newly-established company Pirelli & C. Eco Technology S.p.A., with a 51 percent stake in the latter company also being held by Pirelli & C. S.p.A., the other 49 percent being held by Camfin S.p.A..

There follows a summary of the performance of the operating companies of the Ambiente Group and Pirelli & C. Eco Technology:

PIRELLI & C. AMBIENTE RENEWABLE ENERGY S.P.A.

The company ended the year 2007 with a loss of Euros 1.9 million compared to income of Euros 0.7 million in the prior year. It should be mentioned that the result for the year 2006 has been positively affected by a deal concluded in the United Kingdom which led to proceeds of Euros 2.9 million from the concession of patent rights.
Activities for producing the quality fuel (CDR-Q) were profitably conducted during the year through the associate I.D.E.A. Granda S.Cons.R.L., which recovered 20,913 tons of fuel compared to 19,673 tons in 2006.
In June, the company obtained authorization to operate the plant for another ten years.

Furthermore, on December 14, 2007, the company obtained certification from the accredited body RINA, for conformity with the UNI EN ISO 14001:2004 and UNI EN ISO 9001:2000 standards of its Environmental Management System and for Quality, in regards to its activity of 'producing high-quality fuel (CDR-Q, a Pirelli patent) by treating the dry parts of municipal solid waste and recycling special non-toxic waste (tyres and chloride-free plastic)'.
In December 2007, a collaboration agreement was signed with ACEA (an important national operator) to develop new projects with the aim of recovering energy from municipal solid waste.

PIRELLI & C. AMBIENTE SITE REMEDIATION S.P.A.

The company ended the year 2007 with a loss of Euros 0.2 million, in line with that of the prior year.
During the year the company continued its operations which involve the complete management of environmental problems mainly associated with the companies in the Pirelli Group (including the Pirelli RE Group joint ventures), with particular reference to activities of environmental due diligence, evaluation, design and management of demolition and reclamation activities conducted by specialized companies authorized to undertake work of this kind.

SOLAR UTILITY S.P.A.

The company was formed on July 24, 2007 with a share capital of Euros 4 million, 50 percent of which is held by Pirelli Ambiente and the remaining 50 percent by PK4 Holdings B.V. (a Dutch company headquartered in Amsterdam, wholly-owned by the Global Cleantech Capital fund).
Solar Utility will produce electrical energy from photovoltaic cells. The company will install and remain the owner of photovoltaic systems located in commercial and industrial buildings which will supply the owners or tenants with clean energy at a competitive price.
In line with its development plan, the company laid the foundations for its activities in 2007. This included defining its organizational structure and negotiating the procurement of photovoltaic modules for 2008.
On November 23, 2007, Solar Utility signed an agreement with the City of Alessano (Province of Lecce) with the aim of installing and operating photovoltaic systems in buildings and on land belonging to the City. The project will allow the City to achieve considerable savings, thanks to its size of the systems (1.1 MW) which will produce more than 1,600,000 kWh of clean electrical energy a year.

Pirelli & C. Eco Technology S.p.A.

As described earlier, Pirelli Ambiente S.p.A. spun-off the activities of Pirelli & C. Ambiente Eco Technology S.p.A. to this company, Pirelli & C. Eco Technology S.p.A., with the aim, from an organizational standpoint, of directing the latter's activities towards its core business, namely sustainable mobility in the transport and automobile industry.
The year 2007 closed with a loss of Euros 4.5 million, compared to a loss of Euros 0.3 million in the prior year.
The higher loss can mainly be attributed to the costs incurred for the start-up of the factory that will manufacture anti-particulate filters, currently being built in Romania.
In such a fiercely competitive market, in Italy, sales of GecamTM emulsion fell from 88 million liters in 2006 to 80 million liters in 2007, a reduction of about 10 percent, whereas, in France, volumes increased from 23 million liters in 2006 to 25 million liters in 2007, equivalent to an increase of 10 percent.
During 2007, activity was further stepped up with regard to the development, fine-tuning and marketing of anti-particulate filters for diesel engines. Overall, 499 systems and 170 filters were sold, compared to 246 systems and 69 filters in the prior year, with overall sales of Euros 2.6 million (Euros 1 million in 2006).

A photovoltaic plant.

Started up in 2007, the project for the production of silicon carbide filters in Romania.

In the last months of 2007, in the United Kingdom, the network was completed for the distribution of the Retrofit product in collaboration of Pirelli Tyres U.K. LTD.
During the same period, investigations began in the main markets of the European Union (United Kingdom, Germany and Holland), with the aim of developing activities in countries which have already taken action to restrict the number of vehicles causing the most pollution.
In 2007, an investment project was launched in Romania to build a plant to produce silicon carbide filters for original equipment. All the excavation and building work at the factory has been completed. The manufacturing systems for the first line of anti-particulate filters have been ordered and are being built. When completed, the factory will have a capacity of about 670 tons. Training days have been held for Romanian personnel at the production facility at Arese.

Information systems

The Information Systems of the Pirelli Group are operated and coordinated through Pirelli Sistemi Informativi S.r.l., a company formed on July 11, 2007 and operational since October 1, 2007, the effective date of the spin-off of activities previously included in Share Service Center S.c.r.l., a company subsequently sold to Telecom Italia.

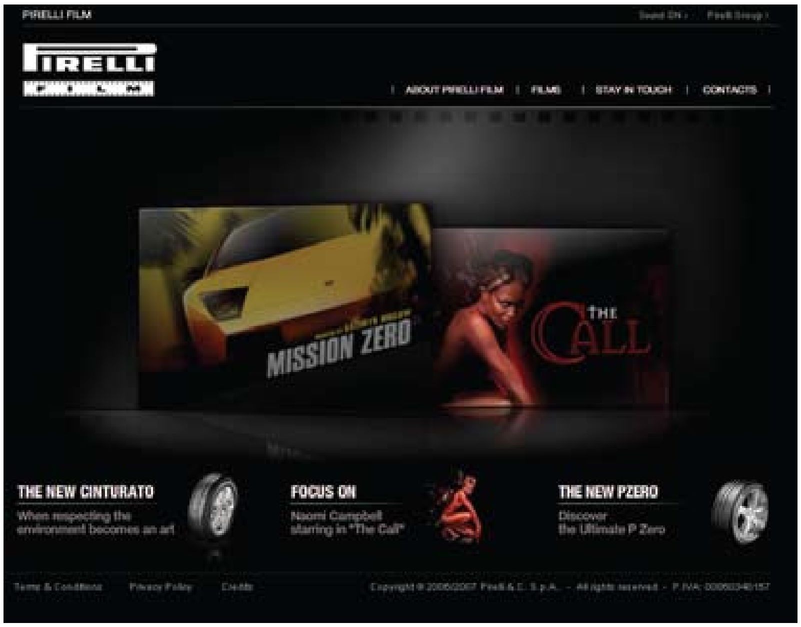
The main activities carried out during the year in the individual areas of operation are described below:

Architectures, Infrastructures and Shared Group Services

The work of consolidating the SAP systems for all the units of the Group in the Central Data Center in Milan was completed. The result was achieved by completing the consolidation of the One-client SAP systems of the Tyre business for Europe and South America. All the Group's SAP systems are therefore now managed centrally by the Systems Competence Center of Pirelli Sistemi Informativi. The SAP environment currently being managed for the whole Group has a production database with a total of 23 Terabytes. On average, about 9,000 users connect to the system daily.
Work continued to coordinate and integrate the Group's data transmission network on a global basis. In particular, the geographical network for connectivity between South America and Milan has been redrawn, and will be operational by the first half of 2008. The new system has made it sustainable to centralize Data Center services and will make it possible to proceed with the activity of consolidating other services (Email, Internet access, etc.) currently handled in Milan, and to make some of

the new Pirelli Intranet services accessible to more users. The international geographical network has been extended by including the new offices opened or acquired (mainly in Pirelli RE) in the Group standards.

With regard to the distributed architecture (APISxp), the German unit (DGAG) recently acquired by Pirelli RE was brought to standard and integrated, bringing the number of network users (APIS/Email) to 16,500. The continuing focus on the consolidation activities of the electronic mail services has reduced the number of the Group's exchange sites to three.
The infrastructure Help Desk service (network station management) was activated at the Craiova headquarters. The team of people responsible for distributing the service replies in English and German and is currently directing the service towards the Tyre sector in Germany, Austria, and Benelux. The service for UK Tyre and Pirelli RE Germany is being set up and is expected to become operational during the first half of 2008. AMS maintenance for the Group in the SAP environment has also been set up and the services are being distributed to all the companies in the Group. They are organized into the following SAP environments: Sales, Purchasing, Logistics, User Profiles, E-procurement, Management Control and Real Estate.
The Pirelli Internet world saw the release of local sites, except those of the Operating Units in the Far East, which will be released in the first quarter of 2008. The websites are entitled Pirelli Film, Pirelli Pzero and the new site Pirelli Ambiente.



The home page of the Pirelli Film website.

In addition, the graphics and surfing of all the Metzeler sites have been updated. With regard to access, the Pirelli Internet sites continue to show a growing trend of user traffic, with more than 2.7 million visits to the websites in a month.
In 2007, the Pirelli website (www.pirelli.com) again came fifth in Italy in the Hallvarsson & Hallvarsson quality table.
New Pirelli web applications were released, for example in support of the Group strategy on Corporate Social Responsibility.
In the area of Administration, Finance and Control, the main

activities involved the implementation of the SAP system as a result of the acquisition of Ingest in Italy and Poland by Pirelli RE, while, in the sphere of the One-supplier Tyres project, the acquisition of invoices through EDI was implemented.

In the area of Resources, with regard to the Tyre sector, SAP HR was implemented for the affiliates in Argentina, Venezuela and Egypt. Moreover, during the year, the integrated Performance Management Tool application was developed with the HR SAP system, Reporting for Corporate Social Responsibility and Equal Opportunity.

Pirelli Tyre

Activities focused on aspects of the geographical extension of the One-Client platform, the enhancement and extension of Sell-Side solutions, with the launch of the Sales Force Automation project for sales staff, and the completion of the PVT (Purchasing Value Targeting) program in Purchasing. Work also continued to consolidate the One-supplier initiative.
In the sphere of R&D, work continued on the evolution of the Product Lifecycle Management platform, while the up-grade was completed on the new version of the Business Intelligence platform and the review of the Industrial Tableau de Board.

Pirelli Real Estate

The information systems of Pirelli Real Estate were implemented to increase the functional coverage and the efficiency of the business systems of the Services Companies, to support foreign expansion (especially in Germany, now added to Poland).
In particular, the integration process was completed between the Agency and Franchising systems to manage the channeling of the real estate product towards the network of affiliates, and the physical (infrastructure and networks) and applications (SAP) integration of Ingest Italy and Ingest Poland with the Pirelli architecture was terminated. Other activities involved a procedure for managing and monitoring the Facility contracts portfolio on the SAP-Business Intelligence platform.
With regard to the Franchising business, the new Internet portal was released, based on the Pirelli framework, and integration was completed with the Agency systems for marketing the PRE residential product through the distribution channel of the affiliates network.

In Germany, the process of standardizing the IT infrastructures of the former company DGAG was completed. The new webpage www.pirelli.de was created, and a project is in progress to harmonize and consolidate the SAP system with the aim of making the corporate data and processes uniform with those of the Group and consolidating them on the Group's central SAP systems.

Pirelli Broadband Solutions

Business support activities continued, particularly with regard to Logistics and Sales. Collaboration focused on the renewal of ISO9001 certification and the relative control measurements, reviewing the IT approach and support processes with the business. The audit was conducted in November 2007.
The collaboration environment with selected customers and suppliers was released for the publication of general documents about products, such as compiling instruction manuals, rather than producing specific manuals about products for one or more partners. This was done using the SAP cFolder product and to date about 30 external partners are involved in the possibility of document exchange.

Other informations

Equity investments held by directors, statutory auditors, general managers and key managers

Pursuant to article 79 of Consob Regulation approved by resolution 11971 dated May 14, 1999, the following information is provided in respect of equity investments held in the company Pirelli & C. S.p.A., and its subsidiaries, by the Directors, Statutory Auditors, General Managers and key managers, as well as spouses, not legally separated, and minor children, directly or through subsidiaries, trustee companies or individual persons, resulting from the shareholders' register at December 31, 2007, from notices received or other information acquired from the same Directors, Statutory Auditors, General Managers and key managers.

Name	Company in which investment held	No. of shares held at 12/31/2006	No. of shares purchased/ subscribed	No. of shares sold	No. of shares held at 12/31/2007
Tronchetti Provera Marco	Pirelli & C.	13,764			13,764
	Pirelli & C. (indirect ownership)	1,323,599,275[1]	45,905,123		1,369,504,398
	Pirelli & C. (indirect ownership)	1,217,398[2]			1,217,398
	Pirelli & C. Ambiente S.p.A. (indirect ownership)	10,478,800[1]	850,000	8,330,000	2,998,800
	Pirelli & C. Eco Technology S.p.A. (indirect ownership)		8,388,800[3-1]		8,388,800
Pirelli Alberto	Pirelli & C.	29,925	1,418,000[7]		1,447,925
	Pirelli & C. Real Estate S.p.A.		1,400		1,400
Puri Negri Carlo Alessandro	Pirelli & C.	66,500			66,500
	Pirelli & C. Real Estate S.p.A.	1,004,500	22,000		1,026,500
Ligresti Giulia Maria	Pirelli & C. Real Estate S.p.A.	10[4]			10
Moratti Massimo	Pirelli & C.	11,551,427			11,551,427
	Pirelli & C. (indirect ownership)	37,427,732[5]			37,427,732
	Pirelli & C. (indirect ownership)	11,328,318[6]	2,107,226		13,435,544
De Conto Claudio	Pirelli & C.	55,258			55,258
Gobbi Luciano	Pirelli & C.	150,000			150,000
Guatri Luigi	Pirelli & C.	186,654[4]			186,654

1 Shares held through Camfin S.p.A.
2 Shares held through Cam Partecipazioni S.r.l.
3 Shares from the spin-off of Pirelli & C. Ambiente S.p.A.
4 Shares held by spouse
5 Shares held through CMC
6 Shares in the name of Istifid as a trustee
7 Shares acquired through inheritance

Stock option plans

The information on stock option plans provided in accordance with Consob communication 11508 dated February 15, 2000 has been included in the notes to the financial statements.

Information on ownership structures (ex art. 123 Bis TUF)

The information required by article 123 bis of Legislative Decree 58 dated February 24, 1998 is provided in the Report on Corporate Governance which is included with the annual financial statements and published in the Governance section of the corporate website (*www.pirelli.com*).

Security planning document

In compliance with the Legislative Decree 196 dated June 30, 2003 Appendix B, paragraph 26, the Pirelli Group has already updated the Security Planning Document for the year 2007.

Pirelli & C. S.p.A. Summary data

Balance sheet and financial position

BALANCE SHEET (in millions of Euros)

	12/31/2007	12/31/2006
Property, plant and equipment	97.2	103.4
Intangible assets	1.4	1.7
Financial assets		
- Group	718.6	1,237.2
- Olimpia		3,474.9
- Third parties	540.5	641.1
Net working capital	(68.8)	(186.1)
Total	**1,288.9**	**5,272.2**
Equity	2,076.0	2,882.3
Provisions	59.2	221.4
Net financial (liquidity)/debt position	(846.3)	2,168.5
Total	**1,288.9**	**5,272.2**

The above statement presents the balance sheet and financial position of the company. The most significant changes during 2007 refer to the following:

— **financial assets**, besides the entire investment held in Olimpia, register a decrease in both those of the Group (Euros 518.6 million) and third parties (Euros 100.6 million).

An analysis of the changes is presented in the following table:

GROUP (in millions of Euros)

Investments	
Pirelli UK Ltd	145.6
Pirelli & C. Real Estate S.p.A.	54.3
Pirelli Broadband Solutions S.p.A.	15.0
Other companies	9.1
Reduction in share capital	
Pirelli Holding N.V. (ex-Pirelli Tyre Holding N.V.)	(242.6)
Impairment losses	
Pirelli Holding N.V. (ex-Pirelli Tyre Holding N.V.)	(385.7)
Pirelli Finance (Luxembourg) S.A.	(16.7)
Pirelli Broadband Solutions S.p.A.	(16.5)
Pirelli UK Ltd	29.0
Other companies	(4.3)
Reclassification of provision for impairment of investments	(105.8)
Total	**(518.6)**

THIRD PARTIES (in millions of Euros)

Investments	
RCS Mediagroup S.p.A.	10.9
Gruppo Banca Leonardo S.p.A.	3.6
Divestitures	
Intek S.p.A.	(6.8)
KME Group S.p.A.	(1.8)
Consortium S.r.l.	(0.3)
Impairment losses	
Telecom Italia S.p.A.	(23.7)
Euroqube S.A.	(0.9)
Changes in fair value recognized in equity	**(81.6)**
Total	**(100.6)**

— the change in **net working capital** is mainly due to the payment of the liability contracted with Pirelli Holding N.V. for the purchase of the investment in Pirelli Tyre S.p.A. during the year 2006 (Euros 151.5 million);

— **equity** decreased by Euros 806.3 million compared to December 31, 2006. The main changes in equity are presented in the following table:

CHANGES IN EQUITY (in millions of Euros)

Equity at December 31, 2006	**2,882.3**
Effect of reduction in share capital	(826.3)
Gains (losses) recognized directly in equity:	
- Change in fair value on available-for-sale financial assets	(94.8)
- Gains (losses) transferred to income upon disposal of available-for-sale financial assets or when there are impairment losses	13.2
- Actuarial gains (losses) on employees' leaving indemnity	0.9
Total income (expenses) recognized directly in equity	(80.7)
Income for the year	100.7
Equity at December 31, 2007	**2,076.0**

— **provisions** decreased from the end of 2006 mainly as a result of the reclassification of the provision for impairment of financial investments (Euros 105.8 million), the payment of the price adjustment (Euros 39.9 million) and the settlement of some claims (Euros 25.5 million) as part of the sale of the Pirelli activities in the Energy and Telecom Cables and Systems sectors to Goldman Sachs Capital Partners in July 2005;

— the **net financial position** went from a net debt position of Euros 2,168.5 million at December 31, 2006 to a net liquidity position of Euros 846.3 million at December 31, 2007. The analysis of the changes is detailed in the following table:

CHANGES IN DEBT POSITION (in millions of Euros)

Net financial debt position at 12/31/2006	**2,168.5**
Financial investments	236.6
Price adjustment payment and claims settlement on sale of Energy and Telecom Cables and Systems businesses	49.9
Sale of investment in Olimpia S.p.A.	(3,329.0)
Sales of warrants to GSCP	(91.0)
Other financial divestitures	(259.2)
Dividends collected	(673.2)
Change in net working capital	117.3
Payable for reduction of share capital	826.3
Net financial expenses	63.6
Other changes	43.9
Net financial debt position at 12/31/2007	**(846.3)**

Income statement

INCOME STATEMENT (in millions of Euros)

	2007	2006
Net financial expenses	(63.6)	(69.1)
Income from investments	263.8	312.7
Other operating income (expenses)	(30.4)	(47.3)
Income before income taxes	**169.8**	**196.3**
Income taxes	3.7	18.2
Income from continuing operations	**173.5**	**214.5**
Income (loss) from discontinued operations	(72.8)	(1,856.8)
Income for the year	**100.7**	**(1,642.3)**

The income for the year amounts to Euros 100.7 million compared to a loss of Euros 1,642.3 million in the prior year.
The most important items are described below:

— **net financial expenses** are in line with those of 2006 and include:

(in millions of Euros)

	2007	2006
Interest expenses	(85.6)	(95.9)
Other financial expenses	(7.6)	(7.0)
Interest income	28.8	32.5
Other financial income	0.8	1.3
Total net financial expenses	**(63.6)**	**(69.1)**

— Details of **income from investments** are as follows:

(in millions of Euros)

	2007	2006
DIVIDENDS		
Pirelli Holding N.V.	557.4	100.0
Pirelli & C. Real Estate S.p.A.	44.1	40.7
Pirelli Tyre S.p.A.	42.7	-
Mediobanca S.p.A.	9.8	8.7
Telecom Italia S.p.A.	6.6	6.6
Capitalia S.p.A.	-	9.9
Other companies	15.4	26.9
	676.0	**192.8**
IMPAIRMENT LOSSES		
Pirelli Holding N.V.	(385.7)	
Pirelli Finance (Luxembourg) S.A.	(16.7)	(15.7)
Pirelli Broadband Solutions S.p.A.	(16.5)	
Pirelli SA		(12.2)
Pirelli Uk Ltd	29.0	
Telecom Italia S.p.A.	(23.7)	
Other companies	(5.2)	(10.0)
	(418.8)	**(37.9)**
GAINS FROM DISPOSALS		
Capitalia S.p.A.		154.7
Other companies	6.6	3.1
	6.6	**157.8**
	263.8	**312.7**

— **other operating income (expenses)** show an improvement of Euros 16.9 million compared to the prior year. Details are as follows:

(in millions of Euros)

	2007	2006
Operating income (excluding nonrecurring income)	119.3	128.4
Operating expenses (excluding nonrecurring expenses)	(152.4)	(172.5)
Nonrecurring income	2.8	0.0
Nonrecurring expenses	(0.1)	(3.2)
Total other operating income (expenses)	**(30.4)**	**(47.3)**

— the reduction in **income taxes** compared to the prior year is principally due to the decrease in income on the national tax consolidation;

— **income (loss) from discontinued operations** includes: the gain realized on the sale to Goldman Sachs International of 4,763 warrants that had been obtained as part of the sale of the Energy and Telecom Cables and Systems activities in July 2005 (Euros 91.0 million); the net loss, including transaction costs net of revenues for services rendered to Olimpia S.p.A., originating from the sale of the investment in Olimpia S.p.A. (Euros 159.7 million); the adjustment of the provision for future liabilities and charges on the guarantees provided to the buyer as part of the sale of the Energy and Telecom Cables and Systems activities (Euros 4.1 million). The comparative amount for income (loss) from discontinued operations in 2006 included: classification of the impairment loss on the investment in Olimpia S.p.A. net of the revenues for services rendered (Euros 1,826.8 million) and the accrual to the provision for future liabilities and charges for the sales price adjustment and the guarantees granted to the buyer as part of the sale of Pirelli's activities in the Energy and Telecom Cables and Systems (Euros 30.0 million).

COMPENSATION PAID TO DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS (in thousands of Euros)

	Description of post		Compensation received in 2007				Compensetion for the year 2007 to be paid in 2008	
	Post held	Term of office	Compensation for the post	Non monetary benefits	Bonuses and other incentives	Other compensation	Compensation for the post	Bonuses and other incentives
Tronchetti Provera Marco	Chairman	2008	2,546			1,735[2]	50	1,620
Pirelli Alberto	Deputy Chairman	2008	564			354[3]	50	113[3]
Puri Negri Carlo Alessandro	Deputy Chairman	2008	320			2,089[4]	50	3,476[4]
Acutis Carlo	Director	2008					50	
Angelici Carlo	Director	2008				25[5]	50	
Benetton Gilberto	Director	2008					50	
Bombassei Alberto	Director	2008					50	
Bruni Franco	Director	2008				25[5]	50	
Cucchiani Enrico Tommaso [1]	Director	from 07/26/07					22	
Galateri di Genola Gabriele [1]	Director	2008					50	
Garraffo Mario	Director	2008					50	
Giarda Dino Piero	Director	2008					50	
Libonati Berardino	Director	2008				20[6]	50	
Ligresti Giulia Maria	Director	2008					50	
Moratti Massimo	Director	2008					50	
Perissinotto Giovanni	Director	2008					50	
Pesenti Giampiero	Director	2008				20[6]	50	
Roth Luigi	Director	from 04/23/07					35	
Roveri Aldo	Director	2008				20[6]	50	
Secchi Carlo	Director	2008				35[7]	50	
Vagnone Paolo [1]	Director	up to 07/20/07					27	
De Conto Claudio	General Manager	-		7	587	842[8]		850
Gobbi Luciano	General Manager	-		5	544	650		6,810[9]
Guatri Luigi	Chairman of the Board of Statutory Auditors	2009					62	
Laghi Enrico	Standing members	2009					41	
Lazzati Paolo	Standing members	2009				122[10]	41	

1 Remuneration paid over to his company

2 Of which Euros 1.300 thousand from Pirelli Tyre S.p.A. and Euros 435 thousand from Pirelli & C Real Estate S.p.A. (PRE)

3 From Pirelli Tyre S.p.A.

4 From Pirelli Real Estate S.p.A.

5 As a member of the Internal Control and *Corporate Governance Committee*

6 As a member of Remuneration Committee

7 As a member of the Internal Control and *Corporate Governance Committee* (Euros 25 thousand) and the Supervisory Board (Euro 10 thousand)

8 Of which Euros 801 thousand from Pirelli & C and Euros 41 thousand from PRE

9 Of which Euros 6.360 thousand paid to employees'leaving indemnity due by law

10 For the post of Chairman of the Board of Satutory Auditors of Pirelli Tyre S.p.A. (Euros 22 thousand), for the post of Statutory Auditor in subsidiaries of PRE (Euros 90 thousand) and as a member of the Supervisory Board of Pirelli & C. S.p.A. (Euros 10 thousand)

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GLOSSARY

Self-Regulatory Code: means the Self-Regulatory Code of conduct for listed companies approved in March 2006 by the Corporate Governance Committee and promoted by the Italian stock exchange, Borsa Italiana S.p.A.;

Civil code: means the Italian Civil Code;

Board / Board of Directors: means the board of directors of Pirelli & C.,

CONSOB: means the Commissione Nazionale per le Società e la Borsa, the Italian official body for regulating and supervising companies and stock exchanges;

Date of approval of the Report: means the meeting of the Board of Directors on 26 March 2008 that approved this report;

Responsible Officer: indicates the officer responsible for preparing the company accounting documents referred to in article 154-bis of the FSA;

Financial year: indicates the company financial year that ended on 31 December 2007 to which the Report refers;

Savings Law: indicates law no. 262 of 28 December 2005, in the ordinary supplement of the Gazzetta ufficiale della Repubblica italiana (Official Gazette of the Republic of Italy) no. 301 of 28 December 2005;

Market Regulation Instructions: indicates the Instructions for the Regulation of Markets organised and managed by Borsa Italiana S.p.A.;

Pirelli & C. indicates Pirelli & C. S.p.A. with registered offices in Milan, tax code, VAT number and Milan Business registry no. 00860340157;

Pirelli RE: indicates Pirelli & C Real Estate S.p.A., with registered offices in Milan, tax code, and Milan Business registry no. 02473170153;

Pirelli Tyre: indicates Pirelli Tyre S.p.A.. with registered offices in Milan, tax code, and Milan Business registry no. 07211330159;

Market Regulations: indicates the Market Regulations organised nd managed by Borsa Italiana S.p.A.;

Consob Issuer Regulations: indicates the Regulations issued by Consob with deliberation no. 11971 of 1999 on the subject of issuers;

Consob Market Regulations: indicates the Regulations issued by Consob with deliberation no. 16191 of 2007 on the subject of imarkets;

Report: indicates this corporate governance report drafted pursuant to article 124 bis of the FSA, 89 bis of the Consob Issuer Regulations and article IA.2.6. of the Market Regulation Instructions;

Company: indicates Pirelli & C.;

FSA: indicates Legislative Decree no. 58 of 24 February 1998 (the Testo Unico della Finanza, or consolidated Financial Services Act).

1. PROFILE OF THE ISSUER

Pirelli & C is a company listed on the Italian Stock Exchange that controls a multinational Group that does business in 160 countries with 135 years' experience in industry.
In the tyres sector it operates Pirelli Tyre, the fifth largest manufacturer in the world, in terms of turnover, and leader in the high quality tyre market, with an industrial presence on four continents.
In the property sector it trades as Pirelli RE, a company which in just a few years has established its leadership in Italy, and recently started to expand into Central and Eastern Europe.
With its strong orientation towards innovation, the Group has also initiated a number of start-up initiatives in recent years, in high technology sectors such as new generation photonics, broadband access, sustainable mobility and renewable energy sources.
Pirelli Labs S.p.A. is the advanced research centre that serves all the Group businesses.
The Company is aware of the importance of its Corporate Governance system in fulfilling its objective of creating value for all shareholders and making progress in sustainable development, and thus induces the Company to keep its own corporate governance system constantly in line with national and international best practices, as well as making sure that it is up to date with legislative changes.
The Company uses the traditional administration and control model, founded on the central position of the Board of Directors, on the presence of correct disclosure practices regarding the choices and the procedures for decision-making within the Company, on an effective system of internal controls, on an effective monitoring for potential clash of interests and on a rigorous code of conduct for transactions with related parties.
The system of governance is documented in the Code of Ethics, in the Company bylaws, in the Regulations regarding shareholders' meetings, and in a series of principles, rules and procedures, periodically updated to reflect regulatory changes, that are available on the website of the Company at www.pirelli.com under the Governance section dedicated to the Governance, and in the policies and guidance of the Board of Directors.
Moreover, the Company has been publishing its corporate governance reports since 2005 – further information is available in the appropriate section in the company financial reports.
It should be noted that the Company highlights updates and additions made to its corporate governance system since the preceding annual report in its half-yearly report.

2. INFORMATION ON THE SHAREHOLDER STRUCTURE (EX ART. 123 BIS FSA) AT (26/03/2008)

a) Structure of the share capital

The Report takes into account the share capital reduction operation approved by the extraordinary shareholders' meeting on 12 December 2007, and, for those matters pertaining to such shareholders, by the special meeting of savings shareholders' held on 14 December 2007.
Specifically, the shareholders approved the voluntary reduction in the share capital from euros 2,791,311,344.64 to euros 1,556,692,865.28 by reducting the par value of ordinary and savings shares from 0.52 to euro 0.29.
The purpose of the reduction is to allow shareholders to be reimbursed for some of the financial resources obtained as a result of the sale of the holding in Olimpia S.p.A., by distributing an "extraordinary dividend" of 0.154 euros per share (for a total of approximately 827 million euros), and to optimise the equity structure of the company by allocating approximately 408 million euros to the reserve.
The capital reduction operation will be completed on 31 March 2008, and the "extraordinary dividend" will be payable from 31 March 2008 (with coupons to be surrendered on 3 April 2008).
The bylaws updated with the new values will be filed after the above-mentioned dividend has been paid.

The Share capital is divided into ordinary shares and savings shares; the table below shows its exact composition.

	No. shares	% of share capital	Listing
Ordinary shares*	5,233,142,003	97.49%	Listed on the MTA (Mercato Telematico Telematic Stock Market) organised and managed by Borsa Italiana S.p.A. – Blue Chip segment.
Savings shares**	134,764,429	2.51%	Listed on the MTA (Telematic Stock Market) organised and managed by Borsa Italiana S.p.A. – Blue Chip segment.

* Identification code ISIN IT0000072725

** Identification code ISIN IT0000072733

Rights and obligations

Ordinary shares entitle the holder to one vote each. They are registered shares or bearer shares, to the extent permitted by law, and in this case can be converted into the other type of shares at the request and expense of their owner.
Savings shares do not have voting rights and, unless otherwise provided by law, are bearer shares. At the request and expense of the shareholder they can be converted into registered savings shares.
In addition to the rights and privileges specified by the law and the Company bylaws, savings shares have pre-emption in the reimbursement of capital for their whole face value; if the share capital is reduced by losses, the face value of the savings shares is only reduced for the part of the losses that exceeds the overall face value of the other shares. They also retain the rights and privileges assigned to them by the law and the Company bylaws, even when excluded from negotiations of ordinary and savings shares.
If share capital should be increased by the issue of shares of a single category, they must be offered as an option to all categories of shareholders.
If capital is increased by the issue of both ordinary and savings shares:
a) holders of ordinary shares have the right to receive options for ordinary shares and, for any difference, savings shares;
b) holders of savings shares have the right to receive options for savings shares and, for any difference, ordinary shares.

The net annual profits are divided as follows, after the legal allocations have been made:
a) savings shares are attributed a sum totalling seven percent of their par value; if a dividend of less than seven percent of the par value has been assigned to the savings share in a financial year, the difference is calculated by increasing the privileged dividend in the two subsequent years[1]; the profits remaining after assignment of the above dividend to the savings shares are split between all the shares so that the savings shares are entitled to a total dividend that is two percent of their par value higher than the dividend payable to the ordinary shares;
b) without prejudice to the above provisions concerning the increased total dividend payable on savings shares, ordinary shares are attributed a sum totalling five percent of their par value[2].

The remaining profits will be distributed to all the shares, in addition to the sums assigned as described in letters a) and b) above, unless the shareholders' meeting should decide to approve the Board's proposal to make special allocations to extraordinary reserves or other uses, or should to carry forward part of said share of the profits.
If reserves are distributed the savings shares have the same rights as the other shares.

1 It should be noted that for the 2006 and 2007 financial years, the value taken as reference for attribution of the privileged dividend was the par value of 0.52 euros (the par value before the reduction in capital. Please see section a) of this paragraph - Structure of the share capital - for details).
2 For the financial year that ended on 31 December 2007, the value taken as reference for attribution of the privileged dividend was the par value of 0.52 euros (the par value before the reduction in capital. Please see section a) of this paragraph - Structure of the share capital - for details).

Financial instruments that attribute the right to subscribe to new issue shares.

At the date of approval of the Report no financial instruments that attribute the right to subscribe to new issue shares have been issued.
It should be noted that in a decision made by the extraordinary shareholders' meeting held on 11 May 2004, the Directors were given the right to issue convertible bonds in both ordinary and savings shares, or with warrants valid for the subscription of such shares to be offered as options to shareholders and holders of convertible bonds, for a maximum nominal sum of 1,000 million euros, before 10 May 2009, in one or more operations, within the limits permitted at the time of issue by the current regulations, with a consequent possible increase in share capital to serve the conversion of the bonds and/or the exercise of the warrants. See the section below entitled "Powers to increase the share capital and authorisations to purchase own shares".

Stock incentive plans

See the financial report and the information prospectus prepared pursuant to art. 84 *bis* of the Consob Issuer Regulations available on the Company website www.pirelli.com *Governance* section.

b) Restrictions on the transfer of securities

There are no restrictions on the transfer of securities.

c) Major shareholdings

Those subjects holding voting shares corresponding to more than 2% of the ordinary share capital according to the register of shareholders supplemented by the communications received pursuant to art. 120 of Legislative Decree no. 58/1998 and other information available are listed below:

	Declaring subject	% share of ordinary capital	% share of voting capital
1	**MARCO TRONCHETTI PROVERA**	**26.19**	**26.19**
	of which directly	0.00	0.00
	and indirectly through CAMFIN S.P.A.	26.17	26.17
	and through Cam Partecipazioni S.r.l.	0.02	0.02
2	**ASSICURAZIONI GENERALI S.p.A.**	**5.49**	**5.49**
	of which directly 113,926,593 shares (2.18%)		
	and indirectly through:		
	- Ina Assitalia SpA - 104,949,245 shares (2.00%)		
	- Generali Vie S.A - 57,400,000 shares (1.10%)		
	- Alleanza Assicurazioni SpA - 964,282 shares (0.02%)		
	- Intesa Vita SpA – 842,952 shares (0.02%)		
	- La Venezia Assicurazioni SpA - 38,640 shares (0%)		
	- Toro assicurazioni SpA 8,923,725 shares (0.17%)		
3	**RAGIONE DI GILBERTO BENETTON & C. S.a.p.A.**	**4.77**	**4.77**
	indirectly through EDIZIONE HOLDING S.p.A.		
4	**MEDIOBANCA S.p.A.**	**4.61**	**4.61**
5	**PREMAFIN FINANZIARIA S.p.A.**	**4.48**	**4.48**
	of which indirectly through		
	FONDIARIA – S.A.I S.p.A.	4.45	4.45
	- Milano Assicurazioni SpA- 1,296,000 shares (0.02%).		
	- Sasa Assicurazioni e Riassicurazioni SpA – 26,664 shares (0%)		
	- Novara Vita SpA – 149,332 shares (0%)		
	- Sasa Vita SpA – 3,332 shares (0%)		
6	**ALLIANZ SE**	**4.41**	**4.41**
	indirectly through Allianz S.p.A.		
7	**AMBER CAPITAL LP**	**2.16**	**2.16**
	(as manager of Amber Master Fund Cayman Spc. which holds the entire shareholding)		

Note: The information on shareholders who directly or indirectly hold ordinary shares corresponding to 2% or more of the capital with voting rights in ordinary meetings of the Company shareholders is also available on the website of the Commissione Nazionale per le Società e la Borsa (Consob). In this respect, it should be noted that the information published by Consob on its website by virtue of the communications made by the subjects required to fulfil the obligations of article 120 of the FSA and Consob Regulation 11971/99, may differ appreciably from the real situation, since the obligations to communicate changes in the percentage holdings arise not when these percentages change, but only when they “exceed” or “fall below” predetermined thresholds (2%, 5%, 7.5%, 10% and subsequent multiples of 5). It follows as a result that a shareholder (i.e. a declaring subject) which has declared ownership of 2.6% of the voting capital may increase their holding to up to 4.9% without any obligation to communicate this to Consob pursuant to art. 120 of the FSA.

d) Securities that confer special rights

No securities that confer special monitoring rights have been issued.

e) Employee shareholdings: mechanism for exercising voting rights

There are no mechanisms for exercising the voting rights of employee shareholders when the voting rights are not exercised directly by said employees.

f) Restrictions on voting rights

There are no restrictions on voting rights (such as, for example, limitations on voting rights at a certain percentage or a certain number of votes, terms imposed on the exercise of voting rights, or systems in which, with the cooperation of the Company, the financial rights related to the securities are separate from the ownership of the securities).

g) Shareholder agreements

Participants in the Pirelli & C. S.p.A. Block Share Syndicate, the purpose of which is to ensure Pirelli & C. share structure stability, and an excerpt of the relevant agreement are listed at the end of this Report and are available on the website of the Company at *www.pirelli.com*.

h) Appointment and replacement of Directors

The Company bylaws[3] have provided that the Board of Directors is appointed by a slate system since 2004. This system ensures that – if more than one slate is presented – minority shareholders can elect one fifth of the Directors.
The slates presented by shareholders, undersigned by the parties submitting them, must be deposited[4] at the registered office of the Company at least fifteen days prior to the date set for the shareholders' meeting to be held on first call and made available to anyone on request.
Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate, on pain of ineligibility.
Only shareholders who, alone or together with other shareholders, hold at least 2 per cent of the share capital entitled to vote at the ordinary shareholders' meeting, may present slates, or the lesser proportion required by regulatory provisions issued by CONSOB, subject to their proving ownership of the necessary number of shares not later than the date by which they must be deposited.
CONSOB[5] has determined the percentage shareholding required for presentation by the shareholders of the slates of candidates for election to the administration and control bodies of Pirelli & C for the 2008 financial year as 1.5% of the capital with voting rights in the ordinary shareholders' meeting.
Declarations in which the candidates individually accept their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements prescribed by law and the bylaws, must be deposited with each slate.
The declarations must be accompanied by a *curriculum vitae* for each candidate regarding his personal and professional characteristics, indicating the administration and control appointments held by the candidate with other companies and his or her suitability to qualify as independent, according to legal and Company criteria.
Slates presented in violation of the above rule are considered null.
Each person entitled to vote may vote for only one slate.
The following procedure will be used for the election of the Board of Directors:

a) four fifths of the directors to be elected are selected in the progressive order in which they are listed on the slate that obtained the majority of the votes cast by the shareholders, rounding down to the nearest whole number;

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3 Article 10 of the company bylaws.
4 Also in accordance with Application Criterion 6.C.1 of the Self-Regulatory Code.
5 CONSOB deliberation no. 16319 of 29 January 2008.

b) the remaining directors are appointed from the other slates; for this purpose, the votes obtained by the slates will be divided by a sequence by whole numbers from one up to the number of directors that remain to be elected. The quotients thus obtained are assigned progressively to the candidates of each of the slates, in the order in which they are listed. The quotients attributed to the candidates of the various slates are arranged in a single list, in decreasing order. The persons with the highest quotients are elected.

If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected a director, or which has elected the fewest directors, is elected.
If no-one from these slate has yet elected a director, or if they have all elected the same number of directors, then within these slates candidate who obtained the highest number of votes is elected. If two candidates on a slate have the same number of votes, and the same quotient, then the entire shareholders' meeting votes again and the candidate obtaining a simple majority of votes is elected.
For the appointment of directors not nominated according to the procedure described above for any reason, then the shareholders decide with the legal majorities.
If one or more directorships should become vacant during the financial year, the provisions of art. 2386 of the Italian Civil Code apply.
It should be noted that when the financial reports for the year ended on 31 December 2007 are to be approved[6], the extraordinary meeting of the shareholders will be asked to make some changes to the company bylaws[7]. In particular, in addition to some further changes, we propose to supplement the arrangements for the election of the Board of Directors by providing that, if the slate voting mechanism does not assure the minimum number of independent directors, the non-independent candidate with the highest progressive number in the list who has received the highest number of votes is replaced by the unelected independent candidate from the same list according to their progressive number on it, and so on, list by list, until the minimum number of independent directors has been achieved. The purpose of this change is essentially to ensure that the director appointment procedure guarantees that the minimum number of independent directors required by the law is present on the Board. As per international best practices, the renewal of the administrative body of the Company allows shareholders to vote on separate elections on: (i) the number of people on the Board of Directors; (ii) the election of Directors through a vote on the presented slates; (iii) the duration of the mandate of the Board of Directors; and (iv) the pay packages of the Directors.

i) Changes to the bylaws

Changes to the bylaws of the Company are deliberated as provided by the legal regulations.

l) Powers to increase share capital and authorisations to purchase own shares[8]

In a deliberation an extraordinary shareholders' meeting on 7 May 2003, the Directors were given the right to issue, in one or more tranches, up to a maximum of 100,000,000 ordinary shares by 30 April 2008, to be assigned to managers and directors of the company, its subsidiaries or their subsidiaries, in Italy or abroad, pursuant to articles 2441 subsection eight of the Civil Code and article 134 of the FSA. On 25 February 2005, the Board of Directors, in partial execution of the powers attributed to it by the extraordinary shareholders' meeting of 7 May 2003, deliberated to increase the share capital for a maximum of Euro 15,725,496.50 par value, by the issue of a maximum of 54,225,850 ordinary shares of 0.29 euros par value, at a price of 0.996 euros each, of which 0.706 as share price premium, to be reserved for subscription by managers and executives of the company, its subsidiaries and their subsidiaries, in Italy and abroad.

6 The date of first call of the shareholders' meeting to approve the financial reports for the year ended on 31 December 2007 is 28 April 2008, and in second call, for 29 April 2008.
7 For full details of these proposals, please see the report that was drafted by the Directors regarding this matter.
8 The data reported take the operation to reduce the share capital described in the paragraph headed "Structure of share capital " in the "Information on ownership structure" section into account.

In a deliberation made by an extraordinary shareholders' meeting on 11 May 2004, the Directors were given the right to increase the share capital by payment, by 10 May 2009, in one or more operations, up to a total sum of 600 million euros par value, with or without share premium, by issuing a maximum of 2,068,965,517 ordinary shares to be offered in option to shareholders and holders of convertible bonds, with the possibility of excluding the right to option pursuant to the combined provisions of art. 2441, last subsection, of the Civil Code, and article 134, subsection two of the FSA, where the shares are offered for subscription by the employees of Pirelli & C. or its subsidiaries.
By a deliberation made by the extraordinary shareholders' meeting of 11 May 2004, the Directors were given the right to issue convertible bonds in both ordinary and savings shares, or with warrants valid for the subscription of such shares to be offered as options to shareholders and holders of convertible bonds, for a maximum nominal sum of 1,000 million euros, before 10 May 2009, in one or more operations, within the limits permitted at the time of issue by the current regulations, with a consequent possible increase in share capital to serve the conversion of the bonds and/or the exercise of the warrants.
At the date of approval of this report, the Board of Directors had not made use of the last two powers mentioned above.
The deliberations to increase the share capital that may ultimately be made by the Board of Director in exercising its rights as attributed above must set the subscription price (including any share premium) and the corresponding term within which the shares may be subscribed. It may also specify that, if the deliberated increase should not be wholly subscribed within the period of time set, the capital will be increased by a sum equal to the subscriptions collected at the end of said period.
At the date of this report, the Company holds 2,617,500 of its own ordinary shares and 4,491,769 of its own savings shares.
In its meeting on 26 March 2008, the Board of Directors deliberated to propose to the shareholders' meeting[9] that the Board of Directors should be authorised to purchase and sell its own shares within the limits specified in the current regulations.. For more detail, see the Directors' Report for this operation, which will be made available on the company website www.pirelli.com.

m) Change of control clauses

There are no subjects which may, directly or indirectly, also by virtue of shareholder agreement, individually or jointly with other persons included in these agreements, exercise control over Pirelli & C..
It follows that, this being the case, no change of control of the company can occur.

n) Directors' indemnity in case of resignations, termination or cessation of appointment after a public takeover bid

The Company has not stipulated agreements with its directors that envisage indemnities in case of resignations or termination/cancellation of appointments without good reason or if the employment relationship ceases after a public takeover bid.

3. COMPLIANCE

Since it was first issued, Pirelli & C. has adhered to the self-regulatory code of the Italian Stock Exchange (published in July 2002) and in the Board meeting held on 12 March 2007 it formalized its adhesion to the new self-regulatory code for listed companies (published on March 2006).
As mentioned, the Company is aware of the importance of its Corporate Governance system

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9 Cf. Note 6

in fulfilling its objective of creating value for all shareholders and making progress in sustainable development, and thus induces the Company to keep its own corporate governance system constantly in line with national and international best practices, and with legislative changes.
At the date of approval of this Report non-Italian legal provisions that influence the corporate governance structure of the Company do not apply to Pirelli & C..

4. DIRECTION AND COORDINATION ACTIVITIES

There are no subjects which may directly or indirectly, also by virtue of shareholder agreement, individually or jointly with other persons included in these agreements, exercise control over Pirelli & C..
Moreover, the Company is not subject to direction and coordination activities by any company or body pursuant to article 2497 and subsequent articicles of the Civil Code.
In contrast, Pirelli & C., which heads the Group of that name, exercises direction and coordination activities pursuant to the provisions of the Italian Civil Code over many companies, having published appropriate information about these matters pursuant to article. 2497-bis of the Civil Code.
It should be noted that, while the Company controls Pirelli RE, a company listed on the Milan stock exchange, pursuant to article 2359 of the Civil Code, consolidates its results, and held over 50% of the voting capital at the date of approval of this Report, it does not exercise direction and coordination activities over it, since there is no evidence to show that it has any effective impact on the management of this subsidiary, and this is also confirmed in the section "Role of the Board of Directors", para."Transactions with significant impact on the strategy, the profitability, the assets or the financial position of the Company". Formal evidence for this assessment has been provided by the Boards of Directors of both Pirelli and of Pirelli RE.

5. BOARD OF DIRECTORS

In line with Italian regulations for the traditional direction model, the management of the Company in guiding its strategy and controlling its operations, with the power to direct its overall management and intervene directly in a series of decisions that are necessary or useful in the pursuit of its corporate aims is entrusted to the Board of Directors.
To carry out its duties the Board of Directors relies on the support provided by specific Board subcommittees composed entirely of independent directors.

5.1. Composition

The Board of Directors of the Company, as established by the bylaws, consists of no less than seven and no more than twenty-three members, who serve for three years (unless a lesser period is specified by the shareholders' meeting at the act of their appointment) and may be re-elected.
The Board of Directors in office on 31 December 2007 consists of twenty members and was appointed by the shareholders' meeting of 28 April 2005 for three financial years to expire on approval of the financial reports for the year ending 31 December 2007[10].
By voting on a slate[11] the minority shareholders were able to nominate four Directors, i.e. one fifth of the total number (specifically, Carlo Angelici, Franco Bruni, Mario Garraffo and Aldo Roveri).
Two lists were presented at the shareholders' meeting on 28 April 2005, one by the participants in the Pirelli & C. S.p.A. Share Block Syndicate and the other by various savings management companies. Those proposing the slates made the candidates' profiles available so that

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10 Cf. Note 6.
11 The voting list is specified in article 10 of the bylaws.

the candidates' personal and professional characteristics, as well as some candidates' qualifications as independents, were made known prior to voting. The *curricula vitae* presented when the slates were filed were promptly published on the Governance section of the company website, *www.pirelli.com*, where they remain available in an updated version.
During 2007 some changes were made to the composition of the Board. Specifically, the appointment of Alberto Bombassei, co-opted by the Board of Directors on 12 September 2006, was confirmed by the shareholders' meeting on 23 April 2007, and Luigi Roth was appointed, restoring the number of serving Directors to twenty (at the end of 2006, following the resignation of Managing Director Carlo Buora, the Board of Directors, given the imminent shareholders' meeting, decided not to proceed to co-opt any other directors, but to refer all decisions on this issue to the shareholder meeting). Finally, the shareholders' meeting of 12 December 2007 confirmed the appointment of Enrico Tommaso Cucchiani, coopted to the Board of Directors in the meeting of 26 July 2007, as Director in place of Paolo Vagnone, who resigned his directorship on 20 July 2007.

The composition of the Board of Directors at the date of approval of this Report is indicated below:

Name	Office	Appointed on	Slate	Exec.	Non-exec.	Indep.	Indep. FSA	% BDM
Marco Tronchetti Provera	Chairman	04/28/2005	Maj.	X				100
Alberto Pirelli	Deputy Chairman	04/28/2005	Maj.	X				89
Carlo Alessandro Puri Negri	Deputy Chairman	04/28/2005	Maj.	X				100
Carlo Acutis	Director	04/28/2005	Maj.		X	X	X	67
Carlo Angelici	Director	04/28/2005	Min.		X	X	X	100
Gilberto Benetton	Director	04/28/2005	Maj.		X			67
Alberto Bombassei	Director	09/12/2006*	**		X	X	X	78
Franco Bruni	Director	04/28/2005	Min.		X	X	X	89
Enrico Tommaso Cucchiani	Director	07/26/2007*	**		X			67
Gabriele Galateri di Genola	Director	04/28/2005	Maj.		X			100
Mario Garraffo	Director	04/28/2005	Min.		X	X	X	100
Dino Piero Giarda	Director	04/28/2005	Maj.		X	X	X	89
Berardino Libonati	Director	04/28/2005	Maj.		X	X	X	56
Giulia Maria Ligresti	Director	04/28/2005	Maj.		X			100
Massimo Moratti	Director	04/28/2005	Maj.		X			78
Giovanni Perissinotto	Director	04/28/2005	Maj.		X			78
Giampiero Pesenti	Director	04/28/2005	Maj.		X	X	X	56
Luigi Roth	Director	04/23/2007	***		X	X	X	83
Aldo Roveri	Director	04/28/2005	Min.		X	X	X	89
Carlo Secchi	Director	04/28/2005	Maj.		X	X	X	100

LEGEND

* Alerto Bombassei and Enrico Cucchiani have been appointed directors pursuant to article 2386 subsection 1 of the Civil Code. The Directorship of Mr. Bombassei was confirmed by the Shareholders' Meeting on 23/04/2007, and that of Mr. Cucchiani on 12/12/2007

** It should be noted that since the appointment was confirmed after an appointment pursuant to article 2386 subsection 1 of the Civil Code, the voting slate mechanism was not applicable.

*** Appointed by the shareholders' meeting on 23 April 2007. In this case the voting slate mechanism was not applicable, pursuant to the Company bylaws.

Slate: Maj/Min according to whether the director was elected from the majority or minority slates (art. 144-decies of the Consob Issuer Regulations)

Exec. if checked indicates that the director is an executive director

Non-exec. if checked indicates that the director is a non-executive director

Indep. if checked indicates that the director is independent according to the criteria contained in the Self Regulatory Code.

Indep. FSA: if checked indicates that the director possesses the attributes of independence specified in art. 148, subsection 3 of the FSA (art. 144-decies of the Consob Issuer Regulations)

% BDM indicates the percentage of Board meetings attended by the director (in calculating this percentage for Directors Cucchiani and Roth, this was calculated from the number of meetings they attended in relation to the number of Board meetings held after their appointment)

In accordance with the provisions of the Self Regulatory Code[12], the positions occupied by the Directors in major companies other than Pirelli Group companies are listed at the end of the Report..

Name	Office	R.C.	% R.C.	CCI	% C.I.C.C.G.
Carlo Angelici	Member			X	100
Franco Bruni	Member			X	100
Berardino Libonati	Chairman	X	100		
Giampiero Pesenti	Member	X	100		
Aldo Roveri	Member	X	100		
Carlo Secchi	Chairman			X	100

LEGEND

R.C. indicates the Remuneration Committee

% R.C.: indicates the percentage of meetings of the Remuneration Committee attended by the director

C.I.C.C.G.: indicates the Committee for Internal Control and Corporate Governance

%. C.I.C.C.G.: indicates the percentage of meetings of the Committee for Internal Control and Corporate Governanceattended by the director

The directors who ceased to hold office during the year are listed below:

Name	Office	Served from/to	Slate	Exec.	Non exec.	Indep.	% BDM
Paolo Vagnone	Director	From 04/28/2005 to 07/20/2007	Maj.		X		80

LEGEND

Refer to the legend for the two preceding tables

Maximum accumulation of directorships in other companies

By deliberation of the Board of Directors on 9 November 2007, fully implementing the Self Regulatory Code[13] it has been established that serving as a director or authotiry of more than five companies other than those directed and coordinated by Pirelli & C S.p.A, or controlled or affiliated to such companies, is not considered compatible with serving as a director of the Company, when the companies are (1) listed companies included in the S&P/MIB index (or equivalent foreign indices), or (ii) companies operating prevalently in the retail finance sector (members of the lists specified in article 107 of legislative decree no. 385 of 1 September 1993) or (iii) companies that undertake banking or insurance activities. Moreover, it is not considered compatible for a director to hold more than three executive positions in companies described in (1), (ii) or (iii).
Offices held in more than one company in the same group are considered a single office, and executive positions prevail over non-executive ones.
The Board of Directors retains the right to form a different opinion, and this will be made public in the annual report on corporate governance, together with the congruent grounds for doing so.
The positions occupied by the Directors in major companies other than Pirelli Group companies are listed at the end of the Report..
After investigation by the Committee for Internal Control and Corporate Governance, the Board of Directors, in its meeting of 26 March 2008, examined the offices held and reported by the individual Directors and determined that all Directors hold appointments that are compatible with the execution of their office of Director of Pirelli & C according to the policy on this issue adopted by the Company.

12 Self Regulatory Code: Criterion of application 1.C.2.
13 Self Regulatory Code: Criterion of application 1.C.3.

Shareholders who, pursuant to the bylaws, intend to present slates for the composition of the Board of Directors, are invited to examine this document.
The "policy of the Board of Directors on the maximum number of appointments considered compatible with effective service as a director of the Company" is appended at the end of this Report and is also available in the Governance section of the company website, *www.pirelli.com*.

5.2. Role of the Board of Directors

The Bylaws do not specify a minimum interval between Board meetings. The Company has circulated a calendar[14] that schedules 4 meetings for 2008, specifically:
— 26 March 2008 to examine the budget and consolidated financial reports for the year ended on 31 December 2007
— 9 May 2008 to examine the intermediate report on operations for the first quarter of 2008;
— 5 August 2008 to examine the abbreviated half-yearly financial report;
— 7 November 2008 to examine the intermediate report on operations for the third quarter of 2008.

Moreover, after its renewal by the Shareholders' Meeting[15], the newly-appointed Board of Directors will meet for the deliberations consequent on the appointment..
The Board meetings may take place by means of telecommunication systems enabling participation of all parties concerned, with equal information, in the debate.
The Board of Directors meetings are convened by means of letter, telegram, fax or e-mail sent at least five days prior (or, in the event of emergencies, at least six hours prior) to the meetings to each Director and Acting Auditor.
Barring exceptional cases, the Directors and the Auditors have always received the necessary documentation and data with reasonable notice in order to express their informed opinion on the matters submitted to their examination.
During the 2007 financial year there were 9 meetings of the Board of Directors, with an average duration of approximately one and a half hours each; the mean percentage attendance by directors was around 85%, and the independent Directors attended an average 82% of meetings.
The Lead independent director attended all meetings of the Committee for Internal Control and Corporate governance (which he Chairs), all meetings of the Board of Directors, the two shareholders' meetings that were held during the 2007 financial year, and the special meeting of savings shareholders.
At the date of approval of the Report, there had been 2 meetings of the board.

Functions of the Board of Directors

As stated, the Board of Directors plays a central role in the corporate governance system of the Company; it has the power (and the duty) to direct Company business, pursuing and fulfilling its primary and ultimate objective of creating shareholder value.
Pursuant to the bylaws[16], the Board is responsible for the management of the Company and, to this end, it is vested with the broadest powers, except for those matters remitted by law or the bylaws to the authority of the shareholders' meeting.
The Board of Directors, also in accordance with the recommendations of the Self Regulatory Code[17]:
— examines and approves the strategic, industrial and financial plans of the Company and the Group;
— formulates and adopts the rules for the corporate governance of the Company, and defines the group governance guidelines;
— evaluates the adequacy of the general organisational, administrative and accounting

14 Press release of 9 November 2007.
15 Cf. Note 6.
16 Article 11 of the company bylaws.
17 Self Regulatory Code: Criterion of application 1.C.1, lett. a).

structure of the Company as well as of those subsidiaries of strategic importance as set up by the Managing Directors, with special reference to internal auditing and the management of conflicts of interests;

— grants powers to the Managing Directors and the Executive Committee (if established) and revokes them; fixing their limits, the manner in which they have to be exercised and the frequency, at least quarterly, on which such bodies must report to the Board on the activity performed in the exercise of the powers granted to them;

— determines, after having examined the Remuneration Committee proposals and consulted the Board of Statutory Auditors, the remuneration of the Managing Directors and of those directors who are vested with special offices and, if the shareholder meeting has not already resolved upon it, allocates the total remuneration to which the members of the Board of Directors are entitled;

— evaluates the general performance of the Company, taking particularly into consideration the information received from the delegated bodies, and periodically compares the results achieved with those planned;

— examines and approves in advance all operations involving the Company and its subsidiaries which have a significant impact on the strategy, the profitability, the assets or the financial position of the Company, paying particular attention to situations in which one or more directors act in their own interest or in the interest of third parties, and more generally to transactions with related parties. During the revision of the corporate governance instruments, it was expressly stated that the Board of Directors establish general criteria for the detection of these kinds of operation;

— at least once a year, evaluates the size, composition and functioning of the Board itself and its Committees, expressing opinions on the professional figures whose presence in the Board could be deemed advisable;

— constitutes the Supervisory Body pursuant to legislative decree no. 231/2001;

— appoints and dismisses the internal control officer and determines her/his duties and remuneration, after having received the opinion of the Committee for Internal Control and Corporate Governance and the Board of Statutory Auditors; reviews and approves periodic reports prepared according to applicable legislation;

— exercises the other powers and fulfils those duties attributed to it by the law and the Company bylaws.

Evaluation of the general results of operations[18]

Pursuant to the bylaws[19] and the current regulations[20], the Board of Directors has evaluated the general results and likely development of operations at at least quarterly intervals.
Please also refer to the paragraph headed "Information to the Board" in the "Delegated Bodies" section.

Internal control system and governance system[21]

The Board of Directors has assessed[22] the adequacy of the internal control system and, more generally, the governance of the Company and of the Group it controls, at six monthly intervals..
In this respect it should be noted that recently the Board of Directors, in its meeting on 26 March 2008, adopting the considerations made by the Committee for Internal Control and Corporate Governance, evaluated the adequacy of the general organisational, administrative and accounting structure of the Company, and expressed a positive opinion of the internal control system and, more generally, of the governance system of the Company and the Group[23]

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18 Self Regulatory Code. Criterion of application 1.C.1, lett. e)..
19 Article 11 of the company bylaws.
20 Article 150 of the FSA
21 Self-Regulatory Code. Criterion of application 1.C.1, lett. b)..
22 Self-Regulatory Code. Criterion of application 1.C.1
23 See the paragraph headed " Committee for Internal Control and Corporate Governance", below, for further details.

Remuneration of the directors vested with special responsibilities[24]

The Board has examined and approved the Committee's proposal for the remuneration of the General Managers of the Company and has been informed of the remuneration of the Managing Director and General Manager of Pirelli Tyre[25].
Given the ending of its mandate, the Board did not deliberate on the variable remuneration package of directors vested with special responsibilities for the 2008 financial year, referring all determinations on this matter to the new Board.
See section 10 "Remuneration of directors" for all issues related to remuneration.

Transactions with significant impact on the strategy, the profitability, the assets or the financial position of the Company[26]

The "Procedure for information flows to Directors and Auditors", appended at the end of this chapter, available in the Governance section of the company website, www.pirelli.com, specifies that the general information on the activities carried out should be accompanied by specific detailed information on, among other matters, transactions with significant impact on the profitability, assets or financial position of the company, identified using qualitative criteria and quantitative thresholds.
Moreover, the Board, without prejudice to the responsibilities and powers reserved to it by the law, bylaws, powers structure and internal procedures, has also specified that it is the Board of Director's responsibility to give prior approval to certain non infragroup operations and actions (determined on the basis of the latest qualitative criteria and further quantitative thresholds) when carried out by Pirelli & C or by unlisted foreign companies subject to the direction and coordination of Pirelli & C..
Thus the transactions of Pirelli RE (a listed company not subject to the direction and coordination[27] of Pirelli & C.) and the companies directed and coordinated by Pirelli RE are not subject to the prior approval of the Board of Directors of Pirelli & C.

Transactions with related parties

For transactions with related parties, see the section entitled "Interest of the directors and transactions with related parties".

Board performance evaluation[28]

During 2006, for the first time, the Board of Directors made a self-evaluation of its performance (officially called a "Board performance evaluation"), thus adhering to international best practices and the provisions in the Self-Regulatory Code[29].
As proposed by the Committee for Internal Control and Corporate Governance, and based on suggestions made by the independent directors[30], and taking the positive experience of the preceding year into account, the Board concluded that it would be advisable to start a similar Board self-evaluation for the 2007 financial year, inverting the process used the previous year.
The self-evaluation process occurred by direct interviews with individual Board members or, alternatively, allowing Board members to provide written answers to a questionnaire which was also used as a guide for the interviews. The self-evaluation was carried out with the as-

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24 Self Regulatory Code: Criterion of application 1.C.1, lett. d)..
25 As reported in the section entitled "Remuneration of Directors", the Managing Director and General Manager of Pirelli Tyre, Dr. Francesco Gori, has been categorised, for self-regulatory purposes, as a "director with strategic responsibilities".
26 Self Regulatory Code: Criterion of application 1.C.1, lett. f)..
27 Please see the section entitled "Direction and coordination activities".
28 Self Regulatory Code: Criterion of application 1.C.1, lett. g)..
29 Self Regulatory Code: Criterion of application 1.C.1, lett. g)..
30 The board performance evaluation was examined in depth in the meetings of the independent directors. Please see the "Independent directors" section under "Meeting of the independent directors "

sistance of a major consultancy company that worked alongside the Committee for Internal Control and Corporate Governance to develop self-evaluation methods and to analyse the results.
Directors were invited to express their opinions on three major themes:
— the board performance evaluation: including, among other aspects, the size, composition and operation of the Board and its Committees;
— the directors' evaluation: including, among other aspects, the participation, knowledge of the Company, knowledge of regulatory developments and independence of opinion of the executive directors, non-executive and non-independent directors and independent directors;
— the self-evaluation: including, among other aspects, an evaluation by each individual director of the issues considered in the directors' evaluation of their own participation, knowledge of the Company, knowledge of regulatory developments and independence of opinion.
The Directors interviewed had an opportunity to express four degrees of opinion and to formulate their own comments.
The results were subject to in depth analysis by the Committee, and then examined by the Board of Directors in its meeting of 26 March 2008.
The Directors expressed a high degree of participation in the self-evaluation board performance evaluation and the examination of the results showed the emergence of a decidedly positive impression.
This second edition of the board performance evaluation confirmed the participation in and satisfaction of the Directors with their Board.

Article 2390 Civil Code

Article 10, last subsection of the bylaws provides that, unless otherwise deliberated by the shareholders' meeting, the directors are not bound by the prohibition contained in article 2390 of the Civil Code.

5.3. Delegated bodies

Chairman

Where the Shareholders' Meeting has not done so, the Board of Directors appoints its Chairman. Specifically, the Board of Directors appointed Marco Tronchetti Provera as Chairman of the Board of Directors in its meeting of 28 April 2005.
The Chairman is recognised as the legal representative of the Company, empowered to perform any action pertinent to corporate activity in its various manifestations.
The Board of Directors has identified the limits to the powers it confers, which have been defined as the inner limits of the relationship between the delegating body of the Board and the subject with delegated powers. In particular, the following inner limits have been identified for the Chairman: the power to guarantee Company and subsidiary bonds having individual values of more than 25 million euros, or for third parties regarding bonds with individual values of more than 10 million euros (in the latter cases another Managing Director must co-sign with the Chairman);
Furthermore, the Board confirmed that the Chairman, Marco Tronchetti Provera, should exercise the following organizational functions:
— relations with shareholders and the information provided to them;
— coordination of the Managing Directors' activities;
— formulation, in agreement with the Managing Directors, of the general strategies and development policy for the Company and the Group, to be submitted to the Board of Directors together with extraordinary corporate actions;
— proposals, to be submitted to the Board of Directors in agreement with the Managing Directors, for the appointment of members of the General Managers' Departments and, after consulting the Remuneration Committee, for their compensation;
— chairmanship of the managing committees with strategic functions;

— all forms of communication to the market, with the right to delegate to the managing directors, in accordance with what is covered by the procedure for the management and communication to the market of sensitive information, as approved by the Company;
— the right to acquire from the Managing Directors and the management of the Group all the data and information considered necessary to carry out the above-mentioned functions.

Managing Directors and other Managers

Powers pertaining to their specific functions, subject to certain quantitative limits, have been granted to Claudio De Conto, Chief Operating Officer, and to Luciano Gobbi, Chief Finance and Strategic Planning Officer[31].
Less broad powers have been granted to other managers of the Company to be used in their individual spheres of competence.
As in the past, in 2007 the Chairman, the Managing Directors, the General Managers and the Managers used their delegated powers only for the ordinary management of the activities of the Company (in regard to which the directors were periodically informed) and submitted the transactions which were more important from an operational or financial perspective to the Board of Directors.
In fact, delegation does not mean the assignment of exclusive powers but is rather the solution adopted by the Company to ensure, in terms of the organization of the senior management team, the greatest degree of operational flexibility, both within the Company and in relation to third parties.

Information to the Board

Pursuant to Article 11 of the bylaws and the prescriptions of Article 150, subsection 1 of the FSA, the Board of Directors and the Board of Statutory Auditors are kept informed, inter alia by the persons with delegated powers, about the performance of the Company, its general management, its prospects and the transactions of greatest significance for its profitability, financial position or assets and liabilities carried out by the Company or its subsidiaries; in particular, such persons report any transactions in which they have an interest, for their own account or on behalf of third parties, or that are influenced by the person, if any, who performs management and coordination activities. Such reports are made promptly and at least once every three months, on occasion of the Board of Directors meetings (and the Executive Committee, if established) or by means of a written communication.
In order to favour the orderly organization of the flow of information, in July 2002, the Company adopted a procedure with the rules to be followed to ensure compliance with the above-mentioned Article 150 with regard to the activities of the executive directors, both in exercising their delegated powers and in carrying out the transactions approved by the Board of Directors.
This procedure has been subject to a review that involved Company governance frameworks. The Board of Directors meeting on 12 March 2007 actually decided to adopt a general procedure on information flows to the Directors and Auditors, which incorporates more widely the procedure adopted to fulfil the obligations of art. 150 of the Financial Services Act. The new procedure aims at regulating and coordinating the various types of data flowing to Directors and Auditors, so that they all have the common aim of continuously making available to the members of these Boards the data needed to properly fulfil their directional, policy and control responsibilities.
The text of this new policy, shown at the end of this reportis also available on the website of the Company at *www.pirelli.com*, under the section entitled "Governance".

31 Luciano Gobbi left the company at the end of March 2008, at which time his activities and responsibilities were assigned to General Operations Management.

5.4. Other executive Board Members

The Board of Directors has considered the Chairman of the Board of Directors, Marco Tronchetti Provera, and the two Vice Chairmen, Carlo Alessandro Puri Negri (also Vice Chairman and Managing Director of subsidiary Pirelli RE) and Alberto Pirelli (also director and manager of a business unit of subsidiary Pirelli Tyre and director of other subsidiaries of Pirelli Tyre) to be executive directors.
During the year, in accordance with the recommendations of the Self Regulatory Code[32], to extend the knowledge of all directors about the reality and dynamics of the company, a visit was organised to Modular Integrated Robotized System (MIRS) to better understand all the phases of the tyre production cycle from raw material to finished product..

5.5. Independent Directors

The Board of Directors of the Company evaluate the requisites for independence specified in the Self Regulatory Code and the FSA for non-executive directors qualified as independent upon their appointment and during their mandate.
In the light of a substantial evaluation of the information provided by the Directors and that available to the Company, the Board of Directors confirmed, in the Board meeting on 26 March 2008, that the eleven directors who, on appointment, were qualified as independent (Carlo Acutis; Carlo Angelici; Alberto Bombassei; Franco Bruni; Mario Garraffo; Dino Piero Giarda; Berardino Libonati; Giampiero Pesenti; Luigi Roth; Aldo Roveri and Carlo Secchi), continue to maintain these requisites. A further six Board members (Gilberto Benetton; Enrico Tommaso Cucchiani; Gabriele Galateri di Genola; Giulia Maria Ligresti; Massimo Moratti; Giovanni Perissinotto) could be qualified as non-executive members. It follows that the percentage of independent directors on the Board as currently composed is 55%. It should also be noted that the Board of Directors has ascertained that all directors who can be qualified as independent are also independent in terms of the requisites of the FSA for members of the Board of Statutory Auditors.
In accordance with the recommendations of the Self Regulatory Code[33],the Board of Statutory Auditors has checked that the criteria and ascertainment procedures adopted by the Board to assess the independence of its members are correctly applied.
The Board of Directors performed this evaluation based on the most rigorous requirements in the Self Regulatory Code[34] which states that a director may not – by law – be considered independent:

a) if they, directly or indirectly or on behalf of subsidiaries, trust companies or through third parties, control the issuer or are able to exercise considerable influence on said issuer, or are a participant in a shareholder agreement through which one or more subjects can exercise control or significant influence on the issuer;
b) if they have or have been in the past three financial years a prominent exponent[35] of the issuer, or one of its strategic subsidiaries or a company under joint control with the issuer, or a company or a body that, alone or together with others in accordance with shareholders agreements, control the issuer or are able to exercise considerable influence on said issuer;
c) if directly or indirectly (e.g. through subsidiaries or bodies of which they are a significant exponent, or as a partner in a law firm or a consultancy company) they have, in the previous financial year, had a close business, financial or professional relationship with the following:
   — the issuer, one of its subsidiaries, or any related prominent exponent thereof;
   — a subject who, alone or together with others within a shareholder agreement, controls the issuer, or – in the case of a company or body – with their significant exponents ;

32 Self Regulatory Code: Criterion of application 2.C.2.
33 Self-Regulatory Code. Criterion of application 3.C.5
34 Criterion of application 3.C.1 and 3.C.2
35 The following may be considered “prominent exponents” of a company or body: the chairman of the body, the legal representative, the chairman of the Board of Directors, the executive directors and managers with strategic responsibilities in the company or body considered.

— or is or has been within the previous three financial years, an employee of one of the above-mentioned subjects ;

d) they receive, or have received in the past three financial years, from the issuer or one of its subsidiaries or parent companies, a substantial bonus in addition to their "fixed" salary as non-executive director of the issuer, including performance-based incentive plans, such as stock bonuses or other;
e) if they have been a director of the issuer for more than nine years of the past twelve;
f) if they are an executive director in another company in which the executive director of the issuer holds the role of director;
g) if they are a partner or director of a company or body belonging to the company mandated to audit the accounts of the issuer;
h) if they are a close family member of a person in one of the situations described above.

Meetings of the independent directors

Durng the financial year, in line with the recommendation of the Self -Regulatory Code[36], the independent directors met twice in the absence of the other directors. The topics of the meetings were matters inherent to the corporate governance system of the Company (specifically, the in-depth consideration of the board evaluation), the role of the independent Directors, the valuation in the balance sheet of the Company investment in Olimpia S.p.A.
During 2008, one meeting of the independent directors has already been held.

5.6. Lead independent director

As of November 2005, in order to increase further the role of the independent directors, the Board of Directors decided to introduce a Lead Independent Director.
The *Lead Independent Director* (Carlo Secchi, the Chairman of the Committee for Internal Control and Corporate Governance, was chosen) coordinates and acts as a point of reference for the requirements and contributions of the independent Directors.
The *Lead Independent Director* may also convene – on his own initiative or upon the request of other Directors – specific meetings solely for independent Directors in order to discuss subjects occasionally felt to be of interest to the functioning of the Board of Directors or management of the firm. Please note that the Lead Independent Director may collaborate with the Chairman of the Board of Directors for the better functioning of the Board of Directors.
The *Lead independent director* attended all meetings of the Committee for Internal Control and Corporate governance (which he Chairs), all meetings of the Board of Directors, the two shareholders' meetings that were held during the 2007 financial year, and the special meeting of savings shareholders.

6. HANDLING OF COMPANY INFORMATION

6.1 Internal management and disclosure of documents and information

Market transparency, clarity, correctness and integrity of information are the values that are upheld by the conduct of the corporate bodies, the management and all the employees of the Pirelli Group. In March 2006, the Board of Directors of the Company adopted a specific procedure for the management and market communication of sensitive information that, keeping account of the regulations regarding market abuse, governs the management of sensitive information connected to Pirelli & C., its unlisted subsidiaries and the listed financial instruments of the Group, and as such all the members of corporate bodies such as the employees and collaborators of companies external to the Group that may have access to information that could evolve into sensitive information.

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36 Self-Regulatory Code. Criterion of application 3.C.6

This procedure also applies as instructions to all subsidiaries in order to obtain from them, without hesitation, the necessary information for the timely and proper fulfilment of financial reporting obligations. The Procedure also disciplines the institution of a register of persons with access to confidential information, in operation since 1 April 2006.
The text of this procedure shown at the end of this Report, is also available on the website of the Company at *www.pirelli.com*, under the section entitled “Governance”.

6.2 Insider dealing

Matters regarding the transparency of transactions on Company shares or financial instruments underlying or linked to shares made directly or by third parties for relevant persons or by persons closely related or linked to them (i.e. insider dealing) are currently fully governed by law and by regulations established by Consob (art. 114 of the Financial Services Act and art. 152-sexies and following amendments of the Issuer's Regulation), as of April 1st, 2006 over-riding the Code of Conduct of the Company regarding insider dealing, adopted as from December 2002.
Pursuant to the law, Directors and statutory auditors of the issuing Company, as well as “persons who carry out administrative [...] functions in an issuing company and managers that have regular access to sensitive information [...] and have the power to make management decisions that could affect the performance and the future prospects of an issuing company…” are obliged to disclose to the market any insider dealing transactions made on Company shares or financial instruments linked to these shares having a value of more than Euros 5,000 annually. The Company opted to identify these managers as its General Managers, and – as an example of self-regulation – the Managing Director and General Manager of the subsidiary Pirelli Tyre S.p.A. (who was the Managing Director of the Company until 30 June 2006). Similar disclosure obligations have also been undertaken by Pirelli RE., a company that is also listed on regulated markets.
Within the more general auditing process for the corporate governance instruments, despite being not obliged by law, the Board of Directors decided to institute a black out period for the persons mentioned above who must adhere to insider dealing regulations; they shall therefore abstain from making transactions on Company shares or on financial instruments linked to these shares. These periods may moreover be extended or suspended by the Board of Directors in exceptional cases.
The text of this procedure shown at the end of this Report, is also available on the website of the Company at *www.pirelli.com*, under the section entitled “Governance”.

7. BOARD COMMITTEES

The Board of Directors has instituted two subcommittees: the Committee for Internal Control and Corporate Governance and the Remuneration Committee.

8. APPOINTMENTS COMMITTEE

The Board of Directors has decided not to establish committee charged with nominating candidates for the position of Director, since at present the conditions envisaged by the Code for its establishment do not exist, because of the current ownership structure and, above all, the By-laws provision for the slate system, in view of the transparency this mechanism ensures in the selection of candidates.
Since the Board considers the above arguments are still valid, it has not felt that the constitution of a specific elections committee is necessary. Moreover, it has given the Committee for Internal Control and Corporate Governance the power to identify candidates to propose to the Board in the event that an independent Director replaced pursuant to article 2386, subsection 1 of the Civil Code.

9. REMUNERATION COMMITTEE

The Board established the "Remuneration Committee", a subcommittee from among its members, charged with fact-finding and advisory functions, in 2000.
In full compliance with the provisions of the Self-Regulatory Code[37], the Remuneration Committee is composed exclusively of independent Directors:
— Berardino Libonati (Chairman);
— Giampiero Pesenti
— Aldo Roveri
The Secretary to the Board of Directors acts as Secretary to the Committee.
The meetings of the Remuneration Committee are regularly minuted by the secretary and the minutes are transcribed into a specific register[38].

Functions of the Remuneration Committee

The Board of Directors, in its meeting on 12 March 2007, acted to adapt the tasks of the Remuneration Committee as specified in the Self-Regulatory Code.
The function of the Remuneration Committee is to investigate and consult on the following matters, and specifically:
— to formulate proposals to the Board regarding the remuneration of the Managing Directors and those persons who hold certain offices to ensure that they align with the objective of shareholder value creation in the medium-long term;
— to periodically evaluate the remuneration criteria for the senior management of the Company and, as requested by the Managing Directors, formulate proposals and recommendations, with specific reference to the adoption of possible stock option plans or stock bonuses;
— to monitor the application of the decisions made by the competent bodies and company policies regarding top management compensation.
The Committee – which may also request the assistance of external consultants in fulfilling its mandate – meets whenever its Chairman deems it appropriate or when a meeting has been requested by another member of the committee or by a Managing Director. The Board of Statutory Auditors or, if deemed appropriate, other Company and/or Group representatives attend the meetings of the Committee.
In line with the recommendations of the Self Regulatory Code[39], directors vested with special officers do not attend Remuneration Committee meetings..The available information and documents required for informed deliberation of the material submitted to the committee have always been circulated to all members reasonably in advance.
The Committee has full independence of expense for the performance of its tasks.
The Committee also has the right[40] to access information and company departments as necessary for the execution of the tasks allocated to it, making use of the support of the Secretary of the Board of Directors..
During 2007, the Remuneration Committee held a single meeting, attended by all members, during which it examined – and presented to the Board – the pay packages of the Chairman and the General Managers, also disclosing the criteria underlying its decisions. The Committee was also informed about the decisions made by Pirelli Tyre concerning the compensation of the Managing Director and General Manager, Dr. Francesco Gori, and the adoption of a system of 2007/2008 Long Term Cash Incentive for the Senior Management of the Pirelli Tyre Group.
The Remuneration Committee has already met twice in 2008, in order, among other things, to formulate its proposals for the attribution of compensation to the Managing Directors of the Company for the 2008 financial year, postponing the pay package of those directors who, after the renewal of the Board, are vested with special offices for the consideration of the "new Remuneration Committee".

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37 Self Regulatory Code: Principle 7.P.3.
38 Also in accordance with the recommendations of the Self Regulatory Code : Criterion of application 5.C.1, lett. d).
39 Self Regulatory Code: Criterion of application 7.C.4.
40 Also in line with the provisions of the Self Regulatory Code. Criterion of application 5.C.1, lett. e)..

10. REMUNERATION OF DIRECTORS

In addition to reimbursement for expenses incurred in performing their duties, Directors receive annual fees determined by the shareholders' meeting[41].
The meeting of 28 April 2005 decided "*to establish a maximum of 1,200,000 euros as the total annual compensation of the Board of Directors pursuant to Art. 2389, subsection 1, of the Civil Code, said amount to be distributed among its members in accordance with the decisions taken in this regard by the Board*."
At the same meeting, on 28 April 2005, the Board of Directors established the distribution of the compensation as follows:
— 50,000 euros per annum for each of the members of the Board of Directors;
— 25,000 euros per annum for each of the members of the Committee for Internal Control and Corporate Governance;
— 20,000 euros per annum for each of the members of the Remuneration Committee,
reserving the right to use the residual amount (65,000 euros) in the future, to give the Board a margin of organizational flexibility, including for the adoption of any new governance solutions.
A fee 10,000 euros per annum is also made to the Board member called on to be a member of the Supervisory Body as per legislative decree no. 231/2001 (Carlo Secchi).
The Board of Directors upon consultation with the Board of Statutory Auditors establishes remuneration for directors given particular tasks, as proposed by the Remuneration Committee. The current remuneration system provides[42] for payments to comprise a fixed amount and an additional bonus linked to the performance of the Group, and to be related to the attainment of specific objectives set by the Board.
Information on the remuneration of the directors vested with special powers and managers with strategic responsibilties can be found in a chart in the notes to the financial statements for 2007. It should be noted that the Board of Directors of the Company has identified the managers with strategic responsibilities insofar as they "hold the power to take decisions which may impact on the future development and evolution" of the Company as its General Managers (Claudio De Conto and Luciano Gobbi) as well as – for self-regulatory purposes - the Managing Director and General Manager of subsidiary Pirelli Tyre (Francesco Gori).
It should be noted that, for the 2008 financial year, the (fixed and variable) proposals to revise the compensation of the General Managers[43] of the Company were developed after an indepth comparative analysis by a major consultancy on market positioning in terms of the compensation of General Managers compared to a sample of over 200 FTE 500 European companies.
Lastly, it should be noted that there are no stock-option plans for either the executive or the non-executive directors[44].

11. THE COMMITTEE FOR INTERNAL CONTROL AND CORPORATE GOVERNANCE

The Board of Directors established[45] the Committee for Internal Control and Corporate Governance, which is charged with fact-finding and advisory functions, from amongst its members, in 2000.
In line with best practices and in full compliance with the recommendations in the Self Regulatory Code, the Committee is exclusively composed of the following independent Directors:
— Carlo Secchi (Chairman)
— Carlo Angelici
— Franco Bruni
two of whom[46], as ascertained by the Board of Directors convened on 12 March 2007, possess adequate accounting and financial experience.
The Secretary to the Board of Directors acts as Secretary to the Committee.

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41 Article 14 of the company bylaws.
42 Also in line with the provisions of the Self Regulatory Code. Criterion of application 7.C.1.
43 Cf. Note 31.
44 Vice Chairman Carlo Alessandro Puri Negri is an exception to this, since he is a recipient of stock options in his capacity as Chief Executive Officer of Pirelli RE.
45 Also in line with the provisions of the Self Regulatory Code. Criterion of application 8.P.4.
46 Specifically, Mr Bruni and Mr Secchi.

The meetings of the Committee for Internal Control and Corporate Governance are regularly minuted by the secretary and the minutes are transcribed into a specific register[47].

Functions attributed to the internal control committee

Similarly to the Remunerations Committee, the Board of Directors that convened on 12 March 2007 provided for the adjustment of the tasks mentioned of the Committee for Internal Control and Corporate Governance to those specified in the Self-Regulatory Code, and also specified that the Committee should continue to maintain the corporate governance prerogatives that have characterised it since its establishment.
The Committee for Internal Control and Corporate Governance performs investigative and consultation tasks on the following matters, and specifically:
— assists the Board of Directors:
- in the definition of policies for the internal control system, so that the principal risks for the Company and its subsidiaries are correctly identified and adequately measures, managed and monitored, and also in the determination of criteria for the compatibility of these risks with healthy and correct management of the business;
- in the identification of an executive director (normally one of the managing directors) charged with supervising the operations of the internal control system;
- in the evaluation, at least annually, of the adequacy, efficacy and effective operation of the internal control system;
- in the description of the essential elements of the internal control system in the corporate governance report, expressing its evaluation of the system's overall adequacy;

— expresses an opinion on proposals to appoint, revoke or assign tasks relating to the internal control officer and the officer responsible for the preparation of company accounting documents;
— evaluates the correct use of accounting principles and their homogeneous application inside the Group and for the purpose of drawing up the consolidated financial reports, with the administrative managers of the Company, the officer responsible for the preparation of the company accounting documents and the auditors;
— at the request of the executive director with specific responsibility, expresses opinions on specific aspects of the identification of the main company risks and on the design, implementation and management of the internal control system;
— reviews the work plan prepared by the internal control officers, from whom it receives periodic reports;
— evaluates the proposals formulated by the external auditors in order to obtain the commission, as well as the audit plan and the results set out in the auditors' report and in the letter of suggestions, if produced;
— monitors the efficacy of the audit process;
— monitors the respect of the principles that the Company has formulated for execution of transactions with related parties;
— reports to the Board of Directors, normally in the first available meeting, on the activity carried out and in general on the adequacy on the internal control system when the annual and half-yearly financial reports are being approved;
— monitors compliance with the rules of corporate governance and their periodic updating, and respect for any rules of conduct adopted by the Company and its subsidiaries. It is also responsible for proposing the methods for and times at which the Board of Directors should perform its annual self-evaluation.
— if an independent Director should be replaced, it proposes candidates for co-opting to the Board of Directors;
— it performs the further tasks assigned to it by the Board of Directors, also in relation to the monitoring of procedural correctness and of the substantial fairness of operations.
The Committee – which may also request the assistance of external consultants in fulfilling its mandate – meets whenever its Chairman deems it appropriate or a meeting has been re-

47 Also in line with the provisions of the Self Regulatory Code. Criterion of application 5.C, lett. d)..

quested by another member of the committee or by a Managing Director. The Board of Statutory Auditors[48] and, if deemed appropriate, other Company and/or Group representatives, and the External Auditors attend the meetings of the Committee.
The available information and documents required for informed deliberation of the material submitted to the committee have always been circulated to all members reasonably in advance.
The Committee has full independence of expense for the performance of its tasks.
In accordance with the provisions of the Self Regulatory Code[49], the Committee also has the right to access information and company departments as necessary for the execution of the tasks allocated to it, making use of the support of the Secretary of the Board of Directors.
During 2007, the Committee for Internal Control and Corporate Governance met 5 times and all members participated in these meetings. The average duration of the meetings was over two and a half hours.
The Committee actively contributed to the implementation process and the updating of Company corporate governance instruments.
In particular, during the year considered, it proceeded to approve the actions necessary to incorporate the provisions of the Self Regulatory Code, submitting them to the approval of the Board of Directors:
— the definition of some issues reserved to the exclusive competence of the Board of Directors;
— the updating of the duties assigned to the Remuneration Committee and the Committee for Internal Control and Corporate Governance
— the identification of the Director responsible for supervising the operation of the Company internal control system, including attribution of the duties specified in the Self-Regulatory Code;
— the identification of the black-out periods applicable to subjects required to respect the insider dealing regulations;
— some changes to the rules of conduct for execution of transactions with related parties;
— the adoption of a new "procedure for information flows to board members and auditors";
— definition of general criteria to identify transactions of significant impact for the company and its subsidiaries to submit to the prior examination of the Board;
— definition of an orientation for the maximum number of appointments considered compatible with serving as a director of the company.
The Committee has also proposed some changes to the Company bylaws and Rules for shareholders' meetings, principally to implement the legal provisions for the protection of savings and the regulatory standards, and intended to improve their clarity, providing more systematic and complete rules, and to take the policies formed over time in response to legislative initiatives into account.
Also during 2007, the internal control officer of the Company (who is the head of the Internal Auditing Department) was able to refer his actions to the Committee for Internal Control and Corporate Governance through the submission of four reports. The Committee also monitored the work carried out by the Internal Audit Department of the Company, specifically examining the result of work carried out to implement the 2006 Audit Plan (approved by the Committeee in its meeting of 12 March 2007) and has approved the Audit Plan for 2008.
The Responsible Officer also reported on his activity to the Committee: please see the section entitled "Officer responsible for the preparation of the company accounting documents".The Committee approved the new version of the "231 Organisational model" and the subsequent modifications to this (see the corresponding section for further details), and was also constantly informed about the implementation of the project called "Project 262", and checked the audit activity plan with external auditors PriceWaterhouseCoopers
The Committee was also constantly updated about the process that will lead the Board of Auditors to formulate its proposal pursuant to article 159 of the FSA, concerning the appointment of external auditors of the financial statements and consolidated financial reports of the Company for the years 2008-2016 to the shareholders' meeting called upon to approve the financial reports for the year ended on 31 December 2007[50].

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48 Also in accordance with the recommendations of the Self Regulatory Code : Criterion of application 8.C.4.
49 Self Regulatory Code: Criterion of application 5.C.1, lett. e).
50 Cf. Note 6.

Lastly, it was felt opportune to give an account of the development of the actions, legal and otherwise, that involved two ex-heads of Company Security that were reported in the corporate governance report for 2006 and have been the subject of an investigation by the Committee for Internal Control and Corporate Governance and the Board of Statutory Auditors.
In particular, the Committee was informed that the Company continues to actively assist the legal authorities, providing them with all documents that might be useful for the investigation to proceed.
The Committee was also brought up to date on the completion by the Company of the selection process to appoint a new Security department manager reporting directly to the General Operations Manager. The person appointed started on 1 October 2007 and, on the basis of the two audit reports issued by the Internal Audit Department of the Company, appointed by the Committee (as described in the previous report) to investigate the security services required by the various departments of the company over recent years, and analysis of the documents produced by the departmental managers concerning the security duties they assign, no substantial irregularities were found in terms of the organisational profile and procedures of the company.
Finally, it should be noted that the Company is proceeding with the civil action started against the security service suppliers involved in the investigations in order to be compensated for services that were not contractually fulfilled or were even illegal.
The Committee for Internal Control and Corporate Governance and the Board of Directors, taking into account the comments of the Board of Statutory Auditors, judged the internal control system of the Company and of the Group it controls to be adequate[51].

12. INTERNAL CONTROL SYSTEM

The internal control system of Pirelli & C. and the Group it heads is designed to ensure the provision of correct information and adequate control cover for all the activities of the Group, with special reference to those areas that are considered to be potentially at risk
It has developed as a process intended to achieve substantial and procedural fairness, transparency and accountability by ensuring that transactions and, more generally, business related activities are efficient and can be known and verified, that financial information and accounting and operational data are accurate, that applicable laws and regulations are complied with, and that the assets of the business are safeguarded, not least with a view to prevent the perpetration of fraud against the Company and financial markets.
The cardinal rules of the internal control system of the Company are:
i) the separation of roles in the performance of the main activities involved in each operating process;
ii) the traceability and constant visibility of choices;
iii) the management of decision-making processes according to objective criteria.

12.1. Executive director responsible for the internal control system

Responsibility for the internal control system lies with the Board of Directors, which lays down the guidelines for the system and periodically verifies that it is adequate and working effectively. To this end, the Board avails itself of the Committee for Internal Control and Corporate Governance, as well as an Internal Control Officer, who is given an adequate level of independence and appropriate means in order to carry out this mandate, and who carries out typical audit functions to verify the adequacy and efficiency of this system; and, if anomalies are detected, who proposes the necessary corrective solutions.
A specifically delegated Director (currently the Chairman of the Board of Directors) is charged with[52] identifying the main company risks that must periodically be examined by the Board and the execution of the policy lines defined by said Board, seeing to the planning,

51 Cf. Paragraph headed "Internal control system and governance system" in the section entitled "Role of the Board of Directors"
52 Also in line with the provisions of the Self Regulatory Code. Criterion of application 8.C.1, lett. b).

realisation and management of the internal control system, constantly verifying its overall adequacy, efficiency and adaptation to the changes in business conditions and legislation and regulation frameworks

12.2. Internal control officer

The internal control officer – that the Board of Directors, with the approval of the Committee for Internal Control and Corporate Governance and in accordance with best practice, identified as the head of the Internal Audit Department (Maurizion Bonzi) and also decided his remuneration for this task – reports to the Committee for Internal Control and Corporate Governance and the Board of Statutory Auditors and is hierarchically answerable to the Chairman of Pirelli & C.
The Internal Audit Department has a significantly important role in the internal control system and, also for activities performed regarding subsidiaries, it has the main task of assessing the adequacy and functionality of control, risk management and corporate governance processes throughout the entire Group by means of independent assurance and consultancy.
The work of the Internal Audit Department is carried out in accordance with its mandate and is approved by the Committee for Internal Control and Corporate Governance, regarding the following aspects:
— mission;
— objectives and responsibilities (independence, complete access to information, activity framework, communication of results);
— improvement in the quality of internal audits; principles of professional ethics;
— professional reference standards.
During 2007, as requested by the Institute of *Internal Audit (IIA*), the Management of the *Internal Audit* department underwent an *External Quality Assessment* to evaluate its compliance of the activities it carries out with the *Standards for the Professional Practice of Internal Auditing* issued by the IIA, and was found to generally comply, the maximum mark attributable under the *standards* mentioned.
The Company also has in place a planning and control system that focuses on individual sectors and operating units and produces a detailed monthly report for the General Management teams, so that they have a useful tool with which to monitor specific activities.
To promote compliance with the strategies and guidelines adopted by the parent company, the General Managers and senior executives with responsibililities for the specific businesses and functions sit on the Boards of Directors of the largest subsidiaries.
Also regarding internal control, please note that – in order to comply with provisions in art. 154-bis of the Financial Services Act (as amended by the Savings Law, and more recently, by Legislative Decree no.303/2006), the Company initiated a project (named “Project 262”), guided by a specific steering committee, with the objective of making a system of controls for administrative and accounting procedures available to the administrative boards and the managers involved in the preparation of corporate accounts for the preparation and the validation of periodic accounting reports, which allow these individuals to make the declarations required by law.

12.3. Organisational Model ex Legislative Decree 231/2001

The internal control system described above has been further strengthened by the introduction of an organizational model that the Board of Directors approved on July 31t, 2003 and which was revised and modified according to updated regulations (with a resolution of the Board of Directors on 12 March 2007 to incorporate the legislative innovations introduced by law no. 123/2007 of 9 November 2007). The updated Organisational Model is available on the website *www.pirelli.com*.
The *organisational model*, which is intended to ensure the creation of a system responding to the specific requirements deriving from the entry into force of Legislative Decree 231/2001 on the administrative liability of companies for criminal offences committed by their employees,

consists of a set of principles and procedures arranged in a pyramid that, starting from the base, can be summarized as follows:

— a Group Code of Ethics, which formulates the general principles (transparency, correctness and fairness) inspiring the conduct of business. It indicates the objectives and the values informing business activity in relation to the main stakeholders with which Pirelli & C. interacts on a daily basis: the shareholders, the financial market, customers, staff and the community,

— general principles of internal control, which qualify the Internal Control System and the field of application, and which extend uniformly across the various organizational levels;

— lines of conduct, which set out specific rules aiming to avoid the creation of environmental situations that favour criminal activity in general, and in particular, crimes covered under legislative decree no. 231/2001, and translate the principles established by the Group Code of Ethics into operational terms.

— internal control checklists, which set out the main phases of each high and medium risk process and of the instrumental processes, the specific checks to be performed with a view to reasonably anticipating the risks of any criminal offence, and specify the reports to be transmitted to the Supervisory Body to draw attention to situations of possible non-compliance with the procedures established in the organizational model.

A specific Supervisory Body, with full economic independence, monitors the functioning of and the adherence to the organisational model. It is composed of Carlo Secchi, the Lead Independent Director and Chairman of the Committee for Internal Control and Corporate Governance, Statutory Auditor Paolo Francesco Lazzati, a member of the Board of Statutory Auditors, and Maurizio Bonzi, head of the Internal Audit Department and internal control officer. Thus full independence of this Body, and the input of the different professional skills that contribute to corporate management control is assured.

The Supervisory Body is in charged of making recommendations to the Board of Directors for it to adapt the organizational model to changes in the legal framework, the nature of the business activities of the Company and the ways they are conducted. It reports to the Board of Directors, the Committee for Internal Control and Corporate Governance and the Board of Statutory Auditors on the checks performed and their results.

The shareholders' meeting of 28 April 2005 confirmed the annual gross fee payable to each member of the Supervisory Body at 10,000 euros.

The mandate of theSupervisory Body expires at the same time as that of the Board of Directors that appointed it, and the new Supervisory Body will be appointed after the renewal of the Board of Directors by the shareholders' meeting called to approve the financial statements for the year ended on 31 January 2007.

With reference to the other Italian companies in the Group, the Supervisory Body has been identified by seeking the technical and operational solution that, while respecting the mandate and the powers reserved to this body by law, is appropriate to the size and organizational context of each company.

Lastly, a disciplinary system has been introduced to sanction non-compliance with the measures indicated in the organizational, operational and control models.

Finally, it should be pointed out that the Internal Audit Department of Pirelli & C. provides, when requested by the Supervisory Bodies of Group companies, operative assistance in the management and analysis of information flows established pursuant to Art. 6, subsection 2, letter d), of Legislative Decree 231/2001, as well as in implementation of specific audits on the basis of data received through the aforementioned information flows.

During the second half of the year, the Supervisory Body became involved in the court case that implicated two ex-heads of the Security Department of the Company, as detailed more extensively in the section entitled "Committee for Internal Control and Corporate Governance". In this respect, the Supervisory Body has taken note of the circumstances reported in the aforementioned section.

As stated, the outcome of the evaluations made by the Board of Directors and the Committee for Internal Control and Corporate Governance, taking the comments of the Board of Statutory Auditors into account, was to consider the internal control system of the Company and the Group it controls to be adequate.

12.4. External auditors

The audit of the company accounts is carried out by an external auditors appointed by the Shareholders' Meeting and chosen from the firms listed in the appropriate register kept by Consob.
For the financial years 2005-2007 the Shareholders' Meeting held on April 28th, appointed PricewaterhouseCoopers S.p.A., which was also appointed by other major Group companies to audit their accounts.
The fees paid to PricewaterhouseCoopers S.p.A. (and the other companies that are part of its network) are reported in detail in the notes to the consolidated financial statements of Pirelli & C at 31 December 2007.
The Shareholders Meeting called to approve the financial reports for the year ending 31 December 2007[53], pursuant to 159 of the FSA, at the reasoned proposal of the Board of Statutory Auditors, must award the task of auditing the financial reports and consolidated financial statements to a new External Auditor for the 2008 – 2016 financial years, and approve the fees for this work.
The Board of Statutory Auditors has kept the Committee for Internal Control and Corporate Governance constantly informed about the selection process and the technical and economic evaluation – performed independently of the Board of Statutory Auditors with the assistance of the competent company departments – and on completion has communicated its opinion also to ensure that article 165 of the FSA concerning the "auditing of groups" is complied with.

12.5. Officer responsible for preparing the company accounting documents

The Company bylaws[54] attribute the power to appoint the Responsible Officer to the Board of Directors, after having received the opinion of the Board of Statutory Auditors; they also establish that this appointment expires when the term of the Board of Directors making the appointment expires The Responsible Officer must be an expert on administration and control matters, and possess the proper requisites, as established for directors.
In its meeting on 10 May 2007, the Board of Directors, as proposed by the Committee for Internal Control and Corporate Governance, with the favourable opinion of the Board of Statutory Auditors, appointed Claudio De Conto, Chief Operating Officer of the Company, to whom all the administrative and tax structures of the Group report, as the Responsible Officer.
The Board of Directors, in compliance with the provisions of the FSA, has assigned the following duties to the Responsible Officer:

a) to organise adequate administrative and accounting procedures for the formation of the company financial reports and consolidated financial statements and all other communications of a financial nature;
b) to issue a written declaration attesting that the documents and communications of the Company disseminated to the market and the related financial reports, including mid-year reports, of the Company correspond to the documentary evidence, ledgers and accounting records;
c) to attest, with a specific report drawn up according to the model established in the CONSOB regulations, attached to the financial reports, the half-yearly report and the consolidated financial statements, the adequacy and effective application of the procedures specified in paragraph a) above during the period to which the documents refer, and the correspondence of the latter with the ledger entries and accounts and their suitability to provide a true and correct representation of the economic, financial and equity situation of the Company and the set of businesses included in the consolidation.

The Responsible Officer has been granted all powers of an organisational and management nature needed to perform the tasks attributed by the current regulations, the Company bylaws and the Board of Directors to exercise the powers conferred on him and granted full economic autonomy.

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53 Cf. Note 6.
54 Article 11 of the company bylaws.

Taking into account the provisions of the bylaws, the appointment of Dr. De Conto as Responsible Officer will expire when the shareholders' meeting approves the financial statements for the year ending 31 December 2007[55].
The Responsible Officer has attended all the meetings of the Board of Directors of the Company for which the examination of the economic-financial data of the Company was on the agenda, and has issued, after his appointment, the attestations and declarations specified in article 154-bis of the FSA.
The Responsible Officer reported to the Committee for Internal Control and Corporate Governance and, when the budget was being approved, to the Board of Directors, concerning the adequacy and suitability of the powers and means conferred by the Board of Directors of the Company, confirming that he had had direct access to all the information necessary for the production of the accounting data, without need of any authorisation, shared the internal flows for accounting purposes and approved all the company procedures that had an impact on the economic, financial and equity situation of the Company.

13. INTERESTS OF DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES

The Company has also had rules of conduct for transactions with related parties, including intra-group business, in place since 2002. The purpose of these rules is to guarantee effective procedural and substantial correctness and transparency in transactions undertaken by Pirelli & C, directly or through subsidiaries, with parties related to Pirelli & C. itself.
On the basis of these rules, the Board is called on to approve transactions with related parties and infragroup transactions in advance, when the transactions are not typical or usual and concluded at standard conditions. To this end, the Board receives an adequate report on the nature of the relation, the ways in which the transaction is to be carried out, the conditions, including the economic conditions, for its execution, the evaluation procedure followed, and the underlying reasons and interest, as well as any risks for the company. If the relation is with a Director or with a related party through a Director, the Director concerned must – unless the Board decides otherwise - limit him or herself to supplying clarification, and does not participate in the Board Meeting that will deliberate the transaction. Depending on the nature, value or other characteristics of the transaction, the Board of Directors, to ensure that the transaction is not carried out at incongruous conditions, is assisted by one or more experts who express their opinion on the economic and/or legal and/or technical aspects of the transaction.
Finally, please note that in order to identify what constitutes a related party, the Company – as also indicated by Consob – defines the concept of "related party" according to the IAS/IFRS principles (specifically IAS 24).
The text of the main principles of conduct is shown at the bottom of this report, and is available on the website of the Company at www.pirelli.com under the section entitled "Governance".

14. BOARD OF STATUTORY AUDITORS

According to the law and the Company bylaws, the Board of Statutory Auditors is entrusted with monitoring the following:
— compliance with the law and the bylaws;
— respect for the rules of correct administration;
— the adequacy of the organisational structure of the Company for the aspects within its competence, of the internal control and administration-accounting system, and of the reliability of the latter to correctly represent the operating results;
— the ways in which the corporate governance rules specified in the codes of conduct prepared by companies that manage regulated markets or professional associations, which the company declares to follow, are actually implemented;

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55 Cf. Note 6.

— the adequacy of the instructions issued by the Company to its subsidiaries regarding the reporting of price sensitive information[56].
The Board of Statutory Auditors carries out its duties by exercising all of the powers conferred upon it by law and, since it can rely on a constant and analytical information flow from the Company, during and beyond the regular meetings of the Board of Directors and its Committees.
In fulfilling its functions, the Board of Statutory Auditors, besides participating in all the Board of Directors and Shareholders' Meetings, also takes part in the tasks of the Remuneration Committee and the Committee for Internal Control and Corporate Governance. Moreover, Paolo Francesco Lazzati, a Statutory Auditor, is a member of the Supervisory Board in accordance with the legislative decree No. 231/2001.

15. APPOINTMENT OF STATUTORY AUDITORS

The Company bylaws provide that the Board of Statutory Auditors consists of three Statutory Auditors and two Alternate Auditors. In order to allow minority shareholders to elect one Statutory Auditor and one Alternate, the Company bylaws[57] specify that they are appointed using the so-called the slate system, meaning that one Statutory Auditor and one Alternate Auditor are elected from the slate that obtains the second highest number of votes (the so-called the minority slate). The remaining members of the Board (i.e. two Statutory Auditors and the other Alternate Auditor) are elected from the slate that obtains the highest number of votes (the majority slate). Shareholders who, alone or together with others, hold at least 2 per cent of the share capital entitled to vote at the ordinary shareholders' meeting, may present slates, and in this context it seems necessary to point out that CONSOB[58] has determined the percentage shareholding required for presentation by the shareholders of the slates of candidates for election to the administration and control bodies of Pirelli & C for the 2008 financial year as 1.5% of the capital with voting rights in the ordinary shareholders' meeting.
Pursuant to the Issuer Regulations, as recently announced[59], the slates must be filed at the registered offices of the company at least 15 days before the date of the shareholders' meeting called to deliberate the matter. While the current regulations should be consulted for further details, it is pointed out that if a single slate is presented, or if the several slates presented by shareholders are found to be linked, then slates may be submitted up to five days after the expiry of the date for their presentation (15 days before the shareholders' meeting) and the thresholds for their presentation are reduced by half.
Each shareholder may present or participate in the presentation of only one slate.
The slates must be accompanied by the following, also pursuant to the current regulations:
— information on the identity of the shareholders who presented the slates, indicating their percentage holdings and a certificate proving that they own such a holding;
— a declaration by shareholders other than those who hold, including jointly, a controlling interest or relative majority, attesting that there are no links;
— a professional curriculum vitae for each candidate and declarations in which the candidates individually accept their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements prescribed by law and the bylaws.
Slates presented in violation of the above rules are considered null.
Subject to ineligibility, each candidate may only appear on one slate.
Slates must be divided into two sections: one for candidates for the position of Statutory Auditors and the other for candidates for the position of Alternate Auditor. The first candidate in each section must be selected from among persons entered in the Register of Certified Auditors who have worked on statutory audits for a period of not less than three years.
Each person entitled to vote may vote for only one slate. Additionally, according to the Company bylaws, the Statutory Auditor at the top of the minority slate which obtains the largest number of votes is entitled to Chair the Board of Statutory Auditors.

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56 Now referred to as "sensitive information" (article 114 of the FSA)
57 Article 16 of the company bylaws.
58 CONSOB deliberation no. 16319 of 29 January 2008.
59 Deliberation no. 15915 of 3 May 2007 introduced "Title V-bis" of the Issuer Regulation, which deals with "Administration and Control Bodies".

In the event of death, resignation or disqualification of a Statutory Auditor, he (or she) is replaced by the Alternate Auditor from the same slate. If the Chairman of the Board of Statutory Auditors is replaced, the other Statutory Auditor elected on the same slate takes the Chair; if it is not possible to proceed in the manner described above, a shareholders' meeting is called to fill the vacancy or vacancies by means of a resolution approved by a relative majority of the votes cast.
When the Shareholders' Meeting must appoint the Statutory and/or Alternate Auditors needed to complete the Board of Statutory Auditors, pursuant to the previous paragraph, or to the law, the following procedure must be used:
If Auditors elected from the majority slate are to be replaced, the appointment is made with the favourable votes of a relative majority without being tied to a slate; if, instead, Auditors elected from the minority slate are to be replaced, the shareholders' meeting replaces them with the favourable votes of a relative majority, choosing where possible from among the candidates on the slate from which the Auditor to be replaced was elected. The principle of necessary representation of minorities is respected, since the bylaws assure the right to participate in the appointment of the Board of Statutory Auditors, in case of the appointment of Auditors who have been candidates on the minority slate or slates other than those that obtained the highest number of votes in the procedure to appoint the Board of Statutory Auditors[60].
For the appointment of Auditors for any reason not appointed according to the procedure described above, then the shareholders' meeting decides with the legal majorities.
Outgoing Auditors may be re-elected.
Participation in meetings of the Board of Statutory Auditors may be – if the Chairman or his substitute verifies the necessity – by means of telecommunication systems that permit participation in the discussion and equality of information for all those taking part.

16. STATUTORY AUDITORS

The Shareholders' Meeting held on 21 April 2006 resolved to renew the Board of Statutory Auditors for the 2006-2008 period, appointing Luigi Guatri, Enrico Laghi and Paolo Francesco Lazzati as Statutory Auditors.
Luigi Guerra and Franco Ghiringhelli were appointed alternate auditors.
The appointments were made with the slate system. The single slate was presented by members of the Pirelli & C Block Shares Syndicate. The Company considers that the reason why no alternative slate was presented by the minorities is the authoritative and known character of the candidates proposed.
In the absence of members of the Board of Statutory Auditors from the minority slate, the Shareholders' Meeting decided to confirm the appointment of Luigi Guatri as Chairman of the Board of Statutory Auditors.
The Shareholders' Meeting also determined that the annual gross fee for each of the Statutory Auditors should be 41,500 euros, and that the gross annual fee of the Chairman of the Board of Statutory Auditors should be 62,000 euros; it also established that the Auditor called on to be a member of the Supervisory Board as specified in legislative decree no. 231/2001 (Paolo Francesco Lazzati) should receive an additional gross annual fee of 10,000 euros.
During 2007 the Board of Statutory Auditors held 7 meetings attended by all members of the Board, with a single absence at a single meeting. However, it should be noted that the members of this Board also attended the Shareholders' Meetings and the meetings of the Board of Directors of the Company, all of the meetings of the Committee for Internal Control and Corporate Governance held during the year, and the meeting of Remuneration Committee, as required by the corporate governance rules adopted by the Company, which offer the whole Board of Statutory Auditors the possibility of directly following the activities of the Committees and performing their control functions more efficaciously.

60 The changes to the bylaws that will be proposed to the Shareholders' Meeting that will approve the financial statements for the year ended on 31 December 2007 and those made by the extraordinary shareholders' meeting held on 12 December 2007 are taken into account (see the explanatory report by the directors, which will be made available on the company website, www.pirelli.com).

Name	Office	Appointed on	Slate	Indep. ex. Code	% part. B.A.
Luigi Guatri	Chairman	04/21/2006	Maj.	X	85.71
Enrico Laghi	Statutory auditor	04/21/2006	Maj.	X	100
Paolo Francesco Lazzati	Statutory Auditor	04/21/2006	Maj.	X	100
Luigi Guerra	Alternate auditor	04/21/2006	Maj.	-	-
Franco Ghiringhelli	Alternate auditor	04/21/2006	Maj.	-	-

LEGEND

Office: indicates whether the person is the chairman, a Statutory Auditor, or an alternate auditor.

Slate: Maj/Min according to whether the auditor was elected from the majority or minority slates (art. 144-decies of the Consob Issuer Regulations)

Indep. if checked indicates that the auditor may be considered independent according to the criteria contained in the Self Regulatory Code, specifying at the end of the table if these criteria have been supplemented or modified.

% part. B.A. indicates the percentage of meetings of the board of auditors attended by the auditor

The offices held by the Auditors in other companies are listed at the end of this Report.

Auditor Lazzati resigned his office from the date of the shareholders' meeting that approved the financial statements for the year ending 31 December 2007[61]. Pursuant to the bylaws, on that occasion the shareholders' meeting deliberated with the legal majority without invoking use of the slate voting mechanism, since the conditions to do so did not occur.
In line with the provisions of the Self Regulatory Code[62] and as expressly ascertained by the Board of Statutory Auditors, all Auditors may be defined as independent based on criteria contained in the Code regarding directors.
In accordance with international accounting principles, Pirelli & C. qualifies its Auditors as related parties for the Company, and this if an Auditor has an interest in a specific transaction of the Company the "rules of conduct for transactions with related parties" described in the preceding section "Interests of Directors and transactions with related parties" become applicable. It follows that, in accordance with the provisions of the Self-Regulatory Code[63], the Board receives an adequate report on the nature of the relation and the ways in which the transaction will be executed..

The Board of Statutory Auditors has monitored[64] the independence of the external auditors, checking that their instructions in terms of both the nature and entity of the services other than accounts monitoring provided to Pirelli & C, and its subsidiaries by the firm and its network are respected.
The Board of Statutory Auditors[65] coordinated its activities with the Internal Audit department and, as stated, staff from the latter participated in all the meetings of the Committee for Internal Control and Corporate Governance.

17. RELATIONS WITH SHAREHOLDERS

In line with its tradition of transparency and fairness, the Company actively promotes relations with shareholders, institutional and private investors and with financial analysts, with other market operators and with the financial community in general within the proper limits of their respective roles, and periodically organizes meetings both in Italy and abroad.
In March 1999, the Company established an Investor Relations Department to foster continuous dialogue with the financial market. The Investor Relations Department, which reports directly to Finance and Strategic Planning General Manager, is headed by Alberto Borgia and has its own section in the website of the Company at *www.pirelli.com* for both institutional

61 Cf. Note 6.
62 Self-Regulatory Code. Criterion of application 10.C.2
63 Self-Regulatory Code. Criterion of application 10.C.4
64 Also in accordance with the recommendations of the Self Regulatory Code : Criterion of application 10.C.5.
65 (Criterion of application 10.C.6. and 10.C.7.)

and private (or retail) investors. Specifically, for the latter, a subsection (at the "Private Investors" link) has been created providing guidelines for more detailed knowledge of the activities of the Pirelli Group and other useful information on the performance of its shares.
While in the *Investor Relations* section, investors can find every document of interest published by the Company, in English as well as in Italian, related to financial reporting (e.g. the annual financial statements and the half-yearly and quarterly reports) and the corporate governance system of the Company (e.g., the bylaws, the regulations for Shareholders' meetings, the Rules of conduct for transactions with related parties, the procedure for information flows to Directors and Auditors, the procedure for the management and communication to the public of sensitive information and the minutes of Shareholders' Meetings). The section also gives access to press releases distributed by the Company and the documentation that the Company makes available to the financial community in presentations and/or meetings and information on the share capital of the Company and shareholders (including the publication of shareholders' agreements).
To facilitate dissemination of its data, Pirelli & C. has taken action in several directions: during 2007, it has held regular meetings with the financial community and has taken part in conferences in the Auto/Autoparts sector during which it has been able to present the activity and progress of the Group in detail. The Company also participates in a number of sustainability indices, and has thus obtained many acknowledgements in the field of CSR.
Finally, it should be recalled that Pirelli & C. was one of the first companies in Italy and Europe to publish specific inserts giving economic and financial data in the mass media, as well as one of the first to set up a kit on its website for small investors.
Investor queries may be sent to:
e-mail: *ir@pirelli.com*; tel.: +39 02 64422949; fax: +39 02.64424686.

18. SHAREHOLDERS' MEETINGS

The Shareholders' meeting – that may be ordinary or extraordinary – has the competence, according to the law, for resolving upon a series of specified matters such as the approval of the financial statements, the appointment and the revocation of directors and auditors, their fees and responsibilities, the purchase or sale of own shares, the modification of the Company bylaws, the issuance of convertible bonds, and, except for restricted cases, merger and division transactions.
An ordinary Shareholders' Meeting – which may be held in Italy, not necessarily in the registered office – may be convened within 120 days after the end of the financial year. The Shareholders' Meeting to approve the financial reports for the year ended on 31 December 2007[66] will also be called to deliberate the modification of article 7 of the company bylaws, to incorporate the variations made to the FSA by Legislative Decree no. 195 of 6 November 2007, incorporating directive 2004/109/EC concerning the harmonisation of the requirements for transparency in information on issuer whose securities are traded in a regulated market. Specifically listed companies may not benefit from the possibility envisaged in subsection two of article 2364 of the Civil Code to derogate to the end of the period of one hundred and twenty days for the approval of the financial statements by the Shareholders' Meeting, and thus the Shareholders' Meeting is called on to eliminate from the bylaws the provision concerning the possibility of calling an ordinary shareholders' meeting within one hundred and eighty days of the end of the financial year, when required by particular needs and after reporting the reasons for the extension of time in the report on operations provided with the financial statements. For full details of these proposals, please see the report that was drafted by the Directors regarding this matter that will be made available on the Company website, www.pirelli.com.
In addition to the law and the bylaws, shareholders' meetings are governed by the Rules for Shareholders' Meetings, which were approved by the shareholders' meeting held on 11 May 2004, appended to this report and available on the website of the Company www.pirelli.com in the section entitled "Governance". To allow supplementary agenda items to be raised by the shareholders, as introduced by the Savings Law, the Shareholders' Meeting held on 23 April

66 Cf. Note 6.

2007 deliberated some modifications to the rules, and in particular, granted the Chairman the right to provide those shareholders who have formulated a request pursuant to the law and bylaws, to raise supplementary items for discussion at the Shareholders' Meeting, granting them a period of no longer than 15 minutes to illustrate their proposals and explain the reasons for their inclusion. The possibility that shareholders may propose additional agenda items is also taken into account in the interventions proposed in renumbered item 12, intended to assure the shareholders proposing this right, recognised to the Board of Directors, to modify or supplement its own proposals. This also includes further formal modifications intended to provide greater presentational clarity.
The Shareholders' Meeting is chaired, in the following order, by the Chairman of the Board of Directors, by a Deputy Chairman or a Managing Director; if there are two or more Deputy Chairmen or Managing Directors, the meeting is chaired by the senior in age. In the absence of the aforementioned individuals, the Shareholders' Meeting is chaired by another person elected by the shareholders with the favourable vote of the majority of the capital represented at the meeting.
The Chairman of the shareholders' meeting – among other things – verifies that the meeting has been validly constituted, ascertains the identity of those present and their right to attend, including by way of proxies, ascertains the legal quorum and governs the proceedings, with the faculty to establish a different order for the discussion of the topics indicated in the notice convening the meeting. The Chairman also takes appropriate action to ensure orderly discussion and voting, establishing the procedures and verifying the results.
The decisions of the meeting are recorded in minutes signed by the Chairman of the meeting and the Secretary or by the Notary public.
The minutes of extraordinary Shareholders' Meetings must be prepared by a Notary public appointed by the Chairman of the meeting.
Article 7 of the Company bylaws specifies that shareholders' interventions for which the communication specified in article 2370 subsection 2 of the Civil Code, within two days of the date of the particular shareholders' meeting, are legitimate.
The bylaws do not envisage the non-availability of the actions for which the communications mentioned in the aforementioned article 2370, subsection 2 of the Civil Code until the meetig has been held.
With reference to the right of each shareholder to speak on topics raised for discussion, it should be noted that the Rules for shareholders' meetings provide that the Chairman determines the period of time available to each speaker at the start of the meeting, taking the importance of the individual items on the agenda into account, but in any event no less than 15 minutes. Persons who wish to speak must ask the Chairman or the Secretary, indicating the topic to which the speech refers. The request may be presented up to the moment the Chairman has declared closed the discussion of the matter which the demand to speak refers. Participants may ask to speak a second time during the discussion, for a period of no more than five minutes, solely for the purpose of replying or formulating voting intentions.

19. CHANGES AFTER THE CLOSURE OF THE FINANCIAL YEAR

The Report takes into account the changes that have occurred since the end of the financial year to the data of approval of the Report.

LIST OF PRINCIPAL OFFICES HELD BY THE DIRECTORS IN OTHER NON-PIRELLI GROUP COMPANIES

Marco Tronchetti Provera	Marco Tronchetti Provera S.a.p.A.	General Partner
	Camfin S.p.A.	Chairman
	Gruppo Partecipazioni industriali S.p.A.	Chairman
	Mediobanca S.p.A.	Member of Supervisory Committee
	F.C. Internazionale Milano S.p.A.	Director
Alberto Pirelli	Camfin S.p.A.	Director
	Gruppo Partecipazioni industriali S.p.A.	Director
	KME S.p.A.	Director
Carlo Alessandro Puri Negri	Camfin S.p.A.	Deputy Chairman
	Gruppo Partecipazioni industriali S.p.A.	Managing Director
	AON Italia S.p.A.	Director
	Artemide Group S.p.A.	Director
	Eurostazioni S.p.A.	Director
	Fratelli Puri Negri S.p.A.	Chairman
Carlo Acutis	Vittoria Assicurazioni S.p.A.	Deputy Chairman
	Banca Passadore S.p.A.	Deputy Chairman
	Ergo Previdenza S.p.A.	Director
	Scor S.A.	Director
	IFI S.p.A.	Director
	Yura International B.V.	Director
Carlo Angelici	SACE BT	Director
Gilberto Benetton	Atlantia S.p.A.	Director
	Autogrill S.p.A.	Chairman
	Benetton Group S.p.A.	Director
	Telecom Italia S.p.A.	Director
	Mediobanca S.p.A.	Member of Supervisory Committee
	Allianz S.p.A.	Director
Alberto Bombassei	Italcementi S.p.A.	Director
	Brembo S.p.A.	Chairman
	Atlantia S.p.A.	Director
	Ciccolella S.p.A.	Director
Franco Bruni	Pioneer Global Asset Management S.p.A.	Director
	Unicredit Audit S.p.A.	Director
	Unicredit Banca Mobiliare S.p.A.	Director
Enrico Tommaso Cucchiani	Allianz SE	Director
	Allianz S.p.A.	Managing Director
	Unicredit S.p.A.	Director
	ACIF Allianz Compangnia Italiana	
	Finanziamenti S.p.A.	Chairman
	L.A. Vita S.p.A.	Director
	Lloyd Adriatico Holding S.p.A.	Chairman
Gabriele Galateri di Genola	Telecom Italia S.p.A.	Chairman
	Accor S.A.	Member of Supervisory Committee
	Assicurazioni Generali S.p.A.	Deputy Chairman
	RCS MediaGroup S.p.A.	Deputy Chairman
	Italmobiliare S.p.A.	Director
	Banca Esperia S.p.A.	Director
Mario Garraffo	Recordati S.p.A.	Director
	Terna S.p.A.	Director

Dino Piero Giarda	Banca Popolare Società Cooperativa	Deputy Chairman
	ACEA S.p.A.	Director
	Cassa del Trentino S.p.A.	Chairman
Berardino Libonati	RCS MediaGroup S.p.A.	Director
	Unicredit S.p.A.	Deputy Chairman
	ESI S.p.A. – Edizioni Scientifiche Italiane	Director
Giulia Maria Ligresti	Fondazione Fon-SAI	Chairman
	Premafin Finanziaria S.p.A.	Chairman and Managing Director
	Fondiaria SAI S.p.A.	Deputy Chairman
	Telecom Italia Media S.p.A.	Director
	SAI HOLDING S.p.A.	Managing Director
	SAIFIN S.p.A.	Managing Director
Massimo Moratti	F.C. Internazionale Milano S.p.A.	Chairman
	SARINT S.A.	Chairman
	SARAS S.p.A. Raffinerie Sarde	Managing Director
	Interbanca S.p.A.	Director
	Angelo Moratti di Gian Marco Moratti e Massimo Moratti & C. S.a.p.A.	General Partner
Giovanni Perissinotto	Assicurazioni Generali S.p.A.	Managing Director
	IntesaSanpaolo S.p.A.	Operational Board Member
	Banca Generali S.p.A.	Chairman
	Alleanza Assicurazioni S.p.A.	Director
	Ina Assitalia S.p.A.	Director
	Toro Assicurazioni S.p.A.	Director
Giampiero Pesenti	Italcementi S.p.A.	Chairman
	Italmobiliare S.p.A.	Chairman
	Ciments Francais	Director
	Compagnie Moneguasque de Banque	Director
	Allianz S.p.A.	Director
	Mittel S.p.A.	Director
Luigi Roth	Terna S.p.A.	Chairman
	Ente Autonomo Fiera Internazionale di Milano	Chairman
Aldo Roveri	-	-
Carlo Secchi	Allianz S.p.A.	Director
	Italcementi S.p.A.	Director
	Mediaset S.p.A.	Director
	Parmalat S.p.A.	Director

LIST OF OFFICES HELD BY STATUTORY AUDITORS IN OTHER COMPANIES

Luigi Guatri	Banco di Desio e della Brianza S.p.A.	Director
	ACBGroup S.p.A.	Chairman of Supervisory Comittee
	Centrobanca S.p.A.	Chairman of Board of Statutory Auditors
	Italmobiliare S.p.A.	Chairman of Board of Statutory Auditors
	Negri Bossi S.p.A.	Director
	RHIFIM S.p.A.	Chairman of Board of Statutory Auditors
	Medinvest International S.c.a.	Director
Enrico Laghi	Banca Finnat S.p.A.	Director
	Beni Stabili S.p.A.	Director
	Nomura SIM Italia S.p.A.	Director
	Gruppo Editoriale Espresso S.p.A.	Auditor
	Alitalia – Linee Aeree Italiane S.p.A.	Chairman of Board of Statutory Auditors
	Alitalia Servizi S.p.A.	Chairman of Board of Statutory Auditors
	Raffinerie di Gela S.p.A.	Chairman of Board of Statutory Auditors
	RaiCinema S.p.A.	Chairman of Board of Statutory Auditors
	Sarbit S.p.A.	Chairman of Board of Statutory Auditors
	01 Distribution S.r.l.	Statutory Auditor
	Rainet S.p.A.	Statutory Auditor
	Fendi S.r.l.	Statutory Auditor
	Servizi Aerei S.p.A.	Statutory Auditor
	IT Telecom S.p.A.	Statutory Auditor
	TM News S.p.A.	Statutory Auditor
	Iridium in liquidazione S.p.A.	Statutory Auditor
	Manzano Sviluppo S.r.l.	Statutory Auditor
Paolo Francesco Lazzati [67]	A.F.I S.p.A.	Chairman of Board of Statutory Auditors
	Acquario S.r.l. in liquidazione	Statutory Auditor
	Alfa S.r.l.	Statutory Auditor
	Amiata Energia S.p.A.	Chairman of Board of Statutory Auditors
	Antonio Cerruti & C. SAPA	Statutory Auditor
	APOGEO S.r.l.	Chairman of Board of Statutory Auditors
	Aree Urbane S.r.l.	Chairman of Board of Statutory Auditors
	Baleri Italia S.p.A.	Chairman of Board of Statutory Auditors
	Backdoor S.r.l.	Director
	Cam Partecipazioni S.r.l.	Statutory Auditor
	Capitolotre S.p.A.	Chairman of Board of Statutory Auditors
	Casaclick S.r.l.	Chairman of Board of Statutory Auditors
	Castello S.r.l.	Statutory Auditor
	CO.RE.COM	Statutory Auditor
	Credito Artigiano	Statutory Auditor
	Creval Banking S.p.A.	Chairman of Board of Statutory Auditor
	Dear S.p.A.	Statutory Auditor
	Dixia S.r.l.	Statutory Auditor
	Ecla Rete S.r.l.	Chairman of Board of Statutory Auditor
	Ecla S.p.A.	Chairman of Board of Statutory Auditor
	Edilnord Gestioni S.p.A.	Statutory Auditor
	Effe 2005 Finanziaria Feltrinelli S.p.A.	Statutory Auditor
	Elesa S.p.A.	Statutory Auditor
	Elle Servizi S.r.l.	Director
	Erogasmet Holding S.p.A.	Statutory Auditor

	Fin Fashion S.p.A.	Chairman of Board of Statutory Auditor
	Finaval S.r.l.	Director
	Finlibri S.r.l.	Statutory Auditor
	Finpol S.p.A.	Chairman of Board of Statutory Auditor
	Fondazione Giacomo Feltrinelli	Director
	Fondazione Parma Capitale della Musica	Director
	FREE Sim S.p.A.	Chairman of Board of Statutory Auditor
	Giacomo Feltrinelli Editore S.r.l.	Chairman of Board of Statutory Auditor
	Giglio Real Estate S.p.A.	Statutory Auditor
	Grafica Sipiel S.r.l.	Statutory Auditor
	ICBI S.p.A.	Statutory Auditor
	ICIERRE S.r.l.	Statutory Auditor
	ILMA Plastica S.p.A.	Statutory Auditor
	Imation S.p.A.	Chairman of Board of Statutory Auditor
	Iniziative immobiliari 3 S.r.l.	Statutory Auditor
	Invocing S.p.A.	Chairman of Board of Statutory Auditor
	Ital China Leather S.p.A.	Statutory Auditor
	Ivri Direzione S.p.A. – Milano	Chairman of Board of Statutory Auditor
	Ivri S.p.A. – Bari	Statutory Auditor
	Ivri S.p.A. – Parma	Statutory Auditor
	Ivri S.p.A. – Piacenza	Statutory Auditor
	Ivri S.p.A. – Firenze	Chairman of Board of Statutory Auditor
	Ivri S.p.A. – Genova	Chairman of Board of Statutory Auditor
	Ivri S.p.A. – Milano	Chairman of Board of Statutory Auditor
	Kedrios S.p.A.	Statutory Auditor
	Gorj, Bumbesti – JIU	Statutory Auditor
	Lanificio F.lli Cerruti S.p.A.	Statutory Auditor
	Librerie delle Stazioni S.r.l.	Chairman of Board of Statutory Auditor
	Librerie Feltrinelli S.r.l.	Statutory Auditor
	M-Platform	Statutory Auditor
	MCS & Partners S.r.l.	Chairman of Board of Statutory Auditor
	Molteni S.p.A.	Chairman of Board of Statutory Auditor
	Monit S.p.A.	Chairman of Board of Statutory Auditor
	Oasi S.p.A.	Chairman of Board of Statutory Auditor
	Orione Immobiliare Prima S.p.A.	Statutory Auditor
	Parcheggi Bicocca S.r.l.	Chairman of Board of Statutory Auditor
	Pirelli Industrie Pneumatici S.r.l.	Chairman of Board of Statutory Auditor
	Pirelli Tyre S.p.A.	Chairman of Board of Statutory Auditor
	Pirelli Real Estate Agency S.p.A.	Chairman of Board of Statutory Auditor
	Pirelli Real Estate Energy S.p.A.	Chairman of Board of Statutory Auditor
	Pirelli Franchising Servizi Finanziari S.r.l.	Chairman of Board of Statutory Auditor
	Pirelli SGR Private Opportunities S.p.A.	Statutory Auditor
	Pirelli SGR S.p.A.	Statutory Auditor
	Pro Juvara S.r.l.	Director
	Profidia S.r.l.	Director
	Progetto Corsico S.r.l.	Statutory Auditor
	Progetto Fontana S.r.l.	Chairman of Board of Statutory Auditor
	Progetto Nuovo Sant'Anna S.r.l.	Chairman of Board of Statutory Auditor
	Progetto Perugia S.r.l.	Chairman of Board of Statutory Auditor

	Prysmian Cavi e sistemi telecom S.r.l.	Chairman of Board of Statutory Auditor
	Prysmian Cavi e sistemi energia S.r.l.	Chairman of Board of Statutory Auditor
	Prysmian S.p.A.	Statutory Auditor
	Prysmian Powerlink S.r.l.	Chairman of Board of Statutory Auditor
	S.AN.CO Scarl	Chairman of Board of Statutory Auditor
	Sange Scarl	Chairman of Board of Statutory Auditor
	Securnetwork S.p.A.	Statutory Auditor
	Società degli AVI S.p.A.	Chairman of Board of Statutory Auditor
	Solar Utility S.p.A.	Chairman of Board of Statutory Auditor
	Sorocaima S.p.A.	Chairman of Board of Statutory Auditor
	Progetto Magnolia S.r.l.	Chairman of Board of Statutory Auditor
	Speed S.p.A.	Statutory Auditor
	Stone S.p.A.	Director
	Tau S.r.l.	Statutory Auditor
	Thesia S.p.A. in liquidazione	Statutory Auditor
	USO S.r.l.	Chairman of Board of Statutory Auditor
	VAIMM Sviluppo Immobiliare	Statutory Auditor
	Verdi S.r.l. in liquidazione	Statutory Auditor
	Vivigas S.p.A.	Statutory Auditor
	Zero9 S.p.A.	Statutory Auditor
	Zopa Italia S.p.A.	Chairman of Board of Statutory Auditor

67 Paolo Lazzati resigned his office with effect from the Shareholders, Meeting tto approve the financial statements for the year ended on 31 December 2007.

Abridged form of Pirelli & C. Società per Azioni Shareholders Agreement

1. *Type and objective of the agreement*
   The purpose of the Pirelli & C. shareholders agreement is to ensure a stable shareholder base and a uniform strategy in the management of the company.
2. *Parties to the shareholders agreement and Pirelli & C. shares transferred to the agreement*:

	Number of ordinary Shares granted	% of all shares granted	% of the total n. of ordinary shares issued
CAMFIN S.p.A.	1,063,360,850	43.97	20.32
MEDIOBANCA S.p.A.	241,144,264	9.97	4.61
EDIZIONE HOLDING S.p.A.	241,135,003	9.97	4.61
FONDIARIA - SAI S.p.A.	231,355,374	9.57	4.42
ALLIANZ S.p.A.	230,749,971	9.54	4.41
ASSICURAZIONI GENERALI S.p.A. *	230,749,965	9.54	4.41
INTESA SANPAOLO S.p.A.	84,519,252	3.49	1.62
Massimo MORATTI **	62,407,310	2.58	1.19
SINPAR S.p.A.	33,168,521	1.37	0.63
Total	**2,418,590,510**	**100**	**46.22**

* Including n. 57,400,000 shares through Generali Vie S.A. and n. 82,779,265 shares through Ina Assitalia S.p.A.

** Including 37,420,339 shares through CMC S.p.A. and n. 13,435,544 shares fiduciary owned by Istifid S.p.A.

3. *The party, if any, which, through the agreement, can exercise control over the company*
   There is no party which, through the agreement, can exercise control over Pirelli & C..
4. *Restrictions on the sale of the shares transferred and on the subscription and the purchase of new shares.*
   The sale of the shares to third parties (and option rights in the event of a capital increase) is prohibited. Shares can be sold freely and pre-emptively to subsidiaries, according to article 2359, paragraph 1, point 1 of the Italian Civil Code, and to the parent companies as well as other participants to the shareholders agreement.
   Each participant may buy or sell additional shares for an amount not in excess of the higher of 20% of the shares already transferred by the participant itself and 2% of the ordinary share capital issued; purchases of greater amounts are permitted only with the intent of reaching a holding equal to 5% of the ordinary share capital issued, on condition that the amount in excess of the above limits came under the shareholders agreement.
   CAMFIN S.p.A. is authorized to freely purchase additional Pirelli & C. shares; it can transfer shares to the shareholders agreement, but to the extent that, at any one time, the shares do not exceed 49.99% of total shares transferred by all the participants in the shareholders agreement. This has been decided so that a stable predominate position is not assumed in the shareholders agreement or a stable veto power is not exercised over common decisions.
   Except where the Pirelli & C. ordinary shares in the shareholders agreement correspond to the majority of the voting rights in the ordinary shareholders' meetings, each participant (also through parent companies and/or subsidiaries) intending to purchase shares of that category shall inform the President in writing beforehand and the President shall inform the participant if, taking into account the laws in force concerning tender offers, the participant can proceed, in whole or in part, with the proposed purchase.
   buy or sell the shares.
5. *Availability of the shares*
   The shares transferred shall remain at disposal of the participants in the shareholders agreement.

6. *Bodies governing the agreement, composition, meetings and powers*
The Body governing the agreement is the Shareholders Agreement Executive Committee. The Shareholders Agreement Executive Committee shall consist of a president and vice-president, in the form of the president and the longest serving vice-president of Pirelli & C., and by a member representing each participant unless a participant has deposited more than 10% of ordinary share capital, in which case another member may be designated: for this purpose, in the event the shareholders agreement is composed of several companies related by a controlling relationship or belonging to the same parent company, their aggregate shall be considered for this purpose as one sole participant in the shareholders agreement.
The Shareholders Agreement Executive Committee shall be convened to evaluate the proposals to be submitted to the shareholders' meetings, for the possible earlier termination of the agreement and for the admission of new participants. The Shareholders Agreement Executive Committee shall also meet at least twice a year to examine the semiannual performance, the annual results, the general guidelines for the company's development, the investment policy and proposed significant divestitures and more in general, all the relevant matters of discussion by both the ordinary and extraordinary sessions of the shareholders' meetings.
7. *Matters covered by the Agreement*
Those contemplated in points 4 and 6 above.
8. *Majorities needed to reach decisions regarding the issues governed by the Agreement*
The Shareholders Agreement Executive Committee approves its resolutions with the favourable vote of the majority of the shares transferred; the Shareholders Agreement Executive Committee can designate a trusted person to represent the shares in the shareholders agreement at the shareholders' meetings in order to vote according to its instructions. Whenever the decisions of the Shareholders Agreement Executive Committee are not voted unanimously, the dissenting participant shall have the right to freely vote at the shareholders' meeting.
9. *Term, renewal and cancellation of the agreement*
The agreement shall be valid until April 15, 2010 and shall be tacitly renewed for a period of three years except for withdrawal, which can be exercised between December 15 and January 15 prior to the expiration date. In case of withdrawal, the shares transferred by the withdrawing party shall be automatically offered pro quota to the other participants. The agreement shall remain in force, whenever it is possible, at every expiration date, to renew the agreement for a percentage of Pirelli & C.'s subscribed ordinary share capital of not less than 33%.
10. *Penalties for breach of the commitments contained in the agreement*
They are not envisaged by the agreement.
11. *Registration of the agreement at the Company Registry*
The agreement is registered at the office of the Milan Companies Registry.

Milan, 16 November 2007

Guidance of the Board of Directors concerning the maximum number of appointments considered compatible with serving as a director of the company

In principle, serving as a director or auditor of more than five companies other than those directed and coordinated by Pirelli & C S.p.A, or controlled or affiliated to such companies, is not considered compatible with serving as a director of the Company, when the companies are (i) listed companies included in the S&P/MIB index (or equivalent foreign indices), or (ii) companies operating prevalently in the retail finance sector (members of the lists specified in article 107 of legislative decree no. 385 of 1 September 1993) or (iii) companies that undertake banking or insurance activities; nor it is considered compatible for a director to hold more than three executive positions in companies described in (i), (ii) or (iii).
Offices held in more than one company in the same group are considered a single office, and executive positions prevail over non-executive ones.
The Board of Directors retains the right to form a different opinion, and this will be made public in the annual report on corporate governance, together with the congruent grounds for doing so.

Procedure for information flows to directors and auditors

1. INTRODUCTION

1.1 – The completeness of the available information to directors is essential for the proper fulfilment of their duties and responsibilities regarding the management, the direction and the monitoring of the business activities of Pirelli & C. S.p.A. (henceforth "Pirelli" or "the Company") and of the Group.

1.2 – Similar appropriate information is due to the Board of Statutory Auditors.

1.3 – In compliance with the legal and the bylaws' provisions, non-executive Directors and Auditors are therefore the receivers of a permanent information flows from the Executive Directors, who are coordinated by the Chairman of the Board of Directors who, if necessary, can refer to the Secretary to the Board of Directors of the Company.

1.4 – The purpose of the current procedure is to regulate the above-mentioned information flows in order to:
- guarantee the transparency of the management of the Company;
- ensure good conditions for efficacious and effective actions of direction and monitoring of the Company activities and management by the Board of Directors;
- supply the Board of Statutory Auditors with the requisite tools for an efficient fulfilment of its role.

2. TERMS AND PROCEDURES

2.1 – The information flows to Directors and Auditors is preferably provided with written documents, specifically:
- notes, memoranda, presentations and reports drawn up by Company offices or consultants, including those prepared for Board of Directors meetings;
- other documents, published and un-published, available to the Company;
- documents of accounting period of the Company that are intended for publication;
- quarterly financial reports including external information, drawn up according to specific guidelines.

2.2 – The above-mentioned documentation is promptly transmitted to non-executive Directors and Auditors and, in any case:
- with a sufficient frequency in order to ensure that legal and bylaws data provisions are respected;
- according to coherent deadlines with the scheduling of the single Board of Directors meeting.

2.3 – The information reproduced according to the procedures above are integrated (or, if necessary, omitted for reasons of privacy) with the comments made orally by the Chairman, the Executive Directors or by members of the management of the Group during Board of Directors meetings or specific informal meetings, open to Directors' or Auditors' participation, and organized in order to go into topics about the management of the Company.

2.4 – The transmission of documents and any other material to Directors and Auditors is coordinated by the Secretary to the Board of Directors of the Company, in agreement with the manager responsible for of the accounting documents of the Company, as per his competence.

2.5 – In any case, Directors and Auditors are the recipients of the information published by Pirelli by virtue of the legal regulations on Company information (such as press releases and reports) and invitations to invest (irrespective of the name of any such documents).

3. CONTENTS

3.1 – The information flow to Directors and Auditors – besides matters intended for the examination and/or the approval of the Board of Directors of the Company according to the law and the bylaws of the Company – includes:
- the general results of operations and their foreseeable development;
- the completed activity, with specific reference to transactions involving significant economic, financial and equity aspects, to transactions with related parties and to atypical or unusual transactions;
- the instructions given during the execution of direction and coordination activities;
- any further activities, transactions or events that are deemed appropriate to bring to the attention of Directors and Auditors.

4. GENERAL RESULTS AND DEVELOPMENT OF OPERATIONS

4.1 – The corporate activities of the Group are the focus of background information about management.

4.2 – Corporate activities are considered in a strategic perspective of planning and direction, as well as in terms of the attainment of results and in comparison with industrial and budget forecasts.

4.3 – General results and development of operations are regularly examined by the Board of Directors of the Company when they approve the accounting period reports. The attained results are compared:
- with historic figures (opportunely reconstructed using pro forma figures in order to obtain homogeneous comparisons with previous periods);
- with budget objectives, indicating the causes of possible variances, also in order to evaluate the effects of these variances on strategic or anticipatory objectives and/or on forecasts regarding following periods;
- with the general trend of the sector and peers, in order to benchmark.

5. BUSINESS ACTIVITY

5.1 – General information about the completed business activity concern executive businesses and developments of operations already decided by the Board of Directors, as well as activities performed by Executive Directors – also through units and subsidiaries of the Company – in the exercise of their delegated powers).

5.2 – General information about the business activities are completed with a specific report of details regarding:
- transactions with significant impact on the profitability, assets or financial position of the company;
- operations with related parties;
- atypical or unusual transactions.

6. SIGNIFICANT TRANSACTIONS

6.1 – The following – besides operations reserved to the Board of Directors according to the art. 2381 of the Italian Civil Code and the bylaws of the Company – are considered transactions involving significant economic, financial and equity aspects when Pirelli or subsidiaries carry out:

- the issue of financial instruments for a total value higher than Euro100 million;
- the granting of personal and collateral securities in the interest of subsidiary companies (and in the interest of Pirelli regarding collateral securities) against bonds having a unit value higher than Euro 25 million;
- the granting of loans or securities in favour or in the interest of third parties for amounts higher than Euro 10 million;
- the granting of loans in favour of subsidiary companies and the investment or disinvestment transactions, also real estate transactions, transactions for the purchase and the assignment of share, of company and company branches, of assets and other activity, for amounts higher than Euro 100 million;
- merger and division transactions, when at least one of the parties is a listed company or when subsidiary companies are involved if at least one of the parameters indicated below, in case of application, come out equal or higher than 15% of:
  1. the total assets of the merged company, or of the abusiness submitted to division/ the total assets of the Company (figures taken from consolidated balance sheet, if reported).
  2. the earnings before taxes and extraordinary items of the merged/incorporated company, or of the business submitted to division/the earnings before taxes and extraordinary items of the Company (figures taken from consolidated balance sheet, if reported);
  3. the total equity capital of the merged/incorporated company, or of the company branch submitted to division/the total equity capital of the Company (figures taken from consolidated balance sheet, if reported).

6.2 – Informative report on transactions with significant impact on the profitability, assets or financial position of the company shall highlight the strategic aims, the budget and the industrial plan coherence, the executive procedures (including economic terms and conditions for their fulfilment), the developments as well as the possible changes and implications for the activities of the Pirelli Group.

6.3 – Informative reports shall also be made for transactions that, even if they are individually smaller than the above-mentioned threshold value, are associated within the same strategic plan or executive programme and therefore, considered altogether, exceed the threshold values.

7. TRANSACTIONS WITH RELATED PARTIES:

7.1 – For the purpose of this policy, "related parties" refers to those subjects defined as such in the international accounting standards for the financial reporting o transactions with related parties, adopted in accordance with art. 6 of EC Regulation n. 1606/2002 as indicated in the "Information collection procedure".

7.2 – The Company adopted this specific procedure in order to ensure that the principle of fairness is respected in substance and form for all transactions made directly or through subsidiaries with related parties with Pirelli.

7.3 – In addition to those transactions with related parties that are subject to the approval of the Board according to the above-mentioned procedure (atypical, unusual or nonstandard transactions), transactions with related infra-Group parties (i.e. companies owned by Pirelli or by the company that owns Pirelli) must be similarly reported to

Directors and Auditors if they involve amounts higher than Euro50 million, and those with associated non infra-Group parties if they involve amounts higher than Euro 500.000. For each of these transactions, the following points must be indicated:

- object and amount;
- the date the contract(s) underlying or those in any way linked to the transaction were concluded;
- the identities of the counterparties (specifying the nature of their relationship with Pirelli).

7.4 – For each reporting quarter, the total value of the transactions concluded with the individual parties related to Pirelli must be supplied, separating the transactions directly carried out by Pirelli and the transactions carried out by subsidiary companies.

8. ATYPICAL OR UNUSUAL TRANSACTIONS

8.1 – Transactions that form part of the ordinary business of the Company are considered typical, i.e. essential to the production and trading cycle of the Company. Usual transactions are operations whose purpose is the satisfaction of ordinary requirements, i.e. requirements that are normally part of company operations.

8.2 – In any event, transactions may be considered neither typical nor usual when they actually present particular elements of criticality due to their specific characteristics and/or their intrinsic risks, to the nature of the counterparty or to the time of their completion.

8.3 – Information about atypical or unusual transactions highlights their underlying interest and illustrates the ways in which they are carried out (including the financial and business terms and conditions of their execution), with specific reference to the valuation procedures followed.

9. DIRECTION AND COORDINATION

9.1 – Information about the execution of direction and coordination activities illustrates:

- the strategic aims, with specific reference to the entrepreneurial interest justifying them and the results achieved;
- the manner of their execution (including the economic terms and conditions of their execution), with specific reference to the evaluation procedures applied;
- the possible effects and implications on company operations, also in relation to the budget and the industrial plan.

9.2 Further progress reports on the operations affected are supplied to enable the overall results of the direction and coordination activities to be evaluated.

INFORMATION COLLECTION PROCEDURE

In order to allow an adequate information flow to non-executive Directors and to the Board of Statutory Auditors, information must be provided to the Chairman and the Managing Directors according to the procedure indicated below.

1. Information on operations, transactions with significant economic, financial and equity implications, infragroup transactions and atypical or unusual transactions.

Pirelli General Managers and the Heads of Business units/Central Functions/Business Operations that report directly to the Chairman and the Managing Directors (the so-called

"Front Line") through the General Manager and Chief Operating Officer transmit, on a quarterly basis, to the Chairman and the Managing Directors, with an apposite note, the activities that the competent structure carried out in the period, highlighting specifically the transactions with significant impact on the profitability, assets or financial position of the company, the infra-Group transactions higher than Euro 50 million; non-standard, atypical or unusual transactions; the executive businesses and developments of operations already decided by the Board of Directors; as well as the main business activities carried out within the powers attributed to Managing Directors, including the most important launched projects and the most significant undertaken initiatives.
Informative reports shall also be made for transactions that, even if they are individually smaller than the above-mentioned threshold values or the values that reserve them to the exclusive competence of the Board of Directors, are associated within the same strategic plan or executive programme and therefore, considered altogether, exceed the threshold values.

2. Information about operations with related parties other than intra-group transactions.

This procedure applies to transactions with related parties carried out by Pirelli or by companies owned by Pirelli, with parties directly or indirectly related to Pirelli, meaning:

a) subjects who, directly or indirectly, control Pirelli, also by virtue of shareholder agreement, individually or jointly with other subjects included in these agreements;
b) subjects who, directly or indirectly, exercise a significant influence over Pirelli. This influence is presumed in case of shareholdings of 10% or more of the share capital represented by ordinary Pirelli shares;
c) the Directors and Statutory Auditors of Pirelli;
d) the managers with strategic responsibilities in the Company, identified by the Board of Directors of Pirelli, or in its possible parent company (*i.e.* "key managers");
e) close relatives of the subjects defined in letters a) to d) above, meaning the cohabiting spouse, and dependent children of the subject and/or of his/her spouse indicated in the civil records and any other dependent irrespective of their family relationship, and those family members who the interested subject considers might influence or be influenced by him or her in their relations with Pirelli & C;
f) companies affiliated to Pirelli.
g) the companies upon which the subjects indicated above in letters a) to e) exert control, directly or indirectly, also by virtue of shareholder agreements, individually or jointly with other subjects included in these agreements;
h) the companies on which the subjects indicated above in letters a) to e), if they are physical persons, exert significant influence, directly or indirectly. This influence is presumed in case of shareholdings of 10% or more (in the case of listed companies) or 20% (in the case of unlisted companies) of the share capital represented by voting shares;
i) the joint ventures in which Pirelli is a participant;
j) the pension funds for the employees of Pirelli or of related companies;
k) the Internal Control and Corporate Governance Committee of Pirelli may consider a related party on a case by case basis.
   (i) the companies in which the physical persons indicated above in letters a) to e) hold strategic management roles and the companies controlled by these companies;
   (ii) companies which share a majority of directors with Pirelli.

At the frequency stated in point 1 above, General Operations Management collects and transmits to the Chairman and to the Managing Directors declarations from the subjects mentioned under letters a) to d) above, in which they provide evidence that the transactions involving amounts of Euro 500,000 or lesser amounts but non-standard conditions, executed directly by or through one of the subjects indicated in letters g) to k) above, including through third parties, with Pirelli or its subsidiaries, by themselves or, in the case of physical persons, by their spouse or dependents, as indicated in civic records.
In supplying this information, those transactions that, even if individually for smaller amounts than the above-mentioned threshold value, are linked as part of a single relationship and therefore, considered altogether, exceed the threshold value, must be highlighted.

General Operations Management also collects the declarations whereby the persons in letters a) to d) above: (i) list the companies for which they perform the roles indicated in letters g) to j) above, as well as companies in which they are directors; (ii) update this list.
General Operations Management transmits the list of the parties related to Pirelli as specified above to the General Managers and to the Front Line.
At quarterly intervals, the Front Line communicates those transactions completed with Pirelli – or companies controlled by Pirelli – also through third parties by indirectly related parties as identified in the list supplied by the General Operations Management, involving amounts higher than Euro 500,000 and, also if involving lower amounts, made under non-standard conditions to the Chairman and the CEOs .

Rules of conduct for effecting transactions with related parties

1. Transactions with related parties, including intra-group transactions, except for typical or usual transactions concluded at arm's length conditions, must be approved in advance by the Board of Directors.
2. Typical or usual transactions shall be taken to mean those which, by their object or nature, are not extraneous to the normal course of business of the Company and those which do not involve particular critical factors due to their characteristics or to the risks related to the nature of the counterpart or to the time at which they are concluded. Transactions concluded at arm's length conditions means transactions concluded at the same conditions as those applied by the Company to whatsoever party.
3. The Board of Directors shall receive adequate information on the nature of the relationship, the manner of execution of the transaction, the economic and other terms and conditions governing it, the valuation procedure adopted, the underlying interest and motivations, and the possible risks for the Company. Where the relationship is with a Director or with a party related by means of a Director, the Director concerned shall limit himself to providing clarifications and shall leave the meeting of the Board when the decision is to be taken; the Board of Directors may also resolve in a different way.
4. Depending on the nature, value and other characteristics of the transaction, to guard against the transaction's being carried out at unsuitable conditions the Board of Directors shall be assisted by one or more experts, who shall express an opinion, according to the case, on the economic conditions and/or the legitimacy and/or the technical aspects of the transaction.
5. For transactions with related parties, including intra-group transactions, which are not submitted to the Board of Directors inasmuch as they are typical or usual concluded at arm's length, the Directors having delegated powers or the managers responsible for carrying out the transaction, without detriment to compliance with the specific procedure pursuant to Article 150.1 of the Consolidated Law on Financial Intermediation, shall collect and preserve, inter alia by type or group of transaction, adequate information on the nature of the relationship, the manner of execution of the transaction, the economic and other terms and conditions governing it, the valuation procedure adopted, the underlying interest and motivations, and the possible risks for the Company. For such transactions also, one or more experts may be appointed as provided above.
6. The experts are to be chosen from among persons of recognized professional experience and competence in the matters concerned. Their independence and absence of conflicts of interest will be carefully evaluated.

Procedure for the management and public disclosure of inside information

1. INTRODUCTION

1.1 — Information – in the sense of news about events, facts, figures or initiatives having a specific significance in relation to an entity's activity – is a strategic component of a company's assets and essential for its success. The appropriate and timely sharing of information is a necessary condition for the effective pursuit of business objectives, and underlies the most important corporate processes.

1.2 — Without prejudice to the provisions of applicable law concerning the protection and dissemination of particular categories of information, such as the personal and sensitive data referred to in the Code for the Protection of Personal Data (Legislative Decree 196/2003), the use of information must observe the general principles regarding the efficient exploitation and safeguarding of a company's resources, which can be expressed in the case in question as the "need to know". The use of information for purposes other than the activity of the business is to be considered an abuse and, on a general basis, all those who work to promote the interest of the Pirelli Group (the "Group") are subject to confidentiality requirements concerning the information they acquire in or for the performance of their duties.

1.3 — However, the law imposes an obligation to disclose information not known to the public concerning a company and its subsidiaries which is of a precise nature and which, if it were made public, would be likely to have a significant effect on the price of that company's financial instruments (inside information). The law also requires informational equality to be restored if inside information is disclosed prematurely to third parties who are not subject to confidentiality requirements under laws, regulations, bylaws or agreements.

1.4 — This explains the great delicacy of the stage preceding the "perfection" of inside information in which not only is it necessary to impose a confidentiality regime on inside information "in the making," so as to avoid triggering the immediate disclosure obligation, but above all there is the fact that premature disclosure could be misleading for the market and/or harmful for the business.

1.5 — This procedure covers the handling – including the public disclosure – not only of inside information but also of information which could become such; it seeks to reconcile the fluidity of internal information processes with safeguarding information, especially as regards the give and take between the disclosure of inside information and the need to keep it confidential while it is being perfected. In this respect the procedure ties in with the internal rules of general application concerning the classification and management of information from the standpoint of confidentiality.

2. PURPOSE AND SCOPE

2.1 — This procedure (the "Procedure") establishes:

a) the requirements and responsibilities for the classification of inside information;
b) the manner of tracing access to inside information in the making, with special regard to the creation of the register referred to in Article 115-bis of Legislative Decree 58/1998 and Article 152-bis of Consob Regulation 11971 of 14 May 1999, as amended;
c) the instruments and rules for safeguarding inside information in the making;
d) the operational rules for the disclosure of inside information to the market and in general for public announcements and/or communications to analysts/investors.

2.2 — The Procedure is an essential component of the Pirelli Group's system of internal control. It directly regulates inside information concerning Pirelli, its unlisted subsidiaries and the Group's listed securities and serves as a template for the similar measures that the other Group issuers of securities listed on regulated markets are independently required to adopt (including the companies that promote and manage shares of listed real estate investment funds.

2.3 — The seriousness of the consequences of failure to correctly apply the Procedure calls for rigorous and continuous checks on compliance and the immediate reporting of cases of inobservance to the Internal Control and Corporate Governance Committee by the person responsible for reporting.

3. PERSONS SUBJECT TO THE PROCEDURE

3.1 — The Procedure applies to all the members of the governing bodies of Group companies and those of their employees who have access to information that is likely to become inside information. In particular, all the senior managers are required to make a written declaration at the time of their appointment attesting that they have examined the Procedure and are aware of the responsibilities it entails for them.

3.2 — The conduct of persons external to the Group who, for any reason whatsoever, have similar access is governed by the rules laid down in the confidentiality agreement referred to below.

3.3 — The Procedure also serves as instructions to Pirelli's subsidiaries to provide, without delay, all the information needed to permit the prompt fulfilment of the public disclosure obligations laid down in applicable laws and regulations and, exclusively as regards listed subsidiaries or subsidiaries with financial instruments listed on controlled Italian markets or that promote and manage shares of listed real estate investment funds, to adopt equivalent measures.

4. BASIS

— The EU Directives on Market Abuse (Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003, Commission Directive 2003/124/EC of 22 December 2003 and Commission Directive 2004/72/EC of 29 April 2004);
— Article 114 et seq. of Legislative Decree 58/1998 (the Consolidated Law on Finance);
— Law 262/2005;
— Consob Regulation 11971 of 14 May 1999, as amended;
— The Code of Ethics of the Pirelli Group;
— General principles of internal control;
— The Pirelli Group's policy "OP SE G" "Treatment of Corporate Information"".

5. DEFINITIONS

— "Inside information" – As provided for by law, inside information concerning Pirelli means information of a precise nature which has not been made public relating to the Company or to its subsidiaries and which, if it were made public would be likely to have a significant effect on the prices of securities they have issued. Once inside information has been perfected, there is a general obligation to disclose it immediately to the public in the manner laid down in the Procedure.
— "Market sensitive information" – For the purposes of the Procedure, market sensitive information means information that could become inside information, i.e. inside information in the making. The following are examples of market sensitive information as defined here: operational results or forecasts, commercial offers, projects, contracts, events, including those of an organizational nature, corporate actions and business decisions. Market sensitive information is subject to the confidentiality regime laid down in the Procedure. This does not exclude the possibility of the same information also being classified as confidential under the standard method of classification, governed by the relevant internal rules, in light of the potential harm to which its inappropriate circulation would expose the Group.

— "Informational context" means, with reference to an event, transaction or project, all the information concerning that event, transaction or project, including accessory information and all the relevant preparatory material. Similarly, certain activities and processes that are recurrent or continuous in the operation of the business constitute informational contexts.
— "Register" means the database, created pursuant to applicable law, with the names of the persons who through the exercise of their employment, profession or duties have access to market sensitive information.
— "Market Sensitivity Support Group" means the group providing technical support in determining the market sensitivity of information, made up of persons appointed by the heads of the following functions: Personnel, Industrial Legal Affairs, Corporate Legal Affairs, Administration and Control, Media Relations, Finance, Investor Relations, and coordinated by the Information Officer.[1]

6. REQUIREMENTS FOR INSIDE INFORMATION

6.1 — In the first place inside information has to be precise. Accordingly, for information to be considered inside information, it must refer to:
- an event which has occurred or may reasonably be expected to occur; or
- a set of circumstances which exists or may reasonably be expected to come into existence;

and enable a conclusion to be drawn as to the possible effect of that event or set of circumstances on the prices of the securities of the Company and its subsidiaries.

6.2 — Inside information concerns actual and probable events and circumstances. For the purposes of the Procedure, studies, research and estimates developed from publicly available data are excluded.

6.3 — Inside information must also relate to the Company or its subsidiaries. In this respect inside information can:
- have a "voluntary" origin (such as unilateral business decisions, extraordinary corporate actions and agreements); or
- derive from the verification of facts, events or circumstances of an objective nature capable of influencing the activity of the business and/or the price of the securities issued (such as periodic financial reports or the resignation of a top manager).

The extent to which information relates to the Company must be evaluated in terms of the legal imputability to the Company of the decision (inside information of "voluntary" origin) or of the act of verification (inside information of "external" origin).

6.4 — Inside information of "voluntary" origin is perfected when the fact (transaction, unilateral decision or agreement) to which the information refers is defined in the manner provided for by the applicable principles of corporate governance, laid down in laws and regulations, bylaws or internal rules. In this case the disclosure of inside information follows the adoption of the decision by the body competent for the matter that is the subject of the information (the Board of Directors or a body with delegated powers).

6.5 — As for agreements, the relevant moment is that of their substantial definition, in terms of content and legal bindingness, rather than that of their formal execution: the inside information is perfected as soon as there is a meeting of the wills of the parties with regard to the essential elements of the contract, with further negotiations not excluded. It remains necessary for the "will" of the Company (or its subsidiaries) to be expressed by a person authorized to commit the Company (or its subsidiaries), so as to ensure that the "will" – and hence the information – can be related to the Company (or its subsidiaries).

6.6 — In the case of inside information of "external" origin, i.e. information consisting of the verification of facts, events or circumstances of an objective nature, if the fact is instantaneous (e.g. the notification of a sanction or the resignation of a top manager) and not open to interpretation, the time at which it is received by the competent

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1 Individual receiving requests for information as referred to in article 2.6.1 of the Rules for markets organised and managed by Borsa Italiana S.p.A.

organizational unit is when the information can be related to the Company (or its subsidiaries) and therefore when the inside information is perfected and the disclosure obligation consequently triggered.

6.7 — More frequently, however, the verification of inside information of "external" origin is a process that unfolds over time and is divided into successive stages, serving at times to obtain figures (as for periodic financial reports) and at others to interpret a set of circumstances (as for a possible profit warning in light of the performance of the business). In such cases the time at which the inside information is perfected is governed by the corporate governance standards – laid down in laws and regulations, bylaws or internal rules – that determine the body competent to conclude the verification process.

7. CLASSIFICATION OF MARKET SENSITIVE INFORMATION

7.1 — In the case of inside information of "voluntary" origin, information may be classified as market sensitive by persons authorized to submit the event, transaction or process to the body competent to decide on it. Accordingly,

- in the case of initiatives of a strategic nature and those for which the Board of Directors is competent (e.g. extraordinary financial actions), information is classified as market sensitive by the Chairman of the Board of Directors, who may delegate the task to the Secretary of the Board of Directors, who may consult with the Managing Director and/or the General Directors;
- in the case of decisions entrusted to bodies with delegated powers (e.g. a commercial agreement or the launch of a new product), the decision on the market sensitive nature of information is taken by the senior manager directly under the managing director.

7.2 — It is also possible for the classification to be made directly by the body competent to decide (i.e. by the Board of Directors or the bodies with delegated powers).

7.3 — Once information has been classified as market sensitive, the competent person must activate the procedures to cordon off the relevant informational context, so as to prevent the inappropriate internal and, above all, external circulation of the information.

7.4 — In the case of inside information of "external" origin – apart from that concerning instantaneous events not open to interpretation, the mere reception of which triggers the disclosure obligation – information becomes market sensitive (and subject to the corresponding confidentiality regime):

- if the informational content is the subject of a process of verification or construction that has already been formalized (e.g. the calculation of data to be included in a financial report), starting from the stage of the process specified by the senior manager responsible for the process. The specification of this critical stage must reconcile the organizational need for elementary data to flow freely with the need to counter the risk of leakage in good time (through suitable instruments and conduct);
- if the process of interpreting and evaluating the event or circumstance has not already been formalized (e.g. the notification of a sanction), starting from the time the event or circumstance becomes related to the company, with the act of the competent senior manager if and when he considers that the information in question may become inside information.

7.5 — Before information is classified as market sensitive, it is at a preliminary stage to which the Procedure does not apply. This obviously does not exclude the possibility of the information being classified as confidential under the Group's policy for the classification and handling of information, which also continues to apply after information has been classified as market sensitive.

7.6 — In carrying out their evaluations, the persons charged with classifying information as market sensitive may have recourse to the technical support of the Market Sensitivity Support Group, which, for example, may also draw up lists of facts and circumstances that would normally be considered relevant, in light of their nature, characteristics and scale.

8. REGISTER

8.1 — The register consists of a computerized system whereby access to the individual market sensitive informational contexts can be traced, so as to permit checks to be made on the data entered and any subsequent updates. Each person entered in the register is charged with ensuring the traceability of the handling of market sensitive information deriving from his sphere of activity and responsibility.

8.2 — Without prejudice to compliance with the regime laid down in laws and regulations, entries are made in the Register for:
- recurrent and continuous significant activities and processes (e.g. the preparation of financial reports, budgets, and forecasts);
- specific projects and events (e.g. extraordinary corporate actions, acquisitions and disposals, and significant external events).

8.3 — Individual names are entered in the Register in connection with each recurrent or continuous process or each project or event (with the possibility of multiple entries in relation to different informational contexts), with an indication of the time the market sensitive information became available and, where appropriate, of the time it ceased to be available (entry to/exit from the relevant informational context).

8.4 — Responsibility for creating a new informational context and entering the necessary data (with an indication of the role played by each person with access to the information) coincides with the responsibility for classifying the information as market sensitive and is therefore allocated to the persons authorized to perform the classification (the Board of Directors, the Chairman of the Board of Directors, the Secretary of the Board of Directors if authorized by the Chairman, the Managing Director and the senior managers). The person who creates an informational context has primary responsibility for it and accordingly also decides on the reclassification of its content.

8.5 — At the time a new name is entered in the Register and of subsequent updates to the entry (either by the person primarily responsible for the informational context to which the market sensitive information belongs or by another person authorized to that end), the system automatically generates a message to the interested party, together with a document setting out the obligations, prohibitions and responsibilities connected with access to market sensitive information, including a policy for tracing individual information flows (see the document in Annex A).

8.6 — The definition of "roles" and the manner of keeping and updating the Register, the methods of retrieving data and the procedures for managing the database are set out in Annex B.

9. CONFIDENTIALITY MEASURES APPLIED TO MARKET SENSITIVE INFORMATION

9.1 — The Pirelli Group takes suitable measures to maintain the confidentiality of market sensitive information. In particular, without prejudice to the security measures laid down by the Group's policy and the other safeguards suggested by experience and, in general, the prudence required to keep the risk of information leakage within reasonable limits, the organisational, physical and logical security measures set out below must be complied with.

9.2 — It is understood that the above-mentioned measures also apply:
- to inside information that has already been perfected but for which a delay in disclosure has been duly requested, until the information is actually disclosed;
- subsequent to disclosure, to all the relevant preparatory material, without prejudice to the possibility of its reclassification by the person with primary responsibility for the informational context to which it belongs.

Organisational security

9.3 — The distribution of market sensitive information according to the guiding principle of the need to know is entrusted to the senior managers in Pirelli's official organization chart, who are required to inform recipients of the importance of the information transmitted and to make the necessary entries in the Register without delay.

9.4 — In the case of recurrent and continuous activities and processes, the identification of the persons authorized to have access to market sensitive information is a key aspect of the operational procedures governing such activities and processes. The Human Resources Function is responsible for updating the Register in line with developments in the internal organization.

9.5 — In order to access market sensitive information, persons external to the Group must first sign a confidentiality agreement. The template for this agreement, elements of which may be omitted only with the express authorization of the Chairman of the Board of Directors, the Secretary of the Board if authorized by the Chairman, or a Managing Director, is set out in Annex C.

Physical security

9.6 — The activity of producing material (including, but not limited to, the printing and photocopying of documents) containing market sensitive information must be overseen by personnel entered in the Register. The subsequent retention, distribution and management of such material are the responsibility of the persons possessing it, within the limits of such possession according to their entitlement in the Register. Each person is responsible for ensuring the traceability of the operations involved in the management of the material he has been entrusted with.

9.7 — Material must be labelled "market sensitive" to permit the nature of the information contained to be recognized; to this end, the names of any files, regardless of their extension, must include the code of the informational context to which they belong.

9.8 — Material containing market sensitive information must be kept in rooms with controlled physical access or placed in guarded or protected archives when no longer required and must never be left unguarded, especially when taken off the work premises.

9.9 — The destruction of material containing market sensitive information must be undertaken by the persons possessing it, in the most suitable way to prevent the improper recovery of the data.

Logical security

9.10 — When market sensitive information is processed, transmitted or stored in electronic form, it must be encrypted.

9.11 — The entry of data in the Register for a given informational context automatically results in corresponding entries being made in the database of authorizations to access the corresponding files, with the user profiles of the "roles" defined in the register, individually or by category.

10 – DISCLOSURE OF INSIDE INFORMATION TO THE MARKET – GENERAL RULES

10.1 — In the case of inside information of "voluntary" origin (i.e. inside information that is the subject of a process of verification), the person entitled to classify the informational context as market sensitive (i.e. the senior manager charged with the verification process) is responsible for promptly activating the preparation of the press release to be issued when the inside information is perfected.

10.2 — To this end, such person handles communications with the Media Relations Function (External Communication) and coordinates all the persons entered in the Register for the informational context in question who possess information that the Media Relations Function needs to prepare a draft press release. The Market Sensitivity Support Group checks the draft from the point of view of the congruence of the economic and financial data, its ability to meet the needs of investors and the financial community, its consistency with information already disclosed by the Company in financial reports or earlier press releases, and its compliance with applicable laws and regulations.

10.3 — The Information Officer decides whether to make ex ante checks with supervisory authorities (Borsa Italiana, Consob, etc.), where appropriate also with a view to submitting a duly formulated request to delay disclosure.

10.4 — The Media Relations Function then submits the draft press release resulting from the process described above for approval by top management (the Board of Directors as a whole if the Board is responsible for perfecting the inside information), incorporates any comments or changes and receives the competent director's authorization to make the disclosure. The Media Relations Function - after verifying the presence of the declaration by the General Manager and the manager responsible for preparing the Company's financial reports attesting the truthfulness of the press release if it contains information on the economic, equity, or financial conditions of the Group – issues the press release in accordance with applicable laws and regulations and immediately informs the Investor Relations Function and the Information Officer, so that they can perform the activities for which they are competent, as well as top management.

10.5 — After public disclosure, the Media Relations Function posts the press release without delay (and in any case before the market opens on the day following that on which it was issued) on the Company's website, with an indication of the date and time of the posting.

10.6 — In the case of inside information consisting of an instantaneous objective fact which is merely received, the process described above – *mutatis mutandis* – must be initiated by the member of the internal organization authorized to perform the necessary verification.

11. DISCLOSURE OF INSIDE INFORMATION TO THE MARKET – SPECIAL CASES

Rumours and requests by the authorities

11.1 — When:

- there is a significant variation in the price of listed financial instruments with respect to the last price of the previous day, coupled with the disclosure to the public, not in accordance with this Procedure, of information concerning the Company's or its subsidiaries' equity, economic, or financial conditions, possible extraordinary financial actions, significant acquisitions or disposals, or operating performance;
- with the markets closed or in the pre-opening phase, there is publicly available information which was not disclosed in accordance with this Procedure and which is likely to have a significant effect on the price of the Company's or its subsidiaries' financial instruments, or
- a report is received from Borsa Italiana or Consob concerning the spread of market rumours, the Information Officer, with the assistance of the Market Sensitivity Support Group and the heads of the corporate functions involved, examines the situation to determine whether it is necessary and/or desirable to inform the public regarding the truthfulness of the publicly available information, supplementing and correcting it if need be, in order to restore conditions of informational equality and fairness, and, where appropriate, whether it is necessary to submit a duly formulated request to delay disclosure.

11.2 — Similarly, the Information Officer, with the assistance of the Market Sensitivity Support Group and the heads of the corporate functions involved, examines the situation to determine whether it is necessary and/or desirable to make a public disclosure (and, as above, to determine whether it is necessary to submit a duly formulated request to delay disclosure) if Borsa Italiana or Consob request information or a public disclosure, even in the absence of rumours.

11.3 — If public disclosure is found to be necessary or desirable, the Information Officer initiates the process of drafting an appropriate press release, in the manner described above.

Profit warnings

11.4 — In the case of earlier announcements of targets (including in the form of trend changes) and/or forecasts for the Company and/or its subsidiaries, the Investor Relations Function, together with the other Functions involved, are responsible for monitoring the consistency of the operating performance with what was announced and for monitoring the consensus of the market, so as to issue a profit warning in the event of a significant and lasting divergence between market expectations and the Company's own projections.

11.5 — If a press release is necessary, it is prepared by the Administration and Control Function in the manner described above.

12. RELATIONS WITH THIRD PARTIES

12.1 — The Company has structures charged with handling relations with the media and with the Italian and international financial community.

Relations with the financial community

12.2 — Relations with the financial community are handled by the Investor Relations Function.

12.3 — On the occasion of meetings with the financial community (road shows, conference calls, conventions, etc.), the Investor Relations Function gives advance notice of the place, date and purpose of the meeting to the Market Sensitivity Support Group for its assessment of the aspects for which it is competent. It also provides draft versions of any documents that are to be presented/distributed to participants. Copies of the final versions of such documents must be sent to the Information Officer, so that any disclosures necessary may be made before the material is presented/distributed in the meeting.

12.4 — If the preliminary examination of the material finds it contains inside information, a suitable press release is prepared and issued at the initiative of the Information Officer. An analogous procedure is followed if inside information is unintentionally disclosed in a meeting.

Relations with the media

12.5 — The Media Relations Function (External Communication) is responsible for relations with the press.

12.6 — Interviews and statements concerning the Company, and meetings with reporters, may be given or made by the Chairman of the Board of Directors, the Managing Director after consulting with the Chairman, and other persons authorized by the Chairman, acting on a proposal from the Media Relations Function or otherwise. This Function clears the content of interviews and press conferences with the interested parties and keeps the Market Sensitivity Support Group constantly informed so that it may assess the aspects for which it is competent.

12.7 — If the preliminary examination of the material finds it contains inside information, a suitable press release is prepared and issued in the manner described above at the initiative of the Information Officer. An analogous Procedure is followed if inside information is unintentionally disclosed in an interview or at a press conference.

Conferences, meetings, courses and conventions

12.8 — When managers participate in conferences, meetings, courses and conventions, the organizational unit involved gives advance notice of the place, date and purpose of the meeting to the Media Relations Function - if the participation of the press is likely at such events – and to the Human Resources and Organization Function. It also provides the name of the Company representative(s) participating and draft versions of any documents that are to be presented/distributed to participants.

12.9 — Subsequent to a cursory preliminary examination, the Media Relations Function (and/or the Human Resources and Organization Function) initiates a check on the content of the material with the Market Sensitivity Support Group. If it is found to contain inside information, a suitable press release is prepared and issued in the manner described above at the initiative of the Information Officer.

13. PUBLICATIONS

13.1 — The content of any document published by the Company (such as advertisements, advertising brochures, information booklets, company magazines, etc.) must be first checked by the External Communication, assisted by the Market Sensitivity Support Group, to ensure that the information is correct and consistent with the content of earlier publications and that it does not include inside information.

13.2 — If inside information is found during the above-mentioned check of the content of a document, a suitable press release is prepared and issued at the initiative of the Information Officer.

13.3 — Economic and financial information, corporate documents, presentations to the financial community and other documents concerning Pirelli are posted on the Company's website. Such posting, to be authorized by the heads of the competent Functions, may not take place until the Company has fulfilled the disclosure obligations imposed by applicable laws and regulations. For such purpose, the heads of the competent Functions sent such material to the Information Officer so that he may fulfil the obligations imposed by applicable laws and regulations.

ANNEX A
Notices to be sent to persons entered in the register

Pursuant to Article 115-*bis* of the Consolidated Law on Finance (Legislative Decree 58/1998, as amended, hereinafter the "CLF,"), Pirelli & C S.p.A. has created a register of persons with access to information that is likely to become inside information as defined in Article 114 of the CLF (the "Information" and the "Register").
Accordingly, this is to inform you, pursuant to Article 152-*quinquies* of Consob Regulation 11971/1999 , as amended, that

[N.B.: depending on the reason for the notice being sent, it is necessary to insert one of the following texts]

— your name [or your company or professional association] has been entered in the Register as having access on a regular basis to Information in connection with the following recurrent activity: ………………………………*[N.B.: notice of entry in connection with a recurrent activity]*
— your name [or your company or your professional association] has been entered in the Register as having access on an occasional basis to Information in connection with the following project or event: ……………………… *[N.B.: notice of entry in connection with a project or event]*
— your entry in the Register has been updated to indicate that you no longer have access to Information in connection with the following project or event: …………………………………… *[N.B.: notice to be sent at the end of a project or event]*
— your [or your company's or your professional association's] entry in the Register has been updated to indicate that you [or your company or your professional association] no longer have [has] access to Information in connection with the following recurrent activity: ……………………………*[N.B.: notice to be sent at the end of a person's entry as having access to Information "on a regular basis" in connection with a recurrent activity]*

To this end we inform you that, pursuant to Article 181 of the CLF, inside information means information of a precise nature which has not been made public relating, directly or indirectly, to Pirelli & C. S.p.A. (the "Company"), its securities or one of its subsidiaries and which, if it were made public would be likely to have a significant effect on the prices of the Company's securities.

Pursuant to Article 114 of the CLF, the Company must disclose inside information concerning the Company or its subsidiaries without delay to the public; it may delay the disclosure of such information, under its own responsibility, only in the cases and under the conditions established by Consob, provided that the Company is able to ensure the confidentiality of the information.
If Information is divulged to a third party who is not subject to a confidentiality requirement, the Company must disclose it in full to the public, simultaneously when it is divulged intentionally and without delay when it is divulged unintentionally.
It is therefore essential that persons entered in the Register observe the confidentiality requirements applying to Information to which they have access.

It should be noted, moreover, that each person entered in the Register is required to ensure the traceability of actions involving Information and its confidentiality within his sphere of activity and responsibility, from the time when, by any means (i.e. in correspondence, meetings, etc.), he comes into possession of Information in connection with the recurrent activity or the project or event to which the relevant entry refers.

If a person entered in the Register, intentionally or unintentionally, divulges Information to persons not possessing it (even if entered in the Register for other reasons), he must immediately inform the officer responsible for the Register.

It should also be remembered that Title I-*bis* of the CLF provides for sanctions in the event of insider trading and market manipulation. In particular, Articles 184 and 187-*bis* provide respectively for penal and administrative sanctions to be imposed on any person who, possessing inside information by virtue of his membership of the administrative, management or supervisory bodies of an issuer, his holding in the capital of an issuer or the exercise of his employment, profession, duties, including public duties, or position:

a) buys, sells or carries out other transactions involving, directly or indirectly, for his own account or for the account of a third party, financial instruments using such information;
b) discloses such information to others outside the normal exercise of his employment, profession, duties or position;
c) recommends or induces others, on the basis of such information, to carry out any of the transactions referred to in subparagraph *a)*

Penal sanctions, imposed by the courts, consist of imprisonment for between two and twelve years and a fine of between twenty thousand and three million euros; administrative sanctions, imposed by Consob with a reasoned decision, consist of a fine of between one hundred thousand and fifteen million euros.

The amounts of the pecuniary administrative sanctions referred to above may be increased up to three times or up to the larger amount of ten times the product of the offence or the profit therefrom when, in view of the personal situation of the guilty party, the magnitude of the product of the offence or the profit therefrom or the effects produced on the market, they appear inadequate even if the maximum amount is applied.

Without prejudice to the possibility of the Company seeking compensation for any losses and/or liability it may incur as a consequence of conduct in violation of the obligations referred to in this notice, it should be recognized that non-compliance may also result: (i) for employees, in the imposition of the disciplinary measures provided for by law and labour contracts; (ii) for external collaborators, in the termination, with or without notice, of the relationship; and (iii) for directors and members of the board of auditors, in the board of directors proposing their disqualification for good cause at the next shareholders' meeting.

The personal data necessary for entries in and updates of the register will be treated in accordance with Legislative Decree 196/2003 (the "Privacy Code").

Please examine the extract from the legislation referred to in this notice and the fact sheet issued pursuant to Article 13 of the Privacy Code by clicking on this Internet link: *www.pirelli.com*.

For any information or clarification you may need concerning this document and its application, please contact: *inforegistro@pirelli.com*.

(The officer responsible for the Register)

ANNEX B
PIRELLI & C. S.P.A. GROUP
REGISTER OF PERSONS WITH ACCESS TO INSIDE INFORMATION
under Article 115-*bis* of Legislative Decree 58/1998, as amended (hereinafter, the "Register")

Keeping the register; criteria for data management and retrieval

Design of the Register

Whereas:
a) Article 115-*bis* of Legislative Decree 58/1998, as amended (hereinafter the "CLF") provides for the creation of a register of persons who have access – on a regular or an occasional basis – to inside information "in the exercise of their employment, profession or duties";
b) Article 152-*bis* of Consob Regulation on issuers, as most recently amended by Resolution no. 15232 of 29 November 2005 (the "Regulation"), specifies the information to be entered in the Register, with reference exclusively to the persons entered therein;

the Register of Pirelli & C. S.p.A. (hereinafter, "Pirelli & C." or the "Company") is organized on subjective basis it is designed to hold data on natural and legal persons, entities and professional associations. For each person, the Register contains the nature of the relationship with the issuer in virtue of which he possesses information that may become inside information as defined in Article 114 of the CLF ("market sensitive information"). Persons are entered in the Register in accordance with their "Roles" under the relationship, of which there are potentially a great many, including:
a) members of the administrative, management and supervisory bodies of the Company or Group companies;
b) employees of the Company or Group companies, in relation to the specific position held;
c) advisors, external auditors;
d) shareholders who provide direction and coordination, if any.

When specifying the profile of each Role, on the basis of the encryption program used by the Company, authorizations are issued to access the files related to the individual informational contexts for which the entry in the Register is being made.
Without prejudice to the above, entries may be made:
— on a regular basis, for recurrent and continuous activities and processes, such as the preparation of financial reports, budgets and forecasts and meetings of the governing bodies ("Recurrent Activities");
— on an occasional basis, for specific projects and events, such as extraordinary corporate actions, acquisitions and disposals, and notifications of sanctions ("Projects/Events").

Some persons will be entered in the Register only for individual Projects/Events in connection with which they possess market sensitive information, with an indication of the date the initial entry is made in the Register and of that on which the person ceases to have access to the information, which coincide, respectively, with the time at which the person becomes involved in the Project/Event and the end of the period during which the Project/Event is associated with market sensitive information (e.g. with the issue of the press release with the price-sensitive information concerning the decision to go ahead with or abandon a transaction) or the earlier time at which, for any reason, the person ceases to have access to the market sensitive information. Other persons may be entered, for Recurrent Activities as well as for specific Projects/Events, as persons authorized to access – according to their functions in the Company or its subsidiaries – market sensitive information. The functions are described in the Register, with special reference to the normal calendars for the related flows of information, so as to circumscribe the "habitual" access of the persons with an interest in them. Such persons are first entered in the Register when they take up the function and their entries are updated, as described below, when they cease to hold the position or the function changes. As mentioned above, such persons may also be entered in connection with specific Projects/Events.

Keeping the Register

A) Projects/Events
At the start of a Project/Event which is an expression of the Company's will (i.e. which is of "voluntary" origin) the person charged with classifying the related information as market sensitive and with entering the possessors of such information in the Register (the "Registering Officer") is the person with responsibility for submitting it to the competent body for a decision on the Project/Event. Accordingly:

— if the decision is to be made by Pirelli & C.'s Board of Directors (e.g. in the case of extraordinary financial operations), the Registering Officer is the Chairman of the Board, who may delegate the task to the Secretary of the Board, who may consult with the Managing Director;
— if the decision is entrusted to a Pirelli & C. body with delegated powers (e.g. in the case of a commercial agreement), the Registering Officer is the senior manager. Entries may also be made in the Register for employees and members of the governing bodies of Pirelli & C.'s subsidiaries, which will not normally keep a register of their own. Any subsidiaries with securities listed on Italian regulated markets are an exception in this respect, since they are required to keep a register of their own under Article 115-*bis* of the CLF; these companies will therefore be entered in the Register as legal persons in accordance with Article 152-*bis* (2)(a) of the Regulation.

If instead a Project/Event is the consequence of the verification of facts or circumstances of an objective nature (i.e. of "external" origin), the Registering Officer is the senior manager under the Pirelli & C. managing director to whose sphere of activity the Project/Event is related who receives the information if the Project/Event is instantaneous and not subject to verification or the one who is responsible for the process of verification, if such process exists.

The persons indicated above will also be responsible for the subsequent reclassification of market sensitive information and consequently for the entry in the Register of the end or suspension of the Project/Event.

B) Recurrent Activities
At present the activities considered to be Recurrent Activities and as such to be entered in the Register are as follows:
— the preparation of periodic financial reports;
— the preparation of forecasts and the establishment of quantitative objectives;
— the preparation and holding of meetings of the governing bodies of the Company and its subsidiaries;
— the drafting of press releases pursuant to Article 114.1 of the CLF;
— relations with investors, analysts, and the media.
The analysis of the individual Recurrent Activities to identify the stage at which they must be entered in the Register is carried out by the Human Resources and Organisation Function with the assistance of the senior manager under the managing director competent for the activity in question. The Human Resources and Organisation Function is charged with the task of making and updating the entries in the Register, *inter alia* in line with developments in the internal Organisation.

The officer responsible for the Register, as defined below, may decide to add other Recurrent Activities, possibly acting on a proposal from the Human Resources and Organisation Function.

Officer responsible for the Register

The officer responsible for the Register is the Secretary of Pirelli & C.'s Board of Directors, who, in addition to the duties specified in other parts of this document
— performs the general supervision of the keeping of the Register and may access all the

information it contains, with the right to retrieve data in any of the ways permitted by the system;
— handles relations with the judicial and supervisory authorities in the event of requests regarding the data contained in the Register;
— coordinates the Registering Officers and the settlement of any questions that may arise in the operation of the Register.

Data management and retrieval

The Register is electronic and can be accessed, with appropriate security systems, via the Internet and the Company's Intranet. Access is restricted to the officer responsible for the Register and to the Registering Officers. As mentioned above, the officer responsible for the Register can consult all of its content and carry out all the data entry and retrieval operations permitted by the system. By contrast, the Registering Officers are only authorized to call up, in addition to the data concerning Recurrent Activities, those which they entered themselves.

Natural persons are entered in the Register with their names, date and place of birth, residence or elected domicile, and e-mail address. For legal persons, entities and professional associations, their ID data are supplemented by the ID data of a natural person appointed to act as contact person.

For each entry in the Register (and therefore for each Project/Event and each Recurrent Activity), the system holds an indication of the person's "role" and date of entry, the date at which the person ceases to have access to the relevant market sensitive information, and the date of each update. Pursuant to applicable law, all these data are retained for at least five years from the time when the circumstances that gave rise to the entry or subsequent updates cease to exist.

In the case of Projects/Events the officer responsible for the Register receives, electronically and at the intervals he establishes, a report showing all the positions open (i.e. without a date corresponding to their termination or suspension), so as to be able to make the appropriate checks on their status.

The data contained in the Register can be searched using the following parameters:
— first name and family name;
— individual Projects/Events and Recurrent Activities;
— category of information (i.e. all the Projects/Events or all the Recurrent Activities);
— status (open, closed) of the Project/Event or Recurrent Activity.

The output generated can be displayed on screen, printed and downloaded.

In view of the necessity of informing persons of their entry in the Register, of subsequent updates of the data concerning them, of the obligations deriving from the possession of inside information and of the sanctions applicable in the event of violations, the application automatically e-mails employees the notifications required by law. For other types of registered persons, the system notifies the officer responsible for the Register and/or the Registering Officer who made the entries of the need to make the required notifications without delay.

ANNEX C
[on letter head of consultant or counterparty]

…., ……………

STRICTLY PRIVATE AND CONFIDENTIAL
Pirelli & C. S.p.A.
Via G. Negri 10
20123 Milan
Italy
To the attention of:…….

Re: confidentiality agreement related to:
……………………………………………………………………………………………………
...…………………………………………………………………………………………………
…...…………………………………………………………………………………………………
…….. ("Transaction")

Dear Sirs,
Reference is made to our conversations regarding the Transaction and to your request that we assume certain confidentiality obligations, also on behalf of the Relevant Persons (as defined hereinafter).

We acknowledge that, as a consequence of our involvement with the Transaction, you may make available to us data and information, in written, electronic or oral form, relating to:
(a) the Transaction, including its existence;
(b) Pirelli & C. S.p.A. (the "**Company**") and/or its controlled companies and/or companies on which the Company exercises, directly or indirectly, a significant influence, and
(c) the persons that own, directly or indirectly, a stake in the share capital of the Company
(such data and information is collectively referred to as the "**Confidential Information**")[1].

We hereby undertake to maintain the Confidential Information strictly private and confidential and not to disclose or disseminate the Confidential Information, without the prior written consent of the Company, to persons other than the following:
(i) directors, managers or employees of [either] our company [or our affiliates (for the purposes hereof affiliates means the controlling companies or the companies controlled, also indirectly, by us and/or under common control, jointly the "Affiliates")]2,
(ii) legal counsels or other advisers or assistants or of either our company or the affiliates appointed with your prior written consent,
(iii) partners, associates, advisers, employees or assistants of the undersigned firm and/or professional association,[3]
which are directly involved in the Transaction and need to know the Confidential Information.

Furthermore, we undertake to use the Confidential Information only for the purposes of the Transaction and not to use any Confidential Information in a way that may be prejudicial to the Company, its affiliates or other persons that own, directly or indirectly, a stake in the share capital of the Company.

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1 Delete any paragraph which is not applicable and or insert any further paragraph if appropriate;
2 Insert reference to Affiliates if appropriate;
3 Delete any paragraph which is not applicable and or insert any further paragraph if appropriate ,e.g. "(•) counterparties to the Transaction"; "(•)legal counsels or other advisers or consultants of the Company";

We represent that we have in place a system of security measures fully adequate to protect the Confidential Information in accordance with the provisions of this Agreement.

We further undertake to inform preliminarily and appropriately each of the persons mentioned in paragraphs (i) to (iii) above (collectively referred to as the "**Relevant Persons**")[4] of the confidentiality obligations under the Italian Legislative Decree no. 58 dated 24th February, 1998, as subsequently amended, and implemented by the relevant rules and regulations (the "**Decree**"), and to ensure that each of the Relevant Persons agrees and complies with the terms and conditions of this agreement as if they were a party to it. We agree that we shall be liable for any breach of this agreement by us and, pursuant to Article 1381 of the Italian Civil Code, by any of the Relevant Persons.

The information disclosed to the Relevant Persons shall not be deemed to be Confidential Information if such Confidential Information: (x) is in, or becomes part of, in the public domain other than as a result of an unauthorized communication or disclosure by us or any of the Relevant Persons; or (y) is, or becomes, available to us [or our Affiliates] by a third party which is not in breach of any duty of confidentiality (known to us) owed to the Company or other company within its group; (z) have been independently elaborated by us [or our Affiliates] without any kind of reliance or use, of any kind, of the Confidential Information.

Notwithstanding the foregoing, each of the persons subject to the confidentiality obligations set forth herein shall not be bound to fulfil any obligations hereunder in the event that the disclosure or communication of any part of the Confidential Information is required by law, regulation or order to which no opposition can be made. In such circumstances, we shall promptly notify you in writing and shall consult with you on the opportunity to take appropriate actions in order to obtain a waiver and/or communications is required, we undertake to cooperate with you, also in the event it appears necessary or appropriate to delay the timing of the disclosure and/or communication pursuant to Article 114, paragraph 3, of the Decree in order to obtain a protective order or undertakings required or advisable so as to ensure a private and confidential treatment for specific parts of the Confidential Information.

We hereby undertake to comply with the provisions of the applicable privacy laws and regulations.

We further undertake to comply with the provisions set forth in the Decree, also taking into account that any of the Confidential Information may, pursuant to the Decree, become market sensitive information. In particular, we hereby represent:
(i) to acknowledge any duties arising out the Decree; and
(ii) to be aware of the sanctions set forth in the Decree also in the event of abuse of market sensitive information or market manipulation.

We further represent to be aware that you may it deem necessary to enter our names in the registry you keep pursuant to the provisions of the Decree, which records the list of persons having access to confidential information. Therefore, we undertake to provide you in writing with the names of the Relevant Persons having access to the Confidential Information and of those who will access your offices.

Furthermore, we acknowledge that the breach of the confidentiality obligations contemplated by this agreement could cause serious and unrecoverable damages to the Company, to its Affiliates and to its direct or indirect shareholders, as well as to their respective directors. Consequently, and without prejudice to any other legal remedies, including orders and injunctions, if a breach of the obligations hereunder by us or any of the Relevant Persons is ascertained and, in any event, upon enforcement of administrative or criminal sanctions pursuant to the Decree against us or any of the Relevant Persons, the Company:

4 Delete any paragraph from (i) to (iii) which is not applicable and or insert reference to any further paragraph which has been inserted, if appropriate;

(a) may terminate the agreements or contracts executed with us[5] and still in force, if any, and
(b) for a period of at least three years, will not enter into further agreements or contracts with us[6].

The period mentioned in letter (b) above shall run, respectively, from either the date on which the breach is ascertained or the date on which the Company becomes aware of the enforcement of the abovementioned sanctions.

[We acknowledge that all Confidential Information is, and will remain, the property of the Company and or its Affiliates. Upon request of the Company, all documentation containing Confidential Information, and all copies or excerpts thereof, shall be immediately returned to you and all and all electronic records of the Confidential Information shall be deleted or destroyed; we will give you written confirmation of such deletion or destruction as soon as it has occurred.
Without prejudice to any obligation under this agreement, we may keep a copy of the Confidential Information for recording purposes if expressly required by mandatory provisions of law, provided that we give you prior written communication.][7]

All obligations under this agreement become effective from the date hereof and shall terminate upon the third (3rd) anniversary of the completion of the Transaction or its definitive interruption.

This agreement shall be governed by, and construed in accordance with, the laws of Italy.

We hereby agree that any dispute arising out in connection with the construction or implementation of this agreement shall be submitted to the exclusive jurisdiction of the Courts of Milan.

Yours faithfully,

Consultant/Counterparty
…………………………
By:……………………...
Title:…………………...

5 Insert "and or our Affiliates" if appropriate;
6 Insert "and or our Affiliates" if appropriate;
7 Insert this paragraph if appropriate;

Insider dealing – Black-out periods

The Board of Directors of Pirelli & C S.p.A. has decided – as part of its self-regulatory system – to require "relevant persons" in the company (including its directors and statutory auditors) to abstain, in certain periods of the year (so-called black-out periods), from carrying out transactions – including through intermediaries - on the shares of the company or related financial instruments.

In particular, The Board of Directors decided that the relevant persons ("**Relevant Persons**") (within the meaning specified in article 152-*sexies*, subsection 1, letters c.1 and c.3) of the Consob Regulation adopted in decision no. 11971/1999 and subsequent modifications[1], as well as those identified – including purely for self-regulatory purposes – by the Board itself, and the physical and legal persons[2] closely linked to the latter, shall abstain from carrying out transactions on Financial Instruments (as defined below) in the twenty days preceding the release of the economic and financial results of the period (definitive or preliminary).[3]

The Board of Directors has also reserved the right to determine, in an extraordinary way, further periods during which the obligation to abstain described above shall apply or be suspended.

For the purposes of the above provisions, Financial Instruments shall be understood to mean:

(i) financial instruments listed in the Italian and foreign regulated stock exchange market, issued by Pirelli & C. S.p.A. and its subsidiary companies, excluding non-convertible bonds;

(ii) financial instruments, even unlisted, attributing the right to subscribe, purchase or sell the instruments at point (i), including certificates representing the instruments at point (i);

(iii) derivative financial instruments, including *covered warrants*, having as related asset the financial instruments at point (i), including when they are exercised by means of payment of a cash difference. Financial Instruments as defined in point (i) also include shares in real estate investment funds listed, promoted and managed by investment management company subsidiaries of Pirelli & C. Real Estate S.p.A.

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1 Article 152-sexies subsection 1 letters c.1 to c.3 of the Consob Regulation adopted with decision no. 11971/1999./
"c.1) The members of the administrative and control bodies of a listed company;
c.2) The persons who act as directors of a listed company and the managers who regularly access privileged information and have the power to take decisions which may impact on the evolution and future prospects of the listed company
c.3) The members of administration and control bodies, those persons who act as directors of a listed company and the managers who regularly access to privileged information and have the power to take decisions which may impact on the evolution and future prospects of a company directly or indirectly controlled by a listed company, if the book value of the stake in the above mentioned subsidiary company represents more than fifty percent of the equity asset of the listed company, as resulting from the last approved Annual Report.

2 This means all those physical and legal persons strictly linked to the Relevant Persons who may be considered to influence or be influenced by the latter (and thus legal persons who, while subsidiary according to the current legal and regulatory provisions, operate in conditions of operational independence, are excepted).

3 The terms are calculated taking as reference the calendar of the meetings of the board of directors for approval of the reports specified in article 154-ter subsections 1,2 and 5 of the CLF (Consolidated Law on Finance) announced by the Company to the market.

Regulations for shareholders' meetings

Article 1

— These Regulations shall apply to the Company's ordinary and extraordinary shareholders' meetings.

Article 2

— To ensure the regular conduct of shareholders' meetings, for matters not expressly governed by these Regulations, the Chairman of the meeting (hereinafter the "Chairman") shall adopt the measures and solutions deemed most appropriate, in compliance with the law and the bylaws.

Article 3

— Meetings may be attended, with the right to take part in the discussion and to vote, by persons entitled to do so pursuant to the applicable provisions (hereinafter the "Participants").
— Unless stated otherwise in the notice convening the meeting, personal identification and verification of the right to attend the meeting shall begin at the place where it is to be held at least one hour before the time fixed for it to start. When the Participants have been identified and their right to attend verified, under the supervision of the Chairman, the auxiliary staff provided by the Company shall issue badges that serve for control purposes and to exercise the right to vote.
— The Participants shall be able to follow the discussion, take the floor during the discussion and exercise their right to vote, in the technical manner specified on each occasion by the Chairman.
— Participants who, after being admitted to the meeting, intend for any reason to leave the premises where it is being held, must inform the auxiliary staff.

Article 4

— Directors, senior executive and employees of the Company and of Group companies may attend the meetings, following also the course of actions decide by the Chairman, as may other persons whose presence is deemed useful in relation to the matters to be discussed.
— With the agreement of the Chairman and following the course of action decided by him, the proceedings may be followed by professionals, consultants, experts, financial analysts and suitably qualified journalists, accredited for a single meeting, in areas which could specifically be set aside for that purpose.
— Persons accredited to follow the proceedings must report for identification by the Company's appointees at the entrance of the premises where the meeting is to be held and collect a special badge to be exhibited upon request.

Article 5

— In accordance with the law and the bylaws, it is up to the Chairman to direct the meeting and ensure the best conditions for its orderly and effective conduct.
— The Chairman may authorize the use of audio-visual recording and transmission equipment.

Article 6

— In the conduct of the meeting and in the preparation of the minutes the Chairman shall be assisted by a Secretary, in case a Notary public is not present. The Secretary or the Notary public may in turn arrange to be assisted by persons of their trust.
— For the purposes of conducting the voting procedures, the Chairman shall be assisted by scrutineers; he may use auxiliary staff to provide the necessary technical support and to maintain order.

Article 7

— When the quorum for duly constituting the shareholders' meeting is not reached, after an appropriate period of time the Participants shall be informed of the fact and the discussion of the matters on the agenda shall be understood to be deferred until the next call of the meeting, if any.
— During a meeting the Chairman may, if he deems it desirable and the majority of the capital represented at the meeting does not object, suspend the proceedings for up to three hours.

Article 8

— Opening the proceeding of the meetings, the Chairman shall summarize all the items of the agenda.
— The Chairman can grant to shareholders' who have required to add items to the agenda, according to the By-Laws and to the provisions of law, up to 15 minutes for describing the proposed resolutions to be taken and for explaining the reasons why they are proposed.

Article 9

— The Chairman shall establish the order in which the items on the agenda are to be discussed, which may differ from that indicated in the notice convening the meeting.
— He may provide for several items to be discussed together or for the discussion to proceed item by item.
— The Chairman and, at his invitation, persons attending the meeting pursuant to the Article 4, paragraph 1, shall explain the items on the agenda.

Article 10

— It is up to the Chairman to conduct and moderate the discussion, ensure its correctness and prevent disturbances of the regular course of the meeting.
— The Chairman, taking account of the subject matter and importance of the individual items on the agenda, may establish at the start of the meeting the time - not less than 15 minutes - available to each speaker.
— The Chairman shall call on Participants to comply with the time limits for speaking established in advance and to keep to the matters stated in the agenda. In the event of an overrun and/or an abuse, the Chairman shall interrupt the speaker.

Article 11

— Persons who intend to speak must apply to the Chairman or the Secretary, indicating the subject they will address. Such requests may be submitted until the Chairman closes the discussion on the subject to which they refer.

— Participants may ask to take the floor a second time during the same discussion, for not more than five minutes, exclusively in response to other speakers or to declare how they intend to vote.

Article 12

— The Board of Directors and the Participants may put forward, giving reasons, proposals for alternative or amended resolutions with respect to those originally put forward by the Board of Directors or by the Shareholders who have requested to add items to the agenda in accordance with the By-Laws and with the provisions of law.
— The Chairman shall evaluate the compatibility of such proposals in relation to the agenda of the meeting and to the applicable provisions.

Article 13

— The members of the Board of Directors and the Board of Statutory Auditors may intervene in the discussion; at the invitation of the Chairman, persons attending the meeting pursuant to the Article 4, paragraph 1, may also take the floor, inter alia to respond to requests for clarification.

Article 14

— The Chairman shall take appropriate measures to ensure the orderly conduct of voting and provide for the voting on an item to be held immediately after the close of the discussion thereof or at the end of the discussion of all the items on the agenda.
— The Chairman shall establish how each voting procedure is to be conducted and the procedures for identifying and counting the votes cast and shall be responsible for ascertaining the results.

Article 15

— Upon completion of the counting of the votes with the help of the scrutineers and the Secretary, the results of the voting shall be announced.

Shareholders' resolutions

Appropriation of profit

The year ended December 31, 2007 shows a profit of Euros 100,665,577.
The board proposes, after appropriation to the legal reserve, the distribution of dividends, gross of withholding taxes by law, as follows:
— Euros 0.0160 for each ordinary share;
— Euros 0.0728 for each savings share (including the 2007 dividends, equal to Euros 0.0364, and the preferred dividends, equal to Euros 0.0364, computed as an increase in respect of the year 2006 in which dividends had not been distributed).

The board also proposes to replenish the monetary revaluation reserve ex Law 72/1983 and Law 413/1991 which were entirely utilized to cover the 2006 loss following the resolutions passed by the shareholders' meeting held on April 26, 2007.
If in agreement with our proposal, we ask you to pass the following

RESOLUTION

The shareholders' meeting:
— having taken note of the Directors' Report on Operations;
— having taken note of the reports of the board of statutory auditors' and the independent auditors;
— having examined the financial statements at December 31, 2007 which show a profit of Euros 100,665,577

RESOLVES

a) to approve:
- the Directors' Report on Operations;
- the balance sheet, the income statement, the notes to the financial statements for the year ended December 31, 2007 which show a profit of Euros 100,665,577 as presented by the board of directors in their entirety and in the individual entries, with the proposed accruals;

b) to appropriate the income for the year of Euros 100,665,577 as follows:

5 percent to the legal reserve	Euro	5,033,279
to the shareholders:		
Euros 0.0160 to 5,230,524,503* ordinary shares, for a total of	Euro	83,688,392
Euros 0.0728 to 130,272,660* savings shares, for a total of	Euro	9,483,850
to replenish the monetary revaluation reserve Law 413/91	Euro	707,349
to replenish the monetary revaluation reserve Law 72/83	Euro	972,216
to retained earnings	Euro	780,491

* net of 2,617,500 ordinary shares and 4,491,769 savings shares currently held by the Company.

c) to authorize the directors, in the event that prior to the ex-dividend date referring to the dividends in the above point b) purchase and sales of treasury shares are carried out, to appropriate and/or to draw the amount of dividends to which those shares are entitled from retained earnings and to record the balance of any rounding-off at the time of the payment of the dividends to that same caption.

Appointment of the Board of Directors:

— determination of the number of the members of the Board of Directors;
— determination of the duration of the Board of Directors;
— appointment of the Directors;
— determination of the annual remuneration of the members of the Board of Directors.

Dear Shareholders,
the Board of Directors currently in office has been appointed by the ordinary Shareholders' Meeting held on April 28, 2005 that has resolved upon a three-fiscal year mandate.

The mandate of the Board is, therefore, going to expire at the approval of the financial statements as at December 31, 2007.

The Shareholders' Meeting is hence convened to appoint the new Board of Directors, subject to the determination of the number of its members, the duration of their office and the relevant remuneration.

In this regard, we remind you that article 10 of the Company's By-laws (written in full at the end of this report) provides that the Board of Directors of the Company shall be composed of no less than 7 (seven) and no more than 23 (twenty three) members and that it shall remain in office for three fiscal years, providing also that, when appointing the Board of Directors, the Shareholders' Meeting may grant a mandate lasting less than three fiscal years and that Directors may be re-appointed.

We also briefly remind you that, pursuant to same article 10 of the Company's By-laws, the Board of Directors shall be appointed on the basis of slates presented by those shareholders who, alone or together with other shareholders, hold shares representing at least 1.5 per cent of the share capital entitled to vote at the ordinary Shareholders' Meeting (threshold provided by Consob with the resolution no. 16319 of January 29, 2008), subject to their proving ownership of the number of shares needed for the presentation of slates within the term of filing of same slates.
The Shareholders who present a slate must indicate their details and the percentage of the share capital entitled to vote at the ordinary Shareholders' Meeting that they jointly own.

The slates of candidates, such candidates being listed in a progressive order, must be undersigned by the parties submitting them and filed at the Company's registered office and be available to anyone on request, at least fifteen days before the date set for the Shareholders' Meeting on first call. Together with each slate, and within the same terms specified above, statements must be filed in which the individual candidates agree to their nomination and attest, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet any requisites prescribed for the relevant office. Together with such statements, a curriculum vitae must be filed for each candidate, setting out their relevant personal and professional data and mentioning the offices held in management and supervisory bodies of other companies and eventually the eligibility of them to be qualified as an independent candidate in accordance with the criteria established by law and adopted by the Company (Corporate Governance Code for Listed Company). Any changes that occur up to the date of the Shareholders' Meeting must be promptly notified to the Company
Each Shareholder shall submit or concur to the submission of only one slate and each candidate shall be nominated in only one slate on pain of ineligibility.
Any slates submitted without complying with the provisions of article 10 of the Company's By-laws shall be disregarded.

We also inform you that, in accordance with the provisions of the Corporate Governance Code for Listed Companies, the Board of Directors of the Company has resolved upon the general guidelines to determine the maximum number of offices of its members; in this regard, the Shareholders, who shall intend to submit slates for the appointment of the Board of Directors, are invited to examine the relevant document published on the Internet web site of the Company at the address www.pirelli.com, *section corporate governance*.

On the basis of the above, the Board of Directors,
— having onsidered the provisions of the By-laws of the Company concerning the composition and the procedure for the appointment of the Board of Directors;

proposes to the Shareholders' Meeting

— to determine the number of the members of the Board of Directors, also determining the duration of their office and the relevant remuneration;
— to vote the slates of the candidates for the office of Director of the Company that has been presented and published in compliance with the terms and conditions provided for by article 10 of the Company's By-laws.

ARTICLE 10 OF THE BY-LAWS OF THE COMPANY PIRELLI & C. S.P.A.

The Company shall be managed by a Board of Directors composed of no less than seven and no more than twenty three members who shall remain in office for three financial years (unless the shareholders' meeting establishes a shorter term at the time of their appointment) and may be re-elected. The shareholders' meeting shall establish the number of members of the Board of Directors, which shall remain unchanged until said meeting resolves otherwise.
The Board of Directors shall be appointed on the basis of slates presented by the shareholders pursuant to the following paragraphs hereof, in which the candidates are listed by consecutive number.
The slates presented by the shareholders, which must be undersigned by the parties submitting them, shall be filed at the Company's registered office, and be available to anyone on request, at least fifteen days before the date set for the shareholders' meeting to be held on first call.
Each shareholder may present or take part in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility. Only shareholders who, alone or together with other shareholders, hold a total number of shares representing at least 2 percent of the share capital entitled to vote at the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa, are entitled to submit slates, subject to their proving ownership of the number of shares needed for the presentation of slates within the term of filing of same slates.
Together with each slate, and within the respective terms specified above, statements must be filed in which the individual candidates agree to their nomination and attest, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet any requisites prescribed for the positions. Together with such statements, a curriculum vitae must be filed for each candidate, setting out their relevant personal and professional data and mentioning the offices held in management and supervisory bodies of other companies and specifying, where appropriate, the grounds on which they qualify as an independent candidate in accordance with the criteria established by law and the Company. Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.
Any slates submitted without complying with the foregoing provisions shall be disregarded.
Each person entitled to vote may vote for only one slate.
The Board of Directors shall be elected as specified below:
a) four-fifths of the directors to be elected shall be chosen from the slate which obtains the highest number of votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it shall be rounded-down to the nearest whole number;
b) the remaining directors shall be chosen from the other slates; to this end, the votes obtained by the various slates shall be divided by whole progressive numbers from one up to the number of directors to be elected. The quotients thus obtained shall be assigned to the candidates on each slate in the order they are respectively listed thereon. On the basis of the quotients assigned, the candidates on the various slates shall be ranked in a single list in decreasing order. Those who have obtained the highest quotient shall be elected.

If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected a director or that has elected the lowest number of directors shall be elected. If none of such slates has as yet elected a director or they have all elected the same number of directors, the candidate from the slate which obtained the highest number of votes shall be elected. If the different slates obtain the same number of votes and their candidates are assigned the same quotients, a new vote shall be held by the entire shareholders' meeting and the candidate who obtains the simple majority of the votes shall be elected.
When appointing directors who, for whatsoever reason were not appointed under the procedure established herein, the shareholders' meeting shall vote on the basis of the majorities required by law.
If one or more vacancies occur on the Board during the course of the financial year, the procedure established in article 2386 of the Italian Civil Code shall be followed.
The Board of Directors shall elect its own Chairman, if the shareholders' meeting has not already done so, and may also appoint one or more Deputy Chairmen.
In the absence of the Chairman, a Deputy Chairman or a Managing Director, in that order, shall act in his/her stead; should there be two or more Deputy Chairmen or Managing Directors, the Board shall be presided over by the elder of same respectively.
The Board of Directors shall appoint a Secretary, who need not be a director.
Until the shareholders' meeting resolves otherwise, the directors shall not be subject to the prohibition contemplated in article 2390 of the Italian Civil Code.

Appointment of one Standing Auditor

Dear Shareholders,
the Standing Auditor Mr. Paolo Francesco Lazzati, appointed by the ordinary Shareholders' Meeting held on April 21, 2006, resigned dating from the next Shareholders' Meeting resolving upon the approval of the financial statements as at December 31, 2007.

The Shareholders' Meeting is therefore convened to appoint a standing auditor as a substitute of Mr. Paolo Francesco Lazzati in order to complete the Board of the Statutory Auditors.

Pursuant to article 16 of the By-Laws of the Company, the appointment shall be approved with the favourable votes of the relative majority without the application of the slate voting system.

Therefore, the Board of Directors:
— having considered the articles of the By-Laws of the Company concerning the procedures for the appointment of the Board of the Statutory Auditors;

proposes to the Shareholders' Meeting

— to appoint - on the basis of the proposals that shall be possibly submitted by Shareholders - a standing statutory auditor in compliance with the terms and conditions provided for by article 16 of the By-Laws of the Company

Appointment of an Auditing Firm for the audit of the financial statements of the Company, the consolidated financial statements and the short form six-month periods financial statements, referring to each fiscal year of the nine-year period 2008-2016, pursuant to article 159 of the Legislative Decree no. 58/1998

Dear Shareholders,
At the approval of the financial statements as at December 31, 2007, the three-year mandate granted by the Shareholders' Meeting held on April 28, 2006 to the auditing firm PricewaterhouseCoopers S.p.A. for the audit of the financial statements of Pirelli S.p.A. is expired. Such mandate, in accordance with the current laws and regulations, is no more renewable and it is therefore necessary to appoint a different auditing firm.

The Shareholders' Meeting shall therefore appoint a new auditing firm for the next nine-year period, pursuant to and in accordance with article 159 of the Legislative Decree no. 54 of February 24, 1998 (the "Unified Financial Act").

In this regard, we remind you that new article 159 of the Unified Financial Act, as amended by the Legislative Decree no. 303 of December 29, 2006, concerning the procedure for the appointment of the auditing firm, provides that the Shareholders' Meeting shall grant to an auditing firm the mandate for the audit of the company financial statements and the consolidated financial statements "on the basis of a justified proposal by the Board of Statutory Auditors".

We therefore inform you that the Board of Statutory Auditors of Pirelli & C. has carried out a deep technical and economical analysis in agreement with, and with the support of, the competent offices of the Company, resolving to submit to the Shareholders' Meeting its proposal attached herewith, to which we make entirely reference.

The Board of Directors fully agree with the analysis independently carried out by the Board of Statutory Auditors

JUSTIFIED PROPOSAL BY THE BOARD OF THE STATUTORY AUDITORS CONCERNING THE APPOINTMENT OF THE AUDITING FIRM FOR 2008-2016 FISCAL YEARS.

Dear Shareholders,

considered that:
— at the date of the Shareholders' Meeting called for the approval of the financial statements as at December 31, 2007 and at the delivery of the relevant audit report, the mandate granted by the Shareholders' Meeting of Pirelli & C. S.p.A. (the "Company" or "Pirelli & C.") held on April 28, 2005 to the Auditing Firm PricewaterhouseCoopers S.p.A., will expire;
— such mandate, according to the current laws and regulations, is no more renewable and it shall be, therefore, necessary to appoint a different auditing firm;
— on January 10, 2007 the Legislative Decree no. 303 of December 29, 2006 amending, *inter alia*, Article 159 of the Legislative Decree no. 58 of February 24, 1998 (the "Unified Financial Act" or "UFA") has been published on the Official Gazette of the Republic of Italy and such amendment provides that the corporate body in charge of the control activities is due to propose to the Shareholders' Meeting the appointment of the auditing firm and the relevant remuneration.

therefore, the Board of Statutory Auditors of the Company, in accordance with article 159 of the Unified Financial Act, has carried out a competitive contest to select the Auditing Firm to be proposed for appointment to the Shareholders' Meeting.

At the end of the contest and further to a deep technical-economical analysis – independently carried out by the Board of Statutory Auditors, in agreement with, and with the support of the competent offices of, the Company – the best offer which has been selected is the offer by the auditing firm Reconta Ernst & Young S.p.A.. The choice has been made on the basis of a global and comparative analysis of the proposals submitted to us, having particular regard to the comparison between (i) the expenses and the terms and conditions of the mandate; (ii) the characteristics of the team in charge of the office; (iii) the geographical presence, the competence and the specific expertise and (iv) the fees requested with respect to same areas.

In this regard, pursuant to article 159, paragraph 1, of UFA, we finally remark that:
— Reconta Ernst & Young is the Italian entity of Ernst & Young network and it is registered in the special register of the auditing firms kept by Consob pursuant to article 161 of UFA;
— the audit plan exposed in the proposal is appropriate and exhaustive considering the size and the complexity of the mandate; the proposal contains a detailed description of the mandate, the description of the activities and how such activities shall be carried out with particular reference to:

(i) the audit of the financial statements of the Company and the consolidated financial statements (art. 155, paragraph 1, letter b), of UFA);
(ii) the verification that the accounts of the Company are properly kept and that the management events are properly reflected into the accounts (art. 155, paragraph 1, letter a), of UFA);
(iii) the auditing activity pursuant to article 165 of UFA;
(iv) the limited review of short form six-month period financial statements as at June 30 of each single financial year in the nine-year period 2008-2016;
(v) the audit of the financial statements of the foreign subsidiaries having their registered offices in countries which do not ensure corporate transparency (art. 165-quater, paragraph 4, of the UFA);
(vi) the verification activities which related to the subscription of the Fiscal Declarations (namely, *Modello Unico* and *Modello 770 Semplificato e Ordinario*) referring to the fiscal years from 2007 to 2015;

— the evaluation of the working hours needed for the audit on the financial statements and for all the other auditing activities, together with the allocation between the different categories of professionals – for a total amount of 3.200 hours – is adequate taking into account (i) the size, the composition and the risk extent of the most important economical and financial data of the Company, as well as the risk profile due to the consolidation process of the data referring to the subsidiaries, (ii) the technical knowledge and expertise necessary to execute an audit and, (iii) the necessity to ensure, in addition to the execution of the verification activity, an appropriate supervising and directing activity, in accordance with the principles and the criteria determined by Consob pursuant to article 162, paragraph 2, letter a), of the UFA).
— The remuneration for the mandate – which is equal to Euro 235.000,00 – having regard to both the total amount and the single items, has been determined in order to ensure the quality and the reliability of the auditing activity, as well as the Auditor's independence.

Mandate	Hours	Fees (Euro)
Audit of the company financial statements[1]	980	60,000
Audit of the consolidated financial statements	1,430	115,000
Limited review of the interim consolidated financial statements	790	60,000
TOTAL	**3,200**	**235,000**

1 This includes periodical audits pursuant to article 155, paragraph 1, letter a), of UFA and all auditing activities related to the subscription of the Fiscal Declarations (namely, *Modello Unico* and *Modello 770 Semplificato e Ordinario*).

Reimbursement for expenses sustained by reason of the office, such as the expenses for transfers and accommodation outside the offices, if sustained, the tax due to Consob (*contributo di vigilanza*) and VAT, shall be added to the remuneration described in details above.

Working time and remuneration may be periodically reviewed, also depending on the general criteria set forth by article 145-bis of the Consob Regulation 11971/1999 as amended, if the conditions provided by the current laws and regulations shall occur.
— Reconta Ernst & Young complies with the requirements of independence provided by the current laws and regulations (as at today, according to the available information, no incompatibilities exist)

The Partner which is responsible for the fulfilment of the mandate has been identified by Reconta Ernst & Young in the person of Pellegrino Libroia, registered in the Professional Accountants Register and in the Auditors Register (*Albo dei Dottori Commercialisti e Registro dei Revisori Contabili*), who has gained a multiyear experience in the audit of the financial statements of listed companies.

Finally, the Board of Statutory Auditors having verified that the economical terms of the proposal by the auditing firm is in line with the amount and the quality of the activities to be carried out, the professional competence of the personnel to be employed and the current market prices;

Proposes

to this Shareholders' Meeting to grant to the Auditing Firm Reconta Ernst & Young the mandate for:
— the audit, in accordance with the article 156 of the Legislative Decree 58/1998, of the yearly financial statements of the Company and the consolidated financial statements, referring to the nine years ending from December 31, 2008 to December 31, 2016;
— the verification activity provided for by article 155, paragraph 1, letter a), of Legislative Decree 58/1998;
— the verification on the coherence between the management report and the financial statements of the Company and the consolidated financial statements provided for by article 156, paragraph 4-bis, letter d), of Legislative Decree 58/1998;

— the limited review of the short form six-month consolidated financial statements for each of the nine interim periods as at June 30, from 2008 to 2016;
— the verification activities related to the signature of the Fiscal Declarations (namely, *Modello Unico* and *Modello 770 Semplificato e Ordinario*) referring to the nine-year period 2007-2015;

in accordance with the proposal from the Auditing Firm dated March 12, 2008[1] that provides for a total amount equal to Euro 235.000,00 as remuneration of the mandate.

Milan, March 26, 2008

BOARD OF STATUTORY AUDITORS
Luigi Guatri
Enrico Laghi
Paolo Francesco Lazzati

1 The proposal by Reconta Ernst & Young is available to the public at the registered office of Pirelli & C. S.p.A. and published on the web site of the Company *www.pirelli.com*, under section *Corporate Governance*.

Proposal for the purchase and for the determination of the modalities for the disposals of treasury shares. Related and consequent resolutions. Delegation of powers

Dear Shareholders,
we submit to Your approval the request to authorize the buy back and sale of treasury shares pursuant to articles 2357 and 2357-ter of the Italian Civil Code and article 132 of Legislative Decree no. 58 of February 24, 1998, on the basis of the rationale and in accordance with the terms and conditions described below.

1. RATIONALE OF THE REQUEST FOR AUTHORIZATION

The assumptions and the main goals that the Board of Directors intends to pursue through the transactions that we propose you to authorize are the following:

— to buy back shares of the Company with a medium to long-term investment view;
— to intervene, in compliance with the applicable laws and regulations, directly or trough intermediaries, in order to minimize abnormal trends of the market price and to regularize the trend of the transactions and the trades, in the event of temporary abnormal circumstances related to an excess of volatility or a limited liquidity in trading;
— to get a portfolio of treasury shares available in the context of possible extraordinary corporate finance transactions or for any different purposes that should be considered to be financially, managerial and/or strategically useful for the Company;
— to offer to the Shareholders an additional instrument for monetizing their own investment.

With specific regard to the request for the authorization to buy back shares of the Company, we specify that, currently, such request is not connected with any share capital decrease to be executed by means of the annulment of the purchased treasury shares.

2. MAXIMUM NUMBER, CATEGORY AND NOMINAL VALUE OF THE SHARES TO WHICH THE AUTHORIZATION REFERS

The fully subscribed and paid-in share capital is represented by no. 5,233,142.03 ordinary shares, with a nominal value of Euro 0.29 each, and by no. 134,764.429 saving shares with same nominal value of Euro 0.29 each and amounts to a total value of Euro 1,556,692,865.28.

As at today, the Company holds directly no. 2,617,500 ordinary treasury shares and no. 4,491,769 saving treasury shares, which altogether represent 0.13% of the share capital of the Company, while it does not hold any treasury share through any of its subsidiaries.

In the light of the above, we propose to authorize the Board of Directors to buy back shares of the Company, once or more times, for an amount that the Board shall determine without restriction, up to the maximum amount provided by the law and, therefore, so that the nominal value of the purchased treasury shares shall not exceed 10% of the share capital of the Company, taking into account both the treasury shares directly held by the Company and those possibly held through its subsidiaries.

In any case, the purchases shall be made, in accordance with article 2357 of the Italian Civil Code, within the limit of disposable income and available reserves as set forth in the last regularly approved financial statements of the Company.

3. INFORMATION USEFUL TO VERIFY THE COMPLIANCE WITH ARTICLE 2357, PARAGRAPH 3, OF THE ITALIAN CIVIL CODE.

The draft financial statements of the Company as at December 31, 2007, approved by the Board of Directors held on March 26, 2008 and submitted for approval, together with this proposal for authorization, to the Shareholders' Meeting called today, shows available reserves totally amounting to more than Euro 418 million.
It must be noted that, in the event of buy back, transfer, exchange or contribution of the treasury shares, the appropriate accountancy registrations shall be made, according to the applicable laws and regulations and accountancy principles. In the event of sale, exchange and contribution, the amount so obtained may be used again for further buy backs until the term of the authorization granted by the Shareholders' Meeting will be expired, without prejudice and in compliance with the limits pertaining to the quantity and the costs, as well as without prejudice and in compliance with the conditions set by the Shareholders' Meeting

4. DURATION OF THE AUTHORIZATION

The Board of Directors proposes that the authorization to buy back shares of the Company shall be granted for 18-month period from the date on which the Shareholders' Meeting shall adopt the relevant resolution. The Board shall carry out the authorized transactions, one or more time, and in any time.

5. MINIMUM AND MAXIMUM PRICE

The purchase price of the shares shall be fixed each time, taking into account the type of transaction and in compliance with any possible regulatory provisions or admitted market practices, but, in any case, it shall be neither lower nor higher than 15% of the weighted average of the Italian Stock Exchange official prices of the shares at the three Italian Stock Exchange sessions preceding each transaction.

The sale of the treasury shares shall be executed at the price, or, in any case, in accordance with the terms and conditions set by the Board of Directors, taking into account the modalities chosen for the execution of the relevant transaction, the trend of the shares' prices in the period preceding the transaction and the best interest of the Company.

6. PROCEDURES FOR THE EXECUTION OF THE TRANSACTIONS

Considering that the transactions on treasury shares may have different purposes, the Board of Directors proposes that you authorize to execute the buy backs by means of any procedure admitted by the current laws and regulations, to be determined each time by the Board at its discretion and, therefore, as at today, by means of:
— tender offer or public exchange offer;
— purchases carried out on regulated markets, in accordance with the procedures provided by Borsa Italiana S.p.A. having the features requested by article 144-bis of the Consob Regulation no. 11971 of May 14 1999;
— buy back and sale of derivatives traded on regulated markets which provide for the material delivery of the underlying shares and at the conditions determined by Borsa Italiana S.p.A.
— granting to the shareholders put options - in proportion to their holdings - to be exercised within the duration of the authorisation indicated in paragraph 4 above.

The Board of Directors proposes that you authorize to execute the sales pf treasury shares by means of any procedure that should be considered to be appropriate in order to achieve the relevant purpose – including the use of the treasury shares in the context of share incentive plans – and that shall be executed directly or through intermediaries, in compliance with the applicable laws and regulations, both domestic and of the European Community.

The buy backs and sales of treasury shares for which the authorization is requested shall be executed in accordance with the applicable laws and regulations and, in particular, in accordance with the applicable laws and regulations, both national and of the European Community, concerning the market abuse.

The buy backs and sales of treasury shares shall be properly notified in accordance with the applicable disclosure requirements.

7. POSSIBLE ANNULLMENT OF THE TREASURY SHARES

As previously said, the buy back is not connected with any share capital decrease to be executed by means of the annulment of the purchased treasury shares.

In the light of the above, we deem therefore useful to propose that you grant an authorization for this purpose.

If you agree with our proposal, we invite You to approve the following

Resolution

“The Ordinary Shareholders’ Meeting:

— having considered the Directors’ proposal;
— having considered articles 2357 and 2357-ter of the Italian Civil Code, article 132 of Legislative Decree 58/1998 and article 144-bis of Consob Regulation no. 11971 of May 14, 1999;
— having considered that, as at today, the Company directly holds no. 2,617,500 ordinary treasury shares and no. 4,491,769 saving treasury shares, which altogether represent 0.13% of the share capital of the Company, while it does not hold any treasury share through any of its subsidiaries;
— having considered the financial statements as at December 31, 2007;

Resolves

a) to authorize the Board of Directors to purchase shares of the Company having a nominal value of Euro 0.29 each, within the threshold provided for by article 2357 of the Italian Civil Code which is equal to the 10% of the share capital of the Company at the time outstanding, taking into account the treasury shares held by the Company and those possibly held by its subsidiaries, resolving that:
   - the purchase shall be made through one or more transactions within 18 months of the date of this resolution;
   - the purchase shall be executed by means of any procedure provided by the combined provision of article 132 of Legislative Decree no. 58 of February 24, 1998 and article 144-bis of Consob Regulation n. 11971 of May 14, 1999, also considering the specific exemption provided for by paragraph 3 of same article 132 of Legislative Decree no. 58 of February 24, 1998 and, in any case, by means of any other procedure allowed by the current laws and regulations, both domestic or of the European Community, and in accordance with any other applicable provision, including laws and regulations, both national and of the European Community, even concerning the market abuse;

- buy backs and sales of the shares of the Company shall be properly notified in accordance with the applicable disclosure requirements.
- the purchase price of each share shall be neither lower nor higher than 15% of the weighted average of the Italian Stock Exchange official prices of the shares at the three Italian Stock Exchange sessions preceding each transaction.
- the purchase shall be made using disposable income and available reserves as set forth in the last regularly approved financial statements of the Company at the time of the transaction, and it shall imply the constitution of a treasury shares reserve and, in any case, any other accounting registrations in compliance with terms and conditions provided for by the applicable laws;

all the above, in any case, in accordance and in compliance with any other possible law and regulation at the time applicable;

b) to authorize the disposal, in all or in part, both directly or though intermediaries, and without any time limit, of treasury shares purchased in accordance with the resolution under paragraph a), even before having exercised in full the authorization for the purchase of shares of the Company and in accordance with the purposes allowed by the law and by means of any procedure allowed by the law, including the use of treasury shares for share incentive plans, and again in accordance with any other applicable laws and regulations, including laws and regulations, both domestic and of the European Community, pertaining to market abuse.
The sale may be made in one or more transactions and in any time, even through a tender offer, an offer to shareholders, an offer on the market or in the context of possible extraordinary transactions. The shares may be sold also in combination with bonds or warrants, in order to be delivered further to the exercise of such bonds and warrants and, in any event, in accordance with the procedures allowed by the current laws and regulations, at the discretion of the Board of Directors.
The disposal of the treasury shares shall be executed at the price, or in any event, in accordance with the criteria and the conditions resolved by the Board of Directors, taking into account the modalities chosen for the execution of the relevant transaction, the trend of the shares' prices in the period preceding the transaction and for the best interest of the Company.
The disposals shall be executed, in any event, by means of the modalities allowed by the current laws and regulations, at the discretion of the Board of Directors;

c) to make, pursuant to article 2357-ter, par. 3 of the Italian Civil Code, any appropriate or necessary account recording related to transactions on treasury shares, in accordance with the current applicable laws and regulations and accounting principles.

d) to grant to the Board of Directors – and, on its behalf, to the Chairman and the Vice-Chairman, even not jointly – the broadest powers in order to execute buy backs and sales of treasury shares, also by means of subsequent transactions and, in any event, to execute the previous resolutions, even through attorneys, complying with what possibly requested by the competent authorities."

The Board of Directors
Milan, March 26, 2008

Sustainability report

"Our commitment to corporate social responsibility has grown and strengthened over the years, and continues to be demonstrated by our presence in the most prestigious international sustainability indexes, such as the Dow Jones and Ftse4Good Indexes. It is a fundamental choice, underpinning our Group's vision and strategies for growth, in all our business areas and management decisions, throughout the world. It is based on a "multi-stakeholder" approach, with careful attention given to all those who have an interest in the company for whatever reason. In short, we are committed to doing our utmost to ensure that not only innovation, research, quality of products and services, attention to the needs of our employees and the demands of our customers, but also respect for the environment become an ever increasing part of a virtuous circle for a company that combines competitiveness with social responsibility. A new dimension of a business culture deeply rooted in our history, fully attuned to the contemporaneity of sustainable development."

Marco Tronchetti Provera
Chairman, Pirelli Group

A note on methodology

www.pirelli.com > Sustainability

This, the third edition of the Pirelli Group Sustainability Report, is a full and complete expression of the Pirelli corporate culture. It does this by reporting the Group's economic choices together with its environmental and social choices, in line with the 'triple bottom line' approach. For this reason, the details of our sustainable performance are included in the Annual Report, instead of being published separately.

The perimeter of this annual report is the same as the Group's consolidated report. For any numeric/qualitative performance of one or more affiliates in relation to specific published data that has not been included, a note has been provided.

The report has been drawn up according to the Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI). The analysis of sustainable performance is based on a set of "Key Performance Indicators" (KPI), developed in accordance with the GRI indicators (updated to the G3 standard) and the principles of the Global Compact, also taking account of data periodically monitored by the major rating agencies. The sections on economic and social dimensions have also drawn on the *Reporting principles* issued by the Italian Sustainability Report Study Group (GBS - *Gruppo di Studio per il Bilancio Sociale*).

In this section we have concentrated on what we believe will be of most interest to the Group's wide variety of stakeholders, highlighting and explaining the progress in 2007 in relation to the contents of the 2006 report.

As regards Corporate Identity and Group organization, please see the *Directors' Report* that precedes this section.

For detailed information on the Real Estate Sector, whose sustainability performance is in any case consolidated within this report, please consult the Sustainability Report for Pirelli Real Estate SpA, available on the web site *www.pirellire.com*.

For further explanations and information on the contents of the report below, please refer to the "**Contacts**" published in the areas of the website *www.pirelli.com*, including the Sustainability Area.

Pirelli and sustainable development

Identification of Stakeholders and approach adopted

The term ‘stakeholder’ means ‘holder of legitimate interests’ in the company, i.e. those (individuals or groups) who have an interest in the company’s decisions, influence its success and/or are influenced by the organisation’s activities.

www.pirelli.com
> Sustainability > Stakeholders

Pirelli Group adopts a multi-stakeholder approach, which means that it pursues lasting and sustainable growth based as far as possible on the equable reconciliation of the interests and expectations of all those who interact with the company.
In particular:

— Environment
— Shareholders
— Human Resources
— Customers
— Suppliers
— Institutions
— External Community

The Group encompasses various different business areas, each with their own particular approach to the issues of sustainability. Consequently, relations with stakeholders are to a certain degree heterogeneous, which may be regarded as a beneficial diversity in Pirelli’s ways of listening to and involving stakeholders.

There are many and varied initiatives, activities, tools for dialogue and projects of specific interest to the categories listed above. These are addressed in detail in the following sections, to which the reader is referred for further information.

Sustainable Governance

For Pirelli, sustainable governance means **integrating sustainability with the various different aspects and precincts of company management**. Among other things, this translates into the mapping, control and sustainable management of all risks associated with the company's activities.

GUIDING PRINCIPLES – MISSION

Over its 135 history that has seen changes in businesses, markets, people, and political, economic and social contexts, Pirelli's corporate identity has not changed. This identity is built around innovation, pursuit of excellence, internationalisation and social responsibility, and forms the basis for our company mission: the sustainable growth and creation of value. Indeed, the **Group Mission** states that: "*…We attach the utmost importance to continuous improvement and to the environmental and social impact of our processes and products. Our conduct is dictated by an Ethical Code applied consistently and responsibly by all the Group's employees and collaborators the world over…*".

www.pirelli.com > Group > Mission
The Group Mission, published in the Group area of the Pirelli website is available to the External Community

GUIDING PRINCIPLES – VISION

Pirelli prefaces its **Policy** "*Health, Safety, Environment and Social Responsibility*" as follows:
"*Pirelli Group supports and respects the protection of internationally proclaimed human rights, is committed to implementing the ethical code approved by the Board and is engaged in continuous improvement of social, ethical, health and safety and environmental aspects. Pirelli considers the protection of the integrity, health and welfare of its employees and of the environment as one of the primary needs that is to be respected in organising its activities. Pirelli adheres to the principle of 'Sustainable Development' and undertakes to put it into practice.*"

www.pirelli.com > Sustainability
The Policy cited above, published in the Sustainability area of the Pirelli website, is available to the External Community]

GUIDING PRINCIPLES – MODEL

The United Nations **Global Compact** is a voluntary initiative, proposed on 31 January 1999 at Davos by the then Secretary General, Kofi Annan, in an appeal to the World Economic Forum. Specifically, the Global Compact asks businesses to implement and support, within their sphere of influence, ten basic principles in the areas of human rights, labour standards, the environment and anti-corruption. These involve universally shared values as they originate from the *Universal Declaration of Human Rights*, the *Declaration on Fundamental Principles and Rights at Work*, the *Rio Declaration on Environment and Development* and the *United Nations Convention against Corruption*.

THE GLOBAL COMPACT

www.pirelli.com > Sustainability
The Letter of adherence, published in the Sustainability area of the Pirelli website is available to the External Community

In October 2004, in a letter addressed to the Secretary General, Kofi Annan, Pirelli Group formally declared its **adherence** to the Global Compact and its **commitment** to observe and support its Ten Principles.

Sustainability documents

THE VALUES AND ETHICAL CODE OF THE PIRELLI GROUP

In order to provide all the Group's affiliates with convincing and uniform guidelines on the professional practices to be adhered to by those working in the company, in July 2003 the Board of Directors of Pirelli & C. S.p.A. approved the *Values and Ethical Code of the Pirelli Group*, which has been translated into the languages spoken within the Group and issued to all Pirelli employees.

www.pirelli.com > Sustainability > Pirelli and sustainable development
The documents published in the Sustainability area of the Pirelli website are available to the External Community

This document outlines the general principles (transparency, fairness and honesty) that inspire the way it does business. It also lists the objectives and values underpinning the company's activities with regard to the main stakeholders that Pirelli & C. S.p.A. regularly interacts with.

PIRELLI GROUP POLICY ON “HEALTH, SAFETY, ENVIRONMENT AND SOCIAL RESPONSIBILITY”

Within an international context in which economic, environmental and social expectations are ever more demanding, the policy adopted by Pirelli in June 2004 has enhanced the correct balance between sustainability and industrial development. As well as introducing the principle of Sustainable Development, Pirelli's policy for *Health, Safety, Environment and Social Responsibility* brings together in a single document the previous corporate policies on the environment (first drawn up in July 1995 and updated in September 2000) and on safety at work (September 1995).

This document has been translated into the various different languages spoken within the Group and issued to all Pirelli employees, in the same way as the Ethical Code.

PIRELLI GROUP EQUAL OPPORTUNITIES STATEMENT

Pirelli's commitment to equal opportunities in the workplace is clearly set out in its *Equal Opportunities Statement*.
This document is the focal point of the *Group's Equal Opportunities Programme*. For more information on this programme, please see the *Social Dimension* section.

This Statement has been translated into the languages spoken within the Group and was distributed to all Pirelli employees at the end of 2006.

The Group's sustainability tools

CORPORATE GOVERNANCE

In recent years Pirelli Group has set up a Corporate Governance system in line with Italian and international best practices.

Of particular note in this regard is the recent effort to appoint independent and minority representatives to the company's Board of Directors. As at 26 March 2008, independent directors represented over 55 per cent of the total (11 out of twenty, four of whom were appointed by the 'minorities'). In order to take full advantage of the role played by independent directors, the Group's Board of Directors, starting from November 2005, decided to introduce the role of **Lead Independent Director**, who acts as a point of reference and coordination for all independent directors.

www.pirelli.com > **Governance**
Further information is available in the Governance area of Pirelli's website

For further details and information on Corporate Governance please see the "*Directors' Report*" that precedes this section. The area dedicated to the Company's Corporate Governance system may also be accessed through the homepage of the website *www.pirelli.com*.

INTERNAL CONTROL SYSTEMS

With regard to the systems adopted to further strengthen the company's internal control, the review of the current Organisational Model continued in 2007, still with the aim of aligning it with the developments in Regulation No. 231.

www.pirelli.com > **Governance**

To develop further opportunities for the improvement of the internal control system, other Group companies also adopted some of the control activities envisaged in the Italian companies' Organisational Models, designed to reasonably prevent the risk of crime, by issuing specific policies and operational rules.

Of particular note is the "**Modelo de Governancia Corporativa**" implemented in **Brazil** in the second half of 2007.
The "Modelo" provides a regulatory platform designed to formalise, standardise and disseminate the following to employees, through specific communication and training:
— Rules of behaviour to be adopted within the company, contained in the Ethical Code, Pirelli's Group Values and the Group Code of Conduct.
— Internal control principles, in terms of the safeguarding of assets, operational efficiency and effectiveness, management of information and communications, and compliance with local laws, agreements and regulations.
— Internal control procedures (operative finance, selection and hiring of personnel, consultancies, complimentary offers, entertainment expenses, purchases of sales and services, sponsorships, management of agents and intermediaries, settlement agreements and legal proceedings, sales of goods and services, authorisations and concession, environment, relations with authorities, social security matters, and financial incentives),

and the related implementation procedures in terms of company processes.
— The obligations on Suppliers to comply with Pirelli's social responsibility and environmental policies.
— The disciplinary system.

The "Modelo" provides for a system of reporting to an "Internal Committee", which is also responsible for monitoring the correct functioning of the Organisational Model.

In 2008, a plan will be developed for the implementation of the "Modelo" in the countries of South America, other than Brazil, where Pirelli operates (Argentina, Venezuela, Mexico, Colombia and Chile).

In 2007, the Corporate Internal Audit Department carried out 66 auditing interventions within the Group, including 10 performed following a mandate issued by the Italian Companies' Supervisory Bodies. The audits were aimed at verifying the extent of compliance of company processes with the internal control guidelines set down by the Organisational Model adopted.

For further details and information on the Internal control systems see the specific subsections within the "*Directors' Report*" that precedes this section.
The area dedicated to the Company's Corporate Governance system may also be accessed through the homepage of the website *www.pirelli.com*.

ORGANISATIONAL STRUCTURE

Governance of Corporate Social Responsibility is centred around the **Corporate Social Responsibility Steering Committee**, a high-level body that was formed at the beginning of 2004 by the Chairman to guide and supervise the advancement of sustainability throughout the Group. The CSR organisational structure is made up of a **Group HSE & CSR Director**, a **Group CSR Manager**, **Sector CSR Referents** (one for each sector of the Group) and **Company CSR Referents** (one for each Group affiliate).

In 2005, the Chairman appointed an **Equal Opportunities Steering Committee**, a high-level body to guide and supervise programmes for equal opportunities in the company. At the same time, in order to steer the implementation of the Equal Opportunities Programme throughout the company, and also to achieve greater organisational balance and to monitor the advancement of equal opportunities within all the affiliates, a **Group Equal Opportunities Manager** was appointed. Finally, **Country Equal Opportunities Managers** are responsible for guiding and supervising the advancement of equal opportunities at a local level.

On 17 July 2007, all the Group's CSR Referents and Equal Opportunity Managers met in Milan for a training seminar on sustainable management and on diversity in particular. The session also provided an update on future projects and objectives that Pirelli intends to pursue within its affiliates.

GROUP OPERATING PROCEDURE "CORPORATE SOCIAL RESPONSIBILITY"

The *Operating Procedure on Corporate Social Responsibility* (issued on 16 September 2006) sets out and regulates the methods for the internal management of activities associated with Corporate Social Responsibility, with particular attention to the roles and responsibilities of the departments involved. These regulations also govern the planning and control processes, the process of drawing up this Sustainability Report and the management of the dissemination of CSR information to the external community.

These rules specifically provide for the full integration of CSR into the Group's financial reporting structure: "…*The cycle of planning and control of CSR follows the Group's reporting and planning calendar*".

IT SYSTEM FOR CSR INFORMATION MANAGEMENT

As announced in last year's report, during 2007 Pirelli developed the "**CSR-DM**" (CSR Data Management) system. This is a new IT system for the management of CSR information, which improves the efficiency of the process of contribution, validation, consolidation, analysis and management of information relating to CSR. The system, still in its start-up phase, has already been used to collect the data as at 31/12/2007 and will come into full operation during 2008.

MANAGEMENT SYSTEMS ADOPTED AND REFERENCE STANDARDS

www.pirelli.com
> Sustainability > Certifications

To implement the first principle of the policy for *Health, Safety, Environment and Social Responsibility*, Pirelli devotes significant resources to management systems. The Group employs these tools to improve the quality, effectiveness and efficiency of its processes. This results in further reductions in the impacts on the health of its employees, on safety conditions in the workplace and on the environment. These systems are fully described in the relevant subsections in the sections below.

In 2004, the **SA 8000** international standard was adopted as the point of reference for assessing the consistency of the Group's conduct with the Sustainability principles set out in the standard.

Stock market indices and ethical finance

Pirelli has gained significant recognition for its commitment and the results achieved in the field of Corporate Social Responsibility through its inclusion in some of the most prestigious international stock exchange indexes for Sustainability.

www.pirelli.com
> Sustainability > Index & Ratings

DOW JONES SUSTAINABILITY INDEXES

Launched in 1999, the Dow Jones Sustainability Indexes are the first global indexes to track the financial performance of leading companies in terms of sustainability. Compiled on the basis of cooperative efforts between Dow Jones, STOXXLimited and Sustainability Asset Management Group (SAM), they provide reliable and objective information in the form of benchmarks for managers of sustainable fund portfolios. Pirelli was selected for the **Dow Jones Sustainability STOXX** (DJSI STOXX) index for the first time in 2002, and has also been included for many years now in the **Dow Jones Sustainability World Index**.

Dow Jones Sustainability Indexes
Member 2007/08

www.sustainability-index.com

Pirelli has also been declared as the **2008 World sustainability Leader in the "Autoparts and Tyres" Sector and a Gold Class Company** by SAM Group. This recognition was published in the prestigious *Sustainability Yearbook 2008*, edited by SAM in collaboration with PricewaterhouseCoopers and presented in January at the World Economic Forum in Davos.
The Yearbook is the most complete and authoritative global benchmarking tool for sustainable finance specialists. Only 15 per cent of the companies listed in 57 business sectors are included, following an assessment by SAM of several thousand multinationals.

sam 2008 sector leader

www.sam-group.com

FTSE INDEXES

Pirelli has been included in the **FTSE Global and European STOXX** indexes since 2002. FTSE is an independent company, held by the Financial Times and the London Stock Exchange.

The **FTSE4Good Series** indexes were created by the FTSE to measure the performance of companies in terms of their observance of internationally recognised standards of social responsibility, and to facilitate investment in these companies.

FTSE4Good

www.ftse.com

ASPI INDEX

Pirelli has been included since the beginning of 2005 in the **ASPI EUROZONE®** (Advanced Sustainable Performance Indices) index, which includes the 120 best-performing companies in terms of sustainability on the basis of CSR ratings issued by Vigeo, a social and environmental rating agency.

ASPI
ADVANCED SUSTAINABLE PERFORMANCE INDICES

www.vigeo.com

The reference universe for the ASPI are the companies included in the DJ EURO STOXX SM index.

AXIA INDEXES

Pirelli has been included in the **Axia Ethical Index** since 2004 (the year the index was created) and in the **Axia CSR Index** since 2005 (the year it was created). Pirelli is also included in the investable universe of both Axia Euro Ethical Index and Axia Euro CSR Index.
The Axia indices interact with the major international platforms for financial operators and encompass international best practices in corporate social responsibility for a range of companies selected from those with the largest capitalisations in the S&P MIB and the Eurostoxx60.

Pirelli's current rating is **A+++** (until 2006 it was A++), which is the highest obtainable in the "ethical class".

www.axia.org

KEMPEN INDEXES

Pirelli has obtained "Pass Status" within the entire Kempen Capital Management's investable universe, the "SNS Socially Responsible Universe".

www.kempen.nl

SIRI SUSTAINABILITY ASSESSMENT

Sustainable Investment Research International Ltd is the biggest international independent research and consulting body in the field of socially responsible investments for institutional investors and financial professionals. SiRi publishes detailed profiles of the 600 most important international groups.

In 2007, Pirelli achieved a further improvement in its 2006 rating, with a score around 30 per cent above the sector average.

www.siricompany.com

Principal institutional commitments

See above about Pirelli's adherence to the United Nations **Global Compact.**

EUROPEAN ALLIANCE FOR A COMPETITIVE AND SUSTAINABLE BUSINESS

Pirelli's participation in the European Alliance, formalised in 2007, is based on its 100% agreement with the competitive vision that generated the Alliance, namely that sustainability is not a mere accessory or an extra, but a strategic and competitive way of managing a company. Pirelli's adherence to the European Alliance has been expressed so far through active participation

http://ec.europa.eu/enterprise/csr/alliance.htm in the Alliance's European Workshops, coordinated in Italy by the Sodalitas Foundation (where Pirelli also sits on the Steering Committee).

The Workshops on Equal Opportunities and Innovation provided a significant opportunity for dialogue with businesses that – like Pirelli and with Pirelli – have set up a network aimed at exchanging best practices. The Equal Opportunities Workshop, in particular, produced a toolkit encompassing all the best practices for the management of gender diversity. The toolkit, which describes the *Pirelli Group Equal Opportunities Project* in terms of key operating procedures, is aimed at the businesses that, regardless of their size, have understood the competitive importance of the promotion of diversity and have decided to implement it drawing inspiration from existing best practices.

The toolkit was presented by Sodalitas to the European Commission on 29 November 2007 in Brussels during the third "Marketplace on CSR".

ETRMA - EUROPEAN TYRE AND RUBBER MANUFACTURERS ASSOCIATION

The ETRMA (European Tyre and Rubber Manufacturers Association) is chaired by Francesco Gori, CEO and Managing Director of Pirelli Tyre.

Founded in Brussels in May 2006, it replaced the previous representative office for the rubber industries (Bureau de Liaison des Industries du Caoutchouc or "BLIC") founded in 1959. The Association represents the tyre and rubber manufacturing industry at the European Union institutions and other international organisations in initiatives aimed at road safety, environmental protection and competitiveness.

www.etrma.org

In Brussels on 27 April 2007, during the "European Road Safety Day" and in the presence of Jacques Barrot, Vice Chairman of the Commission, Francesco Gori, as chairman of the ETRMA, signed the *European Road Safety Charter*. The objective of this charter is to reduce the number of deaths on the roads by at least 50% by 2010, through a series of awareness raising campaigns targeted at consumers, public bodies and associations throughout Europe.

www.etrma.org > Activities

WBCSD - WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT

Pirelli is also a contributing member of the **World Business Council for Sustainable Development** (WBCSD), an association of around 200 international companies distributed throughout 30 countries that have made a voluntary commitment to unite economic growth with sustainable development.

www.wbcsd.org

Since 2005, the WBCSD has identified a list of global issues (including the protection of ecosystems and biodiversity, the promotion of sustainable production and consumption) which are destined to transform the current economic system. Pirelli's active participation in the WBCSD has undoubtedly contributed to expanding the Group's knowledge in terms of the methods that can be used to achieve real sustainable development.

Pirelli Tyre is also an active member of the **Tyre Industry Project Group**, which includes the 11 largest tyre manufacturing companies. The objective of the project, launched in January 2006, is to identify the potential impact on health and the environment of the materials associated with the manufacture and use of tyres.

THE "BALI COMMUNIQUÉ" AND THE CHALLENGE OF CLIMATE CHANGE

During the United Nations Climate Change Conference held in Bali last December, 150 international businesses, including Pirelli Tyres, signed *The Bali Communiqué*. This document underlines the need to tackle climate change through negotiations aimed at reaching an ambitious and comprehensive world level agreement, based on concrete strategies to be developed through a joint engagement from governments. The objective is to set out a roadmap for the negotiations on climate change after the expiry of the Kyoto protocol in 2012.

www.balicommunique.com

Main awards received

For the main awards received from outside organisations for sustainable performance in 2007, please see the sections below where these are discussed within the specific subsections.

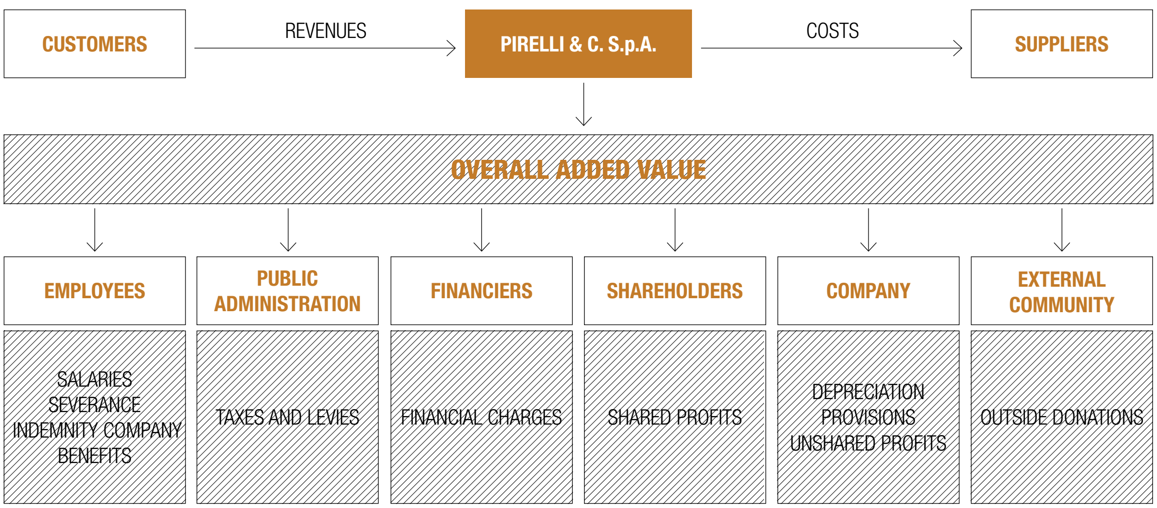

PIRELLI 倍耐力
倍耐力轿车轮胎经销商大会2006
Pirelli Car Tire Distributor Conference 2006

Economic dimension

Group companies are committed to contributing to the economic well-being and growth of the community in which they operate by providing efficient and technologically advanced services (article 5 of the Ethical Code - Community).

Added value

Added value means the wealth created over a given reporting period, calculated as the difference between the revenues generated and the external costs sustained in the period.
The distribution of added value among the stakeholders enables the expression, in monetary terms, of the existing relations between Pirelli and the major stakeholders, thus shifting attention to the socio-economic system in which the Group operates (as shown in the diagram below).



The added value created by Pirelli & C. Group in 2007, 2006 and 2005 was shared out as follows:

ADDED VALUE (thousands of euro)

	2007		2006*		2005	
GROSS OVERALL ADDED VALUE	**1,871,969**		**1,996,516**		**1,836,320**	
Payments to personnel	(1,156,170)	61.8%	(1,075,819)	53.9%	(1,029,880)	56.10%
Payments to Public Administration	(133,503)	7.1%	(127,849)	6.4%	(128,484)	7%
Payments of credit capital	(36,288)	1.9%	(126,976)	6.4%	(90,672)	4.90%
Payments of venture capital	(169,503)	9.1%	(78,299)	3.9%	(149,492)	8.10%
Payments to the company	(368,132)	19.7%	(579,535)	29.0%	(429,361)	23.40%
Outside donations	(8,373)	0.4%	(8,038)	0.4%	(8,431)	0.50%

* The gross overall added value for 2006 does not take into account non-recurring operations recorded in the period. Specifically, the disposal to third parties of 38.9% of Pirelli Tyre SpA and the entire holding in Capitalia (631 million euro), the costs sustained for the IPO (13 million euro) and the depreciation of the affiliate company Olimpia (2,110 million euro).).

The table below shows the contributions and donations made by Pirelli & C. Group in the three year period 2007, 2006 and 2005, broken down by category:

AREA OF INTERVENTION (thousands of euro)

	2007	2006	2005
Education	1,035	1,246	799
Culture	5,774	5,188	5,533
Sport	287	244	450
Research	483	339	290
Solidarity	656	739	914
Other	138	282	445
TOTAL	**8,373**	**8,038**	**8,431**

Please see the "*Social dimension*" section for a detailed description of the principal actions associated with these contributions and donations.

Finally, the companies in the Group "*do not contribute or confer advantages or other benefits upon political parties and trade union organisations or their representatives and candidates, without prejudice to compliance with the relevant prevailing legislation.*" (from article 5 of the *Ethical Code - Community*).

Shareholders

Group companies are committed to ensuring equal treatment for all categories of shareholders, avoiding any preferential treatment. The reciprocal benefits that derive from belonging to a group of companies are pursued in accordance with the relevant legislation and the autonomous interests of each Group Company as it seeks to create value" (article 3 of the Ethical Code - Shareholders).

This subsection begins with an overview of the company's shareholding structure and then goes on to focus on the different methods for dialogue and interaction between the company and the Shareholders/Financial Community.

Ordinary shares are the most common form of holding in the company's share capital, conferring *voting rights* at ordinary and extraordinary shareholders' meetings. Among other functions, these meetings serve to approve the financial statements, appoint the members of the company bodies and modify the articles of association.
Based on the data in the shareholders' register, the body of ordinary shareholders is made up of a component of "core" shareholders who hold approximately 53% of the ordinary share capital. The remaining 47% of this capital (known as 'free float') is jointly subdivided between Institutional Investors (10% of whom are foreign) and Retail Investors (numbering approx. 107,000). The "core" shareholders adhere to a shareholders' agreement (the "Pirelli & C. S.p.A. Shareholders' Agreement"), aimed at ensuring a stable shareholder base. At the present time this agreement includes around 46.2% of the ordinary shares issued.

Savings shares confer to their holders a series of rights listed in article 6 of the articles of association of Pirelli & C, in addition to a privileged position in the distribution of profits. In this regard, article 18 sets the preferential withdrawal on annual earnings (known as the 'preferential dividend') as 7 per cent of the nominal share value of these shares (0.52 euro). The earnings remaining after the assignment of the above dividend are divided among all shares so that the savings shares receive a larger dividend than ordinary shares, by an amount of at least two per cent of the nominal share value. Finally, it should be noted that if the company does not distribute profits (i.e. it distributes less than 7 per cent of the nominal value), savings shareholders have the right to recover the minimum dividend for this period in the following *two periods*.

Savings shareholders do not have voting rights or the right to ask questions at ordinary shareholders' meetings. However, they can attend the **special savings shareholders' Meeting** to elect (or dismiss) their Common Representative and to deliberate resolutions on topics concerning their share category. Among other things, the Common Representative has the right to attend the ordinary shareholders' meetings of the company (as an observer), regardless of their nature or agenda, and to contest resolutions adopted by the meeting.

It is the company's policy to take advantage of the shareholders' meetings to **disseminate** information about the company and its prospects to the shareholders. This is carried out in compliance with the regulations governing the confidentiality of information and therefore where necessary this information is simultaneously released to the market. Great care is also taken in the choice of location, date and time of the meeting, in order to facilitate the attendance of shareholders. Finally, the company has adopted a series of **Regulations for Shareholders'**

www.pirelli.com > **Investors**

www.pirelli.com
> **Sustainability** > **Stakeholders** >
Shareholders

Meetings. This document regulates ordinary and extraordinary shareholders' meetings, and it guarantees each member the right to speak on the topics under discussion.

A top priority of Pirelli & C. S.p.A. is the establishment and maintenance of **constant dialogue** with its shareholders and with institutional investors. This has also been formally set out in the **Investor Relations Policy**. To this end, in the early 90s the Company set up an **Investor Relations Department**, tasked with implementing an ongoing programme of communication and dissemination of information to the financial community and in particular to investors (Institutional and Retail), financial analysts and sales representatives.

Relations with the financial community are maintained through the organisation of meetings or conference calls to present the Company's periodic economic and financial results and the related strategies for development. In 2007, over 200 of these were conducted, with many involving investors operating in **new financial markets** for Pirelli, such as the Emirates (Dubai, Abu Dhabi), China (Shanghai, Hong Kong) and Japan (Tokyo). Relations were also enhanced with the Stock Markets of Shanghai, Hong Kong, Taipei and Tokyo.

As regards the actions taken by the company **Pirelli & C. Real Estate S.p.A.** (also listed on the electronic trading system managed by the Italian stock exchange) in which Pirelli & C. S.p.A. has a 53.7% holding, details of the meetings held with the financial community in 2007 are provided below:

- Active participation in 8 conferences promoted by financial institutions.
- 2 conference calls with investors and analysts to comment on the half yearly performance and year end results.
- 230 one-to-one meetings with institutional investors and around 60 meetings/conference calls with analysts.
- 7 road shows in the main financial markets (Milan, London, Paris, New York, Amsterdam, Brussels, and Zurich).

The Group also pays particular care and attention to relations with rating agencies geared to sustainability. In 2007, Pirelli saw a sharp increase in its ratings in the Dow Jones Sustainability, FT4Good, Kempen, Axia and ASPI indexes.
At the beginning of 2008, Pirelli was also declared the **2008 World sustainability Leader in the "Autoparts and Tyres" Sector** and a **Gold Class Company** by the Sustainability Asset Management Group (SAM), within the prestigious *Sustainability Yearbook 2008*, published by the Sustainable Asset Management Group in collaboration with PricewaterhouseCoopers and presented in January at the World Economic Forum in Davos.

One of the methods for disseminating information that deserves special mention is the internet. The Group has enhanced the homepage of *www.pirelli.com*, both in terms of graphics and content, which is now more readily accessible. From the website's home page visitors can access the **investor relations section**, which contains all the documents distributed at meetings with the financial community, the documents containing published economic and financial information about the company, and all the other documents relating to the company's Corporate Governance system.

A further indication of the importance that Pirelli attaches to the market is the fact that both the Group parent company, Pirelli & C. S.p.A., and its subsidiary Pirelli & C. Real Estate S.p.A. have prepared an innovative information tool exclusively for retail investors: the *Shareholders' Manual*. This document is the end product of company experience based on international best practices, and may be downloaded from the "Investors" area of the Pirelli Group web site.

Customers

TYPES OF GROUP CUSTOMERS

The types of customer differ greatly from one business area to the next.

www.pirelli.com
> Sustainability > Stakeholders > Customers

The **Tyre Sector** serves the following categories of customer:

— "Original Equipment", which includes the leading international makers of cars, motorcycles, scooters, commercial vehicles (light, medium and heavy), buses and agricultural machinery.
— "Replacements", which includes a total of around 15 distribution channels (for car, truck and motorcycle tyres), and whose importance differs from country to country.

In the **Real Estate Sector** we have:

— "Investment & Fund Management", whose customers consist of funds and property-owning companies in which Pirelli & C. Real Estate generally has a qualified minority shareholdings.
— "Service companies", whose customers include, in addition to third parties, funds and property-owning companies and non-performing loans managed by the Asset Management departments of Pirelli & C. Real Estate.
— The "Franchising Network", made up of Pirelli RE Agency' s affiliate agencies distributed throughout Italy.

Customers of **Pirelli Broadband Solutions** may be divided into the following categories:

for *Broadband Access (BBA)* products
— Added Value Retailers.
— System Integrators.
— Telecommunications operators.

for *New-generation photonics* products:
— System integrators and/or operators.
— Component and module manufacturers.

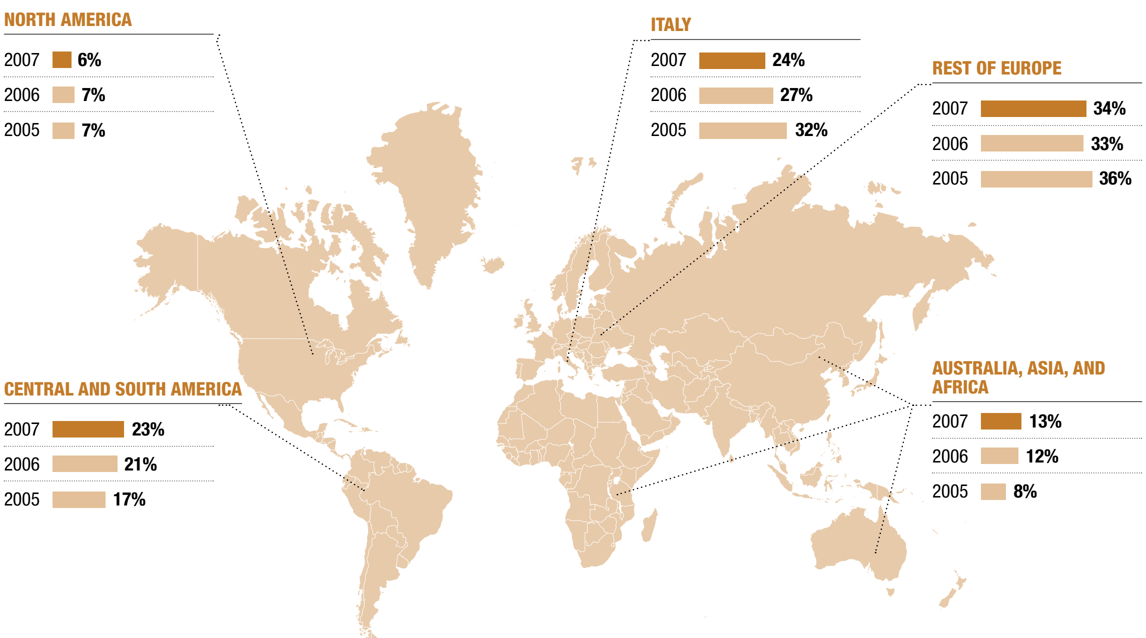
The companies under **Pirelli & C. Ambiente** have the following categories of customer:

— Customers of the Renewable Energy sector, i.e. companies that convert urban solid waste to energy.
— Customers of the Site Remediation sector, i.e. companies – mainly in the Group and other closely-related companies – that are interested in having assesssed, planned and managed the demolition and decontamination of buildings and/or lands.

Customers of Pirelli Ambiente Eco Technology:
They are companies that operate in public transport, goods transport, waste collection, the mining sector and in construction. Pirelli Ambiente Eco Technology also operates through **partners that are licensees of its Gecam™ technology** and which operate independently in Italy. In addition to receiving royalties on its licensees' sales, the company also (indirectly) performs the technical and marketing activities associated with the product.

DISTRIBUTION OF SALES BY GEOGRAPHIC AREA

percentage of total sales value



GROUP POLICIES

Customer orientation – a central element in the *Values and Ethical Code of the Group* – presumes a constant and ongoing commitment from Pirelli in terms of:
— Comprehension of the market context in which the Group operates.
— Consideration of the impact of the Group's actions and behaviour on the customer.

— Exploiting every opportunity in doing business in order to satisfy the customer's needs.

— These principles are made explicit in articles 2 and 4 of the Pirelli *Ethical Code*. The relevant extracts are given below. "The Company:

— "pursues market excellence and competitiveness, offering customers a quality of service that effectively meets their requirements;" (*article 2 of the Ethical Code - Aims and Values*).

— "bases the excellence of the Group's products and services on customer service and the readiness to meet customer needs. The aim is to offer immediate, thoroughgoing and competent responses, tailored to the needs of customers, and in keeping with the spirit of legality, courtesy and co-operation" (*article 4 of the Ethical Code - Customers*).

— The Company's commitments to the customer described above are similarly made explicit in the *General Conditions of Supply* applied by the Group companies.

FOCUS ON PIRELLI TYRE

The wide variety of Group customers entails many different methods for dialogue and interaction between the customers and the various businesses. As in 2006, we have decided to focus again in 2007 on relations between the Tyre Sector and its customers, also to enable a year on year comparison of performance.

www.pirellityre.com

Dialogue and interaction

— In addition to the daily contact with the sales organisation operating at local level, customer relations are handled by the Sales and Marketing departments, via the **Contact Centres**, which monitor the performance of the interactions between the company and the market by means of the following:

— KPI Contact Centre monthly reporting: quantitative measurement of the main Customer Service parameters to aid the analysis of the levels of service offered.

— **WMT (Workflow Management Tool):** an application that enables the mapping of all the requests originating from the market to obtain both quantitative (number of requests by subject area and requestor, response times, etc.) and qualitative (response method) analysis designed to improve the service and enhance Customer Care.

— **Customer Satisfaction Surveys,** conducted periodically in a variety of ways including interviews with native language operators, anonymous surveys, and web based questionnaires that identify levels of satisfaction on a scale of one to five.

The table below shows the results of the surveys for the last 4 years:

LEVEL OF SATISFACTION

	2007	2006	2005	2004
No. countries involved	11	13	11	12
Overall satisfaction level (1-5)	4,00	3,96	3,88	3,84

— Customers can also **contact** the company through the Pirelli Tyre website.

Attention to Quality: certifications and recognition

— The attention given to quality by Pirelli Tyre, both as producer and as supplier, is demonstrated by the **certifications** it has obtained, which conform to international standards and deal with aspects of both the processes and the products and services. In particular:

www.pirelli.com
> Sustainability > Certifications

— **ISO 9001**
The Group has had a Quality Management System since 1970 and since then has gradually introduced it in all its plants. From 1993 onwards, Pirelli obtained certification of its quality system under the ISO 9001 standard. Currently 100% of the factories are certified to the most recent edition of this standard.

— **ISO/TS 16949**
To meet the requirements of the car makers, from 1999 onwards the Group obtained certification for its quality management system under the ISO/TS 16949 standard, and has since maintained its certification under the standard in force. All factories that supply the car makers have obtained this certification.

— **ISO/IEC 17025**
In 1993, the Materials and Products and Outdoor Experimentation Lab of the Pirelli Group introduced a quality management system that is accredited under the ISO/IEC 17025 standard. This quality management system is maintained in conformance with the standard in force.

Pirelli's car tyres are an excellent example of the company's focus on quality, which is confirmed by Pirelli's supremacy in a large number of product tests, and also ensured by the company's close links with very prestigious partners (famous car makers, specialist magazines, driving schools etc.) for product development and experimentation. The table shown below gives the results for 2007 of various different product tests on summer tyres, conducted by the leading specialist magazines:

PRODUCT TESTS ON SUMMER TYRES

Tested pattern	Size	Test Vehicle	Final Result	Comment	Magazine	Issue
Pirelli P3000E	155/70R13 T	VW Lupo	Very recommendable	Very well balanced tyre with optimal notes on wet ground.	ADAC	Mar-07
Pirelli P7	205/55R16 V	Peugeot 407	**TEST WINNER**	Very well balanced tyre with best note in test on wet track. Low tread wear.		
Pirelli P Zero Nero	205/45R16 W	VW Polo GTI	Exemplary	Very convincing all-rounder with high steering precision and dynamic driving behaviour on wet and dry ground. Short braking distance on wet track.	Auto Bild sportscars	Apr-07
Pirelli P7	225/55R16 W	Mercedes E Class	**TEST WINNER**	Precise and harmonic reactions make it the best in handling in wet conditions. The best in test in braking on wet track. In the dry optimal in handling and slalom and very good in braking: the best in test. Very safe and easy to drive.	Auto Zeitung	Feb-07
Pirelli Scorpion Zero Asimmetrico	235/60R18 V	Volvo XC90	**TEST WINNER**	The best in test in off-road conditions with optimal braking performance. By far the best in test also by dry track due to its traction and driving safety. Shortest braking distance and best handling on wet ground.	Auto Zeitung	Apr-07
Pirelli P Zero	245/40R18 Y	Audi TT 2.0	**TEST WINNER**	Very high performance and optimal driving behaviour by wet conditions: best in test. On dry track by far the best: the fastest in slalom and handling, the shortest braking distance; safe and easy to drive.	Auto Zeitung	May-07
Pirelli P Zero Nero	245/30R20 Y	Audi TT 2.0	Exemplary	Very good performance in every exercise on wet ground, especially in braking. Very good driving behaviour also in dry conditions.	POWERCAR	Apr-07
Pirelli Camper L6	215/70R15 R CP	Fiat Ducato	Very good	Absolutely the best in test by wet conditions with very safe driving behaviour. Excellent load capacity.	pro mobil	May-07
Pirelli P Zero	235/35R19 Y	BMW 335i	**TEST WINNER**	Excellent grip level and optimal driving behaviour on dry ground. Very well balanced and short braking distance in wet conditions.	sport auto	May-07

Pirelli Tyre's commitment to customer safety

The Group has always pursued product innovation to improve quality and safety for the end consumer. To achieve this, Pirelli Tyre makes use of its close cooperative links with the leading car makers in a market segment that is particularly scrupulous and demanding: the Ultra High Performance segment, an area where Pirelli is leader brand. Customer safety, for example, forms part of the DNA of the following products:

www.pirellityre.com > Car

— **The New Pirelli Cinturato**, whose innovation integrates driver safety and the reduction of environmental impacts. The New Cinturato is discussed in detail in the section "Environmental Dimension", to which the reader is referred for further information;

www.pirellityre.com > Cinturato

— **K-PRESSURE™**, an innovative safety device capable of detecting whether the pressure of the tyre is correct or below the alert threshold and to warn the driver in real time through an onboard alarm;

— **Self-supporting or Run Flat** tyres, which provide greater vehicle control in emergency conditions and allow continued safe driving even during a rapid loss of inflation pressure. Mobility is guaranteed by the "self supporting" construction process, achieved through the introduction of elastomeric reinforcements in the sidewalls, thus making the structure self supporting. Support in other words, in the absence of pressure, for the vertical loads and the horizontal and transversal stresses from the vehicle allowing the driver to reach the nearest service centre in safety;

— Specialist tyres for new types of vehicles and new uses, for example **Winter UHP** tyres for ultra-high performance supercars for mixed road/track use;

P ZERO
Launched in February 2007, thanks to its special tread compound, offers the extreme performance of a warm tyre from a "cold" start

— New concept tyres like the **new P Zero** launched in February 2007 that, thanks to its special tread compound, offers the extreme performance of a warm tyre from a "cold" start. This provides immediate driving enjoyment and raises the safety standards for limit, straight-line and corner braking, in wet and dry conditions, at all speeds achievable on the road and track;

— **SWS™**, the first self-inflating tyre, now also available for SUVs;

— **Cyber™Tyre System**, a tyre "memory", through which a car's onboard computer communicates information about the operational condition of the cover in real time;

— **Cyber™Wheel System**, to use the rim as a sensor to detect physical sizes and transmit them to the car. Assessing the deformation caused by the vehicle's movement, it is able to evaluate (also thanks to special algorithms developed by Pirelli in collaboration with the Polytechnic of Milan) so-called hub forces and provide real-time information to the dynamic control systems that maintain the stability of the vehicle.

— Finally, we would like to mention **Pirelli's commitment to increasing the attention paid by drivers to tyres** - and therefore to their safety, through specific institutional campaigns. Of particular note is Pirelli's role within the ETRMA, whose Chairman is the CEO and Managing Director of Pirelli Tyre, who was responsible for the signing of the *European Road Safety Charter*.

Suppliers

GROUP POLICIES

The *Health, Safety, Environment and Social Responsibility* Group Policy expressly states the company's commitment "to establish and actively maintain the procedures to evaluate and select suppliers and subcontractors based on their commitment in the field of social and environmental responsibility."

www.pirelli.com
> Sustainability > Stakeholders > Suppliers

Sustainability has been integrated into both the *General Conditions for Purchase of Goods and Services*, applied by the company to its suppliers, and the phases of *Vendor Approval and Vendor Rating*, described in more detail below.

The purchasing processes are described in the **Purchasing Manual**, which sets out guidelines and procedures aimed at ensuring both transparency in internal processes and honesty in business dealings, and also integrity and contractual impartiality in relations between the company and its suppliers. These processes have been strengthened by the development of new technologies (e.g. electronic auctions) that by their nature help to enforce the measures for contractual transparency put in place by Pirelli.

For the most important suppliers, the purchasing policies allow for long-term contracts, partnership contracts and, in some cases, shared growth strategies.

GENERAL CONDITIONS FOR PURCHASE OF GOODS AND SERVICES

In 2006, Pirelli drew up its new *General Conditions for Purchase of Goods and Services*, which were to be introduced to all orders/tender contracts stipulated by the Group. Specific clauses - applied to Italian suppliers at the end of 2006 and extended to foreign suppliers in 2007 - provide for the implementation of the policies adopted on sustainability, i.e. the Ethical Code, Code of Conduct, and the "Health, Safety, Environment and Social Responsibility" policy. The contracts concluded give Pirelli the right to carry out audits of the suppliers to assess compliance with the principles and the commitments shared through the signing of the *General Conditions*.

DISTRIBUTION OF PURCHASES BY GEOGRAPHIC AREA

The table below shows the geographical distribution of purchases, distinguishing between OECD and non-OECD countries, with the "weight" of the various areas on the totals.

DISTRIBUTION OF GROUP PURCHASES BY GEOGRAPHIC AREA

		% on total number of suppliers		% on total value of purchases	
		2007	2006	2007	2006
OECD countries	Europe	69.9%	73.1%	67%	63%
	North America	2.1%	4.0%	3%	6%
	Others (1)	0.2%	0.2%	1%	2%
Non OECD countries	Latin America	19.0%	19.3%	13%	15%
	Asia	7.3%	1.6%	15%	12%
	Africa	1.5%	1.8%	1%	2%

1 Australia, New Zealand, Japan, and Korea

DISTRIBUTION BY TYPE OF GOODS AND SERVICES PURCHASED BY THE GROUP - 2007

	% of total number of suppliers	% of total value of purchases
Raw materials	6%	48%
Consumables	7%	5%
Services	80%	39%
Plant and equipment	7%	8%

Over 80% of all purchases made by the entire Group consist of goods and services purchased by the Tyre Sector. For this reason, we have decided to focus again in 2007 on Pirelli Tyre's relationships with its suppliers.

FOCUS ON PIRELLI TYRE

The table below shows the distribution by type of goods and services purchased by Pirelli Tyre from 2005 to-2007. The table also gives the percentage weight of purchases made in each area over the total number of suppliers and over the total value of all purchases made.

DISTRIBUTION BY TYPE OF GOODS AND SERVICES PURCHASED BY THE TYRE SECTOR

	Number of suppliers			Value of purchases		
	2007	2006	2005	2007	2006	2005
Raw materials	7%	7%	8%	53%	56%	37%
Consumables	5%	5%	5%	6%	4%	4%
Services	80%	80%	78%	32%	32%	30%
Plant and equipment	8%	8%	9%	9%	8%	29%

Interaction between Pirelli Tyre and its suppliers

Relations with suppliers are defined and enforced by specific company processes. There are two fundamental underlying phases to supplier management:

1. **Approval of new suppliers** (or **Vendor Approval**), where the interdepartmental process based on specific "Quality standards" leads to the addition of the approved material/ vendor to the Vendor List, namely the Company's list of approved suppliers for each individual product. In 2007, the Pirelli CSR policies were integrated into this phase.

2. **Vendor Rating**, assessed on the basis of the quality of the product supplied or service provided (monitored using the specialist CARMAC software), the quality of the commercial relations, the technical/scientific cooperation, performance in terms of safety in the workplace, environmental responsibility and corporate social responsibility.

The procedures described above are followed by the entire sector and are supported by a special website available on line via the Purchasing Portal. This website supports the Regulations (including the Purchasing Manual, Ethical Code, and General Conditions to be applied by the Suppliers), the Vendor List, the surveys, and the Vendor Rating with feedback and the definition of support actions. This portal provides both an assurance of process uniformity and a guarantee of transparency, in addition to being a communications, ongoing training, and knowledge sharing tool.

Dialogue

The processes of dialogue and interaction with suppliers are the object of continual process improvement, both in qualitative terms and in terms of tools. Specifically, the Vendor Rating results are regularly reviewed and commented on by the Sector Purchasing Department. This process involves **meetings organised with the suppliers**, aimed at identifying any corrective actions or measures to improve results.

In 2007, specific training courses were provided on buyer professionalism and **buyer-supplier relations**.

Each purchase contract includes the name of the Buying contact, to provide the supplier with a **company channel** that is always available for any feedback.

Measures and processes adopted by Pirelli Tyre in 2007

In 2007, the objectives set out in the 2006 Report, aimed at improving the purchasing process and at providing total support for buyer-supplier relations, were successfully achieved. In particular:

- Training courses on buyer professionalism (EIMP) and buyer-supplier relations;
- Purchasing Portal;
- “MRP project” for raw materials requirements planning;
- “PTE S’pore project” to support the entire process governing requirements and supply of natural rubber, from the individual units to the purchasing centre in Singapore.

In addition, the Vendor Rating coverage was extended in 2007 and it now encompasses all the product and geographical areas.

Lastly, the “RNC Project”, developed in 2007, plays an extremely important role in terms of effectiveness. The order/delivery/invoice flow between Pirelli and its suppliers has been automated by means of WEB or HUB platforms, via EDI documents and document scanning.
The coverage has been enhanced to cover the major raw material suppliers and in 2008 it is due to be extended to MRO suppliers.


D'ADDA, LORENZINI, VIGORELLI, BBDO
pirelli.com
WHEN RESPECTING THE ENVIRONMENT BECOMES AN ART.
There is a tyre sensitive to both the environment and road: the Pirelli Cinturato™. This tyre ensures high mileage, takes care of reducing fuel consumption thanks to its high energy efficiency, does not release polluting additives into the environment and contributes to making the air cleaner. Because looking after the environment is in our nature.
ENERGY™ EFFICIENT
CLEAN AIR
HIGH MILEAGE
Cinturato™
PIRELLI
POWER IS NOTHING WITHOUT CONTROL®

Environmental dimension

The Pirelli approach to environmental management

www.pirelli.com > Sustainability > Stakeholders > Environment

"Group companies believe in sustainable international growth in the common interest of all-stakeholders, both current and future. Their investment and business decisions therefore reflect respect for the environment and public health. Without prejudice to compliance with specific prevailing legislation, Group companies are aware of the importance of environmental issues when making choices, not least in the adoption of specific technologies and manufacturing methods (where this is technically feasible and economically viable) that allow for the reduction of the environmental impact of their operations, even beyond the minimum limits set down by regulatory requirements." (article 7 of the Ethical Code - Environment)

The above principles are discussed in detail in the Group policy on *"Health, Safety, Environment and Social Responsibility"*.

The Group includes a wide variety of businesses, namely:

— The manufacture of tyres for cars, industrial vehicles, goods transport vehicles, buses, motorcycles and steel cord, all produced by *Pirelli Tyre*.
— The real estate sector: *Pirelli & C. Real Estate*.
— Operations in the telephony sector, with products for photonics and for broadband internet access (non-photonic), used to develop leading-edge innovative solutions for the latest generation of telecommunications infrastructures: *Pirelli Broadband Solutions*.
— Environmental decontamination and waste-to-energy generation: *Pirelli & C. Ambiente*.
— The development of alternative eco-compatible technologies

(i.e. new fuels, innovative systems for exhaust gas reduction etc.): *Pirelli EcoTechnology*.
— Research and development in the fields of new materials and optoelectronic components: *Pirelli Labs*.

Each business, encompassing an equally wide variety of projects, is committed to the responsible management of the impacts generated by their activities, products and services, also through the development and implementation of Environmental Management Systems aimed at achieving certification under the international reference standards and designed to continually improve their environmental performance. The certification of the **Environmental Management System** involves the Production Units of Pirelli Tyre S.p.A. in particular, which are the most significant in terms of potential impacts on the environment. Nevertheless, all the other Group Companies operating in the areas of design, research, logistics, and services (including the Tyre Test Track at Vizzola Ticino, Pirelli & C. Real Estate Facility Management, Pirelli Broadband Solutions, Pirelli Ambiente Eco-Technology) have taken this route or have already obtained the same accreditation, which is a common goal for all the Group's affiliates.

In parallel with the definition of specific common guidelines and procedures for drawing up and implementing management systems, the Pirelli company intranet contains a web-based management system for **"Health, Safety and Environment Data Management" (HSE DM)**, implemented and managed at Corporate level by the Health, Safety and Environment Department. This system enables the monitoring of performance and the achievement of objectives for each method of environmental management, and the production of a wide variety of reports required for management and operational purposes. This system – as mentioned in the introduction – has also been used in combination with the CSR-DM in drawing up this report.

Thanks to the Group's commitment to sustainable environmental management, in 2007 it continued to achieve very positive results in the following areas:

— Mitigation of the environmental impacts resulting from the Company's own activities, products and services.
— Rational use of natural resources and energy.
— Promotion of a 'culture of prevention' with regard to pollution.
— Conservation, development and appreciation of the territory.

The pages below provide a description of the environmental initiatives and performance with specific reference to the Group's various business (and the related Companies).

Pirelli Tyre S.p.A.

This company, which represents Pirelli Group's main industrial division, focuses on the manufacture of tyres for cars, industrial vehicles, goods transport vehicles, buses, and motorcycles. Pirelli Tyre has 24 Production Units operating in Europe, the United States, Latin America, Asia and Africa. Of these, 80% are managed by the "Tyres" business unit (related to tyre manufacturing) and 20% by the "Steel Cord" unit, for the steel cord used mainly in the manufacture of tyres. The two units, which focus on different products, especially in terms of manufacturing processes, are analyzed separately both from the standpoint of production cycles and environmental aspects, impacts and performance indicators.

Pirelli Tyre's most significant corporate commitments in terms of environmental sustainability are:

— Active participation in the **World Business Council for Sustainable Development (WBCSD)**, an association of around 200 international companies distributed throughout 30 countries that have made a voluntary commitment to unite economic growth with sustainable development. The WBCSD has identified a list of global issues (including the protection of ecosystems and biodiversity, the promotion of sustainable production and consumption) destined to transform the current economic system.

— **Signature of the Bali Communiqué**, endorsed by 150 international businesses during the Bali United Nations Climate Change Conference in December 2007. This document underlines the need for an ambitious and comprehensive world level agreement, to develop concrete strategies through a joint engagement from governments. The objective is to set out a roadmap for the negotiations on climate change after the expiry of the Kyoto protocol in 2012.

— Its commitment in terms of the **promotion and strengthening of a culture of safety and energy efficiency** Conscious of the role of the tyre industry in everyday life, this has always been one of the company's goals. In 2007, it promoted significant awareness raising initiatives in partnership with institutions, trade associations and other industrial groups at Italian and international level.

— Pirelli Tyre participated in the **ENI "30PERCENTO – consumare meglio, guadagnarci tutti" energy efficiency campaign** with its *"Viaggia in Sicurezza"* (Travel Safely) initiative. The aim is to explain the importance of energy saving for environmental protection as well as the household budget, with the primary focus on consumers. Through *"Viaggia in Sicurezza"*, which provided free tyre pressure checks at 400 outlets of the Driver network, Pirelli Tyre contributed to educating motorists in the proper maintenance of their tyres, the first step towards ensuring energy efficiency, reducing harmful emissions and driving more safely.

ISO 14001 CERTIFICATION AND THE ENVIRONMENTAL MANAGEMENT SYSTEMS

The reference standard for the environmental certification of management systems has been identified as ISO 14001 standard. Thanks to the Sector project for the implementation of an Environmental Management System in the Production Unites, based on shared Group procedures and guidelines, the first ISO 14001 certifications were obtained in 1998 in Brazil and Turkey.

This is now a well established process and as at 31/12/2007 all the Production Units in operation have a certified Environmental Management System. The latest involves the Slatina steel cord manufacturing plant in Romania, recently certified for both ISO 14001 and OHSAS 18001. Forthcoming certifications will involve plants in the development phase, including the Tyre plant at Slatina.

The company also has scientific test centres for tyre/vehicle performance, which conduct experiments and trials of tyres under various different conditions of use, using subjective and instrument controlled techniques.
Worthy of particular mention is the test track located in the town of **Vizzola Ticino (Varese, Italy)**, designed and built at the end of the Sixties near the river of the same name. **The ISO 14001 environmental certification for this Centre**, obtained in 2005, assumes particular importance considering that its 26 hectares lie within the Parco Naturale Lombardo della Valle del Ticino (Lombardy Ticino Valley Natural Park), an Italian nature reserve listed as a UNESCO MAB (Man and Biosphere) area – one of 425 biosphere reserves in 95 countries worldwide.

Night time view of the Pirelli tyre test track at Vizzola Ticino (VA) - Photograph by Luca Gatino for the exhibition Un viaggio, ma…"

The Vizzola site is used by various Group companies for experiments and tests (in which it plays an essential role in researching the indirect environmental aspects associated with the development of new tyres and vehicles with reduced environmental impacts). The track is also home to sports events, driving schools, and motoring clubs, and is used by car manufacturers and trade magazines for joint tests and shows. Implementing the environmental management system has enabled the setting out and achievement of waste management optimisation targets. Similarly, programmes spanning over several years have been set up and are currently underway to rehabilitate and redevelop the internal green areas with the planting of indigenous plant species, elimination of ozone depleting substances, and support for university programmes to develop low environmental impact vehicles.

Given its location within a protected area, the Track is in constant contact with the offices of the Municipality of Vizzola Ticino and the Parco Naturale Lombardo della Valle del Ticino. Through an agreement with the Park Administration, it contributes in economic terms to the environmental improvement of the external area.

In 2007 no environment-related incidents occurred with negative consequences for health or the environment.
However, emergency situations, resolved adopting the established procedures, included:

— The start of a fire in a mixed packaging bin, contained by the plant's fire fighting team.
— Five cases of accidental spillage of liquid and solid raw materials. The accidents all occurred in areas equipped with retention systems, thus preventing any ground and surface or deep water contamination.
— An accidental spillage of process oil, which was immediately contained.

THE NEW CENTRE OF INDUSTRIAL EXCELLENCE IN SETTIMO TORINESE

On 13 July 2007, Pirelli Tyre signed a framework agreement in Turin with the Piedmont Regional Authority, the Turin Provincial Authority, and the Municipality of Settimo Torinese, for the creation of a state-of-the-art technology and industrial centre for the manufacture of car and truck tyres in Settimo Torinese area, where the Group Company currently has two facilities.

The industrial regeneration plan will pave the way for the inauguration of a new and modern centre that will harness leading-edge production technology developed through Pirelli research, thus making it the Group's most advanced manufacturing plant in the world. In line with Pirelli sustainable development strategies, it will adopt measures to **reduce environmental impacts and energy consumption to the absolute minimum** and will feature high quality architecture and design. As part of the industrial regeneration, Pirelli Tyre and Turin Polytechnic have agreed to conduct joint projects for research and technological innovation. In June 2007, the company and the university set up a joint working group tasked with minimising the environmental impact of the new industrial site and, in particular, with the further innovation of the more advanced processes and products of Pirelli Tyre's research (i.e. Next MIRS, CCM, and the "smart" Cyber Tyre).

TYRE PRODUCTION

Composition of a standard tyre

A tyre may be seen as a *compound* or, in other words, a solid assemblage of materials with very different properties, whose manufacture requires great precision.
Generally, we can define three distinct groups of raw materials:

— Raw materials that make up the compounds (including natural and synthetic rubbers, reinforcing fillers, plasticisers, ingredients for vulcanisation, and protectors, such as anti-ageing and anti-ozonant agents).

— Raw materials that make up the structure of the tyre (including brassed steel wire for the bead wires, steel cord for the metal ply, and treated raw fabrics for the rubberised bonded fibre ply fabrics).

— Auxiliary raw materials that, although they are used in the production process, do not form part of the finished tyre and are considered as "auxiliary" (anti-adhesive agents, releasing agents, bonding agents etc.), plus a series of auxiliary products specific to the various different phases of the production process.

To better understand the environmental aspects of tyre production, the figure below shows a cross-section through an 'average' tyre and identifies the various different parts (known in the industry as *"semi-finished materials"*) that make up the composite tyre.

In particular:

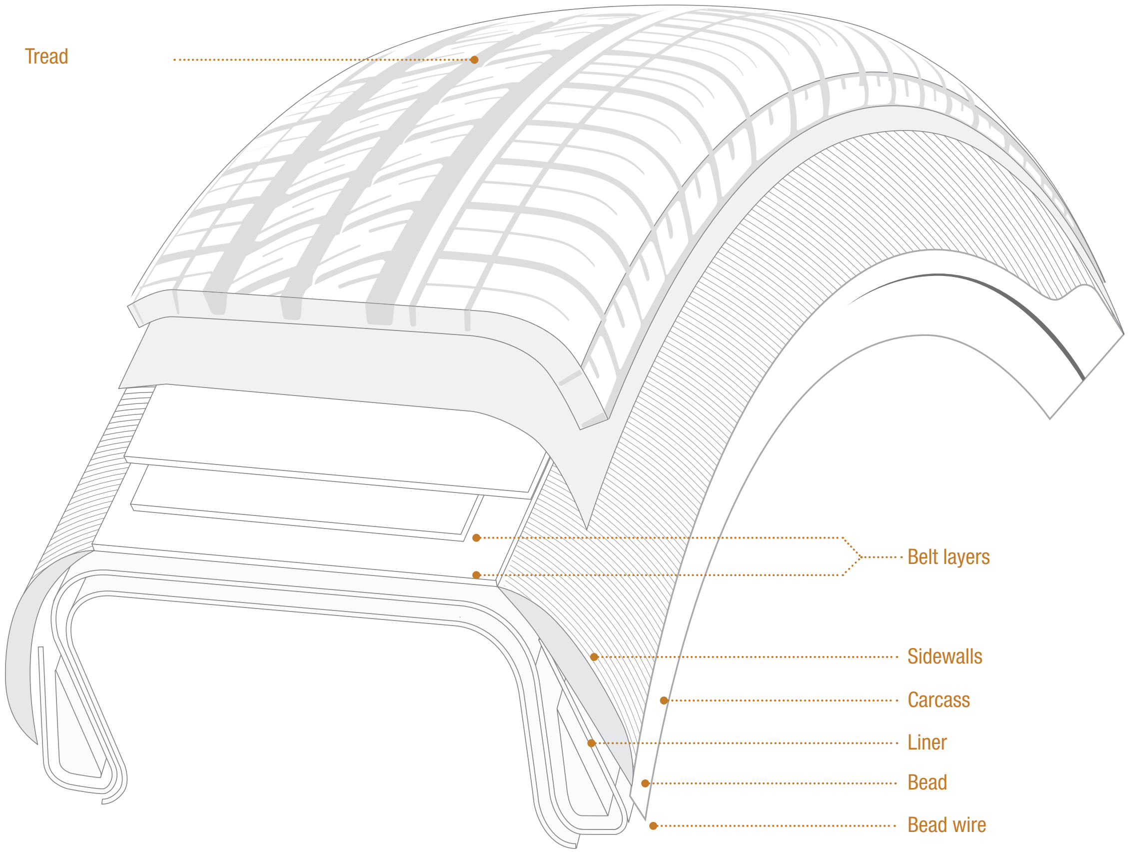
— **Innerliner**: a layer of synthetic rubber on the inside surface of the tyre. It is perfectly sealed and acts as air chamber.

— **Carcass**: the load-bearing structure of the tyre, this is made up of thin threads or plies in fabric fibre (up to 1,400 per tyre) set in a straight arc and rubberised. The carcass is the key load-bearing element of the tyre as it withstands the pressure.

— **Bead**: a padding in the lower area (APEX), which transmits the motor torque and the braking torque from the wheel rim to the ground contact area.

— **Bead wires**: two metal rings made of one or more parallel rubberised wires. The carcass plies are wrapped around the bead wires.

COMPOSITION OF A STANDARD TYRE



SOURCE: Life cycle assessment of an average european car tyre

— **Sidewalls**: generally made of rubber strips that are extremely resistant to repeated bending and oxidation. As well as absorbing some of the dynamic stresses that the tyre is subjected to, they protect and reinforce the carcass.

— **Belt layers**: made up of plies, reinforced with very thin but resistant steel wires. The belt layers are crossed over diagonally and glued together. The crossover of the belt wires with those of the carcass creates un-deformable triangles.

— **Tread**: the part of the tyre placed over the belts connecting the vehicle to the road surface. It is made by drawing and it has a trapezoidal shape, with the lower surface slightly hollow and shaped.

The tyre production process

In general, tyre production follows the phases described below:

1. **Compound preparation**: the process begins with the production of compounds in large, fully-enclosed Banbury mixers, which process the raw materials to correctly distribute the various different ingredients. Each raw material has

a specific function and it is added to the compound in well-defined proportions, in order to confer the specific characteristics required on the finished product during operation.

2. **Fabric rubberisation**: achieved through a process of calendaring, which consists of applying two sheets of rubber on both sides of the fabric. The bonded fibre ply fabrics are generally purchased from third parties in pieces and then fed into the fabric calenders, which perform the rubberisation. The metal fabrics, made of hundreds of steel cords perfectly aligned and then bonded, undergo the same process.

3. **Semi-finished products**: these are individual elements that are bonded together in the tyre-building phases, and constitute the actual tyre. They may be classified into groups, based on the type of processing they undergo (e.g. bead wires, drawn wires, fabrics etc.).

4. **Tyre-building**: this is the phase where all the semi-finished materials are brought together to be bonded and made into a tyre. It is normally separated into two successive phases: the first produces a carcass which is made up of body-plies, bead wires and sidewalls, whereas the second phase leads to a tyre composed of all the semi-finished products (known as a "green tyre") ready to be sent to the final phases of painting and vulcanisation.

5. **Painting and vulcanisation**: the inside of the "green tyre" is treated with an aqueous solution to form a protective layer so that the tyre is easily detachable from the vulcanising chamber. The green tyre is now ready for vulcanisation, an irreversible process generated by an increase in temperature and pressure to obtain the required shape and elasticity characteristics of the tyre. During this phase the raw compound, with mainly plastic properties, is transformed into a vulcanised compound, with mainly elastic properties. The tyres are vulcanised on special machines that use moulds to determine the final shape of the tyre.

6. **Finishing**: the vulcanized tyres undergo a series of visual and instrumental checks to ensure their safety and reliability. The tyre is now ready to be sold on the market.

The environmental impacts associated with a tyre

To arrive at a truly complete picture of the environmental impact of producing tyres, we need to widen the sphere of analysis to include the entire life cycle of the product. One methodology for doing this is described in the **ISO 14040 standard - "Environmental management - Life Cycle Assessment - Principles and framework"**.
This approach was adopted to analyse the life cycle of an average European car tyre. The analysis was carried out together with the major European tyre makers (*"Life Cycle Assessment of an average European car tyre"* - Prè Consultants B.V. on behalf of BLIC, 2001), and the results allow us to identify and quantify the

major environmental impacts for each phase of the tyre's existence (production, use, end-of-life …..), as shown in the figure further below.

The environmental impact of the production phases

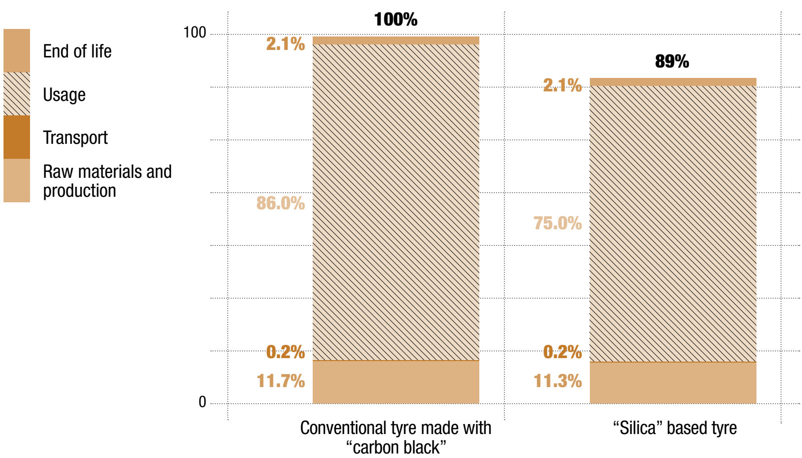
The results of the application of the above mentioned methodology highlight the contribution of the raw materials supply and production stages, which together determine approximately 12% of the total impact (approx. 10% and 2% respectively). The chart also shows a significant reduction in consumption (2.6%) in tyres containing silica, compared to traditional tyres (whose main filler is only carbon black), resulting in an 11% reduction in the total environmental impact. This has led to the development of new compounds for the tread (the part of the tyre responsible for the impact generated in the usage phase), containing silica instead of carbon black.

The environmental impact during the usage phase

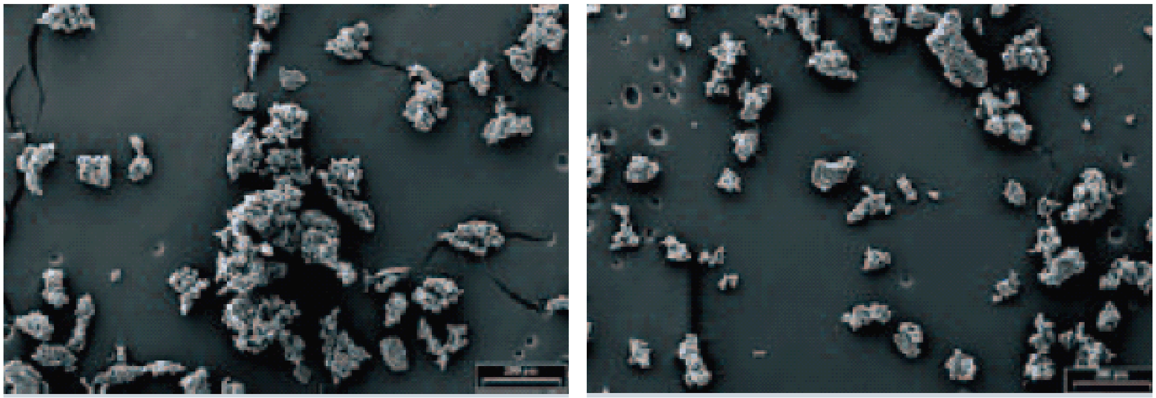
The most evident result of the study is the significant environmental impact associated with the usage phase of the tyre that, for a 'traditional' tyre, accounts for 86% of the total impact. On average tyres account for around 20% of a car overall consumption, and this partly explains the high environmental impact generated during their use.

THE ENVIRONMENTAL IMPACT DURING THE USAGE PHASE

Comparison of the distribution of the potential environmental impact of two types of tyres



On closer inspection of the impact generated during the usage phase, we can see that around 90% of this impact is due to fuel consumption resulting from friction between the tyre and the road surface, while the rest is due to the outcome of this friction (the so called tyre debris). It has been estimated that during its life cycle, a tyre produces a quantity of *tyre debris* of between 10 and 14% of its original weight.



Granulometric fraction under 100 μm from the debris generated by a truck tyre (left) and a car tyre (right)

The environmental impact of these particles is still being studied worldwide and Pirelli Group plays its part in this international effort through the continual exchange of information and experience with other tyre makers participating in the specific work group set up under the aegis of the *World Business Council for Sustainable Development* (mentioned above).

To minimise the environmental impact associated with the use of a tyre, Pirelli Group is constantly committed to the research and development of new compounds and new product lines that, through the use of new materials, innovative internal structures and new tread designs, are capable of reducing the rolling resistance while ensuring the same tyre life.

Without doubt, the overriding priority of research and development is driver safety: the tyre must ensure proper vehicle control in the widest possible range of situations, at the same time however it has to guarantee reduced fuel consumtion and the consequent environmental impact, due to the inevitable friction.

This is where the New Pirelli Cinturato fits in.

The New Pirelli Cinturato, the GREEN tyre

The new Pirelli Cinturato product range has been designed and developed by the Group's in-house laboratories in order to meet the latest market demands and facilitate sustainable mobility. Environmental friendliness, safety and performance are the essential features of the new Cinturato, whose innovative compounds, structure and tread patterns, ensure lower consumption and carbon dioxide emissions, higher mileage and improved safety characteristics in both wet and dry conditions.

www.pirellityre.com > Cinturato

In particular, the new Cinturato, available in tread models P4 and P6 and featuring ECOIMPACT symbols on the sidewall, allows a 20% reduction in rolling resistance and up to 4% in energy consumption, increasing overall mileage by 30%.

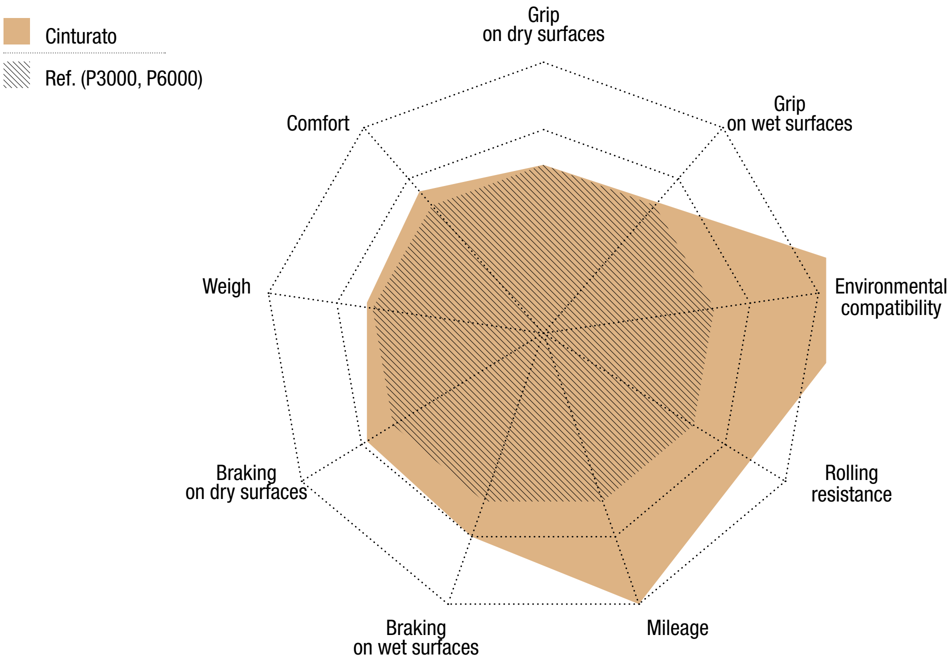
The new Pirelli Cinturato, the green tyre

Pirelli research has produced innovative structures, materials and tread patterns that enable the new Cinturato tyres to reduce rolling resistance, i.e. the wasted energy generated by the friction between road and tyre, thus guaranteeing lower fuel consumption without compromising performance.

Furthermore, the Cinturato product range provides high mileage and contains no aromatic oils in the tread responsible for particulate, one of the main causes of urban pollution: as the tread wears down it normally releases particles into the atmosphere containing potential pollutants.

The removal of aromatic oils from the tread compound anticipates the relevant European regulations due to come into force from January 2010. The tread pattern also provides improved acoustic comfort with a reduction in tyre noise levels both inside and outside the vehicle.

THE ECO-SUSTAINABLE PERFORMANCE OF THE NEW PIRELLI CINTURATO



Further details of the eco-sustainable performance of the New Pirelli Cinturato are provided below:

— **Lower rolling resistance**: reduced consumption and CO_2 emissions. The new Cinturato cuts rolling resistance by 20% thus providing savings of up to 4% in terms of fuel consumption and harmful emissions. Rolling resistance is the opposing force of the tyre to vehicle movement, i.e. energy dissipated while driving. Along with mechanical strength and air resistance, rolling resistance impacts on fuel consumption and carbon dioxide emissions. Rolling resistance depends on factors both outside (vehicle speed and weight, type of road surface, atmospheric temperature and tyre pressure) and inside the tyre, such as structure, compounds and tread pattern. In designing the new Cinturato, Pirelli has made changes to these factors, introducing innovative solutions covered by Pirelli patents.

— **Better mileage**: thousands more miles. The new Cinturato's tread compound has been reinforced with specific ingredients in order to extend tyre mileage life without sacrificing grip characteristics. Furthermore, the tyre geometry has been completely redesigned, from sidewall to tread, in order to strike the right balance between rolling resistance, mileage and safety. The average life of the new Cinturato in terms of distance covered has increased by 30%. This means that the average motorist will now replace his or her tyres every four years instead of every three.

— **Removal of harmful substances.** Pirelli has eliminated aromatic oils from the new Cinturato's compounds, two years ahead of the forthcoming EU Directive. Aromatic oils are polycyclic aromatic hydrocarbons present in tyres in the form of free oils and oil-extended polymers. As the tread wears they contribute to the composition of particulate, and are potentially harmful to human health. For the new Cinturato, Pirelli researchers have studied new polymers and new procedures for making the compound that do not affect the tyre performance and safety specifications.

The "ecoimpact" symbols on the sidewalls of the Pirelli Cinturato

— **Greater safety**: improved braking on both wet and dry surfaces. Safety, which along with high performance has always been the hallmark of Pirelli research and was already brought to maximum levels by the Cinturato back in the Fifties, is the other essential cornerstone underpinning the new Cinturato's design. Pirelli P4 and P6 guarantee greater safety under all weather conditions. In particular, there is improved grip when cornering in the wet and, above all, a reduction in braking distances. On wet surfaces, the stopping distance is reduced by 11%, while on dry surfaces the braking distance is also significantly reduced.

The new Cinturato will be manufactured at the plants in Bollate (Italy), Izmit (Turkey), Manresa (Spain) and Carlisle (UK), and several leading car manufacturers have already chosen it as original equipment on their most popular models.

In addition to the research aimed at mitigating the environmental impacts directly connected with Pirelli's activities (particularly in the production phase), measures have also been put in place to reduce the impacts generated in the other phases of the tyre life cycle – phases that are only indirectly or partially related to the Group's activities. These include *the selection of raw materials* and *the rational use of natural resources and energy*.

The following initiatives have been implemented in the selection of raw materials, to reduce the use of substances harmful to humans and the environment as far as possible:

— Systematic assessment of the eco-toxicological characteristics of any new *chemical* before its introduction into the production cycle. In particular, following recent European regulations on the classification, labelling and packaging of dangerous substances and preparations, Pirelli has updated the list of substances that cannot be used in its production processes, or for which research programmes are underway to find a replacement. In this regard, in 2007 approximately one hundred new raw materials were analysed and assessed.

— Consolidation of the supplier evaluation system (more commonly known as *Vendor Rating*), based on concise quantitative criteria to assess the quality and level of service offered, including the supplier's performance in terms of health, safety, environment and social responsibility.

Rational use of natural resources and energy: here the main results achieved are due to the progress made in optimising the production of high-quality compounds using the CCM (*Continuous Compound Mixing*) system, and also the progressive consolidation of tyre production with MIRS™ (*Modular Integrated Robotized System*).

Sustainable management of Processes: The CCM process

The CCM process for producing compounds uses a 100% computer-controlled pneumatic distribution system to transport the ingredients from their storage silos to the twin-screw extruders working continuously.
The CCM technology was designed to manage the complexity of the process deriving from the large number of ingredients required to produce the compound. The computer-controlled management results in improved quality in the compound produced, and consequently in the finished tyre.

Via a specially-designed powder-capture and recycling system for solid materials, CCM technology has reduced dust levels in the production areas to extremely low levels. The CCM process also saves energy, enabling a reduction of approximately 20% in energy consumption per unit of product.

The "gravimetric feeders" feed in the ingredients.

Sustainable management of Processes: The MIRS™

MIRS™ is an integrated, modular robotic system for making tyres. It has a very high degree of flexibility due to its ability to optimise modularity and logistics.

In the MIRS™ process, tyres are built around a heated drum which is tailor-made for a particular tyre model. The drum is continuously rotated by a robot under an extrusion device that distributes the rubber over the surface.

Pirelli MIRS™ automated production system

The drum rotation and compound feeding movements are coordinated to provide the correct distribution of materials to create the specific tyre model.

This new robotic process means real improvements in the quality of the product, since the geometric distribution of rubber fibres is extremely consistent over the tyre model.

Compared to the traditional, large-scale tyre-building systems with their exceptionally high production rates, designed for customers in different geographic locations, the MIRS™ is a compact production 'island', flexible and easily programmable for extremely rapid adaptation to the production of new models. This system represents a real improvement, in terms of both technology and logistics, as it can be easily located near the manufacturing process that it serves.

End-of-life management of tyres

A tyre end-of-life phase makes a small contribution to the overall environmental impact of the entire life-cycle of the tyre and, among the various final disposal options, burial in landfill is by far the least desirable in terms of environmental compatibility.

For several years Pirelli Group has devoted considerable attention to research into the management of end-of-life tyres (ELTs), also in view of the Directive 1999/31/EC, which prohibits disposal in landfills of entire ELTs from 2003 onwards (and fragmented ELTs from July 2006).

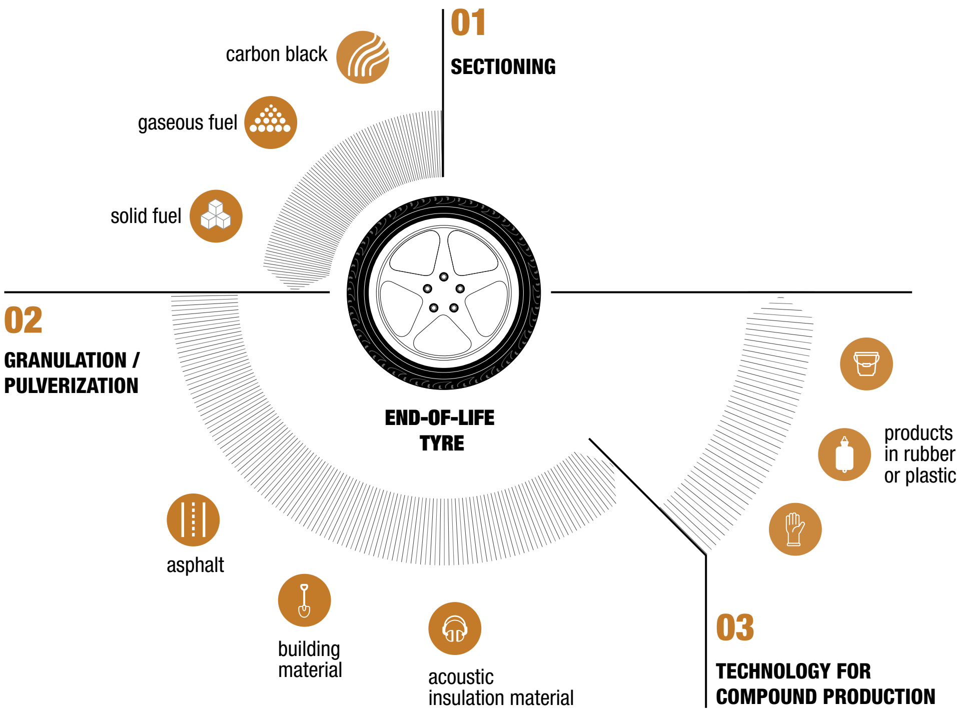
This research has identified several different recycling opportunities for end-of-life tyres, both in terms of recovering the raw materials that make up the tyres (*"material recovery"*) and in terms of recovering the tyre in the form of fuel with a high heat value (*"energy recovery"*), as a valid alternative to the use of fossil fuels.

Thanks also to the commitment of Pirelli Labs a number of projects have been developed in the fields of **tyre recycling** and **energy recovery**.

www.pirellilabs.it
> **Material Innovation** > **Sustainable Development** > **Tyre Recycling**

The activities in question focus on the recovery of materials, for example through "granulation" that, once the 'fabric' and 'metal' fractions are separated, provides a rubber granulate that may in turn be ground further to produce a finer powder.

TYRE RECYCLING DIAGRAM



Summary of environmental performance of tyre production

The figures given in this section relate to the Production Units that manufacture tyres that come under the car, truck/agro and motorcycle business units.

In line with the sustainability reports of the last five years, the following factors and their environmental indicators are examined:

— Water consumption (expressed in m3/tonne finished product).
— Energy consumption (expressed in GJ/tonne finished product).
— Solvent consumption (expressed in kg/tonne finished product).
— Waste production (expressed in kg/tonne finished product).
— Equivalent emissions of CO_2 and NOx (expressed in tonnes/tonne finished product and kg/tonne finished product respectively).
— Presence of dielectric oils containing PCBs and/or PCTs (with concentrations higher than 50 ppm).
— Presence of ozone depleting substances (in kg).

SUMMARY OF ENVIRONMENTAL PERFORMANCE OF TYRE PRODUCTION

	2007*	2006*	2005	2004	2003
Water specific consumption [m^3/tonne FP]	16.44	17.08	16.72	18.60	19.55
Energy specific consumption [GJ/tonne FP]	8.27	8.11	8.24	9.19	10.96
Solvent specific consumption [kg/tonne FP]	4.12	4.27	4.05	3.40	3.11
Dieletric oils containing PCB / PCTs >50 ppm [Kg]	7990	7990	11675	15613	21491
Ozone depleting substances [kg]	7694.0	8856.9	8587.7	9730.9	10445.3
Specific hazardous waste [kg/tonne FP]	8.19	8.34	7.51	8.20	7.12
Specific non-hazardous waste [kg/tonne FP]	94.42	96.30	93.39	94.80	90.29
Waste recycled [% of total waste]	73.3	73.6	68.8	71.9	60.6
Specific CO_2 emissions [tonne/tonne PF]	0.72	0.73	0.73	0.84	0.95
Specific NOx emissions [Kg/tonne PF]	1.372	1.373	1.38	1.68	1.83

(*) For the Yanzhou factory (People's Republic of China), which is currently still in the expansion phase, only the parameters relating to energy and water consumption have been taken into consideration, with the data for 2006 recalculated taking this into account.

As can be seen in the table above all the parameters have improved except for energy consumption. The setting up of new facilities contributed significantly to the increase in production figures, which rose from over 890,000 tonnes of tyres produced in 2006 to over 920,000 in 2007.

PRODUCTION OF STEEL CORD, HOSE WIRE AND BEAD WIRE

As mentioned in the introduction to the subsection on Pirelli Tyre S.p.A., 20% of the operational units in the Tyre Sector are managed by the **"Steel Cord" business unit**, for the manufacturing of steel cord, mainly used in the tyre manufacturing process.
The five Operating Units managed by the Pirelli Tyre S.p.A.'s Steel Cord Business Unit are located in Brazil, Germany, Italy, Turkey and Romania.

There are three types of final product from the steel cord technological cycle:
— The actual steel cord, composed of several wires (drawn and brassed), used to strengthen the tyre structures.
— A single brassed/drawn wire, used to strengthen the rubber tubes intended for high pressure use.
— A drawn shaped zinced wire, used for strengthening the beads of truck tyres.

The steel cord is used in the production of tyres and also for the making of semi-finished products known as metal fabrics. It constitutes the metal reinforcement for the "belt" (in all radial tyres) and for the carcass solely for the all steel truck tyres.

The bead wire produced by the Steel Cord Business Unit (B.U.S.) is a product patented by Pirelli Tyre S.p.A. and makes up the metallic reinforcement of the truck tyre beads.
The hose wire is a product used in the automotive sector and usually constitutes the metal reinforcement of the high pressure water hoses.

For all these products, the raw material is a steel wire rod (high carbon steel) with an initial diameter of 5.5 mm.

The production process

The processing of **steel wire rod** may be broken done into the following phases:

1. **Stripping and preparation of the wire rod**: removal of the flakes (surface iron oxide) formed during the hot-rolling process in the steelworks and of a deposition of a surface preparation salt.

2. **First drawing**: the prepared wire rod is reduced in diameter via a cold deformation process known as drawing. The end products of this phase are divided into thick wires (diameter of 2.5 – 3 mm) and medium wires (diameter of 1 - 2 mm).

3. **Patenting for thick wires**: the heat treatment required to restore the wire's structure and prepare it for subsequent reduction by cold drawing. The heat treatment usually takes place in a furnace at a temperature of approximately 1,000°C, followed by cooling in molten lead at approximately 550°C.

4. **Second drawing for medium wires**: a cold deformation process similar to that described in phase 2 above.

5. **Patenting and brassing** (for medium wires and for wires produced by phase 4 above): In this phase, the patenting is similar to that described in phase 3, and the brassing process consists of depositing a very thin layer (2 ÷ 4 microns) of brass (with a zinc content of approximately 30%. This is necessary for the rubber compounds to adhere to the bead wires.

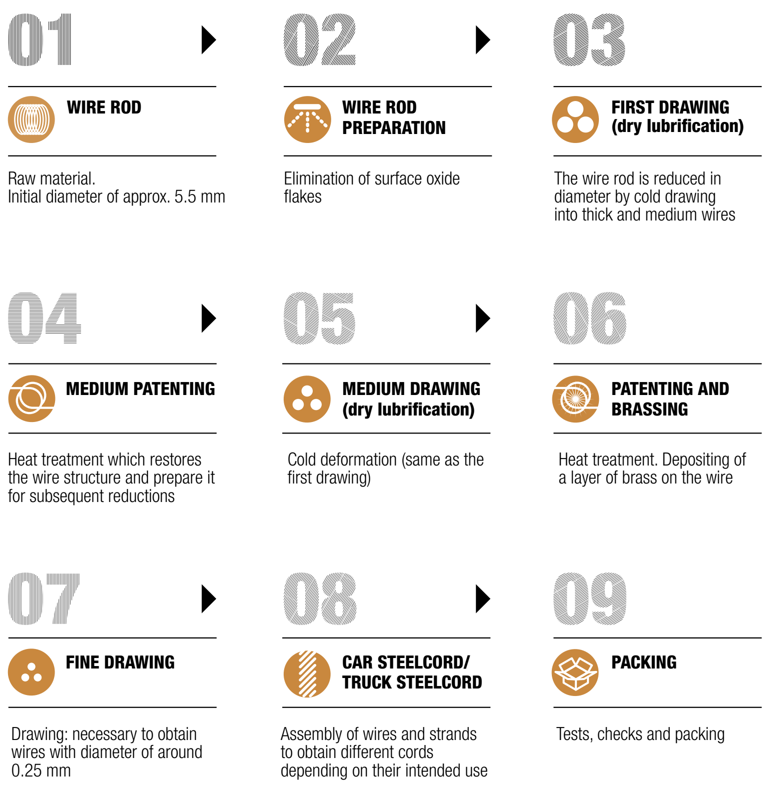
6. **Third drawing**: required to obtain wires with diameters used in production (in general these diameters are around 0.25 mm). In this phase, both the wire and the die are immersed in lubricating baths made up of synthetic oils in water emulsion.

7. **Stranding**: the wires are assembled into strands, numbering from 2 to 10, which may in turn be further assembled to make larger strands.

8. **Cording**: assembly of single wires and strands to make cords of varying complexity, geometry and number of components, depending on their intended use (for car tyres, truck tyres etc).

9. **Testing and packaging**: the product undergoes tests and checks, usually on statistical basis.

DIAGRAM OF THE STEEL CORD PRODUCTION PROCESS



The **hose wire** production cycle is essentially the same as the steel cord cycle, stopping at the third drawing, with a range of diameters from 0.30 to 0.80 mm.

The production cycle for **bead wire** is also the same as the steel cord cycle, stopping at the first drawing performed using special shaped dies. The drawing is followed by a process of zinc deposition.

Summary of the environmental performance of steel cord production

The figures given in this section are for the five Production Units that manufacture steel cord and are managed by the Steel Cord business unit.

In line with the Group's previous environmental reports, the following factors and their environmental indicators for the last 5 years have also been considered for this business unit:

- Water consumption (expressed in m^3/tonne finished product).
- Energy consumption (expressed in GJ/tonne finished product)
- Waste production (expressed in kg/tonne finished product).
- Equivalent emissions of CO_2 and NOx (expressed in tonnes/tonne finished product and kg/tonne finished product respectively)
- Presence of ozone depleting substances (in kg).

SUMMARY OF THE ENVIRONMENTAL PERFORMANCE OF STEEL CORD PRODUCTION

	2007	2006	2005	2004	2003
Water specific consumption [m^3/tonne FP]	9.5	9.5	9.1	11.10	11.60
Energy specific consumption [GJ/tonne FP]	11.19	11.26	11.43	10.94	11.62
Ozone depleting substances [kg]	159.5	100.0	130.0	120	70
Specific hazardous waste [kg/tonne FP]	65.67	50.26	48.02	59.15	46.02
Specific non-hazardous waste [kg/tonne FP]	110.6	129.9	133.0	114.2	125.9
Waste recycled [% of total waste]]	53.3	49,7	60.3	60	60.6
Specific CO_2 emissions [tonne/tonne PF]	1.147	1.15	1.16	1.12	1.14
Specific NOX emissions [Kg/tonne PF]	2.32	2.32	2.30	2.35	2.41

The following may be said about the environmental indicators:

- Water - the good indices of consumption recorded since 2005 have been maintained, albeit with a worsening steel cord mix due to the larger amounts of truck products that “consume” more water because they are all cords made in 2 phases (thick wire patenting and patenting and brassing).
- Energy – as above (negative mix).
- Hazardous waste – the significant increase was due to a recent amendment to the legislation in Brazil in 2007, which led to a change in the classification of industrial wastewater treatment sludge, now considered as hazardous waste.
- Non-hazardous waste – the fall in this indicator is due to the above mentioned change in the classification of hazardous waste.
- Waste recycling – an improving trend due to the maximisation of separate waste collection.
- CO_2 and NOx emissions – there were no significant trends.
- Ozone depleting substances – a worsening trend due to the maintenance of air conditioning systems.

ENVIRONMENTAL TARGETS OF PIRELLI TYRE

The targets set for 2007 (a 3% reduction in water and energy consumption for the entire Tyre Sector) were only achieved for water consumption (-3.7%). For 2008, the same target of 3% has been set for energy consumption.

Pirelli & C. Real Estate S.p.A.

Pirelli RE is one of the foremost Italian companies operating in the area of large-scale urban development projects and the redevelopment of disused areas. The company was a pioneer in this area, and is responsible for some of the most important urban renewal programmes in Italy, as well as defining new standards at international level.
The company has paid particular attention from the outset to the management of the economic, environmental and social factors that come into play in its local development projects. The continuous engineering of processes ensures the efficient management and implementation of all the various phases of development.
Based on the idea of the town as a public good, Pirelli RE believes that urban development must be underpinned by respect for the local heritage (environmental, historical and cultural) combined with openness to sustainable innovation, capable of meeting the needs of current and future citizens, increasing their wellbeing and quality of life and creating new attractions and opportunities for development for the local area.

This approach spans from urban development as a whole to the individual building, integrating multi-disciplinary knowledge and skills with a range of specialisations. This involves working at many different levels and taking care of both aesthetic-functional and eco sustainability aspects, as well as of the "soft-qualities" and living comfort of the buildings.

Pirelli RE addresses its environmental impacts in three main ways:

1. The monitoring and reduction of the environmental impacts of activities in the company's sites.
2. Offering customers who are property owners solutions designed to reduce the potential environmental impacts deriving from the running of the properties.
3. The development of designs for new building projects, in which particular attention is paid to aspects of social, economic and environmental sustainability, while simultaneously striving to preserve and enhance the territory in terms of attractiveness and competitiveness on a wider scale.

Pirelli Real Estate uses specific Management Systems to improve the quality, effectiveness and efficiency of its processes. In 2002, the company Pirelli & C. Real Estate Facility Management started up its **Environmental Management System**, which was certified as meeting the requirements of the ISO 14001 standard. The company Ingest Facility, acquired in 2007, has also been certified to the ISO 14001 standard. This certification extends to all the sites coordinated by the Milan office.

The certified process covers the planning, coordination, and provision of services for running and maintaining buildings and systems, managing heating and air conditioning for public and private civil systems, and providing services for people, spaces

www.pirellire.com
> **Social Responsibility**

and companies limited to the activities conducted at the operation sites coordinated by the Milan office.
The central coordination by the Quality and Processes Department ensures that all operations of the Group companies, involved in the provision of various different services, are conducted in compliance with consistent quality criteria and meet internationally recognised standards. The system is supported by internal controlling and reporting on process quality (also linked to the company's IT systems) and by customer satisfaction surveys.

Further information on the Environmental Dimension of the Real Estate Sector is available in the Sustainability Report of the subsidiary Pirelli & C. Real Estate S.p.A..

ECO-SUSTAINABLE DEVELOPMENT

In 2007, Pirelli RE launched **"Ecobuilding"**, the first integrated eco-sustainable program by a real estate operator, for environmentally friendly construction.

www.ecobuilding.pirellire.com

The program involves new development projects in every market sector, from residential to commercial, and will now form the basis for all future projects initiated by Pirelli RE.

Ecobuilding is based around four core principles: **energy efficiency, use of eco-compatible materials, use of renewable resources, and living comfort**.
The combination of solutions adopted by the program ensures the achievement of high standards of quality, eco-sustainability and energy saving, ahead of any regulatory changes. Significant environmental benefits include the reduction of CO_2 emissions, the lower amount of electricity required to meet building needs and an increasing use of renewable sources.

Some examples of the Ecobuilding development projects are provided below, particularly in the residential and office sectors.

Project "Eastgate Park" - The first example is Eastgate Park, an innovative integrated industrial park, which won the *"Premio Urbanistica"* (Urban Planning Prize) at the Urbanpromo 2006 for the high quality environmental standards achieved by the project, which blends in with the surrounding area and meets the criteria of environmental and socio-economic sustainability.

Golfo Aranci Project - The holiday homes of this project have also adopted innovative construction systems that promote energy saving and improve living comfort.

Re-conversion into offices of Breda area in Bicocca - This project won the tender in 2007 for the re-conversion into offices of the former canteen and reception building of the Breda industrial complex in Bicocca. The project stood out for its adoption of innovative construction solutions meeting the criteria of environmental sustainability.

Project "Malaspina" - The area of the Malaspina project is located on the outskirts of Milan. The Pirelli RE project, developed as a joint venture with Aedes and Banca Antonveneta, was devised with particular attention to wellbeing and quality of life, allowing people to live and work in an attractive environmental setting. Residential areas and offices both overlook the Malaspina lake, in one of the biggest green areas in Lombardy, as part of a regional project called "Ten Big Forests for the Plain", a breath of fresh air and nature extending over a total area of 720,000 m^2.

BUILDING ENERGY EFFICIENCY CLASSIFICATION

Phase 2 of the Malaspina project is complete. Thanks to the design choices the project achieved a Class B energy certification. An achievement that is all the more significant considering that, even though building permission was received prior to the entry into force of the Italian Legislative Decree 311/2006 and therefore without any requirement for energy efficiency certification, the design already reflected the awareness of energy saving as the first step towards eco-sustainability.
The target set for the completion of **Phase 3** (at Pioltello) of the Malaspina Project is the achievement of *class A energy efficiency*. This improvement from class B to A energy efficiency saves around 20 KWh/m^2 per year that, for a 100 m^2 apartment, corresponds to a saving of around 180-200 euro/year, and a considerable reduction in CO_2 emissions .

The following choices were designed to achieve consistent energy saving:
— **District heating and air-conditioning system.**
— **Thermal cladding** - an external panel based insulation system for the building shell that, in terms of energy efficiency, results in an *improvement of around 10%, all other factors being equal.*
— **Controlled ventilation system** with recovery of heat from the extracted air and re-emission into rooms, thus reducing energy consumption for the heating of air from the outside. In addition to ensuring constant clean air, this system also achieves significant energy saving (20%) compared to buildings with building shell insulation alone.
— **Quality of the door and window frames**, in aluminium with thermal break, with argon gas double glazing and low emittance coating.

The measures aimed at energy saving have also been accompanied by the objectives of living, thermal, acoustic and environmental comfort, pursued through the following:
— **Thermal comfort**: all the premises are heated and cooled through a system of ceiling radiating panels that, using radiation to transmit thermal energy (hot and cold), provides uniform distribution.
— **Acoustic comfort**, obtained through the use of: a shell consisting of cavity walls and door and windows stratified double glazing; noise absorbent panels in the dividing walls between the apartments; recycled rubber pads for impact sound insulation inside the inter-storey flooring; insulation of the piping for installations; and radiant ceiling, which are quieter than fan coils.

— **Environmental comfort**: The homes are located within an environment with high standards of air quality because: the district heating replaces the use of fuel to be burnt; ecoactive photocatalytic paint has been used on façades of the new buildings, a coating that reacts to light activating a process that converts harmful substances into harmless ones, thus cleaning the air.

"Headquarters 2" (HQ2) project - This new project known as Headquarters 2 is the extension of the existing headquarters HQ1 that will house the Pirelli RE offices. It involves a new building located right in front of HQ1, with a gross surface area of 12,070 m^2 distributed over five floors above ground and two underground floors for the garage. Below is a picture of the HQ2 building taken from the project.

The process is underway for the obtainment of an Environmental Certification from the iiSBE ITALIA organisation that, using the GBC system developed as part of the international Green Building Challenge process, classifies a building assigning it a level of sustainability on the basis of its compliance with various requirements that make up its protocol.

Particular attention was paid to the design of the shell, making structural choices that, based on the building's "exposure" and through district heating, allow much lower energy consumption than the required minimum that will come into force from 1st January 2010. This translates into a 20-30% economic saving compared to the costs of a standard building.

Pirelli Headquarter 2 project

A reduction in the consumption of drinking water is also provided for, through a system for the use of rainwater.

"Giardini Viscontei" project - The "Giardini Viscontei" project, a real estate development underway in Cusago (MI), is another example of Ecobuilding. Indeed, the design choices adopted are aimed at obtaining an innovative product built around the concept of sustainability "inside and out".

The project, which at the time of writing this report has started its town-planning work, covers an area of over 16,000 m^2 and involves the construction of thirteen buildings of two to three floors on two plots, with a total of 200 apartments within a rural setting with low construction density, embedded in the nature and tranquillity of the countryside around Milan.

Thanks to the use of innovative technology, Giardini Viscontei has achieved a Class A energy efficiency rating, with the consequent reduction in terms of harmful emissions generated.
To meet the requirements of the Ecobuilding project, attention was also focused on solutions designed to exploit renewable sources, such as the use of groundwater, the reuse of rainwater to irrigate green areas, and the use of a photovoltaic plant.

The use of coating in photocatalytic paint, the extensive green areas that characterise the site, the absence of CO_2 emissions, together with all the other choices mentioned, contribute to the achievement of a high level in internal and external living comfort.

Pirelli RE "Giardini Viscontei" project

SUMMARY OF THE ENVIRONMENTAL PERFORMANCE OF PIRELLI REAL ESTATE PREMISES

A focus on the management of environmental impacts has above all led to Pirelli RE paying particular attention to the aspects of energy savings in its premises. A system of district heating (central heating supplied by AEM, via a remote central heating system that produces hot and cold water and then distributes it via underground pipes) has been used for the Milan headquarters. The same solution will be adopted by the HQ2, currently being planned.

Another example of rational use of energy is the cogeneration plant at the administration centre in the Ivrea district, where Pirelli RE and other companies (Vodafone, Wind, Olivetti, Olivetti MS etc.) have their offices. This cogeneration plant, which is owned by Pirelli RE and managed by Pirelli & C. Real Estate Facility Management, provides heat and electricity, not only to Pirelli, but also to other companies that have premises in the area. A similar solution is currently being installed in the Pozzuoli district.

The tables below show the performance of Pirelli RE's key premises in 2007 in terms of the main monitored consumption. The 2007 figures shown below have not been compared with the 2006 performance because an homogeneous comparison could not be made due to the large number of internal movements of staff between the various offices. As a result, from 2008 consumption will no longer be monitored against the area of the buildings in square metres alone, but will also take into account the average size of the workforce in the offices during the year in question.

ENVIRONMENTAL PERFORMANCE OF PIRELLI REAL ESTATE PREMISES – TOTAL CONSUMPTION

Total Consumption	Milan HQ	U7 Tower Milan	Rome Office	Naples Office	Total
Water (m^3)	17,539	6,083	6,169	1,323	**31,114**
Electricity (MWh)	3,320	1,218	847	196	**5,581**
Fuel oil (Kg)	(1)	(1)	(2)	(2)	**n.d.**
Heat (MWh)	1961	350	Not present	Not present	**2,311**

1 Heat supplied by the district heating system.

2 Consumption not known because the building owner provides the heating and charges the cost as part of the rent.

ENVIRONMENTAL PERFORMANCE OF PIRELLI REAL ESTATE PREMISES – SPECIFIC CONSUMPTION

Specific consumption per m^2 (1)	Milan HQ	U7 Tower Milan	Rome Office	Naples Office
	27,078 m^2	**5,121 m^2**	**7,339 m^2**	**1,619 m^2**
Water (m^3/m^2)	0.65	1.18	0.84	0.82
Electricity (MWh/m^2)	0.12	0.24	0.11	0.12

1 The figures refer to consumption per m^2 because part of the areas are occupied by other companies for which the headcount is not known.

The above is also accompanied by the monitoring of the quantity/type of special waste produced by the main offices of Pirelli RE and managed districts in 2007. The results are shown in the table below.

ENVIRONMENTAL PERFORMANCE OF PIRELLI REAL ESTATE'S PREMISES – TOTAL WASTE

Total Waste	Milan HQ	U7 Tower Milan	Rome Office	Naples Office	Total
Non-Hazardous (Kg)	2,136	7,828	517	1,716	**12,197**
Hazardous (Kg)	226	73	0	1	**300**
TOTAL	**2,362**	**7,901**	**517**	**1,717**	**12,497**

Pirelli & C. Ambiente S.p.A.

www.pirelliambiente.com

Pirelli & C. Ambiente S.p.A., a Pirelli Group company founded in early 2005, specialises in sustainable development technology and solutions, renewable energy sources, and photovoltaics. Thanks to the synergies with Pirelli Labs – the Group's advanced research centre – Pirelli Ambiente is able to offer the market a vast range of low environmental impact and high technology products.

Pirelli Ambiente owns the entire share capital of:
— Pirelli & C. Ambiente Renewable Energy – Renewable energy sources
— Pirelli & C. Ambiente Site Remediation – Environmental remediation

and 50%, in a joint venture with Global Cleantech Capital, of the share capital of - Solar Utility – Photovoltaic energy.

PIRELLI & C AMBIENTE RENEWABLE ENERGY S.p.A.

www.pirelliambiente.com
> **Renewable Energy**

Pirelli & C. Ambiente Renewable Energy has been operating for over four years in the field of renewable energy sources, particularly in the conversion of urban solid waste (USW) to energy. The company is also committed to the technical standardisation of waste-derived fuels, and contributes to the development and validation of technical specifications and analysis methods for the so called "Solid Recovered Fuels", which were made official by the European Union in 2007 through a special series of Technical Standards.

Pirelli & C. Ambiente Renewable Energy – in association with Pirelli Labs – has developed and patented a high quality **WDF** (Waste-Derived Fuel), whose unique features consist of its composition and methods of production and use.

Of particular significance is the recognition received by the company in 2006 from the **Clinton Global Initiative (CGI)**, (a foundation set up by former US President William J. Clinton to collect resources to tackle the macro-problems faced by the planet), for its "Commitment" to reducing CO_2 emissions by 5 million tonnes over 3-5 years in North America, Europe and Asia, through the spread of waste-to-energy technology.
Pirelli is also promoting industrial projects for the eco-sustainable management of urban waste at **international** level.

Pirelli WDF-Q

Pirelli WDF-Q is obtained by adding a number of components with a high calorific power to the dry portion of USW. It may be used as a partial replacement for conventional fossil fuels in existing non specialist plants, such as cement works and thermo-electric power stations, with significant environmental benefits for the population in the form of lower emissions, particularly CO_2 ,NO_X and SO_2, from fossil fuels, and economic benefits (in terms of lower waste disposal costs). The WDF-Q – High Quality Waste-Derived Fuel – is not composed of waste, but is instead a fuel obtained from the separation, processing and recomposition of a minimum of 50% of urban solid waste.

WDF-Q differs from normal quality WDF and other "waste-derived fuels" because it guarantees greater stability over time and better standards of quality in terms of calorific power, lower concentrations of pollutants and certainty of the biodegradable biomass content.

WDF-Q has many **eco-sustainable benefits**.
First of all its biomass content, recognised in industrialised countries as a renewable energy source, of around 50%. This biomass is moreover "non-virgin", i.e. originating from other production processes, thus avoiding the use of "virgin" biomass, obtained for example from wood from existing forests. Also, since the WDF-Q is employed in co-combustion in electric power plants and cement works, its use does not entail the building of new combustion plants, at the same reducing the use of fossil fuels.

Pirelli Ambiente S.p.A. specialises in sustainable development technology and solutions

The environmental and economic sustainability of energy recovery from "non-virgin" biomasses contained in urban waste was reiterated in 2007 by the UK Environment Agency in its **"Waste Strategy for England 2007"**, aimed at promoting the use of waste derived fuel through systems of incentives for the use of renewable energy sources.

A recent **study by Nomisma Energia** (an economic research company founded in Bologna, with twenty years of research experience in the sector) analysed the **benefits that could be obtained in Italy**, based on the assumption of a potential consumption of 3.7 million tonnes, which would allow the use of around 8 million tonnes of urban waste:

— Promotion of separate waste collection and reduction of urban solid waste disposal by around 6.5 million tonnes per year.
— Reduction of CO_2 emissions, the main greenhouse gas, of 7 million tonnes per year. This would represent one of the most effective measures to achieve the Kyoto targets.
— Increase in electricity generation from renewable sources of 2.7 terawatt hours (TWh) per year, equal to the consumption by a million families.
— Energy saving of 0.33 million tonnes oil equivalent (Mtoe) per year in cement works, against a national target of 2.9 Mtoe in 2009.

In addition, according to a study by the Bicocca University of Milan, conducted using the Life Cycle Assessment (LCA) method, the use of WDF-Q is respectively **90 and 72 times more environmentally friendly** than alternative solutions like landfills and waste-to-energy incinerators.

In Italy, the integrated system promoted by Pirelli Ambiente Renewable Energy has been operating successfully since 2003 in the Cuneo Province, through the mixed public-private company **Idea Granda**, 49% owned by Pirelli and 51% by the municipal body ACSR - Azienda Cuneese Smaltimento Rifiuti.

Since the start-up of this system the percentage of recovery of energy from waste in the area has risen to 32%, which is higher than both the Italian average (7%) and, more importantly, the European average (27%). In the cement works in question, the use of WDF-Q in 2007 resulted in a reduction of CO_2 emissions into the atmosphere of over 36,000 tonnes (+ 20% compared to 2006).

Each tonne of WDF-Q used in co-combustion saves 1.75 tonnes of CO_2 and reduces NO_X emissions by 20% (approximately 360 tonnes), thus making a significant contribution to the achievement of the targets accepted by Italy for the Kyoto Protocol.

PIRELLI & C. AMBIENTE SITE REMEDIATION S.p.A. – ENVIRONMENTAL REMEDIATION

www.pirelliambiente.com
> Site Remediation

Pirelli & C. Ambiente Site Remediation S.p.a. has been operating successfully since the nineties in the remediation, redevelopment, and enhancement of brownfield industrial sites.
Over the years the company has widened its expertise by providing support to other companies in the Pirelli Group in the management of industrial areas throughout Italy, and also to Pirelli & C. RE in the acquisition and environmental remediation of new brownfield areas and/or property assets.

Pirelli & C. Ambiente Site Remediation's scope of operations ranges from the preliminary assessment of environmental liabilities (Environmental Due Diligence) of property assets and/or sites possible targets of property broking services, to the development of the necessary engineering activities and management of relations with the relevant authorities, through to complete remediation and redevelopment of the areas, while safeguarding the environment and meeting any time constraints or specific requirements of the customer.

The company offers a vast range of solutions for the **Environmental Reclamation of contaminated sites**, using its specialist technical expertise in soil remediation to satisfy the wide-reaching requirements of the overall process of urban and land redevelopment. It also assists building and building services designers, by providing ideas for high-quality, highly energy efficient and environmentally friendly solutions.

This is based around four core principles:

- **Energy efficiency**, not only for winter heating, but also for summer cooling.
- Use of **eco-compatible materials.**
- Use of **renewable resources**.
- Living **comfort.**

At the end of April 2007, Pirelli & C. Ambiente Site Remediation S.p.A. obtained the SACERT certification (system of accreditation for building certification organisations), which allows the company to conduct building energy assessments, classify the buildings, prepare the Energy Qualification/Certification certificates, and to research solutions designed to improve the building's energy performance.

The requirement for this type of certification follows the adoption by the Member States of the European Community of the Directive 2002/91/EC on the energy performance of buildings, whose principal goal is to promote energy saving by reducing the energy consumption associated with buildings, which represents almost a third of the European Union's energy needs.

The following table summarises the extent of the work carried out by Pirelli & C. Ambiente Site Remediation to date:

Total surface area redeveloped or undergoing redevelopment	approximately 3,400,000 m^2
Buildings demolished	approximately 3,900,000 m^2
Environmental due diligence of areas	approximately 6,500,000 m^2
Environmental due diligence of buildings	approximately 6,000,000 m^2
Large-scale remediation projects via on-site remediation	4
Large-scale remediation projects involving site safety measures	4
Energy efficiency certification	approximately 700,000 m^2

SOLAR UTILITY S.p.A.

www.pirelliambiente.com
> Solar Utility

Solar Utility S.p.A. is a 50/50 joint venture between Pirelli Ambiente, supplier of environmental solutions, and Global Cleantech Capital, a leading investor in the renewable energy sector in Europe and North America, specialising in solar energy, green building, wind energy, bio-energy and advanced materials, with the aim of increasing renewable energy production and energy efficiency, thus driving the decrease in carbon use.

Created in 2007 through the union of these two major players, Solar Utility is a photovoltaic electricity producer. It provides **100% green energy** to end-users at competitive prices and has an ambitious investment program in Italy aimed at the development, construction and management of its own photovoltaic plants, with an installed capacity of 50 MW over the next 5 years.

In implementing its investment program, Solar Utility works closely with Pirelli & C. Real Estate Facility Management, a leading operator in Italy. Its operations are mainly focused on "integrated" installations on buildings, optimising Pirelli Group's expertise and work in the real estate sector, with projects also aimed at the removal and replacement of large-scale asbestos roofing.

One of the first Solar Utility's Projects in 2007 was the convention with the Municipality of Alessano (Lecce) for the construction and management of photovoltaic plants on buildings and lands owned by the Municipality.

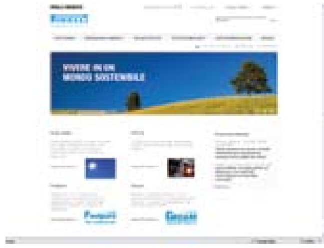
The Municipality will achieve significant economic savings through this project, thanks to the significant size of the photovoltaic plants (from 1.1 MW), which will provide an annual production of "clean" electricity of over 1,600,000 kWh, equivalent to the energy consumption of more than 600 families.

Solar Utility also meets the requirements of the Italian Decree "*Conto Energia 2007*", governing the national feed-in tariff for the solar electricity production.

Like the other Pirelli Environment companies, at Solar Utility business is effectively and efficiently combined with significant environmental and public health benefits.

Pirelli Eco Technology S.p.A.- Technologies for Sustainable Development

Pirelli Eco Technology operates with considerable success in the sustainable development technology sector, with the objective of drastically reducing the particulate emitted by diesel engines and power stations. The company is a member of the European Emulsion Fuel Manufacturers' Association (EEFMA) and the Italian Particulate Filter Manufacturers' Association (AIFP).



www.pirelliambiente.com
> Eco Technology

Eco-sustainability forms the DNA of Eco-technology's products like the **GECAM, the white diesel™** and **Feelpure™** antiparticulate filtering systems, described below.

GECAM, THE WHITE DIESEL™

GECAM™ - patented by the Group - is an emulsion of water (10%) in diesel oil for use in vehicles and heating systems that reduces particulate emissions by 50%.

The tests performed on GECAM™ by the European Commission Joint Research Centre in Ispra and Eni Tecnologie Laboratories showed reductions of over 50% in particulate emissions, 5-6% in nitrogen oxides, and over 30% in carbon monoxide.

Pirelli Eco Technology received a **Special Award** for the GECAM™ emulsified diesel and its innovative solutions in sus-

GECAM™, the White Diesel™, received a special award in 2005 tainable transport at the 2006 World Renewable Energy Congress (WREC), an international conference held by the University of Florence and the ABITA Centre (Architecture, Bioecology and Technological Innovation for the Environment).

The sales of **Gecam** for 2007 has consolidated in the passenger transport, waste collection and mining sectors.

FEELPURE™

Feelpure™ è is an exhaust gas treatment system capable of **reducing particulate emissions by over 90%**, for diesel vehicles already in circulation (via retrofit) with a mass of over 2.5 tonnes.

Feelpure™ is made up of three elements:

1. A **particulate filter** in porous silicon carbide (SiC) fitted in a stainless steel can inside the exhaust silencer.
2. An **additive** to be added to ordinary fuel, which allows for the complete combustion of the carbonaceous particulate previously trapped by the filter (a process of regeneration).
3. A **control unit** that monitors the entire system, which detects counterpressure at the exhaust and the exceeding of alarm thresholds. It doses the additive to be added to the fuel on vehicles with this kind of feature. Recent tests, conducted by Eni Tecnologie Laboratories, the European Commission Joint Research Centre in Ispra and the University of Biel under the VERT programme, have shown **reductions of over 90% in mass particulate and 99% in finer particles, over 90% in carbon monoxide and up to 69% of unburned hydrocarbons**.

The sales of antiparticulate filtering systems rose sharply in 2007, with over 1000 systems sold to more than 40 customers operating in the public transport, and in the mining and construction sectors. Nine of these customers are industrial vehicle/bus dealers or major industrial vehicle repair shops that have installed and sold the systems on their customers' vehicles.

Pirelli Broadband Solutions S.p.A.

www.pirellibroadband.com

Pirelli Broadband Solutions (PBS), a Pirelli Group company established at the end of 2004, operates in the fields of broad band access solutions and second-generation photonics based on nanotechnology.

The objective of Pirelli Broadband Solutions is to allow the Group to focus its resources in these high technology and state of the art sectors.

In developing its solutions, aimed at the major telecommunications systems producers throughout the world, Pirelli Broadband Solutions takes advantage of the expertise and research of Pirelli Labs, the Group's centre of technological excellence set up in 2001 in the Milano-Bicocca area with an investment of over 135 million euro. Through its second-generation photonics products, based on nanotechnology, Pirelli Broadband Solutions provides telecommunications operators the opportunity to offer voice, data and multimedia services with customised products and end-to-end platforms, reducing operating costs and at the same time increasing performance and flexibility.

Pirelli Broadband Solutions won recognition for its technological excellence in 2007 with the prestigious **InfoVision Award**, for its Wi-Fi/GSM Phone product, acknowledged by the industry as the Top product in the "Broadband Appliances, Devices and Home Networking" category.

Innovation that is not only managed sustainably, but, albeit indirectly, also has a significant sustainable environmental impact. Indeed, the PBS systems make a major contribution to the increasing use of videoconferencing and video calls, which are progressively replacing the movement of staff between workplaces via land, sea or air.

In 2007, Pirelli Broadband Solutions, in addition to consolidating the management of end-of-life products in Italy and certain European export countries (directive 2002/96/EC – WEEE), also worked on the introduction of the requirements of the Directive 2005/32/EC - EuP (Energy using Products) into its projects involving energy using products.

PBS also started to implement the actions required by the European Regulation 1907/2006 – REACH (Registration, Evaluation, Authorization of Chemicals) aimed at achieving total control of chemicals used in the products.

In line with the Group's sustainability policy and in order to assist and improve the management of its environmental performance, the management of Pirelli Broadband Solutions has decided to govern its activities by adopting a Health, Safety and Environmental Management System in accordance with the UNI EN ISO 14001 and OHSAS 18001 standards, and has set the achievement of both certifications as a target for 2008.

As announced in last year's report, this Project was initiated in 2007 and led to the setting out and dissemination of a **PBS Health, Safety and Environmental Policy**, which is fully in line with the related Group Policy. The identification of significant environmental impacts was also initiated, accompanied by the setting out of a series of objectives including, among others, greater control over energy consumption to achieve its optimisation (an objective already partly achieved at the end of 2007) and the enhancement of separate waste collection.

In 2008, resources will be allocated to increasing the focus on environmental issues by employees, suppliers, customers, and outside companies through appropriate communication and awareness raising campaigns.

Pirelli Labs S.p.A.

The Group's "innovation engine" is Pirelli Labs, the advanced research centre serving all the Pirelli businesses. Set up in 2001 with an investment of 135 million euro, the Labs extend over 13 thousand square metres in the Milano Bicocca area.

www.pirellilabs.com

Pirelli Labs is the hub of Pirelli Group advance research and innovation expertise and is involved in a large number of research projects, working with various international universities and research centres, including the Massachusetts Institute of Technology, Georgia Technical University, CNR, ENEA and the Milan Polytechnic, as well as other centres of excellence such as CORECOM and CORIMAV. Pirelli Labs also work closely with the research units of the Telecom Italia Group.

Pirelli Labs focuses on the following fields:

— New-generation optical components based on nanotechnology.
— New materials and processes for tyres.
— Sensors and remote monitoring.
— Fuel cell materials.

In 2007 two major lines of research came to fruition for the development of **eco-compatible materials**, processes and components. Specifically:

— The **research of concrete industrial applications for the derivatives of end-of-life tyres (ELTs)** found a significant application in the development of noise absorbent and impact sound insulation layers to be integrated into the walls and floors of residential buildings. The material and the process developed by Pirelli Labs have demonstrated that they can achieve levels of noise reduction meeting the most stringent regulations (standard **ISO 140/7**) and are in line with best market benchmarks. At the same time, the field test, conducted jointly with Pirelli Real Estate, involving over 2000 m^2 of premium residential buildings, demonstrated their application in real situations with good installed performance.

— The cycle of experimental approval was also completed for poles for telecommunications networks, made of a **composite material of recycled polypropylene and fibreglass**, as part of the collaboration with Telecom Italia. These poles will replace current wooden poles impregnated with Chrome Copper Arsenic compounds, now banned by the European Union. The poles produced passed all the laboratory approval tests and were successfully installed at a Telecom Italia test site, in order to complete the field tests.

Work continued on the development, now firmly underway, of the powders for the production of ceramic materials for solid oxide fuel cells. Joint experimentation continued with the prestigious Canadian Alberta Research Council (ARC), where ceramic materials developed by Pirelli Labs have been employed effectively in the manufacture of **electrodes for micro fuel cells** for use in cathodic protection devices for gas and oil pipelines.
Again in 2007, the know-how built up during the fuel cell project, in the synthesis, processing, and characterisation of high temperature resistant ceramic materials, was applied in the development of the **ceramic antiparticulate filters** for diesel vehicles by Pirelli Eco Technology.

The joint work with Dupont also continued on the characterisation and optimisation of membranes for use in polymeric membrane fuel cells. The membrane developed by Pirelli Labs demonstrated that it was able to compete with the current market benchmarks, operate under high concentrations of methanol and use a process that was **more environmentally friendly** than the one used by the current fluorinated membranes.
The combination of these factors makes it a candidate to become a next generation industrial standard for the production of fuel cells to power portable electronic devices.

The building that hosts Pirelli Labs in the Milano Bicocca area

Worthy of particular mention is the large-scale testing of a network of low cost **environmental monitoring stations**. Indeed, the Pirelli Labs stations, control centre and management software were an essential part of the tests conducted by Pirelli with CNR, Telecom Italia, and the Municipality of Parma in the Parma region. The large number of sites monitored, the accuracy of the measurements, and ease of use, generated widespread approval for the Pirelli Labs monitoring system..

In the field of renewable energy, tests were conducted on a series of innovative prototype devices for **photovoltaic current generation**. In association with Telecom Italia and ENEA, studies were conducted on the most advanced systems based on solar tracking and photovoltaic concentration technology. The test results have given rise to a promising program of research, which will be developed by Pirelli Labs in 2008.

The development of polymeric compounds with high dielectric constant for the production of innovative antenna devices, conducted jointly with Telecom Italia, found a practical application in the development of Wi-Fi modules for broadband video and data transmission. The use of these new materials enabled the development of fully built-in antennae that, through their combination of high performance and reduced aesthetical impact, have made this Pirelli Broadband Solutions product innovative and unique.

In 2007, Pirelli Labs received an official visit from a delegation led by the Ministry of the Economy of the Canton of Zurich, interested in finding out about the photonic research and the innovative materials developed by this "centre of excellence", as it is commonly referred to.


PIRELLI
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3

Social dimension

Internal Community

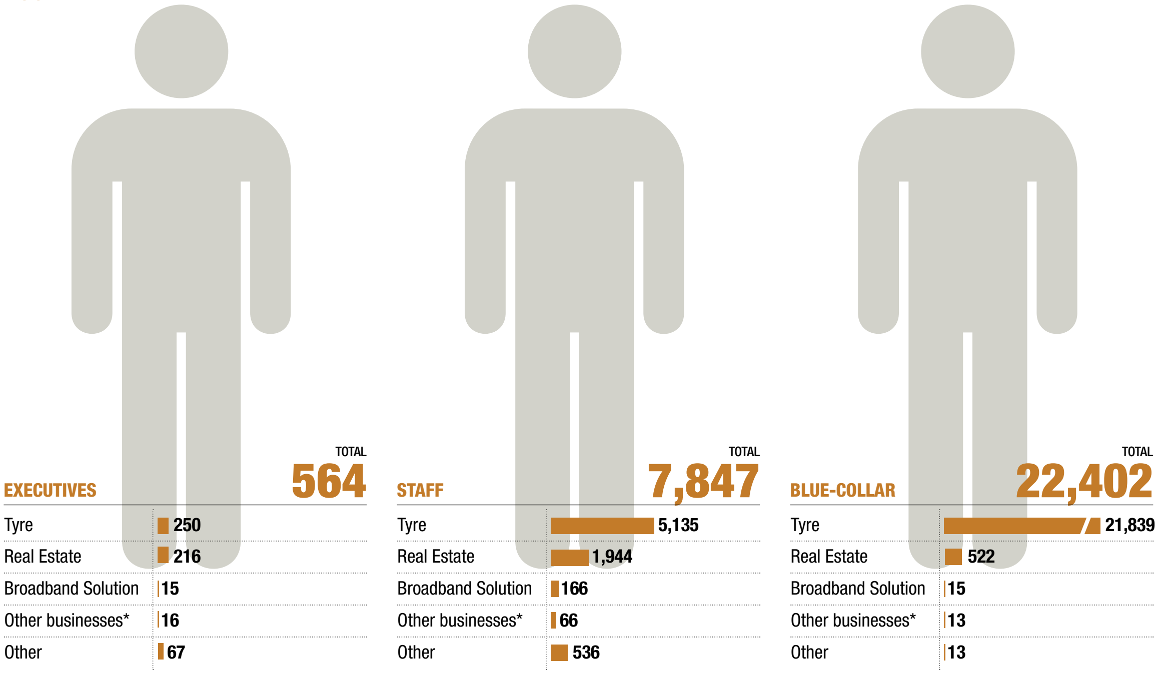
"Group companies recognise the central importance of human resources in the belief that the key to the success of any business is the professional contribution of the people that work for it, in a climate of fairness and mutual trust. Group companies shall safeguard health and safety in the workplace and consider respect for workers' rights as fundamental to the business. Working relationships are managed with a view to guaranteeing equal opportunities and promoting the personal development of each employee" (Article 6 of the Ethical Code – Human Resources).

For detailed information on the Real Estate Sector, whose sustainable performance is consolidated within this report, please consult the Sustainability Report for Pirelli Real Estate SpA, available on the web site *www.pirellire.com*

www.pirelli.com > Sustainability > Stakeholders > Human Resources

WORKFORCE BREAKDOWN

2007

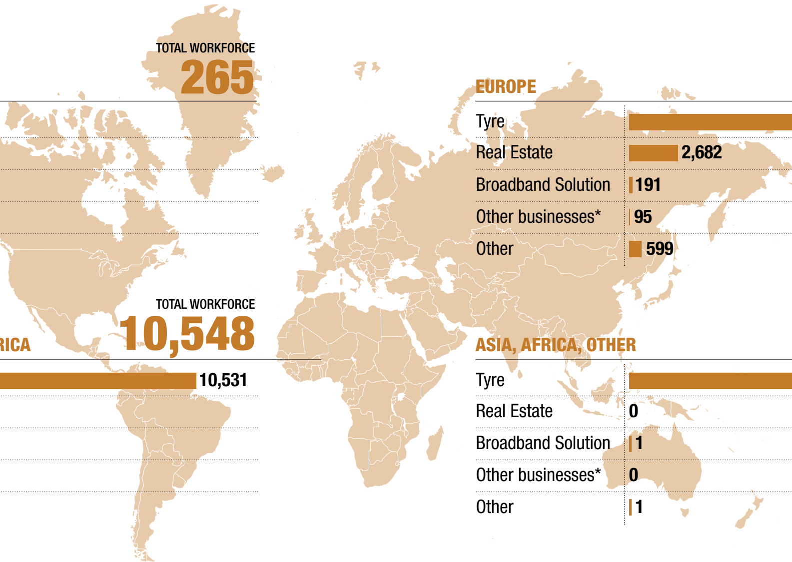


	Tyre	Pre	Pbs	Other * Businesses	Other	TOTAL
2007						
Executives	250	216	15	16	67	**564**
Staff	5,135	1,944	166	66	536	**7,847**
Blue-collar	21,839	522	15	13	13	**22,402**
TOTAL	**27,224**	**2,682**	**196**	**95**	**616**	**30,813**
2006						
Executives	210	194	15	9	89	**517**
Staff	4,946	1,401	145	41	1,262	**7,795**
Blue-collar	20,013	269	6	2	15	**20,305**
TOTAL	**25,169**	**1,864**	**166**	**52**	**1,366**	**28,617**
2005						
Executives	188	166	11	8	105	**478**
Staff	4,700	1,145	104	34	1,247	**7,230**
Blue-collar	18,785	303	4	1	26	**19,119**
TOTAL	**23,673**	**1,614**	**119**	**43**	**1,378**	**26,827**
CHANGE 2007 VS 2006						
Executives	40	22	0	7	-22	**47**
Staff	189	543	21	25	-726	**52**
Blue-collar	1,826	253	9	11	-2	**2,097**
TOTAL	**2,055**	**818**	**30**	**43**	**-750**	**2,196**
CHANGE 2007 VS 2005						
Executives	62	50	4	8	-38	**86**
Staff	435	799	62	32	-711	**617**
Blue-collar	3,054	219	11	12	-13	**3,283**
TOTAL	**3,551**	**1,068**	**77**	**52**	**-762**	**3,986**

* OTHER BUSINESSES include the workforce of the companies: Pirelli & C Ambiente SpA, Pirelli Eco Technology and PZero Moda

WORKFORCE GEOGRAPHICAL BREAKDOWN

2007



NORTH AMERICA — TOTAL WORKFORCE **265**

Tyre	262
Real Estate	0
Broadband Solution	3
Other businesses*	0
Other	0

EUROPE — TOTAL WORKFORCE **17,333**

Tyre	13,766
Real Estate	2,682
Broadband Solution	191
Other businesses*	95
Other	599

CENTRAL AND SOUTH AMERICA — TOTAL WORKFORCE **10,548**

Tyre	10,531
Real Estate	0
Broadband Solution	1
Other businesses*	0
Other	16

ASIA, AFRICA, OTHER — TOTAL WORKFORCE **2,667**

Tyre	2,665
Real Estate	0
Broadband Solution	1
Other businesses*	0
Other	1

	Tyre	Pre	Pbs	Other * businesses	Other	TOTAL
2007						
Europe [1]	13,766	2,682	191	95	599	**17,333**
North America	262	0	3	0	0	**265**
Central and South America	10,531	0	1	0	16	**10,548**
Asia, Africa, other	2,665	0	1	0	1	**2,667**
TOTAL	**27,224**	**2,682**	**196**	**95**	**616**	**30,813**
2006						
Europe [1]	12,993	1,864	166	52	1,349	**16,424**
North America	265	0	0	0	0	**265**
Central and South America	9,786	0	0	0	16	**9,802**
Asia, Africa, other	2,125	0	0	0	1	**2,126**
TOTAL	**25,169**	**1,864**	**166**	**52**	**1,366**	**28,617**
2005						
Europe [1]	12,661	1,614	122	43	1,347	**15,787**
North America	226	0	0	0	14	**240**
Central and South America	9,123	0	0	0	13	**9,136**
Asia, Africa, other	1,663	0	0	0	1	**1,664**
TOTAL	**23,673**	**1,614**	**122**	**43**	**1,375**	**26,827**
CHANGE 2007 VS 2006						
Europe [1]	773	818	25	43	-750	**909**
North America	-3	0	3	0	0	**0**
Central and South America	745	0	1	0	0	**746**
Asia, Africa, other	540	0	1	0	0	**541**
TOTAL	**2,055**	**818**	**30**	**43**	**-750**	**2,196**
CHANGE 2007 VS 2005						
Europe [1]	1,105	1,068	69	52	-748	**1,546**
North America	36	0	3	0	-14	**25**
Central and South America	1,408	0	1	0	3	**1,412**
Asia, Africa, other	1,002	0	1	0	0	**1,003**
TOTAL	**3,551**	**1,068**	**74**	**52**	**-759**	**3,986**

* OTHER BUSINESSES include the workforce of the companies: Pirelli & C Ambiente SpA, Pirelli Eco Technology and PZero Moda

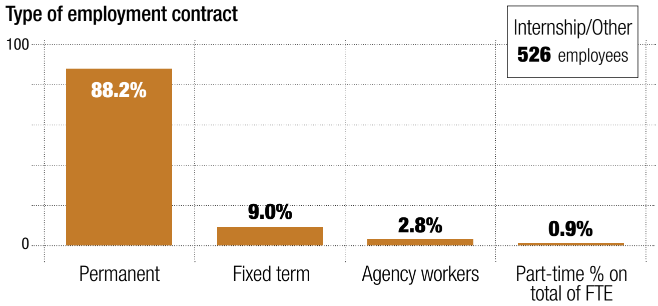
1 also includes Turkey

GROUP'S WORKFORCE TREND

Over the last two years it has been characterised by consistent growth, **+ 3,986 employees** (+2,196 in 2007 and + 1,790 in 2006)

2007

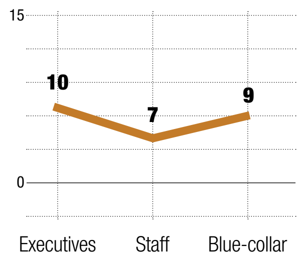
Type of employment contract



New hirings
5,630 employees

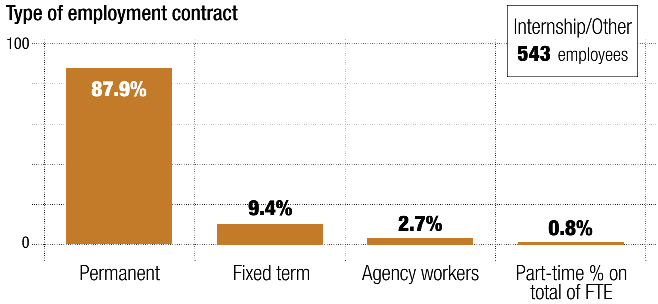
Employees leavings
3,504 lavoratori

Average length of service (years)



2006

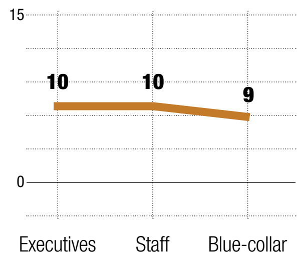
Type of employment contract



New hirings
5,016 employees

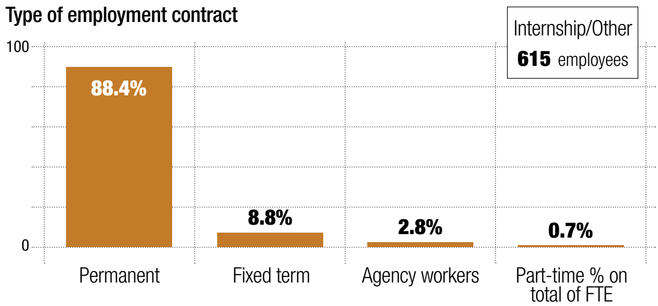
Employees leavings
3,156

Average length of service (years)



2005

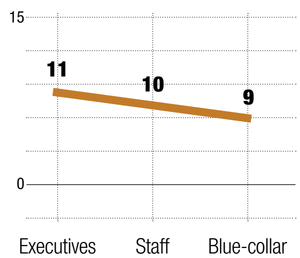
Type of employment contract



New hirings
3,588 employees

Employees leavings
2,511

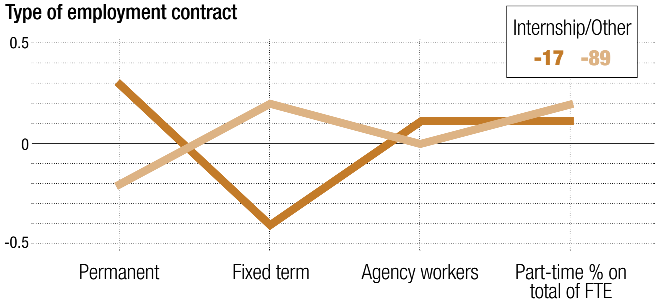
Average length of service (years)



DELTA

2007 vs 2006 — 2007 vs 2005

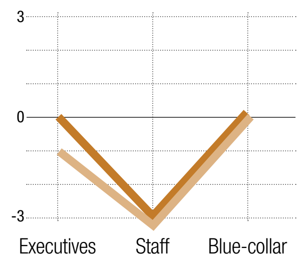
Type of employment contract



New hirings
614 2,042

Employees leavings
348 993

Average length of service (years)



The trend in the Group's workforce over the last two years has been characterised by consistent growth (+ 3,986 employees in total, +2,196 in 2007 and +1,790 in 2006), due to the hiring, by Pirelli Tyre, of personnel to strengthen the new industrial plants in China and Romania, the increased labour workforce in Brazil as a result of the changes in the work pattern (in the Campinas and Gravatai factories) and the increased production volumes in Feira de Santana, Gravatai and Santo André. As for Pirelli RE, compared to 2005, an increase of 1,068 employees was recorded mainly due to the takeover of the company Credit Servicing in the NPL sector, the strengthening of the presence in Facility Management through the purchase of Ingest from the Fiat Group and the expansion in Germany with the acquisition of DGAG. Also in Germany, the acquisition is about to be completed of the whole of the service division of the affiliate Baubecon, a company with 298 employees.

As regards the annual movements of incoming and outgoing personnel, seasonal work should be taken into account, a typical phenomenon in the tyre sector that requires temporary blue collars to stand in for permanent workers (a total of approx. 700 people in Germany and Turkey) to maintain production volumes constant during the summer months.

The Group does not employ anyone under the age of 14. The tyre sector employs 51 young workers between 16 and 18 years of age (35 in Brazil, 1 in the UK and 15 in Germany) and as an exception 9 young workers between 14 and 16 years of age (8 in Brazil and 1 in Germany), as part of training and induction schemes in compliance with local laws.

HR POLICIES

To steer the crucial phases of integration and development of human resources, Pirelli applies an extensive policy system both at Group and Sector/foreign affiliate company level.

Salary Review policies are applied locally by individual countries except for procedures involving Group Executives and key resources involved in international mobility schemes, as these categories are centrally coordinated by the Group Parent Company according to a common rationale and respecting the requirements of an international Management team. In 2007, the use of the Development Centre coordinated by the Group Parent Company and focused on objectively assessing the potential of individual candidates for the assignment process of new executives became firmly established.

This is also closely linked to the policies relating to **performance assessment and improvement**. In 2007, a new tool was launched at Group level, aimed at increasing the transparency of supervisor - worker relations and to further clarify the targets and roles of the company staff. The new system, available on-line in many countries, involves all the Group's staff, cadres and executives.

All executives and 60% of cadres take part in the **Group annual incentive scheme (MBO – Management by Objectives)**, which sets clear Group/Business/Country and individual economic-financial targets, and pays out bonuses varying according to assessment and the extent to which these targets are achieved. This process, which is managed centrally according to a common set of rules for the whole Group, is accompanied by other schemes implemented by the individual Affiliates.

The **"International Mobility Policy"**, of considerable strategic value in the development of leadership within the Business, deserves special attention. Over the past ten years, an average of around 250 people, including executives, cadres and staff of various nationalities and cultures, have yearly compared notes, developed professional skills and exploited new managerial opportunities, thus contributing to building a truly international Group.
Many aspects of the global labour market have demanded a more flexible approach to the international framework that can readily meet both the requirements of the organisation and its individuals. The current Policy provides flexible responses to requests/demands that were once perceived as an obstacle to international mobility, i.e. dual careers (considering the partner's work-related/personal needs), family requirements, different schooling systems, etc.
Also worth noting is the emergence of the phenomenon of short-term assignments (involving a short term stay abroad of less than six months) as a tool to provide qualified technical support and know-how to affiliates in the start-up phase (6% of the total number of personnel transferred abroad in 2007, set to increase to 10% in 2008).

Lastly, international mobility, perceived as a real development opportunity, is also an instrument of support for the Group's Equal Opportunities project. At the close of 2007, the percentage of women out of the total number of personnel transferred abroad was around 15% (in line with 2006). A figure that, also thanks to the greater flexibility being adopted, should increase in the coming years.

THE GROUP'S EQUAL OPPORTUNITIES PROJECT

In 2007, the focus of this Project became increasingly international. In July 2007, the company held an **international training day** in Milan for the CSR Referents of the Group Affiliates, the Country Equal Opportunity Managers and the HR Managers. The training covered the fundamental aspects of sustainable management, group targets, the international expansion of the equal opportunities project and the associated methods for promoting diversity. Inaugurated by the Chairman, the training day included addresses by representatives from the academic and consultancy worlds and a presentation by the Head of European Diversity of the investment bank Lehman Brothers. The Equal Opportunity Managers were assigned the task of setting out local development plans for the project to be implemented from the last quarter of 2007.

In terms of **communication**, in 2007 an area dedicated to equal opportunities was set up in the company **Intranet** to facilitate the sharing of experiences and activities from different countries. All the employees were also distributed **leaflets** describing the main contents of the project, translated into their respective languages.

The Equal Opportunities Project leaflet distributed to all Group employees

With regard to **training**, which has long been recognised as a fundamental tool in promoting the cultural change associated with the promotion of diversity, an initiative was launched in March 2007 aimed at the family of HR managers. During the year, a module dedicated to sustainability and the Group's Equal Opportunity principles was also introduced into the *"Pirelli's way Joining the Group"*, a special course for new recruits, involving over 200 people in 2007.

In Italy, the **Internal Equal Opportunities Complaint Procedures** were set up and communicated to all the employees in both paper form and through the Intranet. The aim of these Procedures, in compliance with the regulations in force, is to uncover any cases of sexual harassment and/or discrimination in the workplace, allowing employees to directly report these events solely to their Equal Opportunities Manager (thus overcoming the usual hierarchical and departmental barriers). These procedures were put into action once in 2007. The introduction of similar procedures has been completed in the majority of countries where the Group operates.

To **monitor compliance** right from the recruitment phases with the Equal Opportunities principles set out by the Group, at the beginning of 2008 a control mechanism will be introduced, involving the completion of an anonymous questionnaire by each of the candidates interviewed by the company.
Compliance with the Group's equal opportunities principles is also monitored through the **Group Opinion Survey**, already implemented in Settimo Torinese facilities and due to be extended to all group employees during 2008.

As regards **work-life balance** initiatives, the agreement concluded with the Bicocca crèche in 2006 came into force with 15 places assigned to the children of Pirelli staff. A decision was also made to open a company crèche, to be located in the new building under construction in the Bicocca (due to be completed by the end of 2009). These initiatives accompany those already implemented or underway in the various Group Affiliates.

Concerning the **breakdown of the workforce by gender**, figures as at 31 December 2007 show around 20% of females (unchanged from 2006) in managerial positions, 38% of females (compared to 36% in both 2006 and 2005) in staff positions and 4% (against 3% recorded in 2006 and 2% in 2005) in the labour group. The dynamics have improved compared to last year, due to specific positive actions implemented to increase female presence from recruitment onwards.

Corporate activities on the subject of diversity and its recognition have included the following:

1. The Equal Opportunities Project took part in the **Sodalitas Social Award 2007**, an official award for businesses that have distinguished themselves over the year for the activities in the field of Corporate Social Responsibility. Pirelli received the **"Special Mention"** Prize within the "Valuing of Human Capital" category *"… for having achieved the objective at Group level of promoting diversity in all its business processes and having guaranteed genuine equality of treatment for all its employees in every sector, role and grade, with a positive impact on employment…"*. The Project has been also included in the ***Libro d'oro della Responsabilità Sociale*** (the gold book of corporate social responsibility), edited by Sodalitas.

2. Within the **European Alliance for CSR**, Pirelli made its contribution to the "**Workshop on Equal Opportunities**" in the area of careers. This generated a toolkit containing best practices for the management of gender diversity, including Pirelli's Equal Opportunities Project. These practices are set out in key operating procedures aimed at the businesses that have understood the competitive importance of promoting diversity, have decided to put it into action and intend to draw on existing best practices. The toolkit was presented by Sodalitas on 29 November 2007 in Brussels, during the third Marketplace on CSR, organised by CSR Europe.

3. The Pirelli Equal Opportunities project, judged to be an example of promotion and safeguarding of diversity, was **included in the guide *Riscrivere il lavoro al femminile*** (restructuring work to meet women's needs). This manual of business best practices in support of Equal Gender Opportunities, financed by the Province of Bologna, with funding from the European Social Fund, is geared towards the promotion of female human resources in production. Based on the analysis of a number of businesses, several useful tools have been identified to address the issue of Diversity Man-

agement. Pirelli contributed to this "inventory" by providing its experience in the setting up and implementation of the Equal Opportunities project

4. The project was also presented during the conference **Equal opportunities for all in education and at work** held in Rome on 21 March 2007, organised by the Prime Minister's Office - Department for Rights and Equal Opportunities, as part of the initiatives for the European Year of Equal Opportunities.

The Equal Opportunities Project has been included in the *Libro d'oro della Responsabilità Sociale* (the gold book of corporate social responsibility)

SELECTION, TRAINING & DEVELOPMENT

Selection: Talent Attraction initiatives and tools, and Employer Branding

To steer the crucial phases of integration and development of human resources, Pirelli Group implements an extensive policy system at both Group (Corporate initiatives) and Sector/foreign affiliate Company level. Policies that define and regulate the **Personnel Research & Selection** process are implemented locally by affiliates, in accordance with practices and local regulations in force. In Italy, the screening process for recent graduates, for example, is centralised and managed by the HR (Human Resources & Organisation) Department during the first stage of CV sourcing and screening. This stage is followed by assessments based on group dynamics, tests and individual interviews, with the collaboration of a specialized external company. Finally, in-depth interviews are conducted directly with the Line Manager

www.pirelli.com > Career

who is assisted by the HR Department. Candidates who receive a positive assessment are inducted into the Company through a training and orientation track.

Talent Attraction initiatives used by the Group to present itself include:

— **Employer Branding**: choice of key universities/faculties/ Master's Degree courses; brand management and Pirelli's presence there through contacts, corporate presentations, case histories, practical training sessions and recruitment days with Line Managers from the various departments/business areas, held in leading universities in Italy, Romania, China and Brazil. In 2007, this attracted an average of 600 recent graduate applications a month in Italy alone.

— **Career Days:** days dedicated to direct contact with graduates, under-graduates and young professionals in the main university cities. In 2007, participation in career days – a key employer branding tool – saw the setting up of Pirelli stands in 7 Italian universities (the Bocconi, the Polytechnic, the Bicocca, and the Catholic universities in Milan, Bari and Turin), in 2 Engineering Universities in Turkey (Istanbul and Ankara) and in 2 Business Schools in Spain (Barcelona). The first Romanian career day was also held in the university city of Craiova.

— **Career Books:** a tool for work orientation, postgraduate training and communication targeted at undergraduates, recent graduates and young professionals. These guides are organised into three sections (postgraduate orientation, company profile and training) and are distributed in placement offices in universities, orientation offices, internship programmes, associations for graduates, bookshops and during Career Days.

— **"POLITONG":** was launched in collaboration with the POLITONG project, involving the Polytechnics of Milan and Turin and the Tongji University of Shanghai. Italian and Chinese students, after having attended courses taught in English together and in alternate years in the two countries, can obtain a degree recognised in both China and Italy and thus enabling them to integrate more rapidly into businesses operating in the competitive Chinese market.

The variety of initiatives aimed at the university world has led to a significant increase in the number of applications from candidates and this year, in Italy alone, has resulted in the selection of around seventy young recent graduates who have been successfully inducted into the company. In this regard, the following were organised in 2007:

— **Interview simulation at the Bocconi University of Milan:** several Pirelli managers were available to the students of specialist degree courses to simulate individual selection interviews. At the end of each encounter feedback was provided on the handling of the interview, highlighting any strengths and areas for improvement.

— **Student Open Day:** groups of school and university students were invited to Pirelli for a whole day, which included organised visits and guided tour of the research laboratories, testing units and production sites.

— **Global Management Challenge:** in 2007, Pirelli took part in an international business strategy tournament, based on a business game, supporting 3 teams of students (2 from the Polytechnic of Milan and one from Bocconi).

— **Executives in classroom:** in 2007, Pirelli managers gave around 20 presentations/lectures at the key universities.

— **New advertising campaign:** entitled *Immagine del seggiolone* (literally "picture of the highchair"), launched at the end of 2007 to attract young graduate talent. It will be used in the website, in brochures and posters in universities, in personnel recruitment adverts and all the attraction initiatives aimed at the world of recent graduates.

The 2007 advertising campaign entitled "Immagine del seggiolone" (literally "picture of the highchair")

Training & Development: Initiatives and Tools for the mapping, assessment, training and development of human resources

Summarised below are the Group's main tools used to support the processes of assessment and development of the company staff.

— **Skills Catalogue:** geared towards creating a shared set of guidelines for setting out training activities, to meet the needs in terms of the development of skills and the organisational behaviour required of Pirelli Group employees. Reference skills (grouped into 10 categories for ease of identification) were identified by the Top Management during the Pirelli Values certification process.

— **Tools for Assessing Potential:** Assessment Centres, Development Centres and overall Feedback Questionnaires support both awareness raising sessions and the monitoring of managerial potential. These tools are also used in the Group Talent development framework (during the various phases of corporate life) and to provide a snapshot of the population of the various of professional families.

— **Performance gauging Tool:** launched at Group level in 2007. Assessment is based on the objectives, agreed with managers, to be achieved during the year, the level of expertise with respect to the skills of the respective professional family and the training/development undergone to achieve the objectives. In 2007, this tool was used on-line in Italy, Turkey, Brazil, Argentina and Venezuela. In 2008, its on-line use will be extended to Spain, German, the UK, Romania and Egypt. Paper forms will be employed in the other countries. Staff managers have been provided with appropriate training to facilitate their understanding of the assessment process and the application of this tool.

— **Development of Skills by Professional Area:** this includes training programmes that are geared towards improving, deep-rooting and spreading the expertise of specific professional areas (e.g. Administration and Control; Sales and Marketing; Manufacturing and Quality; Personnel; and R&D), focusing on the professional skills required to achieve professional excellence. The Talents required for the various roles are highlighted.

— **"Global Grade System" Manual:** a list of the "standard positions", i.e. illustrative schedules of the various positions, focusing on technical-professional skills, abilities/traits, background and organisational structure. The manual provides support for the designation of specific roles, recruitment, job posting, organisational charts, pay schemes, development plans, and target setting for incentive schemes.

The main Group Training Projects

The most important Training projects conducted at Group level for the main professional categories are listed below.

— **Managerial Development in China:** between the end of 2006 and the start of 2007, a Development Centre programme was organised for a group of 50 managers, to enable each of them to assess their skills and set out a personal training programme. The Development Centre results led to the establishment of appropriate training courses and skill enhancement initiatives.

— **Intercultural Management in China:** the workshop cycle continued in 2007, aimed at developing skills in recognising differences between the European and Chinese "cultural frameworks", and gaining a more detailed understanding of China's macroeconomic framework.

— **Setting out of the Training programme for Romania:** training opportunities, particularly for "on the job" training, were organised for the start-up phase of the new Tyre production plant. Staff received prolonged training (approx. 3–4 months) according to their role. Topics of discussion included Group values, its Ethical Code and multicultural differences. In the second half of 2007, as in China, a Development Centre was organised for around 40 managers and professionals. Also in this case, the results of the Development Centre will be implemented in 2008 to develop a structured and stable long term training programme.

— **"Best Seller" Project for the Italian Sales Force:** at the end of 2007 work started on a training project, to be launched in 2008, for the Italian Sales Force. It is aimed at making Pirelli's selling proposition more incisive through the use, by sales staff, of new/different methods of approaching customers. The focus will be on relations between the sales force and customers, to make them more effective and mutually beneficial.

— **Team Coaching (Motorcycles Business Unit and Pirelli Information Systems):** two major coaching projects were implemented in 2007. The first, involving the Motorcycles BU, was a response to the change of direction in 2007 and was geared to providing support in addressing the cultural change involved. The aim was to promote an independent managerial and decision making style within the team and in particular among the managers reporting directly to the Director, in support of a culture of feedback and development of human resources. It also sought to improve conflict management within the team and increase its openness to the other Pirelli Group functions. The project initially involved individual and team coaching, followed by training in support of the areas of improvement/objectives emerging from the coaching. The other project involved the Pirelli Information Systems within Pirelli Tyre, and arose from the need to revitalise relations between certain parts of the group, making them more constructive and transparent, in order to strengthen team spirit. The first stage focused on the experiences of the participants taking part in a series of practical exercises, whereas the second involved the analysis and systemisation of the behaviours that emerged.

— **Fostering ACF Skills:** this training programme for the professional family "Administration, Control and Finance" has been developed and managed in association with SDA Bocconi. Launched in 2006, it focuses on the Administration & Control and Finance Functions. Its main aims are to enhance specific "technical" expertise and managerial skills, and increase the sense of belonging within the professional family. The Programme continued in 2007 and will conclude in 2008.

— **Running the Market:** the first stage of this project involved the mapping of the commercial skills required in the European area. A training programme designed to fill skill gaps and develop role skills was then developed on the basis of the results. The training course involves technical and behavioural skills modules. It is targeted at Top and Middle Managers in the commercial division and Sales Agents. In 2007, the focus was on the technical/professional training of Sales Agents and Middle Managers, whereas in 2008 it will concentrate on both technical and behavioural training for Top Managers and behavioural training for Middle Managers and Sales Agents.

— **Building Purchasing Competencies 2007 – 2008:** in 2006 and 2007 the Purchasing Department organised international training courses at the European Institute for Purchasing Management, for managers from Italy and other affiliates. The duration of the courses ranged from three weeks to a year. This training programme will be continued in 2008, "tailored" to the specific needs of the participants and organised within the Group's offices.

— **Italy Catalogue, General Catalogue and Specific Catalogue for Research and Development:** a range of courses are on offer aimed at developing cross-disciplinary skills for all the professional families, accompanied by specific courses for Research and Development staff. Subscription takes place through the Learning Lab portal in the Intranet. Since 2007, employees have also had access to available training through the on-line Performance Management system mentioned above. This has enabled the precise planning of training needs, assessed in conjunction with the identification of annual targets. The wide variety of topics covered by the available training courses includes **Fostering Diversity**, specifically targeted at Professionals, Managers and Executives based abroad or who have significant interaction at international level.

The Group has focused particular attention on the **planning of the training scheduled for 2008 at the Turin Industrial Centre**.

Indeed, in 2007 a study was initiated of the technical, managerial and behavioural training and retraining programme for all the workers at the new Pirelli Technical Centre in Turin. The aim is to transfer the necessary skills and behaviour to ensure the highest standards of quality, production, technology and safety. In 2007, work focused on the design of introductory modules on health, safety and the environment; our customers and our markets; our new factory and lean production; the rules of the organisation; and Sustainability with a focus on Equal Opportunities. The courses will be provided in 2008 and will involve each employee in a series of sequential and integrated training sessions, with intermediate phases of work/on the job training.

In addition to the design of the training programme, by January 2008 the Group, for the first time, will **conduct a survey on En-**

gagement and the Work Climate at its tyre plants in Settimo Torinese, with the aid of the consultancy firm Towers Perrin-ISR. The survey will involve 1,600 blue collar and staff.
The main objectives are to:

- Provide continuous measurement of the level of Engagement of the workers employed in the plants.
- Identify perceived strengths and critical issues in order to set out appropriate improvement measures.
- Identify tools to improve Engagement and the acceptance of change (Settimo Torinese).
- Develop a single tool to assess the employees' engagement with the Group's mission and values and to systematically measure their opinion in the future.

The communication of the Project has focused strongly on anonymity, transparency and clarity in relation to the objectives, methodology, and the release of the survey results. On completion of the distributed questionnaire, Towers Perrin-ISR will interpret the results for the next step, which will involve the presentation of the overall results, highlighting the main indications of the priority improvements to be made.

Cover of the questionnaire *"Qual è la tua opinione?"* ("What's your opinion?") addressed to Settimo Torinese employees

Training modules will be provided over the next three years in the following areas: organisational model and company rules, health safety and environment, quality and technology, work processes, installations and maintenance, planning and production efficiency, continuous improvement, communication, team working, problem solving and decision making. Specific training courses will be developed for certain key positions, designed to address the responsibilities and objectives of specific roles within the organisational model. For example, the production assistant will have specific training sessions focusing on the enhancement of skills for the management and motivation of co-workers. Finally, there will also be modules addressing the use and management of processes relating to the new technology from the research and development programmes, such as Next MIRS.

Group training on sustainability: during the course of 2008, extensive training will be provided on sustainability at all the Group Affiliates.

"Organisational Model" Course – Italy: from the start of 2008, an on-line training course will be provided to all Italian employees to present the Organisational Model, which Pirelli has made significant changes to following the recent developments in the Regulation No. 231.

Main development initiatives – "Talent assessment & development"

The main initiative in terms of talent assessment and development is the **Career Development Programme**, organised, managed and coordinated at Group level. The objective is to support High Potential Personnel over the course of their professional career. The programme involves Development Centres (at Local, Group and Individual level) dedicated to the analysis, assessment and development of the skills that make up the Pirelli managerial model.

In 2007, Local Development Centres, conducted in the local languages, were started up in the countries where Pirelli has its production facilities (Italy, UK, Spain, Germany, Romania, Turkey, Brazil, and Argentina). In 2008, two editions are due to be held in China. The Group Development Centres, in English or Italian, take place in Italy and are targeted at High Potential Personnel who have been with the company for 4 to 7 years.

The table below shows the number of Local Development Centre editions held in 2007 in the various countries together with the number of participants.

LOCAL DEVELOPMENT CENTRE IN 2007

Country	Company	Editions	Participants
Brazil	Brasil Pirelli Pneus SA	2	24
Germany	Pirelli Deutschland Gmbh	1	12
Italy	Pirelli & C, Pirelli Tyre, Pirelli Labs, Pirelli BBS	3	38
Spain	Spain PINSA	1	8
Turkey	Turk Pirelli Lastikleri AS	2	20
UK	Pirelli Tyre Ltd	1	13
Argentina	Pirelli Neumaticos	1	16
Romania	Pirelli Tyre Romania	1	8
TOTAL		**12**	**139**

The number of participants in the 6 Group Development Centre editions held in 2007, broken down by country of origin, are shown below.

GROUP DEVELOPMENT CENTRE IN 2007

Country	Company	Participants
Brazil	Brasil Pirelli Pneus SA	5
Germany	Pirelli Deutschland Gmbh	10
Argentina	Pirelli SA	2
Turkey	Turk Pirelli Lastikleri AS	2
UK	Pirelli Tyre Ltd	2
Spain	Pirelli Neumaticos	4
Egypt	Egypt Pirelli PATCO	3
Greece	Pirelli Elastika	1
Singapore	Pirelli Singapore	1
Romania	Pirelli Tyre Romania	2
Italy	Pirelli & C	3
	Pirelli Tyre	40
	Pirelli LABS	6
	Pirelli BBS	4
	Pirelli Ambiente	1
	SSC	4
TOTAL		**90**

Together with the Development Centres, candidates is offered the opportunity of understanding the business complexity and company strategies by attending seminars on *Understanding Business Complexity, Managing Growing Complexity, and Developing Managerial Excellence*, organised in association with the best European Business Schools. A summary description of the contents of these three workshops is provided below:

1. **Understanding Business Complexity (UBC):** designed to facilitate the understanding of business complexity and develop the ability to read the competitive scenario and its evolution. The seminar alternates between lessons, case histories, and case studies, encouraging the comparison of the experiences of the participants from different cultures, businesses and corporate functions.

2. **Managing Growing Complexity (MGC):** designed to develop the ability to handle complex situations and to make

strategic decisions. It alternates between sessions on improving the ability to read the macroeconomic scenario and trends, studies of company success stories that have involved creating and obtaining a competitive advantage, and phases designed to improve leadership, especially with regard to achieving results through the support provided for the setting out of well structured development plans.

3. **Developing Managerial Excellence (DME):** a veritable compact Executive Masters course aimed at the Group's Key Executives, running over a period of 8 days. The main objective is to strengthen key skills in the following areas:
   - Functioning of financial markets.
   - Strategic market analysis.
   - Organisational planning.
   - Results measurement.
   - People management.

The tables below show the number of participants in the UBC and MGC seminars in 2007, 2006 and 2005, broken down by country of origin.

UNDERSTANDING BUSINESS COMPLEXITY - UBC

	Italy	Germany	Spain	Turkey	Brazil	UK	China	Egypt	France	Argentina	USA	Venezuela	Mexico	COM Units	TOTAL
2007	18	8	2	5	16	2	5	1	1						**58**
2006	10	2	1	1	2	2				1					**19**
2005	23	3	2		5	4	1		1		1	1	1	1	**43**

MANAGING GROWING COMPLEXITY - MGC

	Italy	Germany	Spain	Turkey	Brazil	UK	China	Egypt	Romania	Singapore	USA	Australia	Hungary	Middle East	TOTAL
2007	27	8			4	2	4	3	1	1					**50**
2006	12	3		1	1	1		2							**20**
2005	21	5	1		4	2					3	1	1	1	**39**

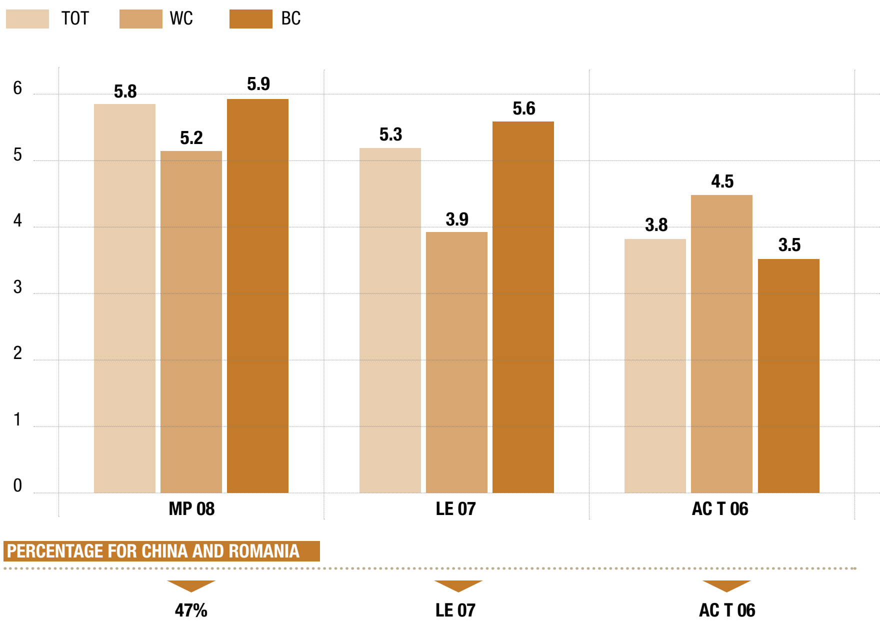
DEVELOPING MANAGERIAL EXCELLENCE - DME

	Italy	Germany	Japan	Greece	France	UK	Romania	China	Turkey	Brazil	Russia	Canada	TOTAL
2007	10	4			1	2	1	2	1			1	**22**
2006	13	1	1	1						2			**18**
2005	10					1				1	1		**19**

SUMMARY FIGURES FOR TRAINING & DEVELOPMENT

The table below shows the average number of days of training & development per person broken down into Blue Collar and Staff for 2006 and 2007, together with a forecast for 2008. The increase in 2007 in Europe was due to the intensification of standard training for management, the increased investment in the Career Development Programme and the initiatives implemented for the specific professional families. Finally, significant investment in training was made (and will continue in 2008) in the new production facilities (China and Romania).

NO. DAYS TRAINING PER PERSON



INTERNAL COMMUNICATION

Communication channels

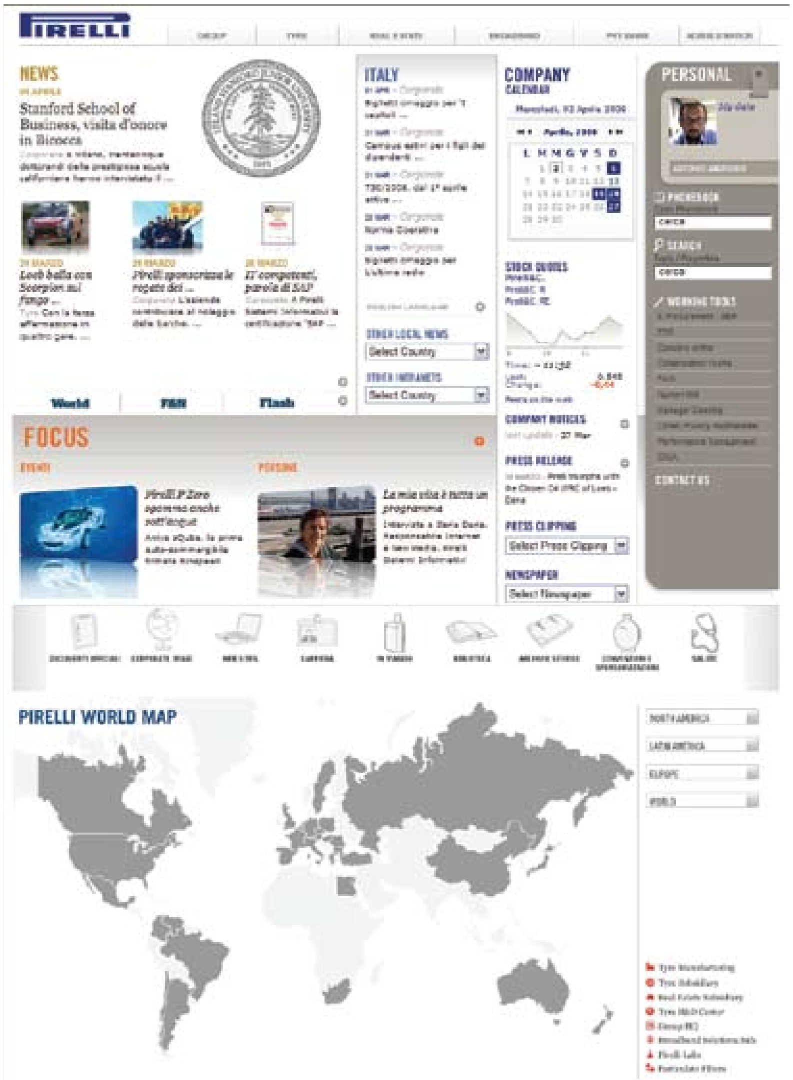
In 2007, internal communication was subject to an extensive rethink at Corporate level.
This led to the renewal of the two main tools for information and interaction with employees, the Intranet and the corporate press, together with the development of several communication initiatives targeted at employees, like the "CSR Company" campaign.

The common objectives are to refocus communication on the employee and to produce content that is useful, interesting and engaging for the employee, using a common language, with as little formal and technical jargon as possible.

The Intranet

Pirelli was one of the first Italian companies to set up its own **worldwide Intranet**. Over the years this portal has undergone several different phases of development, mainly of a technological nature, with the introduction of new functions designed to facilitate the operations of the various businesses.

In 2007, the Intranet was the subject of a study by a cross-disciplinary team, which set out a plan of preliminary interventions to be implemented over three years. The first stage focused on Group communication with a structural change to the home page, representing the access point used by all the employees. The objective was the sharing of information between companies, between functions and businesses, and between individuals, through the creation of a constant and coordinated news flow, in order to strengthen the sense of belonging to the company and to empower individual employees. A central editorial function has been set up, tasked with news gathering and production at Corporate level, together with a network of local "scanners" to pick up news in their respective areas. This structure ensures wide ranging, up-to-date and highly effective reporting, thanks to a style of communication that makes full use of the latest multimedia tools and interactivity and adapts to changes in surfing habits.



Pirelli Intranet home page

The first stage has also involved a complete reorganisation of the document content to make it more user friendly. Identification is intuitive, i.e. icon based, as part of a wider ranging graphic restyling designed to facilitate consultation.

New interactive functions will follow to create employee-to-employee flows within the on-line “community”.

Pirelli Corporate Press

As described in detail in the previous edition of the Sustainability Report, at the end of 2006 the Group had **28 magazines**, edited by its affiliates and branches all over the world, with many different formats, but consistent with the specific features of each market. In 2007, there were no significant changes in numbers, instead the most recent publications were enhanced and, at Corporate level, a project team was set up to **reorganise** the corporate press.

The project focused on the three long-standing magazines published by the Group in Italy: *Pirelli Flash*, *Fatti&Notizie* and *Pirelli World*. For *Pirelli Flash*, an information tool traditionally targeted at blue collar workers, the work focused on its **updating**, transforming it from a monthly magazine into an online bulletin updated directly by factory managers in real time.

The bimonthly magazine *Fatti&Notizie* was subject to a rethink of its content, language style, graphics, format and distribution. **A complete overhaul**, to talk about company life from the inside, based on a “team” approach that shakes off the last remnants of top down communication. The new editorial format of the magazine, whose first edition will come out in February 2008, will include interviews with employees, focus articles on topics of direct interest to Italian readers, and encouragement for employees to make themselves heard.

The new *Fatti&Notizie*

The quarterly publication *Pirelli World*, originally a magazine targeted at the Group's management around the world, has attracted a considerable outside readership in recent years to the extent that in some countries it plays a significant role in promoting the Group's image. The overhaul project is designed to expand this process, **opening the publication up to the external community** by redefining not only its public, but also its content and writers. This shift of emphasis is reflected in the modern and attractive graphics, which also reinforce its role of image promotion.

The study of the **second stage** of the corporate press reorganisation project is currently underway, aimed at the harmonious and coordinated transfer of the main elements of the Group identity to all the Pirelli publications, whilst maintaining the added value of the specific local characteristics.

www.pirelli.com > **Media** > **Comunicazione** > **Internal Magazine**

The "CSR Company" campaign

In the second half of 2007, **a communication and awareness raising campaign** was launched targeted at all Group employees, in their respective languages, on the meaning of sustainability and its integration into Pirelli's operations. The "CSR Company" brochure was introduced by a message from the Chairman to all the workers and accompanied by a form through which the workers could provide anonymous feedback of their thoughts on sustainability and suggestions for the improvement of the company's performance in this area.

The "CSR Company" brochure distributed to all Group employees

The results of the survey will be made available to all Group employees in the first half of 2008, through a widespread communication project.

The campaign featured the following:

— Distribution to all the employees of a leaflet on CSR in Pirelli, translated into the local languages.

— Setting up in all the company entrances of stands dedicated to the communication and distribution of the leaflets to **employees, supplier and customers**.
— A survey of employees (through the distribution of anonymous feedback forms to be placed in the stands) aimed at obtaining suggestions for improvements to be made for CSR.
— Creation of areas dedicated to the subject on the Group Intranet.

Group Opinion Survey

In 2006, we saw the widespread communication of the results emerging from the first worldwide opinion survey launched by Pirelli in November 2005. Following a detailed analysis, differentiated by country, professional family and business, the results were published on the corporate Intranet under these segmentations. This communication was accompanied by information and feedback sessions initially involving Country Managers and Central Department Directors and, gradually, extended to the other levels in each facility (through ad hoc focus groups) to share and interpret the results and to encourage the identification of targeted actions for improvement.

This carefully structured and wide-ranging initiative was geared towards launching projects in 2006 and 2007 encouraging greater focus on effective internal communication (between Functions, between managers and workers, and between the company and individual employees). In 2007, the following projects were implemented:

— Introduction of a **new Performance Management system**, designed to increase transparency and feedback in relations between managers and workers.
— **Redesign of the Group's international Career Development system**, to provide more opportunities and focus on the assessment and improvement of skills for professional development.
— **Completion of the worldwide Equal Opportunities Project**, as described in the specific section on this subject.
— **An opinion survey** of blue collar and staff in the two Settimo Torinese plants, geared towards gathering opportunities and requests for improvement in view of the establishment of the New Industrial Centre

Given the high participation rates in this first worldwide opinion survey (approx. 70%), a sign of the engagement and desire of employees to contribute towards continuous improvement for the Pirelli Group, **a second edition of the survey will be conducted in 2008** that, in addition to Management and Staff, will also involve Blue Collar workers from the production sites at the centre of technological and skill transformations (Romania and Brazil).

Pirelli Real Estate, which has now conducted three annual opinion surveys of its employees, has set out an **improvement plan based on the results**, which has been communicated via the Intranet. Indeed, 2007 saw the implementation of the action plan that emerged from the 2006 survey. Following a benchmark analysis against other companies, it was decided to schedule staff satisfaction surveys every two years instead of the yearly surveys that have been conducted to date. This will allow a more realistic assessment of the impact, on the corporate climate, of the actions implemented, which usually take effect over the medium rather than the short term..

COMPANY INITIATIVES FOR THE INTERNAL COMMUNITY

Focus on Romania

As in 2006, Pirelli has included a specific focus on one of its geographical areas of operations in this year's sustainability report. For 2007, the choice was Romania where a new industrial and technology centre of international importance is nearing completion, for a total investment of 235 million euro.

In line with its tradition of establishing firm roots in the countries where it operates, Pirelli has accompanied the project for the new industrial complex with a series of initiatives in support of the training and the wellbeing of its employees, their families and the local community.

In Romania, and in Slatina in particular, the integration of young people into the social environment is clearly a problem, also due to the lack of meeting places and opportunities. Pirelli, as part of its process of establishing a strong local presence, identified the need for intervention in this area. Indeed, in 2007, festivals and social events were organised like the **Soccer Tournament** and the **Fishing Tournament**, which represented opportunities to bring people together to socialise and share experiences, characterised by fair competition, respect for the rules and the learning of teamwork.

Soccer tournament in Slatina

In 2007, a **Steering Committee** was set up with the task of continuously monitoring the areas of intervention and assessing the procedures for the implementation of the related projects, which led to the execution of a series of extremely important initiatives in the area of social responsibility, such as the opening of a new infirmary and the sponsoring of the **"Overland for Smile"** project. The latter is a travelling humanitarian project aimed at providing practical dental care assistance for children in Romanian orphanages, involving dentists, dental hygienists and dental assistants, who have decided to spend part of their spare time providing free treatment to orphans. Pirelli's association with the project in September 2007 enabled the children of our Romanian employees to receive a free dental check-up.

To provide assistance for studies, annual grants will be awarded for the children of employees, as well as financial contributions for post-graduate courses. Specifically, a **cooperation agreement** has been signed **between the University of Craiova and the Silvio Tronchetti Provera Foundation** involving a programme of intensive training based on post-graduate courses and shared areas of research. The aim is to achieve the implementation in Pirelli of RFID technology (Radio Frequency Identification) to track all the different tyre processing stages, thus ensuring increasingly high quality and safety standards.

Pirelli Romania supports its employees by providing them, in addition to opportunities to socialise and have fun, like during Pirelli Days and public holidays, with specific contributions aimed at improving their and their families' quality of life and wellbeing.

INDUSTRIAL RELATIONS

The Group Industrial relations are conducted on the basis of constructive dialogue, fairness and respect of the various roles involved. Guaranteeing and respecting employees' freedom to engage in union activities has always been one of the company's core principles.

Relations and negotiations with Trade Unions take place locally, in accordance with the laws, the national and/or company-level collective agreements and the prevailing customs and practices in each country. These are accompanied by the role played by the Central Functions, which intervene to ensure both the coordination of activities and the respect of the abovementioned principles.

In 2007, Industrial Relations activities saw the achievement of significant negotiation results, with the renewal of the collective agreements in the various Group production plants in Spain, Germany, Argentina and Romania.

In Italy, signature of the union agreement on 13 November 2007 for the development of the new Settimo Torinese Technology and Production Centre, which will integrate the current Settimo Vettura and the Settimo Veicoli Industriali sites, was of major significance. This agreement follows on from Pirelli Tyre framework agreement with the Piedmont Regional Authority, the Turin Provincial Authority, and the Municipality of Settimo

Torinese, which has strengthened dialogue with local administrative authorities.

European Works Council (EWC)

The Pirelli European Works Council (EWC), set up in 1998, holds an ordinary meeting once a year, following the presentation of the Group's financial statements, to be updated on economic performance, financial-economic forecasts, investments made and planned, research progress, etc. The agreement establishing the ECW also allows for the possibility of holding other extraordinary meetings to fulfil its obligations to provide information and consult its delegates in view of transnational events involving significant changes to the corporate structure, i.e. new openings, the restructuring or closure of sites and widespread changes in work organisation. EWC Delegates are provided with the IT tools they need to perform their duties and a connection to the corporate Intranet system, for the real time communication of official company press releases. Following Romania's entry into the European Union, the Council is now made of 12 members.

Compliance with legal and contractual requirements on overtime and time-off

The Pirelli Group policy has always involved compliance with all legal and/or contractual requirements concerning working hours, the use of overtime and the right to regular days of rest. These are often the subject of agreements with both trade unions and individual workers, in line with the many different regulatory contexts.

There are no restrictions to any of the workers' right to use their total number of holidays, and the holiday period is generally agreed between the worker and the company.

Labour and social security lawsuits

In 2007, the level of conflict continued to remain low, generating a very small number of labour and social security lawsuits.

In Brazil, the level of labour-related lawsuits is traditionally high, representing around 90% of the lawsuits currently being brought against the whole Group. This continues to be a very widespread phenomenon, which also affects other multinationals operating in this country. Labour lawsuits are generally initiated when an employment contract is terminated, and they usually involve the interpretation of regulatory, legal and contractual issues that have long been controversial.

Unionisation Levels and Industrial Action

The Group's unionisation levels cannot be calculated precisely, as this information is not available in all the countries. We can

however estimate that about half the Group's employees are trade union members.
The percentage of employees covered by collective agreements in 2007 remains unchanged compared to last year, at around 90%. This percentage is the result of the historical and cultural differences in various national frameworks.

Individual contracts are held by approximately 10% of the employee population, such as the executives worldwide, except for Italy, Managers in the UK, Non Tarifs in Germany, Excluidos in Spain, Senior and Esecutivi in Brazil.

The overall conflict rate recorded in 2007 was very low. Industrial actions during the year were only recorded in Italy and Spain. The industrial action in Spain took place in Manresa production during the renewal of the collective company agreement, whereas in the Italian plants it mainly involved operational issues and disputes over salary policies.

All the above disputes were resolved by agreement between the parties.

Occupational pension plans and healthcare schemes

No significant changes were made in this area in 2007, with the majority of affiliates providing supplementary pension schemes for their employees. The Group has adopted a policy involving the abandonment of defined benefit schemes in favour of defined contribution schemes.

Defined benefit schemes are in place in the UK (involving employees who were hired prior to a particular date, whereas those hired later participate in a defined contribution fund), in the USA (these funds were closed some years ago to active employees in favour of defined contribution funds; since then they only involve retired staff and are not affected by wage increases) and in the Tyre Sector in Germany (the scheme was closed to new recruits in 1982). There are also other defined benefit funds within Pirelli Real Estate in Germany and in Holland for the Tyre Sector, which represent a relatively insignificant liability for the Group.

Pension schemes are generally complemented by insurance policies against death and permanent disability. In Italy, the reform of the supplementary pension fund legislation came into force on 1st January 2007, giving employees of private companies the right to participate in supplementary pension funds, open or closed, and allocate them the severance indemnity starting from 1st January 2007.

The Group affiliates still provide healthcare schemes in compliance with local needs. The schemes differ from country to country in terms of allocation levels and types of cover provided. These schemes are managed by insurance companies or specially created Funds. The company participates by paying a fixed rate, as in Italy, or an insurance premium, as in Brazil and in the USA.

OCCUPATIONAL HEALTH, SAFETY AND HYGIENE

Group companies shall safeguard health and safety in the workplace and consider respect for workers' rights as fundamental to the business (Article 6 of the Ethical Code – Human Resources).

Health, Safety and Hygiene Management complies with the principles set out in the Group's Ethical Code and the *"Group Policy for Health, Safety, Environment and Social Responsibility"*, discussed in the introduction to this report.

The various topics discussed below have been divided under "Pirelli Tyre", "Pirelli Real Estate" and "The Group's Other Sectors/Companies". Further information on the Real Estate Sector is available in the Sustainability Report of the subsidiary Pirelli & C. Real Estate S.p.A., on the web site *www.pirellire.com*.

Safety Management System

Pirelli Tyre S.p.A.

A Safety Management System organised and certified to meet **OHSAS 18001** standards has long been in operation in the Tyre Sector (which also comprises steel cord production plants). At the end of 2007, there were 20 Operating Units certified to this standard out of a total of 24 units. The remaining four production units are also due to achieve certification.

The Safety Management System implemented in the Group's production units has been developed on the basis of centrally drafted common procedures and guidelines. This has enabled the use of a "common language" within the Group, in terms of the key elements of workplace safety management and a uniform shared mode of operations.

A summary description is provided below of some practical examples of safety management.

— **Safety of machines, installations and work environments.**
Pirelli decided many years ago to adopt the same standards of safety all over the world for machines, installations and work environments as those in force in its European facilities, which are regulated by specific community directives.
This decision has resulted, for example, in the installation of machines in the new Yanzhou (China) plant with safety features that are not required by the local legislation.

— **Personal protective equipment.**
In 2007, a project was started up to guarantee a standard level of protection in all facilities. Starting with Europe, a process is underway for the identification of equipment that will guarantee adequate levels of protection to all workers against similar risks and environmental conditions.
This project will involve a progressive standardisation of all the non-European factories.

— **Monitoring and analysis of the priorities of all the projects associated with the improvement of safety in the workplace.**
All the information relating to improvement initiatives has been progressively centralised and, on the basis of assessments shared with all the facilities, the necessary resources have been allocated.

Main objective for 2008
The main focus will be on the reduction of accidents at work, which should see a falling trend in the frequency index (FI), as a result of the continuous improvement programmes underway.

Pirelli Real Estate S.p.A.

Given the nature of Pirelli Real Estate S.p.A.'s operations, which essentially involve "services", a formal certification of the safety management system based on the OHSAS 18001 standards was not deemed necessary. Nevertheless, the corporate organisation has been structured in order to ensure the proper management of issues involving safety at work through: a system for the detection of potential critical situations; the setting out of the actions required for their reduction or removal; and a system for the verification of the implementation and effectiveness of the planned actions.

Following the completion of the process for the delegation of responsibilities for safety management with the associated spending powers, involving the management chains of the various Group Companies, a special awareness raising campaign (information, training, written appointment – assignment of functions – of the designated individuals - safety officers - even when not required) for the "safety officers" was launched in 2007, with particular focus on the Real Estate Affiliates whose operations involve high levels of risk. Raising the awareness of the safety officers should ensure further improvements in the actual level of accident prevention and safety at work given their role and their presence in the workplace.

Since 2006, Safety Department representatives have also participated in the Peripheral Committees for Operational Areas (solely for Pirelli RE Facility's operational areas located throughout Italy, i.e. Milan, Turin, Genoa, Verona, Rome, Pozzuoli, Naples and Palermo) to raise awareness among all operational area personnel on issues involving Health, Safety, Accident Prevention and Hygiene at work.

Since March 2005, Prevention and Protection Managers have been present in all Pirelli RE Facility's local operational areas (Milan, Turin, Verona, Genoa, Rome, Pozzuoli and Palermo), with a dedicated department operating centrally for the other Group companies.
In addition to receiving the legally required training, appointed personnel are constantly updated on new legal provisions and provided specific technical updates through the documentation and implementation of support actions by the Department Head.

In addition, since 2006 the Prevention and Protection Management has organised meetings with groups of labourers and project technicians from Pirelli RE Facility aimed at engaging them and listening to their opinions on issues of work safety. These meetings were also extended to several Local Trade Union Organisations to present the safety management models adopted by Pirelli RE and to raise the awareness of the workforce on the subject of prevention and safety.

In 2007, the Prevention and Protection Service continued to provide assistance, information and "proactive control" for all the company's operational facilities.
We believe that the achievement of the best results over time in Safety and Prevention not only requires purely formal or paper based controls, but also those of a proactive and, where possible, of an educational nature geared towards the promotion of a culture of safety and prevention at work and raising the awareness of the personnel involved, i.e. safety managers, safety officers and workers.

In 2007, initiatives geared towards improving the safety at work of the operational personnel (technicians and blue collar workers) continued, together with tackling the problem of "undeclared labour" and social security contribution evasion by contractors and subcontractors working at the building sites and the premises of the customers of the Pirelli RE Group Companies.
The projects listed below, launched in 2006, were extended to all ongoing contracts and the new contracts obtained in 2007.

— Standardisation and use of Safety Plans for Pirelli RE Facility personnel who are called to different locations as needed);
— Standardisation and use of Safety Plans for Pirelli RE Facility personnel assigned to customers' premises;
— Standardisation and use of Safety Plans for Pirelli RE Facility personnel assigned to supply specific services or installations.

The three types of "Safety Plan" contain a "pull-out section on hazards" delivered to each worker exposed to such risks. This innovative means of informing workers, a relative novelty in Italy, on many occasions has been met with approval by local health authorities.

— Safety at Construction Sites (large construction/repair sites)

- The setting up of a control and monitoring system, using specific indicators, for the safety of individual construction sites and for their compliance with safety applicable laws.

— Prevention of undeclared work and social security contribution evasion by contractors/subcontractors.

- Establishment of a procedure for identifying and monitoring "on site" workers and trades people and regular verification of the social security compliance of the businesses operating in the construction sites.

• Since 2007, careful monitoring of the social security compliance of the contractors and subcontractors in all of the Pirelli RE Facility operational sites (collection and updating of social security compliance certifications). For the sites covered by Law 494, the social security compliance certification checks have been performed since 2006 by the Works Managers.

— Analysis of air quality and particulate in the basement archives of the Pirelli RE Milan HQ (outcome: satisfactory). Analysis of electromagnetic pollution at Pirelli RE's offices in Rome, located in the vicinity of radio base antennas and radio links (outcome: satisfactory).

Main objectives set for 2008

— Improvement and structuring of the system of communication (new procedures, new regulations issued on safety, etc) between the functions responsible for company Safety and the staff appointed for their implementation (vested with the adequate spending powers). For Pirelli RE Facility, this new system will also continuously update the Employer.

— Establishment of a computerised SAFETY DIARY, which will enable the "monitoring" and "maintenance" of all the initiatives taken to protect individual workers, i.e. details of information provided, training, risk-specific brochures for duties assigned to employees, IPD delivery, etc. This diary will also be used by the Competent Doctor to bring health surveillance as much as possible into line with the actual health risks for the individual employees.

Other Group Sectors / Companies

Pirelli Broadband Solutions
The company is implementing an Integrated Safety and Environmental Management System (ISO 14001 / OHSAS 18001), due to undergo the certification audit by the first half of 2008.

Pirelli Labs
The activities carried out in 2007 focused on the one hand on the update of the chemical risk assessment for white room operations, and on the other on the analysis of specific problems and the training of internal and external staff.

As already implemented by the Group's operational units, **Pirelli Eco Tecnology**, **Pirelli & C Ambiente** and the other group companies are developing a Safety Management System based on the Group Policy for Safety, Environment and Social Responsibility.

As was the case for Pirelli Real Estate, no formal certification of the Health and Safety System was undertaken in the abovementioned companies. Instead, it was decided to encourage the local development of management systems that could better adapt to each facility's characteristics, according to the types of operations conducted and their features.

At organisational level, a system of delegation for safety, with spending powers, is in place, together with structures to support local safety management.

Researchers in the Pirelli Labs

Health & safety performance gauging

Pirelli Tyre S.p.A.

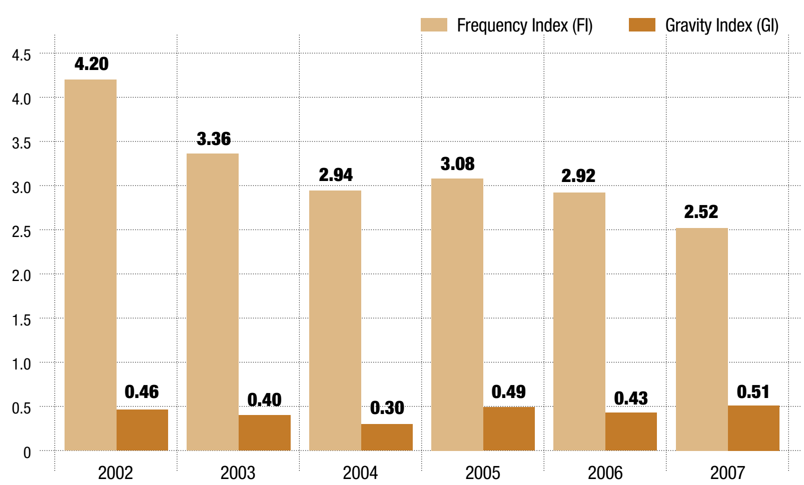
With regard to **Safety** and focusing on injury data recorded in **production plants**, there has been a substantial improvement in performance compared to 2006 in terms of the Frequency Index (FI), i.e. the relative number of injuries occurring. The Gravity Index (GI), however, worsened.

Including all the injuries occurring in tyre factories, **the Frequency Index (FI) figure for 2007 was 2.52, whereas the Gravity Index (GI) was 0.51.**

To better understand these data, it should be recalled that the GI was calculated by considering all calendar days between the injured person's interruption of work and their return to the factory as "lost", without counting the day of the accident. Holidays and weekly rest days that occurred during this period have therefore been included.

The calculation of the aforementioned indexes did not include so called "*in itinere*" injuries, which are discussed later in this report.

See the graph below.

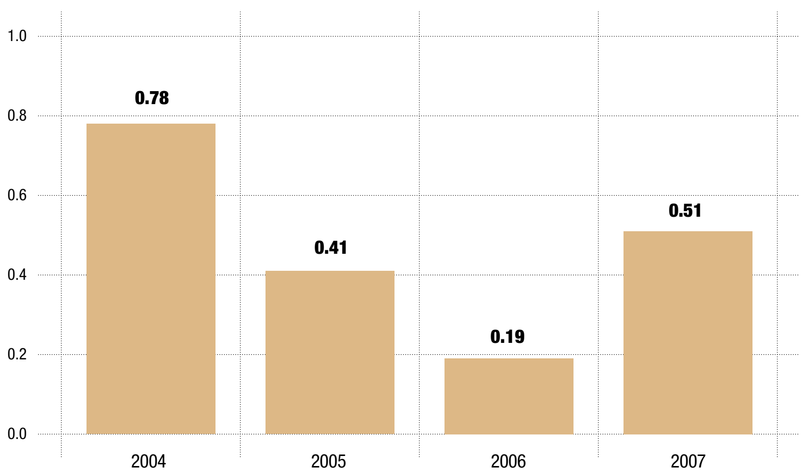


$$\text{FI = Frequency Index} = \frac{\text{Total number of injuries with work interruption X 100,000}}{\text{Total hours actually worked}}$$

$$\text{GI = Gravity Index} = \frac{\text{Total days lost due to injuries X 1,000}}{\text{Total hours actually worked}}$$

With regard to the **Health** of employees, the 2007 **frequency index** for new cases of occupational disease was **0.51**. Compared to previous years there was a sharp increase in the occupational diseases reported. This increase was almost exclusively concentrated in one Operating Unit, where a documentary update was performed in 2007.

OCCUPATIONAL DISEASE FREQUENCY INDEX



Shifting the focus to injuries occurring in Tyre Sector's **non production units**, considering the total number of injuries independent of the number of days lost for each injury, the following values were recorded in 2007:

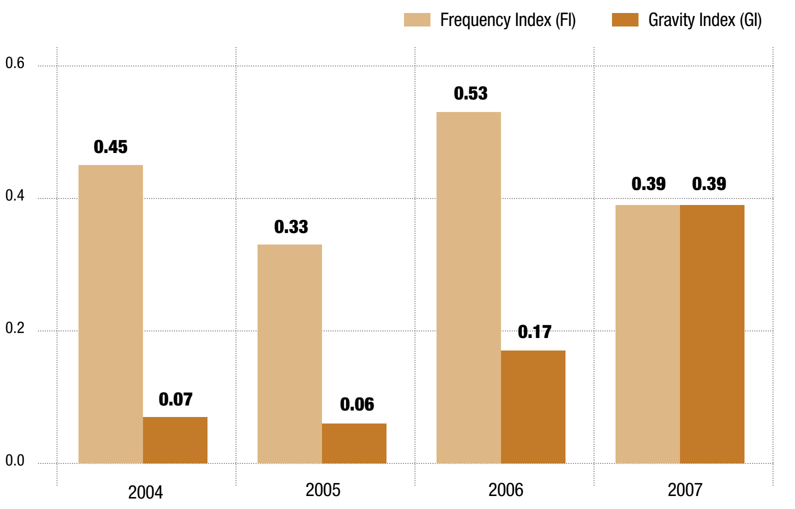
FI = 1.50
GI = 0.23

In 2006, the figures for these indexes were FI=1.61 and GI=0.33, which were calculated solely taking into account injuries that involved an interruption of work of more than three days (excluding the day of the injury), and not, as in 2007, on the basis of the total number of injuries recorded.

Pirelli Real Estate S.p.A.

Including all injuries at work that involved an interruption of work, the frequency index for 2007 was **FI = 0.39** and the gravity index **GI = 0.39**.

The figure below shows the trend of the indexes from 2004 to 2007.



The following initiatives were implemented in 2007 to tackle the increase in injuries:

— Raising of awareness of Pirelli RE Facility operations area Managers and safety officers (prevention campaign for operational personnel).
— Publication of a "Safe Driving" handbook to prevent road accidents (in *itinere* and non).
— Half-year injury analysis: classification and analysis of individual injuries.
— Onsite visits (in all cases) to the location where the injury occurred by the Prevention and Protection Department.

The Prevention and Protection Department also manages the reporting of dangerous situations by employees and by the Workers' Representatives for workplace Safety.

The Department deals with all reports (written or via telephone) within 24 hours of their submission. The documentation certifying this “attention” to the various reports is kept in a special archive.

Other Group Sectors / Companies

In Pirelli Broadband Solutions no injuries occurred at work in 2007, whereas 3 in itinere injuries were recorded. No injuries were recorded during 2007 for Pirelli Labs.

The aggregate injury figures for Pirelli Ambiente and Corporate for 2007 reveal a frequency index of **FI = 0.41** and a gravity index of **GI = 0.04**, a slight increase against 2006, which recorded an FI = 0.05 and GI = 0.001. Since these values are so low, no significant statistical indications can be drawn from what is essentially a stable trend.

In itinere injuries

Information on *in itinere* injuries (i.e. occurring during work transfers or while travelling to reach the workplace) was also collected and processed in 2007.

At **Group level**, a total number of **117** *in itinere* injuries was recorded, i.e. **3.8** accidents every one thousand workers, (4.5 in 2006). Unfortunately in one case a road accident led to the death of the person involved.

Fatal accidents

In 2007, no fatal accidents at work were recorded for Pirelli Group employees.

However, two employees employed by an external company died. One of the accidents occurred in Brazil, in the Santo Andrè Pirelli Tyre Plant, during the manoeuvring of a truck in the material unloading area, and the other in Venezuela in the Guacara plant, during maintenance work on a roof.

Sharing of experiences between production plants

All information on injuries is collected in a tailor-made IT system (injury analysis, corrective measures adopted, etc.) and, if the accident dynamics are significant, all production plants are informed and requested to: 1) internally check the existence of conditions similar to those that caused the specific injury and 2) set out any corrective actions required.

The IT system records the solutions adopted by the various production plants and shares those considered to be the best.

Awareness raising and training

Pirelli Tyre S.p.A.

As in previous years, 2007 also saw the active implementation of awareness raising and training initiatives on health and safety issues targeted at all grades of staff and designed to promote safer conduct.

The Safety Training Programme for new recruits and for those who have started working for Pirelli, in various capacities (agency workers, interns etc.), was continued in 2007.

Training for personnel with operational assignments was provided through specific sessions held both in the classroom and, especially, in the workplace. Educational tools also included operational instructions describing the typical duties of the various roles. Experience gained through risk analysis reviews and from past injuries was also shared.
In all the production plants workers have been provided training to handle emergencies.

Pirelli Real Estate S.p.A.

The delivery has been completed of the kits containing job and risk-specific brochures to all Pirelli Real Estate employees, with particular focus on Pirelli RE Facility management personnel (chemical, electrical and machinery risk).

Since the end of 2005, a regular information (bimonthly) service has been in operation, targeted at all Safety Managers and at Safety Officers in particular, for new regulations concerning Safety, Prevention, Protection, Environment and Management of Property assets.

Specific information brochures will also be distributed on a regular basis, aimed at raising the awareness of operational staff and safety officers in relation to safety and prevention at work (the first of these was issued in December 2005, entitled "Global Service and Laws 626 and 494: Safety in Maintenance Work").
The programme of providing information kits (launched in 2005) consisting of various brochures to new recruits continued.

In 2006, a "safety" intranet accessible to all employees was created, containing 60 means of information, prevention and protection, some of them highly innovative, geared specifically to labourers, safety officers and project managers.
In 2007, the information, prevention and protection instruments in the "safety site" increased from 60 to around 100.

The site is structured as follows:
— Information and training: contains risk fact sheets for all jobs in the Pirelli RE Group, and also for work in brownfield areas; the coordination of works conducted in buildings and installations; the coordination of works at construction sites; and a guide to safe driving.

— Work procedures.
— Safety in construction (tender contracts under Article 7 Legislative Decree 626/94).
— Safety at construction sites (sites covered by Law 494).
— Management and Safety of Properties (also contains an operational fire prevention manual for "Property Managers").
— Operating standards for employees of Pirelli RE Facility (analysis of various work risk situations and the hazards of drinking alcoholic beverages on the job).
— Work equipment fact sheets (a guide to purchasing, safety hazards, prevention and protection, user instructions, and IPDs for the use of equipment).
— Safety plans for Pirelli RE Facility operations.
— Technical standards (including a specific provision relating to asbestos risk produced "in-house" to make it as relevant as possible to the Group's actual operating conditions).
— Safety News: a list of the legislative changes in the field of safety, accident prevention, occupational hygiene and property management.

Other Group Sectors / Companies

Safety is also a central element of employee training programmes in the other Group sectors / companies.
In 2007, training organised in the abovementioned companies involved, among others, safe working practices in laboratories and during experiments, with a particular focus on training and information campaigns for new recruits and external personnel.

Health & safety investments and expenditure

The most significant investments in 2007 were recorded by **Pirelli Tyre**.

In 2007, investments in health and safety by Pirelli Tyre reached a total of around **7 million euro**.

Investments involved the improvement of machinery and plants and, more generally, the overall work environment (i.e. improvement of microclimate and lighting conditions, layout changes to improve operating ergonomics, measures to ensure the healthiness of infrastructures, etc.).

These investments were accompanied by safety related expenses essentially attributable to work environment monitoring (i.e. sampling and analysis, consultancy studies, etc.), purchasing of personal protection equipment (e.g. injury prevention shoes, gloves, safety eye-glasses, etc.) and collective protection devices (e.g. better protection of machinery, suction systems and measures to improve the workplace environment not covered by specific investment projects).

Healthcare assistance during working hours

For decades Pirelli has had infirmaries operating in its production plants, with nurses and doctors available to provide employees with medical care during working hours. These facilities provide first aid care, consultancy on non work-related health problems and health supervision for workers exposed to specific risks. Healthcare promotion campaigns developed in line with local programmes also make use of these facilities.

Group flu prevention campaign

Again in 2007, Pirelli gave its workers the opportunity of being inoculated free of charge with the seasonal anti-flu vaccine.

In 2007, the anti-flu campaign was given further impetus through wide reaching information tools targeted at all organisational levels (involving southern hemisphere workers in the spring and those in the northern hemisphere in autumn).

Several thousand people took part in the initiative.

Group Policy “No Smoking Company”

In June 2003, a letter sent by the Top Management to all the Group’s Chief Executive Officers announced the corporate decision to become a “No Smoking Company”, to safeguard the health of both smokers and non smokers. This decision was consistent with Pirelli’s long-standing policy of protecting the health of its employees in every country where the Group operates.

Specific training/information initiatives on the damage caused by cigarette smoke were also implemented through the distribution of leaflets, organisation of conferences on nicotine addiction and publication of questionnaires on smoking on the Company’s Intranet System.

The verification of the implementation of the no smoking policy also led to reports of 55 breaches of the policy by staff on Pirelli premises.

External community

RELATIONS WITH INSTITUTIONS AND PUBLIC AUTHORITIES

Group companies maintain relationships with local, national and supranational authorities in a spirit of full and active cooperation and transparency that does not compromise their independence, economic targets or the values enshrined in this Code. (article 5 of the Ethical Code - Community).

In 2007, Relations with Institutions actively involved both the countries where the Pirelli Group has a well established presence and those where the Group's presence is more recent.

In Romania and China, Pirelli, in line with its tradition of establishing firm roots in the countries where it operates, was involved in continuous dialogue over the year with institutions at national and regional level geared towards strengthening its local presence both from a business perspective (investments to enhance existing production sites) and in terms of the role played by the company within the local cultural framework, improving its potential whilst respecting specific cultural identities.

In 2007 the Group companies have maintained and strengthened a stable channel of dialogue and exchange with national and supranational partners (Governments, embassies, Parliaments, Public bodies, central and local authorities, and the European Commission).

Pirelli's activities in included the identification and monitoring of legislative activities and the rules and procedures set out in specific European and national regulations. Dialogue has been strengthened with regional/national institutions, aimed at identifying funding opportunities for investment projects, scientific and technological research, as well as projects of a socio-economic nature (training/retraining programmes).

These relations with public authorities are based at all stages on the utmost transparency and veracity of the information conveyed (from the identification of funding sources to checks and inspections conducted by the funding institution), in the belief that ethical conduct in these relations should go hand in hand with the company's success.

INVOLVEMENT OF THE INTERNAL COMMUNITY WITH THE EXTERNAL COMMUNITY

Children in Crisis: Pirelli Broadband and Pirelli Labs for the Congo

In October 2007, a school was inaugurated in the Congolese village of Bushushu that will provide over 450 children with access to secondary education.

The **Bushushu** Project, completed in just one year, was entirely funded by Pirelli Broadband Solutions and Pirelli Labs, also with the direct participation of employees, suppliers and customers. Children in Crisis Italy – a not for profit organisation committed to improving the lives of children who are the victims of conflict, poverty and disease – carried out the work together with the local NGO PEF-PAFU. In addition to the school, a mill has been built to grind cereals, providing a small business to help finance the school.

The Bushushu project supported by Pirelli Broadband Solutions and Pirelli Labs

The two buildings, which represent a rebirth for the community of South Kivu, a region of the Democratic Republic of Congo that was the victim of an earthquake in 2004, are also intended to act as a foundation for the integration and peaceful coexistence of the various communities.

Inaugurations of the “My Time for Indonesia” schools

After around a year and a half of work, June 2007 saw the inauguration in Indonesia of the two senior schools reconstructed after the 2004 tsunami, thanks to the contribution of Pirelli and all the employees who donated almost 10 thousand hours of work during the “**My Time for Indonesia**” project.

The project involved two upper technical institutes: one in Banda Aceh - the provincial capital of the Island of Sumatra – capable of hosting 1,400 students, and the other within the province able to accommodate 400 students. The opening of the schools is the symbolic conclusion of a project, born from Pirelli Group’s desire to contribute to the reconstruction of an area that, on 26 December 2004, suffered enormous devastation and massive loss of life. The allocation of the funds was agreed with the local authorities, with whom an agreement was signed in April 2005.

The schools, in addition to providing education to future generations, also represent a landmark for the entire population in the reconstruction process.

Inauguration in Banda Aceh of the schools provided by the project "My time for Indonesia"

The amount of money needed to implement the project, around 500 thousand euro, was collected through the deduction of the number of hours that each employee decided to donate from their payslip, together with a contribution from the company. The collection of the funds and the construction work, which Pirelli employees were able to follow on the company intranet, were monitored by a Guarantee Committee for Italy (consisting of the Pirelli management, the Trade Union and a representative of Price Waterhouse Coopers) and a Guarantee Committee for Indonesia (made up of the Pirelli management, the Indonesian Minister for National Education and a representative of Deloitte).

COMPANY INITIATIVES FOR THE EXTERNAL COMMUNITY

www.pirelli.com
> **Stakeholders** > **External Community**

Group companies encourage and, where necessary, provide support for social, cultural and educational initiatives geared towards promoting personal development and improving standards of living (Article 5 of the Ethical Code - Community).

"Pirelli Group supports and respects the protection of internationally proclaimed human rights" (Policy on Health, Safety, Environment and Social Responsibility).

The awareness of its role in promoting the civil and cultural progress of communities where it operates has been a cornerstone of Pirelli business culture for over 130 years. This is why the Group organises and backs social, cultural and educational initiatives by working with both public and private institutions, local authorities, associations and bodies in all countries where it operates.

This commitment is not only consistent with the principles expressed in the Code of Ethics and Group Corporate Social Responsibility Policy, but also forms an important part of Pirelli strategy of maintaining its role as an international company that is one of the most integrated and active within the communities where it operates. As a consequence, Pirelli has always been involved in social, artistic, educational, training, and sports initiatives. All these activities are carried out in association with partners with a proven track record, chosen on the basis of criteria designed to ensure their quality.

Solidarity

Produced by the Milan Institute for the Blind in partnership with Pirelli, **Dialogue in the Dark** is an exhibition set in an environment without any light, which invites sighted people to enter the world of the blind to experience the problems they face and appreciate the extraordinary skills developed as a result of their "disability". Pirelli has worked with the Institute since the initiative's launch in 2005, with excellent results in terms of interest from the public and schools.

The Group also maintains excellent relations with several of the most important Italian non-governmental organisations. Pirelli is one of the founders of **Emergency**, an independent, neutral and non-political humanitarian organisation, set up to provide free high quality medical-surgical assistance to the victims of civil wars, landmines and poverty throughout the world.

Pirelli also provides support at institutional level to the aforementioned **Children in Crisis Italy,** an Italian association that belongs to the international Children in Crisis network founded by the Duchess of York in 1993. Active in 13 countries around the world, it seeks to improve conditions for children who are the victims of conflict, poverty, disease and other situations of serious hardship. Still within the area of solidarity, the Group also supports the association ***Sempre Insieme per la Pace*** (together for peace), which is involved in humanitarian interventions at international level.

Pirelli also pursues its mission of supporting youth at local level in Milan, through its contribution to associations like the ***Fondazione Boccafogli*** - dedicated to winning over street youth by encouraging their artistic and expressive potential, or the ***Centro ausiliario per i problemi minorili*** committed to youth hardship, or the age old Milanese institution ***Fondazione Asilo Mariuccia*** dedicated to abandoned children.

In the area of health, Pirelli supports the ***Fondazione Benedetta d'Intino***, which treats autism and perception disorders in children, the ***Fondazione Giancarla Vollaro*** and the ***Associazione Marco Semenza***, working in the field of cancer research, and the ***Centro Dino Ferrari***, specialising in the study of neuromuscular and neurodegenerative diseases.

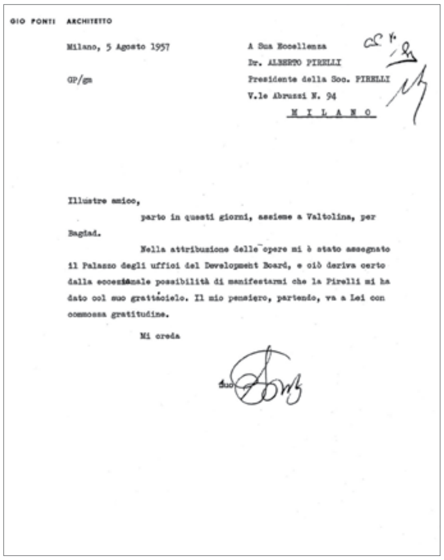
Culture

Pirelli actively supports the promotion of the artistic heritage, talent and local resources of all the countries where it operates, through a model of active cooperation that combines the skills of its partners with its own expertise in the fields of technology, organisation and communication. Pirelli has long been an engine for cultural development in Milan, having set up its **Pirelli Cultural Centre** decades ago, whilst for over twenty years the Pirelli magazine has been an example of an internationally focused business culture.

www.triennale.it

The Group also has long standing and prestigious partnerships in the art world. The most recent – December 2007 – involves an agreement with the Milanese Design Museum ***Triennale di Milano*** to design and develop shared initiatives. The objective is to revive the relationship between business culture and design culture and the image in architecture, urban development, visual arts, graphics, design and communication. A strategic alliance between two of the most important historical institutions in Milan, joined by a bond that stretches as far back as the Fifties with the collaboration – in addition to the friendship and personal esteem – between the then chairman Alberto Pirelli and Gio Ponti, the leading character in the story of the Triennale, which was assigned the job of constructing the Pirelli Skyscraper.

This partnership follows on from the Group support for the exhibition "100 Objects from the Italian Design Permanent Collection of the Triennale di Milano", promoted by the Italian Embassy and the Cultural Institute of the Indian Embassy. A contribution to the spreading of that wonderful blend of culture



GIO PONTI ARCHITETTO

Milano, 5 Agosto 1957

GP/gm

A Sua Eccellenza
Dr. ALBERTO PIRELLI
Presidente della Soc. PIRELLI
V.le Abruzzi N. 94
M I L A N O

Illustre amico,

parto in questi giorni, assieme a Valtolina, per Bagdad.

Nella attribuzione delle opere mi è stato assegnato il Palazzo degli uffici del Development Board, e ciò deriva certo dalla eccezionale possibilità di manifestarmi che la Pirelli mi ha dato col suo grattacielo. Il mio pensiero, partendo, va a Lei con commossa gratitudine.

Mi creda

suo

A poster from the advertising campaign "Un viaggio sul sicuro - Cinturato Pirelli" (a safe journey - Pirelli Cinturato) and the letter from Gio Ponti and production that is **industrial design**, for which Milan has been, and continues to be, a global centre of excellence. One of the first initiatives (starting in 2008) is the exhibition *Un viaggio, ma*…, (a journey, but …), which accompanied the launch of the new Pirelli Cinturato at the Triennale (rebates and discounts are given to Group employees).

www.guggenheim.org

In April 2007, Pirelli signed an agreement with the **Solomon R. Guggenheim Foundation of Venice**, to become one of the small number of partner-companies that form part of the *Intrapresae group* and that, among other benefits, provides for free entry to all Pirelli employees and their families to the prestigious Palazzo Venier dei Leoni museum.

A decade ago Pirelli signed an agreement to provide corporate support to the **Brera Art Gallery**, the most ancient art collection in Milan and one of the most important in Europe.
The Group assists in the restoration of the fifteenth century Venetian paintings in the XIV Hall. Following on from the *Pala Pesaro* by Giovanni Gerolamo Savoldo, it is now the turn of the *L'adorazione dei Magi* by Jacopo Palma il Vecchio. Pirelli's involvement has enabled the development of an innovative device – designed by the architect Sottsass – through which the restoration can be performed in public, maintaining the paintings on view for the visitors.

Pirelli has long partnered the ***FAI – Fondo per l'Ambiente Italiano*** (the National Trust for Italy) in various initiatives including the organisation of courses on history of art for the public. The 2007/2008 season saw Pirelli and FAI involved – with the patronage of the Ministry for Cultural Heritage and Activities, the Lombardy Regional Authority, and the Provincial and Municipal Authorities of Milan – in a new edition of the *I mercoledì dell'arte* (art Wednesdays), a series of 29 lessons at the University of Milan. This edition, entitled *Meeting Asia*, provided hundreds of people with the opportunity to improve their knowledge of oriental art through to the contemporary.

Theatre and Music

Within the field of visual arts, Pirelli has a long standing association with the ***Fondazione Pierlombardo*** supporting the work of the *Teatro Franco Parenti*, one the most active, firmly rooted theatres in the Milanese cultural fabric. The significant role played by the Group has already been acknowledged with the naming of the theatre's exhibition area for the work of young artists as the "Pirelli Hall".

www.piccoloteatro.org

Another example of the focus on culture within the Milanese areas is the support for the theatre **Piccolo Teatro di Milano** on its seventieth anniversary. The joining of the theatre's Group of Supporters was an almost inevitable "return to roots": Pirelli was one of the founding partners in 1947 of the first public stable theatre in Italy. A relationship that was also reinforced by the participation – through the Silvio Tronchetti Provera Foundation – in the **Galileo Project**, aimed at using the theatre stage to encourage new generations to study scientific disciplines. In

www.performingalileo.net

November 2007, over 900 students from Milanese senior schools watched *The life of Galileo* by Bertolt Brecht, brought to the stage in Italy for the first time since 1963 in the Piccolo Theatre. For the students it was an opportunity to record the spectacle and interview the actors, directors and spectators in view of the "Performing Galileo" competition, involving the reinterpretation of the play using the language and technology of multimedia youth culture. The work will be published and classified according to school level on the site *www.performingalileo.net*, produced by the Milan Polytechnic, and will then be judged by a jury chaired by Umberto Veronesi.

The poster of the "Performing Galileo" campaign

Moving from the theatre to music, in September 2007, Pirelli initiated its support for the **MITO SettembreMusica**, an international music festival, which last year for the first time involved Turin and Milan together in a packed programme of over 180 events of classical, contemporary, jazz, rock, pop and ethnic music, meetings, dedicated reviews and film projections. Still within the world of music, over the past three years Pirelli has sponsored "***Per non dimenticare***" (To not forget) – a concert organised by the *Fondazione 8 Ottobre* at the Scala Theatre every year in memory of the victims of the 2001 air accident at the Milan Linate airport.

Education & Culture

Bicocca Hangar

A fundamental instrument for Group relations with the local area and the community is the **Bicocca Hangar,** a site of over

The Bicocca Hangar

15 thousand square metres that has been transformed by Pirelli RE into an institution devoted to arts and culture. With a strong focus on research and experimentation and capable of attracting creative arts and culture from all over the world, the Bicocca Hangar is an ideal location for bringing art and visitors together, geared towards active participation by the public. In 2007, its schedule included a wide variety of events promoting dialogue between leading figures in contemporary culture and various different types of audience. Two events worth mentioning were *Not Afraid of the Dark* – as part of the "Emergencies" project - and the *Art for Business Forum*.

"Emergencies" is a programme of events, exhibitions, reviews and art projects on the issues surrounding humanitarian and social emergencies, intended to provide an opportunity for knowledge expansion and a series of encounters between the world of culture and socially conscious businesses.

Designed and managed by Bartolomeo Pietromarchi with the scientific direction by the *Fondazione Adriano Olivetti*, and promoted and supported by the Hangar Bicocca and The Family, "Emergencies" involves a series of initiatives in various sites in Milan including: *Not Afraid of the Dark*, an exhibition where internationally famous artists have proposed - through installations, performances and video projections – a reflection on controversial social and political issues. The *Art for Business Forum* is an initiative promoted by the Bicocca Hangar and Trivioquadrivio, in association with Pirelli RE and with the participation of numerous partner universities. Two days of encounters, round tables and workshops to explore the potential of art for business development and its tangible/intangible values. An excellent example of how culture has regained a central role and educational function.

The other communication initiatives promoted by Pirelli RE included the *Great Architects: A journey in the mind of...*, a series of DVDs produced in association with the magazine Interni, a journey into contemporary architectural culture, where leading architects describe their design research and their own personal way of working.

Education

IStarting from the academic year 2007-2008, the Group has set up two study grants of 10 thousand euro each for the final year students of the **Liceo Classico “Carducci”** (classics senior school) **of Milan**. Dedicated to the memory of Leopoldo Pirelli and his brother Giovanni, they are awarded to needy and deserving students due to enrol in a science and in a humanities degree course in a Milanese university.

www.polito.it
www.polimi.it

The year 2007 will also be remembered for the five year framework agreement signed between Pirelli and the **Turin Polytechnic** that provides for the involvement of this academic institution in research in the tyre sector. The agreement envisages the cooperation between the polytechnic’s research facilities to develop production processes and Pirelli’s most advanced technology, from the next generation of the MIRS™ process to the CCM™ system and the “intelligent” Cyber Tyre. The Group also contributes to the funding of a professorship in Mechanical Engineering. The innovations generated by this cooperation will be developed in the Settimo Torinese industry and technology centre. Pirelli’s partnership with the academic world also involves **Bicocca University of Milan**. In 2007, through the CORIMAV *(Consorzio Ricerca Materiali Avanzati – advanced materials research consortium)*, Pirelli funded three research doctorates in the Materials Science department. The objective is to promote the study of scientific and technological disciplines, especially those focused on the development of materials with potentially useful applications.

The Group also makes a teaching contribution to the department through its specialist researchers who provide **tutoring to** the PhD students.

www.fondazionetronchetti.it

The relationship with university and scientific world also underlies Pirelli’s partnership with the **Silvio Tronchetti Provera Foundation**, aimed at promoting research and the nurturing of talents in economics, science, technology, and management, through funding, awards, study grants and contributions to academic and scientific institutions. This takes place directly or in association with other parties, including a partnership with three academic institutions: the Milan Polytechnic, the Luigi Bocconi University and Bicocca University of Milan, whose chancellors sit on the Foundation’s board. In association with the Veronesi Foundation and the Cini Foundation, over the last three years the Silvio Tronchetti Provera Foundation has promoted *The Future of Science* in Venice, a series of conferences and debates on the subject of science attended by a number of Nobel Prize winners and world famous scientists and researchers.

Following on from the relationship between scientific knowledge and human life in 2005 and evolution in 2006, in 2007 *The Future of Science* focused on environmental issues, from energy supply to climate change and the sustainability of our development model.

Sport

Pirelli has been involved for over a century not just in two and four wheel motor sports competitions, but also in other fields (cycling, athletics and tennis), a testimony to its wide ranging commitment to sport in its many different forms.

Soccer

The Group's commitment to soccer is known the world over through its sponsorship in Italy of Inter Milan F.C. and other top class teams including Palmeiras in Brazil, Peñarol in Uruguay, Velez Sarsfield in Argentina, and Basel in Switzerland. Its commitment, however, goes beyond professional soccer.

Pirelli is involved in the **promotion of sports culture**, which means the promotion of responsible and ethical social interaction also among young people.

This was the spirit behind the launch in 2007 of the project ***"Leoni di Potrero - Calcio per tutti"*** (lions of Potrero – soccer for everyone), **a free training centre supported by Pirelli & C. in association with the Inter Milan soccer players** Esteban Cambiasso and Javier Zanetti, aimed at children between 5 and 12 years of age. The objective is to take part in the development of the young students, fostering positive values such as friend-

The soccer school "Leoni di Potrero" (Potrero lions) supported by Pirelli in association with the Inter Milan soccer players Zanetti e Cambiasso

ship, loyalty, fidelity, respect and tolerance. A way to teach the concept of integration to children from different social classes, working to prevent negative situations like isolation and loneliness.

Sea sports

Pirelli's involvement in this area also spans over almost forty years. In spring 2007, the 38th edition of the **Pirelli Coppa Carlo Negri Regattas** was held in the waters of Santa Margherita Ligure, with several boats taking part once again from "Matti per la Vela" (mad about sailing), a major therapeutic and rehabilitation project supported by Pirelli RE that uses sailing as a tool in addressing youth hardship, social exclusion, drug addiction and disabilities.

An edition of the Pirelli Coppa Carlo Negri Regattas

As for the activities involving the internal community, this report also includes a focus on the initiatives undertaken by Pirelli in Romania in favour of the external community.

Focus on Romania

In 2007, Pirelli signed an **agreement with the Niguarda Cà Granda Hospital of Milan** and the **Slatina Hospital** for the professional training of Romanian medical and nursing staff at the Milanese hospital.

The three year training programme will involve around 70 doctors and nurses from the Romanian hospital, who will take part in theoretical and practical courses on emergency medicine, emergency surgery, intensive care, reanimation, emergency gynaecology and hospital epidemiology at the Niguarda Hospital. Over the three year period, several medical directors from Niguarda will go to Slatina to assess the implementation of the new technologies and procedures within the Emergency Ward and the Emergency Department.

Pirelli has allocated 500 thousand euro to the project over the three years, including the donation of modern diagnostic and emergency intervention medical equipment to the Slatina Hospital.

As regards the younger members of the community, Pirelli, in association with Inter Milan FC and the ***Associazione Comu-***

Pirelli works with the Slatina hospital to improve the public health of the local population

nità Nuova Onlus, has set up a new "Intercampus" in Slatina. The project uses the game of soccer as an educational and social networking tool for the youth of the Slatina community, providing them with a fun and effective opportunity for growth and interaction.
Comunità Nuova has been assigned the task of handling the social interaction and educational aspects together with the organisation of recreational and study related activities for children. Inter Milan FC, on the other hand, through its Intercampus has been given the job of engaging the youngsters by providing them with top class sporting and training programme.

Intercampus is backed by the Mayor of Slatina and the Ministry for Youth and supported by the Slatina college of physical education, and the main public and private voluntary associations.

Summary tables

This section is designed to enable readers to relate the issues addressed within the report to the international experience of the GRI and the Global Compact.

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THE GLOBAL COMPACT PRINCIPLES AND GRI INDICATORS

Global Compact issues Areas	GC Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
Human Rights	*Principle 1* – Business should support and respect the protection of internationally proclaimed human rights.	HR 1–9	LA4, LA13, LA14, SO1
	Principle 2 – Business should ensure that they are not complicit in human rights abuses.	HR1–2, HR8	
Labour Standards	*Principle 3* – Business should uphold the freedom of association and the effective recognition of the right to collective bargaining.	HR5, LA4, LA5	
	Principle 4 – Business should uphold the elimination of all forms of forced and compulsory labour.	HR7	HR1–3
	Principle 5 – Business should uphold the effective abolition of child labour.	HR6	HR1–3
	Principle 6 – Business should uphold the elimination of discrimination in respect of employment and occupation.	HR4, LA2, LA13, LA14	HR1–2; EC5, EC7, LA3
Environment	*Principle 7* – Business should support a precautionary approach to environmental challenges.	Profile disclosure 4.11	EC2
	Principle 8 – Business should undertake initiatives to promote greater environmental responsibility.	EN2, EN5–7, EN10, EN13–14, EN18, EN21–22, EN26–27, EN30	EC2; EN1, EN3–4, EN8–9, EN11–12, EN15–17, EN19–20, EN23–25, EN28–29, PR3–4
	Principle 9 – Business should encourage the development and diffusion of environmental friendly technologies.	EN2, EN5–7, EN10, EN18, EN26-27	
Anti-Corruption	*Principle 10* – Business should work against all forms of corruption, including extortion and bribery.	SO2–4	SO5–6

Consolidated financial statement

CONSOLIDATED BALANCE SHEET (in thousands of Euros)

		12/31/2007		12/31/2006	
			of which related parties		of which related parties
8	Property, plant and equipment	1,650,485		1,574,589	
9	Intangible assets	672,540		516,374	
10	Investments in associates and joint ventures	534,194		3,825,928	
11	Other financial assets	958,272		1,006,898	
12	Deferred tax assets	58,524		64,230	
14	Other receivables	672,894	520,827	705,828	334,211
15	Tax receivables	12,278		10,917	
27	Financial instruments	3,849		-	
	Non-Current Assets	**4,563,036**		**7,704,764**	
16	Inventories	776,474		715,533	
13	Trade receivables	1,098,927	123,668	999,669	168,125
14	Other receivables	241,475	22,072	356,205	11,888
17	Securities held for trading	114,039		119,174	
18	Cash and cash equivalents	2,057,682		269,574	
15	Tax receivables	43,281		33,432	
27	Financial instruments	58,326		29,147	
	Current Assets	**4,390,204**		**2,522,734**	
	Total Assets	**8,953,240**		**10,227,498**	
19;1	Attributable to the equity holders of the company:	2,980,231		3,879,591	
	- Share capital	1,555,934		2,789,950	
	- Other reserves	1,259,746		1,971,026	
	- Retained earnings	-		286,057	
	- Income (loss) for the year	164,551		(1,167,442)	
19;2	Attributable to the minority interest:	823,840		806,966	
	- Reserves	664,799		688,351	
	- Income for the year	159,041		118,615	
	Total Equity	**3,804,071**		**4,686,557**	
24	Borrowings from banks and other financial institutions	788,198		1,377,426	
26	Other payables	23,300		132,880	
22	Provisions for other liabilities and charges	146,331		145,119	
12	Deferred tax liabilities	44,625		42,931	
23	Employee benefit obligations	349,142		415,850	
21	Tax payables	11,211		9,708	
27	Financial instruments	6,782		4,751	
	Non-Current Liabilities	**1,369,589**		**2,128,665**	
24	Borrowings from banks and other financial institutions	871,759	2,869	1,562,262	242
25	Trade payables	1,323,588	29,148	1,102,456	25,085
26	Other payables	1,394,673	21,522	536,902	3,440
22	Provisions for other liabilities and charges	71,340		116,525	
21	Tax payables	45,707	-	48,769	688
27	Financial instruments	72,513		45,362	
	Current Liabilities	**3,779,580**		**3,412,276**	
	Total Equity And Liabilities	**8,953,240**		**10,227,498**	

CONSOLIDATED INCOME STATEMENT (in thousands of Euros)

		2007		2006	
			of which related parties		of which related parties
29	Revenues from sales and services	6,504,537 *	298,565	4,841,224	371,439
30	Other income	286,361	72,720	292,763	104,138
	- of which, nonrecurring events	2,818			
	Change in inventories of work in process, semifinished and finished products	29,921		6,840	
	Raw materials and consumables used	(3,037,315) *		(1,773,194)	
31	Personnel costs	(1,156,170)	(14,504)	(1,075,771)	(5,417)
	- of which, nonrecurring events	5,186			
32	Amortization, depreciation and impairments	(218,678)		(215,328)	
33	Other expenses	(2,048,657)	(116,627)	(1,683,944)	(111,081)
	- of which, nonrecurring events			(13,200)	
	Increase in property, plant and equipment from internal work	6,891		8,796	
	Operating Profit	**366,890**		**401,386**	
34	Financial income	340,408	31,203	876,388	17,258
	- of which, nonrecurring events	55,901		631,600	
35	Financial expenses	(416,163)	(4,474)	(342,572)	(32)
36	Dividends	34,459	6,600	65,857	26,344
37	Gains (losses) from changes in fair value of financial assets	(20,179)		(55,956)	
38	Share of earnings (losses) of associates and joint ventures	118,608		103,958	
	Income before income taxes	**424,023**		**1,049,061**	
39	Income taxes	(133,503)		(127,848)	
	Income from continuing operations	**290,520**		**921,213**	
40	Income (loss) from discontinued operations	33,070		(1,970,039)	
	Income (loss) for the year	**323,590**		**(1,048,826)**	
	Attributable to:				
	- equity holders of the company	164,549		(1,167,441)	
	- minority interest	159,041		118,615	
41	**Earnings per share (Euros per thousand of shares)**				
	Basic earnings per share				
	- continuing operations	24.47		150.24	
	- discontinued operations	6.12		(368.87)	
		30.59		**(218.63)**	

* of which Euros 1,295.6 million relates to the partial deconsolidation of Pirelli & C. Real Estate's DGAG activities.

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE (in thousands of Euros)

		2007	2006
A	**Income (loss) for the year**	**323,590**	**(1,048,826)**
	Differences on translation transferred to the income statement for the sale of investments, previously recognized in equity	(70,455) [a]	(28,700) [b]
	Change in fair value change of cash flow hedges transferred to the income statement for the sale of investments, previously recognized in equity	(48,653) [a]	-
	(Gains) losses transferred to the income statement on available-for-sale financial assets, previously recognized in equity	1,019	(126,796)
	Gains (losses) transferred to the income statement, previously recognized in equity	**(118,089)**	**(155,496)**
	Differences on translation of foreign currency financial statements	7,679	(66,143)
	Changes in fair value on available-for-sale financial assets	(96,535)	23,870
	Net actuarial gains (losses) on employee benefits	2,589	51,081
	Changes in fair value on derivatives designated as cash flow hedges	(5,535)	38,189
	Tax effect	(2,856)	(6,935)
B	**Income (expenses) recognized directly in equity**	**(212,747)**	**(115,434)**
A+B	**Total income (expenses) recognized in equity**	**110,843**	**(1,164,260)**
	Attributable to:		
	- equity holders of the company	(54,739)	(1,267,166)
	- minority interest	165,582	102,906

a Referring to the sale of Olimpia S.p.A.

b Referring to the private placement of the 38.9% stake in Pirelli Tyre S.p.A.

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of Euros)

		2007		2006	
			of which related parties		of which related parties
	Income from continuing operations before taxes	424,023		1,049,061	
	Amortization, depreciation / impairment (losses) reversals of intangible assets and property, plant and equipment	218,678		215,328	
	Financial expenses	416,163		342,572	
	Financial income	(340,408)		(876,388)	
	Dividends	(34,459)		(65,857)	
	Valuation of financial assets	20,179		55,956	
	Share of earnings (losses) of associates and joint ventures (net of dividends received)	45,845		(20,977)	
	Income taxes	(133,503)		(127,848)	
	Change in inventories	25,302		(34,477)	
	Change in trade receivables/payables	(85,366)		27,957	
	Change in other receivables/payables	113,467		(54,324)	
	Change in employee benefit obligations and other provisions	(108,987)		(29,608)	
	Other changes	10,045		(8,131)	
A	**Net cash flows provided by (used for) operating activities**	**570,979**		**473,264**	
	Investments in property, plant and equipment	(286,709)		(255,456)	
	Disposals of property, plant and equipment including gain/loss	14,911		11,906	
	Investments in intangible assets	(17,037)		(54,884)	
	Disposals of intangible assets including gain/loss	4,764		192	
	Acquisitions of investments in associates and joint ventures	(262,727)		(427,585)	
	Disposals of investments in associates and joint ventures	23,650		1,315	
	Acquisitions of other financial assets	(101,907)		(251,386)	
	Disposal of other financial assets	16,849		374,516	13,500
	Pirelli Tyre S.p.A. private placement	-		715,800	
	Dividends received	34,459		65,857	
	Net investment in business combinations	(352,858)		(140,000)	
B	**Net cash flows provided by (used for) investing activities**	**(926,605)**		**40,275**	
	Change in share capital and share premium reserve	7,499		27,254	
	Other changes in equity	(54,289)		(12,727)	
	Sale (purchase) of Pirelli Real Estate S.p.A. treasury shares	(53,999)		84,400	
	Change in financial payables	(1,287,705)		926,396	
	Change in financial receivables	(51,509)		(18,768)	
	Change in financial payables/receivables for acquisitions	395,302		-	
	Financial income/expenses (net of gains on avail.-for-sale fin. assets)	(141,578)		(99,346)	
	Dividends paid	(74,400)		(162,672)	(29,089)
C	**Net cash flows provided by (used for) financing activities**	**(1,260,679)**		**744,537**	
	Net cash flows provided by (used for) operating activities				
	Net cash flows provided by (used for) investing activities	3,364,209		(1,138,894)	
	Net cash flows provided by (used for) financing activities				
D	**Total cash flows provided by (used for) discontinued operations**	**3,364,209**		**(1,138,894)**	
E	**Total cash flows provided by (used for) during the year (A+B+C+D)**	**1,747,904**		**119,182**	
F	**Net cash and cash equivalents, at beginning of the year**	**259,389**		**146,310**	
G	Exchange differences on translation of cash and cash equivalents	3,182		(6,103)	
H	**Net cash and cash equivalents, at end of the year**	**2,010,475**		**259,389**	

° of which:

cash	2,057,682		269,574	
bank overdrafts	(47,207)		(10,185)	

The consolidated statement of cash flows shows transactions with related parties that cannot be deduced directly from the other statements.

Notes to the consolidated financial statement

1. General information

Pirelli & C. S.p.A. is a corporation organized under the laws of the Republic of Italy.

Founded in 1872 and listed on the Italian Stock Exchange, Pirelli & C. S.p.A. is a holding company which manages, coordinates and finances the operations of its subsidiaries.

At the balance sheet date, the Company's activities are principally represented by investments in:

— Pirelli & C. Real Estate S.p.A. - a listed company operating in the real estate sector – 53.7 percent of share capital;
— Pirelli Tyre S.p.A. - a company operating in the tyre sector – 61.1 percent of share capital.
— Pirelli Broadband Solutions S.p.A. – a company operating in the field of telecommunications components, equipment and systems – 100 percent of share capital.

The head office of the Company is located in Milan, Italy.

The consolidated financial statements are audited by PricewaterhouseCoopers S.p.A. pursuant to art. 159 of Legislative Decree 58 dated February 24, 1998 and taking into account the Consob recommendation dated February 20, 1997, in execution of the resolution passed by the shareholders on April 28, 2005 which engaged the audit firm for the three years 2005-2007. The fees agreed for the audit of the consolidated financial statements for the year 2007 amount to Euros 3,766 thousand, inclusive of the fees relating to the limited review of the interim consolidated financial statements at June 30, 2007.

2. Basis of presentation

ACCOUNTING STANDARDS ADOPTED

In accordance with Regulation 1606 issued by the European Parliament and by the Council of the European Union in July 2002, the consolidated financial statements of the Pirelli & C. Group have been prepared in accordance with the IFRS international accounting standards issued by the International Accounting Standards Boards (IASB) and endorsed by the European Union as at December 31, 2007.
The consolidated financial statements have been prepared under the historical cost convention except for investment property, financial instruments, financial assets designated at fair value and available-for-sale financial assets, which are measured at fair value.

ACCOUNTING STANDARDS AND INTERPRETATIONS IN FORCE AS FROM JANUARY 1, 2007

IFRIC 7 - Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies

This interpretation, endorsed by the European Union in May 2006 (EC Regulation 708/2006), provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity for the first time identifies the existence of hyperinflation in the economy of its functional currency. Under IFRIC 7, the entity must re-measure the amounts in its financial statements in accordance with IAS 29, as if the economy had always been hyperinflationary.
This interpretation is not applicable to the Group.

IFRIC 8 - Scope of IFRS 2

IFRIC 8, endorsed by the European Union in September 2006 (EC Regulation 1329/2006), clarifies that IFRS 2 also applies to contracts where an entity makes share-based payments for services for apparently nil consideration.
In particular, IFRIC 8 states that where the identifiable consideration given appears less than the fair value of the equity instrument granted (or liability incurred), this typically indicates that additional consideration has been or will be received.
This interpretation is not applicable to the Group.

IFRIC 9 – Reassessment of Embedded Derivatives

This interpretation, endorsed by the European Union in September 2006 (EC Regulation 1329/2006), requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract, that is, at the time of initial recognition. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the original cash flows.
This interpretation is not applicable to the Group.

IFRS 7 – Financial Instruments: Disclosures

This standard, endorsed by the European Union in January 2006 (EC Regulation 108/2006), supersedes IAS 30 (Disclosures in Financial Statements of Banks and Similar Financial Institutions) and includes the section on disclosures contained in IAS 32 (Financial Instruments: Disclosure and Presentation) with amendments and additions; the title of IAS 32 has been

changed to “Financial Instruments: Presentation”.
The additional information required by the new standard, if applicable, is presented in the following Note 4 “Financial risk management policies” and in the notes to the financial statements (specifically, receivables, borrowings from bank and other financial institutions and financial instruments).

Amendments to IAS 1 – Presentation of Financial Statements – Capital Disclosures

These amendments, endorsed by the European Union in January 2006 (Regulation EC 108/2006), require that an entity must make disclosures that allow the user of financial statements to evaluate its objectives, its policies and its procedures for capital management. This disclosure is presented in the following Note 5 “Capital management policies”.

IFRIC 10 – Interim Financial Reporting and Impairment

This interpretation, endorsed by the EU in June 2007 (EC Regulation 610/2007) deals with the interaction between the requisites of IAS 34 (Interim Financial Reporting) and the impairment of goodwill (IAS 36 – Impairment of Assets) and certain financial assets (IAS 39 – Financial instruments: Recognition and Measurement). IFRIC 10 clarifies that if impairment losses on goodwill or a financial asset represented by an equity instrument are recognized in an interim period, such impairment losses, if the conditions which gave rise to the writedowns no longer exist, cannot be reversed in subsequent interim or annual financial statements.

NEW ACCOUNTING STANDARDS OR INTERPRETATIONS ISSUED BUT NOT YET IN FORCE

As required by IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, new Standards or Interpretations issued but not yet in force are summarized and briefly described below.
The Group did not elect the early adoption of any of these standards or interpretations.

IFRIC 11 – IFRS 2 – Group and treasury share transactions

This interpretation, endorsed by the EU in June 2007 (EC Regulation 611/2007), provides guidance on the application of IFRS 2 “Share-based Payment” for certain types of plans that involve various units of the Group.
IFRIC 11 comes into force from January 1, 2008. The future application of this interpretation is not expected to have a material impact on the financial statements.

IFRIC 12 – Service Concession Arrangements

IFRIC 12 addresses private sector operators contracted for the supply of typical public sector services (e.g. roads, airports and energy and water distribution under concession arrangements). Under these arrangements, the assets are not necessarily controlled by the private operators which, however, are responsible for constructing, operating or maintaining the public sector infrastructure. Assets under these arrangements could possibly not be recorded as property, plant and equipment in the financial statements of the private operators but rather as financial assets and/or intangible assets depending on the type of service concession arrangement.
IFRIC 12, not yet endorsed by the EU, comes into effect from January 1, 2008 and is applicable to the Group but is not expected to have a material impact on the consolidated financial statements.

IFRIC 13 – Customer loyalty programmes

IFRIC 13 addresses the accounting treatment that must be adopted by entities that grant loyalty award credits to customers who buy goods or services. It also establishes that the fair value of the obligations connected with the loyalty awards must be separated from the revenues from sales and deferred until the entity has fulfilled its obligation to the customers. IFRIC 13, not yet endorsed by the EU, comes into effect from July 1, 2008 and is applicable to the Group but is not expected to have a material impact on the consolidated financial statements.

IFRIC 14 – IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IAS 19 "Employee Benefits" establishes a limit on the assets of a defined benefit plan which can be recognized in the balance sheet. This interpretation provides guidance on how to assess this limit and clarifies the impact on the assets and liabilities relating to a defined benefit plan when minimum contractual or statutory funding requirements exist.
IFRIC 14, not yet endorsed by the EU, comes into effect from January 1, 2008. The future application of this interpretation is not expected to have a material impact on the financial statements.

IFRS 8 – Operating Segments

This principle, endorsed by the EU in November 2007 (EC Regulation 1358/2007), supersedes IAS 14 (Segment Reporting) and aligns segment disclosure with the requisites of US GAAP (SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*), introducing the approach whereby the segments are identified in the same way they are identified in internal reports for management.
IFRS 8 comes into effect from January 1, 2009. The future application of this standard is not expected to have a material impact on the disclosures provided by group in the financial statements.

Amendments to IAS 23 "Borrowing Costs"

These amendments, which are part of the project for convergence with US GAAP (SFAS 34 *Capitalization of Interest Cost*), remove the option of immediately expensing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Therefore, borrowing costs are required to be capitalized as part of the cost of that asset. These amendments, not yet endorsed by the European Union, come into effect from January 1, 2009. The future application of the amendments to this standard is not expected to have a material impact on the consolidated financial statements since the Group does not avail itself of the option that was eliminated.

Revision to IAS 1 "Presentation of Financial Statements"

IAS 1 has undergone a revision which is not one of substance but requires a change in the name of some of the statements forming the full set of financial statements and the introduction of a new statement ("statement of changes in equity"). The information in this statement had previously been disclosed in the notes. The amendments of the new IAS 1 also apply to comparative figures presented together with the period financial statements.
These revisions, not yet endorsed by the European Union, come into effect from January 1, 2009. The future application of the amendments to this standard is not expected to have a material impact on the financial statements.

Amendments to IFRS 2 "Share-based Payment: vesting conditions and cancellations"

The amendments to IFRS 2 aim to clarify the following aspects that are not explicitly dealt with in the current standard:
— vesting conditions: vesting conditions refer only to service conditions (whereby a party should complete a specific period of service) and performance conditions (whereby it is necessary to reach specific targets). Other conditions, on which the current standard makes no explicit statements, should not be considered vesting conditions;
— cancellations: all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The current IFRS 2 describes the accounting treatment in the case of cancellation by the entity but does not provide any indication in the case of cancellation by parties other than the entity.
These amendments, not yet endorsed by the European Union, come into effect from January 1, 2009. The future application of the amendments to this standard is not expected to have an impact on the consolidated financial statements.

Amendments to IAS 32 "Financial instruments: presentation" and IAS 1 "Presentation of financial statements": puttable instruments and obligations arising on liquidation.

These amendments refer to the accounting treatment of certain particular types of financial instruments which have characteristics similar to ordinary shares, but are currently classified as financial liabilities, in that they give the holder of the instrument the right to request redemption by the issuer.
In accordance with these amendments, the following types of financial instruments must be classified as equity instruments on condition that they have particular characteristics and satisfy specific conditions:
— puttable financial instruments (financial instruments redeemable upon the request of the holder), for example certain types of shares issued by cooperative companies;
— instruments which give rise to an obligation for the entity to deliver to another party a pro-rata share of the net assets of the entity only on liquidation – for example certain partnerships and certain types of shares issued by limited duration companies.
These amendments, not yet endorsed by the European Union, come into effect from January 1, 2009. The future application of the amendments to this standard is not expected to have an impact on the financial statements.

Revision of IFRS 3 "Business Combinations"

This revision is also part of the project for convergence with US GAAP and has the purpose of aligning the accounting treatment of business combinations. The main changes over the previous version refer to:
— recognition in the income statement – when incurred – of the expenses relating to business combination transactions (legal, advisory, valuation and audit fees and professional fees in general);
— the option of recognizing minority interests at fair value (full goodwill); this option can be elected for each single business combination transaction;
— specific rules for the recognition of step acquisitions: in the case of the acquisition of control of a company in which a minority interest is already held, the previously held investment must be measured at fair value, recognizing the effects of this adjustment in the income statement;
— contingent consideration, that is, the obligations of the acquirer to transfer additional assets or shares to the seller in the case certain future events or specific conditions arise, must be recognized and measured at fair value at the date of acquisition. Subsequent changes in the fair value of such agreements are normally recognized in the income statement.
These revisions, not yet endorsed by the EU, come into effect starting from the fiscal years beginning after June 30, 2009. The effects on the financial statements in the year of first-time application of the new standard cannot be determined at this time.

Amendments to IAS 27 "Consolidated and separate financial statement"

The revision of IFRS 3 "Business Combinations" also required amendments to IAS 27 "Consolidated and separate financial statements", which can be summarized as follows:
— changes in the equity interests of a subsidiary, which do not entail the loss of control, qualify as equity transactions. In other words, the difference between the price paid/received and the share of equity acquired/sold must be recognized in equity;
— in the event of the loss of control, but where an interest is retained, such interest must be measured at fair value at the date in which the loss of control is established.
These amendments, not yet endorsed by the EU, come into effect starting from the fiscal years beginning after June 30, 2009. The effects on the financial statements in the year of first-time application of the new standard cannot be determined at this time.

In conformity with the provisions of art. 5, paragraph 2, of Legislative Decree 38 of February 28, 2005, these financial statements have been prepared in euro, the functional currency.

FINANCIAL STATEMENT FORMATS

The Company has applied the provisions of Consob Resolution 15519 of July 27, 2006 for the formats of the financial statements and Consob Communication 6064293 of July 28, 2006 for corporate disclosure.

The consolidated financial statements consist of the balance sheet, the income statement, the statement of recognized income and expense, the statement of cash flows and the notes, together with the report on operations by the directors on the operating performance.

The format adopted for the balance sheet classifies assets and liabilities between current and non-current.
The income statement applies the classification of costs by nature.
The format for the changes in equity is entitled "Statement of recognized income and expense" and includes the result for the year and, by homogeneous categories, the income and expenses which, under IFRS, are recognized directly in equity. The amounts of transactions with equity holders and movements during the year in the earnings reserves are presented in the notes.
In the statement of cash flows, cash flows from operating activities are presented using the indirect method where the income or loss for the year is adjusted by the effect of non-monetary transactions, by any deferral or accrual of previous or future operating collections or payments and by revenues or costs connected with cash flows from investing or financing activities.

Compared to the published consolidated financial statements at December 31, 2006, the following captions have been redenominated in the income statement:
— "Valuation of financial assets" has been changed to "Gains (losses) from changes in fair value of financial assets"; this caption now solely includes the change in fair value of financial assets at fair value through profit or loss; therefore, impairment losses on available-for-sale financial assets have been reclassified for the comparative period from "Valuation of financial assets" (now "Gains (losses) from changes in fair value of financial assets") to "Financial expenses" for an amount of Euros 13,378 thousand; the gains on disposal of securities held for trading and financial income on derivatives have been reclassified for the comparative period from "Financial income" to "Valuation of financial assets" (now "Gains (losses) from changes in fair value of financial assets") for amounts equal, respectively, to Euros 7,989 thousand and Euros 13,000 thousand; losses on disposal of securities held for trading and financial expenses on derivatives have been reclassified for the comparative period from "Financial expenses" to "Valuation of financial assets" (now "Gains (losses) from changes in fair value of financial assets") for amounts equal, respectively, to Euros 1,018 thousand and Euros 34,911 thousand.

In the balance sheet the following caption has been redenominated:
— "Available-for-sale financial assets" has been redenominated to "Other financial assets": the caption now includes both available-for-sale financial assets (whose changes in fair value are recognized in equity) and financial assets which at the date of initial recognition are designated at fair value through profit or loss. Securities held for trading, whose changes in fair value are also recognized through profit or loss, continue to be presented in a separate caption of the balance sheet.

SCOPE OF CONSOLIDATION

The scope of consolidation includes the subsidiaries, the associates and the investments in joint ventures.
Subsidiaries are considered all those companies and entities in which the Group has the power to determine the financial and operating policies. This circumstance is generally considered to occur when more than half of the voting rights are held.
Joint ventures are considered those companies in which, under a contractual agreement or in accordance with the bylaws, two or more parties undertake an economic activity subject to joint control.
Associates are considered all those companies in which the Group exercises a significant influence. This influence is presumed to exist when the Group holds a percentage of voting rights of between 20 and 50 percent.
The main changes in the scope of consolidation during 2007 refer the acquisitions of the DGAG group and Ingest Facility S.p.A., as described in Note 9 – Intangible assets.

CONSOLIDATION

For consolidation purposes, the financial statements used are those of the companies included in the scope of consolidation, prepared at the reporting date and adjusted, where necessary, to conform to IAS/IFRS as applied by the Group.
The financial statements expressed in foreign currencies have been translated into Euros at rates prevailing at the year-end for the balance sheet and at the average exchange rates for the income statement.

The differences arising from the translation of opening equity at year-end exchange rates have been recorded in the reserve for translation differences, together with the difference between the result for the year translated at year-end rate compared to the average rate. The reserve for translation differences is recognized in the income statement when the company that generated the reserve is either sold or put into a wind-up.

The consolidation principles can be summarized as follows:
— Subsidiaries are consolidated on a line-by-line basis according to which:
  • the assets, liabilities, revenues and costs of the financial statements of the subsidiaries are assumed in full, regardless of the percentage of ownership;
  • the accounting amount of the investments is eliminated against the underlying share of equity;
  • the balance sheet and income statement transactions between companies consolidated line-by-line, including dividends distributed within the Group, are eliminated;
  • the equity and income (loss) attributable to the minority interest is presented separately in equity and in the income statement;
— investments in associates and joint ventures are accounted for by the equity method and the carrying amount of the investments is adjusted by:
  • the share of the post-acquisition results of the associate or joint venture;
  • the adjustments from movements in equity that were not recognized in the income statement, in accordance with benchmark principles;
  • dividends paid by the associate;

— unrealized gains on transactions for sales made by subsidiaries to joint ventures or associates are eliminated to the extent of the Group's interest in the joint ventures and associates;
— gains arising on transactions for sales of properties made by one joint venture to other joint ventures or associates are recognized to the extent of the lower of the Group's interest in the buyer company compared to that of the seller company, that is, only to the extent of the gain realized with third parties;
— gains arising on sales transactions of properties from associates to other associates are recognized to the extent of the gain realized with third parties;
— at the time of acquisition of the subsidiaries, associates or joint ventures, the price paid is allocated according to the purchase method by:

- determining the cost of acquisition in accordance with IFRS 3;
- determining the fair value of the assets and liabilities acquired (both actual and contingent);
- by allocating the price paid to the fair value of the assets acquired and liabilities assumed;
- by recognizing any residual amount in goodwill, consisting of the excess of the cost of acquisition over the net fair value of the Group's share of the identifiable/assumed net assets and liabilities;
- by immediately recognizing the negative goodwill, if any, directly in the income statement if the fair value of the net assets acquired exceeds the cost of acquisition.

3. Summary of significant accounting policies

INTANGIBLE ASSETS

Intangible assets with a definite useful life are measured at cost less accumulated amortization and accumulated impairment losses.
Amortization starts when the asset is available for use.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's interest in the identifiable assets and liabilities acquired as of the date of acquisition.
Goodwill is tested annually in order to identify any impairments.
Goodwill is allocated to cash-generating units test purposes for impairment.

Trademarks and licenses

Trademarks and licenses are stated at cost less accumulated amortization and accumulated impairment losses. Cost is amortized over the contract period or the useful lives of the assets, whichever is sooner.

Software

Software license costs, including direct incidental costs, are capitalized and recorded in the balance sheet less accumulated amortization and accumulated impairment losses. Software is amortized over its useful life on a straight-line basis.

Research and development

Research expenditures for new products and/or processes are expensed when incurred. There are no development costs which meet the conditions for capitalization under IAS 38.

Useful lives

The useful lives of intangible assets are the following:

Trademarks and licenses	5 years
Software	not more than 3 years.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at the cost of acquisition or production and include directly attributable incidental expenses.
Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, except for land, which is not depreciated and is stated at cost less accumulated impairment losses.
Depreciation is accounted for starting from the month in which the asset is available for use, or is potentially able to provide the economic benefits associated with it.
Depreciation is charged monthly using the straight-line method at rates designed to write-off the assets to the end of their residual useful lives or, for disposals, until the last month of use.
Depreciation rates are as follows:

Buildings	3% - 10%
Plant	7% - 10%
Machinery	5% - 10%
Equipment	10% - 33%
Furniture	10% - 33%
Motor vehicles	10% - 25%

Government grants relating to property, plant and equipment are recorded as deferred income and credited to the income statement over the period of depreciation of the relative assets.
Borrowing costs incurred for the purchase of an asset are expensed unless they are directly attributable to the purchase, construction or production of a qualifying asset, in which case they are capitalized.

Leasehold improvements are classified as property, plant and equipment, consistently with the nature of the cost incurred. The depreciation period corresponds to the remaining useful life of the asset or the residual period of the lease contract, whichever is sooner.
Spare parts of a significant amount are capitalized and depreciated over the estimated useful life of the assets to which they refer.
Dismantling costs, if any, are estimated and added to the cost of property, plant and equipment with a corresponding entry to a provision account for other liabilities and charges. They are then depreciated over the remaining useful life of the assets to which they refer.

Leased assets

Asset held under finance leases, in which substantially all the risks and rewards of ownership are transefered to the Group, are recognized as assets at their fair value or, if lower, at the present value of the minimum lease payments, including any sum payable to exercise the purchase option. The corresponding liability due to the lessor is recognized in a financial liabilities.

The lease cost is divided into its two components: the interest expense, recognized in the income statement, and the principal payment, recognized as a deduction of the financial payable.

Leased assets are depreciated at the shorter of them of the lease contract and the estimated useful life of the asset.

Arrangements which do not take the legal form of a lease but which fulfillment of the arrangement depends upon a specific asset and which convey rights to use the asset in return for a payment or a series of payments is accounted for the same way as a finance lease, as provided in IFRIC 4.

INVESTMENT PROPERTY

Investment property is defined as property held to earn rent or for capital appreciation or both. Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value. The changes in the fair values of investment property are recorded in the income statement.
The fair value of an investment property reflects the market value at the balance sheet date and represents the amount at which the investment property could be exchanged between knowledgeable and willing parties in an arm's length transaction and after the outcome of adequate sales negotiations based on the principle of reciprocal independence.
Each single property is measured and takes into consideration the future rental income and, where significant, the relative costs, discounted by applying a discount rate that reflects the risks specific to the cash flows generated by the asset.
The income or expense representing changes in the fair value of the investment property is recorded in the income statement in the year in which the change occurs.
The gain or loss on the disposal of investment property is calculated as the difference between the net proceeds from disposal and the carrying amount of the asset, and is recorded in the income statement in the year of sale.
When there is a change in use of an investment property from inventories to investment property to be recognized at fair value, the difference between the fair value at the balance sheet date and the previous carrying amount is recorded in the income statement.
When there is a change in use from investment property recognized at fair value to owner-occupied property, the fair value at the date of the change of use is considered the cost of the property under its new classification.

IMPAIRMENT OF ASSETS

Property, plant and equipment and intangible assets

Whenever there are specific indicators of an impairment, property, plant and equipment and intangible assets should be tested for impairment, and at least annually for intangible assets with an indefinite life, including goodwill.
The test consists of an estimate of the recoverable amount of the asset and a comparison with its net carrying amount.
The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, where value in use is the present value of expected future cash flows originating from the use of the asset and those deriving from its disposal at the end of its useful life.
If the recoverable amount is lower than the asset's carrying amount, the carrying amount is reduced to the recoverable amount. This reduction constitutes an impairment loss which is recognized in the income statement.
To test for impairment, assets are allocated to the lowest level at which independent cash flows are separately identifiable (cash-generating unit). Specifically, goodwill must be allocated to the cash-generating unit or group of cash-generating units which must never be at a higher level than the business segment.

When there are indications that an impairment loss recognized in prior years and relating to property, plant and equipment or intangible assets, other than goodwill, may no longer exist or can be reduced, the recoverable amount is estimated again and if it is higher than the net carrying amount, then the net carrying amount should be increased to the revised estimate of its recoverable amount. The reversal of an impairment loss may not exceed the carrying amount that would have been recorded (net of writedowns and depreciation and amortization) had no impairment loss been recognized in prior years.
The reversal of an impairment loss, other than on goodwill, is recognized in the income statement.
An impairment loss recognized on goodwill cannot be reversed in subsequent years.

Investments in associates and joint ventures

In order to test for impairment, the value of investments in associates and joint ventures accounted for by the equity method must be compared with the recoverable amount. The recoverable amount corresponds to the higher of the fair value, less costs to sell, and the value in use. It is not necessary to estimate both amounts since it is sufficient to verify that one of the two amounts is higher than the carrying amount in order to establish the absence of an impairment. In keeping with recent interpretations, for purposes of impairment testing, the fair value of an investment in an associate or joint venture with shares listed on an active market is always equal to its market value regardless of the percentage of ownership.

In order to determine the value in use of an associate or joint venture accounted for by the equity method, the following estimates should be made:

1. the share of the present value of estimated future cash flows that will be generated by the associate or joint venture, including cash flows generated by the operating activities of the associate or joint venture and the consideration that will be received on the final disposal of the investment (known as the Discounted Cash Flow – asset side criterion);
2. the present value of estimated future cash flows that will be generated by dividends to be received and the final disposal of the investment (known as the Dividend Discount model – equity side criterion).

When there are indications that an impairment loss recognized in prior years and relating to investments in associates and joint ventures no longer exists or can be reduced, the recoverable amount of the investment is estimated again and if it is higher than the amount of the investment, then the latter amount should be increased to the revised estimate of the recoverable amount.
The reversal of an impairment loss may not exceed the amount of the investment that would have been recorded (net of writedowns) had no impairment loss been recognized in prior years.
The reversal of an impairment loss on investments in associates and joint ventures is recognized in the income statement.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include investments in other companies and other securities not held for trading. They are included in non-current assets in “Other financial assets”, since there is no intention to dispose of them within 12 months of the balance sheet date.
They are measured at fair value. The gains and losses from changes in fair value are recognized in a specific equity reserve.
In the case of impairment, the gains and losses recognized up to that time in equity are reversed to the income statement. A prolonged or significant reduction in the fair value of the securities compared to cost is considered an impairment indicator.
In the event of disposal, the gains and losses recognized up to that time in equity are reversed to the income statement.
Any impairment losses recognized on available-for-sale financial assets in the income state-

ment cannot be reversed through the income statement.
Purchases and sales of available-for sale financial assets are recognized on the settlement date.

INVENTORIES

Inventories are stated at the lower of cost, using the FIFO method, and estimated realizable value.
Cost is increased by incremental expenses and borrowing costs that can be capitalized, similarly to what was described for property, plant and equipment.

CONSTRUCTION CONTRACTS

A construction contract is a contract specifically negotiated for the construction of an asset based on the instructions of a principal that, as a preliminary step, designs the plans and the technical characteristics.
Contract revenues include the consideration initially agreed, in addition to changes in the construction work and price variations envisaged by the contract that can be determined reliably.

When the outcome of a construction contract can be estimated reliably, the contracts are measured using the percentage of completion method. The stage of completion is measured by reference to the costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

Costs incurred during the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion and recorded as inventories.

When it is probable that total contract costs will exceed total contract revenues, the expected loss is recognized as an expense immediately.

The gross amount due from customers for contract work for all the contracts in progress and for which the costs incurred plus recognized profit (or less recognized losses) exceed progress billings is included in trade receivables.

The gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profit (or less recognized losses) is included in trade payables.

RECEIVABLES

Receivables are initially recorded at their fair value, generally represented by the agreed consideration or rather the present value of the amount that will be collected.
They are subsequently measured at amortized cost, less provision for impairment.
Amortized cost is calculated using the effective interest rate method, which is equivalent to the discount rate which, applied to future cash flows, renders the present value of such flows equal to the initial fair value.
In the event of an impairment loss, the carrying amount of the receivables is reduced indirectly by recognition in a provision account. When the conditions that gave rise to the impairment of the receivables no longer exist, the impairment losses recorded in previous periods are reversed by a credit to the income statement up to the amortized cost that would have been recorded had no impairment loss been recognized.
Receivables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates with a corresponding entry to the income statement.
Receivables are derecognized when the right to receive cash flows is extinguished, when the Group has transferred substantially all the risks and rewards connected with holding the

receivable or in the case the receivable is considered definitively irrecoverable after all the necessary recovery procedures have been completed. When the receivable is derecognized, the relative provision is also derecognized if the receivable had previously been written down.

Junior notes and non-performing loans

Junior notes generated by transactions for the securitization of non-performing loans (NPL found in the Real Estate Sector) as well as non-performing deep discount receivables (non-performing receivables purchased at prices significantly below the carrying amounts) are classified in loans and receivables and initially recorded at fair value, generally represented by the price paid.
They are subsequently measured at amortized cost. Amortized cost is calculated using the effective interest rate method, which is equivalent to the discount rate which, applied to future cash flows, resulting from the first business plan prepared subsequent to purchase, renders the present value of such flows equal to the cost of purchase including any transaction costs. The carrying amount is adjusted, whenever there is a change in the estimate of expected cash flows, to the amount resulting from discounting future cash flows at the original effective interest rate.
Any differences, whether positive or negative, are recognized in the income statement.

Shareholder loans

Financial receivables representative of loans to associates and joint ventures are initially recorded at their fair value, corresponding to the present value of future cash flows.
Loans by shareholders made at non-market conditions are discounted over the term of the loan at a rate representative of a loan having the same characteristics.
Any difference between the nominal amount of the loan and the fair value remeasured as previously described is recognized, by the lender, as an increase in the carrying amount of the investment, net of any tax effects. The beneficiary of the loan, in its financial statements prepared in accordance with Group principles and used for valuation of the investment with the equity method, recognizes the same difference as a reduction of its borrowings and as a increase, net of the tax effect, of equity.
After initial recognition, the shareholder loans are measured at amortized cost.

PAYABLES

Payables are initially recorded at their fair value, generally represented by the agreed consideration or rather the present value of the amount that will be paid.
They are subsequently measured at amortized cost.
Amortized cost is calculated using the effective interest rate method, which is equivalent to the discount rate which, applied to future cash flows, renders the present value of such flows equal to the initial fair value.
Payables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates with a corresponding entry to the income statement.
Payables are derecognized when the specific contractual obligation is extinguished.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

This category of financial assets includes securities principally purchased for resale in the short term and classified in current assets in “securities held for trading” and financial assets which at the time of initial recognition are designated at fair value through profit or loss and classified in “other financial assets”.
They are measured at fair value with a corresponding entry to the income statement. Transac-

tion costs are expensed to the income statement.
Purchases and sales of such financial assets are recognized on the settlement date.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank and postal deposits and cash and valuables on hand. They are recorded at amortized cost which generally corresponds to nominal value.

PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Provisions for other liabilities and charges include accruals for current obligations (legal or constructive) deriving from a past event, for the fulfillment of which an outflow of resources will probably be necessary, the amount of which can be estimated in a reliable manner.

EMPLOYEE BENEFITS

Employee benefits paid subsequent to the termination of the employment relationship under defined benefit plans and other long-term benefits are subject to actuarial calculations. The liability recorded in the financial statements is the present value of the Group's obligation, net of any plan assets.
With regard to defined benefit plans, the Pirelli & C. Group elected the option allowed by IAS 19 under which actuarial gains and losses are recognized in equity in full in the year in which they arise.
For other long-term benefits, the actuarial gains and losses are recognized immediately in the income statement.
The cost for interest and the expected return on plan assets are classified in personnel costs.

STOCK OPTIONS

Stock options are divided into two types which require different accounting treatments according to the features of the plan:
— *equity-settled*: are plans in which the grantee has the right to purchase shares of the company at a fixed price whenever specific conditions are met. In such cases, the fair value of the option, determined at the grant date, is recognized as an expense over the period of the plan with a corresponding entry to increase the reserves in equity;
— *cash-settled*: are plans which provide for put options on behalf of the recipient, combined with call options on behalf of the issuer, or plans in which the recipient directly receives the monetary equivalent amount of the benefit originating from the exercise of the stock option. The fair value of the liability, re-measured at the end of every reporting period, is recognized in the income statement over the vesting period. The changes in the fair value of the liability subsequent to the vesting period are recognized in the income statement.

FINANCIAL INSTRUMENTS

Derivatives are recognized initially at fair value with a corresponding entry in the income statement and subsequent re-measurement is always at fair value. Fair value gains or losses are recognized in the income statement except for derivatives designated as cash flow hedges.
In all cases in which derivatives are designated as hedging instruments under IAS 39, at the inception of the transaction, the Group formally documents the relationship between the hedging instrument and the hedged item, its risk management objectives and the strategy followed in effecting the hedge transaction.
The Group also assesses the effectiveness of the hedging instrument in offsetting the varia-

tions in the cash flows attributable to the hedged risk. Such assessment is performed at hedge inception and on an ongoing basis for the duration of the hedge.
The effective portion of the change in the fair value of the derivative that was designated and qualifies as a hedging instrument is recognized directly in equity; the gain or loss relating to the ineffective portion is recognized in the income statement.
The amounts recognized directly in equity are reversed to the income statement at the same time the hedged item produces an effect in the income statement.
When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the hedged item ultimately produces an effect in the income statement. When the hedged item is no longer expected to produce an effect in the income statement, the cumulative gain or loss that was reported in equity is immediately recognized in the income statement.

Fair value estimation

The fair value of financial instruments traded in active markets is based on listed market prices at the balance sheet date. The listed market price used for financial assets is the current bid price; the appropriate listed market price for financial liabilities is the current ask price.
The fair value of financial instruments that are not traded on an active market is determined by using valuation techniques with a variety of methods and assumptions that are based on market conditions existing at each balance sheet date.
The fair value of interest-rate swaps is calculated as the present value of estimated future cash flows.
The fair value of forward exchange contracts is determined using the forward rate at the balance sheet date.

INCOME TAXES

Current income taxes are determined on the basis of a realistic estimate of the tax expense payable under the current tax laws of the country.
Deferred taxes are calculated on temporary differences arising between the asset and liability amounts in the balance sheet and their tax bases (full liability method) and are classified in non-current assets and liabilities.
Deferred tax assets are only recognized when there is a probability of future recovery.

EQUITY

Treasury shares

Treasury shares are classified as a deduction from equity.
In the event of sale, re-issue or cancellation, the gains and losses as a result thereof are classified in equity.

Costs of capital transactions

Costs directly attributable to capital transactions of the parent are recognized as a deduction from equity.

RECOGNITION OF REVENUES

Revenues are measured at the fair value of the consideration received for the sale of the products or the rendering of services.

Sales of products

Revenues from sales of products are recognized when all the following conditions are met:
— the significant risks and the rewards of ownership of the goods are transferred to the buyer;
— the effective control over the goods has ceased;
— the amount of revenues is determined in a reliable manner;
— it is probable that the economic benefits deriving from the sale will be enjoyed by the enterprise;
— the costs incurred or to be incurred are determined in a reliable manner.

With specific reference to sales of properties, revenues are generally recognized at the time of transfer of ownership to the buyer which corresponds to the date of the deed of sale. If the nature and degree of involvement of the seller are such as to cause that the risks and rewards of ownership are not in fact transferred, then the recognition date of the revenues is deferred until such time as the transfer can be considered to have taken place.

Rendering of services

Revenues from rendering of services are recognized by reference to their completion at the balance sheet date.

Interest income

Interest income is recognized on a time-proportion basis which considers the effective return of the asset or liability.

Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreement.

Dividend income

Dividend income is recognized when the right to receive payment is established, which normally corresponds to the resolution passed by the shareholders' meeting for the distribution of dividends.

SEGMENT INFORMATION

The business segment (primary reporting segment) is a distinctly identifiable part of the Group which supplies a single product or service or an aggregate of related products and services and is subject to risks and rewards different from those of the other business segments of the Group.

The geographical segment (secondary reporting segment) is a distinctly identifiable part of the Group which supplies a single product or service or an aggregate of related products and services and is subject to risks and rewards different from those relating to components which operate in other economic environments.

ACCOUNTING PRINCIPLES FOR HYPERINFLATIONARY COUNTRIES

The companies of the Group operating in high-inflation countries redetermine the amounts in their original respective financial statements to eliminate distorting effects due to the loss of

the purchasing power of the currency. The inflation rate used for purposes of the adoption of inflation accounting corresponds to the consumer price index.
The companies operating in countries in which the cumulative inflation rate over a three-year period approximates or exceeds 100 percent adopt inflation accounting and discontinue it in the event the cumulative inflation rate over a three-year period falls below 100 percent.
Gains and losses on monetary positions are recognized in the income statement.

CLASSIFICATION OF PROPERTY PORTFOLIO: INVENTORIES (IAS 2) – INVESTMENT PROPERTY (IAS 40)

In accordance with the business model prevalent within the Group, the majority of property assets are classified in inventories insofar as they are held for the purpose of trading and are in any case intended for sale during the course of the normal operating cycle of the companies included in the scope of consolidation.

4. Financial risk management policies

Financial risk management is an integral part of the management of the Group's operations. Risk management is carried out centrally using policies defined by the General Finance and Strategic Planning Department. Such policies define the categories of risk and specify the procedures and operating limits for each type of transaction and/or instrument. In accordance with these policies, the Group uses derivative contracts in relation to underlying financial assets or liabilities or future transactions. Financial risk management is centralized at the Sector Treasury Units which have the task of evaluating the risks and putting into place the relative hedges under the coordination of Group Treasury. The Sector Treasury Units act directly in the market on behalf of the Operating Units and, where it cannot operate directly because of external restrictions, coordinates with the Local Treasury Unit.

TYPES OF FINANCIAL RISKS

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk. This risk is managed by the Sector Treasury Units and coordinated by Group Treasury. The Operating Units are responsible for gathering all the information inherent to the positions subject to foreign exchange risk which are managed by forward contracts negotiated with the Sector Treasury Units. The positions subject to exchange risk are mainly represented by sales and purchases invoices.
The Sector Treasury Units are responsible for evaluating and managing the net position for every currency, consistent with policies and restrictions, by negotiating derivative contracts on the market, generally forward contracts.
As a result, a change in exchange rates will not generate any significant effects on the income statement.
Forward contracts between the Operating Units and the Sector Treasury Units as well as those among the Sector Treasury Units and the market are not designated as hedging instruments as defined by IAS 39 although they are in place for the purpose of managing risks.

Currency translation risk

The Group holds controlling investments in companies which prepare their financial statements in currencies other than the euro, which is the reference currency of the Group. This

exposes the Group to risk from currency translations since fluctuations in the exchange rates of certain foreign currencies against the consolidation currency (euro) can cause changes in the amount of consolidated equity.
The principal exposures to currency translation risk are monitored but it is not the Group's policy to hedge this exposure.
About 73 percent (about 80 percent at December 31, 2006) of total consolidated equity at December 31, 2007 is expressed in euro. The most important currencies for the Group other than the euro are the Brazilian Real at 11 percent (7 percent at December 31, 2006) and the Turkish Lira at 6 percent (5 percent at December 31, 2006).
The effect on total consolidated equity resulting from a hypothetical increase or decrease in the value of the above currencies against the euro – all other conditions being equal, is as follows:

(in thousands of Euros)

	10% increase in value		10% decrease in value	
	12/31/2007	12/31/2006	12/31/2007	12/31/2006
Brazilian real	45,744	37,656	(37,427)	(30,809)
Turkish lira	27,333	25,667	(22,364)	(21,000)
Total effect on consolidated equity	**73,077**	**63,323**	**(59,791)**	**(51,809)**

Interest rate risk

The Group's policy is to tend to maintain a correct balance between fixed-rate debt and floating-rate debt with the aim being to have fixed-rate debt at about 70 percent of total financial debt.
The Group manages the risk of an increase in floating-rate debt interest rates by compensation with floating-rate receivables and by the use of derivative contracts. The designation of such derivatives as hedging instruments under IAS 39 is decided case by case and authorized by the General Finance and Strategic Planning Department and the General Operations department.
The effects on the results for the year and directly on total equity resulting from an increase or decrease of 0.50 percent in the level of interest rates of all the currencies to which the Group is exposed – all other conditions being equal, are the following:

(in thousands of Euros)

	0.50% increase		0.50% decrease	
	12/31/2007	12/31/2006	12/31/2007	12/31/2006
Effect on the result for the year:				
- companies consolidated line-by-line	39	(3,441)	1,276	3,843
- companies accounting for using the equity method	7,052	5,177	670	1,260
Total effect on the result for the year	**7,091**	**1,736**	**1,946**	**5,103**
Direct effect on equity:				
- companies consolidated line-by-line	836	1,086	(838)	(648)
- companies accounting for using the equity method	8,924	20,847	(9,169)	(21,810)
Total direct effect on equity	**9,760**	**21,933**	**(10,007)**	**(22,458)**

The direct impact on equity is connected with the change in fair value of cash flow hedge derivatives.

Price risk associated with financial assets

The Group is exposed to price risk to the extent of the volatility of financial assets such as listed and unlisted equity shares and bonds, listed real estate investment funds and unlisted closed-end real estate investment funds for an amount equal to about 12 percent of total consolidated assets at December 31, 2007; the change in fair value of these financial assets is recognized in equity or in the income statement in accordance with IAS 39.
Listed equity shares and listed real estate investment funds, which change in fair value is recognized in equity, represent 77 percent of total financial assets subject to price risk. A change of 1 percent in these listed securities, all other conditions being equal, would cause a change of Euros 8,233 thousand (Euros 8,985 thousand at December 31, 2006) in the equity of the Group.
Financial assets, which change in fair value is recognized through profit and loss, refer to unlisted closed-end real estate investment funds and fair value is arrived by reference to a basket of similarly listed securities. A change in the reference index relating to listed closed-end real estate funds of 1 percent, all other conditions being equal, would cause an impact on the result for the year of Euros 319 thousand (at December 31, 2006 there were no financial assets at fair value through profit or loss).

Credit risk

Credit risk represents the Group's exposure to potential losses due to the non-fulfillment of obligations undertaken by commercial and financial counterparts.
In order to limit this risk with commercial counterparts, the Group has put into place procedures to assess the potential and financial creditworthiness of the customer in order to monitor flows of estimated proceeds and for recovery actions.

The aim of these procedures is to define the customer credit limits which, if exceeded, will activate the rule causing supplies to be blocked.
In some cases the client is asked to furnish guarantees; these will mainly be bank guarantees provided by high-credit standing banks or personal guarantees. Mortgages are requested less frequently.
Another tool used to manage commercial credit risk are insurance policies taken out to forestall the risk of non-payment through a meticulous selection of the customer portfolio made together with the insurance company, which undertakes to guarantee compensation in the case of insolvency.

As for financial counterparts, for the management of temporary excess resources or for the negotiation of derivatives, the Group only uses high-credit worthy counterparts.
Receivables for shareholder loans are evaluated together with the stakes invested in the associate or joint venture.

The carrying amount of junior notes and non-performing loans is adjusted each time there is a change in the estimate of discounted cash flows expected and, in the case of impairment, is directly reduced without recognition in any provision account, except for limited positions where specific provision accounts have been set up. In some cases the customers are asked to furnish guarantees; these are mainly bank guarantees provided by high-credit standing banks, personal guarantees or mortgages.

Impairment losses on receivables are calculated on the basis of the risk of non-fulfillment by the counterpart determined by considering the information available on solvency of the counterpart and historical experience. The carrying amount of receivables is indirectly reduced through recognition in a provision account.

Single significant positions, for which there is an objective condition of partial or total uncollectibility are written down individually. The amount of the impairment loss takes into

account the estimate of future recoverable flows and the relative date of collection, recovery costs and expenses and any fair value of the guarantees.
The positions which are not written down individually are included in groups with similar characteristics from the standpoint of credit risk and written down on a collective basis according to a percentage that increases as the overdue period increases. The collective impairment procedure also applies to receivables not yet due.
The impairment percentages are determined on the basis of historical experience and statistical data.
The Group does not have significant concentrations of credit risk.

Liquidity risk

Liquidity risk represents the risk that available financial resources will not be sufficient to meet financial and commercial obligations within the prescribed time and due dates. The main instruments used by the Group to manage liquidity risk are three-year and annual financial plans and treasury plans that enable the Group to fully and correctly recognize and measure incoming and outgoing monetary flows. Variances between the plans and the actual figures are constantly analyzed.
Prudent liquidity risk management implies maintaining sufficient cash and/or short-term securities that can be readily converted into cash, the availability of funding through an adequate amount of committed credit facilities and/or the ability to close out market positions. Due to the dynamic nature of the businesses in which it operates, the Group aims to maintain flexibility in funding by keeping committed credit lines available.
In order to optimize the management of financial resources and thus the liquidity risk, the Group has implemented a centralized system for managing collection and payment flows while respecting the different local currency and tax laws. The negotiation and management of bank transactions is conducted centrally so that short-term and medium-term financial requirements are assured of coverage at the lowest cost possible. Even the funding of medium/long-term resources on the capital market is optimized by using centralized management.
At December 31, 2007, in addition to liquidity of Euros 2,057,682 thousand, the Group also has unused committed credit lines of Euros 2,672,000 thousand (Euros 1,791,000 thousand at December 31, 2006).

The maturities of financial liabilities at December 31, 2007 can be summarized as follows:

(in thousands of Euros)

	within 1 year	between 1 and 2 years	between 2 and 5 years	beyond 5 years	Total
Trade payables	1,323,588	-	-	-	1,323,588
Other payables	1,394,673	2,058	17,504	3,738	1,417,973
Financial instruments	72,513	262	6,520	-	79,295
Borrowings from banks and other financial institutions	871,759	289,526	348,390	150,282	1,659,957
	3,662,533	**291,846**	**372,414**	**154,020**	**4,480,813**

The maturities of financial liabilities at December 31, 2006 can be summarized as follows:

(in thousands of Euros)

	within 1 year	between 1 and 2 years	between 2 and 5 years	beyond 5 years	Total
Trade payables	1,102,456	-	-	-	1,102,456
Other payables	536,902	118,549	12,992	1,339	669,782
Financial instruments	45,362	761	3,990	-	50,113
Borrowings from banks and other financial institutions	1,562,262	543,902	601,149	232,375	2,939,688
	3,246,982	**663,212**	**618,131**	**233,714**	**4,762,039**

Additional information: financial asset and liability categories

The carrying amounts for every class of financial assets and liabilities identified in IAS 39 are reported as follows:

(in thousands of Euros)

	Note	Carrying amount at December 31, 2007	Carrying amount at December 31, 2006
FINANCIAL ASSETS			
Financial assets at fair value through profit or loss			
- designated at the time of initial recognition			
Other financial assets - non-current	11	31,910	-
- held for trading			
Securities held for trading	17	114,039	119,174
Financial instruments - non-current	27	3,849	-
Financial instruments - current	27	56,116	27,486
Loans and receivables			
Other receivables - non-current	14	672,894	705,828
Trade receivables - current	13	1,098,927	999,669
Other current receivables	14	241,475	356,205
Cash and cash equivalents	18	2,057,682	269,574
Available-for-sale financial assets			
Other financial assets - non-current	11	926,362	1,006,898
Hedging financial instruments			
Financial instruments - current	27	2,210	1,661
Total financial assets		**5,205,464**	**3,486,495**

	Note	Carrying amount at December 31, 2007	Carrying amount at December 31, 2006
FINANCIAL LIABILITIES			
Financial liabilities at fair value through profit or loss			
- held for trading			
Financial instruments - non-current	27	6,782	4,751
Financial instruments - current	27	72,513	45,362
Financial liabilities measured at amortized cost			
Borrowings from bank and other financial institutions - non-current	24	788,198	1,377,426
Other payables - non-current	26	23,300	132,880
Borrowings from bank and other financial institutions - current	24	871,759	1,562,262
Trade payables - current	25	1,323,588	1,102,456
Other payables - current	26	1,394,673	536,902
Total financial liabilities		**4,480,813**	**4,762,039**

5. Capital management policies

The objective of the Group is to maximize the return on net invested capital, maintaining the ability to operate over time and guaranteeing adequate returns for the shareholders and benefits for the other stakeholders with a sustainable financial structure.

In order to achieve these objectives, in addition to pursuing satisfactory economic results and generating cash flows, the Group can take action on the dividend policy and the configuration of the Company's capital.

The main indicators used by the Group to manage capital are the following:

1. **Ratio between operating profit, including earnings (losses) from investments and average net invested capital**: the indicator represents the capacity of the company's results to remunerate net invested capital, this being understood as the sum of fixed assets and net working capital. The earnings (losses) of investments is included in the calculation as it is the main figure representing the performance of the Real Estate Sector. The objective of the Group is that this ratio should be higher than the average cost of capital (WACC).
2. **Gearing**: this is calculated as the ratio between financial position and equity capital. It is an indicator of the sustainability of the debt to equity capital ratio, which takes into account the market situation and the trend of the cost of capital and debt at different times. Gearing at December 31, 2007 is affected by the impact of the sale of Olimpia S.p.A.. In fact, following the sale, a resolution was passed to voluntarily reduce share capital aimed at reimbursing the shareholders for a part of the financial resources obtained in addition to optimizing the balance sheet structure of the Company, particularly by changing the ratio between fixed assets and available reserves.
3. **R.O.E (Return on equity)**: this is calculated as the ratio between income for the year and average equity. It is an indicator representing the capacity of the Group to remunerate its shareholders. The objective is that the indicator should assume a value that is significantly higher than the rate of return on a risk-free investment, in relation to the nature of the Company's businesses.

The amounts for the years 2007, 2006 and 2005 are as follows:

	2007	**2006**	**2005**
1 Ratio of operating profit, including earnings (losses) from investments and average net capital	9.77%	15.93%	8.80%
2 Gearing	n/a *	0.42	0.21
3 R.O.E. (Return on Equity)	7.61%	(20.37%)	7.38%

* Not applicable as there is a net liquidity position

6. Estimates and assumptions

The preparation of the consolidated financial statements requires management to make estimates and assumptions which, in some circumstances, are based on difficult and subjective judgments and estimates derived from historical experience and assumptions which, each time, are believed to be reasonable and realistic under the circumstances. Such estimates affect the reported amounts of some assets and liabilities, costs and revenues, as well as the disclosure of contingent assets and liabilities at the balance sheet date.

The estimates and assumptions will generally refer to the measurement of the recoverable amounts of intangible assets, the definition of the useful lives of property, plant and equipment, the recoverability of receivables and the recognition and measurement of provisions. The estimates and assumptions are based upon data which reflects the current state of available knowledge.

ACCOUNTING POLICIES OF PARTICULAR IMPORTANCE REQUIRING A HIGHER DEGREE OF JUDGMENT

The accounting policies involving a higher degree of judgment by management in making estimates and for which a change in the conditions underlying the assumptions could have a significant impact on the consolidated financial statements are the following:

Goodwill

In accordance with the accounting policies applied in the preparation of the financial statements, goodwill is tested annually in order to assess whether there is an impairment that should be recorded in the income statement. In particular, the test involves the allocation of goodwill to cash-generating units and the determination of the relative recoverable amount, understood as being the higher of fair value and the value in use.

If the value in use is lower than the carrying amount of the cash-generating units, an impairment on the goodwill allocated to them should recognized. The allocation of goodwill to cash-generating units and the determination of their value in use involves estimates which depend on subjective valuations as well as on factors which could change over time with consequent and possibly significant effects on the assessment made by management.

Impairment of property, plant and equipment and intangible assets

In accordance with the accounting policies applied, property, plant and equipment and intangible assets are tested to ascertain if there is an impairment, which should be recognized, when there are indications that would imply difficulties in recovering the net carrying amount through the use of the asset. The verification of the existence of these indications requires management to make judgments based on available internal or external information and historical experience. Moreover, when it has been determined that there could be a potential impairment, that impairment must be determined by reference to suitable valuation techniques. The proper identification of elements indicating the existence of a potential impairment and the estimates used to determine it depend on subjective judgments and factors which can vary over time and influence the assessments and estimates made by management.

Deferred income taxes

The recognition of deferred tax assets is made on the basis of expectations of future income. The measurement of future income for purposes of recognizing deferred income taxes depends on factors which can vary over time and determine significant effects on the measurement of deferred tax assets.

Provisions for other liabilities and charges

Accruals are made for legal and fiscal liabilities and charges that will probably require an outflow of resources. The amount of the provisions recorded in the financial statements relating to such liabilities and charges represents the best estimate at that time made by management. This estimate involves assumptions which depend on factors which can change over time and which could therefore have significant effects on the current estimates made by management in the preparation of the consolidated financial statements.

7. Segment information

For the Pirelli & C. Group, the business segment constitutes the primary segment whereas the geographical segment represents the secondary segment.

PRIMARY REPORTING FORMAT – BUSINESS SEGMENT

At December 31, 2007, continuing operations of the Group are divided into four main business segments:
- Tyre
- Real Estate
- Broadband
- Other businesses

In line with the procedures followed by the Group in monitoring the businesses managed at December 31, 2007, it should be pointed out that the Environment business, which at December 31, 2006 was a reportable segment, has been aggregated in the "Other businesses" sector; the comparative information at December 31, 2006 has been reclassified accordingly.

The remaining part comprises financial companies (including the Parent) and other service companies. None of these constitutes a reportable segment.

Finally, it should also be pointed out that as a result of its sale in 2007, Olimpia S.p.A. at December 31, 2007 no longer constitutes a business segment. However, the results by sector include the economic effects of Olimpia, classified in the income statement under "income (loss) from discontinued operations".

Segment results for the year ending December 31, 2007 are as follows:

(in thousands of Euros)

	Tyre	Real Estate	Broadband	Other BU	Olimpia	Other	TOTAL 12/31/2007
Sales to third parties	4,160,899	2,139,409	117,080	68,410	-	18,739	6,504,537
Sales to the Group	819	9,236	-	3,028	-	(13,083)	-
Total Sales	**4,161,718**	**2,148,645**	**117,080**	**71,438**	**-**	**5,656**	**6,504,537**
Amortization of tangible/intangible assets	(190,465)	(11,434)	(2,392)	(883)	-	(8,870)	(214,044)
Depreciation of tangible/intangible assets	(811)	(3,823)	-	-	-	-	(4,634)
Operating Profit (loss)	**358,090**	**50,393**	**(13,531)**	**(8,497)**	**-**	**(19,565)**	**366,890**
Share of earnings (losses) of companies accounted for by the equity method	159	117,042	-	-	-	1,407	118,608
Financial income (expenses)							(75,755)
Dividends							34,459
Gains (losses) from changes in fair value of financial assets							(20,179)
Income before income taxes							**424,023**
Income taxes							(133,503)
Income from continuing operations							**290,520**
Income (loss) from discontinued operations	**-**	**-**	**-**	**-**	**(53,805)**	**86,875**	**33,070**
Income for the year							**323,590**

Segment results for the year ending December 31, 2006 were as follows:

(in thousands of Euros)

	Tyre	Real Estate	Broadband	Other BU	Olimpia	Other	TOTAL 12/31/2006
Sales to third parties	3,947,159	691,161	129,434	66,261	-	7,209	4,841,224
Sales to the Group	2,343	10,803	-	2,706	-	(15,852)	-
Total Sales	**3,949,502**	**701,964**	**129,434**	**68,967**	**-**	**(8,643)**	**4,841,224**
Amortization of tangible/intangible assets	(191,309)	(9,371)	(1,323)	(704)	-	(9,984)	(212,691)
Depreciation of tangible/intangible assets	(1,145)	-	-	-	-	(1,492)	(2,637)
Operating Profit (loss)	**342,344**	**103,718**	**(267)**	**(224)**	**-**	**(44,185)**	**401,386**
Share of earnings (losses) of companies accounted for by the equity method	179	101,570	-	-	-	2,209	103,958
Financial income (expenses)							533,816
Dividends							65,857
Gains (losses) from changes in fair value of financial assets							(55,956)
Income before income taxes							**1,049,061**
Income taxes							(127,848)
Income from continuing operations							**921,213**
Loss from discontinued operations	**-**	**-**	**-**	**-**	**(1,940,039)**	**(30,000)**	**(1,970,039)**
Loss for the year							**(1,048,826)**

The method of measuring sales among sectors is the same as that applied for sales to third parties.

Segment assets, liabilities and capital expenditures at December 31, 2007 are as follows:

(in thousands of Euros)

	Tyre	Real Estate	Broadband	Other BU	Altro	TOTAL 12/31/2007
Segment assets	3,256,011	905,832	55,803	43,520	107,839	4,369,005
Investments in associates and joint ventures	718	480,341	-	2,410	50,725	534,194
Total allocated assets	**3,256,729**	**1,386,173**	**55,803**	**45,930**	**158,564**	**4,903,199**
Unallocated assets						4,050,041
Total assets						**8,953,240**
Segment liabilities	1,564,238	518,999	61,686	24,152	213,613	2,382,688
Unallocated liabilities						2,766,481
Total liabilities						**5,149,169**
Capital expenditures - property, plant and equipment	262,378	6,469	4,093	9,709	4,060	286,709
Capital expenditures - intangible assets	7,089	168,093	308	980	1,966	178,436

Segment assets, liabilities and capital expenditures at December 31, 2006 were as follows:

(in thousands of Euros)

	Tyre	Real Estate	Broadband	Other BU	Olimpia	Altro	TOTAL 12/31/2006
Segment assets	3,066,993	891,517	44,985	32,477	-	56,278	4,092,250
Investments in associates and joint ventures	1,010	285,781	-	660	3,487,855	50,622	3,825,928
Total allocated assets	**3,068,003**	**1,177,298**	**44,985**	**33,137**	**3,487,855**	**106,900**	**7,918,178**
Unallocated assets							2,309,320
Total assets							**10,227,498**
Segment liabilities	1,484,001	453,061	55,459	17,029	-	345,031	2,354,581
Unallocated liabilities							3,186,360
Total liabilities							**5,540,941**
Capital expenditures - property, plant and equipment	224,200	12,458	6,942	1,015	-	10,841	255,456
Capital expenditures - intangible assets	4,133	47,045	95	400	-	3,211	54,884

Segment assets mainly consist of property, plant and equipment, intangible assets, assets under finance leases, inventories, trade receivables and other receivables and exclude financial receivables, other financial assets, securities held for trading and current and deferred tax assets.

Segment liabilities mainly include trade payables and other payables, advances from customers, provisions for other liabilities and charges and employee benefit obligations and exclude financial payables and current and deferred tax liabilities.

Capital expenditures mainly refer to the purchase of plant and machinery.

SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENT

Sales by geographical area, allocated on the basis of the country in which the customer resides, are as follows:

(in millions of Euros)

	2007		2006	
Europe:				
- Italy	1,258.3	19.35%	1,331.9	27.51%
- Other European countries *	3,077.9	47.32%	1,586.9	32.78%
North America	329.5	5.07%	318.8	6.59%
Central and South America	1,187.7	18.26%	1,029.3	21.26%
Oceania, Africa and Asia	651.1	10.00%	574.3	11.86%
	6,504.5	**100.00%**	**4,841.2**	**100.00%**

* In 2007, this line includes the effect of the deconsolidation of DGAG activities for an amount of Euros 1,295.6 million.

Assets by geographical area, allocated on the basis of the country in which the assets are located, are as follows:

(in thousands of Euros)

	12/31/2007	12/31/2006
Europe		
- Italy	2,253,776	5,467,598
- Other European countries	1,216,412	1,237,908
North America	124,665	132,492
Central and South America	816,790	771,140
Oceania, Africa and Asia	491,556	309,040
Total allocated assets	**4,903,198**	**7,918,178**
Unallocated assets	**4,050,041**	**2,309,320**
	8,953,231	**10,227,498**

Capital expenditures by geographical area, allocated on the basis of the country in which the assets are located, are as follows:

(in thousands of Euros)

	12/31/2007	12/31/2006
Europe		
- Italy	148,333	45,599
- Other European countries	208,543	149,344
North America	2,746	2,228
Central and South America	40,607	81,636
Oceania, Africa and Asia	64,916	31,533
	465,145	**310,340**

8. Property, plant and equipment

At December 31, 2007, the composition and movements in property, plant and equipment are as follows:

(in thousands of Euros)

	12/31/2007			12/31/2006		
	Gross carrying amount	Accumul. Depreciation	Net carrying amount	Gross carrying amount	Accumul. Depreciation	Net carrying amount
Land	83,511	-	83,511	83,186	-	83,186
Buildings	658,310	(301,584)	356,726	636,102	(279,163)	356,939
Plant and machinery	2,652,755	(1,624,730)	1,028,025	2,449,874	(1,498,088)	951,786
Industrial and commercial equipment	574,675	(448,876)	125,799	530,916	(405,039)	125,877
Other property, plant and equipment	236,540	(180,116)	56,424	238,643	(181,842)	56,801
	4,205,791	**(2,555,306)**	**1,650,485**	**3,938,721**	**(2,364,132)**	**1,574,589**

MOVEMENTS IN GROSS CARRYING AMOUNT (in thousands of Euros)

	12/31/2006	Exchange differences	Increase	Decrease	Reclass.	Other	12/31/2007
Land	83,186	1,294	412	(1,544)	177	(14)	83,511
Buildings	636,102	1,989	18,208	(2,775)	4,528	258	658,310
Plant and machinery	2,449,874	36,890	198,458	(27,182)	(6,013)	728	2,652,755
Industrial and commercial equipment	530,916	9,413	32,568	(8,231)	11,202	(1,193)	574,675
Other property, plant and equipment	238,643	(685)	37,063	(23,203)	(9,894)	(5,384)	236,540
	3,938,721	**48,901**	**286,709**	**(62,935)**	**-**	**(5,605)**	**4,205,791**

MOVEMENTS IN ACCUMULATED DEPRECIATION (in thousands of Euros)

	12/31/2006	Exchange difference	Reclass.	Decrease	Depreciation	Other	12/31/2007
Buildings	(279,163)	(2,964)	145	2,443	(21,753)	(292)	(301,584)
Plant and machinery	(1,498,088)	(24,864)	980	19,080	(122,206)	368	(1,624,730)
Industrial and commercial equipment	(405,039)	(7,706)	1,743	5,572	(43,377)	(69)	(448,876)
Other property, plant and equipment	(181,842)	574	(2,868)	15,682	(16,209)	4,547	(180,116)
	(2,364,132)	**(34,960)**	**-**	**42,777**	**(203,545)**	**4,554**	**(2,555,306)**

MOVEMENTS IN NET CARRYING AMOUNT (in thousands of Euros)

	12/31/2006	Exchange differences	Increase	Decrease	Reclass.	Deprecia-tion	Other	12/31/2007
Land	83,186	1,294	412	(1,544)	177	-	(14)	83,511
Buildings	356,939	(975)	18,208	(332)	4,673	(21,753)	(34)	356,726
Plant and machinery	951,786	12,026	198,458	(8,102)	(5,033)	(122,206)	1,096	1,028,025
Industrial and commercial equipment	125,877	1,707	32,568	(2,659)	12,945	(43,377)	(1,262)	125,799
Other property, plant and equipment	56,801	(111)	37,063	(7,521)	(12,762)	(16,209)	(837)	56,424
	1,574,589	**13,941**	**286,709**	**(20,158)**	**-**	**(203,545)**	**(1,051)**	**1,650,485**

At December 31, 2006, the movements were as follows:

(in thousands of Euros)

	12/31/2005	Exchange differences	Increase	Decrease	Reclass.	Other	12/31/2006
Land	67,272	7,764	3,613	(1,397)	5,748	186	83,186
Buildings	616,589	(12,567)	34,044	(15,979)	10,849	3,166	636,102
Plant and machinery	2,421,571	(79,907)	160,988	(21,846)	(28,707)	(2,225)	2,449,874
Industrial and commercial equipment	509,673	(16,549)	37,879	(16,823)	13,827	2,909	530,916
Other property, plant and equipment	249,667	(4,563)	18,932	(22,420)	(1,717)	(1,256)	238,643
	3,864,772	**(105,822)**	**255,456**	**(78,465)**	**-**	**2,780**	**3,938,721**

(in thousands of Euros)

	12/31/2005	Exchange differences	Increase	Decrease	Reclass.	Other	12/31/2006
Buildings	(274,890)	5,553	831	13,427	(22,406)	(1,678)	(279,163)
Plant and machinery	(1,449,690)	49,634	844	17,909	(120,361)	3,575	(1,498,089)
Industrial and commercial equipment	(387,135)	13,238	(441)	13,576	(42,234)	(2,043)	(405,039)
Other property, plant and equipment	(181,085)	3,412	(1,234)	11,646	(16,427)	1,846	(181,842)
	(2,292,800)	**71,837**	**-**	**56,558**	**(201,428)**	**1,700**	**(2,364,133)**

(in thousands of Euros)

	12/31/2005	Exchange differences	Increase	Decrease	Reclass.	Deprecia-tion	Other	12/31/2006
Land	67,272	7,764	3,613	(1,397)	5,748	-	186	83,186
Buildings	341,699	(7,014)	34,044	(2,552)	11,680	(22,406)	1,488	356,939
Plant and machinery	971,881	(30,273)	160,988	(3,937)	(27,863)	(120,361)	1,350	951,785
Industrial and commercial equipment	122,538	(3,311)	37,879	(3,247)	13,386	(42,234)	866	125,877
Other property, plant and equipment	68,582	(1,151)	18,932	(10,774)	(2,951)	(16,427)	590	56,801
	1,571,972	**(33,985)**	**255,456**	**(21,907)**	**-**	**(201,428)**	**4,480**	**1,574,588**

Increases during the year 2007 mainly refer to the Tyre sector, particularly the new operating units in Romania and China.

The ratio of additions during the year 2007 to depreciation is 1.41.
Assets under construction at December 31, 2007 amount to Euros 72,828 thousand (Euros 69,512 thousand at December 31, 2006).

Impairment losses in 2007, included in the column "decrease" in the above table, amount to Euros 811 thousand (Euros 1,145 thousand at December 31, 2006) and are recorded in the income statement under "Amortization, depreciation and impairments" (Note 32).

Restrictions on the ownership of assets are as follows:
— machinery and plant for an equivalent amount of Euros 11,679 thousand are used as collateral for the loan secured from the National Bank of Egypt obtained by the subsidiary Pirelli Tyres Alexandria Co. (Euros 14,076 thousand at December 31, 2006);
— machinery and land for Euros 78,958 thousand are used as collateral by the subsidiary Pirelli Pneus S.A. (Euros 77,645 thousand at December 31, 2006).

There are no borrowing costs capitalized to property, plant and equipment.

8.1. FINANCE LEASES

Land, buildings, plant, machinery and other assets purchased by the Group using finance leases are included in the respective categories of property, plant and equipment.
Details are as follows:

(in thousands of Euros)

	12/31/2007			12/31/2006		
	Capitalized cost	**Accumulated depreciation**	**Net carrying amount**	**Capitalized cost**	**Accumulated depreciation**	**Net carrying amount**
Land leased	11,187	-	11,187	11,187	-	11,187
Buildings leased	63,469	(12,559)	50,910	64,415	(10,992)	53,423
Other property, plant and equipment leased	984	(574)	410	1,036	(631)	405
Plant and machinery leased	1,791	(846)	945	1,828	(631)	1,197
	77,431	**(13,979)**	**63,452**	**78,466**	**(12,254)**	**66,212**

Details of the most important contracts regarding land and buildings leased are as follows:
— Pirelli & C. S.p.A. has a lease contract with a syndicate of banks (DEUTSCHE BANK LEASING S.p.A. - now SG LEASING S.p.A. - Franfinance Leasing Italia; SOGELEASE ITALIA S.p.A. – now SG LEASING S.p.A. - Franfinance Leasing Italia; LOCAT S.p.A.) on the building which houses the structures and the R&D activities of the Tyre Sector.
The contract, signed in May 2000, has a term of 13 years and a purchase option at expiration. The net book amount of the building is Euros 41,904 thousand (Euros 43,563 thousand at December 31, 2006) and that of the land is Euros 10,184 thousand (unchanged at December 31, 2006);
— the subsidiary Pirelli Deutschland GmbH has a lease contract with the company DAL-Florenta on the distribution warehouse located in Breuberg. The term of the contract is divided into two terms: the first is for 15 years from January 1, 1995 to December 31, 2009 and the second is for another 7.5 years. The contract has a purchase option;
— the subsidiary Pneumobil GmbH has five lease contracts with the company DAL on the buildings of five points of sale in Germany. The terms of the contracts are between 20 and 25 years and all of the contracts expire between 2008 and 2010 and have purchase options. The contracts expiring on December 31, 2008 are being discussed with the leasing company to assess future possible scenarios.
The net carrying amounts of the buildings of the German companies total Euros 7,250 thousand (Euros 7,715 thousand at December 31, 2006) and that of the related land is Euros 1,003 thousand (unchanged compared to December 31, 2006).

The leased plant and machinery mainly include the assets relating to a lease contract that the subsidiary Pirelli & C. Real Estate Facility Management S.p.A. has with Locat Leasing S.p.A. for an automated filing system installed in one of the Company's warehouses. The contract began in January 2005 and has a term of 7 years with a purchase option at expiration.
The net carrying amount is Euros 945 thousand.

Finance lease payables are included in financial payables (Note 24).

The minimum lease payments are detailed as follows:

(in thousands of Euros)

	12/31/2007	12/31/2006
Due within 1 year	5,171	5,242
Due between 1 and 5 years	24,540	26,470
Due beyond 5 years	12,911	16,643
Total	**42,622**	**48,355**
Future financial expenses	(6,970)	(9,132)
Leases payable (Note 24)	**35,652**	**39,223**

The following table presents the finance lease liability by expiration date:

(in thousands of Euros)

	12/31/2007	12/31/2006
Due within 1 year	3,381	3,275
Due between 1 and 5 years	19,711	20,371
Due beyond 5 years	12,560	15,577
Total (Note 24)	**35,652**	**39,223**

9. Intangible assets

The composition and movements in intangible assets are as follows:

(in thousands of Euros)

	12/31/2006	Exchange differences.	Increase	Decrease	Amortization	Other	12/31/2007
Patents and intellectual property rights	777	-	-	-	(198)	(5)	574
Concessions, licenses and trademarks	24,188	(5)	3,612	(3,823)	(2,401)	785	22,356
Goodwill	479,734	(88)	161,399	(6,619)	-	527	634,953
Software	10,117	(2)	8,337	(899)	(6,438)	(673)	10,442
Other intangible assets	1,558	17	5,088	(42)	(1,462)	(944)	4,215
	516,374	**(78)**	**178,436**	**(11,383)**	**(10,499)**	**(310)**	**672,540**

(in thousands of Euros)

	12/31/2005	Exchange differences.	Increase	Decrease	Amortization	Other	12/31/2006
Patents and intellectual property rights	992	-	21	-	(263)	27	777
Concessions, licenses and trademarks	21,330	-	5,145	(65)	(2,215)	(7)	24,188
Goodwill	440,568	(111)	42,201	-	-	(2,924)	479,734
Software	12,437	(17)	4,888	(18)	(8,480)	1,307	10,117
Other intangible assets	1,474	(35)	2,629	(110)	(1,798)	(602)	1,558
	476,801	**(163)**	**54,884**	**(193)**	**(12,756)**	**(2,199)**	**516,374**

The increase in “Goodwill” in 2007 mainly refers to the following transactions:

— in the second half of 2007, shares of the subsidiary Pirelli & C. Real Estate S.p.A. were purchased on the market for Euros 54,225 thousand (equal to 3.4 percent of total share capital). This gave rise to goodwill of Euros 30,503 thousand, equal to the difference between the price paid and the accounting equity which was allocated to the group of cash-generating units corresponding to the Real Estate Sector;
— during January 2007, Pirelli & C. Real Estate S.p.A. finalized the following acquisitions:
- 99.27 percent of the share capital of B&L Immobilien AG (now DGAG Deutsche Grundvermogen AG), a company which held, directly and indirectly, 62 percent of the share capital of DGAG Deutsche Grundvermogen AG (now Pirelli DGAG Deutsche Grundvermogen GmbH);
- a further 38 percent of the share capital of DGAG Deutsche Grundvermogen AG (now Pirelli DGAG Deutsche Grundvermogen GmbH).
  The purchase price was set at approximately Euros 513 million (including directly attributable transaction costs of approximately Euros 13 million).

  When the acquisition was recorded the asset and liabilities acquired were adjusted to fair value and goodwill was recognized for Euros 74,308 thousand and allocated to the Services Platform Germany and the Investment and Asset Management – Real Estate Germany cash generating units, as detailed in the following table:

(in thousands of Euros)

	Fair value	Book value
Purchase price (including costs directly attributable to the business combination)	**512,702**	**-**
Property, plant and equipment	1,270	1,289
Intangible assets	215	215
Investments in associates and joint-venture	5,015	9,866
Deferred tax assets and deferred tax provisions	-	(10,305)
Inventories	1,330,312	1,344,292
Trade receivables and trade payables	8,371	12,619
Other receivables and other payables	(19,178)	(25,028)
Employee provisions and other provisions	(32,665)	(19,594)
Cash and cash equivalents	20,212	20,212
Financial payables	(839,312)	(986,402)
Assets and liabilities purchased	**474,240**	**347,164**
Minority interest in equity	(35,846)	-
Net Assets and liabilities purchased	**438,394**	**-**
Goodwill	**74,308**	**-**

— in February 2007, Pirelli & C. Real Estate Facility Management S.p.A. purchased a 100 percent stake in Ingest Facility S.p.A. from Business Solutions (Fiat Group). The purchase price was set, following the price adjustment agreed between the parties on June 30, 2007, at Euros 54.8 million (including directly attributable transaction costs of approximately Euros 0.9 million).

The purchase price allocation entailed the following:
— the adjustment to fair value of the assets and liabilities acquired as well as the recognition of the identifiable intangible assets at the date of acquisition separately from goodwill.
In particular:
- order portfolio: valuing the order backlog at the date of acquisition;
- customer relationship with FIAT: valuing the amount invoiced resulting from the customer relationship;
- foreign platform: same procedure described in the preceding points;

— the recognition of goodwill of Euros 52,475 thousand equal to the excess of the cost of acquisition over the fair value of the assets and liabilities acquired/identified, allocated to the Facility cash-generating unit, as detailed in the following table:

(in thousands of Euros)

	Fair value
Purchase price (including costs directly attributable to the business combination)	**54,847**
Property, plant and equipment	2,592
Intangible assets	4,854
Investments in associates and joint-venture	15
Other financial assets	1
Deferred tax assets and deferred tax provisions	537
Inventories	310
Trade receivables and trade payables	(20,288)
Other receivables and other payables	2,212
Employee provisions and other provisions	(12,154)
Cash and cash equivalents	3,294
Financial receivables	20,999
Assets and liabilities purchased	**2,372**
Goodwill	**52,475**

The carrying amounts of the Ingest Facility S.p.A. assets and liabilities acquired are not provided since a balance sheet prepared in accordance with IAS/IFRS was not available at the acquisition date.

At December 31, 2007, the breakdown of goodwill according to the business segment and the cash-generating unit (or groups of cash generating units) to which it was allocated for purposes of assessing impairment are shown in the following table:

(in thousands of Euros)

Business segment	CGU/groups of CGU	Amount	Recoverable amount
Tyre	Consumer	208,349	Value in use
Tyre	Industrial	172,834	Value in use
Other businesses	Eco Technology	4,860	Value in use
Real Estate	Real Estate	30,503	Fair value
Real Estate	Agency	5,719	Value in use
Real Estate	Credit Servicing	5,066	Value in use
Real Estate	Facility	86,752	Value in use
Real Estate	Property	13,452	Value in use
Real Estate	Services platform-Germany	64,328	Value in use
Real Estate	Investment & Asset Management-Poland	3,257	Value in use
Real Estate	Investment & Asset Management-SGR Fund management	29,042	Value in use
Real Estate	Investment & Asset Management-Real Estate Germany	10,639	Value in use
Real Estate	Non-performing loans	152	Value in use
		634,953	

The impairment test consists of estimating the recoverable amount of the cash-generating units and comparing it with the net carrying amount of the relative assets including goodwill. As regards the group of cash-generating units corresponding to the Real Estate Sector, to which the goodwill of Euros 30,503 thousand was allocated, as indicated above, the fair value corresponds to the official stock market price of the Pirelli & C. Real Estate share at December 31, 2007.

As for the other cash-generating units, the value in use corresponds to the present value of future cash flows which is estimated will be associated with the cash-generating unit.
Cash flows used to determine the value in use are based on projections covering a five-year period and are based on:
— for the Real Estate Sector, for the first three years, on projections approved by management; the cash flows for the fourth and fifth year correspond to the cash flows for the last year of the plan while the cash flows generated by the disposal of the cash-generating units at the end of the explicit period correspond to the perpetual return again based on the last year of the plan;
— for the Tyre Sector, for the first year, on projections approved by management; the cash flows relating to the second to the fifth year and the cash flows generated by the disposal of the cash-generating units at the end of the explicit period (assumed as being equal to the present value of the perpetual return of cash flows generated in the last year of projection) have been extrapolated using a growth factor of about 2 percent to the cash flows of the first year.

At December 31, 2007, the discount rates, net of taxes, applied to the cash flow projections are as follows:

Business segment	Cash-generating unit	Discount rate
Tyre	Consumer	8.20%
Tyre	Industrial	8.20%
Other businesses	Eco Technology	7.80%
Real Estate	Agency	6.20%
Real Estate	Credit Servicing	6.20%
Real Estate	Facility	6.20%
Real Estate	Property	6.20%
Real Estate	Services platform-Germany	6.20%
Real Estate	Investment & Asset Management-Poland	6.20%
Real Estate	Investment & Asset Management-SGR Fund management	6.20%
Real Estate	Investment & Asset Management-Real Estate Germany	6.20%
Real Estate	Non-performing loans	6.20%

On the basis of the results of the tests performed, there is no impairment.

The impairment losses on intangible assets other than goodwill in 2007, included in the column “decreases”, amount to Euros 3,823 thousand (Euros 1,492 thousand at December 31, 2006). Impairment losses are recorded in the income statement under “Amortization, depreciation and impairments” (Note 32).

10. Investments in associates and joint ventures

Investments in associates and joint ventures are equal to Euros 534,194 thousand compared to Euros 3,825,928 thousand at December 31, 2006.

Movements during the year are as follows:

(in thousands of Euros)

	12/31/2007	12/31/2006
Beginning balance	3,825,928	4,542,902
Acquisition/change in share capital and reserves	260,103	1,228,115
Distribution of dividends	(164,562)	(87,188)
Disposals and wind-ups	(3,352,603)	(50,972)
Share of earnings (losses)	118,608	103,958
Reclassifications and other	(159,359)	(1,941,245)
Movement in provisions for other liabilities and charges	6,079	30,358
	534,194	**3,825,928**

The following table details the movements in investments in associates:

(in thousands of Euros)

	12/31/2006	Acquisition/ change in share capital and reserves/other	Distribution of dividends/ reserves	Disposals and wind-ups	Share of earnings (losses)	Reclassifica-tions and other	Movements in prov. for other liabil. and charges	12/31/2007
Dixia S.r.l.	5,589	(52)	-	-	(177)	92	-	5,452
Orione Immobiliare Prima S.p.A.	1,712	2,005	-	-	(3,155)	-	-	562
Sci Roev Texas Partners L.P.	2,224	-	-	-	(1,000)	-	-	1,224
Spazio Investment N.V.	47,564	15,506	(1,552)	-	7,008	500	-	69,026
Turismo e Immobiliare S.p.A.	4,147	2,369	-	-	(747)	-	-	5,769
Eurostazioni S.p.A.	53,616	-	(1,675)	-	1,745	-	-	53,686
Other PRE group companies	(2,104)	329	(60)	(173)	(1,195)		382	(2,821)
Other Group companies	1,761	18	-	-	204	(459)	-	1,524
Total investments in associates	**114,509**	**20,175**	**(3,287)**	**(173)**	**2,683**	**133**	**382**	**134,422**

The Group's share of the fair value of the company Spazio Investment N.V., listed on the Alternative Investment Market of the London Stock Exchange, calculated using the market price at December 31, 2007 of Euros 11.85, is Euros 53.9 million.

The following table details the movements in investments in joint ventures:

(in thousands of Euros)

	12/31/2006	Acquisition/ change in share capital and reserves/other	Distribution of dividends/ reserves	Disposals and wind-ups	Share of earnings (losses)	Reclassifica-tions and other	Movements in prov. for other liabil. and charges	12/31/2007
Afrodite S.à r.l.	3,843	117	(3,095)	-	2,085	-	-	2,950
Aida RE B.V.	-	6,236	-		(11,340)	-	5,104	-
Alceo B.V.	-	2,310	-	-	(1,442)	-	(304)	564
Alimede Luxembourg S.à.r.l.	54	2,051	-	-	1,062	-	-	3,167
Alnitak S.à r.l.	2,106	(43)	-	-	295	-	-	2,358
Altair Zander Italia S.r.l.	70	-	-	-	82	-	-	152
Aree Urbane S.r.l.	7,920	-	-	-	(1,138)	-	-	6,782
Artemide S.à r.l.	2,417	(123)	(1,850)	-	1,252	-	-	1,696
Austin S.à.r.l.	3,790	-	(2,083)	-	4,027	76	-	5,810
Bicocca S.à.r.l.	-	388	-	-	(139)	(137)		112
Bresso Energia S.r.l.	-	3	-	-	(2)	-		1
Capitol Immobiliare S.r.l.	39	100	-	-	(71)	-	-	68
Castello S.r.l.	144	-	-	-	53	-	-	197
Colombo S.à.r.l.	5,530	-	(924)	-	14,334	-	-	18,940
Consorzio ARP	53	1	-	-	-	-	-	54
Consorzio G6 Advisor	22	-	-	-	-	-	-	22
Continuum S.r.l.	4,688	(85)	-	-	(1,050)	-	-	3,553
Dallas S.à.r.l.	3,790	-	(2,083)	-	4,027	76	-	5,810
Delamain S.à.r.l.	-	4,529	-	-	17,473	(1,088)	-	20,914
Dolcetto Otto S.r.l.	11	129	-	3	(143)	-	-	-
Domogest S.r.l. (in liquidation)	1,025	(32)	-	(993)	-	-	-	-
Doria S.à.r.l.	5,422	-	(918)	-	14,329	-	-	18,833
Elle Dieci S.c.a.r.l.	40	-	-	-	-	-	-	40
Elle Tre S.c.a.r.l.	40	-	-	-	-	-	-	40
Erice S.r.l.	1,251	173	(2,646)	-	2,699	-	-	1,477
Espelha - Serviços de Consultadoria L.d.A.	39,222	-	(48,300)	-	12,480	-	-	3,402
European NPL S.A.	9,196	9,630	-	-	2,932	-	-	21,758
Fattoria Medicea S.r.l.	525	-	-	-	(41)	-	-	484
Finprema S.r.l.	-	2	-	-	-	-	-	2
Galatea S.r.l.	-	-	-	-	106	-	(36)	70
Gamma RE B.V.	-	105,742	(29,418)	(19,899)	30,178	(1,972)	-	84,631
Gestioni Immobiliari 2003 S.r.l.	98	489	-	(284)	(303)	-	-	-
Golfo Aranci S.p.A. - Società di trasformazione urbana	1,378	1,533	-	-	(175)	-	-	2,736
Jamesmail B.V.	-	4,982		(376)	(556)	(4,050)		-
Kurpromenade 12 Tim-mendorfer Strand GG KG	-	6,194	-	(50)	208	-	-	6,352
Immobiliare Prizia S.r.l.	6,351	-	-	-	(310)	(92)	-	5,949
IN Holdings I S.à.r.l.	407	-	-	-	(233)	-	-	174
Induxia S.r.l.	1,806	-	-	-	(698)	-	-	1,108
Inimm Due S.à.r.l.	3,959	85	(3,522)	-	808	-	-	1,330
Iniziative Immobiliari S.r.l.	7,385	-	(2,659)	-	(711)	-	-	4,015
Landgesellschaft Sch-leswing Holstein mbh	-	19,254	-	-	698	-	-	19,952
Localto ReoCo S.r.l.	4	4	-	-	(4)	-	-	4
Maro S.r.l.	42	806	-	-	(267)	-	-	581
Masaccio S.r.l.	195	-	-	-	-	-	-	195
Masseto I B.V.	18,467	(14)	(21,199)	-	3,212	(161)	-	305
Max B.V.	5,134	39	(2,250)	-	1,552	83	-	4,558
Mistral Real Estate B.V.	-	17,229	-	-	(795)	-	-	16,434

(in thousands of Euros)

	12/31/2006	Acquisition/ change in share capital and reserves/other	Distribution of dividends/ reserves	Disposals and wind-ups	Share of earnings (losses)	Reclassifica-tions and other	Movements in prov. for other liabil. and charges	12/31/2007
M.S.M.C. Italy Holding B.V.	12,527	(91)	(2,957)	-	(1,518)	1,972	-	9,933
MP Facility S.p.A.	1,237	195	-	-	2,408	-	-	3,840
Nabucco RE B.V.	-	28,681	-	-	3,298	(31,979)	-	-
Nashville S.à.r.l.	3,791	-	(2,083)	-	4,027	74	-	5,809
Progetto Casa - Fondo comune investimento	-	12,493	-	-	(98)	-	-	12,395
Polish Investments Real Estate Holding B.V.	2,416	(19)	-	-	(465)	-	-	1,932
Polish Investments Real Estate Holding II B.V.	-	1,288	-	-	(32)	-	-	1,256
Popoy Holding B.V.	16,008	8	(17,133)	(14)	3,320	(10)	-	2,179
Progetto Bicocca La Piazza S.r.l.	372	510	-	-	190	-	-	1,072
Progetto Nuovo Sant'Anna S.r.l.	1,458	1,487	-	(1,485)	(423)	-	-	1,037
Progetto Gioberti S.r.l.	358	-	-	-	(330)	-	-	28
Quadrifoglio Milano S.p.A.	5,374	138	-	-	(249)	-	-	5,263
Resi S.r.l. (ex-Dolcetto Cinque S.r.l.)	8	-	-	-	(2)	-	-	6
Resident Baltic GmbH	-	262	-	-	-	-	-	262
Resident Berlin 1 P&K GmbH	3,855	372	-	-	11	-	-	4,238
Resident Brandeburg GmbH	-	1	-	-	-	-	-	1
Resident Sachsen P&K GmbH	-	162	-	-	(3)	-	-	159
Resident West GmbH	-	209	-	-	(16)	-	-	193
Rinascente/Upim S.r.l.	4,645	298	-	-	(2,312)	-	-	2,631
Riva dei Ronchi S.r.l.	719	-	-	-	(166)	-	-	553
Roca S.r.l.	341	3,241	-	-	(883)	-	-	2,699
S.AN.CO S.c.a.r.l.	2	-	-	-	-	-	-	2
S.I.MA.GEST2 S.c.a.r.l.	-	15	-	-	-	-	-	15
Sicily Investments S.à.r.l.	5	507	-	-	308	-	-	820
Solaia Real Estate B.V.	-	2,377	-	-	1,890	(4,267)	-	-
Solaia RE S.à.r.l.	-	5	-	-	-	8,317	-	8,322
Solaris S.r.l.	4,308	62	-	-	(1,772)	-	-	2,598
S.I. Real Estate Holding B.V.	4,502	-	(3,000)	-	(417)	(500)	-	585
S.I.G. RE B.V.	-	3,285	-	-	(279)	-	-	3,006
Tamerice Immobiliare S.r.l.	14,783	(3)	(14,231)	-	2,240	1,088	-	3,877
Theta RE B.V.	-	7			(11)	31,990		31,976
Tizian Wohnen 1 GmbH	2,764	-	-	(272)	12	-	-	2,504
Tizian Wohnen 2 GmbH	1,148	-	-	(107)	10	-	-	1,051
Trinacria Capital S.à.r.l.	5	594	-	-	368	-	-	967
Trinoro S.à r.l.	3	(1)	-	-	(5)	-	3	-
Trixia S.r.l.	798	-	-	-	(1,728)	-	930	-
Verwaltung Mercado Ottensen Grundstuecksgesellschaft	-	10	-	-	-	-	-	10
Vespucci S.à.r.l.	5,529	-	(924)	-	14,344	-	-	18,949
Vesta Finance S.r.l.	12	-	-	-	-	-	-	12
Waterfront Flegreo S.p.A.	172	(3)	-	-	(11)	-	-	158
Altre società gruppo PRE	-	109	-	-	(5)	-	-	104
Solar Utility S.p.a.	-	2,000	-	-	(250)	-	-	1,750
Olimpia S.p.A.	3,487,855	-	-	(3,328,953)		(158,902)	-	-
Total investments in joint ventures	**3,711,419**	**239,928**	**(161,275)**	**(3,352,430)**	**115,925**	**(159,492)**	**5,697**	**399,772**
Total investments in associates and joint ventures	**3,825,928**	**260,103**	**(164,562)**	**(3,352,603)**	**118,608**	**(159,359)**	**6,079**	**534,194**

The disposals and winds-ups of Euros 3,352,603 thousand mainly refer to the sale of Olimpia S.p.A. (Euros 3,328,953 thousand). Following the agreement reached with leading financial institutional investors and industry operators (Assicurazioni Generali S.p.A., Intesa San Paolo S.p.A., Mediobanca S.p.A., Sintonia S.A. and Telefonica S.A.), the investment was sold on October 25, 2007 to Telco S.p.A..

As regards the share of earnings, reference should be made to Note 38 “Share of earnings (losses) of associates and joint ventures”.

The reduction of Euros 159,359 thousand, reported in the column “Reclassification and other”, mainly refers to the sale of Olimpia S.p.A. for an amount of Euros 158,902 thousand. This amount includes Euros 119,108 thousand of the gains previously recorded in equity and transferred to the income statement and Euros 39,794 thousand for the adjustment of the investment value to the sales price.

Key data relating to associates and joint ventures at December 31, 2007 refer to those in the Real Estate Sector and are indicated as follows:

(in thousands of Euros)

	Associates	**Joint Ventures**
Non-current assets	700,244	3,063,440
Current assets	561,781	8,832,618
Non-current liabilities	540,387	6,003,301
Current liabilities	156,964	4,025,930
Revenues from sales and services	203,020	2,615,749
Costs	(195,027)	(3,173,250)
Income	**79,955**	**450,469**

Finally, the shares of associates and joint ventures are pledged for an amount of Euros 121,386 thousand.

11. Other financial assets

Other financial assets amount to Euros 958,272 thousand compared to Euros 1,006,898 thousand at December 31, 2006.

The movements during the year are as follows:

(in thousands of Euros)

	12/31/2007	**12/31/2006**
Beginning balance	1,006,898	1,032,317
Increase	107,939	251,139
Decrease	(24,173)	(161,889)
Impairments	(34,137)	(13,376)
(Gains) losses transferred to the income statement upon disposal or when there is an impairment loss, previously recognized in equity	1,019	(126,797)
Changes in fair value	(91,842)	23,842
Reclassifications	-	1,206
Reimbursement of shares	(7,374)	-
Other	(58)	456
	958,272	**1,006,898**
of which:		
- financial assets measured at fair value through equity	926,362	1,006,898
- financial assets measured at fair value through income statement	31,910	-

At December 31, 2007, financial assets, which change in fair value is recognized in equity, are as follows:

(in thousands of Euros)

	12/31/2007		12/31/2006
	Book value	Fair value	Fair value
Listed securities			
Telecom Italia S.p.A.	387,172	387,172	417,767
Mediobanca S.p.A.	90,246	210,990	266,997
RCS Mediagroup S.p.A.	128,205	112,786	133,634
Fin. Priv. S.r.l. (az. Mediobanca)	14,458	28,172	35,462
Avanex Corporation	25,757	19,213	-
Vittoria Capital N.V. (az. Vittoria Assicurazione)	5,677	10,320	9,743
Altre società	5,831	5,831	17,798
	657,346	**774,484**	**881,401**
Unlisted securties			
Alcatel Submarine S.A.	44,805	44,805	44,805
Gruppo Banca Leonardo S.p.A.	8,197	8,197	4,598
Istituto Europeo di Oncologia S.r.l.	4,039	6,024	5,555
Tlcom I LP	4,840	5,249	7,068
FC Internazionale S.p.A.	3,033	3,033	3,033
Equinox Investment Company S.c.p.A.	1,264	1,264	8,499
Altre Gruppo PRE	6,526	6,526	1,111
Altre società	5,570	5,570	4,754
	78,274	**80,668**	**79,423**
Closed-end property investments funds			
Olinda Fondo Shops	33,491	30,964	12,835
Berenice Fondo Uffici	14,004	18,182	14,741
Cloe Fondo Uffici	7,846	12,195	9,673
Tecla Fondo Uffici	5,395	7,630	6,870
Armilla	2,000	2,115	1,828
Fondo Abitare Sociale 1	127	124	127
	62,863	**71,210**	**46,074**
	798,483	**926,362**	**1,006,898**

Financial assets, which change in fair value recognized in the income statement under "Gains (losses) from changes in fair value of financial assets", is equal to Euros 31,910 thousand, refer to shares corresponding to 13.15 percent of the Cloe Fondo Uffici – a reserved unlisted closed-end real estate investment fund purchased by Pirelli Real Estate Netherlands B.V..

The designation of such shares at initial recognition as financial assets at fair value through profit or loss reflects the purpose of the acquisition of the shares which are expected to become part of a common investment platform for buildings intended for office use.

The **increase** refers mainly to the purchase of Avanex shares (Euros 33,427 thousand), RCS Mediagroup S.p.A. shares (Euros 10,907 thousand), Olinda Fondo Shops shares (Euros 21,465 thousand) and Cloe Fondo Uffici shares (Euros 32,544 thousand).

In addition to the increase, there was the **decrease** that refers mainly to the sale of shares of Telecom Italia S.p.A. shares (Euros 12,582 thousand), Intek S.p.A. (Euros 6,800 thousand) and KME Group S.p.A. (Euros 1,793 thousand).

Impairments are largely refered to shares of Telecom Italia S.p.A. (Euros 21,929 thousand), Avanex (Euros 7,670 thousand), Equinox (Euros 3,362 thousand) and Euroqube (Euros 850 thousand).

Net losses transferred to the income statement, previously recognized in equity, principally refer to the writedown of Telecom Italia S.p.A. shares.

Changes in fair value chiefly regard the shares of Mediobanca S.p.A. (negative for Euros 56,007 thousand), RCS Mediagroup S.p.A. (negative for Euros 31,755 thousand) and Equinox (negative for Euros 3,109 thousand).

For listed securities and closed-end real estate investment funds, the fair value corresponds to the stock market price at December 31, 2007.

For unlisted securities and closed-end real estate investment funds, the fair value has been estimated using appropriate estimation techniques.

12. Deferred tax assets and liabilities

These are composed as follows:

(in thousands of Euros)

	12/31/2007	12/31/2006
Deferred tax assets	58,524	64,230
Deferred tax liabilities	(44,625)	(42,931)
	13,899	**21,299**

Since deferred tax assets and liabilities are offset in the financial statements when the income taxes are levied by the same tax authority and where there is a legally enforceable right of offset, the composition of the gross amounts is presented below:

(in thousands of Euros)

	12/31/2007	12/31/2006
Deferred tax assets:	156,211	157,851
- of which, recoverable within 12 months	55,188	66,561
- of which, recoverable beyond 12 months	101,023	91,290
Deferred tax liabilities:	(142,312)	(136,552)
. of which, recoverable within 12 months	(4,311)	(3,514)
. of which, recoverable beyond 12 months	(138,001)	(133,038)
	13,899	**21,299**

Temporary differences which make up deferred tax assets and liabilities at December 31, 2007 and 2006 are as follows:

(in thousands of Euros)

	12/31/2007	12/31/2006
DEFERRED TAX ASSETS		
- Provision for other liabilities and charges	27,370	34,973
- Employee benefit obligations	25,486	36,763
- Inventories	14,063	16,108
- Tax loss carryforwards	26,679	13,806
- Depreciation and amortization	6,785	4,243
- Trade and other receivables	16,719	8,101
- Trade and other payables	17,458	18,079
- Intragroup transactions	8,650	9,027
- Other	13,001	16,751
	156,211	**157,851**
DEFERRED TAX LIABILITIES		
- Depreciation and amortization	(123,037)	(118,658)
- Other	(19,275)	(17,895)
	(142,312)	**(136,553)**

At December 31, 2007, deferred tax assets relating to temporary differences that have not been recognized amount to Euros 54,087 thousand and refer to situations in which their recoverability is not considered probable.

Unused tax loss carryforwards, by expiration date, are as follows:

(in thousands of Euros)

Year of expiration	12/31/2007	12/31/2006
2007	-	22,659
2008	146,727	147,262
2009	289,877	290,968
2010	144,746	165,187
2011	88,627	77,618
2012	479,072	52,470
2013	18,447	1,918
2014	669	-
2021	26,925	30,096
2022	62,067	68,844
2023	3,723	4,161
2024	9,043	10,108
without expiration	406,268	418,262
	1,676,191	**1,289,553**

These losses, in most cases, refer to situations in which recoverability is not considered probable. As a result, deferred tax assets on unused losses have been recognized in the financial statements for Euros 12,408 thousand (Euros 13,806 thousand at December 31, 2006) and the unrecognized portion amounts to Euros 460,697 thousand (Euros 409,766 thousand at December 31, 2006).

The tax effect of gains and losses recognized directly in equity is a negative Euros 2,856 thousand (negative Euros 6,935 thousand at December 31, 2006), and is shown in the statement of recognized income and expense. These movements are mainly due to the tax effect of actuarial gains/losses on employee benefits and the changes in fair value of available-for-sale financial assets.

13. Trade receivables

Trade receivables are analyzed as follows:

(in thousands of Euros)

	12/31/2007			12/31/2006		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	122,802	-	122,802	115,450	-	115,450
Third parties	1,020,667	-	1,020,667	936,892	-	936,892
Receivables on construction contracts	9,330	-	9,330	4,395	-	4,395
Total gross receivables	**1,152,799**	**-**	**1,152,799**	**1,056,737**	**-**	**1,056,737**
Provision for impairment of receivables	(53,872)	-	(53,872)	(57,068)		(57,068)
	1,098,927	**-**	**1,098,927**	**999,669**	**-**	**999,669**

Receivables on construction contracts, relating to the Real Estate Sector, represent the excess of costs incurred and profit recognized, equal to Euros 9,780 thousand at December 31, 2007 (Euros 66,632 thousand at December 31, 2006) over advances received against progress billings on contracts in progress, equal to Euros 450 thousand at December 31, 2007 (Euros 62,237 thousand at December 31, 2006).

Total trade receivables of Euros 1,152,799 thousand (Euros 1,056,737 thousand at December 31, 2006) include overdue receivables amounting to Euros 260,145 thousand (Euros 213,426 thousand at December 31, 2006).
Impairment losses on overdue and current receivables are recognized according to the Group's policies described in the paragraph on credit risk under "Financial risk management policies". Receivables that are impaired include both significant single positions written down individually and positions with similar characteristics by group of credit risk written down on a collective basis.

The movements in the provision for impairment of trade receivables is as follows:

(in thousands of Euros)

	12/31/2007	12/31/2006
Beginning balance	57,068	59,698
Exchange differences	150	(969)
Accruals	15,290	11,083
Utilization / release	(20,110)	(13,916)
Change in scope of consolidation	1,474	1,172
Ending balance	**53,872**	**57,068**

The accrual to the provision for impairment of trade receivables is charged to the income statement in "Other expenses" (Note 33).
The carrying amount of trade receivables is regarded as approximating fair value.
It should be noted that a long-term loan contract signed in December 2007 is guaranteed by the Pirelli Real Estate group with receivables (existing or future monetary receivables) from some clients for a total amount of Euros 86,392 thousand, which is guaranteed for Euros 54,318 thousand and pledged for Euros 32,074 thousand.

14. Other receivables

Other receivables can be analyzed as follows:

(in thousands of Euros)

	12/31/2007			12/31/2006		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Associates and joint ventures						
- financial receivables	535,999	520,079	15,920	333,804	333,561	243
- other receivables	4,292	965	3,327	11,108	169	10,939
Financial receivables from third parties	92,087	88,577	3,510	246,896	219,935	26,961
Trade and other accrued income and prepaid expenses/third parties	21,143	10	21,133	18,949	249	18,700
Financial accrued income and prepaid expenses	3,054	1,342	1,712	13,542	7,999	5,543
Receivables from employees	7,297	2,839	4,458	6,882	3,373	3,509
Receivables from social security agencies	2,923	-	2,923	2,856	-	2,856
Receivables from tax authorities non-cur. inc. taxes	99,353	8,860	90,493	74,592	10,348	64,244
Receivables for junior notes	11,307	11,307	-	94,177	94,177	-
Other receivables	143,369	42,525	100,844	265,607	39,577	226,030
Total gross other receivables	**920,824**	**676,504**	**244,320**	**1,068,413**	**709,388**	**359,025**
Provision for impairment of other receivables	(6,455)	(3,610)	(2,845)	(6,380)	(3,560)	(2,820)
	914,369	**672,894**	**241,475**	**1,062,033**	**705,828**	**356,205**

The carrying amount of current and non-current other receivables is regarded as approximating fair value. Particularly with regard to non-performing loans (included under "other receivables") that, as described under the accounting policies, are accounted for at amortized cost using the effective interest method, the amount recognized is equal to the present value of future cash flows according to the most recent business plan available discounted at the original effective interest rate.

It is regarded that the carrying amount of such receivables, calculated as described above, approximates their fair value at the date of December 31, 2007 since the ordinary effective interest rate used to compute present value is still representative today of a market rate that would be applied by third parties to value the portfolio. Such rate is determined by considering the characteristics of this portfolio (such as risk, reference markets, etc.) which company management responsible for these valuations still considers to be essentially valid at the present time.

Non-current financial receivables from associates and joint ventures, equal to Euros 520,079 thousand, refer to the Real Estate Sector and are classified as non-current since the collection times, connected with the plans for the disposal of the properties held directly and indirectly by the companies, will be concluded on average over a period between two and five years. These loans are made at rates in line with those applied by the major market operators except for non-interest bearing loans made to certain non-operating companies or companies in a stage of transition for a total amount of Euros 19,368 thousand at December 31, 2007 (Euros 20,276 thousand at December 31, 2006).

The **decrease of non current financial receivables from third parties** from the end of last year is mainly on account of the assignment to Goldman Sachs International Bank of the vendor loan granted to Prysmian (Lux) S.à.r.l. in relation to the sale of Pirelli's Energy and Telecom Cables and Systems businesses in July 2005 to Goldman Sachs Capital Partners by Pirelli (Euros 145,742 thousand).

Receivables for junior notes relate to the Real Estate Sector. The decrease from the end of 2006 can be ascribed to the sale of junior notes from the securitization of a non-performing loan portfolio of the former Banco di Sicilia purchased in prior year.

Other current receivables refer to non-performing loan portfolios of the Real Estate Sector (Euros 17,732 thousand) and regional grants that will be received from the Campania region to aid buyers of property units owned by the company Geolidro S.p.A. (Euros 9,740 thousand). The decrease from December 2006 is mostly attributable to the utilization of the advances made at the end of 2006 (Euros 140,000 thousand) for the acquisition of Deutsche Grundvermogen AG (DGAG).

The gross amount of other receivables written down in accordance with Group policies is Euros 21,756 thousand at December 31, 2007.

The movements in the provision for impairment of other receivables is as follows:

(in thousands of Euros)

	12/31/2007		12/31/2006	
	Non-current	Current	Non-current	Current
Beginning balance	3,560	2,820	-	132
Exchange differences	-	(6)	-	-
Accruals	50	79	2,578	506
Utilization/release	-	(132)	-	-
Change in scope of consolidation	-	84	982	2,182
Ending balance	**3,610**	**2,845**	**3,560**	**2,820**

15. Tax receivables

Tax receivables amount to Euros 55,559 thousand (of which Euros 12,278 thousand is non-current) compared to Euros 44,349 thousand at December 31, 2006 (of which Euros 10,917 thousand is non-current).

16. Inventories

Inventories can be analyzed as follows:

(in thousands of Euros)

	12/31/2007	12/31/2006
Pirelli Tyre	652,684	590,925
Pirelli Real Estate	114,291	120,642
Other	9,499	3,966
	776,474	**715,533**

(in thousands of Euros)

	12/31/2007	12/31/2006
Raw materials, auxiliaries and consumables	168,586	133,294
Sundry materials	4,782	1,774
Trading properties held for sale	32,882	56,807
Work in process and semifinished products	85,645	66,629
Finished products	422,281	409,183
Merchandise purchased for resale	5,954	2,701
Land to be developed	49,955	37,795
Advances to suppliers	6,389	7,350
	776,474	**715,533**

Inventories include capitalized borrowing costs of Euros 679 thousand at December 31, 2007 (Euros 4,110 thousand at December 31, 2006).
The impairment losses on inventories recorded in 2007 amount to Euros 1,337 thousand (Euros 2,530 thousand at December 31, 2006).
Inventories are not secured s collateral.

17. Securities held for trading

Securities held for trading amount to Euros 114,039 thousand (Euros 119,174 thousand at December 31, 2006) and include the following:
— Euros 85,753 thousand of variable rate bonds issued and guaranteed by banking institutions;
— Euros 6,415 thousand of listed fixed rate bonds;
— Euros 21,213 thousand of equity shares, of which Euros 15,631 thousand relates to listed shares;
— Euros 658 thousand of other securities.

The positions are held at leading banks.

For listed securities, the fair value corresponds to the stock market price at December 31, 2007. For unlisted securities, the fair value was estimated using appropriate estimation techniques.

Changes in fair value are recognized in the income statement under "gains (losses) from changes in fair value of financial assets" (Note 37).

18. Cash and cash equivalents

Cash and cash equivalents are concentrated in the financial companies, the holding companies and the subholding companies of the Group. They are mainly invested in the short-term deposits market at leading banking counterparts primarily at interest rates reflecting market rates. For purposes of the statement of cash flows, the balance of cash and cash equivalents is shown net of bank overdrafts, equal to Euros 47,207 thousand at December 31, 2007 and Euros 10,185 thousand at December 31, 2006.

19. Equity

19.1 EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Share capital amounts to Euros 1,555,934 thousand at December 31, 2007 and consists of 5,233,142,003 ordinary shares and 134,764,429 savings shares, all with a par value of Euros 0.29 per share and normal dividend rights.
On December 12, 2007, the special shareholders' meeting approved the reduction of share capital from Euros 2,789,950 thousand to Euros 1,555,934 thousand by reducing the par value of the ordinary and savings shares from Euros 0.52 to Euros 0.29 for each share and proportionally reimbursing the ordinary and savings shareholders a total amount of Euros 826,254 thousand, equal to Euros 0.154 for each ordinary or savings share, and appropriating Euros 407,762 thousand to the available reserve (share premium reserve).

The changes in share capital are detailed below:

	Number of ordinary shares (thousands) *	**Number of savings shares** (thousands)	**Ordinary shares** (in thousands of Euros)	**Savings shares** (in thousands of Euros)	**Total** (in thousands of Euros)
Balance at 12/31/2006	**5,230,524**	**134,764**	**2,719,873**	**70,077**	**2,789,950**
Changes		-	(1,203,021)	(30,995)	(1,234,016)
Balance at 12/31/2007	**5,230,524**	**134,764**	**1,516,852**	**39,082**	**1,555,934**

* net of 2,617,500 treasury shares in portfolio

Changes in equity are as follows:

(in millions of Euros)

	attributable to the equity holders of the company							
	Share capital	**Share premium reserve**	**Legal reserve**	**Reserve for translation differences**	**Other reserves/ Retained earnings**	**Total attributable to equity holders of company**	**Minority interest**	**TOTAL**
Balance at 12/31/2005	**2,763**	**759**	**82**	**266**	**1,335**	**5,205**	**409**	**5,614**
Income and expenses recognized directly in equity	-	-	-	(79)	(20)	(99)	(16)	(115)
Loss for the year	-	-	-		(1,167)	(1,167)	118	(1,049)
Appropriation of income as per resolution of 4/21/2006:	-	-	-	-	-	-	-	-
- legal reserve	-	-	7	-	(7)	-	-	-
- dividends payment	-	-	-	-	(114)	(114)	-	(114)
Other dividends paid to third parties	-	-	-	-	-	-	(49)	(49)
Exercise of warrants 2003-2006	27	-	-	-	-	27	-	27
Movements in Pirelli & C. Real Estate S.p.A. treasury shares	-	-	-	-	25	25	23	48
Pirelli Tyre stake of minority interest sold by private placement	-	-	-	-	-	-	295	295
PRE stock options exercised in the period	-	-	-	-	2	2	29	31
Acquisition of minority interest	-	-	-	-	-	-	(7)	(7)
Minority interest share capital increase	-	-	-	-	-	-	7	7
Other	-	-	-	-	1	1	(2)	(1)
Balance at 12/31/2006	**2,790**	**759**	**89**	**187**	**55**	**3,880**	**807**	**4,687**
Income and expenses recognized directly in equity	-	-	-	(68)	(152)	(220)	7	(213)
Income for the year	-	-	-	-	165	165	159	324
Appropriation of income as per resolution of 4/23/2007:	-	-	-	-	-	-	-	-
- absorption of loss	-	(748)	-	-	748	-	-	-
- dividends payment	-	-	-	-	-	-	-	-
Other dividends paid to third parties	-	-	-	-	-	-	(74)	(74)
Reduction of share capital	(1,234)	408	-	-	-	(826)	-	(826)
Movements in Pirelli & C. Real Estate S.p.A. treasury shares	-	-	-	-	(30)	(30)	(24)	(54)
Purchase of Pirelli & C. Real Estate S.p.A. shares	-	-	-	-	-	-	(24)	(24)
PRE stock options exercised in the period	-	-	-	-	5	5	3	8
Acquisition of minority interest	-	-	-	-	-	-	(26)	(26)
Other	-	-	-	-	6	6	(4)	2
Balance at 12/31/2007	**1,556**	**419**	**89**	**119**	**797**	**2,980**	**824**	**3,804**

19.2 EQUITY ATTRIBUTABLE TO THE MINORITY INTEREST

The minority interest in equity went from Euros 806,966 thousand at December 31, 2006 to Euros 823,840 thousand at December 31, 2007. The change is mainly due to the balance between the income for 2007, the distribution of income for the prior year and the impact of the translation of foreign currency financial statements to Euros.

The major percentages of investments held by minority interests are as follows:

(in thousands of Euros)

	12/31/2007	12/31/2006
Shared Service Center S.c.r.l. (Italy)	-	50.00%
Drahtcord Saar Gmbh & Co. K.G.	50.00%	50.00%
Pirelli & C.Eco Technology S.p.A.	49.00%	
Celikord A.S. (Turkey)	49.00%	49.00%
Pirelli & C. Ambiente S.p.A. (Italy)	49.00%	49.00%
Euro Driver Car S.L. (Spain)	48.85%	49.00%
Pirelli & C. Real Estate S.p.A. (Italy)	44.64%	49.42%
Pirelli Tyre S.p.A. (Italy)	38.94%	38.94%
Turk Pirelli Lastikleri A.S. (Turkey)	30.41%	34.41%
Driver Italia S.p.A. (Italy)	26.93%	26.93%
Pirelli Tyre Co. Ltd (China)	25.00%	40.00%
S.C. Cord Romania S.R.L (Romania)	20.00%	20.00%
Alexandria Tire Co. S.A.E. (Egypt)	10.90%	10.90%
Pirelli de Venezuela C.A. (Venezuela)	3.78%	3.78%

20. Stock option plans

STOCK OPTION PLANS OF PIRELLI & C. S.P.A.

During the year ended December 31, 2007, the Company did not introduce any stock option plans.
Pirelli & C. S.p.A. has two stock option plans in place for senior executives and staff of Pirelli & C. S.p.A. and other companies of the Group who were granted option rights, not transferable to third parties, for the subscription/purchase of Pirelli & C. S.p.A. ordinary shares.
IFRS 2 “Share-based payment” has not been applied to these plans, since the option rights were awarded prior to November 7, 2002.

The following disclosure is provided on the above-mentioned plans called Pirelli to People and Group Senior Executives.

	Pirelli to People	**Group Senior Executives**
Plan features	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..
Recipients at December 31, 2007	255 employees (senior executives, cadres, key employees) of the companies of the Group. Originally 725 persons at the date of approval of the plan.	25 senior executives of the companies of the Group. Originally 51 persons at the date of approval of the plan.
Conditions for exercising options	Continuance of employment.	(a) continuance of employment, and (b) the reaching, in the two-year period 2001-2002, of specific targets, assigned to each recipient.
Subscription/purchase price per share	Each option right granted gives the right to subscribe/ purchase one Pirelli & C. ordinary share at the price of Euros 1.150 [1].	Each option right granted gives the right to subscribe/ purchase one Pirelli & C. ordinary share at the price of Euros 1.150 [1].
Vesting period of options	Up to nine years from the date the options are granted (which took place on November 5, 2001), but not before one year has passed from that date for 50 percent of the options granted, two years for another 25 percent and three years for the remaining 25 percent.	As regards the options granted on November 5, 2001, up to nine years from the date the options are granted, but not before one year has passed from that date for 50 percent of the options, two years for another 25 percent and three years for the remaining 25 percent. For the options granted definitively on May 10, 2002, up to May 31, 2009 but not before June 1, 2002 for 50 percent of the options and not before January 1, 2003 for the remaining 50 percent.
Maximum number of options for which the offer was open at December 31, 2006	20,389,204 options equal to about 0.39 percent of outstanding ordinary shares destined for 288 recipients.	12,397,548 options equal to about 0.24 percent of outstanding ordinary shares destined for 28 recipients.
Maximum number of options for which the offer was open at December 31, 2007	18,175,604 options equal to about 0.35 percent of outstanding ordinary shares destined for 255 recipients.	11,541,015 options equal to about 0.22 percent of outstanding ordinary shares destined for 25 recipients.
Options forfeit during 2007 as a result of persons leaving the Group	2,213,600	856,533
Shares issued during the period	None	None

1 This amount was changed (from Euros 1.284) on the basis of the adjustment factor established by AIAF on February 7, 2005 following the capital increase approved by the special shareholders' meeting held on January 21, 2005, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital. Following the resolution passed by the shareholders' meeting held on December 12, 2007 for the reduction of share capital, this amount will be reduced to Euros 0.996.

The following table shows the changes in the above plans, the number of option rights and the exercise price.

Pirelli to people

TABLE 1

	2007			2006		
	Number of shares	Average exercise price in Euro	Market price in Euro	Number of shares	Average exercise price in Euro	Market price in Euro
Rights existing at 1/1/2007	20,389,204	1.15 (1)	0.75	21,693,205	1.15 (1)	0.77
Rights granted during year	-	-	-	-	-	-
(rights exercised during year)	-	-	-	-	-	-
(Rights forfeit during the year 2007 as a result of persons leaving the Group)	2,213,600	-	-	1,304,001	-	-
Rights existing at December 31, 2007	18,175,604	1.15 (1)	0.75	20,389,204	1.15 (1)	0.75

TABLE 2

Exercise price	Rights granted – existing at December 31, 2007 Remaining contractual life		Of which exercisable
	>2 years *	Total	From 11/5/2004
Euro 1.15 (1)	18,175,604	18,175,604	18,175,604

* Until 05/31/2009

1 This amount was changed to Euros 1.150 on the basis of the adjustment factor established by AIAF on February 7, 2005 following the capital increase approved by the special shareholders' meeting held on January 21, 2005, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital. Following the resolution passed by the shareholders' meeting held on December 12, 2007 for the reduction of share capital, this amount will be reduced to Euros 0.996.

Group Senior Executives

TABLE 1

	2007			2006		
	Number of shares	Average exercise price in Euro	Market price in Euro	Number of shares	Average exercise price in Euro	Market price in Euro
Rights existing at 1/1/2007	12,397,548	1.15 (1)	0.75	13,986,882	1.15 (1)	0.77
Rights granted during year	-	-	-	-	-	-
(rights exercised during year)	-	-	-	-	-	-
(Rights forfeit during the year 2007 as a result of persons leaving the Group)	856,533	-	-	1,589,334	-	-
Rights existing at December 31, 2007	11,541,015	1.15 (1)	0.75	12,397,548	1.15 (1)	0.75

TABLE 2

Exercise price	Rights granted – existing at December 31, 2007 Remaining contractual life		Of which exercisable
	> 1 year *	Total	From 11/5/2004
Euro 1.15 (1)	11,541,015	11,541,015	11,541,015

* until 05/31/2009

1 This amount was changed to Euros 1.150 on the basis of the adjustment factor established by AIAF on February 7, 2005 following the capital increase approved by the special shareholders' meeting held on January 21, 2005, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital. Following the resolution passed by the shareholders' meeting held on December 12, 2007 for the reduction of share capital, this amount will be reduced to Euros 0.996.

The following table indicates the number of rights granted under the above-described incentive plans, held at December 31, 2007, directly and indirectly, by the members of the board of directors, the board of statutory auditors, general managers and key managers of the company and the companies controlled by it.

Name	Rights held at 1/1/2007		Rights granted during year 2007		Rights exercised during year 2007		Rights held at 12/31/2007	
	No. of rights	Average exercise price	No. of rights	Average exercise price	No. of rights	Average exercise price	No. of rights	Average exercise price
Claudio De Conto	778,774(1)	1.15 (3)	-	-	-	-	778,774(1)	1.15 (3)
	410,667(2)	1.15 (3)	-	-	-	-	410,667(2)	1.15 (3)
Luciano Gobbi	778,774(1)	1.15 (3)	-	-	-	-	778,774(1)	1.15 (3)
	360,000(2)	1.15 (3)	-	-	-	-	360,000(2)	1.15 (3)
Francesco Gori (4)	533,334(1)	1.15 (3)	-	-	-	-	533,334(1)	1.15 (3)
	666,667 (2)	1.15 (3)	-	-	-	-	666,667 (2)	1.15 (3)

1 Group Senior Executives incentive plan.

2 Pirelli to People incentive plan.

3 This amount was changed to Euros 1.150 on the basis of the adjustment factor established by AIAF on February 7, 2005 following the capital increase approved by the special shareholders' meeting held on January 21, 2005, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital. Following the resolution passed by the shareholders' meeting held on December 12, 2007 for the reduction of share capital, this amount will be reduced to Euros 0.996.

4 Francesco Gori, starting from July 1, 2006, took over the post of chief executive officer and general manager of the subsidiary Pirelli Tyre S.p.A..
The deputy chairman Carlo Alessandro Puri Negri is the grantee of stock options as the chief executive officer of Pirelli & C. Real Estate S.p.A..
Carlo Buora, starting November 6, 2006 – after relinquishing all the posts held in the Company – is no longer a grantee of any option rights.

Giovanni Ferrario (chief executive officer and general manager of the Company to December 2004) holds 1,333,334 option rights granting the right to subscribe/purchase the same number of Pirelli & C. ordinary shares at the price of Euros 1.15 each.

Valerio Battista (general manager of the Company to June 2005) holds 1,650,134 option rights granting the right to subscribe/purchase the same number of Pirelli & C. ordinary shares at the price of Euros 1.15 each.

PLANS OF THE SUBSIDIARY PIRELLI & C. REAL ESTATE S.P.A.

Pirelli & C. Real Estate S.p.A. at December 31, 2007 has only one stock option plan in place for directors and employees of Pirelli & C. Real Estate S.p.A. and other companies of the Group who were granted option rights, not transferable to third parties, for the subscription/purchase of Pirelli & C. Real Estate S.p.A. ordinary shares.

Information on the above plan called “Plan 2006”, is provided as follows:

PLAN 2006

Plan features	Option rights granted, non-transferable to third parties, for the purchase of Pirelli & C. Real Estate S.p.A. ordinary shares held by the company (treasury shares)
Recipients at December 31, 2007	60 persons (directors, general managers and other key resources) of Pirelli & C. Real Estate S.p.A. and its subsidiaries. Originally 60 persons at the date of approval of the plan.
Conditions for exercising options	(a) continuance of the employment relationship or status as a director in the companies of the Pirelli Group; (b) the reaching/exceeding, when the rights are exercised, of a minimum market price of the Pirelli RE share, not less than Euros 55.00 [market restriction]; (c) average annual growth of the Operating Result Parameter (PBIT) + Income from investment holdings (IEP) not less than 10 percent [operating restriction].
Subscription/purchase prices per share	Each option right granted gives the right to subscribe/purchase one Pirelli & C. Real Estate ordinary share at the price of Euros 46.50, which corresponds to the fair value of the share on the grant date; this price may vary as a result of share capital increases or other extraordinary transactions, but in every case ensuring the equivalent rights held by the grantees before those transactions.
Vesting period of options	40 percent (or a part thereof) of the options can be exercised from July 1, 2008 to December 15, 2009 (first tranche) and the remaining 60 percent from July 1, 2009 to December 15, 2009 (second tranche); all options must be exercised by December 15, 2009. The options may be exercised in advance, in the event of a "change of control" and, as a result of which, Pirelli & C. S.p.A. would no longer be the majority shareholder of the company. However, the market and operating restrictions remain in place, with predetermined criteria to be applied in relation to the exercise of the options if the event should occur.
Maximum number of options for which the offer was open at December 31, 2006	1,800,000 options equal to about 0.04 percent of outstanding ordinary shares destined for 60 recipients .
Maximum number of options for which the offer was open at December 31, 2007	1,800,000 options equal to about 0.04 percent of outstanding ordinary shares destined for 60 recipients.
Options forfeit during 2007 as a result of persons leaving the Group	None
Shares issued during the period	None

The fair value of the options on the grant date, equal to Euros 5.39 for the first tranche and Euros 5.27 for the second tranche, was determined using the Black-Scholes model.

The assumptions which were considered in the valuation model can be summarized as follows:
— weighted average price of shares at the grant date equal to Euros 46.50, equal to their per share exercise price;
— estimated volatility of 23 percent determined on the basis of the historical volatility of the price of the shares from the time Pirelli & C. Real Estate S.p.A. was listed up to the grant date of this plan;
— estimated period of the rights equal to 3 years and 3 months for the first tranche and 3 years and 9 months for the second;
— estimated dividends equal to 5 percent;
— risk-free interest rate equal to 3.07 percent.

The table below – in conformity with Scheme 2 of Attachment 3C of Consob Regulation 11971/1999 – shows the changes in the stock options held by the directors and general managers of Pirelli & C. Real Estate S.p.A. during 2007.

Name	Position	Rights held at 1/1/2007			Rights granted in 2007			Rights exercised in 2007			Rights expired/ forfeit in 2007	Rights held at 12/31/2007	
(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11) =(1)+(4)- -(7)(10)	(12)
		Number of options	Average exercise price	Expiration	Number of options	Average exercise price	Expiration	Number of options	Average exercise price	Average exercise market price	Number of options	Number of options	Average exercise price
Carlo Alessandro Puri Negri	Deputy Chairman and Chief Executive Officer	427,500	40.61	12/15/09	-	-	-	-	-	-	127,500	300,000	46.5
Carlo Bianco	Deputy Chairman	183,000	41.86	12/15/09	-	-	-	43,000	26.75	39.47	-	140,000	46.5
Emilio Biffi	Managing Director - Chief Technical Officer - General Manager	143,000	41.86	12/15/09	-	-	-	-	-		73,000	70,000	46.5
Olivier De Puolpiquet	Chief Executive Officer - Investment & Assets Management	300,000	39.92	12/15/09	-	-	-	100,000	26.75	39.76	-	200,000	46.5

At December 31, 2007, there are no stock option plans of the subsidiaries of Pirelli & C. Real Estate S.p.A. in existence.

PLANS OF THE SUBSIDIARY PIRELLI & C. AMBIENTE S.P.A. AND ITS SUBSIDIARIES

During 2007, there were no changes in the stock option plan approved by the boards of directors of Pirelli & C. Ambiente Renewable Energy S.p.A. (ex-Pirelli & C. Ambiente S.p.A.) and its parent Pirelli & C. Ambiente S.p.A. (ex-Pirelli & C. Ambiente Holding S.p.A.), in effect from January 2006. The plan calls for the grant to nine recipients of options for the purchase of a total of 306,000 Pirelli & C. Ambiente Renewable Energy S.p.A. shares, equal to 10 percent of the share capital of this company, at the per share price of Euros 1.85, on the basis of an appraisal carried out for this purpose.
All the above options can be exercised in the month of April 2009, subject to reaching specific corporate targets by the date of December 31, 2008, or, in the month of September 2009, in the case those same targets are reached by June 30, 2009. The shares from exercising the options can be sold by the recipients to Pirelli & C. Ambiente S.p.A. within one month of exercising the options at a price that will take into account the revaluation of the net asset value of the company during the period.

At December 31, 2007, the cost of the cash-settled stock option plan, recorded in the income statement, amounts to Euros 270 thousand. This has been calculated on the basis of the projection of the economic capital of the company to which the stock option plan refers.

21. Tax payables

Tax payables amount to Euros 56,918 thousand (of which Euros 11,211 thousand is non-current) compared to Euros 58,477 thousand at December 31, 2006 (of which Euros 9,708 thousand is non-current).

22. Provisions for other liabilities and charges

The movements during the year in provisions for other liabilities and charges are presented in the following table:

(in thousands of Euros)

Beginning balance at 12/31/2006	145,119
Exchange differences	6,155
Change in scope of consolidation	320
Increase	15,588
Utilization/Release	(14,822)
Reclassification	(6,003)
Other	(26)
Ending balance at 12/31/2007	**146,331**

(in thousands of Euros)

Beginning balance at 12/31/2006	116,525
Exchange differences	(630)
Change in scope of consolidation	2,492
Increase	35,014
Utilization/Release	(87,489)
Reclassification	6,003
Other	(575)
Ending balance at 12/31/2007	**71,340**

At December 31, 2007, the **non-current portion** mainly includes Euros 82,174 thousand relating to the accruals for the legal and tax disputes of the subsidiary Pirelli Pneus S.A. with headquarters in Brazil, Euros 27,479 thousand for the risks of a fiscal nature of the parent Pirelli & C. S.p.A. and Euros 14,887 thousand for contractual commitments undertaken for the performance of extraordinary maintenance work on buildings sold.

The **current portion** refers to accruals for contractual guarantees and product claims. The reduction from December 31, 2006 is mainly due to the price adjustment paid in 2007 (Euros 39,855 thousand) regarding the sale of Pirelli's operations in the Energy and Telecom Cables and Systems sectors to Goldman Sachs in July 2005. Some claims were also settled which reduced the provision by another Euros 20,270 thousand.

23. Employee benefit obligations

Employee benefit obligations include:

(in thousands of Euros)

	12/31/2007	12/31/2006
Pension funds:		
- funded	118,234	156,271
- unfunded	88,050	99,887
Employees' leaving indemnity (Italian companies)	74,559	96,824
Medical care plans	21,839	28,362
Other benefits	46,460	34,506
	349,142	**415,850**

PENSION FUNDS

The composition of pension funds at December 31, 2007 is as follows:

(in thousands of Euros)

	12/31/2007					
	Germany	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
Funded						
Present value of funded obligations	-	-	123,593	899,691	2,519	1,025,803
Fair value of plan assets	-	-	(103,933)	(801,632)	(2,004)	(907,569)
Unfunded						
Present value of unfunded obligations	88,050	88,050	-	-	-	-
Net liability in the balance sheet of which:	**88,050**	**88,050**	**19,660**	**98,059**	**515**	**118,234**
- Tyre	87,269	87,269	19,660	65,278	515	85,453
- Real Estate	781	781	-	-	-	-
- Other	-	-	-	32,781	-	32,781

The composition of pension funds at December 31, 2006 was as follows:

(in thousands of Euros)

	12/31/2006				
	Germany	Total unfunded pension funds	USA	UK	Total funded pension funds
Funded					
Present value of funded obligations	-	-	146,708	947,160	1,093,868
Fair value of plan assets	-	-	(113,136)	(824,461)	(937,597)
Unfunded					
Present value of unfunded obligations	99,887	99,887	-	-	-
Net liability in the balance sheet of which:	**99,887**	**99,887**	**33,572**	**122,699**	**156,271**
- Tyre	99,887	99,887	33,572	62,071	95,643
- Other	-	-	-	60,628	60,628

The principal features of the pension plans in existence at December 31, 2007 are as follows:

— Tyres Germany: this is an unfunded defined benefit plan based on the most recent remuneration. It guarantees another pension besides the government pension. The plan was closed in October 1982; consequently, the participants in the plan are employees who were hired prior to that date.

— USA: this is a funded defined benefit plan based on the most recent remuneration. It guarantees another pension besides the government pension. The plan is under the administration of a trust. The plan was closed in 2001 and frozen in 2003 for those employees who changed over to a defined contribution scheme. None of the current participants in the plan are in service.

— UK: these are funded defined benefit plans based on the most recent remuneration. They guarantee another pension besides the government pension. The plans are under the administration of a trust. The plans were closed in 2001; consequently, the participants in the plan are employees who were hired prior to that date.

The changes during the year in the present value of the liabilities for pension funds (funded and unfunded) are as follows:

(in thousands of Euros)

	12/31/2007	12/31/2006
Beginning balance	**1,193,755**	**1,199,282**
Exchange differences	(99,276)	1,645
Change in scope of consolidation	752	-
Movements through the income statement	63,598	60,963
Actuarial (gains) losses recognized in equity	7,230	(13,413)
Employee contributions	1,620	1,774
Benefits paid	(53,760)	(56,451)
Other	(66)	(45)
Closing balance	**1,113,853**	**1,193,755**

The changes during the year in the fair value of the pension plan assets are as follows:

(in thousands of Euros)

	12/31/2007	12/31/2006
Beginning balance	**(937,597)**	**(857,857)**
Exchange differences	85,947	(3,371)
Movements through the income statement	(67,042)	(58,374)
Actuarial (gains) losses recognized in equity	(3,030)	(33,029)
Employer contributions	(31,288)	(32,906)
Employee contributions	(1,620)	(1,774)
Benefits paid	47,004	49,679
Other	57	35
Closing balance	**(907,569)**	**(937,597)**

The assumptions made to compute the expected return of the pension fund assets are based on the expected returns of the underlying assets (shares, bonds and deposits). The expected return originates from the general average of the expected returns by the assets for every class of separately identified investments, with reference to an effective or objective composition of the assets.

The expected return of each class of investment originates from the market yields available at the balance sheet date. Specifically, the expected return of equity shares originates from a risk-free return rate with the addition of an adequate premium for the risk.
The composition of the funded pension plan assets is presented in the following table:

(in %)

	12/31/2007			12/31/2006	
	UK	USA	Other countries	UK	USA
Shares	82%	68%	–	82%	68%
Bonds	14%	29%	–	15%	29%
Deposits	1%	3%	–	1%	3%
Other	3%	–	100%	2%	–
	100%	**100%**	**100%**	**100%**	**100%**

The effective return of pension plan assets is as follows:

(in thousands of Euros)

	USA	UK	Other countries	Total
Effective return 2006	10,931	80,175	–	91,106
Effective return 2007	7,666	60,473	(251)	67,888

The costs recognized in the income statement for pension funds are as follows:

(in thousands of Euros)

	12/31/2007	12/31/2006
Current service costs	5,110	4,713
Interest cost	58,488	56,250
Expected return on plan assets	(67,042)	(58,374)
	(3,444)	**2,589**

The amounts recognized in the income statement are included in "Personnel costs" (Note 31). The contributions expected to be paid for pension funds during 2008 amount to Euros 27,737 thousand.

EMPLOYEES' LEAVING INDEMNITY

The changes during the year in employees' leaving indemnity are as follows:

(in thousands of Euros)

	12/31/2007	12/31/2006
Beginning balance	**96,824**	**100,099**
Change in the scope of consolidation	(5,491)	2,497
Movements through the income statement (excluding curtailment)	8,270	14,979
Curtailment	(5,186)	–
Actuarial (gains) losses recognized in equity	(5,358)	(4,122)
Payments / advances	(14,467)	(16,711)
Other	(33)	82
Closing balance	**74,559**	**96,824**
of which:		
- Tyre	38,912	46,738
- Broadband	1,128	1,204
- Real Estate	21,283	19,452
- Other	13,236	29,430

The Italian Finance Bill 2007 and the relative decrees implementing it introduced changes regarding employees' leaving indemnity which include allowing the employee to choose the destination of his/her indemnity accruing from January 1, 2007. During the first half of 2007, the employees had to choose whether to direct the future flows of the indemnity to pre-chosen pension schemes or to keep them with the company (in which case, the company will pay the employees' leaving indemnity contributions to a treasury account set up at INPS).

The employees' leaving indemnity accruing from January 1, 2007 has been considered as a defined contribution plan in the financial statements at December 31, 2007 regardless of whether the option chosen was the supplementary pension scheme or the treasury fund with INPS. The indemnity accrued up to December 31, 2006 will remain a defined benefit plan and will consequently be subjected to periodical actuarial calculations.

IAS 19 states that when the terms of a defined benefit plan are amended such that a material element of the future service by current employees will no longer qualify for benefits, the company must recognize any changes in the present value of the obligations caused by this event (curtailment) when it arises in the income statement.

The curtailment can thus be defined as the difference between the liability for employees' leaving indemnity calculated before the change in the law, that is, considering the component relating to future accruals, and that resulting after the event, which excludes the component relating to future accruals.
The economic effect of the curtailment on the financial statements at December 31, 2007 is a gain of Euros 5,186 thousand and has been calculated through a full evaluation of the provision for employees' leaving indemnity.
Movements through the income statement are recorded in "Personnel costs" (Note 31).

MEDICAL CARE PLANS

The composition of medical care plans is as follows:

(in thousands of Euros)

	USA
Liability in the balance sheet at December 31, 2007	21,839
Liability in the balance sheet at December 31, 2006	28,362

The medical care plan in existence in the Tyre subsidiary in the United States covers white-collars and blue-collars, in service and retired.
The plan is structured according to "pre-medicare" and "post-medicare", with the latter referring to participants over the age of 65.
Contributions are paid in both by the employer and the employee.

The changes during the year in the liabilities recognized in the financial statements for medical care plans are the following:

(in thousands of Euros)

	12/31/2007	12/31/2006
Beginning balance	**28,362**	**33,386**
Exchange differences	(3,081)	(3,552)
Movements through the income statement	1,373	1,535
Actuarial (gains) losses recognized in equity	(1,355)	(995)
Benefits paid	(1,863)	(1,906)
Other	(1,597)	(106)
Closing balance	**21,839**	**28,362**

The effect of a one percentage point increase or decrease in the estimated rates for the costs of medical care is as follows:

(in thousands of Euros)

	1% increase		1% decrease	
	12/31/2007	12/31/2006	12/31/2007	12/31/2006
- Effect on current service cost and interest cost	55	65	(52)	(63)
- Effect on liabilities recognized in the balance sheet	849	1,126	(805)	(1,068)

The costs recognized in the income statement relating to medical care plans are as follows:

(in thousands of Euros)

	12/31/2007	12/31/2006
Current service costs	7	8
Interest cost	1,366	1,527
	1,373	**1,535**

The amounts recognized in the income statement are included in "Personnel costs" (Note 31).

OTHER INFORMATION

Net actuarial gains referring to 2007 recognized directly in equity amount to Euros 2,589 thousand (net gains of Euros 51,081 thousand in 2006).

The cumulative amount at December 31, 2007, equal to a net loss of Euros 64,326 thousand (net loss of Euros 65,286 thousand at December 31, 2006), is made up as follows:

(in thousands of Euros)

	Italy	Germany	USA	UK	Other countries	Total
Pension funds	-	5,916	(10,607)	(72,315)	(515)	**(77,521)**
Medical care plans	-	-	(894)	-	-	**(894)**
Employees' leaving indemnity	14,089	-	-	-	-	**14,089**
Total actuarial gains (losses) recognized in equity	**14,089**	**5,916**	**(11,501)**	**(72,315)**	**(515)**	**(64,326)**

The breakdown of the cumulative amount at December 31, 2006 by country is as follows:

(in thousands of Euros)

	Italy	Germany	USA	UK	Total
Pension funds	-	(4,845)	(11,749)	(56,706)	**(73,300)**
Medical care plans	-	-	(1,912)	-	**(1,912)**
Employees' leaving indemnity	9,926	-	-	-	**9,926**
Total actuarial gains (losses) recognized in equity	**9,926**	**(4,845)**	**(13,661)**	**(56,706)**	**(65,286)**

The main actuarial assumptions used at December 31, 2007 and also to determine the estimated cost for the year 2008 are as follows:

ACTUARIAL ASSUMPTIONS - 2007

	Italy	Germany	Netherlands	UK	USA
Discount rate	5.50%	5.50%	5.50%	5.60%	6.0%
Inflation rate	2.0%	2.0%	2.0%	3.15%	-
Expected return on plan assets	-	-	-	7.78%	7.67%
Expected remuneration increase rate	-	2.50%	2.0%	3.15%	-
Medical care cost trend rate - initial	-	-	-	-	9.0%
Medical care cost trend rate - final	-	-	-	-	4.5%

The main actuarial assumptions used at December 31, 2006 and also to determine the estimated cost for the year 2007 are as follows:

ACTUARIAL ASSUMPTIONS - 2006

	Italy	Germany	UK	USA
Discount rate	4.50%	4.50%	5.10%	5.75%
Inflation rate	2.0%	2.0%	2.80%	-
Expected return on plan assets	-	-	7.31%	7.5%
Expected remuneration increase rate	2% - 4.30%	2.50%	2.80%	-
Medical care cost trend rate - initial	-	-	-	9.0%
Medical care cost trend rate - final	-	-	-	4.5%

The adjustments based on historical experience made to defined benefit plans are the following:

(in thousands of Euros)

	12/31/2007	12/31/2006	12/31/2005
Adjustments to plan liabilities - (gains) losses	16,097	(7,527)	46,038
Adjustments to plan assets - (gains) losses	(744)	(32,733)	(75,756)

The adjustments to liabilities represent the change in the actuarial liability that is not generated by changes in the actuarial assumptions. These typically include changes in the demographic and remuneration structure. Experience adjustments do not include changes in the plan regulations ("past service cost").
The adjustments to assets represent the difference between the effective return of the assets and the expected return at the start of the year.

24. Borrowings from banks and other financial institutions

The analysis of borrowings from banks and other financial institutions is as follows:

(in thousands of Euros)

	12/31/2007			12/31/2006		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
bonds	650,000	150,000	500,000	1,150,000	650,000	500,000
borrowings from banks	872,768	536,616	336,152	1,668,780	658,881	1,009,899
borrowing from other financial institutions	69,433	67,936	1,497	31,756	31,115	641
finance lease payables	35,652	32,271	3,381	39,223	35,949	3,274
financial accrued liabilities and deferred income	17,693	420	17,273	40,669	-	40,669
other financial payables	14,411	955	13,456	9,260	1,481	7,779
	1,659,957	**788,198**	**871,759**	**2,939,688**	**1,377,426**	**1,562,262**

These payables are secured by real guarantees (liens and mortgages) for Euros 179,380 thousand (Euros 73,262 thousand at December 31, 2006).
The carrying amount of current payables is regarded as approximating fair value.
The amount due within one year, totaling Euros 871,759 thousand, includes the current portion of long-term financial payables of Euros 531,200 thousand (Euros 623,300 thousand at December 31, 2006).

The fair value of non-current payables compared to the carrying amount is as follows:

	12/31/2007		12/31/2006	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Non-current financial payables	788,198	784,594	1,377,426	1,376,976

At December 31, 2007, the breakdown of payables by interest rate and currency of origin is as follows:

(in thousands of Euros)

	Fixed rate		**Floating rate**		**Total**
EUR	659,443		103,520		762,963
USD	19,908		–		19,908
BRL (Brazilian Real)	30,658		–		30,658
CNY (Chinese Renminbi)	57,931		–		57,931
Other currencies	299		–		299
Current payables	**768,239**	**88%**	**103,520**	**12%**	**871,759**
EUR	367,746		371,412		739,158
USD	23,579		–		23,579
BRL (Brazilian Real)	10,105		15,257		25,362
EGP (Egyptian Pound)	99		–		99
Non-current payables	**401,529**	**51%**	**386,669**	**49%**	**788,198**
Total	**1,169,768**	**70%**	**490,189**	**30%**	**1,659,957**

At December 31, 2006, the situation was as follows:

(in thousands of Euros)

	Fixed rate		Floating rate		Total
EUR	699,562		787,883		1,487,445
USD	36,709		–		36,709
BRL (Brazilian Real)	6,502		–		6,502
CNY (Chinese Renminbi)	29,207		–		29,207
RON (Romanian Leu)	–		400		400
Other currencies	–		1,999		1,999
Current payables	**771,980**	**49%**	**790,282**	**51%**	**1,562,262**
EUR	873,944		438,865		1,312,809
USD	35,145		–		35,145
BRL (Brazilian Real)	6,372		23,000		29,372
EGP (Egyptian Pound)	100		–		100
Non-current payables	**915,561**	**66%**	**461,865**	**34%**	**1,377,426**
Total	**1,687,541**	**57%**	**1,252,147**	**43%**	**2,939,688**

Fixed-rate payables above include payables denominated by contract at fixed rates and payables denominated by contract at floating rates hedged by derivatives.

The Group's exposure to interest rate changes on financial payables in terms of either the type of rate or the date of resetting the rate can be summarized as follow:

(in thousands of Euros)

	12/31/2007			12/31/2006		
	TOTAL	Fixed rate	Floating rate	TOTAL	Fixed rate	Floating rate
up to 6 months	756,989	266,800	490,189	2,011,013	758,866	1,252,147
between 6 and 12 months	500,180	500,180	-	12,373	12,373	-
between 1 and 5 years	394,598	394,598	-	808,555	808,555	-
beyond 5 years	8,190	8,190	-	107,748	107,748	-
TOTAL	**1,659,957**	**1,169,768**	**490,189**	**2,939,689**	**1,687,542**	**1,252,147**

With regard to financial covenants on the agreed and utilized credit lines, the following should be noted:

— on the Syndicated Line granted to Pirelli & C. Real Estate S.p.A. in which 20 banks participate for a total of Euros 750 million (Euros 450 million at December 31, 2006), Pirelli & C. Real Estate S.p.A. is obliged not to exceed a certain threshold in the ratio of the adjusted financial position (expressed gross of shareholder loans to the companies in which minority interests are held) to operating profit including earnings (losses) and financial income from investment holdings;

— on the line granted on June 29, 2007 by Mizuho Corporate Bank Ltd. Milan Branch for Euros 50 million, Pirelli & C. Real Estate S.p.A. is required to abide by the same covenants as those on the Syndicated Line above;

— on the line granted on December 21, 2007 by Bayerische Hypo-Und Vereinsbank AG, Milan Branch and Intesa Sanpaolo S.p.A., Pirelli & C. Real Estate Facility Management S.p.A. is required to abide by covenants which impose a certain ratio between (i) operating profit and net financial expenses (that is, net of financial income) - Interest Cover Ratio, (ii) debt (net of cash) and operating profit - Debit Cover Ratio e (iii) cash flows and debt servicing (financial expenses plus debt repayments) - Cash Flow Cover Ratio. Lastly, there is annual limit on the expenses capitalized.

At December 31, 2007, all the covenants were complied with.

Pirelli & C. Real Estate S.p.A. increased the revolving syndicated credit line obtained in 2005 from Euros 450 million to Euros 750 million. All the other conditions remained unchanged compared to those existing at December 31, 2006. The loan, due in August 2010, has a floating rate indexed to the Euribor plus 65 basis points.

The Syndicated Line also carries a negative pledge clause on the shares and on the receivables of the services companies.

Bonds – current portion (Euros 500,000 thousand) – refer to the bonds issued on October 21, 1998 at 4.875 percent by Pirelli & C. S.p.A. repayable in a one-off payment on October 21, 2008. The non-current portion refers to bonds issued in 1999 by Pirelli & C. S.p.A. for Euros 150,000 thousand at 5.125 percent maturing in April 7, 2009.
The reduction from 2006 is due to the April 4, 2007 repayment of bonds of Euros 500,000 thousand issued in 2002 by the subsidiary Pirelli Finance (Luxembourg) S.A..

These bonds do not contain either financial covenants or clauses which could cause the early repayment of the bonds due to events other than insolvency.

With regard to negative pledge clauses, there is a commitment on these bonds requiring that real guarantees are not to be provided on the relevant debt (bonds and similar securities destined for listing) with the exception for real guarantees on existing debt.

The other financial payables are not covered by financial covenants or clauses which could cause the early repayment of the loans due to events other than insolvency.
There are no significant negative pledge clauses.

Financial accrued liabilities and deferred income mainly include the amount of interest accrued but not yet paid on bonds (Euros 10,474 thousand); the reduction in this item from the end of 2006 is due to the repayment of bonds issued by the subsidiary Pirelli Finance (Luxembourg) S.A. commented above.

As for financial lease payables, reference should be made to Note 8.1 “Finance leases”.

25. Trade payables

The analysis of trade payables is as follows:

(in thousands of Euros)

	12/31/2007			12/31/2006		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
associates and joint ventures	24,458	-	24,458	8,366	-	8,366
third parties	1,198,417	-	1,198,417	991,137	-	991,137
notes payable	97,073	-	97,073	102,953	-	102,953
payables on construction contracts	3,640		3,640	-	-	-
	1,323,588	**-**	**1,323,588**	**1,102,456**	**-**	**1,102,456**

The carrying amount of trade payables is regarded as approximating fair value.
Payables on construction contracts relating to the Real Estate Sector represent the advances received on progress billings for contracts, equal to Euros 26,818 thousand at December 31,

2007 (Euros 23,627 thousand at December 31, 2006), in excess of costs incurred and recognized profit, equal to Euros 23,178 thousand at December 31, 2007 (Euros 23,627 thousand at December 31, 2006).

26. Other payables

The analysis of other payables is as follows:

(in thousands of Euros)

	12/31/2007			12/31/2006		
	Total	Non-current	Current	Total	Non-current	Current
associates and joint ventures	21,466	-	21,466	3,263	-	3,263
trade and other accrued liabilities and deferred income	130,776	4,869	125,907	150,002	38,932	111,070
tax payables	98,433	10,288	88,145	92,955	3,409	89,546
payables to employees	131,031	77	130,954	123,059	73	122,986
payables to social security agencies	48,308	2,934	45,374	48,148	2,064	46,084
payables for stock options	494	-	494	1,609	-	1,609
dividends payable	827,252	-	827,252	2,196	-	2,196
advances from customers	4,979	-	4,979	3,796	7	3,789
other payables	155,234	5,132	150,102	244,754	88,395	156,359
	1,417,973	**23,300**	**1,394,673**	**669,782**	**132,880**	**536,902**

The reduction in **non-current accrued liabilities and deferred income** is due, for Euros 33,300 thousand, to commissions paid to the financial institutions which took part last year in the private placement of the 38.9 percent interest of Pirelli Tyre S.p.A..

Dividends payable include Euros 826,254 thousand for the reimbursement of share capital approved by the shareholders' meeting held on December 12, 2007 payable to the shareholders of Pirelli & C. S.p.A..

The reduction in **other payables** refers to the Real Estate Sector for Euros 81,539 thousand for the sale in the first half of 2007 of junior notes connected with a non-performing loan portfolio of ex-Banco di Sicilia to the Sagrantino B.V. joint venture, as described in the note "other receivables".

The carrying amount of other current and non-current payables is regarded as approximating fair value.

27. Financial instruments

The current assets comprise:

— Euros 56,116 thousand (Euros 26,553 thousand at December 31, 2006) relating to the fair value measurement of forward currency purchases and sales in place at December 31, 2007. These are derivative transactions which, although used for hedging purposes, are not designated as such under IFRS. The fair value is determined by using the forward exchange rate at the balance sheet date;

— Euros 2,210 thousand (Euros 2,594 thousand at December 31, 2006) relating to the fair value measurement of interest rate derivatives put into place by Pirelli Real Estate: in par-

ticular, the amount at December 31, 2007 refers entirely to the fair value measurement of an interest rate plain vanilla collar which qualifies for hedge accounting under IAS 39 (Euros 1,661 thousand at December 31, 2006).
Pirelli & C. Real Estate S.p.A. put into place a plain vanilla collar derivative with notional amount of Euros 120 million to hedge the committed and revolving credit line draw down constantly and with interest due quarterly (therefore similar in the aggregate to a payable of Euros 120 million at a floating rate repayable by a one-off payment).
The objective of the above hedge is to stabilize future cash flows payable to service debt, acquiring protection against possible increases in the interest rate curve.
In particular, the derivative limits exposure by guaranteeing payments in a pre-set range of between 2.20 percent and 3.75 percent.
In order to avoid fluctuations in the income for the year due to volatility caused by changes in fair value, hedge accounting has been adopted in accordance with IAS 39. Hedge accounting is applied only to the intrinsic value while the time value change is recognized in the income statement.
The amount recognized in equity at December 31, 2007 is a positive Euros 875 thousand (a positive Euros 1,050 thousand at December 31, 2006).

The amounts included in non-current assets (equal to Euros 3,849 thousand), current liabilities (equal to Euros 72,513 thousand, Euros 45,362 thousand at December 31, 2006) and non-current liabilities (equal to Euros 6,782 thousand, Euros 4,751 thousand at December 31, 2006) refer to the fair value measurement of forward currency purchases and sales existing at December 31, 2007.

28. Commitments and contingencies

SURETIES

Sureties were provided to guarantee loans made by credit institutions to associates and joint ventures of Pirelli & C. Real Estate for a total of Euros 15,763 thousand consisting of the shares of the associates and joint ventures pledged for an amount of Euros 121,386 thousand.

Various sureties were provided by banking institutions and insurance companies to third parties and in the interests of Pirelli & C. Real Estate S.p.A. mainly to fulfill contractual obligations of the Pirelli & C. Real Estate Group for a total of Euros 220,113 thousand.

COMMITMENTS FOR PURCHASES OF PROPERTIES

Commitments for the purchase of properties refer to Pirelli & C. Real Estate S.p.A. to purchase certain buildings if they remain unsold, owned by Imser 60 S.r.l., for a maximum amount of Euros 320,000 thousand. The purchase price of these buildings is established by contract at about 20 percent of their market value. This option may be exercised by the counterpart up to May 31, 2022.

COMMITMENTS FOR PURCHASES OF PROPERTY, PLANT AND EQUIPMENT

Commitments for the purchase of property, plant and equipment refer to the Tyre Sector and are equal to Euros 85.8 million (Euros 91.5 million at December 31, 2006), mainly in reference to the companies in Brazil, Romania, China and Germany.

COMMITMENTS FOR PURCHASES OF INVESTMENTS / SHARES OF FUNDS

— Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. has a commitment to subscribe to shares of the closed-end ethical real estate investment fund for qualified investors "Fondo Abitare Sociale 1" for a total amount of Euros 2,422 thousand.
— Pirelli Finance (Luxembourg) S.A. undertook a commitment to subscribe to shares of the company Equinox Two S.c.a., a private equity company specialized in investments in listed and unlisted companies with a high potential for growth, for an equivalent maximum amount of Euros 9,700 thousand.

OTHER GUARANTEES

Other guarantees refer to:
— guarantees provided as part of the transaction for the sale of junior notes relating to a non-performing loan portfolio of ex-Banco di Sicilia on behalf of a third-party joint venture. These guarantees, counterguaranteed by the partner in the venture, involves a net exposure for Pirelli & C. Real Estate S.p.A. of Euros 26,009 thousand;
— guarantees provided to third parties for the fulfillment of various commitments undertaken by the companies of the group for a total of Euros 9,214 thousand;
— guarantees provided as part of securitization transactions conducted by vehicle companies for the correct and precise fulfillment of payment obligations for a total of Euros 55,756 thousand;
— guarantees provided as part of property purchase transactions effected by joint ventures for the fulfillment of their payment obligations for a total of Euros 1,252 thousand;

Finally, Pirelli & C. Real Estate S.p.A. has a commitment to proportionally cover any negative difference between the flows from rental income and interest expenses payable by Tiglio I S.r.l. to the lending banking institutions on credit lines expiring in 2009; at this time, based on available information, revenues flows are higher than estimated interest expenses.

Moreover, in the process for the acquisition of the DGAG Group, Pirelli & C. Real Estate S.p.A. provided guarantees mainly in respect of bank loans made to the vehicle company. Pirelli & C. Real Estate S.p.A.'s exposure for such guarantees is net of the counterguarantees provided by the partner in the venture, quantified at Euros 73,683 thousand.

GUARANTEES PROVIDED AT THE TIME OF THE SALE OF OLIMPIA

At the time of the sale of the investment in Olimpia S.p.A., the sellers (Pirelli and Sintonia) remained responsible for tax risks for the periods up to the date of sale.
In 2006, the Tax Revenues Agency had notified Olimpia S.p.A. of an assessment for IRAP taxes regarding 2001.
In summary, Olimpia S.p.A. had been assessed for IRAP taxes for 2001 on alleged financial income on the Bell bonds repayable in Olivetti shares for an amount of Euros 26.5 million, in addition to penalties of the same amount.
The Company opposed the assessment and filed suit on administrative grounds and against the evident unfounded grounds of the tax assessment.
In September 2007, the Tax Commission of the First Instance, on motivated grounds, ruled in favor of the appeal filed by the Company and completely canceled the above-mentioned assessment.
The Tax Revenues Agency still has time to file an appeal.

At the end of the year, another assessment was received for 2002: the relative IRPEG tax amounts to Euros 29.3 million in addition to penalties for the same amount.
This assessment was also considered to be totally devoid of foundation and the Company filed an appeal with Tax Commission of the First Instance.

Considering the average times for discussing the case before that Commission, it can reasonably be expected that the ruling of the First Instance will occur during 2008.
There is also reason to believe that the argument adopted by the Company in this second dispute, assisted by qualified advisors, will also be accepted, without resulting in any additional payment of taxes.

29. Revenues from sales and services

Revenues from sales and services can be analyzed as follows:

(in thousands of Euros)

	2007	2006
Revenues from sales of products	5,677,634	4,244,589
Revenues from services	816,809	590,657
Revenues on construction contracts	10,094	5,978
	6,504,537	**4,841,224**

The increase in revenues from sales is mainly due to the deconsolidation of the activities of the DGAG companies in 2007 for an amount equal to Euros 1,295,579 thousand.

30. Other income

"Other income" amounts to Euros 286,361 thousand compared to Euros 292,763 thousand in 2006 and includes rent income, commissions, royalties, compensation, insurance refunds and other minor items.
Other income includes income from nonrecurring events in the amount of Euros 2,818 thousand. Nonrecurring events include the compensation for the expropriation of the land located in Settimo Torinese for Euros 1,746 thousand and the refund of the events tax for the periods it was not due for Euros 1,072 thousand. The percentage of income from nonrecurring events to total other income is equal to 1 percent.

31. Personnel costs

Personnel costs consist of the following:

(in thousands of Euros)

	2007	2006
Salaries and wages	885,692	809,982
Stock option costs	1,513	6,069
Social security costs	196,806	185,600
Leaving indemnity and similar costs (*)	25,671	38,185
Defined contribution pension fund costs	19,608	8,296
Defined benefit pension fund costs	(3,444)	2,589
Defined benefit medical care plan costs	1,373	1,535
Long-service bonus costs	1,235	560
Defined contribution medical care plan costs	20,507	17,534
Other costs	7,209	5,421
	1,156,170	**1,075,771**

* includes Italian and foreign companies

With regard to the amounts relating to employees' leaving indemnity, pension funds and medical care defined benefit plans, reference should be made to "Employee benefit obligations" (Note 23).

"Leaving indemnity and similar costs" include a positive amount of Euros 5,186 thousand relating to the curtailment of the provision for employees' severance indemnity which is explained in Note 23 – "Employee benefit obligations".

32. Amortization, depreciation and impairments

Amortization, depreciation and impairments are as follows:

(in thousands of Euros)

	2007	2006
Amortization of intangible assets	10,499	11,263
Depreciation of property, plant and equipment	203,545	201,428
Impairment loss on intangible assets	3,823	1,492
Impairment loss on property, plant and equipment	811	1,145
	218,678	**215,328**

33. Other expenses

"Other expenses" include the following:

(in thousands of Euros)

	2007	2006
Selling expenses	307,408	270,367
Purchases of merchandise for resale	221,819	194,480
Utilities and power	185,763	157,153
Maintenance	158,055	94,032
Consulting fees	140,480	116,422
Advertising expenses	127,480	144,780
Commissioned work by third parties	93,680	53,317
Contract work expenses	83,500	39,858
Rent and hires	78,464	61,568
Cleaning expenses	54,487	42,905
Traveling expenses	48,582	42,654
Outside work on construction contracts	43,712	11,085
Software and information services expenses	40,252	37,036
Other accruals	35,952	32,137
Insurance	28,919	28,912
Revenues stamps, duties and local taxes	25,369	21,148
Receivables impairment	15,373	13,620
Operating lease payments	9,610	7,494
Other	349,752	314,976
	2,048,657	**1,683,944**

The balance in 2006 included Euros 13,200 thousand (0.8 percent of the total) of the costs incurred for the Pirelli Tyre S.p.A. IPO, which qualifies as a nonrecurring event, included under "consulting fees", "advertising expenses" and "other".

Research expenses went from Euros 171 million in 2006 (3.5 percent of sales) to Euros 173 million in 2007 (3.3 percent of sales) and are entirely expensed to income. There are no development expenditures which meet the conditions for capitalization under IFRS.

34. Financial income

Financial income includes the following:

(in thousands of Euros)

	2007	2006
Interest	89,870	76,460
Other financial income	12,915	19,389
Gains on exchange	171,800	145,576
Gains on disposal of available-for-sale financial assets	9,922	218,563
Gains on disposal of investments in subsidiaries	55,901	416,400
	340,408	**876,388**

Gains on exchange include the adjustment to the year-end exchange rates for open positions at the end of the year expressed in currencies other than the functional currency and the gains realized on closed positions.

Gains on the disposal of available-for-sale financial assets mainly refer to the sale of Servizio Titoli S.p.A. ordinary shares (Euros 4,022 thousand), Intek S.p.A. ordinary shares (Euros 1,463 thousand), Telecom Italia S.p.A. shares (Euros 2,100 thousand) and KME Group S.p.A. shares for Euros 877 thousand.
In 2006, this caption mainly included Euros 215,200 thousand for the sale of the investment in Capitalia S.p.A. (nonrecurring event).

The gains on the disposal of investments in subsidiaries, equal to Euros 55,901 thousand, refer to the sale of a 49 percent stake in Pirelli RE Integrated Facility Management B.V. to Intesa Sanpaolo, finalized on June 27, 2007.
In 2006, the amount of Euros 416,400 thousand referred to the sale of the 38.9 percent interest in the capital of Pirelli Tyre S.p.A..
The above gains qualify as nonrecurring events.

35. Financial expenses

Financial expenses include the following:

(in thousands of Euros)

	2007	2006
Bank interest	200,567	151,288
Other financial expenses	31,189	42,474
Losses on exchange	150,270	129,700
Losses on disposal of available-for-sale financial assets	-	5,732
Impairment loss on available-for-sale financial assets	34,137	13,378
	416,163	**342,572**

Losses on exchange include the adjustment to the period-end exchange rates of open items at the end of the year expressed in currencies other than the functional currency and losses realized on closed positions.

Impairment losses on available-for-sale financial assets have been recognized following the prolonged and significant reduction in the fair value of shares compared to their cost, and refer mainly to impairment losses in respect of Telecom Italia S.p.A. (Euros 21,929 thousand), Avanex (Euros 7,670 thousand) and Equinox (Euros 3,362 thousand).

Last year this item mainly included the impairment losses on investments in G.I.M. – Generale Industrie Metallurgiche S.p.A. (Euros 1,244 thousand), Consortium S.r.l. (Euros 4,532 thousand), Euroqube S.p.A. (Euros 2,181 thousand), Alloptic Inc. (Euros 1,000 thousand), Stip Tunisi (Euros 1,206 thousand) and KG Deutsche Gasrubwerke Gmbh (Euros 1,710 thousand).

36. Dividends

Dividends mainly refer to those received from Mediobanca S.p.A (Euros 9,752 thousand), Equinox (Euros 9,022 thousand), RCS Mediagroup S.p.A. (Euros 3,871 thousand), Telecom Italia S.p.A. (Euros 6,602 thousand), Fin. Priv. S.r.l. (Euros 1,269 thousand) and Servizio Titoli S.r.l. (Euros 873 thousand).

In 2006, this caption included mainly dividends received from Telecom Italia S.p.A. (Euros 26,344 thousand, of which Euros 19,742 thousand from derivatives), Capitalia S.p.A. (Euros 9,938 thousand), RCS Mediagroup S.p.A. (Euros 3,875 thousand), from Mediobanca S.p.A. (Euros 8,702 thousand), Consortium S.r.l. (Euros 11,162 thousand) and Fin. Priv. S.r.l. (Euros 1,132 thousand).

37. Gains (losses) from changes in fair value of financial assets

The gains (losses) from changes in fair value of financial assets refer to:

(in thousands of Euros)

	2007	2006
Measurement of financial assets at fair value through income statement	1,541	9,785
Measurement of currency derivatives at fair value	(31,291)	(35,201)
Measurement of other derivativesat at fair value	9,571	(30,540)
	(20,179)	**(55,956)**

The **measurement of financial assets at fair value through income statement** refers for Euros 2,989 thousand to the year-end negative change in the fair value of securities classified in the financial statements as “securities held for trading” (Note 17) and for Euros 4,530 thousand to the positive change in the fair value of other financial assets designated at fair value through profit or loss (Cloe Fondo Uffici – Closed-end unlisted reserved real estate investment fund) classified in the financial statements in “Non-current other financial assets” (Note 11).

The **measurement of currency derivatives at fair value** refers to forward currency purchases and sales. For open items at the end of the year, the fair value is determined by applying the forward exchange rate at the balance sheet date.

The **measurement of other derivatives at fair value**, positive for Euros 9,571 thousand, almost entirely includes the measurement at fair value of derivatives connected with interest rate risk. The loss last year referred to the measurement at fair value of options on Telecom Italia S.p.A. shares / convertible bonds, exercised in March 2006.

38. Share of earnings (losses) of associates and joint ventures

The share of earnings (losses) of associates and joint ventures accounted for using the equity method is an earnings figure of Euros 118,608 thousand (earnings of Euros 103,958 thousand in 2006). This caption particularly includes the earnings of the investments accounted for using the equity method by the Pirelli & C. Real Estate Group equal to Euros 117,042 thousand (Euros 101,570 thousand in 2006). This amount includes the positive effect of Euros 70.5 million arising from changes in the fair value of the "Investment properties" held by Raissa, Tecla and Spazio Investment Office Property Investment Funds.
In 2006, the change in fair value relating to Fondo Spazio Investment amounted to Euros 33.5 million, of which Euros 22.5 million was realized with third parties during the course of the same year thanks to the listing of the associate Spazio Investment N.V..

The earnings from these Funds are recorded by using the equity method to account for the joint ventures or associates which hold the relative shares; more to the point, in 2007, the positive effect includes Euros 46.2 million relating to transfers from "Inventories" to "Investment properties" since such properties will be become part of a common investment platform for buildings intended for office use.

39. Income taxes

Income taxes for the year are composed as follows:

(in thousands of Euros)

	2007	2006
Current income taxes	122,075	125,460
Deferred income taxes	11,428	2,388
	133,503	**127,848**

Deferred income taxes in 2007 include a limited net negative effect of Euros 183 thousand due to the change in the tax rates in Italy and Germany starting from 2008.

The reconciliation between theoretical and effective taxes is as follows:

RECONCILIATION BETWEEN THEORETICAL AND EFFECTIVE TAXES (in thousands of Euros)

	2007	2006
Income before taxes	424,023	1,049,061
Income (loss) from discontinued operations	33,070	(1,970,039)
Reversal of income (loss) from discontinued operations (*)	–	1,940,200
Reversal of share of earnings of associates and joint ventures	(118,608)	(103,958)
Total taxable income	**338,485**	**915,264**
Theoretical income taxes	**(90,494)**	**(300,144)**

Main reasons for differences between theoretical and effective income taxes:		
- Non-taxable income	169,692	288,359
- Non-deductible costs	(74,226)	(98,634)
- Utilization of tax loss carryforwards	32,788	27,483
- Unrecognized deferred taxes	(137,676)	(18,763)
- Other	(33,586)	(26,149)
Effective income taxes	**(133,503)**	**(127,848)**

* Share of loss of Olimpia S.p.A. for the year ended December 31, 2006, reclassified for comparative purposes in these financial statement to "Income (loss) from discontinued operations"

The effective tax charge of the Group for 2007 is 26.7 percent higher than the theoretical tax charge of the Group, since deferred tax assets were not recognized on the tax loss carryforwards held mainly by Pirelli & C. S.p.A. and largely attributable to disposals of investments to third parties. The figure also includes taxes unrelated to income such as IRAP taxes on labor costs and Pirelli & C. S.p.A.'s recognition of the tax effects generated by the option for national tax consolidation.

The theoretical tax charge of the Group is calculated by taking into account the nominal tax rates in the countries in which the major companies of the Group operate, as indicated in the following table:

THEORETICAL TAX CHARGE OF THE GROUP

	2007	2006
EUROPE		
Italy	37.25%	37.25%
Spain	32.5%	35%
Germany	38.36%	38.34%
United Kingdom	30%	30%
Turkey	20%	20%
NORTH AMERICA		
USA	40%	40%
SOUTH AMERICA		
Argentina	35%	35%
Brazil	34%	34%
Venezuela	34%	34%

Source : KPMG Corporate Tax Rate Survey 2007

40. Income (loss) from discontinued operations

The income from discontinued operations of Euros 33,070 thousand includes the gain of Euros 91,000 thousand on the sale to Goldman Sachs of the warrants obtained as part of the July 2005 sales agreement for the Energy and Telecom Cables and Systems businesses and linked to the economic benefits on Prysmian (Lux) S.a.r.l., the expense relating to the adjustment of the amount of the guarantees provided to Goldman Sachs (a negative Euros 4,125 thousand) and the effect of the sale of Olimpia S.p.A. (a negative Euros 53,805 thousand, including transaction costs of Euros 14,011 thousand).

The loss from discontinued operations for 2006 of Euros 1,970,039 thousand includes Euros 1,940,039 thousand for the share of Olimpia S.p.A.'s loss for the year ended December 31, 2006 and Euros 30,000 relating to expenses for the finalization of the price adjustment called for by the sales contract on the Cables and Systems activities mentioned above, and guarantees provided.

41. Earnings per share

Basic earnings per share is calculated by dividing the income attributable to the equity holders of the company (adjusted to take into account the minimum dividends due to savings shares) by the weighted average number of outstanding ordinary shares during the year, excluding ordinary treasury shares.

	2007	2006
Income (loss) from **continuing operations** for the year attributable to the equity holders of the company	131	802
Income (loss) attributable to savings shares considering the extra 2% *	(3)	(20)
Income/(loss) from **adjusted continuing operations** for the year attributable to the equity holders of the company	128	782
Weighted average number of outstanding ordinary shares (in thousands)	5,230,525	5,205,142
Basic earnings per ordinary share from **continuing operations** (in euros per thousand of shares)	**24.47**	**150.24**
Income (loss) from **discontinued operations** for the year attributable to the equity holders of the company	33	(1,970)
Income (loss) attributable to savings shares considering the extra 2% *	(1)	50
Income (loss) from **discontinued operations** for the year attributable to the equity holders of the company	32	(1,920)
Weighted average number of outstanding ordinary shares (in thousands)	5,230,525	5,205,142
Basic earnings per ordinary share from **discontinued operations** (in euros per thousand of shares)	**6.12**	**(368.87)**

* The right for 2006, in which a loss was reported, is cumulative with this right.

Diluted earnings per share has not been calculated since the company, at both December 31, 2007 and December 31, 2006, has only one category of potentially dilutive ordinary shares: shares from exercising stock options. However, since the price to exercise the stock options is higher than market value, the stock options have not been considered as exercised.

42. Dividends per share

The company has not distributed dividends.

43. Related party disclosures

Related party transactions, including intragroup transactions, are neither unusual nor exceptional but fall under the ordinary course of business of the companies of the Group. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.

The following table summarizes the balance sheet and income statement captions which include related party transactions and the relative percentage of the total:

(in thousands of Euros)

	Total in financial statements 2007	of which related parties	% of total	Total in financial statements 2006	of which related parties	% of total
BALANCE SHEET						
Non-current assets						
Other receivables	672.9	520.8	77.4%	705.8	334.2	47.4%
Current assets						
Trade receivables	1,098.9	123.7	11.3%	999.7	168.1	16.8%
Other receivables	241.5	22.1	9.1%	356.2	11.9	3.3%
Current liabilities						
Borrowings from banks and other financial institutions	871.8	2.9	0.3%	1,562.3	0.2	-
Trade payables	1,323.6	29.1	2.2%	1,102.5	25.1	2.3%
Other payables	1,394.7	21.5	1.5%	536.9	3.4	0.6%
Tax payables	45.7	-	-	48.8	0.7	1.4%
INCOME STATEMENT						
Revenues from sales and services	6,504.5	298.6	4.6%	4,841.2	371.4	7.7%
Other income	286.4	72.7	25.4%	292.8	104.1	35.6%
Personnel costs	(1,156.2)	(8.1)	0.7%	(1,075.8)	(5.5)	0.5%
Other expenses	(2,048.7)	(116.1)	5.7%	(1,683.9)	(111.1)	6.6%
Financial income	340.4	31.2	9.2%	876.4	17.3	2.0%
Financial expenses	(416.2)	(4.5)	1.1%	(342.6)	-	0.0%
Dividends	34.5	6.6	19.2%	65.9	26.3	40.0%

The income statement and balance sheet effects of transactions with related parties on the consolidated financial statements of the Pirelli Group for the year ended December 31, 2007 are as follows.

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES:

(in millions of Euros)

Revenues for goods and services	201	These mainly refer to the supply of services to associates and joint ventures of Pirelli & C. Real Estate
Other expenses	45	These principally refer to various amounts recharged of Pirelli & C. Real Estate, connected, among other things, also with consortium expenses
Financial income	31	This includes mainly interest income relating to financial receivables from associates and joint ventures of Pirelli & C. Real Estate
Share of earnings (losses) of associates and joint ventures	117	This refers to the earnings or losses of the investments accounted for by the equity method
Financial expenses	4	These mainly refer to the acquisition of DGAG by Pirelli & C. Real Estate
Trade receivables	123	These mainly refer to receivables from associates and joint ventures of Pirelli & C. Real Estate
Non-current other receivables	1	These refer to the receivables of Pirelli & C. Real Estate
Non-current financial receivables	520	These mainly refer to loans made for real estate initiatives managed by the individual companies of the Pirelli & C. Real Estate Group
Other current receivables	6	These refer to Pirelli & C. Real Estate and mainly include a receivable to be collected for dividends declared
Current financial receivables	16	These mainly refer to the temporary inclusion of the companies of the DGAG Group in the scope of consolidation
Current trade payables	24	These refer mainly to various amounts recharged, connected, among other things, with consortium expenses of Pirelli & C. Real Estate
Other current payables	22	The mainly include various amount recharged of the companies of Pirelli & C. Real Estate
Current borrowings from banks and other financial institutions	3	These mainly include the liability balances on the intercompany current accounts of the companies of Pirelli & C. Real Estate

TRANSACTIONS WITH PARTIES RELATED TO PIRELLI THROUGH DIRECTORS

Subsequent to the sale of Olimpia S.p.A., the Telecom Italia Group is no longer a related party of the Pirelli Group. Therefore, only the transactions affecting the income statement are reported for the period to September 30, 2007.
Subsequent to the sale of Shared Service Center S.c.r.l., the company is no longer a related party of the Pirelli Group. Therefore, only the transactions affecting the income statement are reported for the period to September 30, 2007.

(in millions of Euros)

Revenues for goods and services	98	These refer to services rendered by Pirelli & C S.p.A. and Pirelli & C. Real Estate S.p.A. to the Telecom Italia group (Euros 94 million); services rendered by Pirelli Ambiente Tecnologie S.p.A. to the Camfin group (Euros 2 million) and services rendered to F.C. Internazionale Milan S.p.A. (Euros 2 million)
Other income	73	These refer to services rendered by Shared Service Center s.c.r.l. to the Telecom Italia group
Other expenses	60	These refer to telephone, computer and power services by the Telecom Italia group (Euros 18 million); the supply of natural gas and fuel by the Camfin group (Euros 34 million) and costs for the sponsorship of F.C. Internazionale Milano S.p.A. (Euros 8 million)
Dividends	7	Dividends received from Telecom Italia S.p.A.
Current trade receivables	1	These refer to receivables for the supply of the above services to the Camfin group
Current trade payables	5	These refer to payables for the supply of the above services (to the Camfin group Euros 3 million and FC Internazionale S.p.A. Euros 2 million)

For purposes of full disclosure, during 2007, the Pirelli & C. Real Estate Group disposed of investments to the related parties Gruppo Partecipazioni Industriali S.p.A. and Roev Italia S.p.A..

Specifically, on March 22, 2007, Pirelli RE Netherlands B.V. sold a 31.6 percent stake in the company S.I.G. RE B.V. to Gruppo Partecipazioni Industriali S.p.A. and a 15.8 percent stake to Roev Italia S.p.A..

Moreover, on March 31, 2007, S.I.G. RE B.V. purchased 94.8 percent of the share capital of the German-registered company Resident Baltic GmbH, of which a 90 percent interest was acquired from Pirelli RE Residential Investments GmbH. Again on March 31, 2007, S.I.G. RE B.V. purchased 94.8 percent of the share capital of the German-registered company Resident Sachsen P&K GmbH, of which a 79.8 percent interest was acquired from Pirelli RE Residential Investments GmbH (formerly P&K Real Estate GmbH). At the time of the purchase, the two companies held a total of about Euros 7 million in real estate assets in residential property located in Germany purchased during the previous months.
At December 31, 2007, there were no balance sheet or income statement positions recorded in the consolidated financial statements relating to the above.

BENEFITS TO KEY EXECUTIVES

At December 31, 2007, the compensation to key executives, that are, those who have the power and the responsibility, directly or indirectly, for the planning, direction and control of the activities of Pirelli & C. S.p.A., including executive and non-executive directors, amounts to Euros 26,505 thousand (Euros 17,201 thousand at December 31, 2006). The part relating to the payment of employee benefits was charged to the income statement in "Personnel costs" for Euros 14,504 thousand, of which the part relating to employees' leaving indemnity amounts to Euros 490 thousand (Euros 5,417 thousand in 2006, of which the part relating to employees' leaving indemnity amounted to Euros 361 thousand), and the part relating to the compensation to directors was charged to the income statement in "Other expenses" for Euros 12,001 thousand (Euros 11,784 thousand at December 31, 2006).

44. Significant subsequent events

On January 16, 2008, Acea and Pirelli Ambiente announced that the 50-50 A.PI.C.E. joint venture will operate in the sector of sources of renewal energy from waste and will combine Acea's expertise and territorial roots with Pirelli Ambiente's experience and technology to carry out projects aimed at the manufacture of CDR-Q, a fuel derived from quality waste which will used in thermo-electric plants and cement factories.

On January 17, 2008, Pirelli unveiled the new Cinturato Pirelli. The tire that set the pace for traveling in style in Italy and in the world starting from the mid-fifties has been reproposed in a new version which combines all of the very best in state-of-the art technologies, safety and ecosustainability.

On February 1, 2008, the new Group company PGT Photonics was formed. It will operate in the sphere of second-generation photonics based on nanotechnologies.
This company is the result of the integration of the photonics business unit of Pirelli Broadband Solutions and the Pirelli Labs Optical Innovation Division. The aim is to create ever-greater synergies between research and business development activities. The company will focus on the areas of innovative optical components, optical modules and transport systems.
At the same time, Pirelli Broadband Solutions will concentrate its business activities on broadband access, which increasingly involves market dynamics and technological dynamics which are different from photonics.
On February 22, 2008, the Piedmont Region, the Province of Turin, the City of Settimo Torinese, the Politecnico University of Turin and the Pirelli Group sealed a collaboration agreement aimed at developing research and innovation programs under the project to build a new

Pirelli industrial hub in Settimo Torinese. Pirelli plans to invest about Euros 140 million in the Settimo Torinese project.

On February 28, 2008, Pirelli RE SGR and First Atlantic RE SGR concluded an agreement to transfer the management of Berenice Fondo Uffici, receiving the go-ahead from Zwinger which holds more than 90 percent of the shares. Zwinger has committed to acquiring 5 percent of the shares held by SGR for a total of Euros 19.6 million.

On March 11, 2008, Pirelli & C. S.p.A. reached an agreement to acquire the entire share capital of Speed S.p.A., a company in which interests are held by leading financial institutions (Intesa Sanpaolo, Gruppo Banca Leonardo, UniCredit, One Equity Partners – JP Morgan Group, Lehman Brothers and Mediobanca) and, the holder, since August 2006, of the 38.9 percent stake in Pirelli Tyre S.p.A., for Euros 434.4 million which was financed by the company's liquid resources. The price takes into account a payable by Speed S.p.A. of Euros 401.1 million. The transfer of the Speed S.p.A. shares took place at the closing on March 12, 2008, except for a 19.19 percent stake which is expected to be transferred to Pirelli in July 2008.

On March 19, 2008, a consortium consisting of RREEF, GREF (Generali Group), the Borletti Group and Pirelli RE sealed a binding agreement with Karstadt Quelle AG (Arcandor Group) for the purchase of a 49 percent stake in Highstreet, an investment company which holds the majority of the buildings leased to German department stores.

During the first quarter of 2008, Pirelli & C. S.p.A. purchased 658,000 Pirelli & C. Real Estate S.p.A. shares on the market for a total Euros 15.2 million, bringing its interest to 55.21 percent.

45. Other information

COMPENSATION TO DIRECTORS AND STATUTORY AUDITORS

Compensation to directors and statutory auditors of Pirelli & C. S.p.A. to carry out these functions also in other companies included in the scope of consolidation is as follows:

(in thousands of Euros)

	12/31/2007	12/31/2006
Directors	13,620	11,784
Statutory auditors	266	368
Total	**13,886**	**12,152**

EMPLOYEES

The average number of employees of the companies included in consolidation, by category, is the following:

	2007	2006
Executives and staff	8,396	7,579
Blue-collar	18,426	16,871
Temporary workers	3,958	3,713
Total	**30,780**	**28,163**

COMPENSATION TO AUDIT FIRMS

The following schedule, prepared in accordance with art. 149 – duodecies of the Consob Regulation of Issuers, presents the fees paid for the year 2007 for the audit services and services other than audit rendered by the audit firm of PricewaterhouseCoopers S.p.A. and by the entities belonging to its network:

(in thousands of Euros)

Audit services	Pirelli & C. S.p.A.	373		
	Subsidiaries	3,765	4,138	86%
Certification services	Pirelli & C. S.p.A.	-		
	Subsidiaries	178	178	4%
Tax consulting services	Pirelli & C. S.p.A.	-		
	Subsidiaries	351	351	7%
Services other than audit	Pirelli & C. S.p.A.	-		
	Subsidiaries	128	128	3%
	Total		**4,795**	**100%**

EXCHANGE RATES

The main exchange rates used for consolidation purposes are as follows:

(local currency against Euros)

	Period-end		Change in	Average		Change in
	12/31/2007	12/31/2006	%	2007	2006	%
British Pound	0.7334	0.6715	9.22%	0.6843	0.6818	0.37%
Swiss Franc	1.6547	1.6069	2.97%	1.6426	1.5729	4.43%
Slovakian Koruna	33.5830	34.4350	(2.47%)	33.7717	37.2336	(9.30%)
American Dollar	1.4721	1.3170	11.78%	1.3702	1.2555	9.13%
Canadian Dollar	1.4449	1.5281	(5.44%)	1.4686	1.4236	3.16%
Brazilian Real	2.6075	2.8158	(7.40%)	2.6695	2.7334	(2.34%)
Venezuela Bolivar	3,165.0150	2,831.5500	11.78%	2,945.8870	2,699.3680	9.13%
Argentinean Peso	4.6356	4.0327	14.95%	4.2693	3.8601	10.60%
Australian Dollar	1.6757	1.6691	0.40%	1.6348	1.6670	(1.93%)
Chinese Renminbi	10.7516	10.2812	4.58%	10.4227	10.0089	4.13%
Singapore Dollar	2.1163	2.0202	4.76%	2.0632	1.9939	3.48%
Egyptian Pound	8.1039	7.5135	7.86%	7.7220	7.7220	7.26%

NET FINANCIAL POSITION

(non-GAAP measure)

(in millions of Euros)

	12/31/2007		12/31/2006	
		of which related parties		of which related parties
Borrowings from banks and other financial institutions - current	854	3	1,522	
Financial accrued liabilities and deferred income - current	46		60	
Cash and cash equivalents	(2,058)		(270)	
Securities held for trading	(114)		(119)	
Financial receivables - current	(19)	(16)	(27)	
Financial accrued income and prepaid expenses - current	(18)		(7)	
Borrowings from banks and other financial institutions - non-current	795		1,382	
Payables to shareholders for capital reduction	826		–	
Net financial debt	**312**		**2,541**	
Financial receivables - non-current	(609)	(520)	(553)	(333)
Financial accrued income and prepaid expenses - non-current	(5)		(8)	
Total net financial (liquidity)/debt position	**(302)**		**1,980**	

The main nonrecurring events which had an impact on the net financial position are the following:

— proceeds, net of transaction costs, of Euros 3,323 million on the sale of the entire investment in Olimpia S.p.A.;

— reduction in share capital (Euros 826.3 million) which led to the recognition of a payable to shareholders;

— investments in funds and Baubecon by Pirelli & C. Real Estate (Euros 110.3 million);

— purchase of Pirelli & C. Real Estate S.p.A. shares (Euros 54.3 million);

— sale of Prysmian warrants to Goldman Sachs International (Euros 91 million).

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Head-quarters	Share Capital		% holding	Held by
Europe						
Austria						
ECOI-Immobilien Gmbh	Real Estate	Vienna	Euro	35,000	100.00%	Pirelli RE Residential Investments Gmbh
Pirelli Gmbh	Tyre	Vienna	Euro	726,728	100.00%	Pirelli Tyre (Europe) S.A.
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	100.00%	Pirelli Tyre (Europe) S.A.
Bulgaria						
Pirelli RE Bulgaria AD	Real Estate	Sofia	Bgn	50,000	75.00%	Pirelli RE Netherlands B.V.
France						
Facility Management France S.a.S.	Real Estate	Trappes	Euro	37,000	100.00%	Pirelli & C. Real Estate Facility Management S.p.A.
Gecam France S.a.S	Enviroment	Paris	Euro	750,000	70.00%	Pirelli & C. Ambiente Eco Technology S.p.A.
Pirelli Broadband Solutions France S.a.r.l.	Enviroment	Paris	Euro	10,000	99.00%	Pirelli Broadband Solutions S.p.A.
					1.00%	Maristel S.p.A.
Pneus Pirelli S.a.S	Tyre	Roissy en France	Euro	1,515,858	100.00%	Pirelli Tyre (Europe) S.A.
Germany						
Deutsche Pirelli Reifen Holding Gmbh	Financial	Breuberg/ Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre Holland N.V.
DGAG Grundstucksbeteiligung Gmbh	Real Estate	Kiel	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
DGAG Immobilien Management Gmbh	Real Estate	Amburg	Euro	5,150,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
DGAG Shopping Immobilien Gmbh	Real Estate	Amburg	Euro	153,400	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
DGAG Wohnungsbau Gmbh	Real Estate	Amburg	Euro	300,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Drahtcord Saar Geschaeftsfuehrungs Gmbh	Tyre	Merzig	Deut. Mark	60,000	50.00%	Pirelli Deutschland Gmbh
Drahtcord Saar Gmbh & Co. K.G.	Tyre	Merzig	Deut. Mark	30,000,000	50.00%	Pirelli Deutschland Gmbh
Driver Fleet Solution Gmbh	Tyre	Breuberg/ Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding Gmbh
Landgesellschaft Schleswig Holstein mbh	Real Estate	Kiel	Euro	27,500,000	18.36%	DGAG Grundstucksbeteiligung Gmbh
					46.16%	Landgesellschaft Schleswig Holstein mbh
Mertus Achtunddreissigste Gmbh	Real Estate	Frankfurt	Euro	25,000	80.00%	Pirelli RE Netherlands B.V.
Pirelli & C. Real Estate Deutschland Gmbh	Real Estate	Amburg	Euro	5,000,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Deutschland Gmbh	Tyre	Breuberg/ Odenwald	Euro	26,334,100	100.00%	Deutsche Pirelli Reifen Holding Gmbh
Pirelli Personal Service Gmbh	Tyre	Breuberg/ Odenwald	Euro	25,000	100.00%	Deutsche Pirelli Reifen Holding Gmbh
Pirelli RE Agency Deutschland Gmbh (ex- DGAG Wohnimmobilien Gmbh)	Real Estate	Kiel	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Asset Management NPL Deutschland Gmbh (ex-Pirelli RE Asset Management Gmbh)	Real Estate	Berlin	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh

Company	Business	Head-quarters	Share Capital		% holding	Held by
Pirelli RE Facility Management Deutschland Gmbh (ex- PSG Parkhaus Service Gmbh)	Real Estate	Amburg	Euro	25,600	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Hausmeister Service Deutschland Gmbh (ex- DGAG Hausmeister Service Gmbh)	Real Estate	Kiel	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Management Services Deutschland Gmbh (ex- DGAG Deutsche Grundvermoegen Management Services Gmbh)	Real Estate	Amburg	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Property Management Deutschland Gmbh (ex- WOBAU Wohnnungsverwaltung Gmbh)	Real Estate	Kiel	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Residential Investments Gmbh	Real Estate	Amburg	Euro	570,000	100.00%	Pirelli & C. Real Estate S.p.A.
PK Grundstueckverwaltung Gmbh	Tyre	Hoechst/ Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding Gmbh
Pneumobil Gmbh	Tyre	Breuberg/ Odenwald	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding Gmbh
Projekt Bahnhof Hamburg-Altona Verwaltungs Gmbh	Real Estate	Amburg	Euro	25,000	100.00%	Projektentwicklung Bahnhof Hamburg-Altona Gmbh & Co. KG
Projektentwicklung Bahnhof Hamburg-Altona Gmbh & Co. KG	Real Estate	Amburg	Euro	8,000,000	74.90%	Pirelli & C. Real Estate Deutschland Gmbh
Sechste Kajen 12 Verwaltungsgesellschaft mbh	Real Estate	Amburg	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
XENDA Vermögensverwal-tungsgesellschaft	Real Estate	Amburg	Deut. Mark	50,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Greece						
Driver Hellas S.A.	Tyre	Athens	Euro	60,000	99.99%	Elastika Pirelli S.A.
Elastika Pirelli S.A.	Tyre	Athens	Euro	1,192,000	99.90%	Pirelli Tyre (Europe) S.A.
					0.10%	Pirelli Tyre S.p.A
Pirelli Hellas S.A. (in liquidation)	Commercial	Athens	US $	22,050,000	79.86%	Pirelli Holding N.V. (ex- Pirelli Tyre Holding N.V.)
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre (Europe) S.A.
Ireland						
Pirelli Reinsurance Company Ltd	Reinsurance	Dublin	US $	7,150,000	100.00%	Pirelli Finance (Luxembourg) S.A.
Italy						
Acquario S.r.l. (in liquidation)	Real Estate	Genoa	Euro	255,000	100.00%	Pirelli & C. Real Estate S.p.A.
Alfa S.r.l.	Real Estate	Milan	Euro	2,600,000	100.00%	Pirelli & C. Real Estate S.p.A.
Beta S.r.l.	Real Estate	Milan	Euro	26,000	100.00%	Pirelli & C. Real Estate S.p.A.
Botticino S.r.l.	Real Estate	Milan	Euro	10,000	100.00%	Pirelli & C. Real Estate S.p.A.
Casaclick S.p.A.	Real Estate	Milan	Euro	299,000	100.00%	Pirelli & C. Real Estate Agency S.p.A.
Centrale Immobiliare S.p.A.	Real Estate	Milan	Euro	5,200,000	100.00%	Pirelli & C. Real Estate S.p.A.
Centro Servizi Amministrativi Pirelli S.r.l.	Services	Milan	Euro	51,000	34.00%	Pirelli & C. S.p.A.
					33.00%	Pirelli Tyre S.p.A
					33.00%	Pirelli & C. Real Estate S.p.A.
CFT Finanziaria S.p.A.	Real Estate	Florence	Euro	10,010,000	100.00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Head-quarters	Share Capital		% holding	Held by
Consorzio Sermagest - Servizi Manutentivi Gestionali	Real Estate	Turin	Euro	16,900	60.00%	Ingest Facility S.p.A.
Consorzio Stabile Pirelli RE Servizi (in liquidation)	Real Estate	Milan	Euro	200,000	100.00%	Pirelli & C. Real Estate Facility Management S.p.A.
Dolcetto sei S.r.l.	Real Estate	Milan	Euro	10,000	100.00%	Pirelli & C. Real Estate S.p.A.
Driver Italia S.p.A.	Commercial	Milan	Euro	350,000	73.07%	Pirelli Tyre S.p.A
Edilnord Gestioni S.p.A.	Real Estate	Milan	Euro	517,000	100.00%	Pirelli & C. Real Estate S.p.A.
Elle Uno Società Consortile a r.l.	Real Estate	Milan	Euro	100,000	80.00%	Edilnord Gestioni S.p.A.
Erato Finance S.r.l.	Real Estate	Milan	Euro	600,000	53.85%	Pirelli & C. Real Estate S.p.A.
Geolidro S.p.A.	Real Estate	Naples	Euro	3,099,096	100.00%	Centrale Immobiliare S.p.A.
Ingest Facility S.p.A.	Real Estate	Turin	Euro	1,700,000	100.00%	Pirelli & C. Real Estate Facility Management S.p.A.
Iniziative Immobiliari 3 S.r.l.	Real Estate	Milan	Euro	10,000	100.00%	Iniziative Immobiliari 3 B.V.
Lambda S.r.l.	Real Estate	Milan	Euro	578,760	100.00%	Pirelli & C. Real Estate S.p.A.
Maristel S.p.A.	Telecom-munications	Milan	Euro	1,020,000	100.00%	Pirelli Broadband Solutions S.p.A.
NewCo RE 1 S.r.l.	Real Estate	Milan	Euro	30,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 4 S.r.l.	Real Estate	Milan	Euro	10,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 5 S.r.l.	Real Estate	Milan	Euro	40,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 6 S.r.l.	Real Estate	Milan	Euro	40,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 7 S.r.l.	Real Estate	Milan	Euro	40,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 8 S.r.l.	Real Estate	Milan	Euro	40,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 9 S.r.l.	Real Estate	Milan	Euro	40,000	100.00%	Pirelli & C. Real Estate S.p.A.
P.I.T. - Promozione Imprese e Territorio S.C.r.l.	Real Estate	Pozzuoli (Na)	Euro	25,823	100.00%	Pirelli & C. Real Estate Facility Management S.p.A.
Parcheggi Bicocca S.r.l.	Real Estate	Milan	Euro	1,500,000	75.00%	Pirelli & C. Real Estate S.p.A.
PBS S.C a r.l.	Real Estate	Milan	Euro	100,000	60.00%	Pirelli & C. Real Estate Property Management S.p.A.
PGT Photonics S.p.A. (ex PGM S.r.l.)	Telecom-munications	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente Eco Technology S.p.A.	Enviroment	Arese (Mi)	Euro	17,120,000	100.00%	Pirelli & C. Eco Technology S.p.A.
Pirelli & C. Ambiente Renewable Energy S.p.A.	Enviroment	Milan	Euro	3,060,000	100.00%	Pirelli & C. Ambiente S.p.A.
Pirelli & C. Ambiente S.p.A.	Enviroment	Milan	Euro	6,120,000	51.00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente Site Remediation S.p.A.	Enviroment	Milan	Euro	155,700	100.00%	Pirelli & C. Ambiente S.p.A.
Pirelli & C. Eco Technology S.p.A.	Enviroment	Milan	Euro	120,000	51.00%	Pirelli & C. S.p.A.
Pirelli & C. Opere Generali S.p.A.	Real Estate	Milan	Euro	104,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Agency S.p.A.	Real Estate	Milan	Euro	832,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Energy S.r.l. (ex- Pirelli & C. Real Estate Energy S.p.A.)	Real Estate	Milan	Euro	120,000	100.00%	Pirelli & C. Real Estate Facility Management S.p.A.
Pirelli & C. Real Estate Facility Management S.p.A. (ex- NewCo RE 2 S.r.l.)	Real Estate	Milan	Euro	10,000	100.00%	Pirelli RE Integrated Facility Management B.V. (ex- Pirelli RE Facility Management Netherlands B.V.)
Pirelli & C. Real Estate Franchising Holding S.r.l.	Real Estate	Milan	Euro	120,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Franchising S.p.A.	Real Estate	Milan	Euro	500,000	100.00%	Pirelli & C. Real Estate Franchising Holding S.r.l.

Company	Business	Head-quarters	Share Capital		% holding	Held by
Pirelli & C. Real Estate Franchising Servizi Finanziari S.r.l.	Real Estate	Milan	Euro	10,000	100.00%	Pirelli & C. Real Estate Franchising Holding S.r.l.
Pirelli & C. Real Estate Opportunities Società di Gestione del Risparmio S.p.A.	Real Estate	Milan	Euro	1,000,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Property Management S.p.A.	Real Estate	Milan	Euro	114,400	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate S.p.A.	Real Estate	Milan	Euro	21,274,678	53.67%	Pirelli & C. S.p.A.
					3.05% (*)	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A.	Real Estate	Milan	Euro	24,458,763	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Broadband Solutions S.p.A.	Telecom-munications	Milan	Euro	10,120,000	100.00%	Pirelli & C. S.p.A.
Pirelli Cultura S.p.A.	Sundry	Milan	Euro	1,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Labs S.p.A.	Research and Development	Milan	Euro	10,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Sundry	Milan	Euro	384,642	100.00%	Pirelli & C. S.p.A.
Pirelli RE Credit Servicing S.p.A.	Real Estate	Milan	Euro	1,809,500	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Servizi Finanziari S.p.A.	Financial	Milan	Euro	1,976,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi informativi S.r.l.	Information Systems	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	256,820,000	61.06%	Pirelli & C. S.p.A.
Progetto Bicocca Università S.r.l.	Real Estate	Milan	Euro	50,360	50.50%	Pirelli & C. Real Estate S.p.A.
Progetto Lainate S.r.l. (in liquidation)	Real Estate	Milan	Euro	26,000	100.00%	Pirelli & C. Real Estate S.p.A.
Progetto Perugia S.r.l.	Real Estate	Milan	Euro	100,000	100.00%	Pirelli & C. Real Estate S.p.A.
Progetto Vallata S.r.l.	Real Estate	Milan	Euro	1,500,000	80.00%	Pirelli & C. Real Estate S.p.A.
					9.00%	Pirelli & C. Real Estate Facility Management S.p.A.
Pzero S.r.l.	Sundry	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
S.AN.GE S.c. a r.l.	Sundry	Milan	Euro	10,000	63.50%	Pirelli & C. Real Estate Facility Management S.p.A.
Sarca 222 S.r.l. (ex- Polo Viaggi S.r.l.)	Travel Agency	Milan	Euro	46,800	100.00%	Pirelli & C. S.p.A.
Servizi Amministrativi Real Estate S.p.A.	Real Estate	Milan	Euro	520,000	100.00%	Pirelli & C. Real Estate S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	90.25%	Pirelli & C. S.p.A.
					2.00%	Pirelli Tyre S.p.A
					2.00%	Pirelli & C. Real Estate S.p.A.
					1.00%	Sarca 222 S.r.l. (ex- Polo Viaggi S.r.l.)
					0.95%	Centro Servizi Amministrativi Pirelli S.r.l.
					0.95%	Pirelli Broadband Solution S.p.A.
					0.95%	Pirelli Labs S.p.A.
					0.95%	Pirelli Servizi Informativi S.r.l.
					0.95%	Pzero S.r.l.
SIB S.r.l. (ex-Servizi Immobiliari Banche S.r.l.)	Real Estate	Milan	Euro	10,100	100.00%	Pirelli RE Credit Servicing S.p.A.

* No voting rights

Company	Business	Head-quarters	Share Capital		% holding	Held by
Luxembourg						
Pirelli Finance (Luxembourg) S.A.	Financial	Luxemburg	Euro	270,228,168	100.00%	Pirelli & C. S.p.A.
Mistral RE S.à.r.l.	Real Estate	Luxemburg	Euro	12,500	100.00%	Pirelli & C. Real Estate S.p.A.
Sigma RE S.à.r.l.	Real Estate	Luxemburg	Euro	12,500	100.00%	Pirelli RE Netherlands B.V.
Poland						
Driver Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	100,000	72.00%	Pirelli Polska Sp.ZO.O.
Ingest Facility Polska Sp.ZO.O.	Real Estate	Grazynskiego	Pol. Zloty	500,000	100.00%	Ingest Facility S.p.A.
Pirelli Pekao Real Estate Sp.ZO.O.	Real Estate	Warsaw	Pol. Zloty	35,430	75.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre (Europe) S.A.
Romania						
Pirelli & C. Ambiente Eco Technology RO S.A.	Enviroment	Bumbesti	Rom. Leu	100,000	95.00%	P.A.E.T. B.V.
					5.00%	Pirelli & C. Ambiente Eco Technology S.p.A.
Pirelli RE Romania S.A.	Real Estate	Bucarest	Rom. Leu	90,000	80.00%	Pirelli RE Netherlands B.V.
S.C. Cord Romania S.R.L.	Tyre	Slatina	Rom. Leu	36,492,150	80.00%	Pirelli Tyre Holland N.V.
S.C. Pirelli Tyres Romania S.R.L.	Tyre	Slatina	Rom. Leu	77,169,800	95.00%	Pirelli Tyre Holland N.V.
					5.00%	Pirelli Tyre S.p.A
Russia						
OOO Pirelli Tyre Russia	Commercial	Moscow	Russian Rouble	50,485,259	95.00%	Pirelli Tyre (Europe) S.A.
					5.00%	Pirelli Tyre Holland N.V.
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Slov. Koruna	200,000	100.00%	Pirelli Tyre (Europe) S.A.
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	780,000	25.00%	Pirelli Neumaticos S.A.
					26.15%	Proneus S.L.
Omnia Motor S.A.	Tyre	Barcelona	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A.
Pirelli Neumaticos S.A.	Tyre	Barcelona	Euro	45,075,908	100.00%	Pirelli Tyre Holland N.V.
Proneus S.L.	Tyre	Barcelona	Euro	3,005	100.00%	Pirelli Neumaticos S.A.
Tyre & Fleet S.L.	Tyre	Barcelona	Euro	20,000	100.00%	Pirelli Neumaticos S.A.
Sweden						
Pirelli Tyre Nordic A.B.	Tyre	Bromma	Swed. Krona	950,000	100.00%	Pirelli Tyre (Europe) S.A.
Switzerland						
Agom S.A.	Tyre	Conthey	Swiss Franc	50,000	80.00%	Pirelli Tyre (Europe) S.A.
Agom S.A. Bioggio	Tyre	Bioggio	Swiss Franc	590,000	100.00%	Pirelli Tyre (Europe) S.A.
Pirelli Société de Services S.à r.l.	Financial	Basel	Swiss Franc	50,000	100.00%	Pirelli Tyre (Europe) S.A.
Pirelli Société Générale S.A.	Financial	Basel	Swiss Franc	28,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Europe) S.A.	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre Holland N.V.
The Netherlands						
Iniziative immobiliari 3 B.V.	Real Estate	Amsterdam	Euro	4,500,000	100.00%	Pirelli & C. Real Estate S.p.A.
Omicron RE B.V.	Real Estate	Amsterdam	Euro	18,000	100.00%	Pirelli RE Netherlands B.V.
P.A.E.T. B.V.	Enviroment	Amsterdam	Euro	18,000	100.00%	Pirelli & C. Ambiente Eco Technology S.p.A.
Pirelli China Tyre N.V.	Tyre	Heinenoord	Euro	8,045,000	100.00%	Pirelli Tyre Holland N.V.
Pirelli Holding N.V. (ex- Pirelli Tyre Holding N.V.)	Holding Company	Heinenoord	Euro	60,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli RE Agency Netherlands B.V.	Real Estate	Amsterdam	Euro	18,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli RE Integrated Facility Management B.V. (ex- Pirelli RE Facility Management Netherlands B.V.)	Real Estate	Amsterdam	Euro	18,000	51.00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Head-quarters	Share Capital		% holding	Held by
Pirelli RE Netherlands B.V.	Real Estate	Amsterdam	Euro	21,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli RE Property Management Netherlands B.V.	Real Estate	Amsterdam	Euro	18,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Tyre Holland N.V.	Tyre	Heinenoord	Euro	3,045,000	100.00%	Pirelli Tyre S.p.A
Pirelli Tyres Nederland B.V.	Tyre	Heinenoord	Euro	18,152	100.00%	Pirelli Tyre (Europe) S.A.
Sigma RE B.V.	Real Estate	Amsterdam	Euro	18,000	100.00%	Pirelli RE Netherlands B.V.
Sipir Finance N.V.	Financial	Heinenoord	Euro	13,021,222	100.00%	Pirelli & C. S.p.A.
Valeratofin B.V.	Real Estate	Amsterdam	Euro	18,000	100.00%	Pirelli RE Netherlands B.V.
Turkey						
Celikord A.S.	Tyre	Istanbul	Turk. Lira/mil	29,000,000	50.733%	Pirelli Tyre Holland N.V.
					0.27%	Pirelli Tyre S.p.A
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turk. Lira/mil	140,000,000	69.44%	Pirelli Tyre Holland N.V.
					0.15%	Pirelli Tyre S.p.A
United Kingdom						
Central Tyre Ltd	Tyre	London	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
CPK Auto Products Ltd	Tyre	London	British Pound	10,000	100.00%	Pirelli UK Tyres Ltd
CTC 1994 Ltd	Tyre	London	British Pound	984	100.00%	Central Tyre Ltd
Pirelli International Ltd	Financial	London	Euro	250,000,000	75.00%	Pirelli UK Tyre Holding Ltd
					25.00%	Pirelli Tyre S.p.A
Pirelli Tyres Ltd	Tyre	London	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli UK Finance	Financial	London	British Pound	-	100.00%	Pirelli UK Ltd
Pirelli UK Ltd	Financial Holding Company	London	British Pound	97,161,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyre Holding Ltd	Holding Company	London	British Pound	96,331,000	100.00%	Pirelli Tyre Holland N.V.
Pirelli UK Tyres Ltd	Tyre	London	British Pound	85,000,000	75.00%	Pirelli UK Tyre Holding Ltd
					25.00%	Pirelli Tyre S.p.A
North America						
Canada						
Pirelli Tire Inc.	Tyre	Frederic Town (New Brunswich)	Can. $	6,000,000	100.00%	Pirelli Tyre (Europe) S.A.
U.S.A.						
Pirelli Broadband Solutions North America Inc.	Telecom-munications	Wilmington (Delaware)	US $	1	100.00%	Pireli Broadband Solutions S.p.A.
Pirelli North America Inc.	Tyre	Atlanta	US $	10	100.00%	Pirelli Tyre Holland N.V.
Pirelli Tire LLC	Tyre	Wilmington (Delaware)	US $	1	100.00%	Pirelli North America Inc.
Central/South America						
Argentina						
Pirelli Argentina de Mandatos S.A.	Services	Buenos Aires	Arg. Peso	5,230,009	76.48%	Pirelli & C. S.p.A.
					23.52%	Pirelli Société Générale S.A.
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	101,325,176	95.00%	Pirelli Tyre Holland N.V.
					5.00%	Pirelli Tyre S.p.A
Brazil						
Commercial e Importadora de Pneus Ltda (ex- Pneuac Comercial e Importadora Ltda)	Tyre	Sao Paulo	Bra. Real	12,913,526	100.00%	Pirelli Pneus Ltda (ex-Pirelli Pneus S.A.)
Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda	Financial	Santo Andrè	Bra. Real	80,000,000	100.00%	Pirelli Pneus Ltda (ex-Pirelli Pneus S.A.)
Pirelli & C. Real Estate Ltda	Real Estate	Santo Andrè	Bra. Real	2,000,000	100.00%	Pirelli Ltda (ex- Pirelli S.A.)
Pirelli Ltda (ex- Pirelli S.A.)	Financial	Sao Paulo	Bra. Real	49,189,271	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda (ex- Pirelli Pneus S.A.)	Tyre	Feira de Santana	Bra. Real	341,145,811	100.00%	Pirelli Tyre S.p.A
Pirelli Pneus Nordeste Ltda	Tyre	Feira de Santana	Bra. Real	29,991,402	100.00%	Pirelli Pneus Ltda (ex-Pirelli Pneus S.A.)

Company	Business	Head-quarters	Share Capital		% holding	Held by
TLM - Total Logistic Management Serviços de Logistica Ltda (ex- Novacorp Consultora e Serviços Corporativos Ltda)	Holding Company	Santo Andrè	Bra. Real	6,000	99.98%	Pirelli Pneus Ltda (ex-Pirelli Pneus S.A.)
					0.02%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
Chile						
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	Chile Peso	1,918,451	99.98%	Pirelli Pneus Ltda (ex-Pirelli Pneus S.A.)
					0.02%	Commercial e Importadora de Pneus Ltda (ex- Pneuac Comercial e Importadora Ltda)
Colombia						
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso /000	3,315,069	92.91%	Pirelli Pneus Ltda (ex-Pirelli Pneus S.A.)
					2.28%	Pirelli de Venezuela C.A.
					1.60%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
					1.60%	Pirelli Pneus Nordeste Ltda
					1.60%	Commercial e Importadora de Pneus Ltda (ex- Pneuac Comercial e Importadora Ltda)
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Mexico City	Mex Peso.	35,098,400	99.98%	Pirelli Pneus Ltda (ex-Pirelli Pneus S.A.)
					0.02%	Commercial e Importadora de Pneus Ltda (ex- Pneuac Comercial e Importadora Ltda)
Servicios Pirelli Mexico S.A. de C.V.	Tyre	Mexico City	Mex Peso.	50,000	99.00%	Pirelli Pneus Ltda (ex-Pirelli Pneus S.A.)
					1.00%	Commercial e Importadora de Pneus Ltda (ex- Pneuac Comercial e Importadora Ltda)
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	20,062,679	96.22%	Pirelli Tyre Holland N.V.
Africa						
Egypt						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egv. Pound	393,000,000	89.08%	Pirelli Tyre S.p.A
					0.03%	Pirelli Tyre (Europe) S.A.
International Tire Company Ltd	Tyre	Alexandria	Egv. Pound	50,000	99.80%	Alexandria Tire Company S.A.E.
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Sandton	S.A. Rand	1	100.00%	Pirelli Tyre (Europe) S.A.
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Pymble N.S.W.	Aus. $	150,000	100.00%	Pirelli Tyre (Europe) S.A.
New Zealand						
Pirelli Tyres (NZ) Ltd	Tyre	Wellington	N.Z. $	100	100.00%	Pirelli Tyres Australia Pty Ltd
Asia						
China						
Pirelli Scientific and Technological Consulting (Shangai) Co. Ltd	Tyre	Shangai	US $	200,000	100.00%	Pirelli China Tyre N.V.
Pirelli Tyre Co. Ltd	Tyre	Yanzhou	China Renmimbi	800,000,000	75.00%	Pirelli China Tyre N.V.
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2,700,000,000	100.00%	Pirelli Tyre Holland N.V.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. $	2	100.00%	Pirelli Tyre (Europe) S.A.

INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Company	Business	Head-quarters	Share Capital		% holding	Held by
Europe						
Germany						
Beteiligungsgesellschaft Einkaufszentrum Mülheim Gmbh	Real Estate	Amburg	Euro	31,000	41.17%	Pirelli & C. Real Estate Deutschland Gmbh
City Center Mülheim Grundstücksgesellschaft mbh & Co. KG	Real Estate	Amburg	Euro	25,684,000	41.17%	Pirelli & C. Real Estate Deutschland Gmbh
Einkaufszentrum Mülheim Gmbh & Co. KG	Real Estate	Amburg	Euro	26,075,856	41.18%	Pirelli & C. Real Estate Deutschland Gmbh
Einkaufszentrum Mülheim KG	Real Estate	Amburg	Euro	18,884,000	41.17%	Pirelli & C. Real Estate Deutschland Gmbh
Gatus 372. Gmbh	Real Estate	Berlin	Euro	25,000	40.00%	Pirelli RE Residential Investment Gmbh
Grundstücksgesellschaft Merkur Hansaallee mbh & Co. KG	Real Estate	Amburg	Euro	22,905,876	33.75%	Pirelli & C. Real Estate Deutschland Gmbh
Industriekraftwerk Breuberg Gmbh	Cogeneration	Hoechst/ Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland Gmbh
Kurpromenade 12 Timmendorfer Strand Grundstucksgesellschaft mbh & Co. KG	Real Estate	Amburg	Euro	6,237,761	50.00%	Pirelli & C. Real Estate Deutschland Gmbh
Möller & Company Gmbh & Co. KG	Real Estate	Amburg	Euro	100,000	40.00%	Pirelli & C. Real Estate Deutschland Gmbh
Möller & Company Verwaltungsgesellschaft mbh	Real Estate	Amburg	Euro	25,000	40.00%	Pirelli & C. Real Estate Deutschland Gmbh
Resident Berlin 1 P&K Gmbh	Real Estate	Berlin	Euro	125,000	40.00%	Pirelli RE Residential Investments Gmbh
SCM Finanzierungsberatungs-gesellschaft mbh	Real Estate	Amburg	Euro	25,000	50.00%	Pirelli & C. Real Estate Deutschland Gmbh
Tizian Wohnen 1 Gmbh	Real Estate	Berlin	Euro	1,114,400	40.00%	Pirelli RE Residential Investments Gmbh
Tizian Wohnen 2 Gmbh	Real Estate	Berlin	Euro	347,450	40.00%	Pirelli RE Residential Investments Gmbh
Verwaltung Büro - und Lichtspielhaus Hansaallee Gmbh	Real Estate	Amburg	Euro	50,000	27.00%	Pirelli & C. Real Estate Deutschland Gmbh
					20.00%	Grundstücksgesellschaft Merkur Hansaallee mbh & Co. KG
Verwaltung City Center Mülheim Grundstucksgesellschaft mbh	Real Estate	Amburg	Euro	31,000	41.17%	Pirelli & C. Real Estate Deutschland Gmbh
Verwaltung Kurpromenade 12 Timmendorfer Strand Grundstucksgesellschaft mbh & Co. KG	Real Estate	Amburg	Euro	25,565	50.00%	Pirelli & C. Real Estate Deutschland Gmbh
Verwaltung Mercado Ottensen Grundstuecksgesellschaft mbh	Real Estate	Amburg	Euro	25,565	44.00%	Pirelli RE Netherlands B.V.
					50.00%	Mistral Real Estate B.V.
Italy						
Altair Zander Italia S.r.l.	Real Estate	Milan	Euro	100,000	50.00%	Pirelli & C. Real Estate Facility Management S.p.A.
Aree Urbane S.r.l.	Real Estate	Milan	Euro	307,717	34.60%	Pirelli & C. Real Estate S.p.A.
					0.28%	Pirelli & C. S.p.A.
Bresso Energia S.r.l.	Real Estate	Bresso (Mi)	Euro	10,000	50.00%	Pirelli & C. Real Estate Facility S.p.A.
Cairoli Finance S.r.l.	Real Estate	Milan	Euro	10,000	35.00%	Pirelli & C. Real Estate S.p.A.
Capitol Immobiliare S.r.l.	Real Estate	Milan	Euro	10,000	33.00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Head-quarters	Share Capital		% holding	Held by
Castello S.r.l.	Real Estate	Milan	Euro	1,170,000	49.10%	Pirelli & C. Real Estate S.p.A.
Consorzio ARP (in liquidation)	Real Estate	Rome	Euro	130,000	41.30%	Pirelli & C. Real Estate Property Management S.p.A.
Continuum S.r.l.	Real Estate	Milan	Euro	500,000	40.00%	Pirelli & C. Real Estate S.p.A.
Dixia S.r.l.	Real Estate	Milan	Euro	2,500,000	30.00%	Pirelli & C. Real Estate S.p.A.
Elle Dieci Società Consortile a.r.l.	Real Estate	Milan	Euro	100,000	40.00%	Pirelli & C. Real Estate Property Management S.p.A.
Elle Tre Società Consortile a.r.l.	Real Estate	Milan	Euro	100,000	40.00%	Pirelli & C. Real Estate Property Management S.p.A.
Erice S.r.l.	Real Estate	Milan	Euro	10,000	40.00%	Pirelli & C. Real Estate S.p.A.
Eurostazioni S.p.A.	Holding	Rome	Euro	160,000,000	32.71%	Pirelli & C. S.p.A.
Fattoria Medicea S.r.l.	Real Estate	Prato (Fi)	Euro	100,000	40.00%	Pirelli & C. Real Estate S.p.A.
Finprema S.r.l.	Real Estate	Milan	Euro	10,000	35.00%	Pirelli & C. Real Estate S.p.A.
G6 Advisor	Real Estate	Milan	Euro	50,000	42.30%	Pirelli & C. Real Estate Agency S.p.A.
Galatea S.r.l. (in liquidation)	Real Estate	Milan	Euro	10,000	30.00%	Pirelli & C. Real Estate S.p.A.
Golfo Aranci S.p.A. - Società di Trasformazione Urbana	Real Estate	Golfo Aranci (Ot)	Euro	1,000,000	43.80%	Pirelli & C. Real Estate S.p.A.
					1.20%	Pirelli & C. Real Estate Facility Management S.p.A.
					5.00%	Centrale Immobiliare S.p.A.
Idea Granda Società Consortile r.l.	Enviroment	Cuneo	Euro	1,292,500	49.00%	Pirelli & C. Ambiente Renewable Energy S.p.A.
Immobiliare Prizia S.r.l.	Real Estate	Milan	Euro	469,000	36.00%	Pirelli & C. Real Estate S.p.A.
Induxia S.r.l.	Real Estate	Milan	Euro	836,300	18.00%	Pirelli & C. Real Estate S.p.A.
Iniziative Immobiliari S.r.l.	Real Estate	Gavirate (Va)	Euro	5,000,000	49.46%	Pirelli & C. Real Estate S.p.A.
Le Case di Capalbio S.r.l.	Real Estate	Milan	Euro	10,000	20.00%	Pirelli & C. Real Estate S.p.A.
Localto ReoCo S.r.l.	Real Estate	Milan	Euro	10,000	35.00%	Pirelli & C. Real Estate S.p.A.
Malaspina Energy S.c. a r.l.	Real Estate	Milan	Euro	100,000	50.00%	Pirelli & C. Real Estate Facility Management S.p.A.
Maro S.r.l.	Real Estate	Milan	Euro	20,000	25.00%	Pirelli & C. Real Estate S.p.A.
Masaccio S.r.l.	Real Estate	Milan	Euro	100,000	40.00%	Pirelli & C. Real Estate S.p.A.
MP Facility S.p.A.	Real Estate	Milan	Euro	1,000,000	50.00%	Pirelli & C. Real Estate Facility Management S.p.A.
Orione Immobiliare Prima S.p.A.	Real Estate	Milan	Euro	104,000	40.10%	Pirelli & C. Real Estate S.p.A.
Perseo S.r.l.	Services	Milan	Euro	20,000	50.00%	Pirelli & C. S.p.A.
Progetto Bicocca la Piazza S.r.l.	Real Estate	Milan	Euro	3,151,800	26.00%	Pirelli & C. Real Estate S.p.A.
Progetto Corsico S.r.l.	Real Estate	Milan	Euro	100,000	49.00%	Pirelli & C. Real Estate S.p.A.
Progetto Fontana S.r.l. (in liquidation)	Real Estate	Milan	Euro	10,000	23.00%	Pirelli & C. Real Estate S.p.A.
Progetto Gioberti S.r.l.	Real Estate	Milan	Euro	100,000	50.00%	Pirelli & C. Real Estate S.p.A.
Progetto Nuovo Sant'Anna S.r.l.	Real Estate	Milan	Euro	3,000,000	49.50%	Pirelli & C. Real Estate Facility Management S.p.A.
Quadrifoglio Milano S.p.A.	Real Estate	Rome	Euro	11,230,000	50.00%	Pirelli & C. Real Estate S.p.A.
Resi S.r.l.	Real Estate	Milan	Euro	10,000	25.00%	Pirelli & C. Real Estate S.p.A.
Rinascente/Upim S.r.l.	Real Estate	Rozzano (Mi)	Euro	10,000	20.00%	Pirelli & C. Real Estate S.p.A.
Riva dei Ronchi S.r.l.	Real Estate	Carrara	Euro	100,000	35.00%	Pirelli & C. Real Estate S.p.A.
Roca S.r.l.	Real Estate	Milan	Euro	20,000	25.00%	Pirelli & C. Real Estate S.p.A.
S.AN.CO S.c. a r.l.	Real Estate	Milan	Euro	10,000	37.50%	Pirelli & C. Real Estate Facility Management S.p.A.
Serenergy S.r.l.	Enviroment	Milan	Euro	25,500	50.00%	Pirelli & C. Ambiente Renewable Energy S.p.A.
SI.MA.GEST2 S.c. a r.l.	Real Estate	Turin	Euro	50,000	30.00%	Ingest Facility S.p.A.
Solaris S.r.l.	Real Estate	Milan	Euro	20,000	40.00%	Pirelli & C. Real Estate S.p.A.
Solar Utility S.p.A.	Enviroment	Milan	Euro	4,000,000	50.00%	Pirelli & C. Ambiente S.p.A.
Tamerice Immobiliare S.r.l.	Real Estate	Milan	Euro	500,000	20.00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Head-quarters	Share Capital		% holding	Held by
Telepost S.p.A.	Real Estate	Milan	Euro	120,000	20.00%	Pirelli & C. Real Estate Facility Management S.p.A.
Trixia S.r.l.	Real Estate	Milan	Euro	1,209,700	36.00%	Pirelli & C. Real Estate S.p.A.
Turismo e Immobiliare S.p.A.	Real Estate	Milan	Euro	120,000	33.30%	Pirelli & C. Real Estate S.p.A.
Vesta Finance S.r.l.	Real Estate	Milan	Euro	10,000	35.00%	Pirelli & C. Real Estate S.p.A.
Waterfront Flegreo S.p.A.	Real Estate	Milan	Euro	500,000	35.00%	Pirelli & C. Real Estate S.p.A.
Luxembourg						
Afrodite S.à r.l.	Real Estate	Luxembourg	Euro	4,129,475	40.00%	Pirelli & C. Real Estate S.p.A.
Alimede Luxembourg S.à.r.l.	Real Estate	Luxembourg	Euro	12,945	35.00%	Pirelli & C. Real Estate S.p.A.
Alnitak S.à r.l.	Real Estate	Luxembourg	Euro	4,452,500	35.00%	Pirelli & C. Real Estate S.p.A.
Artemide S.à r.l.	Real Estate	Luxembourg	Euro	2,857,050	35.00%	Pirelli & C. Real Estate S.p.A.
Austin S.à.r.l.	Real Estate	Luxembourg	Euro	125,000	28.46%	Pirelli & C. Real Estate S.p.A.
Bicocca S.à r.l.	Real Estate	Luxembourg	Euro	12,500	35.00%	Pirelli & C. Real Estate S.p.A.
Colombo S.à r.l.	Real Estate	Luxembourg	Euro	960,150	35.00%	Pirelli & C. Real Estate S.p.A.
Dallas S.à.r.l.	Real Estate	Luxembourg	Euro	125,000	28.46%	Pirelli & C. Real Estate S.p.A.
Delamain S.à r.l.	Real Estate	Luxembourg	Euro	12,500	49.00%	Pirelli & C. Real Estate S.p.A.
Doria S.à r.l.	Real Estate	Luxembourg	Euro	992,850	35.00%	Pirelli & C. Real Estate S.p.A.
European NPL S.A.	Real Estate	Luxembourg	Euro	2,486,174	33.00%	Pirelli & C. Real Estate S.p.A.
IN Holdings I S.à r.l.	Real Estate	Luxembourg	Euro	4,595,725	20.50%	Pirelli & C. Real Estate S.p.A.
Inimm Due S.à r.l.	Real Estate	Luxembourg	Euro	240,950	25.00%	Pirelli & C. Real Estate S.p.A.
Nashville S.à.r.l.	Real Estate	Luxembourg	Euro	125,000	28.46%	Pirelli & C. Real Estate S.p.A.
Sicily Investments S.à.r.l.	Real Estate	Luxembourg	Euro	12,500	40.00%	Pirelli & C. Real Estate S.p.A.
Solaia RE S.à.r.l.	Real Estate	Luxembourg	Euro	12,500	35.00%	Pirelli & C. Real Estate S.p.A.
Trinacria Capital S.à.r.l.	Real Estate	Luxembourg	Euro	12,500	40.00%	Pirelli & C. Real Estate S.p.A.
Trinoro S.à r.l.	Real Estate	Luxembourg	Euro	30,000	35.00%	Pirelli & C. Real Estate S.p.A.
Vespucci S.à r.l.	Real Estate	Luxembourg	Euro	960,150	35.00%	Pirelli & C. Real Estate S.p.A.
Portugal						
Espelha - Serviços de Consultadoria Lda	Real Estate	Madeira	Euro	5,000	49.00%	Pirelli & C. Real Estate S.p.A.
Romania						
SC Eco Anvelope S.A.	Tyre	Bucarest	Ron	160,000	20.00%	S.C. Pirelli Tyres Romania S.R.L.
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200,000	20.00%	Pireli Neumaticos S.A.
The Netherlands						
Aida RE B.V.	Real Estate	Amsterdam	Euro	18,000	40.00%	Pirelli RE Netherlands B.V.
Alceo B.V.	Real Estate	Amsterdam	Euro	18,000	33.00%	Pirelli & C. Real Estate S.p.A.
Gamma RE B.V.	Real Estate	Amsterdam	Euro	18,000	49.00%	Pirelli RE Netherlands B.V.
M.S.M.C. Italy Holding B.V.	RE Holding	Amsterdam	Euro	20,000	25.00%	Pirelli & C. Real Estate S.p.A.
Masseto 1 B.V.	Real Estate	Amsterdam	Euro	19,000	33.00%	Pirelli & C. Real Estate S.p.A.
Max B.V.	Real Estate	Amsterdam	Euro	18,000	45.00%	Pirelli & C. Real Estate S.p.A.
Mistral Real Estate B.V.	Real Estate	Amsterdam	Euro	18,000	35.00%	Pirelli & C. Real Estate S.p.A.
Polish Investments Real Estate Holding B.V.	RE Holding	Amsterdam	Euro	20,000	40.00%	Pirelli & C. Real Estate S.p.A.
Polish Investments Real Estate Holding II B.V.	RE Holding	Amsterdam	Euro	18,000	40.00%	Pirelli & C. Real Estate S.p.A.
Popoy Holding B.V.	RE Holding	Amsterdam	Euro	26,550	25.00%	Pirelli & C. Real Estate S.p.A.
S.I.G. RE B.V.	Real Estate	Amsterdam	Euro	18,000	36.70%	Pirelli RE Netherlands B.V.
SI Real Estate Holding B.V. (ex- Spazio Industriale B.V.)	RE Holding	Amsterdam	Euro	763,077	25.00%	Pirelli & C. Real Estate S.p.A.
Theta RE B.V.	Real Estate	Amsterdam	Euro	18,005	40.00%	Pirelli RE Netherlands B.V.
North America						
U.S.A.						
Sci Roev Texas Partners L.P.	Real Estate	Dallas	US $	12,000,000	10.00%	Pirelli & C. Real Estate S.p.A.
Central/South America						
Argentina						
Lineas de Transmision de Buenos Aires S.A. (in liquidation)	Services	Buenos Aires	Arg. Peso	12,000	20.00%	Pirelli Argentina de Mandatos S.A.

OTHER INVESTMENTS CONSIDERED SIGNIFICANT AS PER CONSOB RESOLUTION NO. 11971 OF MAY 14,1999

Company	Business	Head-quarters	Share Capital		% holding	Held by
Belgium						
Euroqube S.A. (in liquidation)	Services	Brussels	Euro	84,861,116	17.79%	Pirelli & C. S.p.A.
France						
Aliapur S.A.	Tyre	Lion	Euro	262,500	14.29%	Pirelli Tyre S.p.A
Germany						
Elbflorenz Hotelgesellschaft mbh & Co. KG	Real Estate	Amburg	Euro	28,223,312	19.00%	Pirelli & C. Real Estate Deutschland Gmbh
Verwaltung Elbflorenz Hotelgesellschaft mbh	Real Estate	Amburg	Deut. Mark	60,000	19.00%	Pirelli & C. Real Estate Deutschland Gmbh
Hungary						
HUREC Tyre Recycling Non-Profit Company	Tyre	Budapest	Hun. Forint	50,000,000	17.00%	Pirelli Hungary Tyre Trading and Services Ltd
Italy						
Fin. Priv. S.r.l.	Financial	Milan	Euro	20,000	14.29%	Pirelli & C. S.p.A.
Tecnocittà S.r.l. (in liquidation)	Real Estate	Milan	Euro	547,612	12.00%	Pirelli & C. Real Estate S.p.A.
Poland						
Centrum Utylizacji Opon Otganizacja Odzyseu S.A.	Tyre	Warsaw	Pol. Zloty	1,008,000	14.29%	Pirelli Polska Sp. ZO.O.
The Netherlands						
MB Venture Capital Fund I Participating Company G N.V.	Financial	Amsterdam	Euro	50,000	14.00%	Pirelli Finance (Luxembourg) S.A.
Spazio Investment N.V.	Real Estate	Amsterdam	Euro	6,096,020	14.91%	Pirelli RE Netherlands B.V.
Tunisia						
Société Tunisienne des Industries de Pnéumatiques S.A.	Tyre	Tunis	Tun. Dinar	42,078,240	15.83%	Pirelli Tyre S.p.A
United Kingdom						
Tlcom I Ltd Partnership	Financial	London	Euro	1,204	10.40%	Pirelli Finance (Luxembourg) S.A.
U.S.A.						
Avanex Corporation	Telecom-munications	Fremont	US $	226,793,103	12.48%	Pirelli Finance (Luxembourg) S.A.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO ART. 81-TER OF CONSOB REGULATION 11971 OF MAY 14, 1999, WITH AMENDMENTS AND ADDITIONS

1. We, the undersigned, Marco Tronchetti Provera, Chairman of the board of directors, and Claudio De Conto – Operations General Manager and Manager responsible for the preparation of the financial reports of the company, Pirelli & C. S.p.A., attest, taking into account the provisions of art. 154 bis, paragraphs 3 and 4, of Legislative Decree 58 dated February 24, 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application,

of the administrative and accounting procedures used in the preparation of the consolidated financial statements for the year ended December 31, 2007.

2. To this end, there have been no situations of particular interest in terms of operations or strategies to report nor have there been any problems and/or anomalies noted also in relation to what was stated above.

3. We also certify that the consolidated financial statements:

a) agree with the accounting records and entries;

b) have been prepared in accordance with the international accounting standards issued by the International Accounting Standards Board adopted by the European Commission according to the procedure indicated in art. 6 of EC Regulation 1606/2002 of the European Parliament and the European Council on July 19, 2002 as well as in compliance with art. 9 of Legislative Decree 38/2005, to our knowledge, and are suitable for providing a true and fair view of the financial condition, results of operations and cash flows of the company and the aggregate of the companies included in consolidation.

March 26, 2008

The Chairman of the Board of Directors di Amministrazione	Manager responsible for the preparation of the financial reports of the company
Marco Tronchetti Provera	Claudio De Conto

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE N° 58 DATED 24 FEBRUARY 1998

To the Shareholders of
Pirelli & C. SpA

1 We have audited the consolidated financial statements of Pirelli & C. SpA and its subsidiaries ("Pirelli & C. Group"), consisting of the balance sheet, income statement, statement of recognised income and expense, cash flow statement and the related notes as of and for the year ended 31 December 2007. These financial statements are the responsibility of Pirelli & C. SpA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the reasonable assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated 5 April 2007.

3 In our opinion, the consolidated financial statements of Pirelli & C. Group comply with International Financial Reporting Standards as adopted by the European Union and with Italian regulation implementing the provisions of article 9 of Law Decree n. 38/2005; accordingly, they give a true and fair view of the financial position as of 31 December 2007, and of the results of operations, the income and expense recognised in equity and cash flows of Pirelli & C. Group for the year then ended.

Milan, 9 April 2008

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

(This report has been translated from the original version which was issued in accordance with Italian legislation. References in this report to the Financial Statements refer to the Financial Statements in original Italian and not to their translation)

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P. IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel. 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 0817644441 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Manzoni 16 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 – **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel. 0458002561

Extraordinary session

Directors' Report pursuant to ministerial

decree no. 437 of November 5, 1998 and article 72, first paragraph,
of Consob Regulation no. 11971 of May 14, 1999, as subsequently amended.

Amendment to articles 7 (Shareholders' Meeting), 10 (Administration) and 16 (Board of Statutory Auditors) of the By-laws of the Company. Related and consequent resolutions. Granting of powers.

1. REASONS OF THE PROPOSAL TO AMEND THE BY-LAWS OF THE COMPANY

Dear Shareholders,

We have convened you, also in extraordinary meeting, to submit you the proposal to approve certain amendments to the By-laws of the Company, that are mostly aimed at conforming the By-laws to the provisions of Legislative Decree no. 58 of February 24, 1998 ("Unified Financial Act"), as subsequently amended by Legislative Decree no. 195 of November 6, 2007.

The main amendment proposals concern:

— the modification of the timing for calling the ordinary shareholders' meeting, in order to make it compliant with the timing provided under article 154-ter of the Unified Financial Act;

— the inclusion of a mechanism aimed at ensuring the appointment of the minimum number of independent Directors required by the current regulation.

Further amendments have been proposed aimed at providing a more clear interpretation of the document also considering the interpretive opinions developed in the course of time.

The following paragraphs show in details how the above mentioned amendments affect the relevant articles of the By-laws.

Article 7 (Shareholders' Meeting)

A formal amendment to Article 7 of the By-laws is proposed in order to make explicit that the report on the requests for the integration of the agenda of the shareholders' meeting, submitted by the Shareholders in accordance with the Law, shall be written by same Shareholders.

A further proposed amendment to article 7 is aimed at making the By-laws compliant with the new provision of article 154-ter of the Unified Financial Act. Paragraph 1 of said article (as amended by the above mentioned Legislative Decree no. 195 of November 6, 2007, implementing the Directive 2004/109/CE on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market) provides that:

"*Without prejudice to the terms of article 2429 of the Civil Code and article 156, paragraph 5, within one hundred and twenty days of the end of the financial year, listed issuers with Italy as home member state shall approve the statutory financial statements and issue the annual financial report containing the company financial statements, the consolidated financial statements, where applicable, and the directors' report and the declaration pursuant to article 154-bis paragraph 5. The auditor reports pursuant to article 156 shall be published in full with the annual financial report*".

Therefore, the Company, being a listed issuer, cannot benefit anymore from the possibility, provided for by the second paragraph of article 2364 of the Italian Civil Code, to derogate the one-hundred-and-twenty-day term within which the annual financial statements must be approved by the Shareholders' Meeting.

Consequently, it is hereby proposed to delete from the By-laws the provision concerning the possibility to call the ordinary Shareholders' Meeting for the approval of the annual financial statements within one hundred and eighty days of the end of the financial year, where special circumstances make this necessary and subject to the indication of the reasons for the delay in the management report enclosed to the annual financial statements.

Article 10 (Administration)

It is hereby proposed to amend article 10 in order to provide that, if the slate voting system does not consent the appointment of the minimum number of the independent Directors required by the Law, the appointed non-independent candidate indicated with the higher progressive number in the slate which has obtained the higher number of votes, shall be replaced by the non appointed independent candidate included in the same slate on the basis of the progressive order of the presentation and so on, slate by slate, until the minimum number of independent Directors are appointed.

The amendment is essentially aimed at ensuring that the procedure for the appointment of the Directors – i.e. the slate voting system – assures that the minimum number of independent Directors required by the applicable Law (article 147-ter, par. 4, of the Unified Financial Act) is actually appointed.

Again with respect to the independent Directors, it is proposed to amend article 10 in order to clarify and make clear the consequences arising if a Director cease to comply with the independence requirements: in order to avoid any potential interpretative doubt, it is proposed to expressly state that in the event a Director cease to comply with the above mentioned requirements, he/she does not cease to be a Director provided that the Directors in office that comply with the independence requirements provided by the law are a number at least equal to the minimum number requested by the Law applicable from time to time.

Article 16 (Board of Statutory Auditors)

The first merely formal amendment is aimed at making explicit in the By-laws that the deadline for the submission of the slates of the candidates for the appointment of the members of the Board of Statutory Auditors is extended in the circumstances provided by the regulation and/or by the law.

The amendment also considers the provision of Consob Regulation no. 11971 of May 14, 1999 ("Issuers Regulation"), recently modified. Article 144-sexies, paragraph 5 sets forth, in fact, that: "*If only one slate or only slates submitted by shareholders, who, in accordance with article 144-quinquies, result to be affiliated to each other, have been filed as at the expiring date of the time limit specified in paragraph 4*[1]*, further slates may be submitted up to the fifth day after that date [.....]*"

The second amendment, which is again merely formal, is aimed at improving the By-laws by using a word ("minority" slate), which is already defined in the previous paragraph of the same article.

Two clarifications and explanations are finally made concerning the principle of "required minority representation" under the new article 144-sexies, paragraph 12, of the Issuers Regulation, expressly providing that the mentioned principle is complied with in the event a Statutory Auditor, which was not a candidate by the so-called "majority slate", is actually appointed and specifying that "minorities" are those to which the By-laws ensure the right to take part to the appointment of the Board of the Statutory Auditors.

2. COMPARATIVE DESCRIPTION OF THE ARTICLES OF THE BY-LAWS THAT ARE PROPOSED TO BE AMENDED.

The comparison between the current text of the articles of the By-laws that are proposed to be amended with the text submitted to Your approval is included in the proposal of resolution hereinbelow.

3. EVALUATIONS OF THE BOARD OF DIRECTORS CONCERNING THE POSSIBLE OCCURRENCE OF THE WITHDRAWAL RIGHT.

The Board of Directors does not believe that the above mentioned amendments to the By-laws shall imply that the Shareholders are entitled to exercise the withdrawal right pursuant to article 2437 of the Italian Civil Code.

Proposal of resolution

On the basis of the above, the Board of Directors submits to Your approval the following proposal of resolution:

"The extraordinary Shareholders' Meeting of Pirelli & C. S.p.A.,
— having considered the Directors' Report on the proposal of amendments to articles 7 (Shareholders' Meeting), 10 (Administration) and 16 (Board of Statutory Auditors) of the By-laws of the Company;

1 Article 144-sexies (Appointment of the minority Statutory Auditors with the slating vote)
"4. The slates shall be filed at the Company's registered office at least fifteen days before the date set for the shareholders' meeting called to resolve upon the appointment of the Statutory Auditors, together with: [....]

RESOLVES

1. to amend articles 7, 10 and 16 of the By-laws of Pirelli & C. S.p.A., as follows:

CURRENT TEXT	PROPOSED TEXT
SHAREHOLDERS' MEETING	SHAREHOLDERS' MEETING
Article 7	Article 7
The calling of shareholders' meetings, which may be held anywhere in Italy, including in a place other than the Company's registered office, the right to attend meetings and representation at same are all regulated by law and by these By-laws. The notice of the call of an extraordinary shareholders' meeting may provide for it being held on third call. Shareholders for which the Company has received the documentation pursuant to art. 2370, paragraph 2, of the Italian Civil Code, at least two days prior to the date set for each meeting shall be entitled to attend shareholders' meetings. The ordinary shareholders' meeting must be called within 120 days or, where special circumstances make this necessary, within 180 days of the end of the Company's financial year; if the meeting is called within 180 days, the directors shall give the reasons for the delay in the directors' report included in the year-end financial statements.	The calling of shareholders' meetings, which may be held anywhere in Italy, including in a place other than the Company's registered office, the right to attend meetings and representation at same are all regulated by law and by these By-laws. The notice of the call of an extraordinary shareholders' meeting may provide for it being held on third call. Shareholders for which the Company has received the documentation pursuant to art. 2370, paragraph 2, of the Italian Civil Code, at least two days prior to the date set for each meeting shall be entitled to attend shareholders' meetings. The ordinary shareholders' meeting must be called within 120 days after the end of the Company's financial year.
Requests to add items to the agenda of the general meetings presented by shareholders in accordance with the law must be detailed by a report to be filed in the Company's registered office in time to be made available to the other shareholders and at least 10 days prior to the date set for the meeting on first call.	Requests to add items to the agenda of the general meetings presented by shareholders in accordance with the law must be detailed, **by the same shareholders**, by a report to be filed in the Company's registered office in time to be made available to the other shareholders and at least 10 days prior to the date set for the meeting on the first call.
Special meetings of savings shareholders shall be convened by the common representative of savings shareholders or by the Board of Directors of the Company whenever they deem necessary or in accordance with law.	Special meetings of savings shareholders shall be convened by the common representative of savings shareholders or by the Board of Directors of the Company whenever they deem necessary or in accordance with the law.

CURRENT TEXT

ADMINISTRATION OF THE COMPANY

Article 10

The Company shall be managed by a Board of Directors composed of no less than seven and no more than twenty three members who shall remain in office for three financial years (unless the shareholders' meeting establishes a shorter term at the time of their appointment) and may be re-elected.
The shareholders' meeting shall establish the number of members of the Board of Directors, which shall remain unchanged until said meeting resolves otherwise.
The Board of Directors shall be appointed on the basis of slates presented by the shareholders pursuant to the following paragraphs hereof, in which the candidates are listed by consecutive number.
The slates presented by the shareholders, which must be undersigned by the parties submitting them, shall be filed at the Company's registered office, and be available to anyone on request, at least fifteen days before the date set for the shareholders' meeting to be held on first call.
Each shareholder may present or take part in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.
Only shareholders who, alone or together with other shareholders, hold a total number of shares representing at least 2 percent of the share capital entitled to vote at the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa, are entitled to submit slates, subject to their proving ownership of the number of shares needed for the presentation of slates within the term of filing of same slates.
Together with each slate, and within the respective terms specified above, statements must be filed in which the individual candidates agree to their nomination and attest, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet any requisites prescribed for the positions.
Together with such statements, a curriculum vitae must be filed for each candidate, setting out their relevant personal and professional data and mentioning the offices held in management and supervisory bodies of other companies and specifying,

PROPOSED TEXT

ADMINISTRATION OF THE COMPANY

Article 10

The Company shall be managed by a Board of Directors composed of no less than seven and no more than twenty three members who shall remain in office for three financial years (unless the shareholders' meeting establishes a shorter term at the time of their appointment) and may be re-elected.
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Only shareholders who, alone or together with other shareholders, hold a total number of shares representing at least 2 percent of the share capital entitled to vote at the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa, are entitled to submit slates, subject to their proving ownership of the number of shares needed for the presentation of slates within the term of filing of same slates.
Together with each slate, and within the respective terms specified above, statements must be filed in which the individual candidates agree to their nomination and attest, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet any requisites prescribed for the positions.
Together with such statements, a curriculum vitae must be filed for each candidate, setting out their relevant personal and professional data and mentioning the offices held in management and supervisory bodies of other companies and specifying,

CURRENT TEXT

where appropriate, the grounds on which they qualify as an independent candidate in accordance with the criteria established by law and the Company.
Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.
Any slates submitted without complying with the foregoing provisions shall be disregarded.
Each person entitled to vote may vote for only one slate.

The Board of Directors shall be elected as specified below:

a. four-fifths of the directors to be elected shall be chosen from the slate which obtains the highest number of votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it shall be rounded-down to the nearest whole number;

b. the remaining directors shall be chosen from the other slates; to this end, the votes obtained by the various slates shall be divided by whole progressive numbers from one up to the number of directors to be elected.
The quotients thus obtained shall be assigned to the candidates on each slate in the order they are respectively listed thereon. On the basis of the quotients assigned, the candidates on the various slates shall be ranked in a single list in decreasing order. Those who have obtained the highest quotient shall be elected.
If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected a director or that has elected the lowest number of directors shall be elected. If none of such slates has as yet elected a director or they have all elected the same number of directors, the candidate from the slate which obtained the highest number of votes shall be elected. If the different slates obtain the same number of votes and their candidates are assigned the same quotients, a new vote shall be held by the entire shareholders' meeting and the candidate who obtains the simple majority of the votes shall be elected.

PROPOSED TEXT

where appropriate, the grounds on which they qualify as an independent candidate in accordance with the criteria established by law and the Company.
Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.
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The quotients thus obtained shall be assigned to the candidates on each slate in the order they are respectively listed thereon. On the basis of the quotients assigned, the candidates on the various slates shall be ranked in a single list in decreasing order. Those who have obtained the highest quotient shall be elected.
If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected a director or that has elected the lowest number of directors shall be elected.
If none of such slates has as yet elected a director or they have all elected the same number of directors, the candidate from the slate which obtained the highest number of votes shall be elected. If the different slates obtain the same number of votes and their candidates are assigned the same quotients, a new vote shall be held by the entire shareholders' meeting and the candidate who obtains the simple majority of the votes shall be elected.

CURRENT TEXT	PROPOSED TEXT
	If the application of the slate voting system shall not ensure the appointment of the minimum number of independent Directors required by the law and/or regulation, the appointed non-independent candidate indicated with the higher progressive number in the slate which has obtained the higher number of votes shall be replaced by the non-appointed independent candidate included in the same slate on the basis of the progressive order of the presentation and so on, slate by slate, until the minimum number of independent Directors shall be appointed.
When appointing directors who, for whatsoever reason were not appointed under the procedure established herein, the shareholders' meeting shall vote on the basis of the majorities required by law.	When appointing directors who, for whatsoever reason were not appointed under the procedure established herein, the shareholders' meeting shall vote on the basis of the majorities required by law.
If one or more vacancies occur on the Board during the course of the financial year, the procedure established in article 2386 of the Italian Civil Code shall be followed.	If one or more vacancies occur on the Board during the course of the financial year, the procedure established in article 2386 of the Italian Civil Code shall be followed.
	In the event a Director cease to comply with the independence requirements, this does not cause his/her ceasing to be a Director provided that the Directors in office complying with legal independence requirements are a number at least equal to the minimum number requested by laws and/or regulations.
The Board of Directors shall elect its own Chairman, if the shareholders' meeting has not already done so, and may also appoint one or more Deputy Chairmen.	The Board of Directors shall elect its own Chairman, if the shareholders' meeting has not already done so, and may also appoint one or more Deputy Chairmen.
In the absence of the Chairman, a Deputy Chairman or a Managing Director, in that order, shall act in his/her stead; should there be two or more Deputy Chairmen or Managing Directors, the Board shall be presided over by the elder of same respectively.	In the absence of the Chairman, a Deputy Chairman or a Managing Director, in that order, shall act in his/her stead; should there be two or more Deputy Chairmen or Managing Directors, the Board shall be presided over by the elder of same respectively.
The Board of Directors shall appoint a Secretary, who need not be a director.	The Board of Directors shall appoint a Secretary, who need not be a director.
Until the shareholders' meeting resolves otherwise, the directors shall not be subject to the prohibition contemplated in article 2390 of the Italian Civil Code.	Until the shareholders' meeting resolves otherwise, the directors shall not be subject to the prohibition contemplated in article 2390 of the Italian Civil Code.

CURRENT TEXT

BOARD OF STATUTORY AUDITORS

Article 16

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.
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.
The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of the third-to-last paragraph of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.
Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.
Shareholders who, alone or together with other shareholders, represent at least 2 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.
Each shareholder may present or take part in the presentation of only one slate.
The slates of candidates, which must be undersigned by the parties submitting them, shall be filed in the Company's registered office and be available to anyone on request, at least fifteen days prior to the date set for the shareholders' meeting to be held on first call.

Without limitation to any further documentation required by applicable rules, including any regulatory provisions, a personal

PROPOSED TEXT

BOARD OF STATUTORY AUDITORS

Article 16

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.
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.
The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of the third-to-last paragraph of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.
Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.
Shareholders who, alone or together with other shareholders, represent at least 2 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.
Each shareholder may present or take part in the presentation of only one slate.
The slates of candidates, which must be undersigned by the parties submitting them, shall be filed in the Company's registered office and be available to anyone on request, at least fifteen days prior to the date set for the shareholders' meeting to be held on first call **except for those cases in which the law and/or the regulation provide an extension of the deadline.**
Without limitation to any further documentation required by applicable rules, including any regulatory provisions, a personal

CURRENT TEXT	PROPOSED TEXT
and professional curriculum, mentioning also the offices held in management and supervisory bodies of other companies, of the individuals standing for election must be enclosed with the slates together with statements in which the individual candidates agree to their nomination and attest, 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.	and professional curriculum, mentioning also the offices held in management and supervisory bodies of other companies, of the individuals standing for election must be enclosed with the slates together with statements in which the individual candidates agree to: — their nomination — attest, 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. Any slates submitted without complying with the foregoing provisions shall be disregarded. Each candidate may appear on only one slate, on pain of ineligibility. 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. Each person entitled to vote may vote for only one slate. The Board of Statutory Auditors shall be elected as specified below:	Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company. Any slates submitted without complying with the foregoing provisions shall be disregarded. Each candidate may appear on only one slate, on pain of ineligibility. 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. Each person entitled to vote may vote for only one slate. 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;	**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 the shareholders attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.	**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 the shareholders attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

CURRENT TEXT

The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the slate mentioned in point b) of the paragraph above.

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.

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.

The principle of necessary representation of minorities shall be considered complied with in the event of the appointment of the alternate member drawn from the minority slates who has replaced a standing member drawn from the same slate.

In case only one slate has been presented, the shareholders' meeting shall vote on it; if the slate obtains the relative majority, 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

PROPOSED TEXT

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

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.

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.**

In case only one slate has been presented, the shareholders' meeting shall vote on it; if the slate obtains the relative majority, 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

CURRENT TEXT	PROPOSED TEXT
slate shall be appointed as Chairman of the Board of Statutory Auditors. 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. Outgoing members of the Board of Statutory Auditors may be re-elected to office. 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.	slate shall be appointed as Chairman of the Board of Statutory Auditors. 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. Outgoing members of the Board of Statutory Auditors may be re-elected to office. 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.

2. to grant to the Board of Directors – and, on its behalf, to the Chairman and the Vice-Chairman, severally – any necessary power to accomplish all formalities required in order to file the approved resolutions with the Companies Register, also accepting and reflecting in such resolutions any amendment, addition or deletion, in form and in substance, possibly requested by the competent Authorities."

The Board of Directors
Milan, March 26, 2008

The By Laws of the Company is written in full hereinbelow with the comparison between the current text and the proposed one.

CURRENT TEXT	PROPOSED TEXT
NAME – PURPOSE – REGISTERED OFFICE – DURATION	**NAME – PURPOSE – REGISTERED OFFICE- DURATION**
Article 1	**Article 1**
A joint-stock company has been incorporated under the name *Pirelli & C. Società per Azioni* or, in abbreviated form, *Pirelli & C. S.p.A.*.	UNCHANGED
Article 2	**Article 2**
The Company's purpose shall be: **a.** the acquisition of equity interests in other companies or corporations, both in Italy and abroad; **b.** the financing and the technical and financial coordination of the companies or corporations in which it holds interests; **c.** the sale and purchase, ownership, management and/or placement of both government and private securities; The company may carry out all operations of any type whatsoever - excluding any activities reserved by law - connected to its corporate purpose.	UNCHANGED
Article 3	**Article 3**
The registered office of the Company shall be in Milan.	UNCHANGED
Article 4	**Article 4**
The duration of the company shall be until December 31, 2100. The extension of the term of duration does not award the right of withdrawal to shareholders who do not take part in the approval of the relating resolution.	UNCHANGED

CURRENT TEXT

SHARE CAPITAL

Article 5

The Company shall have a subscribed and paid-in share capital of Euros 1,556,692,865.28 (onebillionfivehundredand-fiftysixmillions sixhundredandninetytwot-housandsheighthundred- sixtyfivepoint-twentyeight) divided into no. 5,367,906,432 (fivebillionsthreehundredsixtyseven-millions-
Ninehundredandsixthousands fourhun-dredandthirtytwo) shares with a par value of Euros 0.29 (twentynine cents) each, consisting of 5,233,142,003 (fivebillions-twohundredandthirtythreemillions onehundredandfourtytwothousandsand three) ordinary shares and 134,764,429 (onehundredandthirtyfourmillions seven-hundredandsixtyfourthousands- fourhun-dredandtwentynine) savings shares.
In resolutions to increase the share capital by issuing shares against payment, pre-emption rights may be excluded for up to a maximum of ten percent of the previously existing capital, provided that the issue price corresponds to the market value of the shares and that this is confirmed in a specific report prepared by the firm ap-pointed to audit the accounts.
If so resolved by the shareholders' meet-ing, the share capital may also be increased by means of contributions in kind or of receivables.
By resolution of the extraordinary share-holders' meeting held on May 7, 2003, the directors were authorised to issue, on one or more occasions within April 30, 2008, up to a maximum of 100,000,000 (one hundred million) ordinary shares, to be allocated to executive managers and cadres employed by the Company, by its subsidiaries and by the subsidiaries of the latter, in Italy and abroad, in compliance with article 2441, paragraph 8, of the Italian Civil Code and article 134 of Legislative Decree no. 58/1998. On February 25, 2005 the Board of Directors resolved, in partial implementa-tion of the authorisation granted to it by the extraordinary shareholders' meeting held on May 7, 2003, to increase the share capital by a maximum nominal amount of Euros 15,725,496.50 by issuing up to 54,225,850 ordinary
shares with a par value of Euros 0.29 each, at a price of Euros 0.996 per share, inclu-

PROPOSED TEXT

SHARE CAPITAL

Article 5

UNCHANGED

sive of a Euros 0.706 share premium, to be reserved for subscription by executive managers and cadres employed by the Company, by its subsidiaries and by the latter's subsidiaries, in Italy and abroad.
By resolution of the extraordinary shareholders' meeting held on May 11, 2004, the directors were authorised to increase the share capital against payment, on one or more occasions and within May 10, 2009, by a total maximum nominal amount of Euros 600 million, with or without a share premium, by issuing up to a maximum of 2,068,965,517 ordinary shares against payment, to be offered on option to shareholders and convertible bondholders, with the possibility of excluding pre-emption rights, in compliance with the combined provisions of article 2441, last paragraph, of the Italian Civil Code and article 134, paragraph 2, of Legislative Decree no. 58/1998, if the shares are offered for subscription by the employees of Pirelli & C. S.p.A. and/or its subsidiaries.
By resolution of the extraordinary shareholders' meeting held on May 11, 2004, the directors were authorised to issue, on one or more occasions within May 10, 2009, bonds that are convertible into ordinary and/or savings shares, or that carry warrants valid for the subscription of said shares, to be offered on option to shareholders and convertible bondholders, corresponding to a total maximum nominal amount of Euros 1,000 million within the limits permitted each time under the laws in force, with the ensuing eventual increase of the share capital to back the conversion of the bonds and/or exercise of the warrants.
The resolutions passed by the Board of Directors to increase the share capital during the exercise of the rights allocated as described above shall set the share subscription price (inclusive of any share premium) as well as the specific term for the subscription of the shares: they may also provide that, if the capital increase resolved is not fully subscribed by the date set for this purpose, the capital shall be increased by an amount corresponding to the subscriptions received up to such date.

CURRENT TEXT

Article 6

The shares are divided into ordinary shares and savings shares.
Ordinary shares award the right to one vote per share; they may be either registered or bearer shares insofar as the law permits, and in this case may be converted from one type to the other, especially at the shareholder's request and expense.
Savings shares do not carry voting rights and, unless the law provides otherwise, are bearer shares.
They may be converted into registered shares on request and expense of the shareholder.
As well as any rights and privileges provided for by law and in other parts of these By-laws, savings shares shall have priority in the repayment of the capital up to their entire par value; in the event of a reduction of the share capital due to losses, the par value of saving shares will be reduced only by the amount of the loss that exceeds the total par value of the other shares.
Savings shares shall retain the rights and privileges contemplated by law and by these Bylaws also in the event that the Company's ordinary and/or savings shares are delisted.
In the event of a share capital increase being carried out by issuing shares of only one class, such shares must be offered on option to the holders of all classes of shares.
In the event of both ordinary and savings shares being issued:

a. the holders of ordinary shares shall be entitled to receive an option on ordinary shares, and on savings shares to make up any difference;
b. the holders of savings shares shall be entitled to receive an option on savings shares, and on ordinary shares to make up any difference.

Any introduction or removal of restrictions on the circulation of shares does not award the right of withdrawal to shareholders who do not take part in the approval of the relating resolution.
The savings shareholders' organisation is governed by law and by these By-laws. The expenses related to the organisation of the special savings shareholders meetings and the remuneration of the common representatives of savings shareholders shall be borned by the Company.

PROPOSED TEXT

Article 6

UNCHANGED

CURRENT TEXT

SHAREHOLDERS' MEETING

Article 7

The calling of shareholders' meetings, which may be held anywhere in Italy, including in a place other than the Company's registered office, the right to attend meetings and representation at same are all regulated by law and by these By-laws.
The notice of the call of an extraordinary shareholders' meeting may provide for it being held on third call.
Shareholders for which the Company has received the documentation pursuant to art. 2370, paragraph 2, of the Italian Civil Code, at least two days prior to the date set for each meeting shall be entitled to attend shareholders' meetings.
The ordinary shareholders' meeting must be called within 120 days or, where special circumstances make this necessary, within 180 days of the end of the Company's financial year; if the meeting is called within 180 days, the directors shall give the reasons for the delay in the directors' report included in the year-end financial statements.

Requests to add items to the agenda of the general meetings presented by shareholders in accordance with the law must be detailed by a report to be filed in the Company's registered office in time to be made available to the other shareholders and at least 10 days prior to the date set for the meeting on first call.
Special meetings of savings shareholders shall be convened by the common representative of savings shareholders or by the Board of Directors of the Company whenever they deem necessary or in accordance with law.

PROPOSED TEXT

SHAREHOLDERS' MEETING

Article 7

The calling of shareholders' meetings, which may be held anywhere in Italy, including in a place other than the Company's registered office, the right to attend meetings and representation at same are all regulated by law and by these By-laws.
The notice of the call of an extraordinary shareholders' meeting may provide for it being held on third call.
Shareholders for which the Company has received the documentation pursuant to art. 2370, paragraph 2, of the Italian Civil Code, at least two days prior to the date set for each meeting shall be entitled to attend shareholders' meetings.
The ordinary shareholders' meeting must be called within 120 days after the end of the Company's financial year.

Requests to add items to the agenda of the general meetings presented by shareholders in accordance with the law must be detailed, **by the same shareholders**, by a report to be filed in the Company's registered office in time to be made available to the other shareholders and at least 10 days prior to the date set for the meeting on the first call.
Special meetings of savings shareholders shall be convened by the common representative of savings shareholders or by the Board of Directors of the Company whenever they deem necessary or in accordance with the law.

CURRENT TEXT

Article 8

The due constitution of shareholders' meetings and the validity of the resolutions adopted by same are governed by law.
The proceedings of shareholders meetings are governed by law, by these By-laws, and – solely for the ordinary and extraordinary general meetings – by the Rules of Proceeding approved by resolution of the Company's ordinary shareholders meeting.

Article 9

Ordinary and extraordinary shareholders' meetings shall be chaired by the Chairman of the Board of Directors, by a Deputy Chairman or by a Managing Director, in that order; whenever there are two or more Deputy Chairmen or Managing Directors, the meetings will be chaired by the elder of same respectively. In the absence of all of the aforementioned individuals, the meeting shall be chaired by another person elected with the favourable vote of the majority of the capital represented at the meeting.
The special meeting for savings shareholders shall be chaired by the common representative for savings shareholders or, in his absence, by the person appointed with the favourable vote of the majority of the capital represented at the meeting.
The Chairman shall be assisted by a Secretary who is to be appointed with the favourable vote of the majority of the capital represented at the meeting and need not be a shareholder; there is no need to appoint a Secretary when a notary public is designated to draw up the minutes of the meeting.
The Chairman of the shareholders' meeting shall chair the meeting and govern its proceedings in compliance with the law and these By-laws. To this end, the Chairman shall, amongst other things: verify that the meeting is duly constituted; ascertain the identity of those present and their right to attend, including by proxy; ascertain the legal quorum for passing resolutions; direct the business, including by establishing a different order for the discussion of the items listed on the agenda in the notice convening the meeting. The Chairman shall also take appropriate measures to ensure the orderly conduct of discussions and votes and shall establish the procedures

PROPOSED TEXT

Article 8

UNCHANGED

Article 9

UNCHANGED

CURRENT TEXT	PROPOSED TEXT
and ascertain the results thereof. The resolutions of shareholders' meetings shall be recorded in the minutes that must be signed by the Chairman of the meeting and by the Secretary or the notary public. The minutes of extraordinary shareholders' meetings must be drawn up by a notary public appointed by the Chairman of the meeting. Any copies of and extracts from minutes that have not been drawn up by a notary public shall be certified as true copies by the Chairman of the Board of Directors.	

CURRENT TEXT

ADMINISTRATION OF THE COMPANY

Articolo 10

The Company shall be managed by a Board of Directors composed of no less than seven and no more than twenty three members who shall remain in office for three financial years (unless the shareholders' meeting establishes a shorter term at the time of their appointment) and may be re-elected.
The shareholders' meeting shall establish the number of members of the Board of Directors, which shall remain unchanged until said meeting resolves otherwise.
The Board of Directors shall be appointed on the basis of slates presented by the shareholders pursuant to the following paragraphs hereof, in which the candidates are listed by consecutive number.
The slates presented by the shareholders, which must be undersigned by the parties submitting them, shall be filed at the Company's registered office, and be available to anyone on request, at least fifteen days before the date set for the shareholders' meeting to be held on first call.
Each shareholder may present or take part in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.
Only shareholders who, alone or together with other shareholders, hold a total number of shares representing at least 2 percent of the share capital entitled to vote at the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa, are entitled to submit slates, subject to their proving ownership of the number of shares needed for the presentation of slates within the term of filing of same slates.
Together with each slate, and within the respective terms specified above, statements must be filed in which the individual candidates agree to their nomination and attest, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet any requisites prescribed for the positions. Together with such statements, a curriculum vitae must be filed for each candidate, setting out their relevant personal and professional data and mentioning the offices held in management and supervisory bodies of other companies and specifying, where appropri-

PROPOSED TEXT

ADMINISTRATION OF THE COMPANY

Article 10

The Company shall be managed by a Board of Directors composed of no less than seven and no more than twenty three members who shall remain in office for three financial years (unless the shareholders' meeting establishes a shorter term at the time of their appointment) and may be re-elected.
The shareholders' meeting shall establish the number of members of the Board of Directors, which shall remain unchanged until said meeting resolves otherwise.
The Board of Directors shall be appointed on the basis of slates presented by the shareholders pursuant to the following paragraphs hereof, in which the candidates are listed by consecutive number.
The slates presented by the shareholders, which must be undersigned by the parties submitting them, shall be filed at the Company's registered office, and be available to anyone on request, at least fifteen days before the date set for the shareholders' meeting to be held on first call.
Each shareholder may present or take part in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.
Only shareholders who, alone or together with other shareholders, hold a total number of shares representing at least 2 percent of the share capital entitled to vote at the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa, are entitled to submit slates, subject to their proving ownership of the number of shares needed for the presentation of slates within the term of filing of same slates.
Together with each slate, and within the respective terms specified above, statements must be filed in which the individual candidates agree to their nomination and attest, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet any requisites prescribed for the positions.
Together with such statements, a curriculum vitae must be filed for each candidate, setting out their relevant personal and professional data and mentioning the offices held in management and supervisory bodies of other companies and specifying,

CURRENT TEXT

ate, the grounds on which they qualify as an independent candidate in accordance with the criteria established by law and the Company.
Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.
Any slates submitted without complying with the foregoing provisions shall be disregarded.
Each person entitled to vote may vote for only one slate.
The Board of Directors shall be elected as specified below:

a. four-fifths of the directors to be elected shall be chosen from the slate which obtains the highest number of votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it shall be rounded-down to the nearest whole number;

b. the remaining directors shall be chosen from the other slates; to this end, the votes obtained by the various slates shall be divided by whole progressive numbers from one up to the number of directors to be elected.
The quotients thus obtained shall be assigned to the candidates on each slate in the order they are respectively listed thereon. On the basis of the quotients assigned, the candidates on the various slates shall be ranked in a single list in decreasing order. Those who have obtained the highest quotient shall be elected.
If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected a director or that has elected the lowest number of directors shall be elected. If none of such slates has as yet elected a director or they have all elected the same number of directors, the candidate from the slate which obtained the highest number of votes shall be elected. If the different slates obtain the same number of votes and their candidates are assigned the same quotients, a new vote shall be held by the entire shareholders' meeting and the candidate who obtains the simple majority of the votes shall be elected.

PROPOSED TEXT

where appropriate, the grounds on which they qualify as an independent candidate in accordance with the criteria established by law and the Company.
Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.
Any slates submitted without complying with the foregoing provisions shall be disregarded.
Each person entitled to vote may vote for only one slate.
The Board of Directors shall be elected as specified below:

a. four-fifths of the directors to be elected shall be chosen from the slate which obtains the highest number of votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it shall be rounded-down to the nearest whole number;

b. the remaining directors shall be chosen from the other slates; to this end, the votes obtained by the various slates shall be divided by whole progressive numbers from one up to the number of directors to be elected.
The quotients thus obtained shall be assigned to the candidates on each slate in the order they are respectively listed thereon. On the basis of the quotients assigned, the candidates on the various slates shall be ranked in a single list in decreasing order. Those who have obtained the highest quotient shall be elected.
If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected a director or that has elected the lowest number of directors shall be elected.
If none of such slates has as yet elected a director or they have all elected the same number of directors, the candidate from the slate which obtained the highest number of votes shall be elected. If the different slates obtain the same number of votes and their candidates are assigned the same quotients, a new vote shall be held by the entire shareholders' meeting and the candidate who obtains the simple majority of the votes shall be elected.

CURRENT TEXT	PROPOSED TEXT
	If the application of the slate voting system shall not ensure the appointment of the minimum number of independent Directors required by the law and/or regulation, the appointed non-independent candidate indicated with the higher progressive number in the slate which has obtained the higher number of votes shall be replaced by the non-appointed independent candidate included in the same slate on the basis of the progressive order of the presentation and so on, slate by slate, until the minimum number of independent Directors shall be appointed.
When appointing directors who, for whatsoever reason were not appointed under the procedure established herein, the shareholders' meeting shall vote on the basis of the majorities required by law.	When appointing directors who, for whatsoever reason were not appointed under the procedure established herein, the shareholders' meeting shall vote on the basis of the majorities required by law.
If one or more vacancies occur on the Board during the course of the financial year, the procedure established in article 2386 of the Italian Civil Code shall be followed.	If one or more vacancies occur on the Board during the course of the financial year, the procedure established in article 2386 of the Italian Civil Code shall be followed.
	In the event a Director cease to comply with the independence requirements, this does not cause his/her ceasing to be a Director provided that the Directors in office complying with legal independence requirements are a number at least equal to the minimum number requested by laws and/or regulations.
The Board of Directors shall elect its own Chairman, if the shareholders' meeting has not already done so, and may also appoint one or more Deputy Chairmen.	The Board of Directors shall elect its own Chairman, if the shareholders' meeting has not already done so, and may also appoint one or more Deputy Chairmen.
In the absence of the Chairman, a Deputy Chairman or a Managing Director, in that order, shall act in his/her stead; should there be two or more Deputy Chairmen or Managing Directors, the Board shall be presided over by the elder of same respectively.	In the absence of the Chairman, a Deputy Chairman or a Managing Director, in that order, shall act in his/her stead; should there be two or more Deputy Chairmen or Managing Directors, the Board shall be presided over by the elder of same respectively.
The Board of Directors shall appoint a Secretary, who need not be a director.	The Board of Directors shall appoint a Secretary, who need not be a director.
Until the shareholders' meeting resolves otherwise, the directors shall not be subject to the prohibition contemplated in article 2390 of the Italian Civil Code.	Until the shareholders' meeting resolves otherwise, the directors shall not be subject to the prohibition contemplated in article 2390 of the Italian Civil Code.

CURRENT TEXT	PROPOSED TEXT
Article 11	**Article 11**
The Board of Directors shall conduct the management of the company and is accordingly vested with the broadest powers of administration, except for those remitted by law or by these By-laws to the authority of the shareholders' meeting. Within the limits established by law, the Board of Directors shall be authorised to decide on the merger of companies in Pirelli & C. S.p.A. or de-merger in favour of Pirelli & C. S.p.A of companies in which Pirelli & C. S.p.A. owns at least 90 percent of the shares or quotas, the reduction of the share capital in the event of the withdrawal of shareholders, the revision of the By-laws to conform with statutory provisions, the relocation of the Company's registered office within Italy, and the opening and closing of branch offices. The Board of Directors and the Board of Statutory Auditors shall be kept informed, also by corporate bodies with delegated powers, on the activities carried out, the general performance of operations and their foreseeable development, and the transactions of greatest economic, financial and equity-related significance concluded by the Company or its subsidiaries; in particular, said corporate bodies with delegated powers shall report on transactions in which they have an interest, directly or on behalf of third parties, or that are influenced by the party that performs management and coordination activities, if any. Such reports shall be made promptly, on a quarterly basis at the least, in a written memorandum. In accordance with the established times and procedures for disclosing information to the market, the representative of the holders of savings shares must be informed by the Board of Directors or by the persons delegated for such purpose about any corporate events that might affect the price of the shares in that class. In the context of the management of the Company, the Board of Directors shall be authorised to delegate those powers which it deems appropriate to one or more of its members, possibly with the title of Managing Director, and grant them the single or joint signature powers it decides appropriate to establish. It may also delegate its powers to an Execu-	UNCHANGED

tive Committee composed of some of its own members, whose remuneration shall be established by the shareholders' meeting.
It may also establish one or more committees with consulting and propositional functions,
also for purposes of adjusting the corporate governance structure in line with the recommendations issued from time to time by the pertinent authorities.
The Board of Directors shall appoint - with the consent of the Board of Statutory Auditors - the manager responsible for preparing the Company's financial reports. His office shall expire at the same time as that of the Board of Directors that appointed him/her, unless annulment for good cause, with the consent of the Board of Statutory Auditors.
The manager responsible for preparing the Company's financial reports must be an expert on administration, finances and auditing of companies and satisfy the integrity qualifications required to be a directors. Failing of such qualifications shall determine the termination of the office to be resolved by the Board of Directors within thirty days since the acknowledgement of the defect.
Lastly, the Board may appoint general managers, deputy general managers, managers and deputy managers and attorneys-in-fact to carry out certain operations or categories of operations, establishing their powers and functions. The appointment of managers, deputy managers and attorneys-in-fact to carry out certain operations or categories of operations may also be remitted by the Board to the Managing Directors and the General Managers.

CURRENT TEXT	PROPOSED TEXT
Article 12	**Article 12**
The Board shall meet, at the invitation of the Chairman or whoever acts in his/her stead, at the Company's registered office or at any other venue stated in the letter of convocation, whenever he/she deems it appropriate in the best interests of the Company or receives a written request to do so from one of the Managing Directors or one-fifth of the directors in office or at least two standing members of the Board of Statutory Auditors. The meeting of the Board of Directors can also be convened by the Board of Statutory Auditors, or by a single Statutory auditor, subject to prior notice given to the Chairman of the Board of Directors. The Chairman shall give advance notice of the matters to be discussed at Board meetings and arrange for adequate information on the questions to be examined to be provided to all the directors, taking account of the circumstances of each case. Board meetings shall be called by letter, telegram, fax or e-mail, to be sent to each director and standing member of the Board of Statutory Auditors at least five days prior (or in urgent cases, with at least six hours' notice) to the date scheduled for the meeting. Even when a Board meeting is not formally called, resolutions of the Board of Directors shall nevertheless be valid if adopted in the presence of all the Board members in office and all the standing members of the Board of Statutory Auditors. Board meetings - and meetings of the Executive Committee, if established - 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. Meetings of the Board of Directors, and of the Executive Committee, if established, shall be considered held at the place in which the Chairman and the Secretary must be simultaneously located. Resolutions of the Board of Directors shall only be valid if adopted in the presence of the majority of Board members and by majority vote. In the event of a tied vote, the Chairman shall hold the casting vote. Resolutions of the Board of Directors,	UNCHANGED

including those adopted at meetings held via telecommunications, must be recorded in a specific minutes book and signed by the Chairman and the Secretary of the meeting. Any copies of and extracts from minutes that have not been drawn up by a notary public shall be certified as true copies by the Chairman.

Article 13

The legal representation of the Company vis-à-vis third parties and in court proceedings shall pertain severally to the Chairman of the Board of Directors and, within the limits of the powers granted to them by the Board of Directors, to the Deputy Chairmen and the Managing Directors, if appointed.
Each of the aforementioned shall in any event be vested with all powers to bring legal actions and file petitions before any judicial authority and at all levels of jurisdiction, including in appeal and Supreme Court proceedings, to file statements and charges in criminal cases, to sue on behalf of the Company in criminal proceedings, to bring legal proceedings and file petitions before all administrative jurisdictions, to intervene and protect the Company's interests in any proceedings and claims concerning the Company and to grant the mandates and powers of attorney ad *lites* required for such purpose.
The Board of Directors and, within the limits of the powers granted to them by said Board, the Chairman of the Board and, if appointed, the Deputy Chairmen and the Managing Directors, shall be authorised to grant the power to represent the Company vis-à-vis third parties and in court proceedings to managers and staff in general and, when necessary, to third parties.

Article 13

UNCHANGED

CURRENT TEXT

Article 14

In addition to the reimbursement of all expenses sustained by reason of their office, members of the Board of Directors shall be entitled to an annual emolument established by the shareholders' meeting.
The remuneration of directors vested with special office shall be established by the Board of Directors after obtaining the opinion of the Board of Statutory Auditors.

Article 15

If, due to resignations or for any other reason, more than half of the seats on the Board become vacant, the entire Board of Directors shall be deemed to have resigned and cease to hold office with effect as of the time of its reconstitution.

BOARD OF STATUTORY AUDITORS

Article 16

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.
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.
The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of the third-to-last paragraph of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.
Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

PROPOSED TEXT

Article 14

UNCHANGED

Article 15

UNCHANGED

BOARD OF STATUTORY AUDITORS

Article 16

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.
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.
The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of the third-to-last paragraph of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.
Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

CURRENT TEXT

Shareholders who, alone or together with other shareholders, represent at least 2 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. Each shareholder may present or take part in the presentation of only one slate.
The slates of candidates, which must be undersigned by the parties submitting them, shall be filed in the Company's registered office and be available to anyone on request, at least fifteen days prior to the date set for the shareholders' meeting to be held on first call.

Without limitation to any further documentation required by applicable rules, including any regulatory provisions, a personal and professional curriculum, mentioning also the offices held in management and supervisory bodies of other companies, of the individuals standing for election must be enclosed with the slates together with statements in which the individual candidates agree to their nomination and attest, 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.
Any slates submitted without complying with the foregoing provisions shall be disregarded.
Each candidate may appear on only one slate, on pain of ineligibility.
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.
Each person entitled to vote may vote for only one slate.
The Board of Statutory Auditors shall be elected as specified below:

PROPOSED TEXT

Shareholders who, alone or together with other shareholders, represent at least 2 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. Each shareholder may present or take part in the presentation of only one slate.
The slates of candidates, which must be undersigned by the parties submitting them, shall be filed in the Company's registered office and be available to anyone on request, at least fifteen days prior to the date set for the shareholders' meeting to be held on first call **except for those cases in which the law and/or the regulation provide an extension of the deadline**.
Without limitation to any further documentation required by applicable rules, including any regulatory provisions, a personal and professional curriculum, mentioning also the offices held in management and supervisory bodies of other companies, of the individuals standing for election must be enclosed with the slates together with statements in which the individual candidates agree to:
— their nomination
— attest, 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.
Any slates submitted without complying with the foregoing provisions shall be disregarded.
Each candidate may appear on only one slate, on pain of ineligibility.
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.
Each person entitled to vote may vote for only one slate.
The Board of Statutory Auditors shall be elected as specified below:

CURRENT TEXT

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 the shareholders attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the slate mentioned in point b) of the paragraph above.
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.
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

PROPOSED TEXT

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 the shareholders attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

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

CURRENT TEXT	PROPOSED TEXT
any event in accordance with the principle of necessary representation of minorities.	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 the alternate member drawn from the minority slates who has replaced a standing member drawn from the same slate.	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**.
In case only one slate has been presented, the shareholders' meeting shall vote on it; if the slate obtains the relative majority, 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. 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. Outgoing members of the Board of Statutory Auditors may be re-elected to office. 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.	In case only one slate has been presented, the shareholders' meeting shall vote on it; if the slate obtains the relative majority, 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. 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. Outgoing members of the Board of Statutory Auditors may be re-elected to office. 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.

CURRENT TEXT	PROPOSED TEXT
FINANCIAL STATEMENT – ALLOCATION OF PROFITS	FINANCIAL STATEMENT – ALLOCATION OF PROFITS
Article 17	Article 17
The company's financial year shall close on December 31 of each year.	UNCHANGED
Article 18	Article 18
Following the mandatory allocations to statutory reserves, the Company's net year-end profits shall be distributed as follows: **a.** savings shares shall be awarded a dividend corresponding to a maximum of seven percent of their par value; if a dividend of less than seven percent of par value is awarded to savings shares in a given financial year, the difference shall be computed as an increase to be added to the preference dividend over the subsequent two financial years; any profits remaining following the award of the aforementioned dividend to savings shares shall be distributed amongst all the shares in such a way that savings shares shall receive an aggregate dividend which is higher, compared to the dividend awarded to ordinary shares, by an amount corresponding to two percent of their par value; **b.** without prejudice to the foregoing provisions regarding the aggregate higher dividends awarded to savings shares, ordinary shares shall be awarded a dividend corresponding to a maximum of five percent of their par value. The remaining profits shall be distributed amongst all the shares, in addition to the allocations contemplated in the foregoing points a) and b), unless the shareholders' meeting, on the proposal of the Board of Directors, resolves to make special allocations to extraordinary reserves or for other uses, or decides to carry some of such profits forward to the next year. Should reserves be distributed, savings shares shall be awarded the same rights as other shares. Interim dividends may be distributed in compliance with the law.	UNCHANGED

CURRENT TEXT	PROPOSED TEXT
GENERAL PROVISIONS	GENERAL PROVISIONS
Article 19	Article 19
Insofar as their relations with the Company are concerned, the domicile of the shareholders is understood, for all legal purposes, to be that reported in the Shareholders' Register.	UNCHANGED
Article 20	Article 20
All matters not specifically regulated in these By-laws shall be governed by the applicable provisions of the law.	UNCHANGED